

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2023077658401**

TO: Department of Enforcement
Financial Industry Regulatory Authority (FINRA)

RE: Wedbush Securities Inc. (Respondent)
Member Firm
CRD No. 877

Pursuant to FINRA Rule 9216, Respondent Wedbush Securities Inc. submits this Letter of Acceptance, Waiver, and Consent (AWC) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Wedbush has been a FINRA member since 1955. The firm, which is headquartered in Los Angeles, California, employs approximately 520 registered representatives and has approximately 70 branch offices. The firm provides securities brokerage, wealth management, investment banking, and clearing services.¹

OVERVIEW

From January 2015 through December 2019, Wedbush failed to reasonably supervise recommendations to purchase variable rate structured products (VRSPs) made to 20 customers. As a result, the firm violated FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a review of Wedbush's supervision of recommendations of VRSPs to retail customers.

FINRA Rule 3110 requires a member firm to establish, maintain, and enforce a system, including written supervisory system, to supervise the activities of each associated person

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. A violation of FINRA Rule 3110 also is a violation of FINRA Rule 2010, which requires member firms to “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of their business.

Prior to June 30, 2020, FINRA Rule 2111 required member firms and their associated persons to have a reasonable basis to believe that a recommended securities transaction or investment strategy is suitable for a customer, based on information obtained through the reasonable diligence of the firm or associated person to ascertain the customer’s investment profile. A customer’s investment profile includes, but is not limited to, the customer’s age, other investments, financial situation and needs, investment objectives, investment experience, investment time horizon, liquidity needs, and risk tolerance. A recommended securities transaction or investment strategy may be unsuitable if it is inconsistent with a customer’s investment profile, or if it results in a concentration in a particular security or category of securities that creates a risk of loss inconsistent with the customer’s investment profile.

VRSPs are a category of complex structured products that initially pay interest at a fixed, above-market “teaser” rate for a short period of time, typically one year, before switching to a floating interest rate that is based on a reference index or asset. VRSPs typically have long maturities, generally between 10 and 30 years.

A “steepener” is one type of VRSP that pays a high teaser interest rate, usually between 8% and 10% for the first year, and then resets to a floating interest rate based on the spread between longer- and shorter-term interest rates (i.e., the steepness of the yield curve), commonly the spread between the 30-Year Constant Maturity Swap (CMS) rate and 2-Year CMS rate. Because the spread between longer- and shorter-term interest rates can compress (meaning that the yield curve can flatten), or shorter-term interest rates can exceed longer-term interest rates (meaning the yield curve can invert), investors holding steepeners can earn little or zero interest for years.

Additionally, there is no guaranteed secondary market for steepeners and thus—as non-conventional investments, which are discussed in FINRA Notice to Member 03-71—the products tend to have less market liquidity, less transparency as to their pricing and value, and may entail significant credit risks. During periods when the yield curve flattens or inverts, investors seeking to sell the products before maturity in the secondary market may incur losses of principal. As an additional risk, certain VRSPs—including all of the VRSPs discussed below—do not guarantee a return of the investor’s principal at maturity. Therefore, depending on the performance of the underlying reference index or asset, customers who purchase such products could lose some or all of their principal at maturity.

From January 2015 through December 2019, Wedbush failed to reasonably supervise unsuitable recommendations made to 20 customers to purchase VRSPs. First, Wedbush representatives recommended that 12 customers with either low or moderate risk

tolerances purchase VRSPs. Such recommendations were unsuitable for those customers in light of the substantial risks of VRSPs. During the relevant period, Wedbush's WSPs required that customers sign and acknowledge a form that memorialized their understanding of the risks of investing in structured products and highlighted the risks of structured products. However, the firm did not obtain disclosure forms from the 12 customers and did not otherwise take steps reasonably designed to supervise whether recommendations to purchase VRSPs were consistent with customers' investment profiles. Collectively, those 12 customers suffered realized losses of \$34,576.33, after accounting for income earned while they held the VRSPs.

