

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

COMPLAINANT,

v.

WEDBUSH SECURITIES INC.,
CRD No. 877,

RESPONDENT.

DISCIPLINARY PROCEEDING
No. 2012034934301

COMPLAINT

The Department of Enforcement alleges:

INTRODUCTION

1. In 2012 and 2013, Respondent Wedbush Securities Inc. (“Wedbush”) (1) failed to provide trade data requested by the SEC and FINRA, commonly known as “blue sheets,” for more than 160,000 trades that it executed for correspondent firms; and (2) failed to properly submit blue sheets requested by the SEC and FINRA for more than 5.6 million trades. These failures were due in part to Wedbush’s lack of an adequate audit system providing for accountability of its blue sheet submissions and its lack of a supervisory system and procedures reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable FINRA and NASD rules. As a result of the foregoing, Wedbush willfully violated Section 17(a) of the Securities Exchange Act of 1934 (the “Exchange Act”); Rules 17a-4(j), 17a-25, and 17a-4(f)(3), thereunder; FINRA Rules 8211, 8213, and 2010; and NASD Rule 3010.

RESPONDENT AND JURISDICTION

2. Wedbush is a full-service brokerage firm headquartered in Los Angeles, California. Wedbush has been a FINRA member since 1955 and is subject to FINRA's jurisdiction pursuant to Article IV, Section 6 of FINRA's by-laws.

3. Wedbush previously has been disciplined for submitting inaccurate blue sheets. In 2007, a New York Stock Exchange ("NYSE") panel fined Wedbush \$200,000 for submitting inaccurate blue sheets to the NYSE. The hearing panel found that, over a period of more than three years, Wedbush (a) had submitted blue sheets to the NYSE that inaccurately identified certain short-sale transactions as long-sale transactions, and (b) failed "to establish and maintain appropriate systems and procedures for the supervision and control of areas responsible for complying with electronic Blue Sheet reporting requirements and fail[ed] to establish a separate system of follow-up and review to reasonably ensure compliance with NYSE Rules relating to the preparation and submission of electronic Blue Sheets." In addition to the fine, the hearing panel ordered Wedbush to "retain an outside consultant ... to perform a review and prepare a report that contains recommendations concerning the adequacy of [Wedbush's] legal and compliance resources...."

FACTUAL ALLEGATIONS

The SEC and FINRA Required Firms to Provide Accurate Blue Sheet Data to Assist Regulators in Investigations

4. Federal securities laws and FINRA rules require that broker-dealers submit blue sheet data to the SEC and FINRA electronically upon request.

5. FINRA and the SEC request blue sheet data to assist them in investigations focused on equity trading, including insider trading and other suspicious transactions. Blue

sheets provide regulators with critical information about transactions, including the name of the account owner, the nature of the transaction (whether it was a buy, sale, or short sale), and the price at which the transaction occurred. This information is essential to the regulator's ability to discharge its enforcement and regulatory mandates.

6. The failure of a broker-dealer to provide complete and accurate blue sheet information in response to a regulatory request can impact the regulator's ability to discharge its obligations, undermine the integrity of its investigations and examinations, and ultimately interfere with its ability to protect investors. It is therefore an essential and fundamental obligation of each broker-dealer to provide complete, accurate, and timely blue sheet submissions.

7. To assist broker-dealers in timely and efficiently responding to regulatory requests for blue sheet data, FINRA provides an internet-accessible portal known as the "Firm Gateway" through which firms can upload properly formatted blue sheet data files to FINRA's system.

8. In 2012 and 2013, Wedbush submitted its blue sheets by uploading data files to FINRA's Firm Gateway.

***Wedbush Failed to Report
Certain Trades for Correspondent Firms***

9. Between April 2012 and October 2012, Wedbush provided execution and clearing services for Tradebot Systems, Inc., and execution services for SG Americas Securities, LLC, and Vogue Capital Management Capital Fund LP (“Vogue”) (collectively, the “Correspondent Firms”).

10. Between April 2012 and October 2012, Wedbush failed to upload to its internal system electronic files containing trades that it had executed for the Correspondent Firms during that time period.

11. At various times during 2012, the SEC and FINRA requested from Wedbush blue sheet data for certain transactions, including some transactions Wedbush executed for the Correspondent Firms between April 2012 and October 2012.

12. Wedbush provided some of the requested blue sheet data to the SEC and FINRA. However, because Wedbush did not upload to its system all of the data files for the trades it had executed for the Correspondent Firms between April 2012 and October 2012, it did not include all data for such trades in its blue sheet submissions.

