

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 85309 / March 13, 2019**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-18411**

**In the Matter of**

**WEDBUSH SECURITIES,  
INC.,**

**Respondent.**

**ORDER MAKING FINDINGS AND  
IMPOSING REMEDIAL SANCTIONS  
PURSUANT TO SECTION 15(b) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest to enter this Order Making Findings and Imposing Remedial Sanctions pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) against Wedbush Securities, Inc. (“Wedbush” or “Respondent”).

**II.**

Following the institution of these proceedings on March 27, 2018, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Making Findings and Imposing Remedial Sanctions Pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Order”), as set forth below.

**III.**

On the basis of this Order and Respondent’s Offer, the Commission finds:

**A. SUMMARY**

1. Wedbush failed reasonably to supervise one of its registered representatives, Timary Delorme (“Delorme”), who engaged in manipulative trading activity of penny stocks over multiple years, as detailed below. Wedbush was aware of certain aspects of her activity in 2012

and 2013 but its supervisory policies and implementation systems failed reasonably to guide staff on how to investigate the activity. Specifically, in late 2012 and early 2013, Delorme's supervisors: (1) reviewed an email outlining her role in fraudulent transactions involving penny stocks; (2) received copies of two FINRA arbitrations filed by her customers outlining serious allegations of her role in their investments in the same penny stock issuers; (3) learned of a FINRA inquiry into her personal trading in one of those penny stock issuers; and (4) learned of a separate FINRA inquiry into the allegations underlying the customer arbitrations. Wedbush had no clear process for how to handle red flags of potential market manipulation.

## **B. RESPONDENT**

2. Wedbush is a California corporation with its headquarters in Los Angeles, California. The firm was founded in 1955 and registered with the NASD as a broker-dealer in 1955, with the Commission as a broker-dealer in 1966, and as an investment adviser in 1970. Wedbush is a wholly-owned subsidiary of Wedbush, Inc., a privately-held company. In June 2014, the Commission charged Wedbush with violating, among other rules, Exchange Act Rule 15c3-5 for providing market access to international traders without proper controls in place. Wedbush settled with the Commission in November 2014, paying a \$2.44 million penalty and agreeing to retain a consultant to conduct a comprehensive review of its system of controls and procedures for compliance with all applicable regulatory requirements relating to its market access business, including but not limited to Exchange Act Rules 15c3-5 and 17a-8; to assess its corporate governance and culture of compliance with respect to its market access business; and to provide recommendations for improvements as may be needed. In February 2018, Wedbush settled with the Commission for violations of Sections 15(c)(3) and 17(a)(1) of the Exchange Act and Rules 15c3-3 and 17a-5(a) thereunder. Wedbush agreed to retain an independent compliance consultant and pay approximately \$250,000 in disgorgement and \$1,000,000 in penalties.

## **C. OTHER RELEVANT INDIVIDUAL**

3. Timary Delorme ("Delorme") is a registered representative associated with Wedbush between 1981 and 2018. In 2013, she settled two customer arbitrations without admitting liability. On March 27, 2018, Delorme settled with the Commission for violations of the antifraud provisions of the federal securities related to her involvement in a penny stock market manipulation scheme. In connection with that matter, the Commission issued an order (1) requiring Delorme to cease and desist from committing or causing violations or future violations of Sections 17(a)(1) and (3) of the Securities Act, and Sections 9(a)(2), 10(b) of the Exchange Act and Rules 10b-5(a) and (c) thereunder; (2) barring her from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization; (3) barring her from participating in any offering of a penny stock; and (4) requiring her to pay \$50,000 in civil penalties.

## **D. REGULATORY OVERVIEW**

4. Broker-dealers registered with the Commission, like other highly-regulated securities market participants, must comply with numerous regulatory requirements that are

designed to ensure, among other things, that they operate with adequate capital, protect investors, and maintain high industry standards.

5. One of these regulatory requirements includes broker-dealers developing and maintaining established policies and procedures reasonably designed to prevent and detect securities law violations of associated persons working for them. Broker-dealers must also have systems to implement their supervisory procedures that would reasonably be expected to prevent and detect violations by persons subject to their supervision.

#### **E. WEDBUSH FAILED REASONABLY TO SUPERVISE DELORME**

##### ***Delorme Violated the Federal Securities Laws***

6. From in or around 2008 to 2014, Delorme was involved in a manipulative trading scheme with Izak Zirk Engelbrecht a/k/a Zirk De Maison (“Engelbrecht”). Engelbrecht was charged by the Commission on September 18, 2014 with, among other things, violating the anti-fraud and registration provisions of the federal securities laws. Engelbrecht also pleaded guilty in the Northern District of Ohio to one count of conspiracy to commit securities fraud, two counts of securities fraud, and four counts of wire fraud. He is currently serving a sentence of 151 months in prison for this conduct. Engelbrecht engaged in manipulative trading (*e.g.*, “pump and dumps”) using the stocks of several penny stock issuers that he and his associates controlled. As part of Engelbrecht’s scheme, Delorme bought certain stocks in her customers’ accounts, or encouraged her customers to buy the stocks, in exchange for undisclosed compensation in the form of shares and cash. In addition, Delorme engaged in manipulative trading designed to create a false appearance of volume and increase or stabilize the price of securities.