Second, Wedbush representatives unsuitably recommended that eight other customers invest in VRSPs at levels that resulted in unsuitable concentration. Each customer held positions in VRSPs that were equal to at least 25% of his or her liquid net worth as a result of those recommendations. Because VRSPs can potentially earn little or zero interest for years and subject customers to a risk of loss of principal, such concentrated positions were unsuitable. Wedbush did not have any exception report or other supervisory process concerning concentration in structured products and did not otherwise conduct reasonable supervisory reviews to evaluate whether the VRSP recommendations and concentration levels were suitable for those customers. Collectively, those eight customers paid \$43,160.00 in sales charges for VRSP purchases but did not suffer realized losses.

Since December 2019, Wedbush has established revised WSPs and additional supervisory controls concerning structured products.

By failing to reasonably supervise recommendations to purchase VRSPs, Wedbush violated FINRA Rules 3110 and 2010.

B. Respondent also consents to the imposition of the following sanctions:

- a censure;
- a \$50,000 fine; and
- restitution of \$77,736.33 plus interest as described below.²

Respondent agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

² The amount of restitution being paid to customers is equal to: (i) the realized losses suffered by customers in VRSPs, accounting for income, for the 12 customers for whom recommendations of VRSPs were unsuitable, and (ii) sales charges that Wedbush received in connection with the customers' purchases of VRSPs, for the eight customers with unsuitable concentration levels.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanctions imposed in this matter.

Restitution is ordered to be paid to the customers listed on Attachment A to this AWC (Eligible Customers) in the total amount of \$77,736.33, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. § 6621(a)(2), from December 1, 2019, until the date this AWC is accepted by the National Adjudicatory Council (NAC).

A registered principal on behalf of Respondent shall submit satisfactory proof of payment of restitution and interest (separately specifying the date and amount of each paid to each Eligible Customer) or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted by email to EnforcementNotice@FINRA.org from a work-related account of the registered principal of Respondent. The email must identify Respondent and the case number and include a copy of the check, money order, or other method of payment. This proof shall be provided by email to EnforcementNotice@FINRA.org no later than 120 days after the date of the notice of acceptance of the AWC.

The restitution amount plus interest to be paid to each Eligible Customer shall be treated by the Respondent as the Eligible Customer's property for purposes of state escheatment, unclaimed property, abandoned property, and similar laws. If after reasonable and documented efforts undertaken to effect restitution Respondent is unable to pay all Eligible Customers within 120 days after the date of the notice of acceptance of the AWC, Respondent shall submit to FINRA in the manner described above a list of the unpaid Eligible Customers and a description of Respondent's plan, not unacceptable to FINRA, to comply with the applicable escheatment, unclaimed property, abandoned property, or similar laws for each such Eligible Customer.

The imposition of a restitution order or any other monetary sanctions in this AWC, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies.

Restitution payments to customers shall be preceded or accompanied by a letter, not unacceptable to FINRA, describing the reason for the payment and the fact that the payment is being made pursuant to a settlement with FINRA and as a term of this AWC.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a complaint issued specifying the allegations against it;
- B. To be notified of the complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made, and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council (NAC) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;

3. FINRA may make a public announcement concerning this agreement and its subject matter in accordance with FINRA Rule 8313; and
4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this statement. This statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

September 17, 2024

Date

Christopher Mone

Wedbush Securities Inc.

Respondent

Print Name: Christopher Mone

Title: EVP

Reviewed by:

John L. Erikson, Jr.

John L. Erikson, Jr.

Counsel for Respondent

Managing Director and Head of Legal

Wedbush Securities

1000 Wilshire Blvd.

Los Angeles, CA 90017

Accepted by FINRA:

September 18, 2024

Date

Signed on behalf of the
Director of ODA, by delegated authority



Amanda Fein
Senior Counsel
FINRA
Department of Enforcement
Brookfield Place
200 Liberty Street
New York, NY 10281

Attachment A: Restitution Schedule

<u>Customer</u>	<u>Restitution Amount</u>
Customer 1	4,351.63
Customer 2	1,064.01
Customer 3	680.95
Customer 4	1,559.48
Customer 5	3,851.23
Customer 6	486.88
Customer 7	12,175.35
Customer 8	3,409.40
Customer 9	8,277.25
Customer 10	2,181.64
Customer 11	852.90
Customer 12	6,799.28
Customer 13	6,686.30
Customer 14	9,356.35
Customer 15	80.99
Customer 16	5.95
Customer 17	6,799.28
Customer 18	5,299.01
Customer 19	2,568.45
Customer 20	1,250.00