

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT  
NO. 2017054491001**

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. Wedbush is a full-service broker-dealer headquartered in Los Angeles, CA, which has approximately 70 branch offices and approximately 510 registered employees. The firm provides, among other things, brokerage, wealth management, and investment banking services.

In January 2019, Wedbush was censured and fined \$1,000,000 by NYSE Arca, Inc. (NYSE Arca) and ordered to complete several undertakings in connection with, among other violations, its failure to establish, document, and maintain a system of risk management controls and supervisory systems reasonably designed to ensure compliance with regulatory requirements regarding detection and prevention of potentially manipulative activity, including, but not limited to, wash sales, and marking the open and close, in violation of Rule 15c3-5(b) and (c)(2) of the Securities Exchange Act of 1934 (Exchange Act) and NYSE Arca Rules 11.18, 11.1(b), 11.2(b), and 9.2010-E.

In December 2015, Wedbush was censured and fined \$1.8 million by FINRA, The Nasdaq Stock Market LLC (Nasdaq), NYSE Arca, and Cboe BZX Exchange, Inc. (BZX) for violations of Exchange Act Rule 15c3-5, and applicable FINRA and exchange supervisory rules, from January 2008 through August 2013. Wedbush agreed to, among other things, findings that the firm failed to establish, maintain, and enforce supervisory systems and procedures related to its market access business, and failed to supervise for potentially manipulative trading.

In November 2014, Wedbush entered into a settlement with the U.S. Securities and Exchange Commission in which it agreed to pay \$2.44 million for findings that, from July 2011 until at least January 2013, Wedbush willfully failed to establish, document, and maintain a system of risk management controls and supervisory procedures that was reasonably designed to manage the risks associated with its market access business and applicable regulatory requirements regarding potentially manipulative trading, such as wash sales and manipulative layering.<sup>1</sup>

## **OVERVIEW**

From June 2015 through the present date, Wedbush has provided certain customers with access to third-party electronic trading platforms (electronic trading customers), which allows these customers to enter orders for execution using one of the firm's market participant identifiers (MPIDs). Those orders are transmitted to other broker-dealers that may route them to various exchanges for execution using the executing broker-dealer's MPID. Wedbush failed to conduct supervisory reviews of its electronic trading customers' trading activity for any type of potentially manipulative trading, including layering, spoofing, wash sales, or marking the close or open. Instead, the firm relied upon the third-party broker-dealers to conduct such reviews.

Also, since June 2015, Wedbush failed to supervise the trading activities of its proprietary traders and other firm customers for potential layering and spoofing.

Therefore, the firm violated FINRA Rules 3110 and 2010.

## **FACTS AND VIOLATIVE CONDUCT**

This matter arises from cross market surveillance conducted by FINRA.

### **Applicable Rules**

FINRA Rule 3110(a) requires a member firm to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.

FINRA Rule 3110(b) requires a member to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.

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<sup>1</sup> For more information about the firm, including prior regulatory events, visit BrokerCheck® at [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010, which states that “[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.”

**Wedbush failed to review electronic trading customers’ trading activities for potential manipulation**

Wedbush permitted certain customers to enter orders directly onto third-party electronic trading platforms using Wedbush’s MPID. Wedbush separately executed transactions for its proprietary traders and other customers through its own internal trading systems.

For various reasons, including the disciplinary actions described in the Background section above, Wedbush stopped providing market access services to its customers in June 2015. As described above, however, the firm still provided certain electronic trading customers with access to third-party electronic trading platforms, which routed these customers’ orders to other broker-dealers for execution.

Wedbush mistakenly believed that it was not required to review this trading for any type of potentially manipulative activity since it was no longer providing market access. Instead, the firm believed that the obligation to review this trading for potentially manipulative activities rested solely with the executing broker-dealers. Thus, since June 2015, the firm did not conduct any supervisory reviews of the trading activities by its electronic trading customers for potentially manipulative trading, such as layering, spoofing, wash sales, or marking the close or open.

