

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the

Continued Membership

of

Wedbush Securities, Inc.
(CRD No. 877)

Notice Pursuant to
Rule 19h-1 of the
Securities Exchange Act
of 1934

SD-2314

December 20, 2023

I. Introduction

On January 13, 2022, Wedbush Securities, Inc. (“Wedbush” or “Firm”) submitted a Membership Continuance Application (“MC-400A Application” or “Application”)¹ to FINRA’s Credentialing Registration, Education, and Disclosure (“CRED”). The Application seeks to permit the Firm, a FINRA member subject to statutory disqualification, to continue its membership with FINRA notwithstanding its disqualification. A hearing was not held in this matter; rather, pursuant to FINRA Procedural Rule 9523(b), FINRA’s Department of Member Supervision (“FINRA,” “Member Supervision,” or “Department”) approves the Application and is filing this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 (“Exchange Act” or “SEA”).

II. The Statutorily Disqualifying Event

Wedbush is subject to statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Section 15(b)(4)(D), as a result of an Order issued by the U.S. Securities and Exchange Commission (“SEC” or “Commission”) dated December 15, 2021 (“Order”) finding that the Firm willfully violated Sections 5(a) and 5(c) of the Securities Act of 1933 as well as Section 17(a) of the Exchange Act and Rule 17a-8 thereunder by engaging in unregistered offers and sales of large blocks of low-priced securities (“LPS”) by an offshore customer and failing to file Suspicious Activity Reports (“SARs”).²

According to the Order, from January 2017 through September 2018, Wedbush engaged in the unregistered offer and sale of large blocks of low-priced securities without an applicable

¹ See the MC-400A Application and related attachments compiled by FINRA’s CRED, with a cover memorandum dated January 20, 2022, collectively attached as Exhibit 1.

² See SEC Order, *In re Wedbush Securities, Inc.*, Exchange Act Release No. 93794 (Dec. 15, 2021), attached as Exhibit 2, at p. 10.

exemption and without conducting a reasonable inquiry into whether the offshore customer was engaging in the unlawful distribution of securities.³ The offshore customer, Silverton SA (“Silverton”), a purported Swiss asset manager, held a Wedbush account that engaged in a pattern of depositing LPS shares, selling a large quantity of the deposited LPS shares soon after, and then withdrawing the proceeds.⁴ Silverton’s LPS deposits were frequently shares of the same issuer⁵ and Silverton falsely certified to Wedbush that it was the beneficial owner of the securities.⁶ Wedbush failed to file suspicious activities reports (“SARs”) for certain suspicious transactions it executed for Silverton despite the presence of red flags.⁷ Wedbush earned a net profit of \$173,508.40 from commissions earned on the Silverton transactions.⁸

Wedbush was ordered to cease and desist from committing or causing any violations and any future violations of Sections 5(a) and 5(c) of the Securities Act and Section 17(a) of the Exchange Act and Rule 17a-8 promulgated thereunder; censured; ordered to comply with certain undertakings; and ordered to pay disgorgement of \$173,508.40, prejudgment interest of \$34,332.16, and a civil penalty of \$1,000,000.⁹

The Firm’s undertakings include hiring an Independent Compliance Consultant (“ICC”) to conduct a comprehensive review of Firm systems and make reports with recommendations regarding Wedbush’s supervisory, compliance and other policies and procedures to ensure that said policies and procedures are reasonably designed to comply with federal securities laws involving internal audit and corporate governance, retail and institutional customer onboarding, know your customer (“KYC”), anti-money laundering (“AML”), customer activity reviews, market access, remedial measures adopted by Wedbush in connection with enforcement actions since 2014, and the Firm’s compliance with collateral disqualifications under Rule 506 of Regulation D and Regulation A.¹⁰

Status of the Firm’s Work with the ICC and ICC Recommendations

³ *Id.* at p. 2.

⁴ *Id.* at p. 3.

⁵ The SEC filed an enforcement action in federal court in Massachusetts against Silverton, its principal, and others for their roles in a large international microcap fraud scheme. Wedbush is not a named respondent in that federal court action. The SEC notes that Wedbush is not the only financial institution that Silverton and the related parties utilized in their scheme. *Id.* at pp. 3-4.

⁶ *Id.* at p. 4.

⁷ *Id.* at pp. 8-10.

⁸ *Id.* at p. 3.

⁹ *Id.* at p. 14. The Firm paid the required amount on January 10, 2022. *See* Wedbush’s Response to FINRA Inquiry with Exhibits dated May 10, 2022, collectively attached as Exhibit 3, at FINRA Exhibit p. 331.

¹⁰ *See* Exhibit 2 at pp. 11-14.

Since the date of the SEC Order, the Firm hired an ICC¹¹ and has been working with the ICC to facilitate the ICC's review. The ICC has issued reports regarding the Firm's compliance with its Regulation D and Regulation A statutory disqualification, corporate governance, AML system, and remedial measures taken in response to previous regulatory actions.¹² In each of its reports, the ICC has made a series of substantial recommendations.¹³

The ICC reported, among other findings and recommendations, that the Firm has made material improvements to its corporate governance structure;¹⁴ that the Firm's Chief Compliance Officer ("CCO"), who has held her position with the Firm since February 8, 2021, has made both proactive and remedial improvements during her tenure;¹⁵ and identified various areas in the Firm's AML system where the Firm had already begun taking steps towards improving its procedures and technological systems ahead of the ICC's report issuance.¹⁶ The ICC's recommendations include that the Firm: improve its corporate governance in such a way to promote the authority and independence of the Firm's CCO,¹⁷ take steps to further address underlying issues that lead to regulatory actions using a top-down approach to improve the Firm's culture of compliance,¹⁸ improve consistency in AML policies and procedures via a gap analysis and master mapping document,¹⁹ address potential risks in the Firm's current SAR filing policies and procedures,²⁰ and improve policies and trainings specific to low-priced securities.²¹

III. Background Information

A. The Firm

Wedbush has been a FINRA member since July 1955.²² The Firm has 66 branch offices, 15 of which are Offices of Supervisory Jurisdiction, and employs approximately 525 registered

¹¹ See Exhibit 3 at FINRA Exhibit pp. 333-349.

¹² See Reports Issued by Independent Compliance Consultant Elinphant, collectively attached as Exhibit 4.

¹³ *Id.*

¹⁴ *Id.* at FINRA Exhibit pp. 43-44.

¹⁵ *Id.* at FINRA Exhibit p. 41.

¹⁶ *Id.* at FINRA Exhibit pp. 109-110.

¹⁷ *Id.* at FINRA Exhibit pp. 41-42.

¹⁸ *Id.* at FINRA Exhibit pp. 50-52.

¹⁹ *Id.* at FINRA Exhibit pp. 119-120.

²⁰ *Id.* at FINRA Exhibit pp. 119-120, 123-124, 127.

²¹ *Id.* at FINRA Exhibit pp. 111, 119, 127.

²² See Exhibit 1 at p. FINRA00483.

representatives, 183 of whom are registered principals, and 412 non-registered fingerprinted individuals.²³ The Firm currently employs two statutorily disqualified individuals.²⁴

The Firm engages in the following business activities: exchange member engaged in exchange commission business other than floor activities; exchange member engaged in floor activities; broker or dealer making inter-dealer markets in corporate securities over-the-counter; broker or dealer retailing corporate equity securities over-the-counter; broker or dealer selling corporate debt securities; underwriter or selling group participant (corporate securities other than mutual funds); mutual fund retailer; U.S. government securities dealer; U.S. government securities broker; municipal securities dealer; municipal securities broker; broker or dealer selling variable life insurance or annuities; broker or dealer selling gas or oil interests; put and call broker or dealer or option writer; investment advisory services; trading securities for own account; private placement of securities; effects transactions in commodity futures, commodities, commodity option as broker for others or dealer for own account; and engages in other securities business, specifically municipal finance and investment banking.²⁵

The Firm is also a member of the following self-regulatory organizations (“SROs”): BOX Exchange LLC (“BOX”); Cboe BYX Exchange, Inc. (“BYX”); Cboe BZX Exchange, Inc. (“BZX”); Cboe C2 Exchange, Incorporated (“C2”); Cboe EDGA Exchange, Inc. (“EDGA”); Cboe EDGX Exchange, Inc. (“EDGX”), Cboe Exchange, Inc. (“Cboe”); Investors’ Exchange LLC (“IEX”); MIA X Pearl, LLC (“MIA X Pearl”); Miami International Securities Exchange, LLC (“MIA X”); NYSE American LLC (“NYSE American”); NYSE Arca, Inc. (“NYSE Arca”); NYSE Chicago, Inc. (“NYSE Chicago”); NYSE National, Inc. (“NYSE National”); Nasdaq BX, Inc. (“BX”); Nasdaq GEMX, LLC (“GEMX”); Nasdaq ISE, LLC (“ISE”); Nasdaq MRX, LLC (“MRX”); Nasdaq PHLX LLC (“PHLX”); The Nasdaq Stock Market LLC (“Nasdaq”); New York Stock Exchange LLC (“NYSE”);²⁶ Municipal Securities Rulemaking Board (“MSRB”); Fixed Income Clearing Corporation - Government Securities Division (“FICC-GOV”); Fixed Income Clearing Corporation - Mortgage Backed Securities (“FICC-MBS”), the National Securities Clearing Corporation (“NSCC”), and the Depository Trust Company (“DTC”).²⁷

Examinations

FINRA Routine Examinations

Since 2020, FINRA conducted three routine examinations of the Firm, of which two resulted in

²³ This was confirmed by a review of information contained in FINRA’s Central Registration Depository (“CRD”) performed on October 10, 2023.

