FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2021070581401

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

RE: Webull Financial LLC (Respondent)
Member Firm
CRD No. 289063

Pursuant to FINRA Rule 9216, Respondent Webull Financial LLC 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

Webull Financial LLC became a FINRA member in January 2018 and began offering trading to customers in May 2018.The firm offers low cost, self-directed trading to retail investors through its mobile application and website. Headquartered in New York, New York, the firm has three branch offices and approximately 75 registered representatives.[1]

OVERVIEW

From December 2019 (when the firm first offered options trading) through July 2021, the firm did not exercise reasonable due diligence before approving customers to trade options. During this period, the firm employed an automated, electronic system to approve or disapprove customer accounts for options trading. Flaws in that system—and the firm's supervision of the system—resulted in customers being approved for options trading authority who did not satisfy the firm's eligibility criteria or whose accounts contained red flags that options trading was potentially inappropriate for them. As a result, the firm violated FINRA Rules 3110, 2360, and 2010.

From May 2018 through December 2021, the firm's supervisory system, including written supervisory procedures (WSPs), was not reasonably designed to identify and respond to customer complaints. As a result, the firm violated FINRA Rules 3110(a),

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

3110(b)(5), and 2010. Also during this period, the firm did not report certain written customer complaints to FINRA, as required, in violation of FINRA Rules 4530 and 2010.

Finally, from December 2019 through March 2021, the firm did not maintain and keep current an options complaint log in violation of FINRA Rules 2360(b)(17) and 2010.

FACTS AND VIOLATIVE CONDUCT

A. The firm approved customers for options trading without exercising sufficient due diligence.

FINRA Rule 2360(b)(16) requires that, in approving accounts for options trading, firms exercise due diligence to ascertain "the essential facts relative to the customer," including the customer's age, income, net worth, investment objectives, and investment experience and knowledge. The Rule further requires that, "[b]ased upon such information," a principal at the firm—either a Registered Options Principal or a General Securities Sales Supervisor—"specifically approve or disapprove in writing the customer's account for options trading." Moreover, in determining whether and to what extent to approve an account for options trading, a firm shall consider the information provided by the customer "together with the other information available" to the firm.

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

A violation of FINRA Rule 3110 or Rule 2360 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.

From December 2019, when the firm first began offering options trading, through July 2021, the firm's supervisory system was not reasonably designed to achieve compliance with FINRA Rule 2360(b)(16).

1. The firm's system for approving customers for options trading did not consider information available to the firm.

The firm's WSPs required that, "prior to opening an options account," a designated registered options principal must determine whether a customer shall be approved for trading in options based on "information in the [customer's] new account form and option suitability questionnaire" (*i.e.* the firm's options application) completed by the customer at the time he or she applied for options trading authority. However, the automated system that the firm used to approve customers for options trading authority considered only information that a customer provided in his or her most recent options

suitability questionnaire—and did not compare such information to information previously provided to the firm.

For example, during the relevant period, the firm required that customers seeking approval to trade options spreads (a privilege granted only to customers approved for "level 3" options trading authority) have at least three years of options trading experience.[2] Because customers must be at least 18 years old to open brokerage accounts, any customer under the age of 21 who applied for level 3 privileges could not have attained the three years of options trading experience. Nonetheless, from mid-2020, when the firm first began approving customers for level 3 options trading authority, through July 2021, the firm's automated system approved customers for level 3 options trading authority based on the customers' representations that they had three years of options trading experience—even if the customers were younger than 21 years old.

The firm's automated system also did not review customers' previous applications to search for and incorporate into its analysis any materially different information, or applications that had previously been denied by the firm. As a result, the firm's automated system approved customers for options trading authority even when those approval decisions were based on information that was inconsistent with information that customers had previously submitted.

2. The firm did not reasonably review its automated system for approving customers to trade options.

The firm conducted two types of reviews of its system for approving customer accounts to trade options. First, the firm's WSPs required that a registered options principal manually perform a "reasonable amount of quality checks" each month. However, registered options principals at the firm reviewed fewer than 100 accounts in each month between December 2019 and July 2021—even in months where the firm approved tens or hundreds of thousands of accounts to trade options.

Second, beginning in May 2021, the firm implemented an "Options Approval Check Tool," to conduct periodic reviews of accounts that the firm had previously approved for options trading authority. During the relevant period the firm used the Options Approval Check Tool simply to verify that its automatic approval system was functioning as intended.

As a result, during the relevant period, the firm did not implement a system that was reasonably designed to consider information previously submitted by the customers (such as in prior applications) in reviewing customer applications for options trading authority.

[2] Level 3 options trading provided customers, who were approved by the firm, with the ability to trade options spreads. Levels 1 and 2 options trading provided customers approved by the firm with the ability to trade less complex options, including covered calls, cash-secured puts, long calls, and long puts.

