

December 20, 2017

Sebastian Gomez Abero
Chief, Office of Small Business Policy
Division of Corporation Finance
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-3628

Re: In the Matter of Wedbush Securities Inc. (LA-4518)

Dear Mr. Gomez Abero

We are writing on behalf of Wedbush Securities Inc. (“Wedbush”) in connection with an anticipated settlement between Wedbush and the Securities and Exchange Commission (“SEC” or “Commission”) relating to the above-referenced matter (the “Action”).¹

On behalf of Wedbush, we respectfully request a waiver of any disqualification that may arise pursuant to Rule 262 of Regulation A and Rule 506 of Regulation D under the Securities Act of 1933 (the “Securities Act”) that will be applicable to Wedbush or any of its affiliates, as a result of the entry of an Order Instituting Administrative and Cease and Desist Proceedings, Pursuant to Sections 15(b) and 21c of the Securities Exchange Act of 1934 and Section 203(e) of the Investment Advisers Act of 1940 Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (the “Order”).

BACKGROUND

Wedbush and the staff of the Division of Enforcement of the SEC have engaged in settlement discussions in connection with the Action. Without admitting or denying the findings in the Order, except as to the Commission’s jurisdiction over it and the subject matter of the proceeding, Wedbush has agreed to consent to the issuance of the Order. On the basis of the Order and the Offer of Settlement submitted by Wedbush, the Commission found that:

¹ Wedbush is also concurrently submitting an Offer of Settlement, without admitting or denying the allegations therein, to FINRA relating to alleged violations of Exchange Act Sections 15(c) and 17(a), Exchange Act Rules 15c3-3, 15c3-1, 17a-3, 17a-5, FINRA Rules 2010, 4511, and 3110, and NASD Rules 3010 and 1021. The conduct at issue in the contemplated FINRA settlement does not obviate the good cause for a waiver set forth herein.

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1. Between September 2014 and January 2015 (the “Relevant Period”), Wedbush violated Exchange Act Rule 15c3-3, known as the Customer Protection Rule. The Customer Protection Rule requires broker-dealers to safeguard both the cash and securities of their customers so that customer assets can be promptly returned if the firm fails. In order to do so, a broker-dealer is required to calculate the net amount of cash it would owe its customers as of the end of each week, and deposit that amount into a segregated bank account known as the “Reserve Account.”
2. During the Relevant Period, due to a securities coding error in its Rule 15c3-3 reserve calculation, Wedbush underfunded its Reserve Account and experienced weekly Reserve Account deficiencies ranging from approximately \$10 million to \$193 million. The coding error related to the treatment of reverse repurchase transactions that Wedbush entered into with its parent company, Wedbush, Inc. (the “Repos”). For purposes of the reserve calculation, Wedbush’s systems automatically netted debits and credits in the same customer’s account. The error in Wedbush’s securities coding caused the systems to incorrectly reduce total credits by the amount of the Repos. At the time, Wedbush lacked adequate resources and expertise in its Regulatory Accounting group to identify and correct the error. When the error was uncovered, Wedbush immediately deposited an additional \$133 million into its Reserve Account to resolve the deficiency.
3. Wedbush’s failure to properly fund its Reserve Account also caused it to violate Section 17(a)(1) of the Exchange Act and Rule 17a-5(a) thereunder because it included inaccurate information in its Financial and Operational Combined Uniform Single Reports.

The Order will require Wedbush to pay disgorgement of \$275,851 and prejudgment interest of \$28,346; pay a civil money penalty in the amount of \$1,000,000, plus post-order interest; and agree to an undertaking to retain an independent consultant to conduct a comprehensive review of Wedbush’s current system of controls and procedures for compliance with all applicable regulatory requirements related to (a) Section 15(c) of the Exchange Act and Rules 15c3-1 (net capital) and 15c3-3 (customer protection rule) thereunder; (b) liquidity; (c) opening of, and due diligence relating to, new correspondent and prime services accounts; and (d) internal audit and risk management.

DISCUSSION

Wedbush requests that the Commission waive any potential disqualifying effect of the Order that would preclude Wedbush, its affiliated entities or other persons from participating in certain offerings otherwise exempt under Rule 262 of Regulation A and Rule 506 of Regulation D. The Commission has the authority to waive the exemption disqualifications under Regulation A and Regulation D upon a showing of good cause that such disqualifications are not necessary under the circumstances. *See* 17 C.F.R. §§ 230.262(b), 230.506(d)(2)(iii). Wedbush cites the following as evidence that good cause exists for the Commission to grant such a waiver.