²⁴ *Id.* Stephen John Massocca (CRD No. 724782) and Shiva Naby (CRD No. 5634974). *See* Appendix A.

²⁵ *See* CRD Excerpt: Types of Business and Other Business Descriptions, collectively attached as Exhibit 5.

²⁶ *See* CRD Excerpt: Registration Status, attached as Exhibit 6.

²⁷ Membership in these organizations was verified by FINRA staff through a search of public member directories, last performed on October 10, 2023.

Cautionary Action Letters (“CALs”) and one that did not result in any exceptions.²⁸

In the Firm’s most recent FINRA routine examination in 2021,²⁹ the Firm was cautioned based on exceptions related to the Firm’s failure to maintain documentation evidencing updates pertaining to increases in liquidity usage and the resolution of target limit exceptions related to the Firm’s margin requirements as noted in Firm written supervisory procedures (“WSPs”); the failure to conduct a full failover test as the Firm transitions its Disaster Recovery Site; the Firm’s back-office system not being properly configured to associate related accounts when calculating securities in excess of 140% of customers’ margin debits; the failure to establish a process and WSPs to identify, age, and escheat abandoned properties; and an issue in the logic for populating the concentration report used to calculate margin debts exceeding 25% of the Firm’s tentative net capital.³⁰ In response to FINRA’s findings, the Firm committed to updating its procedures, and, while addressing the logic for populating the concentration report used to calculate margin debts that exceed 25% of the Firm’s tentative net capital through a technology fix, instituted a manual check process to immediately address the issue.³¹

During a 2020 routine FINRA examination,³² the Firm was cautioned based on exceptions related to the Firm’s failure to establish WSPs designed to achieve compliance with Regulation BI; failure to deliver Form CRS to new retail accounts in contravention of Firm WSPs; an inaccurate account statement that the Firm generated; failure to timely amend a representative’s Form U4; the Firm’s back-office system being improperly configured to associate related accounts when calculating securities in excess of 140% of customers’ margin debits; the failure to conduct a full failover test and make other relevant updates as the Firm transitions its Disaster Recovery Site; the failure to establish and maintain a supervisory system designed to ensure that the Firm accurately reported trades to MSRB; the failure to accurately report capacity on certain municipal bond transactions; the failure to establish a reasonable process and WSPs to monitor and supervise the close-out

²⁸ In the routine examination that did not generate any exceptions, 20200650989, FINRA examined the Firm acting as an agent for BOX, BYX, BZX Options, C2, Cboe, EDGA, EDGX, EDGX Options, IEX, ISE, GEMX, MRX, NYSE National, NYSE Arca Equities, NYSE Arca Options, NYSE American Options, NYSE Chicago, and PHLX pursuant to Regulatory Services Agreements. That examination reviewed, among other items, the Firm’s supervisory system, joint accounts, Regulation SHO, independent contractors, gratuities, and influencing or rewarding employees of others. *See* Examination Report for FINRA Matter 20200650989 dated January 29, 2021, attached as Exhibit 7.

²⁹ *See* Disposition letter dated June 2, 2022, Examination Report dated April 12, 2022, and the Firm’s Response dated May 6, 2022 for FINRA Matter 20210693179, collectively attached as Exhibit 8.

³⁰ *Id.* The 20210693179 Examination also concluded with two areas of review separated for further investigation; those investigations are still ongoing as of October 24, 2023.

³¹ *Id.* at FINRA Exhibit pp. 8-12.

³² *See* Disposition letter dated April 20, 2021, Examination Report dated January 29, 2021, and the Firm’s Response dated February 23, 2021 for FINRA Matter 20200650988, with redactions by FINRA, collectively attached as Exhibit 9. The examination, as noted in the Disposition Letter, also concluded with two areas of review separated for further investigation. One of those investigations is still ongoing as of October 10, 2023, while the area of review pertaining to the Firm’s AML system was closed without further action due to overlap with the underlying SEC Order.

process for municipal securities; the failure to promptly amend a representative's Form MA-I in at least three instances; that the Firm's WSPs pertaining to municipal securities business activities did not address form filing requirements for Form MA, Form MA-I, or Form A-12 Registration; that the Firm didn't adhere to its supervisory process related to compliance with SEC Rule 10b-10 in WSPs; the Firm's inaccurate average price disclose on a customer confirmation, which was caused by a manual error averaging trades; the Firm's failure to comply with the clock synchronization rule in dealing with third-party vendors.³³ In response to FINRA's findings, the Firm engaged a third party vendor to review its AML policies and procedures, committed to strengthening its Regulation BI and Form CRS policies and procedures, committed to enhancing testing of representative disclosure compliance, developed a temporary solution for aggregating related accounts for the purpose of calculating securities in excess of 140% of customers' margin debits while seeking a permanent solution, committed to updating its MSRB WSPs, and launched an internal working group to work on remediation efforts with respect to the Firm's trade confirmations.³⁴

FINRA Non-Routine Examinations

Since October 2020, the Firm has been subject to six non-routine examinations that resulted in Cautionary Action Letters ("CALs").³⁵ Collectively, these CALs addressed the Firm's failures to: report the Non-Transaction Based Compensation Indicator to the MSRB on numerous municipal securities transactions;³⁶ maintain a supervisory system reasonably designed to achieve compliance with securities laws and regulations, and the MSRB's rules, concerning the accurate reporting of the NTBC indicator;³⁷ maintain reasonable procedures and guidelines to monitor credit risk exposure from portfolio margin accounts on an intra-day and end of day basis as well as procedures and guidelines reflecting the appropriate response by management when limits on credits extensions related to portfolio margin accounts have been exceeded;³⁸ conduct audits within time periods required by Wedbush WSPs;³⁹ issue trade confirmations with accurate capacity codes and required disclosures indicating the Firm's status as a market maker;⁴⁰ accrue Restricted Stock Unit expenses in the appropriate FOCUS reporting period from June 30, 2015

³³ *Id.* at FINRA Exhibit pp. 1-17. There is one AML related exception that the Disposition Report identifies as a referral to FINRA's Department of Enforcement which was later withdrawn.

³⁴ *Id.* at FINRA Exhibit pp. 26-44.

³⁵ See Cautionary Action Letters for FINRA Non-Routine Examinations 20220762689 (September 15, 2023) with Firm Response (October 6, 2023), 20190635984 (August 31, 2023), 20220740824 (June 7, 2023), 20190642860 (July 6, 2022), 20190625335 (December 21, 2021), and 20200653895 (January 28, 2021; January 6, 2021) with Firm Response (January 26, 2021), collectively attached as Exhibit 10.

³⁶ *Id.* at FINRA Exhibit p. 1.

³⁷ *Id.*

³⁸ *Id.* at FINRA Exhibit p. 5.

³⁹ *Id.*

⁴⁰ *Id.* at FINRA Exhibit pp. 8-9.

through December 31, 2019;⁴¹ appropriately supervise its 529 college savings plan share class recommendations in violation of MSRB Rule G-27;⁴² and establish and maintain a supervisory system reasonably designed to ensure the submission of accurate OATS data paired with the Firm's OATS reporting violations.⁴³ When the Firm was cautioned regarding its accounting treatment of Restricted Stock Unit expenses in 2021, the Firm submitted a response to FINRA indicating that the Firm developed accounting procedures to address the issue and submitted a memorandum to FINRA outlining the specific individuals responsible for implementing a corrective action plan and new policies and procedures moving forward.⁴⁴

Formal Regulatory Actions

Since 2018, the Firm has been the subject of 28 actions issued by FINRA and other exchanges, one of which is disqualifying; five SEC orders, all of which are disqualifying; one CFTC order; one order issued by the Bourse de Montréal Inc.; and three state actions.

FINRA and Exchange Actions

On November 15, 2023, the Firm entered into an AWC with FINRA based on the Firm's failure to establish and maintain a supervisory system reasonably designed to achieve compliance with the Firm's obligations to monitor transmittals of customer funds to third parties.⁴⁵ From June 2020 through February 2021, the Firm's WSPs required that, prior to any transfer of customer funds to a third party through a letter of authorization ("LOA"), the LOA would need to be approved for processing without specification as to the steps that the reviewer should take to evaluate whether the LOA was genuine.⁴⁶ From January through February 2021, the Firm approved four fraudulent wire transfer requests from a hacker without taking reasonable steps to confirm whether the requests were genuine, which resulted in the Firm sending more than \$6.6 million from an account to two third parties.⁴⁷ Consequently, the Firm was censured, issued a \$350,000 fine, and ordered to certify to FINRA that the Firm remediated the issues identified in the AWC and implemented a supervisory system reasonably designed to achieve compliance with FINRA Rule 3110 regarding those issues.⁴⁸

In September of 2023, the Firm became subject, via a settlement of charges, to a disciplinary notice

⁴¹ *Id.* at FINRA Exhibit pp. 17-19.

⁴² *Id.* at FINRA Exhibit p. 13.

⁴³ *Id.* at FINRA Exhibit pp. 10-11.

⁴⁴ *Id.* at FINRA Exhibit pp. 20-21.

⁴⁵ See FINRA AWC Matter No. 2021070332301 (November 15, 2023), attached as Exhibit 11, at p. 1.

⁴⁶ *Id.* at p. 2.

⁴⁷ *Id.* at pp. 2-3.