3. The firm approved customers for options trading who did not satisfy the firm's eligibility criteria or whose accounts contained red flags that options trading was not appropriate for them.

During the relevant period, the firm approved for options trading authority certain accounts that did not meet the firm's eligibility criteria or that contained red flags that options trading authority, or a specified level of options trading authority, was not appropriate. Of such customers, only a small number actually traded options at levels for which they were not eligible under the firm's eligibility criteria.

First, between December 2019 and November 2020, the firm did not detect that its automated system was programmed incorrectly. During that period, errors in the programming of the automated system resulted in approvals for more than 9,000 accounts for level 1 options trading authority who did not satisfy the firm's eligibility criteria for level 1 options. In particular, the firm approved accounts for level 1 options trading authority that stated that they did not have any investment experience—an acknowledgement that should have made the customers ineligible to trade options under the firm's eligibility criteria.

Second, throughout the relevant period, the firm's automated system approved customers for options trading authority who did not satisfy the firm's eligibility criteria—and who, according to the firm's WSPs, were therefore not appropriately approved for options trading. In particular, between mid-2020 through July 2021, the firm approved more than 2,500 customers under the age of 21 for level 3 options trading authority, even though the firm's eligibility criteria required that level 3 options customers have at least three years' options trading experience. For example:

- One customer applied for approval for level 3 options trading authority on his 18th birthday. Consistent with the firm's eligibility criteria, the firm rejected the customer's application because he stated at that time that he had between 1-2 years of options trading experience. Only two days later, the firm approved the customer for level 3 options trading authority after he submitted a new application stating that he had more than 5 years of options trading experience.

- Another customer was 19 years old when he applied for level 3 options trading authority four times between June 4 and June 9, 2021. Consistent with the firm's eligibility criteria, the firm rejected all four applications because the customer stated that he had 1-2 years of options trading experience. On June 10, 2021, the customer again applied for a level 3 options trading authority, and once again reported having 1-2 years of options trading experience. The firm again rejected the customer's application. But immediately after that fifth rejection, the customer reapplied to trade options, stating that the customer had more than 5 years of options trading experience. This time, the firm approved his application based on that representation.

The firm approved other customers for options trading authority based on information that was materially inconsistent with what those customers had previously told the firm. For example:

- One customer applied twice, and was rejected twice, for level 3 options trading authority on April 23, 2021, after reporting that he had no options trading experience. The next day, the same customer applied, and was again rejected, to trade level 3 options, after reporting that he had between 1-2 years' options trading experience. Two days later, on April 26, 2021, the firm approved the customer for level 3 options trading authority after the customer reported that he had more than 5 years' options trading experience without verifying that the customer in fact had such experience.

As a result of the foregoing, the firm violated FINRA Rules 3110, 2360, and 2010.

Beginning in August 2021, the firm made numerous enhancements to its system for approving customers for options trading including, among others, limiting how often customers can submit applications for options trading authority in a given time period, restricting customers from substantially increasing their claimed investment experience in a given time period, and enhancing due diligence and verifications processes for customers under the age of 25.

B. The firm did not establish and maintain a supervisory system, including WSPs, reasonably designed to identify and respond to customer complaints.

FINRA Rule 3110(a) requires each member firm to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. FINRA Rule 3110(b)(5) requires member firms to establish, maintain, and enforce reasonably designed written supervisory procedures "to capture, acknowledge, and respond to all written (including electronic) customer complaints."[3]

From May 2018 through December 2021, the firm's system for identifying and responding to written customer complaints was not reasonably designed to identify and respond to the volume of customer complaints it received. The firm relied on a lexicon as one of its tools to identify potential customer complaints within written communications received from customers. The lexicon was not sufficiently broad in scope to identify certain customer complaints. For example, in December 2020, the firm received more than 88,000 written customer communications, but only 15 were escalated for review as potential customer complaints using the lexicon.[4] The firm's WSPs were not reasonably designed to identify customer complaints and stated throughout the relevant period that a "customer complaint" includes "any written grievance by a customer or prospective

[3] Regulatory Notice 14-10 reminds member firms that a failure to address a customer complaint (written or oral) may constitute a violation of FINRA Rule 2010.

[4] The firm made some improvements to its supervisory system for identifying and responding to customer complaints during the relevant period. In March 2021, it expanded the number of words and phrases in its lexicon.

customer" but "does not include routine information questions, operations concerns, or service issues that can be readily resolved in a reasonable manner." The WSPs failed to clarify that where a customer's question, operational concern, or service issue involved a grievance, it should be considered a customer complaint.

During the relevant period, the firm experienced significant and rapid customer growth but did not commit the staff and other resources necessary to keep pace with the increasing number of customer communications it received. For example, between January 1, 2020, and September 30, 2020, the firm received approximately 430,000 written customer communications, including complaints that required, but did not always receive, a response.[5] As another example, in 2020, the firm received approximately 115,000 customer calls, which included customer complaints. Customers complained in writing to the firm that they had tried calling the firm, but their issue was not addressed during the call or they could not reach a customer service representative.[6]

Because the firm did not reasonably supervise its customer complaints system, it violated FINRA Rules 3110(a), 3110(b)(5), and 2010.