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The Misconduct Did Not Involve the Offer and Sale of Securities

The conduct set forth in the Order does not relate to the issuance or marketing of any securities by Wedbush or any of its affiliates, including offerings under Regulation A or Regulation D. Rather, the misconduct relates to a coding error in Wedbush's calculation of the amounts required to be deposited in its Reserve Account to comply with the Customer Protection Rule. The group responsible for overseeing the customer reserve calculation, the Regulatory Accounting group, was not and is not involved in any offerings by the firm under Regulation A or Regulation D.

The Alleged Misconduct Was Not Scier-Based and Did Not Involve a Criminal Conviction

The Order does not allege that anyone at Wedbush acted with scier and the violations set forth in the Order are not scier-based or criminal in nature. Rather, the violations were caused by an undetected coding error in Wedbush's customer reserve calculation. Once the error and resulting deficiency were uncovered, the error was fixed and additional funds were immediately deposited into the Reserve Account.

The Duration of the Misconduct

The coding error that caused the misconduct at issue subsisted between September 2014 and January 2015.

Responsibility for the Misconduct

The Order does not charge any individuals at the firm with misconduct. Rather, the violations were caused as a result of coding errors in the complex calculations underlying Wedbush's reserve requirement under the Customer Protection Rule. The Regulatory Accounting group was responsible for overseeing the reserve calculations needed to comply with the Customer Protection Rule. At the time, Wedbush lacked adequate resources and expertise in its regulatory accounting group to identify and correct the coding error. The management of the regulatory accounting group has changed since the period covered by the Order, including a new CFO and new Regulatory Accounting Manager. In addition, Wedbush has hired new staff in the Regulatory Accounting group and improved its processes and procedures relating to the Customer Protection Rule.

Wedbush Has Taken and Will Continue to Take Remedial Steps

Wedbush has already taken remedial steps to address the conduct at issue in the Order and will take substantial additional remedial steps by retaining an independent compliance consultant pursuant to the undertaking in the Order. Wedbush believes that the steps it has taken, including

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reviewing and documenting its entire customer reserve computation process and vastly improving its liquidity position, will prevent future reoccurrences of the violations at issue. In addition, the additional steps Wedbush will take by retaining an independent compliance consultant and implementing any recommendations will further prevent similar violations from happening again.

After discovering the error at issue in early 2015, Wedbush took immediate action to fix the coding error, which caused the Repos to be inaccurately reflected in Wedbush's Reserve Formula calculation. The error was unique to the Repos and, after discovering the error, Wedbush fixed the coding and corrected Wedbush's Reserve Formula going forward.

In addition to fixing the specific coding error relating to the Repos, Wedbush, on its own accord, hired a consultant to assess its Rule 15c3-3 customer and proprietary accounts of brokers (PAB) reserve computation process to identify and recommend process improvements. As part of the assessment, the consultant met with key process owners to identify roles, responsibilities, and key process controls; reviewed Wedbush's current computation methodology and allocation hierarchy against applicable regulations; evaluated data integrity in key systems impacting the reserve computation; and reviewed Wedbush's system coding of selected accounts to validate that balances are appropriately included in the reserve computation.

Since the deficiencies at issue in the Order, Wedbush has also improved its liquidity position and financial condition to further ensure that its customer securities are safeguarded. Since the conduct at issue, the firm has grown its net capital from \$96 million to \$174 million and now has an excess net capital of \$144 million. In addition, Wedbush has increased both the size and diversity of its third-party credit lines.

Additionally, because the violations resulted, in part, from a lack of adequate resources and expertise in the Regulatory Accounting group, which oversees the weekly Rule 15c3-3 calculation, Wedbush has hired additional employees, including a new Chief Financial Officer, new Controller, new Chief Administrative Officer, new Chief Risk Officer, new Regulatory Accounting Manager, and two new staff members in the Regulatory Accounting group. Specifically, in October 2015, Wedbush hired a new Controller who had 15 years' experience working for a broker-dealer and six years' experience overseeing regulatory reporting. This Controller was appointed to CFO in September 2017, and now oversees financial and regulatory accounting, finance, and internal audit and controls. Wedbush recently hired a new Controller who has more than seven years of experience in regulatory accounting. In July 2016, Wedbush hired a new CAO who had previously served as the president of a capital markets advisory firm and president and CEO of an NYSE-listed holding company of a broker-dealer. Wedbush's CAO has over 35 years of experience in the financial industry and now oversees the firm's risk management and business conduct (compliance) functions. In October 2016, Wedbush created the new position of Regulatory Accounting Manager to further improve oversight of this area.