⁴⁸ *Id.* at p. 3. The Firm's certification is due by January 14, 2024. FINRA confirmed that the Firm paid its fine on December 4, 2023.

issued by Intercontinental Exchange (“ICE”) Futures U.S. (“ICE Notice”).⁴⁹ Per the ICE Notice, the Firm may have violated ICE Exchange Rules by misreporting large trader positions in multiple instances; failing to establish, administer, and enforce effective supervisory systems, policies and procedures to ensure accurate reporting of large trader positions to ICE; and by failing to respond to ICE inquiries in a timely and sufficient manner.⁵⁰ Without admitting nor denying the rule violations, Wedbush agreed to settle the matter with a \$110,000 fine.⁵¹

In January of 2023, the Firm entered into AWCs with FINRA, BYX, BZX, EDGA, EDGX, IEX, BX, PHLX, Nasdaq, NYSE Arca, and NYSE.⁵² According to the AWCs, Wedbush provided certain customers access to third-party electronic trading platforms, which allowed those customers to enter orders for execution using one of the firm’s market participant identifiers (MPIDs).⁵³ Those customer orders were transmitted to other broker-dealers that were able to route them to various exchanges for execution using the executing broker-dealer’s MPID.⁵⁴ Wedbush failed to conduct supervisory reviews of its electronic trading customers’ trading activity for potentially manipulative trading instead relying on third-party broker-dealers to conduct such reviews.⁵⁵ The AWCs further found that the Firm failed to supervise trading activities of its proprietary traders and other firm customers for potential layering and spoofing.⁵⁶ For these violations, the Firm was subject to censures by the issuing entities, \$975,000 total in fines,⁵⁷ and is required to submit a written representation attesting that the Firm has corrected certain supervisory deficiencies.⁵⁸

⁴⁹ See ICE Disciplinary Notice, Case No. 2022-024 (September 20, 2023), attached as Exhibit 12.

⁵⁰ *Id.*

⁵¹ *Id.* at p. 2. The Firm represented that it paid the required fine to ICE Futures U.S. on October 6, 2023. See also, CRD Disclosure Occurrence Composite for Occurrence No. 2304150, attached as Exhibit 13.

⁵² See FINRA AWC Matter No. 20170544910-01 (January 19, 2023), BYX AWC Matter No. 20170544910-02 (January 5, 2023), BZX AWC Matter No. 20170544910-03 (January 5, 2023), EDGA AWC Matter No. 20170544910-04 (January 5, 2023), EDGX AWC Matter No. 20170544910-05 (January 5, 2023), IEX AWC Matter No. 20170544910-06 (January 18, 2023), BX AWC Matter No. 20170544910-07 (January 19, 2023), PHLX AWC Matter No. 20170544910-08 (January 19, 2023), Nasdaq AWC Matter No. 20170544910-09 (January 19, 2023), NYSE Arca AWC Matter No. 20170544910-10 (January 5, 2023), and NYSE AWC Matter No. 20170544910-11 (January 5, 2023), collectively attached as Exhibit 14.

⁵³ *Id.* at FINRA Exhibit pp. 4, 12, 18, 24, 30, 38, 48, 58, 68, 76, and 84.

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ FINRA Member Supervision staff received confirmation from FINRA Enforcement staff that the Firm has paid all its required fines.

⁵⁸ *Id.* at FINRA Exhibit pp. 6, 11, 17, 23, 29, 40, 50, 60, 70, 79, and 86. The Firm submitted its certification to FINRA along with relevant exhibits on April 25, 2023. See Wedbush Certification Letter to FINRA (April 25, 2023), attached as Exhibit 15.

On November 3, 2022 the Firm entered into an AWC with FINRA.⁵⁹ The Firm consented to sanctions and an entry of findings that from January 2013 through December 2018 the Firm made negligent misrepresentations regarding the default status of bonds on monthly account statements of approximately 610 customers.⁶⁰ The AWC also included findings that the Firm failed to deliver more than 400,000 annual privacy notices, margin disclosures and order execution disclosures with customer account statements to 14,900 customers.⁶¹ Lastly, the Firm did not have a supervisory system reasonably designed to achieve compliance with its obligations to deliver the aforementioned notices and disclosures.⁶² For these violations the Firm was censured and ordered to pay a \$850,000 fine (\$300,00 of which pertains to violations of MSRB Rules), and to certify in writing, within 90 days of the issuance of the AWC, that the Firm's WSPs and supervisory systems are reasonably designed to review the accuracy of account statements sent to customers and to achieve compliance with its obligation to deliver to customers annual privacy notices, margin disclosures, and order execution disclosures.⁶³

On September 27, 2022 the Firm entered into a joint settlement, comprised of AWCs with FINRA, NYSE, NYSE National, and NYSE American, and an Order Instituting Proceedings, Accepting Settlement, Making Findings, and Imposing Sanctions with NYSE Chicago (collectively "September 2022 AWCs").⁶⁴ The September 2022 AWCs pertained to violations of Regulation SHO where the Firm consented to findings that it failed to timely close out 2,056 fail-to-deliver positions in short sales and on 390 separate occasions failed to first borrow or arrange to borrow securities prior to accepting additional short sale orders (commonly referred to as the "penalty box)," and failed to comply with Regulation SHO's notice requirements under 240(c).⁶⁵ The September 2022 AWCs further state that the Firm failed to establish and maintain a supervisory system reasonably designed to achieve compliance with Regulation SHO.⁶⁶ The Firm was censured by the exchanges and FINRA and was subject to a \$900,000 fine (\$450,000 was payable

⁵⁹ See FINRA AWC Matter No. 2019062118301 (November 3, 2022), attached as Exhibit 16.

⁶⁰ *Id.* at pp. 2-3.

⁶¹ *Id.*

⁶² *Id.*

⁶³ *Id.* at pp. 5-6. FINRA confirmed that the Firm paid its fine in full on November 15, 2022. See Wedbush Response to FINRA Discovery Request with Exhibits (with redactions by FINRA), attached as Exhibit 17, at FINRA Exhibit p. 14. On February 15, 2023, the Firm submitted its written certification to FINRA, attached as Exhibit 18.

⁶⁴ See FINRA AWC Matter No. 20190618722 (September 27, 2022), NYSE AWC Matter No. 2018059467801 (September 27, 2022), NYSE American AWC Matter No. 2018059467802 (September 27, 2022), NYSE National AWC Matter No. 2018059467803 (September 27, 2022), and NYSE Chicago Order Instituting Proceedings, Accepting Settlement, Making Findings, and Imposing Sanctions 2018059467804 (September 27, 2022), collectively attached as Exhibit 19.

⁶⁵ *Id.* at FINRA Exhibit pp. 3-4.

⁶⁶ *Id.*

to FINRA).⁶⁷ The Firm also agreed to an undertaking requiring it to certify in writing, within 90 days of issuance of the AWC, that as of the date of the Firm's certification the Firm's WSPs and supervisory systems are reasonably designed to achieve compliance with Regulation SHO.⁶⁸

On December 30, 2021 the Firm entered into an AWC with NYSE Arca finding that the Firm violated NYSE Arca Rules 11.18, 11.1(b) and 9.2010-E.⁶⁹ According to the AWC, the Firm consented to findings pertaining to its failure to establish and maintain a reasonable supervisory system as to the accounts actively traded by the Firm's founder and former president, Edward Wedbush ("Mr. Wedbush"), on behalf of himself, Firm customers, the Firm, or its affiliates without putting in place adequate processes or procedures to supervise this activity.⁷⁰ According to the AWC, the Firm failed to implement a system to supervise order entry, trade execution and trade allocations and failed to prevent Mr. Wedbush from engaging in a wide range of conflicts of interest (such as day trading for his personal accounts and propriety accounts in some of the same securities he traded on behalf of his customers) or document violations and address misconduct.⁷¹ The AWC also stated that Mr. Wedbush's trading was only subject to minimal monitoring which did not include reviews for improper order handling or trade allocation.⁷² As a result, the Firm failed to adequately address misconduct related to order handling and trade allocations.⁷³ For these violations the Firm was censured and agreed to pay a fine in the amount of \$500,000.⁷⁴

On February 18, 2020, the Firm entered into an AWC with FINRA finding that the Firm, in 2017, failed to transmit and inaccurately transmitted data to OATS.⁷⁵ The Firm was censured and agreed to pay a \$30,000 fine.⁷⁶

On January 16, 2020, the Firm entered into an AWC with FINRA finding that the Firm, in 2016, misreported its short positions in equity securities.⁷⁷ The Firm was censured and agreed to pay a

⁶⁷ Per the Firm's CRD filing, the fine was paid in full on October 12, 2022. See Wedbush's CRD Report (October 5, 2023), attached as Exhibit 20 at p. 452.

⁶⁸ See Exhibit 18 at FINRA Exhibit p. 6. See Wedbush Certification Letter (January 31, 2023), attached as Exhibit 21.

⁶⁹ See NYSE Arca AWC Matter No. 2019-09-00112, executed by the Firm on December 29, 2021 and accepted by NYSE Arca on December 30, 2021, attached as Exhibit 22.

⁷⁰ *Id.* at p. 1.

⁷¹ *Id.* at p. 3.

⁷² *Id.* at pp. 3-4, par.D.

⁷³ *Id.* at p. 4.

⁷⁴ *Id.* at p. 5. The Firm confirmed that the fine was paid in full on January 13, 2022. See Exhibit 17 at FINRA p. 4.

⁷⁵ See FINRA AWC Matter No. 20170537045-01 (February 18, 2020) at pp. 3-4, attached as Exhibit 23.