13. In total, due to its failure to upload data files to its system, Wedbush (a) failed to include in its blue sheet submissions to the SEC data for 31,466 trades executed for the Correspondent Firms between April and October 2012; and (b) failed to include in its blue sheet submissions to FINRA data for 17,609 trades executed for the Correspondent Firms between April and October 2012.

***Wedbush Failed to Report Certain
Additional Trades for One Correspondent Firm***

14. Wedbush also failed to report certain other trades that it executed for Vogue in 2012 and 2013.

15. With each transaction that Vogue submitted to Wedbush for execution, it provided to Wedbush a CUSIP for the security. A CUSIP is a nine-character identifier that captures a security's differentiating characteristics. The first six characters identify the issuer; the next two characters identify the type of security (equity or debt); and the last character is an automatically generated "check digit" that confirms the accuracy of the previous eight characters.

16. When Vogue provided CUSIP information to Wedbush for some or all transactions executed for it by Wedbush, it omitted the ninth digit of the security's CUSIP. As a result, the full nine-digit CUSIP was not recorded in Wedbush's system.

17. At various times in 2012 and 2013, FINRA requested from Wedbush blue sheet data for certain transactions, including certain transactions Wedbush executed for Vogue.

18. When Wedbush compiled blue sheets in response to FINRA's request, it failed to collect blue sheet data for transactions recorded in its system with truncated CUSIPs. Therefore, when Wedbush submitted its blue sheets to FINRA, these transactions were not included.

19. As a result, Wedbush failed to submit blue sheets requested by FINRA for 111,463 transactions it executed for Vogue in 2012 and 2013.

***Wedbush Submitted Blue Sheets Lacking
Necessary Information for 5.7 Million Transactions***

20. When a broker-dealer uploads a blue sheet data file to FINRA's Firm Gateway, the file must be properly formatted to include, among other things, a "header." The header

includes important information such as the identity of the firm submitting the blue sheet data file, the identity of the regulator to which the blue sheet data file is being submitted, and the regulator's case number. Without this information, FINRA's system cannot process the blue sheet data file.

21. Beginning in or around November 2012 and ending in June 2013, due to an error in its internal systems, Wedbush began omitting the header from certain blue sheet data files requested by the SEC and FINRA providing data on millions of trades.

22. Because the blue sheet data files were not properly formatted with the header, FINRA's system did not process them. Accordingly, the SEC and FINRA did not have access to trade information contained on these blue sheets.

23. By omitting the header on blue sheets submitted in 2012 and 2013, Wedbush failed to properly submit blue sheets requested by the SEC for 4,413,435 transactions and requested by FINRA for 1,286,546 transactions.

***Wedbush's Failure to Submit Accurate Blue Sheets
Was Due, In Part, to an Inadequate Supervisory, Monitoring, and Audit System***

24. Wedbush did not have in place an adequate audit system to monitor and verify the accuracy of its blue sheet submissions.

25. From at least April 2012 until at least October 2012, Wedbush's procedure for compiling and submitting blue sheet data involved a manual process that was susceptible to error. Compiling blue sheet data required numerous steps, including cutting and pasting data into text files, manually calculating and modifying lines of information, and saving and re-saving the data file in different locations under different file names before finally submitting it to the regulator.

26. Although its process for compiling and submitting blue sheets was susceptible to error, from at least April 2012 to at least October 2012, Wedbush did not have in place any audit system to verify the accuracy and completeness of its blue sheet submissions.

27. In or around November 2012, Wedbush began attempting to check the accuracy of its blue sheet submissions by manually comparing the share count of all executions in its system versus those in the National Securities Clearing Corporation's system. However, as demonstrated by Wedbush's continued failure to submit accurate blue sheets, this system was not adequate to verify the accuracy and completeness of Wedbush's blue sheet submissions.

28. From at least April 2012 until at least June 2013, Wedbush failed to put in place any supervisory systems and procedures designed to achieve compliance with blue sheet reporting requirements.

FIRST CAUSE OF ACTION

Failure to Submit Complete and Accurate Blue Sheets to the SEC

(Securities Exchange Act Section 17(a); Rules 17a-4(j), and 17a-25, thereunder; FINRA Rule 2010)

29. The allegations in paragraphs 1 through 28, above, are realleged and incorporated herein.

30. Section 17(a) of the Exchange Act and Rule 17a-4(j), thereunder, require broker-dealers to "furnish promptly to a representative of the Commission legible, true, complete, and current copies of those records of the [broker-dealer] that are required to be preserved under [Rule 17a-4], or any other records of the [broker-dealer] subject to examination under Section 17(b) of the [Exchange Act] that are requested by the representative of the Commission."