C. The firm did not report certain customer complaints.

FINRA Rule 4530 requires member firms to report to FINRA certain customer complaints. Rule 4530(a)(1)(B) requires each member to promptly report to FINRA, but in any event not later than 30 calendar days, after the member knows or should have known that "the member or an associated person of the member: . . . is the subject of any written customer complaint involving allegations of theft or misappropriation of funds or securities or of forgery." FINRA Rule 4530(d) requires member firms to report to FINRA statistical and summary information regarding written customer complaints in such detail as FINRA shall specify by the 15th day of the month following the calendar quarter in which customer complaints are received by the member. To comply with Rule 4530(d), members must report any written grievance by a customer if the grievance concerns the member or an associated person of the member.[7] FINRA uses the information received pursuant to Rule 4530 for regulatory purposes to identify and initiate investigations of member firms, associated persons, and others that may pose a risk to investors.

A violation of FINRA Rule 4530 also constitutes a violation of FINRA Rule 2010.

From May 2018 to December 2021, the firm reported no complaints under FINRA Rule 4530(a)(1)(B) despite the fact that it received numerous written complaints alleging misappropriation or theft.

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[5] For example, on August 17, 2020, a customer wrote to the firm that he could not withdraw money from his account. Over the course of 25 days, the firm informed the customer that the issue had been fixed six times, only for the customer to respond each time that he still could not withdraw funds. Then, the firm closed the customer's service ticket while his complaint remained unresolved.

[6] In 2020, approximately 46 percent of calls to the firm were abandoned by customers and another 12 percent were dropped. In some cases, the wait time for completed calls was over five hours.

[7] FINRA Rule 4530 Supplementary Material .08.

The firm also underreported complaints under FINRA Rule 4530(d). From May 2018 to December 2021, the firm's WSPs did not provide reasonable guidance to its staff on how to identify and report to FINRA customer complaints under Rule 4530(d) because, among other things, the WSPs stated that "[a] complaint does not include routine . . . operations concerns[] or service issues that can be readily resolved in a reasonable manner" without clarifying that any such communication that also included a grievance concerning the firm or a person associated with the firm should also be considered a complaint. This caused the firm to fail to report an undetermined number of customer complaints under FINRA Rule 4530(d). From May 2018 through December 2019, the firm reported a total of eight customer complaints. In 2020, the firm reported a total of only 69 written customer complaints despite receiving over 500,000 written customer communications that year.

Therefore, the firm violated FINRA Rules 4530 and 2010.

D. The firm did not maintain and keep current an options complaint log.

FINRA Rule 2360(b)(17) requires each member firm to maintain and keep current a separate central log, index, or other file for all options-related complaints, through which the complaints can easily be identified and retrieved. An "options-related complaint" is "any written statement by a customer or person acting on behalf of a customer alleging a grievance arising out of or in connection with options."

Although the firm started offering options trading in December 2019, it did not maintain a separate options complaint log until January 2021, at which time it created a monthly folder of options-specific complaints.[8] However, those monthly folders were incomplete as to certain complaints. For example, the firm reported a March 2021 options-related complaint to FINRA under Rule 4530(d), but did not include the complaint in its monthly options complaint folder.

Therefore, during the period from December 2019 through March 2021, the firm violated FINRA Rules 2360(b)(17) and 2010.

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

- a censure;
- a $3,000,000 fine; and
- a certification, as described below.

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

[8] Prior to January 2021, options-related complaints, to the extent identified by the firm, were maintained with other non-option related complaints.

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.

Within 180 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 Rules 3110, 2360, 4530, and 2010 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 Myla Arumugam, Principal Counsel, FINRA, at 581 Main Street, Suite 710, Woodbridge, NJ 07095 and myla.arumugam@finra.org, and to Katherine Florio, Counsel, FINRA at Brookfield Place, 200 Liberty Street, New York, NY 10281 and katherine.florio@finra.org, with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

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.

Feb 23rd 2023
Date

Webull Financial LLC
Respondent

Print Name: Anthony Denier

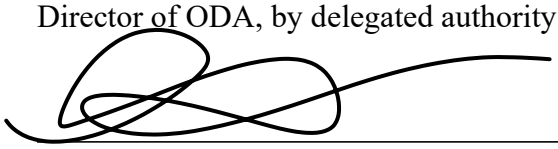
Title: Chief Executive Officer

Reviewed by:

Ethan Silver
Counsel for Respondent
Lowenstein Sandler LLP
1251 Avenue of the Americas
New York, NY 10020

Accepted by FINRA:

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



03/08/23

Date

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