⁷⁶ *Id.* at p. 4. The Firm paid its fine to FINRA on February 19, 2020. See Exhibit 20 at p. 434.

⁷⁷ See FINRA AWC Matter No. 20170531736-01 (January 16, 2020) at p. 3, attached as Exhibit 24.

\$90,000 fine.⁷⁸

On January 8, 2019, NYSE Regulation, on behalf of NYSE Arca, issued an Order accepting an Offer of Settlement and Consent with the Firm and the Firm's founder and former president Edward Wedbush ("E. Wedbush").⁷⁹ The Order found that E. Wedbush, was actively trading in dozens of customer, personal, and proprietary accounts and that the Firm failed to implement an adequate process to monitor or supervise E. Wedbush's trading activities.⁸⁰ Specifically, the Order noted, among other things, failures to apply and enforce margin requirements in connection with accounts managed and traded by E. Wedbush, failures to designate specific accounts for which orders were being entered and instead allocating trades to accounts after the fact based upon E. Wedbush's discretion and without reasonable oversight, the entry of inaccurate capacity codes, changing the closing prices of certain equity securities on the Firm's internal records without processes or reviews to ensure that the adjustments were not applied in a discriminatory fashion, and a host of supervisory failures related to the trading and management of accounts handled by E. Wedbush.⁸¹ The Firm agreed to a \$1,000,000 fine, \$900,000 of which was payable jointly and severally with E. Wedbush and required the Firm to fulfill certain undertakings including the hiring of an independent consultant.⁸²

On December 10, 2018, the Firm entered into an AWC with FINRA on behalf of Nasdaq finding that the Firm failed to comply with its quoting obligations as a market maker and failed to develop and maintain a supervisory system reasonably designed to achieve compliance with its quoting obligations.⁸³ The Firm agreed to a censure, a \$15,000 fine, and agreed to revise its supervisory procedures.⁸⁴

On April 11, 2018, the Firm entered into an AWC with FINRA finding that the Firm failed to establish, maintain, and enforce supervisory procedures reasonably designed to prevent trade-throughs of protected quotations in NMS stocks that did not fall within an applicable exception; inaccurately appended print protection modifiers to transaction reports submitted to FINRA and Nasdaq; and failed to document on an order-by-order basis the specified price agreed to by the

⁷⁸ *Id.* The Firm paid in full on February 12, 2020. *See* Exhibit 20, p. 432.

⁷⁹ *See* NYSE Arca Offer of Settlement and Consent, Proceeding No. 2016-07-01264 (January 8, 2019) at p. 2, attached as Exhibit 25.

⁸⁰ *Id.* at p. 3-4.

⁸¹ *Id.* at pp. 4 to 20.

⁸² *Id.* at pp. 22 to 24. *See* Firm written certification for NYSE January 8, 2019 action (February 5, 2020; April 24, 2020; and May 29, 2020) and email correspondence with wire confirmation (January 16, 2019), collectively attached as Exhibit 26.

⁸³ *See* Nasdaq AWC Matter No. 2016051145501 (December 10, 2018) attached as Exhibit 27.

⁸⁴ *Id.* at p. 3. The Firm represents that the fine was paid on January 10, 2019. *See* Proof of payment correspondence for Matter No. 2016051145501, attached as Exhibit 28. *See* Wedbush written certification to FINRA dated January 10, 2019, attached as Exhibit 29.

customer and the time at which the stop price was determined.⁸⁵ The Firm agreed to a censure, a \$40,000 fine, and agreed to revise its supervisory procedures.⁸⁶

On March 12, 2018, the Firm entered into an AWC with FINRA on behalf of BZX finding that the Firm failed to implement written supervisory procedures to prevent displaying quotations that locked or crossed a protected quotation and failed to maintain a supervisory system reasonably designed to achieve compliance with rules concerning locking or cross protected quotations.⁸⁷ The Firm agreed to a censure and a \$5,000 fine.⁸⁸

On February 12, 2018, the Firm entered into an AWC with NYSE finding that the Firm, from December 2014 through March 2017, failed to implement adequate written procedures and supervisory systems reasonably designed to achieve compliance with NYSE Rule 123C governing the Firm's proprietary trading units.⁸⁹ Furthermore, the NYSE AWC found that the Firm failed to provide complete and/or accurate information in response to requests by NYSE Regulation.⁹⁰ The Firm was censured and agreed to a \$30,000 fine.⁹¹

On February 5, 2018, Wedbush was subject to an Order Accepting Offer of Settlement issued by FINRA (the "2018 Order").⁹² The 2018 Order is predicated on violative behavior of the Firm from 2009 to 2016, also noted in a parallel SEC Order discussed further below, involving multiple willful violations of the Exchange Act⁹³ and FINRA Rules across two primary review periods.⁹⁴ During the first review period, from 2009–2012, the Firm willfully violated rules pertaining to Customer Protection, Exchange Act Section 15(c) and Rule 15c3-3(b)(1), and FINRA Rule 2010, by creating or increasing deficits in the number of securities required to be in the Firm's possession or control and by failing to accurately calculate its customer reserve formula and adequately fund

⁸⁵ See FINRA AWC Matter No. 20140412617-02 (April 11, 2018), attached as Exhibit 30.

⁸⁶ *Id.* at pp. 4-5. See Wedbush's written certification to FINRA, dated May 30, 2018, attached as Exhibit 31. The Firm paid its fine in full on June 26, 2018. See Exhibit 20, p. 410.

⁸⁷ See BZX AWC No. 20140412617-01 (March 12, 2018), attached as Exhibit 32.

⁸⁸ *Id.* at p. 5. The Firm paid the required fine on April 5, 2018. See Proof of Payment for BZX March 12, 2018 matter, attached as Exhibit 33.

⁸⁹ See NYSE AWC No. 2016-07-01063 (February 12, 2018), attached as Exhibit 34.

⁹⁰ *Id.* at p. 3.

⁹¹ *Id.* at p. 4. FINRA confirmed that the Firm paid its fine on April 28, 2018.

⁹² See FINRA Order Accepting Offer of Settlement and Consent No. 2012033105901 (February 5, 2018) attached as Exhibit 35.

⁹³ Wedbush is subject to a statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Section 15(b)(4)(D). The Firm filed an MC-400A Application with FINRA on March 30, 2018.

⁹⁴ See Exhibit 35.

its customer reserve account.⁹⁵ The Firm also willfully violated rules pertaining to Customer Reserve, Exchange Act Section 15(c) and Rule 15c-3-3(e) and FINRA Rule 2010, by improperly calculated its reserve formula on fourteen occasions.⁹⁶ Also included in this period were violations of NASD and FINRA supervisory rules where the Firm failed to establish and maintain supervisory systems related to the above violations.⁹⁷ During the second review period from 2013 through 2016, the Order found that the Firm willfully violated SEA Rule 15c3-1(c)(2)(vii) and FINRA Rule 2010 by failing to maintain adequate net capital.⁹⁸ During the same review period, the Order found that the Firm willfully violated Section 15(c) and Rule 15c3-3(e) of the Exchange Act and FINRA Rule 2010 in multiple instances by including ineligible certificates of deposit in its customer reserve account, causing the Firm to underfund the account, and by improperly calculating its customer reserve requirement on numerous occasions resulting in hindsight deficiencies.⁹⁹ The Firm also, in numerous instances, willfully violated rules pertaining to possession or control, Exchange Act Section 15(c), Exchange Rule 15c3-3(b)(1), and FINRA Rule 2010, by holding customers' fully-paid and/or excess margin securities in locations that the Firm inaccurately treated as good control locations.¹⁰⁰ Also included in the second period were various books and records, FOCUS filing, and related supervision and supervisory systems rule violations.¹⁰¹ As a result of these violations, FINRA censured the Firm, fined it \$1.5 million, and required it certify to FINRA that the Firm has in place policies, systems, and procedures to address and correct the violations described in the FINRA Order.¹⁰²

SEC Actions and Additional Disqualifications

On August 8, 2023, the SEC issued an Order finding that the Firm willfully violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) and failed reasonably to supervise its employees with a view to preventing or detecting certain of its employees' aiding and abetting violations of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder.¹⁰³ According to the August 2023

⁹⁵ *Id.* at pp. 3 – 5.

⁹⁶ *Id.* at pp. 5 - 8.

⁹⁷ *Id.* at pp. 8 – 13.

⁹⁸ *Id.* at pp. 14 – 16.

⁹⁹ *Id.* at pp. 16 – 18.

¹⁰⁰ *Id.* at pp. 17 – 24.

¹⁰¹ *Id.* at pp. 24 – 31.

¹⁰² *Id.* at p. 31. While the Firm's MC-400A application was under review, FINRA staff confirmed that the Firm paid its fine in full on June 29, 2018. The Firm provided proof of compliance with its undertakings in a September 10, 2020 certification sent to FINRA's Department of Enforcement, attached as Exhibit 36. Since there are no sanctions in effect for statutory disqualification purposes, Wedbush is provided relief from FINRA eligibility requirements for this SD event.

