UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of WEDBUSH SECURITIES INC., Respondent.	Admin. Proc. File No. 3-18411 **ANSWER OF RESPONDENT WEDBUSH SECURITIES INC. TO CORRECTED ORDER INSTITUTING ADMINISTRATIVE PROCEEDINGS**

Pursuant to Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220, and in compliance with the Order Scheduling Hearing and Designating Presiding Judge issued by the Court on March 27, 2018 and the Order Postponing Hearing and Scheduling Prehearing Conference issued by the Court on April 3, 2018, Respondent Wedbush Securities Inc. ("Wedbush"), respectfully submits this Answer to the allegations in the Commission's March 27, 2018 Corrected Order Instituting Proceedings herein ("OIP").

Certain paragraphs contained in the OIP lack sufficient specificity and information for Wedbush to either admit or deny the allegations in the respective paragraphs, or otherwise adequately respond.

As more fully set forth below, Wedbush denies the allegations in the OIP that it violated certain of the federal securities laws and rules adopted by the Commission, and denies that any remedial action is appropriate in the public interest. All allegations not expressly admitted herein are denied.

ANSWER TO SPECIFIC ALLEGATIONS OF OIP

Wedbush Securities responds to the substantive allegations in the OIP, in order below according to the numbered paragraphs of Section II of the OIP, as follows:

Paragraph 1: Wedbush denies that it failed reasonably to supervise Timary Delorme ("Delorme"). The second part of the first sentence of paragraph 1 discussing Delorme's conduct states a legal conclusion which does not call for an admission or denial, and therefore no response is required. Wedbush admits it was aware of certain aspects of Delorme's activity in 2012 and 2013. Wedbush denies that "its supervisory policies and implementation systems failed reasonably to guide staff on how to investigate the activity." Wedbush admits that in late 2012 and early 2013, some of Delorme's supervisors reviewed an email relating to Delorme. The description of the email described in item 1 of paragraph 1 states a legal conclusion which does not call for an admission or denial, and therefore no response is required. Wedbush admits the allegations in items 2, 3, and 4 of paragraph 1. Wedbush denies that it "had no clear process for how to handle red flags of potential market manipulation."

Paragraph 2: Wedbush admits the allegations in the first three sentences of paragraph 2. Wedbush admits that it was named as a respondent in administrative proceeding file number 3-15913, and that this matter was settled pursuant to an Offer of Settlement with the Commission in November of 2014. Wedbush admits that it was named as a respondent in administrative proceeding file number 3-18357, and that this matter was settled pursuant to an Offer of Settlement with the Commission in February 2018. Wedbush denies the remaining allegations contained in Paragraph 2.

Paragraph 3: Wedbush admits the allegations in the first sentence of paragraph 3. Wedbush denies the allegations in the second sentence of paragraph 3. Wedbush admits that it settled two FINRA customer arbitrations, one of which named Delorme as a respondent. Upon information and belief, Wedbush believes that "[o]n March 27, 2018, Delorme settled with the Commission for violations of the antifraud provisions of the federal securities [laws]...." Upon information and belief, Wedbush believes the allegations in the last sentence of paragraph 3.

Paragraph 4: Paragraph 4 states a legal conclusion which does not call for an admission or denial, and therefore no response is required.

Paragraph 5: Paragraph 5 states a legal conclusion which does not call for an admission or denial, and therefore no response is required.

Paragraph 6: The first sentence of paragraph 6 states a legal conclusion which does not call for an admission or denial, and therefore no response is required. Upon information and belief, Wedbush believes the allegations regarding "Engelbrecht in the second, third, and fourth, sentences of paragraph 6. The allegation that "Engelbrecht engaged in manipulative trading (e.g., "pump and dumps") using the stocks of several penny stock issuers that he and his associates controlled" is a legal conclusion which does not call for an admission or denial, and therefore no response is required. Wedbush admits that Delorme bought certain stocks in her customers' accounts. Wedbush lacks sufficient knowledge and information to form a belief as to the truth of the allegation that Delorme encouraged her customers to buy the stocks, in exchange for undisclosed compensation in the form of shares and cash" and, accordingly, these are denied. The last sentence of paragraph 6 states a legal conclusion which does not call for an admission or denial, and therefore no response is required. Wedbush lacks sufficient knowledge and information to form a belief as to the truth of the remaining allegations in paragraph 6 and, accordingly, these are denied.