31. Section 17(a) of the Exchange Act and Rule 17a-25 require broker-dealers to submit electronically to the Commission, upon request, information on customer and firm securities trading.

32. FINRA Rule 2010 requires member firms “to observe high standards of commercial honor and just and equitable principles of trade.”

33. Between April 2012 and October 2012, Wedbush submitted inaccurate and incomplete blue sheets to the SEC by failing to include in its blue sheet submissions data for 31,466 trades.

34. Between November 2012 and June 2013, Wedbush submitted inaccurate and incomplete blue sheets to the SEC by failing to include in its blue sheet submissions data for 4,413,435 trades.

35. Wedbush knew or should have known that its blue sheet submissions to the SEC were inaccurate and incomplete.

36. As a result of the foregoing, Wedbush willfully violated Section 17(a) of the Exchange Act and Rules 17a-4(j) and 17a-25, thereunder; and FINRA Rule 2010.

SECOND CAUSE OF ACTION

Failure to Submit Complete and Accurate Blue Sheets to FINRA

(FINRA Rules 8211, 8213, and 2010)

37. The allegations in paragraphs 1 through 28, above, are realleged and incorporated herein.

38. FINRA Rules 8211 and 8213 require that member firms submit trade data as prescribed in FINRA Rule 8211 in an automated format when requested by FINRA.

39. A member firm violates FINRA Rules 8211 and 8213 when it provides incomplete or inaccurate blue sheets submissions to FINRA.

40. Wedbush failed to submit blue sheets requested by FINRA for more than 1.4 million trades.

41. Each incomplete or inaccurate blue sheets submission constitutes a separate violation of FINRA Rules 8211, 8213, and 2010.

THIRD CAUSE OF ACTION

Failure to Maintain Sufficient Audit System

(Securities Exchange Act 17(a); Rule 17a-4(f)(3)(v), thereunder; FINRA Rule 2010)

42. The allegations in paragraphs 1 through 28, above, are realleged and incorporated herein.

43. Section 17(a) of the Exchange Act and Rule 17a-4(f)(3)(v), thereunder, require broker-dealers to have “in place an audit system providing for accountability regarding inputting of records required to be maintained and preserved pursuant to Rules 17a-3 and 17a-4 to electronic storage media and inputting of any changes made to every original and duplicate record maintained and preserved thereby.”

44. From at least April 2012 until at least June 2013, Wedbush did not have in place an adequate audit system providing for accountability of its blue sheets submissions.

45. Wedbush knew or should have known that its audit system did not provide for accountability of its blue sheet submissions.

46. As a result of the foregoing, Wedbush willfully violated Securities Exchange Act 17(a); Rule 17a-4(f)(3)(v), thereunder; and FINRA Rule 2010.

FOURTH CAUSE OF ACTION

Failure to Supervise

(NASD Rules 3010 and FINRA Rule 2010)

47. The allegations in paragraphs 1 through 28, above, are realleged and incorporated herein.

48. NASD Rule 3010(a) requires member firms to “establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules.”

49. NASD Rule 3010(b) further requires member firms to “establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of NASD.”

50. From at least April 2012 to at least June 2013, Wedbush failed to have in place supervisory systems and procedures to provide for supervision that was reasonably designed to achieve compliance with the electronic blue sheet reporting requirements of FINRA Rules 8211 and 8213.

51. As a result of the foregoing, Wedbush violated NASD Rules 3010 and FINRA Rule 2010.

RELIEF REQUESTED

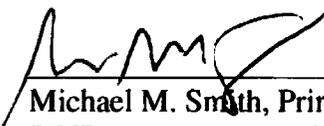
WHEREFORE, the Department of Enforcement respectfully requests that the Hearing

Panel:

- (a) make findings of fact and conclusions of law that Respondent committed the violations charged and alleged herein;
- (b) make specific findings that Respondent willfully violated Section 17(a) of the Securities Exchange Act of 1934, and Rules 17a-4(j), 17a-25, and 17a-4(f)(3), thereunder;
- (c) order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed;
- (d) order that Respondent bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330.

FINRA Department of Enforcement

Date: June 4, 2014



Michael M. Smith, Principal Counsel
FINRA Department of Enforcement
15200 Omega Drive, Suite 300
Rockville, MD 20850
Tel: (301) 258-8519
Fax: (301) 208-8090
Michael.Smith@finra.org