¹⁰³ See SEC Order, *In re Wedbush Securities, Inc.*, Exchange Act Release No. 98074 (August 8, 2023), attached as Exhibit 37. Wedbush is subject to a statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the

SEC Order, from at least January 2019, numerous Wedbush employees sent and received off-channel communications that related to the Firm's business, and a majority of these written communications was not maintained or preserved by the Firm.¹⁰⁴ Supervisors who were responsible for preventing this misconduct among junior employees routinely communicated off-channel using their personal devices and in so doing, failed to comply with Firm policies by communicating using non-Firm approved methods on their personal devices about the Firm's broker-dealer business.¹⁰⁵ Consequentially, the Firm was ordered to comply with various undertakings including hiring an independent consultant and to pay a \$10,000,000 fine.¹⁰⁶

On September 30, 2019, the SEC issued an Order finding the Firm breached its fiduciary duty and made inadequate disclosures in connection with mutual fund share class selection practices and the fees.¹⁰⁷ The Firm was found to have willfully violated Section 206(2) of the Investment Advisers Act of 1940.¹⁰⁸ The Firm self-reported to the Commission violations pursuant to the SEC Division of Enforcement's Share Class Selection Disclosure Initiative ("SCSD Initiative").¹⁰⁹ The Firm was ordered to cease and desist from committing or causing any violations and any future violations of Section 206(2), censured, and ordered or pay disgorgement and prejudgment interest to affected investors totaling \$1,852,540.97.¹¹⁰

On June 18, 2019 the SEC issued an Order finding that the Firm engaged in improper issue of pre-released American Depository Receipts ("ADRs") and failed to maintain adequate procedures and supervise the Firm's obligations in connection with pre-release transactions.¹¹¹ The Firm failed to reasonably supervise, with a view to preventing and detecting violations of the federal securities laws, persons subject to their supervision within the meaning of Section 15(b)(4)(E) of the

Exchange Act, incorporating by reference Section 15(b)(4)(D) and (E). The Firm submitted its MC-400A application regarding the matter to FINRA on August 24, 2023. The Firm's application is currently under review.

¹⁰⁴ *Id.* at p. 2, par. 3.

¹⁰⁵ *Id.* at pp. 2-5.

¹⁰⁶ *Id.* at pp. 6-10.

¹⁰⁷ See SEC Order, *In re Wedbush Securities, Inc.*, Exchange Act Release No. 5386 (Sept. 30, 2019), attached as Exhibit 38.

¹⁰⁸ *Id.* at pp. 3-4. Wedbush is subject to a statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Section 15(b)(4)(D). The Firm certified its compliance with the undertakings set out in the order to FINRA in a letter dated November 15, 2019, attached as Exhibit 39. Since there are no sanctions in effect for statutory disqualification purposes, Wedbush is provided relief from FINRA eligibility requirements for this SD event.

¹⁰⁹ See Exhibit 38 at p. 2.

¹¹⁰ *Id.* at pp. 5-7.

¹¹¹ See SEC Order, *In re Wedbush Securities, Inc.*, Exchange Act Release No. 86133 (June 18, 2019), attached as Exhibit 40.

Exchange Act.¹¹² The Firm was ordered to cease and desist from committing or causing any violations and any future violations of Section 17(a)(3) of the Securities Act, censured, ordered to pay disgorgement of \$4,869,072, and ordered to pay a civil monetary penalty in the amount of \$2,434,536.¹¹³

On March 13, 2019, the SEC issued an Order finding the Firm failed to reasonably supervise one of its registered representatives who engaged in manipulative trading activity of penny stocks over multiple years.¹¹⁴ The Firm failed reasonably to supervise another, with a view to preventing and detecting the other's violations of Sections 17(a)(1) and (3) of the Securities Act, Sections 9(a)(2) and 10(b) of the Exchange Act and Rule 10b-5(a) and (c) thereunder.¹¹⁵ The Firm was censured and ordered to pay a civil monetary penalty in the amount of \$250,000.¹¹⁶

On February 5, 2018, the SEC issued an Order finding that Wedbush willfully failed to maintain an adequate reserve of funds and qualified securities in a Reserve Account and filed inaccurate Financial and Operational Combined Uniform Single (“FOCUS”) Reports.¹¹⁷ Specifically, the SEC found that between September 2014 and January 2015 the Firm failed to account for large reverse repurchase transactions that it conducted with its parent company, Wedbush, Inc., in its Reserve Account calculations, causing deficiencies in that account of amounts ranging between approximately \$10 million to \$193 million.¹¹⁸ The Firm reported these inaccurate Reserve

¹¹² *Id.* at p. 3. Wedbush is subject to a statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Section 15(b)(4)(E). The Firm certified its compliance with the undertakings set out in the order to FINRA in a letter dated August 8, 2019, attached as Exhibit 41. Since there are no sanctions in effect for statutory disqualification purposes, Wedbush is provided relief from FINRA eligibility requirements for this SD event.

¹¹³ *See* Exhibit 40 at p. 9.

¹¹⁴ *See* SEC Order, *In re Wedbush Securities, Inc.*, Exchange Act Release No. 85309 (March 13, 2019), attached as Exhibit 42.

¹¹⁵ *Id.* at p. 6. Wedbush is subject to a statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Section 15(b)(4)(E). The Firm provided proof of payment and certified its compliance with its undertakings to FINRA on April 8, 2019. *See* Wedbush Letter to FINRA certifying compliance with undertakings and proof of payment (April 8, 2019) with redactions by FINRA, collectively attached as Exhibit 43. Since there are no sanctions in effect for statutory disqualification purposes, Wedbush is provided relief from FINRA eligibility requirements for this SD event.

¹¹⁶ Exhibit 42 at p. 7.

¹¹⁷ *See* Order Making Findings and Imposing Remedial Sanctions Pursuant to Section 15(b) of the Securities Exchange Act of 1934, *In re Wedbush Securities, Inc.*, Exchange Act Release No. 82630 (February 5, 2018), attached as Exhibit 44. This action is the parallel action to FINRA matter ordered on the same date, noted above. Wedbush is subject to a statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Section 15(b)(4)(D). The Firm filed an MC-400A Application with FINRA on March 30, 2018. The Firm provided proof that it paid its fine in full on August 14, 2019. *See* Wedbush Letter with Proof of Payment (June 17, 2021) with redactions by FINRA, collectively attached as Exhibit 45. The Firm also provided FINRA with a copy of its certification to the SEC, dated June 3, 2021 (without exhibits), attached as Exhibit 46. Since there are no sanctions in effect for statutory disqualification purposes, Wedbush is provided relief from FINRA eligibility requirements for this SD event.

¹¹⁸ *Id.* at pp. 2, 4-6.

Account calculations to the SEC via its FOCUS Reports.¹¹⁹ The SEC ordered the Firm to cease and desist from future violations of the above-referenced rules, censured it, and ordered it to pay disgorgement of \$275,851, prejudgment interest of \$28,346, and a civil penalty of \$1 million.¹²⁰ The SEC also ordered the Firm to comply with certain undertakings, including, among other things, hiring an independent consultant to conduct a comprehensive review of the Firm's current system of controls and procedures related to the inaccurate calculations and reporting.¹²¹

CFTC Action

On August 8, 2023, the CFTC issued an order parallel to the SEC's above referenced August 8, 2023 order regarding the Firm's failure to supervise the widespread practice of associated persons utilizing methods of communication not captured by Firm systems.¹²² The CFTC found that the Firm violated Section 4g of the Commodity Exchange Act, 7 U.S.C. § 6g, and Commission Regulations 1.31, 1.35, and 166.3, 17 C.F.R. §§ 1.31, 1.35, 166.3 (2021).¹²³ The Firm was ordered to cease and desist from violating the cited sections of the Commodity Exchange Act and Commission Regulations, to pay a \$6,000,000 civil penalty, and to comply with various undertakings related to the Firm's preservation of records related to electronic communications.¹²⁴

State Actions

On June 8, 2023, the Firm became subject to an order issued by the Massachusetts Securities Division finding that the Firm failed to ensure that one of its agents was properly registered prior to transacting business in the state.¹²⁵ The Firm was ordered to pay a \$5,000 administrative fine and restitution as a result.¹²⁶

In February and April of 2023, the Firm became subject to orders issued by the State of Delaware Insurance Department based on the Firm's failure to notify the Delaware Insurance Commissioner

¹¹⁹ *Id.* at pp. 2, 5.

¹²⁰ *Id.* at p. 10.

¹²¹ *Id.* at pp. 7-10.

¹²² See CFTC Order, *Wedbush Securities, Inc.*, CFTC Docket No. 23-37 (September 27, 2022), attached as Exhibit 47.

¹²³ *Id.* at p. 1.

¹²⁴ *Id.* at pp. 7- 11.

¹²⁵ See *In re Wedbush Securities, Inc.*, Docket No. R-2-23-0045 (MA) (June 8, 2023), proof of payment of restitution made on August 1, 2023, and proof of payment made on June 12, 2023, with redactions by FINRA, collectively attached as Exhibit 48.

¹²⁶ *Id.* at FINRA Exhibit pp. 5-6, Proof of Restitution at p. 8, Proof of Payment at p. 10.

of a FINRA settlement.¹²⁷ In both matters the Firm was ordered to pay a \$500 fine.¹²⁸

International Order

In August 2023, Bourse de Montréal Inc. (“Bourse”) issued an order, following a settlement with the Firm, finding that the Firm failed to: establish and maintain controls, policies, and procedures reasonably designed to manage risks associated with providing its clients with electronic access to the trading system of the Bourse; provide adequate documentation evidencing results or explanations on how certain alerts were resolved as part of the management of post-trade monitoring for manipulative or deceptive trading; assess, confirm, and document that its clients continued to meet established standards pursuant to the Rules of the Bourse; file reports detailing gross positions held for two specific accounts when the gross positions exceeded reporting thresholds set by the Bourse; provide a Legal Entity Identifier for a group of accounts as required; aggregate positions held by a corporate client; ensure that information transmitted to the Bourse by a delegated third party was complete and accurate; and establish and maintain a system reasonably designed to achieve compliance with Rules of the Bourse specific to reporting obligations pertaining to the accumulation of positions for derivative instruments.¹²⁹ The Firm was ordered to pay a \$300,000 fine.¹³⁰

Other Disciplinary Matters - CME Group/NFA

Since 2018, Wedbush also reported that it has been subject to 13 actions brought by the CME Group, and one entered finding by the National Futures Association (“NFA”).¹³¹ These actions are outlined below.

