

ADMINISTRATIVE PROCEEDING
File No. 3-17733

SEC Settles With Broker-Dealer for Violations of Market Structure Rules

April 26, 2017 – The Securities and Exchange Commission announced today that Wilson-Davis & Company, Inc., a Utah-based broker-dealer, agreed to settle charges in a pending administrative and cease-and-desist proceeding for violations of SEC market structure rules.

Rule 203(b)(1) of Regulation SHO requires a broker-dealer, prior to effecting a short sale in an equity security for its own account, to borrow a security or locate a source of borrowable securities that can be delivered on the date that delivery is due, and document such locate. Rule 203(b)(2)(iii) provides a limited exception to the locate or borrow requirement for short sales effected by a market maker in connection with bona-fide market making activities in the securities for which the exception is claimed.

According to the SEC's order, from at least November 2011 through May 2013, Wilson-Davis's firm practice was always to rely upon the bona-fide market making exception to the locate or borrow requirement when conducting proprietary trading. This reliance was improper because much of Wilson-Davis's proprietary trading activity was not, in fact, bona-fide market making. As a result, Wilson-Davis violated Rule 203(b)(1) of Regulation SHO. While improperly availing itself of the exception, Wilson-Davis engaged in numerous short sales in over-the-counter equity securities that resulted in significant and improper trading profits.

In addition, the SEC's order finds that, for its proprietary trading group, Wilson-Davis violated Section 15(c)(3) of the Securities Exchange Act of 1934 and Rule 15c3-5 (known as the Market Access Rule) because it failed to have controls and supervisory procedures reasonably designed to manage the risks of having market access; and to establish, document and maintain a system for regularly reviewing the effectiveness of the risk management controls and supervisory procedures as required by Exchange Act Rule 15c3-5(e).

The SEC's order finds that Wilson-Davis willfully violated Rule 203(b)(1) of Regulation SHO, Section 15(c)(3) of the Exchange Act and Rules 15c3-5(b), (c) and (e) under the Exchange Act. Without admitting or denying the findings in the SEC's order, Wilson-Davis consented to a cease-and-desist order, a censure and to pay \$235,714.50 in disgorgement and prejudgment interest and a penalty of \$75,000.

The SEC previously filed settled cease-and-desist proceedings against Wilson-Davis' [Chief Executive Officer](#), [head trader](#), and a [former proprietary trader](#).

The SEC's investigation was conducted by Jeffrey E. Oraker and Jay A. Scoggins of the Division of Enforcement's Market Abuse Unit in the Denver Regional Office, and supervised by Robert A. Cohen of the Market Abuse Unit. Danielle R. Voorhees and Zachary T. Carlyle led the SEC's litigation, which was supervised by Gregory A. Kasper. The SEC appreciates the assistance of the Financial Industry Regulatory Authority.

See also: [SEC Order](#)