

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2021070332301**

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. (Wedbush) 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 530 registered representatives and has approximately 70 branch offices. The firm provides securities brokerage, wealth management, investment banking, and clearing services.¹

OVERVIEW

From June 2020 to February 2021, Wedbush failed to establish and maintain a supervisory system, and failed to establish, maintain, and enforce written procedures, reasonably designed to achieve compliance with the firm's obligation to monitor transmittals of customer funds to third parties. As a result, the firm violated FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a self-report to FINRA by the firm.

FINRA Rule 3110(a) requires that each member firm "establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve

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

compliance with applicable securities laws and regulations, and with applicable FINRA rules.” FINRA Rule 3110(b) requires each member firm 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.” The duty to supervise under Rule 3110 also includes the responsibility to reasonably investigate red flags that suggest that misconduct may be occurring and to act upon the results of such investigation.

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

In November 2009, FINRA issued Regulatory Notice 09-64, which reminded member firms that “[a]s part of their duty to safeguard customer assets,” they “must have and enforce policies and procedures governing the withdrawal or transmittal of funds or other assets from customer accounts.” RN 09-64 also reminded firms that such policies and procedures should be “reasonably designed to review and monitor all instructions to transmit or withdraw assets from customer accounts,” and that clearing firms must have “adequate policies and procedures to review and monitor disbursements . . . to third-party accounts, outside entities or an address other than the customer’s primary address.” RN 09-64 further advised that a firm’s procedures should “specify how instructions to withdraw or transmit assets may be conveyed, including which employees of the introducing firm are authorized to transmit instructions to the clearing firm on the customer’s behalf.”

During the relevant period, Wedbush’s written supervisory procedures required, prior to any transfer of customer funds to a third party through a letter of authorization, that the firm “determine, based on documents examined and other evidence available, that the [letter of authorization] should be approved for processing.” However, the WSPs did not specify what steps the firm should take to evaluate whether letters of authorization were genuine, other than to specify that the firm “follow . . . its customary practice of contacting authorized representatives of the correspondent firm.” The WSPs did not describe what the firm’s “customary practice” was, or specify who constituted an authorized representative of the correspondent firm.

Between January 27, 2021, and February 4, 2021, Wedbush received and approved four fraudulent wire transfer requests from a hacker without taking reasonable steps to confirm whether the requests were genuine. The hacker, who had gained access to an email account belonging to a registered representative at one of Wedbush’s correspondent firms, requested that Wedbush send four wires totalling more than \$6.6 million dollars from a joint brokerage account held by two customers to two third parties. In approving the requests, Wedbush failed to reasonably investigate red flags that the wire requests were fraudulent, including that the wires were for large and increasing amounts in a short period of time and the wires were being sent to third-party recipients (both of whom were located in foreign countries) who lacked any connection to the

customers. Wedbush did not take reasonable steps to confirm that the wire requests were genuine, such as contacting an authorized representative of the correspondent firm by telephone. Instead, the firm approved the four wires after only sending questions to the hacker who was using the compromised email account.

After Wedbush's correspondent firm notified it of the fraud, Wedbush and the correspondent firm reimbursed the customers for their losses. In February 2021, Wedbush revised its WSPs concerning processing letters of authorization, including requiring firm personnel to call a "recognized person" at a correspondent firm using a known telephone number prior to approving wires over a certain amount.

Due to the firm's failure to reasonably surveil the transmittals of customer funds to third parties, the firm violated FINRA Rules 3110 and 2010.

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

- a censure;
- a \$350,000 fine and
- an undertaking that, within 60 days of the date of the notice of acceptance of this AWC, a member of Respondent's senior management who is a registered principal of the firm shall certify in writing that, as of the date of the certification, the firm has remediated the issues identified in this AWC and implemented a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with Rule 3110 regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate Respondent's remediation and implementation. FINRA staff may request further evidence of Respondent's remediation and implementation, and Respondent agrees to provide such evidence. Respondent shall submit the certification to Karen Daly, Principal Counsel, FINRA, at 1601 Market Street, Suite 2700, Philadelphia, PA 19013 and karen.daly@finra.org, with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

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.

10-27-23

Date



Wedbush Securities Inc.
Respondent

Print Name: Rob Paset

Title: EVP

Reviewed by:



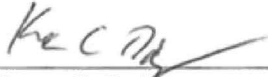
John L. Erikson, Jr.
Counsel for Respondent
Managing Director and Head of Legal, Wedbush Securities
1000 Wilshire Blvd.
Los Angeles, CA 90017

Accepted by FINRA:

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

11/15/23

Date



Karen C. Daly
Principal Counsel
FINRA
Department of Enforcement
160 Market Street, Suite 2700
Philadelphia, PA 19103