1. November 20, 2023, four disciplinary actions¹³² issued as a joint settlement finding that the Firm’s back-office accounting platform failed to maintain records of cleared trades after its settlement platform reached an upper limit of traded contracts due to extremely high trading volume causing the Firm to submit inaccurate large trader position reports to the exchanges,¹³³ the failure to submit position change data to the clearing house in a timely

¹²⁷ See State of Delaware Department of Insurance Stipulation and Consent Orders (November 17, 2023, February 22, 2023 and April 5, 2023) along with proof of fine payments made on March 30, 2023 and February 15, 2023, with redactions by FINRA, collectively attached as Exhibit 49.

¹²⁸ *Id.* at FINRA Exhibit pp. 3, 6-8.

¹²⁹ See Bourse Disciplinary Committee Decision, *In the Matter of Bourse de Montréal Inc. and Wedbush Securities Inc.*, Docket No. EN-DC-21001 (August 25, 2023), attached as Exhibit 50, at pp. 6-7, 11-12.

¹³⁰ *Id.* at p. 15. The Firm represented that it paid the required fine on August 25, 2023. See Exhibit 20 at p. 544.

¹³¹ See Wedbush CME Group Actions with Proof of Payments, collectively attached as Exhibit 51.

¹³² *Id.* at FINRA Exhibit pp. 34-45.

¹³³ *Id.* at FINRA Exhibit pp. 35, 39, 42, 45.

manner,¹³⁴ and the failure to accurately report concurrent long and short positions as open positions and/or accurately report reductions to the positions.¹³⁵ The Firm agreed to pay \$175,000 total in fines (\$30,000 to COMEX, \$75,000 to CBOT, \$40,000 to CME, and \$30,000 to NYMEX).¹³⁶

2. February 24, 2023, a summary action finding that the Firm failed to maintain a complete electronic audit trail for certain dates in September 2021 and February 2023 in contravention of a CME Group rule.¹³⁷ The Firm was ordered to pay a \$1,000 fine.¹³⁸
3. August 19, 2022, an order finding that the Firm violated a Chicago Board of Trade (“CBOT”) rule regarding the requirement to maintain and keep current certain books and records.¹³⁹ The Firm agreed to settle the matter with a \$50,000 fine.¹⁴⁰
4. February 25, 2022, a summary action finding that, for approximately three months in 2021, the Firm failed to maintain current and accurate information in the Globex Exchange Fee System.¹⁴¹ The Firm was ordered to pay a \$1,000 fine.¹⁴²
5. January 21, 2021, a summary action finding that the Firm, in connection with an audit trail information review, made data entry errors for sequenced cards, verbal orders, and floor orders exceeding the 10% error level mandated by CME Group rules.¹⁴³ The Firm was ordered to pay a \$2,500 fine.¹⁴⁴

¹³⁴ *Id.*

¹³⁵ *Id.* at FINRA Exhibit p. 42.

¹³⁶ *Id.* at FINRA Exhibit pp. 36, 40, 42, 45. At filing, FINRA noted these four additional recent self-reported actions and have reached out to the Firm for proof of compliance.

¹³⁷ *Id.* at FINRA Exhibit pp. 1-2.

¹³⁸ *Id.* at FINRA Exhibit pp. 2-3.

¹³⁹ *Id.* at FINRA Exhibit pp. 4-5.

¹⁴⁰ *Id.* at FINRA Exhibit pp. 5-6.

¹⁴¹ *Id.* at FINRA Exhibit p. 7.

¹⁴² *Id.* at FINRA Exhibit pp. 7, 9.

¹⁴³ *Id.* at FINRA Exhibit p. 10.

¹⁴⁴ *Id.* at FINRA Exhibit pp. 10, 12.

6. October 16, 2020 an order finding that the Firm violated a CBOT rule regarding its risk management program requirements.¹⁴⁵ The Firm agreed to settle the matter with a \$50,000 fine.¹⁴⁶
7. August 26, 2020 a fine letter, which became a final on September 10, 2020, finding that the Firm made various errors in its Globex order entries.¹⁴⁷ The Firm was ordered to pay a \$2,500 fine.¹⁴⁸
8. January 24, 2020 an order finding that the Firm violated a CBOT rule requiring that members maintain an adequate accounting system, internal accounting controls, and procedures for safeguarding customer and firm assets to prevent material inadequacies outlined in CFTC regulations.¹⁴⁹ The Firm agreed to settle the matter with a \$150,000 fine.¹⁵⁰
9. December 7, 2019, the NFA published a finding that the Firm, in connection with an audit trail information review, made data entry errors for sequenced cards, verbal orders, and floor orders exceeding the 10% error level mandated by CME Group rules.¹⁵¹ The Firm was ordered to pay a \$2,500 fine.¹⁵²
10. November 30, 2018, an order finding that the Firm violated a CBOT rule requiring that members maintain an adequate accounting system, internal accounting controls, and procedures for safeguarding customer and firm assets to prevent material inadequacies outlined in CFTC regulations.¹⁵³ The Firm agreed to settle the matter with a \$100,000 fine.¹⁵⁴

¹⁴⁵ *Id.* at FINRA Exhibit pp. 13-14.

¹⁴⁶ *Id.* at FINRA Exhibit pp. 14, 16.

¹⁴⁷ *Id.* at FINRA Exhibit p. 17.

¹⁴⁸ *Id.* at FINRA Exhibit pp. 17-18.

¹⁴⁹ *Id.* at FINRA Exhibit pp. 19-20.

¹⁵⁰ *Id.* at FINRA Exhibit pp. 20, 22.

¹⁵¹ *Id.* at FINRA Exhibit pp. 23-24.

¹⁵² *Id.* at FINRA Exhibit pp. 24-26.

¹⁵³ *Id.* at FINRA Exhibit p. 27.

¹⁵⁴ *Id.* at FINRA Exhibit pp. 27, 29.

11. June 29, 2018, an order finding that the Firm violated CBOT Rules related to its disclosure requirements, financial requirements, record-keeping and reporting requirements, requirement to maintain sufficient funds at all times in segregation in 30.7 and Cleared Swaps Customer accounts.¹⁵⁵ The Firm agreed to settle the matter with a \$100,000 fine.¹⁵⁶

IV. Prior SEA Rule 19h-1 Notices

The Firm has not been subject to prior SEA Rule 19h-1 notices.

V. The Firm's Continued Membership with FINRA and Plan of Supervision

Wedbush seeks to continue its membership with FINRA notwithstanding its statutory disqualification. Wedbush has agreed to the following Plan of Heightened Supervision (“the Plan”) as a condition of its continued membership with FINRA:¹⁵⁷

1. The Firm shall comply with all of the undertakings outlined in the Securities and Exchange Commission (“SEC” or “Commission”) Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 15(b) and 21C of the Securities Act of 1933, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order, *In the Matter of Wedbush Securities, Inc.*, Exchange Act Release No. 93794, Admin. Proc. File No. 3-20679 dated December 15, 2021 (“SEC Order”).
2. The Firm shall send the Firm’s assigned FINRA Risk Monitoring Analysts copies of all correspondence between the Firm and Commission staff regarding requests to extend the procedural dates relating to the undertakings specified in the SEC Order. The Firm shall maintain copies of all documentation regarding such extensions in a segregated file for ease of review by FINRA staff.
3. The Firm shall send the Firm’s assigned Risk Monitoring Analysts copies of all reports issued by the Firm’s Independent Compliance Consultant (“ICC”) in relation to the SEC Order. The Firm shall maintain copies of all reports issued by the ICC in relation to the SEC Order along with all recommendations, the Firm’s responses to such reports, whether contesting the ICC recommendations or documenting compliance, and implementation plans. The Firm shall maintain said documents in a segregated file for ease of review by FINRA staff.
4. Within six months of the Firm’s submission of its written certification of completion of the undertakings as laid out in the SEC Order, the Firm shall develop or revise, to the extent that it has not already done so, a mechanism or process designed to facilitate compliance

¹⁵⁵ *Id.* at FINRA Exhibit p. 30-32.

¹⁵⁶ *Id.* at FINRA Exhibit pp. 32-33.

¹⁵⁷ See the Firm’s agreement to the Supervisory Plan, signed by the Firm on November 7, 2023, attached as Exhibit 52.

with Section 5 and Section 4(a)(4) of the Securities Act and Rule 144 thereunder, when evaluating low-priced securities (“LPS”) and update the Firm’s policies and procedures accordingly. The Firm’s updated policy regarding this mechanism or process shall be disseminated to all individuals registered with the Firm who have the ability to trade in LPS, supervise trading in LPS, or otherwise handle LPS transactions in an operational capacity. Should the Firm revise this mechanism or process in any way, the Firm shall distribute the updated relevant policy to all applicable registered individuals identified above. The Firm shall maintain a copy of this policy, documentation of the mechanism or progress, any edits to the relevant policy, and documentation evidencing the required dissemination of the relevant Firm policy in a segregated file for ease of review by FINRA staff.