As a result, Wedbush failed to detect potential layering activity in February and March 2017 by an institutional electronic trading customer, which was comprised of hundreds of foreign day traders. During those two months, FINRA surveillance identified approximately 2,900 layering exceptions involving over 130 different stock symbols associated with the customer’s order flow. On March 13, 2017, the executing broker-dealer for that order flow detected the potential layering, provided notice of the potential layering to Wedbush, and stopped accepting orders from the customer.

Upon receiving notice of the potential layering activity from the executing broker-dealer, Wedbush closed the electronic trading customer’s account. Wedbush, however, did not take any steps to detect and prevent other electronic trading customers from engaging in potentially manipulative trading, or to implement any type of supervisory reviews for potentially manipulative trading. As a result, from June 2015 through the present, approximately 90 electronic trading customers effected more than 3.4 million transactions involving 13.5 billion shares without being subject by Wedbush to any review for potentially manipulative trading.

**Wedbush also failed to supervise its proprietary traders' and all firm customers' transactions for potential layering and spoofing**

Since June 2015, Wedbush also failed to implement any supervisory system, including written supervisory procedures (WSPs), to review for potential layering and spoofing by the firm's proprietary traders and all firm customers, including the firm's electronic trading customers.

Between June 2015 and May 2019, the firm's WSPs failed to include any procedures requiring a review by the firm for potential layering and spoofing activity. In June 2019, the firm added a reference to layering and spoofing in its WSPs, which required the firm's Equity Trading Managers to conduct weekly reviews of certain supervisory reports to detect potential layering and spoofing. Those reports, however, were designed to capture other forms of potential manipulative trading, such as wash sales and marking the open and close, and were not reasonably designed to detect layering and spoofing.

As a result, from June 2015 to the present, the firm also failed to supervise its proprietary traders and other firm customers for potential layering and spoofing activity, and an additional 26.9 million transactions involving approximately 5.1 billion shares were not reviewed by Wedbush for potential layering and spoofing.

Therefore, Wedbush violated FINRA Rules 3110 and 2010.

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

- A censure;
- A total fine of \$975,000, of which \$82,142.85 shall be paid to FINRA;<sup>2</sup> and
- An undertaking that, within 90 days of the date this AWC is accepted, Wedbush shall submit a written report to FINRA, certified by a registered principal of the firm, that details the steps taken by the firm to correct the supervisory deficiencies regarding supervision of manipulation and the date(s) the revised supervisory system and WSPs were implemented. The report shall be submitted to Compliance Assistant, FINRA Department of Enforcement, 15200 Omega Drive, Third Floor, Rockville, MD 20850 and by e-mail from a work-related account of the registered principal to [EnforcementNotice@FINRA.org](mailto:EnforcementNotice@FINRA.org).

Acceptance of this AWC is conditioned upon acceptance of parallel settlement agreements in related matters between the firm and BYX; BZX; EDGA; EDGX; Nasdaq; BX; Phlx; NYSE; NYSE Arca; and IEX.

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<sup>2</sup> The remainder of the fine will be paid to Cboe BYX Exchange, Inc (BYX); BZX; Cboe EDGA Exchange, Inc. (EDGA); Cboe EDGX Exchange, Inc. (EDGX); Nasdaq; Nasdaq BX, Inc. (BX); Nasdaq Phlx LLC (Phlx); New York Stock Exchange LLC (NYSE); NYSE Arca; and Investors Exchange LLC (IEX).

Respondent agrees to pay the monetary sanction 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.

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 sanction imposed in this matter.

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.

January 4, 2023

Date

Andrew Druch

Wedbush Securities Inc.  
Respondent

Print Name: Andrew Druch

Title: General Counsel

Reviewed by:

Patrick M. Smith, Esq.

Patrick Smith, Esq.

Counsel for Respondent

Katten Muchin Rosenman LLP

2029 Century Park East, Suite 2600

Los Angeles, CA 90067-3012

Accepted by FINRA:

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

January 19, 2023

Date

Gary E. Jackson

Gary E. Jackson

Senior Counsel

FINRA Department of Enforcement

15200 Omega Drive, Third Floor

Rockville, MD 20850