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Wedbush filled this position with someone who had over 15 years of experience in the industry with primary focus on regulatory accounting. The new Regulatory Accounting Manager now oversees a staff of three people who assist with the customer reserve calculation.

The relevant depth of knowledge and experience at Wedbush has substantially improved since the conduct at issue. As a result, Wedbush has a more robust preparation and review process surrounding the computation of the firm's customer reserve requirement, which now includes an initial calculation by the staff of the Regulatory Accounting group, a review by the Regulatory Accounting Manager, and then a final review by the CFO, who meets with the group to address any questions that may arise.

The Independent Compliance Consultant

Further, as set forth in the Order, Wedbush will undertake to hire, at its own expense, one or more independent consultants (the "Consultant") to conduct a comprehensive review of its current system of controls and procedures for compliance with all applicable regulatory requirements related to (a) Section 15(c) of the Exchange Act and Rules 15c3-1 (net capital) and 15c3-3 (customer protection rule) thereunder; (b) liquidity; (c) opening of, and due diligence relating to, new correspondent and prime services accounts; and (d) internal audit and risk management (the "Areas to be Reviewed"). Additionally, the independent consultant will assess Wedbush's corporate governance and culture of compliance with respect to the aforementioned areas to be reviewed and provide recommendations for improvements, as may be needed. Wedbush will adopt and implement the recommendations and report to the Commission on the status of such implementation.

Within 30 days of the issuance of the Order, Wedbush will provide a copy of the engagement letter detailing the Consultant's responsibilities to the Commission. Wedbush will cooperate fully with the Consultant, including providing the Consultant with access to its files, books, records, and personnel (and the files, books, records, and personnel of Wedbush's affiliated entities, to the extent they relate to the Areas to be Reviewed), as reasonably requested for the above-referenced review, and obtaining the cooperation of respective employees or other persons under Wedbush's control. Wedbush will require the Consultant to report to the Commission staff on its activities as the staff may request and will permit the Consultant to engage such assistance, clerical, legal, or expert, as necessary and at a reasonable cost, to carry out its activities, and the cost, if any, of such assistance shall be borne exclusively by Wedbush.

Within 30 days of being retained (unless otherwise extended by the Commission staff for good cause), the Consultant will provide Wedbush and the Commission staff with (a) an estimate of the time needed to complete the review and analysis; and (b) a proposed deadline, subject to the approval of the Commission staff, for the preparation of a written report describing the review and analysis ("Report"). Wedbush will require the Consultant to issue the Report by the

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approved deadline and provide the Report simultaneously to Wedbush and the Commission staff. The Report shall evaluate the adequacy of Wedbush's system of controls and procedures for compliance with all applicable regulatory requirements related to the Areas to be Reviewed; evaluate Wedbush's corporate governance structure and culture of compliance relating to the Areas to be Reviewed; and make recommendations for improvements, as may be needed.

Wedbush will submit to the Commission staff and the Consultant, within 30 days of the Consultant's issuance of the Report, the date by which Wedbush will adopt and implement any recommendations in the Report.

Wedbush will adopt and implement, on the timetable set forth by Wedbush in accordance with the aforementioned procedures, the recommendations in the Report. Wedbush shall notify the Consultant and the Commission staff in writing when the recommendations have been implemented. Within 30 days after Wedbush notifies the Consultant that the recommendations have been implemented, Wedbush will require the Consultant to certify, in writing, to Wedbush and the Commission staff, that Wedbush has implemented the Consultant's recommendations. The Consultant's certification shall also include an opinion of the Consultant as to whether Wedbush's system of controls and procedures related to the Areas to be Reviewed are designed to comply with all applicable regulatory requirements, and whether Wedbush's policies and procedures relating to the Areas to be Reviewed can be reasonably expected to detect and cause the reporting of transactions that may be relevant to a possible violation of law or regulation.