Paragraph 7: The first sentence of paragraph 7 states legal conclusions which do not call for an admission or denial, and therefore no response is required.. Upon information and belief, Wedbush believes that at least one of Delorme's supervisors: (1) reviewed an email involving penny stocks, however the statement that these transactions were fraudulent is a legal conclusion which does not call for an admission or denial, and therefore no response is required.; (2)

received copies of two FINRA arbitrations filed by her customers containing allegations against Delorme; (3) learned of a FINRA inquiry into a specific security and listing Delorme's accounts; (4) learned of a separate FINRA inquiry into the allegations underlying the customer arbitrations. Wedbush denies the allegations in the last sentence of paragraph 7. Wedbush admits that it entered into tolling agreements and tolling agreement extensions which together tolled the statute of limitations from September 11, 2017 to March 31, 2018. Wedbush denies the remaining allegations in paragraph 7.

Paragraph 8: The introductory clause of the first sentence of paragraph 8 states a legal conclusion which does not call for an admission or denial, and therefore no response is required. Wedbush admits the remaining allegations in the first sentence of paragraph 8. The second sentence of paragraph 8 states a legal conclusion which does not call for an admission or denial, and therefore no response is required. The last sentence of paragraph 8 states a legal conclusion which does not call for an admission or denial, and therefore no response is required.

Paragraph 9: Wedbush admits the allegations in the first and last sentences of paragraph 9. Wedbush lacks sufficient knowledge and information to form a belief as to the truth of the remaining allegations in paragraph 9 and, accordingly, these are denied.

Paragraph 10: Wedbush lacks sufficient knowledge and information to form a belief as to the truth of the allegations in paragraph 10 and, accordingly, these are denied.

Paragraph 11: Wedbush admits that on or about November 26, 2012, Supervisor 1 reviewed an email from Delorme to Customer A ("Customer A Email"), a customer of Delorme's. Wedbush lacks sufficient knowledge and information to form a belief as to the truth of the allegations that Customer A "was substantively involved in Engelbrecht's penny stock scheme" and, accordingly, these are denied. Wedbush admits the allegations in footnote 2 to

paragraph 11. Wedbush admits that the Customer A Email contains among other things, the phrase "...confirmed by Timary Delorme as she knows them." Wedbush admits that the Customer A Email described transactions involving Customer A, Englebrecht and another individual. Wedbush lacks sufficient knowledge and information to form a belief as to the truth of the allegations in the last sentence of paragraph 11 and, accordingly, these are denied.

Paragraph 12: Wedbush admits that 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. Wedbush lacks sufficient knowledge and information to form a belief as to the truth of the allegations that this was "a reference to the restrictions Supervisor 1 had placed on Delorme's activity and, accordingly, these are denied.

Paragraph 13: Wedbush admits that the president of Wedbush as well as legal and compliance department personnel were aware of the "Customer A Email." Wedbush admits that the president of Wedbush initialed the email. Wedbush denies that the president of Wedbush reviewed the email.

Paragraph 14: Wedbush admits that it was named as a respondent in two FINRA arbitration claims submitted by some of Delorme's customers. Wedbush denies that Delorme was named as a respondent in both FINRA arbitration claims. Wedbush admits that Delorme was named as a respondent on one of the two FINRA arbitration claims. Wedbush admits that it "received the first arbitration claim submitted by four customers on or about October 17, 2012." Wedbush admits that the FINRA arbitration claim received on or about October 17, 2012 was passed along to a number of people, in various Wedbush departments. Wedbush admits that the claimants in the FINRA arbitration claim received on October 17, 2012 alleged that Delorme solicited investments in certain securities, guaranteed no losses, and gifted securities. Wedbush lacks sufficient knowledge and information to form a belief as to the truth of the allegation that the

customers alleged that Delorme "set up a deal between her customers and an associate of Engelbrecht's" and, accordingly, these are denied. Wedbush admits that the FINRA arbitration claim received on October 17, 2012 contains an exhibit of text message screenshots. However, Wedbush the lacks sufficient knowledge and information to form a belief as to the truth of the allegations in the last sentence of paragraph 14 and, accordingly, these are denied.