##### ***Wedbush Observed Several Red Flags Concerning Delorme’s Misconduct***

7. Wedbush became aware of certain aspects of Delorme’s securities law violations in 2012 but its supervisory policies and implementation systems failed reasonably to guide staff on how to investigate the activity. Specifically, in late 2012 and early 2013, Delorme’s supervisors became aware of the following red flags by: (1) reviewing an email outlining her role in fraudulent transactions involving penny stocks; (2) receiving copies of two FINRA arbitrations filed by her customers outlining serious allegations of her role in their investments in the same penny stock issuers; (3) learning of a FINRA inquiry into her personal trading in one of those penny stock issuers; and (4) learning of a separate FINRA inquiry into the allegations underlying the customer arbitrations. Wedbush failed to develop and implement reasonable policies and procedures and implementation systems to provide guidance to supervisors and other staff on how to reasonably follow-up on red flags of potential market manipulation by registered representatives, including Delorme.<sup>1</sup>

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<sup>1</sup> On September 14, 2017, Wedbush entered into a tolling agreement (and subsequently entered into tolling agreement extensions) tolling the statute of limitations on its conduct from September 11, 2017 to March 31, 2018. Thus, the red flags described herein all fall within the statute of limitations period.

8. Despite learning of these red flags, Wedbush continued to allow Delorme to process orders and communicate with customers, including making investment recommendations. During this time period, Delorme continued to act as an accomplice with Engelbrecht's scheme. Delorme's violations of the federal securities laws occurred during the period of Wedbush's deficient supervision.

**(a) The "Customer A" Email**

9. Delorme's front-line supervisor, Supervisor 1, began working at Wedbush in April 2009, and became Delorme's supervisor at that time. When he started, he conducted a review of the trading and customer portfolios of each representative he supervised. Based on his experience in the industry, he had general concerns about the quantity of penny stocks in Delorme's customers' accounts. He took measures to restrict her trading activity by limiting her trading in the last hour of the day and restricting all customer trading in certain penny stock securities.

10. Because Delorme had been at the firm for 30 years and her business partner was a partial owner of the firm, Supervisor 1 felt he had to "be gentle" in terms of restricting Delorme's activities and could not take more "draconian action."

11. On or about November 26, 2012, Supervisor 1 reviewed an email from Delorme to Customer A ("Customer A Email"), a customer of Delorme's who was substantively involved in Engelbrecht's penny stock scheme.<sup>2</sup> The Customer A Email outlined deals between Customer A on one side and Engelbrecht and his associate on the other "confirmed by [Delorme] as she knows them." This email outlined Customer A's efforts to assist in inflating the price of penny stocks, many of which were held in Wedbush accounts by Delorme and her customers.

12. The Customer A Email noted that one of the deals had to be handled through a different broker-dealer because Delorme was restricted from any purchases through Wedbush during the last hour of trading – a reference to the restrictions Supervisor 1 had placed on Delorme's activity.

13. The Customer A Email was escalated internally up to the president of Wedbush, who reviewed and initialed the email on December 17, 2012. Legal and compliance personnel also were aware of the email.

**(b) The FINRA Arbitrations**

14. Around the same time as the Customer A Email, Delorme and Wedbush were named as respondents in two FINRA arbitration claims submitted by customers of Delorme.

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<sup>2</sup> As part of its supervision of registered representatives, Wedbush has an email monitoring system that identifies certain emails for manager review based on keywords.

Wedbush received the first arbitration claim submitted by four customers on or about October 17, 2012. It was passed along to a number of people, including the president of Wedbush and members of the firm's legal and compliance staff. The customers alleged that Delorme solicited their investments in certain penny stock issuers, guaranteed no losses, gifted securities, and set up a deal between her customers and an associate of Engelbrecht's. The customers further alleged, through text message evidence, that Delorme was involved in manipulating the securities in their accounts in order to guarantee them profits.

15. Wedbush received a second FINRA arbitration claim against it on or about November 15, 2012. Although Delorme was not personally named in the second claim as a respondent, the underlying allegations were similar to those in the first claim in that they described similar transactions involving Delorme in similar securities. Both arbitrations were settled in the fall of 2013. Delorme was responsible for paying Wedbush half the settlement amounts in both arbitrations because Wedbush deemed her culpable for her behavior.

### **(c) The FINRA Regulatory Inquiries into Delorme**

16. On or about November 9 and 19, 2012, Wedbush received inquiries from FINRA's Office of Fraud Detection and Market Intelligence into trading in a specific penny stock by three accounts held at Wedbush by Delorme and her husband. Delorme's supervisors were aware of the inquiry, as were members of Wedbush's legal and compliance teams.