5. Within six months of the Firm’s submission of its written certification of completion of the undertakings as laid out in the SEC Order, the Firm shall develop or revise, to the extent that it has not done so, a policy specific to suspicious activity monitoring and reporting in connection with the handling and trading in low-priced or unregistered securities.
6. Within six months of the Firm’s submission of its written certification of completion of the undertakings as laid out in the SEC Order, and at least on an annual basis thereafter, the Firm shall provide training covering LPS transactions to all personnel that may sell LPS, supervise the sale of LPS, or otherwise handle LPS in any operational capacity. Said training will be provided to all relevant personnel within 30 days of commencing employment with the Firm if the individual is newly hired, and at least annually for a period of five years for all relevant individuals. After that five-year period, the Firm shall take a risk-based approach to determine the appropriate cadence of said training. The Firm shall maintain a copy of all training materials and a log demonstrating that all relevant individuals have completed the training in a segregated file for ease of review by FINRA staff.
7. The Firm shall obtain written approval from the SD Group prior to changing any provision of this Plan of Heightened Supervision.
8. The Firm will submit any proposed changes or other requested information under this Plan of Heightened Supervision to the SD Group at SDMailbox@FINRA.org.

VI. Discussion

After carefully reviewing the entire record in this matter, FINRA approves the Firm’s request to continue its membership with FINRA, subject to the terms and conditions set forth herein. In evaluating the Firm’s Application, FINRA assessed whether the Firm has demonstrated that its continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. *See* FINRA By-Laws, Art. III, Sec. 3(d); *cf. Frank Kufrovich*, 55 S.E.C. 616, 624 (2002) (holding that FINRA “may deny an application by a firm for association with a statutorily disqualified individual if it determines that employment under the proposed plan would not be consistent with the public interest and the protection of investors”). Typically, factors that bear on FINRA’s assessment include, among other things, the nature and

gravity of the statutorily disqualifying misconduct, the time elapsed since its occurrence, the restrictions imposed, the Firm's regulatory history, and whether there has been any intervening misconduct.

As of the date of this Notice, FINRA has determined that the Firm's continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. While the SEC Order identified serious violations of securities laws, the Firm was not expelled or suspended, nor were any limitations placed on Wedbush's securities activities, including in the LPS transaction space.¹⁵⁸ The Firm promptly hired an ICC as required by the Order,¹⁵⁹ and paid the required fine in full to the SEC.¹⁶⁰ Further, the Firm submitted a heightened supervision plan to FINRA, which it voluntarily subjected itself to during the application review.¹⁶¹ This demonstrated to Member Supervision that the Firm was not only working with the ICC as required by the Order, but was also willing to take preemptive measures to begin addressing supervisory shortcomings in the AML program prior to the issuance of the ICC's first report. The Firm also provided FINRA with updated WSPs despite the Firm's continued work with the ICC, again indicative of the Firm's willingness to begin addressing shortcomings in the supervisory structure pertaining to the supervision of LPS transactions.¹⁶²

In its determination to approve the Firm's application, FINRA heavily weighed the Firm's progress with the ICC along with the Firm's stringent plan of supervision, which will allow substantive monitoring of the Firm as it progresses with the SEC Order's undertakings. While the Firm has not entered the formal implementation stage per the undertakings, the Department acknowledges efforts made by the Firm to support a better compliance culture which include, according to the ICC, material improvements to its corporate governance structure. The ICC reports also indicate that the Firm's CCO is working to implement an improved compliance system and has made improvements during her tenure with the Firm, in both proactive and remedial measures. The Firm is also reviewing its overall corporate governance structure and AML program. The Department further notes the Firm's progress in various areas in the Firm's AML program where the Firm had already begun taking steps towards improving its procedures and technological systems ahead of the ICC's report issuance. Among other measures, this includes technological improvements, policy changes, and prioritizing resources for a full-time AML Compliance Officer.

Further, the Firm's Plan of Heightened Supervision bolsters the undertakings outlined in the SEC Order and will provide continual oversight of the Firm and its compliance with its remaining undertakings. The Plan requires the Firm to develop or revise a mechanism or process designed to achieve compliance with its regulatory obligations under Section 5 and Section 4(a)(4) of the Securities Act and Rule 144 thereunder, when evaluating LPS. Per the plan, that policy governing

¹⁵⁸ See Exhibit 2.

¹⁵⁹ See Exhibit 3 at FINRA Exhibit pp. 333; 335-349.

¹⁶⁰ *Id.* at FINRA Exhibit p. 331.

¹⁶¹ *Id.* at FINRA Exhibit pp. 351-352.

¹⁶² *Id.* at FINRA Exhibit pp. 1-2, 4-5, and generally at FINRA Exhibit pp. 9-143.

this mechanism or process shall be disseminated to all individuals registered with the Firm who have the ability to trade in LPS, supervise trading in LPS, or otherwise handle LPS in any operational capacity. The Plan further mandates annual training relating to activities in LPS to all personnel that may sell LPS, supervise the sale of LPS, or otherwise handle LPS in any operational capacity. It also ensures that said training is provided to all relevant personnel within 30 days of commencing employment with the Firm if the individual is newly hired, and at least annually for a period of five years for all relevant individuals. The plan also ensures that the Firm is notifying FINRA regarding any related extensions and that all ICCs reports, including recommendations, responses, documentation, and implementation plans, are sent to FINRA for continual monitoring of the Firm's compliance with the SEC Order's undertakings.

An extensive regulatory history of a firm bears upon the assessment of the firm's ability to comply with securities law and regulations. *See In the Matter of the Continued Association of Craig Scott Taddonio with Meyers Associate, L.P.*, SD-2117, slip op. at 24-25 (FINRA NAC March 8, 2017). However, the corrective measures taken by firms to address deficiencies are weighed in determining whether to approve applications. *See In the Matter of the Association of X with the Sponsoring Firm*, SD11007 (FINRA NAC 2011) (where a firm's corrective actions negated Member Regulation's assertion that the firm failed to appreciate or respect securities rules and regulations). FINRA has also previously approved applications for continued membership where the firms had extensive regulatory history, including disqualifying events. *See In the Matter of the Continued Membership of Deutsche Bank Securities, Inc.*, SD-2190, (FINRA Jan. 14, 2020) and *In the Matter of the Continued Membership of Citigroup Global Markets, Inc.*, SD-2082, (FINRA May 2, 2017) approving continued membership where the firms had extensive regulatory history, including recent disqualifying events.

In its evaluation of Wedbush's application, FINRA acknowledges the Firm's extensive regulatory history and recent disciplinary actions, including additional disqualifying events. With this approval, Member Supervisions also weighed that none of the sanctions ordered by regulators included restrictions or limitations to the Firm's securities activities and that none of these matters would prevent the continuance of the Firm as a FINRA member. Further, the Firm has paid all of its fines and is in compliance with, or completed, all ordered undertakings.¹⁶³ Member Supervision also considered the corrective measures taken by the Firm in connection with its recent examination exceptions. This included, among other things, committing to update its WSPs, engaging in a third-party vendor to review its AML policies and procedures, committed to strengthening its Regulation BI and Form CRS policies and procedures, committing to enhancing testing of representative disclosure compliance, and launching an internal working group to work on remediation efforts.

After taking into account the Firm's recent efforts to address the regulatory concerns underlying the instant order, the Firm's ongoing work with the ICC, the lack of restrictions or limitations placed on the Firm's ability to continue conducting its securities business including in the LPS transaction space, its corrective measures in regards to recent exams, along with the Firm's Plan

¹⁶³ The Department is currently reviewing Wedbush's most recent MC-400A Application, and at filing, the Department noted the four additional recent self-reported CME Group actions discussed above and have reached out to the Firm for proof of compliance.

of Heightened Supervision, Member Supervision approves the Firm's Application to continue its membership in FINRA as set forth herein. Following the approval of the Firm's continued membership in FINRA, FINRA intends to utilize its examination and surveillance processes to monitor the Firm's continued compliance with the standards prescribed by Exchange Act Rule 19h-1 and FINRA Rule 9523. Thus, FINRA is satisfied, based on the foregoing and on the Firm's representations made pursuant to the Plan of Heightened Supervision, that the Firm's continued membership in FINRA is consistent with the public interest and does not create an unreasonable risk of harm to the market or investors.

FINRA certifies that the Firm meets all qualification requirements and represents that the Firm is registered with several other SROs including: BOX, BYX, BZX, C2, EDGA, EDGX, Cboe, IEX, MIAX Pearl, MIAX, NYSE American, NYSE Arca, NYSE Chicago, NYSE National, BX, GEMX, ISE, MRX, PHLX, Nasdaq, NYSE, FICC-GOV, FICC-MBS, NSCC, and DTC. The SROs have been provided with the terms and conditions of the Firm's proposed continued membership and concur with FINRA.

In conformity with the provisions of SEC Rule 19h-1, the continued membership of the Firm will become effective within 30 days of the receipt of this Notice by the Commission, unless otherwise notified by the Commission.

