



DISCIPLINARY DECISION

Cboe BZX Exchange, Inc.

Star No. 20170544910-03/File No. USRI-9023-05/URE-19-05

Wedbush Securities Inc.

Pursuant to Exchange Rule 8.3, attached to and incorporated as part of this Decision is a Letter of Consent.

Applicable Rule

- BZX Rule 5.1 – Written Procedures.

Sanctions

A censure, a monetary fine in the amount of \$100,000, and an undertaking to submit a written report that details the steps taken by Wedbush Securities Inc. to correct the supervisory deficiencies described in the attached Letter of Consent and the date(s) revised supervisory system and written supervisory procedures were implemented.

Effective Date

January 5, 2023

/s/ Greg Hoogasian

Greg Hoogasian, CRO, EVP

Cboe BZX Exchange, Inc.
LETTER OF CONSENT
Star No. 2017054491003/File No. USRI-9023-05/URE-19-05

In the Matter of:

Wedbush Securities Inc.
1000 Wilshire Blvd., Suite 900
Los Angeles, CA 90017-2457

Subject

Pursuant to the provisions of Cboe BZX Exchange, Inc. (“BZX” or the “Exchange”) Rule 8.3 – Expedited Proceeding, Wedbush Securities Inc. (“Wedbush” or the “Firm”) submits this Letter of Consent for the purpose of proposing a settlement of the alleged rule violations described below.

The Firm neither admits nor denies that violations of Exchange Rules have been committed, and the stipulation of facts and findings described herein do not constitute such an admission.

BACKGROUND

1. During all relevant periods herein, Wedbush was acting as a registered Broker-Dealer and was an Exchange Member. The Firm’s registration remains in effect.
2. Wedbush is a full-service Broker-Dealer headquartered in Los Angeles, CA, which has approximately 70 branch offices and approximately 510 registered employees. The Firm provides, among other things, brokerage, wealth management, and investment banking services.
3. From June 2015 through the present, Wedbush has provided certain customers with access to third-party electronic trading platforms (“electronic trading customers”), which allows these customers to enter orders for execution using one of the Firm’s market participant identifiers (“MPIDs”). Those orders are transmitted to market access providing broker-dealers for routing the orders to various exchanges for execution using the executing broker-dealer’s MPID. Wedbush failed to conduct supervisory reviews of its electronic trading customers’ trading activity for any type of potentially manipulative trading, including layering, spoofing, wash sales, or marking the close or open. Instead, the firm relied upon the third-party broker-dealers to conduct such reviews.
4. Also, since June 2015, the Firm failed to supervise the trading activities of its proprietary traders and other Firm customers for potential layering and spoofing.

5. This matter arises from cross market surveillance conducted by FINRA on behalf of the Exchange.

VIOLATIVE CONDUCT

Applicable Rule

6. During all relevant periods herein, Exchange Rule 5.1 – Written Procedures was in full force and effect.
7. Exchange Rule 5.1 requires each Member to “establish, maintain and enforce written procedures which will enable it to supervise properly the activities of associated persons of the Member and to assure their compliance with applicable securities laws, rules, regulations and statements of policy promulgated thereunder, with the rules of the designated self-regulatory organization, where appropriate, and with Exchange Rules.”

Failure to Review Electronic Trading Customers’ Trading Activities for Potential Manipulation

8. For various reasons, including the disciplinary actions described in the Sanctions section below, Wedbush stopped providing market access services to its customers in June 2015. As described above, however, the Firm still provided certain electronic trading customers with access to third-party electronic trading platforms, which routed these customers’ orders to other broker-dealers for execution.
9. The Firm mistakenly believed that it was not required to review this trading for any type of potentially manipulative activity since it was no longer providing market access. Instead, the Firm believed that the obligation to review this trading for potentially manipulative activities rested solely with the executing broker-dealers. Thus, since June 2015, the Firm did not conduct any supervisory reviews of its electronic trading customers’ trading activities for potentially manipulative trading, such as layering, spoofing, wash sales, or marking the close or open.
10. As a result, Wedbush failed to detect potential layering activity in February and March 2017 by an institutional electronic trading customer, which was comprised of hundreds of foreign day traders, on various exchanges, including BZX. During those two months, FINRA surveillance identified approximately 2,900 layering exceptions involving over 130 different stock symbols associated with the customer’s order flow. On March 13, 2017, the executing broker-dealer for that order flow detected the potential layering, provided notice of the potential layering to Wedbush, and stopped accepting orders from the customer.
11. Upon receiving notice of the potential layering activity from the executing broker-dealer, Wedbush closed the electronic trading customer’s account. Wedbush, however, did not take any steps to detect and prevent other electronic trading customers from engaging in potentially manipulative trading, or to implement any type of supervisory reviews for

potentially manipulative trading. As a result, from June 2015 through the present, approximately 90 different electronic trading customers effected more than 3.4 million transactions involving 13.5 billion shares without being subject by Wedbush to any review for potentially manipulative trading.