17. On or about December 6, 2012, Wedbush received a second FINRA inquiry into Delorme. FINRA made numerous requests about the allegations in the customer arbitrations outlined above. During the course of responding to FINRA, Delorme drafted her own responses and sent them to compliance for review. Compliance personnel at Wedbush did not take any steps to investigate or confirm the veracity of Delorme's responses. During the course of this inquiry, in April 2013, FINRA interviewed Delorme. Supervisor 1 and Wedbush compliance personnel attended this interview. Wedbush did not take any steps to follow-up on Delorme's responses given to FINRA during the interview despite the fact that the certain of the responses were inconsistent and contradicted what the firm had already learned from the Customer A Email and customer arbitration filings. This inquiry was resolved September 19, 2014 when FINRA sent a letter of caution finding Delorme to be deficient in failing to comply with Wedbush's policies regarding Regulation S-P by sending emails with customers' names, addresses, and social security numbers "to unaffiliated third parties containing confidential personal information of 20 firm customers without first obtaining approval from the firm or the customers."

### ***Wedbush's Deficient Investigations into Delorme's Conduct***

18. Wedbush conducted two flawed investigations into Delorme's activities: one by compliance and one by legal. Wedbush did not document or otherwise clarify the scope of each investigation, and there was no process as to how the results of the investigations were to be documented or reported. The lack of documentation or other reporting mechanism resulted in no coherent response to the red flags outlined above. It is unclear what, if anything, was reported from legal or compliance to Wedbush's management.

19. Delorme was placed on heightened supervision for one year by Wedbush in March 2014. It appears this discipline was instituted in order to resolve the ongoing FINRA matter, rather than in response to any misconduct by Delorme related to the red flags discussed above. For example, Wedbush has no documentation reflecting (1) who decided on Delorme's discipline, (2) why heightened supervision was the appropriate level of discipline, and (3) the timing of the discipline.

20. According to Supervisor 1, if it had been up to him, Delorme would have been on heightened supervision at an earlier time, at least at the point in time of the Customer A Email, which he call "the smoking gun . . . whatever suspicions or worries I had, this confirmed a lot of the worst of them."

21. In addition, in April 2014, Delorme was approached by the FBI and was interviewed about her role in Engelbrecht's penny stock scheme. Delorme promptly informed Supervisor 1 about this conversation. Supervisor 1 then contacted his manager and Wedbush's legal and compliance teams. Delorme and Supervisor 1's manager spoke about the FBI interview. No one in compliance interviewed Delorme regarding the FBI interview. It does not appear any internal investigation was done in response to the FBI's interview or the topics that Delorme discussed, and no old investigations were reopened or revisited.

#### **F. WEDBUSH LACKED REASONABLE POLICIES AND PROCEDURES RELATED TO SUPERVISION OF ITS REGISTERED REPRESENTATIVES**

22. Wedbush's policies and supervisory systems lacked any reasonable coherent structure to provide guidance to supervisors and other staff for investigating possible facilitation of market manipulation by registered representatives, including Delorme. This lack of reasonable policies and procedures resulted in Wedbush failing to supervise Delorme.

23. Wedbush lacked reasonable procedures regarding the investigation and handling of red flags. There was substantial confusion as to whose responsibility it is to conduct investigations related to red flags of potential market manipulation by Delorme. According to employees, internal investigations of registered representatives were generally conducted by that representative's front-line manager or division manager. Those managers would reach out to division managers or executive vice presidents, and legal and compliance as needed. Compliance and legal generally did not conduct internal investigations in the regular course of business. At the time, Wedbush's policies were silent on this issue.

#### **G. FAILURE REASONABLY TO SUPERVISE**

24. As a result of the conduct described above, Wedbush failed reasonably to supervise Delorme, with a view to preventing and detecting Delorme's violations of Sections 17(a)(1) and (3) of the Securities Act, Sections 9(a)(2) and 10(b) of the Exchange Act and Rule 10b-5(a) and (c) thereunder.

## **H. WEDBUSH'S REMEDIAL MEASURES**

25. On May 31, 2018, the former President of Wedbush was succeeded by two new co-presidents. Since that time, the co-presidents have taken certain remedial measures to improve Wedbush's supervision of its registered representatives, including the following:

- a. Updated its policies and procedures relating to internal investigations to address the allegations in the Division's OIP, adding provisions to document (a) when internal investigations will occur, (b) who shall conduct the investigations, (c) how the results should be escalated, and (d) how the investigation should be documented and, as appropriate, reported to regulatory or other authorities;
- b. Engaged a third party to provide an electronic surveillance package, including installing firm wide software designed to detect, document and help remediate potentially unlawful trading and other regulatory violations;
- c. Allocated additional resources to its Internal Audit and Internal Controls groups, including by hiring additional personnel; and
- d. Appointed a new independent Chair of the Audit Committee.

26. The Commission has taken these remedial measures into consideration in imposing the sanctions outlined below.

## **V.**

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

- A. Respondent is censured pursuant to Section 15(b)(4)(E) of the Exchange Act;
- B. Respondent shall, within thirty (30) days of the entry of this Order, pay a civil money penalty in the amount of \$250,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.
- C. Payment must be made in one of the following ways:
  - (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
  - (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Respondent's name as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Lara S. Mehraban, Division of Enforcement, Securities and Exchange Commission, 200 Vesey Street, Suite 400, New York, NY 10281.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman  
Acting Secretary