

FOR IMMEDIATE RELEASE

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Washington D.C., June 6, 2014 — The Securities and Exchange Commission today announced charges against a Los Angeles-based market access provider and two officials accused of violating the agency's market access rule that requires firms to have adequate risk controls in place before providing customers with access to the market.

The SEC's Enforcement Division alleges that Wedbush Securities Inc., which has consistently ranked as one of the five largest firms by trading volume on NASDAQ, failed to maintain direct and exclusive control over settings in trading platforms used by its customers to send orders to the markets. Wedbush did not have the required pre-trade controls, failed to restrict trading access to people whom the firm preapproved and authorized, and did not conduct an adequate annual review of its market access risk management controls. The Enforcement Division alleges that the firm's violations of the market access rule were caused by Jeffrey Bell, the former executive vice president in charge of Wedbush's market access business, and Christina Fillhart, a senior vice president in the market access division.

"Wedbush provided market access to overseas traders without preapproval and without ensuring that they complied with U.S. law," said Andrew J. Ceresney, director of the SEC Enforcement Division. "We will hold Wedbush accountable for reaping substantial profits while failing to protect U.S. markets from the risks posed by these traders."

Daniel M. Hawke, chief of the SEC Enforcement Division's Market Abuse Unit, added, "The market access rule was adopted out of concerns that some broker-dealers did not have effective controls in place for their market access. This enforcement action against Wedbush is a cornerstone of our ongoing efforts to hold accountable any broker-dealers who fail to effectively implement market access controls and procedures."

According to the SEC's order instituting administrative proceedings, the violations began in July 2011 and continued into 2013. Wedbush allowed the majority of its market access customers to send orders directly to U.S. trading venues by using trading platforms over which Wedbush did not have direct and exclusive control. Bell was aware of the requirements of the market access rule and should have known that the firm's risk management controls and supervisory procedures related to market access did not comply with the market access rule. Fillhart also had responsibility for overseeing Wedbush's market access business and received inquiries by exchanges about potential violations by Wedbush and its customers. Despite these red flags, Fillhart did not take adequate steps to prompt the firm to adopt reasonably designed risk management controls.

According to the SEC's order, in addition to violating the market access rule (Securities Exchange Act Rule 15c3-5), Wedbush violated other regulatory requirements as a result of trading by its market access customers. These violations include Rule 203(b)(1) of Regulation SHO relating to short sales, Rule 611(c) of Regulation NMS related to intermarket sweep orders, Rule 17a-8 concerning anti-money laundering requirements, and Rule 17a-4(b)(4) concerning the preservation of records.

The proceeding before an administrative law judge will determine whether Wedbush willfully violated these provisions of the federal securities laws, and whether Bell and Fillhart were causes of the firm's violations of the market access rule. The judge also will decide what sanctions, if any, are appropriate.

The SEC's investigation was conducted by Steven Buchholz of the Market Abuse Unit and San Francisco Regional Office as well as Jina Choi, who formerly worked in the Market Abuse Unit and is now director of the San Francisco office. The case was supervised by Mr. Hawke and Robert Cohen, co-deputy chief of the Market Abuse Unit. The Enforcement Division's litigation will be led by Lloyd Farnham and John Yun of the San Francisco office. The SEC appreciates the assistance of the Financial Industry Regulatory Authority.

Related Materials

- SEC order