Failure to Supervise Proprietary Traders' and All Firm Customers' Trading Activities for Potential Layering and Spoofing

12. Since June 2015, Wedbush also failed to implement any supervisory system, including any effective written supervisory procedures (“WSPs”), to review for potential layering and spoofing by the Firm’s proprietary traders and all Firm customers, including the Firm’s electronic trading customers.
13. Between June 2015 and May 2019, the Firm’s WSPs failed to include any procedures requiring a review by the Firm for potential layering and spoofing activity. In June 2019, the Firm added a reference to layering and spoofing in its WSPs, which required the Firm’s Equity Trading Managers to conduct weekly reviews of certain supervisory reports to detect potential layering and spoofing. Those reports, however, were designed to capture other forms of potential manipulative trading, such as wash sales and marking the open and close, and were not reasonably designed to detect layering and spoofing.
14. As a result, from June 2015 to the present, the Firm also failed to supervise its proprietary traders and other Firm customers for potential layering and spoofing activity, and an additional 26.9 million transactions involving approximately 5.1 billion shares were not reviewed by Wedbush for potential layering and spoofing.
15. The acts, practices, and conduct described in Paragraphs 9 through 14 constitute violations of Exchange Rule 5.1 by the Firm, in that the Firm failed to reasonably supervise for potentially manipulative trading.

SANCTIONS

16. The Firm has prior relevant disciplinary history related to failure to supervise for potentially manipulative trading. In December 2015, Wedbush was censured and fined \$1.8 million by FINRA, The Nasdaq Stock Market LLC, NYSE Arca, Inc., and BZX for violations of Rule 15c3-5 of the Securities Exchange Act of 1934, and applicable FINRA and exchange supervisory rules, from January 2008 through August 2013. Wedbush agreed to, among other things, allegations that the Firm failed to establish, maintain, and enforce supervisory systems and procedures related to its market access business, and failed to supervise market access customer transactions for potentially manipulative trading.
17. In November 2014, the Firm entered into a settlement with the U.S. Securities and Exchange Commission in which it agreed to pay \$2.44 million for findings that, from July 2011 until at least January 2013, the Firm willfully failed to establish, document, and maintain a system of risk management controls and supervisory procedures that was

reasonably designed to manage the risks associated with its market access business and applicable regulatory requirements regarding potentially manipulative trading, such as wash sales and manipulative layering.

18. In light of the alleged rule violations described above, and prior relevant disciplinary history, the Firm consents to the imposition of the following sanctions:

- A censure;
- A monetary fine in the amount of \$100,000;¹ and
- An undertaking that, within 90 days of the date this Letter of Consent is accepted, Wedbush shall submit a written report to FINRA, certified by a registered principal of the Firm, that details the steps taken by the Firm to correct the supervisory deficiencies regarding supervision of manipulation and the date(s) the revised supervisory system and WSPs were implemented. The report shall be submitted to Compliance Assistant, FINRA Department of Enforcement, 15200 Omega Drive, Third Floor, Rockville, MD 20850 and by e-mail from a work-related account of the registered principal to EnforcementNotice@FINRA.org.

If this Letter of Consent is accepted, the Firm acknowledges that it shall be bound by all terms, conditions, representations, and acknowledgements of this Letter of Consent, and, in accordance with the provisions of Exchange Rule 8.3, waives the right to review or to defend against any of these allegations in a disciplinary hearing before a Hearing Panel. The Firm further waives the right to appeal any such decision to the Board of Directors, the U.S. Securities and Exchange Commission, a U.S. Federal District Court, or a U.S. Court of Appeals.

The Firm waives any right to claim bias or prejudgment of the Chief Regulatory Officer (“CRO”) in connection with the CRO’s participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including acceptance or rejection of this Letter of Consent. The Firm further waives any claim that a person violated the ex parte prohibitions of Exchange Rule 8.16, in connection with such person’s participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including its acceptance or rejection.

The Firm agrees to pay the monetary sanction(s) upon notice that this Letter of Consent has been accepted and that such payment(s) are due and payable. The Firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The Firm understands that submission of this Letter of Consent is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the CRO, pursuant to Exchange

¹ This settlement relates to other settlements the Firm reached with FINRA; Cboe BYX Exchange, Inc.; Cboe EDGA Exchange, Inc.; Cboe EDGX Exchange, Inc.; The Nasdaq Stock Market LLC; Nasdaq BX, Inc.; Nasdaq PHLX LLC; New York Stock Exchange LLC; NYSE Arca, Inc., and Investors Exchange LLC.

Rule 8.3. If the Letter of Consent is not accepted, it will not be used as evidence to prove any of the allegations against the Firm.

The Firm understands and acknowledges that acceptance of this Letter of Consent will become part of its disciplinary record and may be considered in any future actions brought by Cboe or any other regulator against the Firm. The Letter of Consent will be published on a website maintained by the Exchange in accordance with Exchange Rule 8.18.

The Firm understands that it may not deny the charges or make any statement that is inconsistent with the Letter of Consent. The Firm may attach a Corrective Action Statement to this Letter of Consent that is a statement of demonstrable corrective steps taken to prevent future misconduct. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of the Exchange or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this Letter of Consent and has been given a full opportunity to ask questions about it; that it has agreed to the Letter of Consent's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce the Firm to submit it.

Date: January 4, 2023

Wedbush Securities Inc.

By:  _____

Name: Andrew Druch

Title: General Counsel