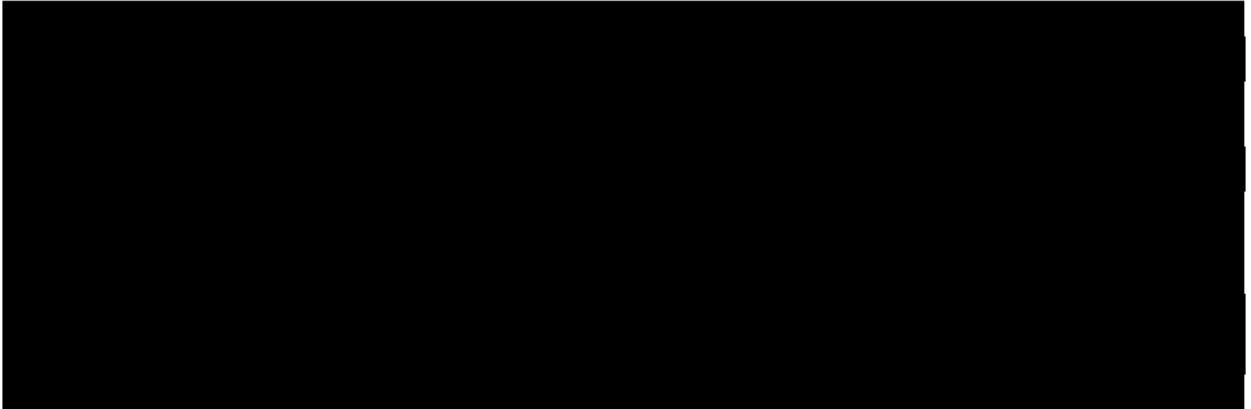
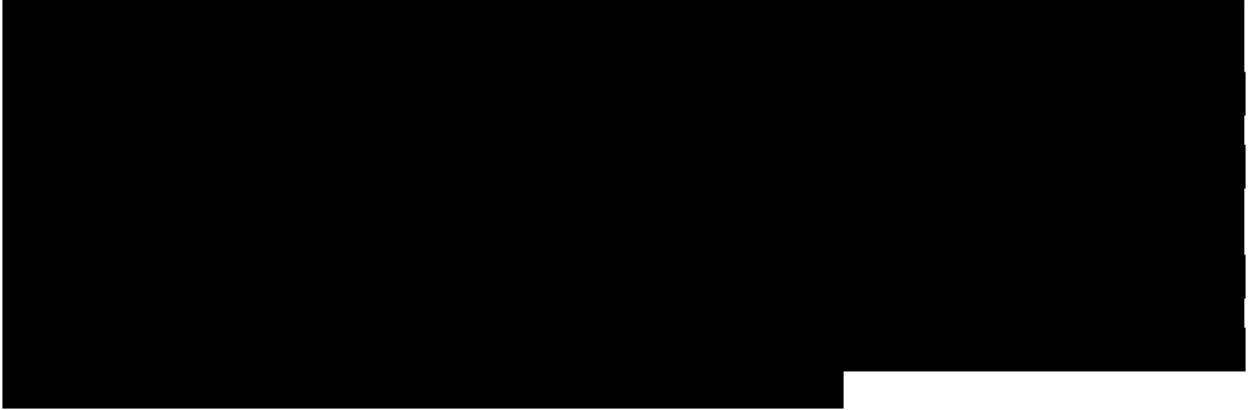
On Behalf of FINRA,



Jennifer Piorko-Mitchell
Vice President, Corporate Governance and
Deputy Corporate Secretary

Appendix A

Statutory Disqualified Individuals
Associated with Wedbush Securities, Inc.



Exhibits

1. Wedbush's MC-400A Application and related attachments compiled by FINRA's CRED, with a cover memorandum dated January 20, 2022.
2. SEC Order, *In re Wedbush Securities, Inc.*, Exchange Act Release No. 93794 (Dec. 15, 2021).
3. Wedbush Response to FINRA Discovery Request with Exhibits (May 2022).
4. Elinphant Independent Compliance Consultant Reports dated August 23, 2022, January 17, 2023, June 27, 2023, and August 29, 2023.
5. CRD Excerpt: Types of Business and Other Business Descriptions.
6. CRD Excerpt: Registration Status.
7. Examination Report for FINRA Matter 20200650989 (January 29, 2021).
8. Disposition letter dated June 2, 2022, Examination Report dated April 12, 2022, and the Firm's Response dated May 6, 2022 for FINRA Matter 20210693179.
9. Disposition letter dated April 20, 2021, Examination Report dated January 29, 2021, and the Firm's Response dated February 23, 2021 for FINRA Matter 20200650988. FINRA has redacted customer information from the exhibit.
10. Cautionary Action Letters for FINRA Non-Routine Examinations 20220762689 (September 15, 2023) with Firm Response (October 6, 2023), 20220740824 (June 7, 2023), 20190642860 (July 6, 2022), 20190625335 (December 21, 2021), and 20200653895 (January 28, 2021; January 6, 2021) with Firm Response (January 26, 2021).
11. FINRA AWC Matter No. 2021070332301 (November 15, 2023).
12. ICE Futures U.S. Disciplinary Notice, Case No. 2022-024 (September 30, 2023).
13. CRD Disclosure Occurrence Composite, Occurrence No. 2304150.
14. FINRA AWC Matter No. 20170544910-01 (January 19, 2023), BYX AWC Matter No. 20170544910-02 (January 5, 2023), BZX AWC Matter No. 20170544910-03 (January 5, 2023), EDGA AWC Matter No. 20170544910-04 (January 5, 2023), EDGX AWC Matter

No. 20170544910-05 (January 5, 2023), IEX AWC Matter No. 20170544910-06 (January 18, 2023), BX AWC Matter No. 20170544910-07 (January 19, 2023), PHLX AWC Matter No. 20170544910-08 (January 19, 2023), Nasdaq AWC Matter No. 20170544910-09 (January 19, 2023), NYSE Arca AWC Matter No. 20170544910-10 (January 5, 2023), and NYSE AWC Matter No. 20170544910-11 (January 5, 2023).

15. Wedbush Certification Letter to FINRA (April 25, 2023).
16. FINRA AWC 201906211301 (November 3, 2022).
17. Wedbush Response to FINRA Discovery Request with Exhibits (January 2023). (Redactions added by FINRA).
18. Wedbush written certification to FINRA (February 15, 2023).
19. FINRA AWC 20190618722 (September 27, 2022), NYSE AWC 2018059467801 (September 27, 2022), NYSE American AWC 2018059467802 (September 27, 2022), NYSE National AWC 2018059467803 (September 27, 2022), and NYSE Chicago Order Instituting Proceedings, Accepting Settlement, Making Findings, and Imposing Sanctions 2018059467804 (September 27, 2022).
20. Wedbush CRD Report (October 5, 2023).
21. Wedbush written certification to FINRA (January 31, 2023).
22. NYSE Arca AWC 2019-09-0012 (December 30, 2021).
23. FINRA AWC 2017053704501 (February 18, 2020).
24. FINRA AWC 2017053173601 (January 16, 2020).
25. NYSE Arca Offer of Settlement and Consent, 2016-07-01264 (January 8, 2019).
26. Written Certifications (February 5, 2020; April 24, 2020; and May 29, 2020) and Proof of Fine Payment (January 16, 2019). (Redactions added by FINRA).
27. Nasdaq AWC 2016051145501 (December 10, 2018).
28. Proof of Payment Correspondence for 2018 Nasdaq AWC.

29. Wedbush written certification to FINRA (January 10, 2019).
30. FINRA AWC 20140412617-02 (April 11, 2018).
31. Wedbush written certification to FINRA (May 30, 2018).
32. BZX AWC 20140412617-01 (March 12, 2018).
33. Proof of Payment BZX (April 5, 2018). (Redactions added by FINRA).
34. NYSE Arca AWC 2016-07-01063 (February 12, 2018).
35. FINRA Order Accepting Offer of Settlement and Consent 20120331059-01 (February 5, 2018).
36. Wedbush written certification to FINRA (September 10, 2020).
37. SEC Order, Exchange Act Release No. 98074 (August 8, 2023).
38. SEC Order, Exchange Act Release No. 5386 (Sept. 30, 2019).
39. Wedbush written certification to compliance with Sept. 30, 2019 SEC Order (November 15, 2019).
40. SEC Order, Exchange Act Release No. 86133 (June 18, 2019).
41. Wedbush written certification to compliance with June 18, 2019 SEC Order (August 8, 2019). (Redactions added by FINRA).
42. SEC Order, Exchange Act Release No. 85309 (March 13, 2019).
43. Wedbush written certification to compliance with March 2019 SEC Order with proof of payment (April 8, 2019). (Redactions added by FINRA).
44. SEC Order, Exchange Act Release No. 82630 (February 5, 2018).
45. Wedbush Letter with Proof of Payment for February 5, 2018 SEC Order (June 17, 2021). (Redactions added by FINRA).
46. Wedbush SEC Certification Cover Letter (June 3, 2021).

47. CFTC Order, Docket No. 23-37 (August 8, 2023).
48. Massachusetts Securities Division Order, Docket No. R-2-23-0045 (June 8, 2023) with proof of payment of restitution made on August 1, 2023 and proof of payment made on June 12, 2023. (Redactions added by FINRA).
49. State of Delaware Department of Insurance Stipulation and Consent Orders (February 22, 2023 and April 5, 2023) with proof of fine payments (March 30, 2023 and February 15, 2023). (Redactions added by FINRA).
50. Bourse Disciplinary Committee Decision, In the Matter of Bourse de Montréal Inc. and Wedbush Securities Inc., Docket No. EN-DC-21001 (August 25, 2023).
51. CME Group Orders with Proof of Payment (November 17, 2023, February 24, 2023, August 19, 2022, February 25, 2022, January 21, 2021, October 16, 2020, August 26, 2020, January 20, 2020, December 7, 2019, November 30, 2018, and June 29, 2018).
52. Wedbush's agreement to the Supervisory Plan, signed by the Firm on November 7, 2023.