Within 180 days from the date of the Consultant's certification described above, Wedbush will require the Consultant to have completed a review of how it is implementing, enforcing, and auditing the effectiveness of its system of controls and procedures related to the Areas to be Reviewed and submit a final written report ("Final Report") to Wedbush and the Commission staff. The Final Report shall include an opinion of the Consultant as to whether Wedbush is taking reasonable steps to implement, enforce, and audit the effectiveness of its system of controls and procedures related to the Areas to be Reviewed. Within 60 days from the date of the completion of the undertakings, Wedbush will certify, in writing, to the Commission staff its compliance with the undertakings.

The thorough process outlined above will certainly improve Wedbush's policies and procedures in several areas across the firm and further prevent similar violations from happening again.

Disqualification Would Have a Material Impact on Wedbush, Its Affiliates, and Third Parties

The disqualification of Wedbush, its affiliates, and other persons from the exemptions under Regulation A and Regulation D would have a significant adverse impact not only on Wedbush and its affiliates, but also third parties that retain Wedbush and its affiliates in connection with transactions effected in reliance on these exemptions. Disqualification would impair Wedbush's

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ability to serve its existing customers, some of whom are currently contemplating private placements, and to attract new customers to its private placement and broader investment banking services.

Wedbush has one of the largest full-service investment banks in the United States. Customers look to Wedbush to provide a full range of financing options and many of its customers raise capital in reliance on the exemptions in Regulation D. In the past year, Wedbush has assisted issuers in raising a total of approximately \$103 million, which generated fees for Wedbush totaling approximately \$3.7 million. In addition, Wedbush's investment banking groups have active and pending deals that intend to rely on Regulation D over the next 12 months. Wedbush is currently engaged to assist issuers with two offerings in the first quarter of 2018, raising approximately \$55 million for the issuers and generating \$1.8 million in fees for Wedbush. Wedbush expects that it will continue to expand this business if it is granted a waiver from disqualification.

In addition, private placements are very attractive investments for many of Wedbush's institutional and high-net-worth investors, and disqualification would limit Wedbush's ability to offer private placements to those investors. Disqualification may cause many of these investors to transfer their accounts elsewhere, which would significantly negatively impact many facets of Wedbush's business and could inconvenience these investors.

Finally, in light of the relatively recent amendments to Regulation A (so-called Regulation A+), Wedbush anticipates that its participation in Regulation A+ offerings may dramatically increase in the future. As Regulation A+ becomes a more accepted and prevalent way to raise capital, disqualification would have a substantial impact on Wedbush and issuers that have used Wedbush's investment banking services in the past. If Wedbush does not receive a waiver from disqualification, it will be unable to advise its issuer clients on offerings that may be made pursuant to Regulation A and/or assist these clients with a Regulation A offering.

Disqualification would likely also have a ripple effect on Wedbush's larger investment banking practice. Assisting growing issuers with Regulation A and D offerings allows Wedbush to build early relationships with those issuers, who oftentimes retain Wedbush for financing and advisory services, including registered offerings, in the future. For that reason, being disqualified from Regulation A and D offerings would also impact Wedbush's larger investment banking business and obstruct a significant source of business for Wedbush.

In short, the disqualification of Wedbush or any of its affiliates from the exemptions under Regulation A and Regulation D would be severe given that the Order directly addresses the violative conduct, which again was unrelated to Wedbush's investment banking business, through an extensive undertaking and other relief.

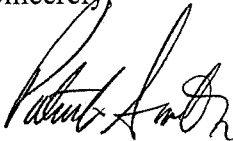
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REQUEST FOR WAIVER

In light of the foregoing, Wedbush believes that disqualification is not necessary, in the public interest, or for the protection of investors, and that good cause exists to support the requested relief. Accordingly, we respectfully request that the Commission, pursuant to Rule 262 of Regulation A Rule 506 of Regulation D, waive the disqualification provisions in Regulation A and Rule 506 of Regulation D to the extent they may be applicable to Wedbush, any of its affiliates, or other person as a result of the entry of the Order.

If you have any questions or require any additional information regarding this request, please contact me.

Sincerely,



Patrick M. Smith

cc: Michael J. Diver, Katten Muchin Rosenman LLP
Charles B. LaChaussée, Wedbush Securities Inc.