

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2018058202901**

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

RE: James Richards, Respondent
Registered Representative
CRD No. 3120249

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent James Richards ("Richards" or "Respondent") 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 herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Richards entered the securities industry in 1983 when he became associated with Wedbush Securities, Inc. (the "Firm"), a FINRA regulated broker-dealer. He remained at the Firm until 1988 and then worked outside of the securities industry until he rejoined the Firm in 1993. He has been associated with the Firm continuously since he rejoined. From March 2015 to March 2018, Richards' responsibilities included supervision of the Firm's credit department, which oversaw margin lending to Firm customers. Richards became registered with FINRA as a General Securities Representative in 1999, as a General Securities Sales Supervisor in 2000, and as a Financial and Operations Principal in 2002. Richards remains associated with the Firm and is therefore subject to FINRA jurisdiction.

RELEVANT DISCIPLINARY HISTORY

Richards does not have any disciplinary history with the Securities and Exchange Commission, any state securities regulators, FINRA, or any other self-regulatory organization.

OVERVIEW

During the period April 2017 to March 2018 (the “Relevant Period”), the Firm designated Richards to supervise the Firm’s credit department. In this role, Richards was responsible for enforcing the Firm’s written supervisory procedures (“WSPs”) relating to providing margin credit to its customers, including the requirement that customers trading on margin maintain at least the amount of equity mandated by FINRA Rule 4210. The accounts of Customer A, a senior officer of the Firm, were periodically in margin deficit throughout the Relevant Period, and were continuously in margin deficit from late September 2017 to March 2018, with the margin deficit growing to as much as approximately \$31 million in January 2018. Notwithstanding his supervisory obligations and the clear notice that Customer A was causing the Firm to violate FINRA Rule 4210(c), Richards failed to take reasonable action to bring Customer A into compliance. Richards therefore violated FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

FINRA Rule 3110 requires each member firm and its supervisory personnel to establish and maintain a supervisory system, and establish, maintain, and enforce written procedures, to supervise the types of business in which it engages. When clear indications of impropriety are brought to a supervisor’s attention, he is obligated to act decisively to detect and prevent violations of securities laws and rules. FINRA Rule 4210(c) sets out equity requirements that must be maintained in all margin accounts of customers (generally requiring customer margin accounts to maintain equity of at least 25 percent of the current market value of equity securities long in the account and 30 percent of the current market value of equity securities short, where the securities are priced above \$5 per share). FINRA Rule 4210(d) requires member firms to establish procedures to, among other things, review limits and types of credit extended to all customers and formulate their own margin requirements, which may be more stringent than the equity percentages set in Rule 4210(c).

FINRA Rule 2010 requires members, in the conduct of their business, to observe high standards of commercial honor and just and equitable principles of trade. A violation of FINRA Rule 3110 constitutes a violation of FINRA Rule 2010.

The Firm’s margin WSPs stated that the credit department was responsible for daily customer account reviews and the issuance of margin calls and liquidation notices to any customer whose account was deficient in the amount of required margin equity. The Firm designated Richards as the supervisor responsible for enforcing the Firm’s compliance with the margin rules.

Customer A, a senior officer of the Firm and one of its largest securities customers, held a group of securities accounts at the Firm that were combined for margin purposes. Richards reported directly to Customer A. Throughout the Relevant Period, Customer A’s accounts were periodically in margin deficit based on the equity limits set out in FINRA Rule 4210 and other relevant margin laws and regulations.

In April 2017, Customer A's accounts had a margin deficit of more than \$1 million. In October 2017, the margin deficit in Customer A's accounts increased to approximately \$5 million. The deficit increased to approximately \$12 million in December 2017 and to approximately \$31 million by the end of January 2018. The accounts remained in significant margin deficit continuously through March 2, 2018, when the Firm, at the behest of FINRA's Member Supervision staff, began liquidating securities in Customer A's account to alleviate the then approximately \$23 million deficit.

During the Relevant Period, Richards had knowledge of the margin deficits in Customer A's accounts, yet failed to take reasonable action to bring the accounts into margin compliance with FINRA Rule 4210. Specifically, an employee of the Firm's credit department, who reported to Richards, informed Richards that Customer A's accounts were in margin deficit and in violation of applicable margin regulations. Based on this, Richards knew that Customer A's accounts were in violation of FINRA Rule 4210 and other applicable margin regulations since the start of the Relevant Period and continuously after approximately September 28, 2017. Customer A falsely told Richards that he could not enter liquidating trades to bring Customer A's accounts into margin compliance, but Richards retained authority and responsibility under the Firm's WSPs to take reasonable actions to bring the accounts into margin compliance.

Richards was obligated to reasonably discharge his supervisory responsibility to achieve Firm compliance with FINRA rules related to margin. Despite knowing the magnitude of the margin deficits in Customer A's accounts, Richards failed to cause the credit department to issue margin calls and liquidate collateral from Customer A's accounts, or to take reasonable steps to investigate or to bring Customer A's accounts and the Firm into margin compliance. As a result, Richards failed to act reasonably in the exercise of his supervisory obligations, in violation of FINRA Rules 3110 and 2010.¹

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

A \$7,500 fine and a suspension of three months in a principal capacity.

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 he proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

¹ In 2019, NYSE Arca brought a proceeding on consent against the Firm and Customer A for, among other things, failing to apply and enforce Exchange margin requirements with respect to Customer A's securities accounts held at the Firm and failing to supervise Customer A and accounts managed by him. The Firm agreed to a censure and a \$1 million fine (\$900,000 of which was payable jointly and severally with Customer A). (NYSE Proc. No. 2016-07-01264).

Respondent understands that if he is barred or suspended from associating with any FINRA member in a principal capacity, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, Respondent may not be associated with any FINRA member in a principal capacity, during the period of the bar or suspension. See FINRA Rules 8310 and 8311. Furthermore, because Respondent is subject to a statutory disqualification during the suspension, if he remains associated with a Member Firm in a non-suspended capacity, an application to continue that association may be required.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

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 him;
- 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 acceptance or rejection of this AWC.

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:

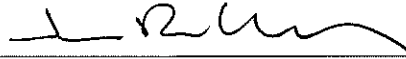
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent(s); 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 the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. Respondent(s) 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(s) 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: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- 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 he 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 or its staff.

Respondent certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; Respondent has agreed to the AWC's provisions voluntarily; and no offer, threat, inducement, or promise of any

kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce him to submit this AWC.

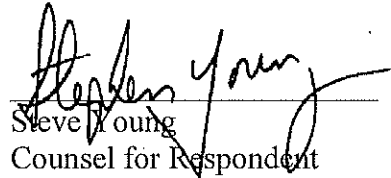
3.19.2020

Date



James Richards
Respondent

Reviewed by:



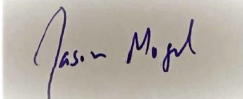
Steve Young
Counsel for Respondent
Keesal, Young & Logan
400 Oceangate, Long Beach, CA 90802
562.436.2000
steve.young@kyl.com

Accepted by FINRA:

April 9, 2020

Date

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



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