Paragraph 15: Wedbush admits the allegations in the first sentence of paragraph 15. Wedbush admits that the second FINRA arbitration claim failed to name Delorme as a respondent and that it contained allegations of gifting of securities similar to the allegations in the first FINRA arbitration claim.- Wedbush denies the remaining allegations in the second sentence of paragraph 15. Wedbush admits that both FINRA arbitration claims were settled in the fall of 2013. Wedbush admits that Delorme was responsible for paying half of the settlement amounts in both FINRA arbitration claims. Wedbush denies the remaining allegations in paragraph 15.

Paragraph 16: Wedbush admits the allegations in the first sentence of paragraph 16. Wedbush admits that members of Wedbush business conduct (compliance) and some of Delorme's supervisors were aware of these FINRA inquiries. Wedbush denies the allegation in the last sentence of paragraph 16.

Paragraph 17: Wedbush admits the allegations in the first two sentences of paragraph 17. Wedbush admits that Delorme drafted her own responses to FINRA and sent them to the business conduct department. Wedbush denies that "Compliance personnel at Wedbush did not take any steps to investigate or confirm the veracity of Delorme's responses." Wedbush admits that in April 2013, FINRA interviewed Delorme and that Supervisor 1 and Wedbush compliance personnel attended this interview. Wedbush denies that it did not take any steps to follow-up on Delorme's responses given to FINRA during the interview. Wedbush lacks sufficient knowledge

and information to form a belief as to the truth of the allegation that certain of Delorme's responses to FINRA were inconsistent and contradicted what the firm had already learned from the Customer A email and customer arbitration filings. Wedbush admits that the FINRA inquiry described in paragraph 17 was resolved September 19, 2014. Wedbush admits that a letter from FINRA dated September 19, 2014 described the following deficiency:

> "Failure to comply with FINRA Rule 2010 because Ms. Delorme violated Wedbush Securities, Inc.'s Written Supervisory Procedures regarding Regulation S-P. Specifically, on February 18 and 19, 2009 as well as November 5, 2009, Ms. Delorme sent emails to unaffiliated third-parties containing confidential personal information of 20 firm customers without first obtaining approval from the firm or the customers."

Wedbush denies all remaining allegations in paragraph 17.

Paragraph 18: Wedbush admits it investigated Delorme's activities. Wedbush denies the other allegations in Paragraph 18.

Paragraph 19: Wedbush admits the allegations in the first sentence of paragraph 19. Wedbush denies the remaining allegations in paragraph 19.

Paragraph 20: Upon information and belief, Wedbush believes the statements attributed to Supervisor 1 in paragraph 20 are excerpts of Supervisor 1's on the record testimony.

Paragraph 21: Upon on information and belief, Wedbush believes that around April 2014 the FBI interviewed Delorme. Wedbush lacks sufficient knowledge and information to form a belief as to content of these conversations. Upon information and belief, Wedbush believes Delorme informed Supervisor 1 about the FBI's interview of Delorme." Upon information and belief, Wedbush believes that "Supervisor 1 then contacted his manager and Wedbush's legal and compliance teams." Wedbush lacks sufficient knowledge and information to form a belief as to the truth of the allegations that "Delorme and Supervisor 1's manager spoke about the FBI interview" and, accordingly, these are denied. Wedbush denies that no one in compliance interviewed

Delorme regarding the FBI interview. Wedbush admits the allegations in the last sentence of paragraph 21.

Paragraph 22: Wedbush denies the allegations in the first sentence of paragraph 22. The second sentence of paragraph 22 states a legal conclusion which does not call for an admission or denial, and therefore no response is required.

Paragraph 23: Wedbush denies the allegations in the first two sentences of paragraph 23. Wedbush lacks sufficient knowledge and information to form a belief as to the truth of the allegations that "[a]ccording to employees, internal investigations of registered representatives were generally conducted by that representative's front-line manager or division manager" and, accordingly, these are denied. Wedbush lacks sufficient knowledge and information to form a belief as to the truth of the allegations that "[t]hose managers would reach out to division managers or executive vice presidents, and legal and compliance as needed" and, accordingly, these are denied. Wedbush denies the allegations in the second to last and last sentence of paragraph 23.

Paragraph 24: Paragraph 24 states a legal conclusion which does not call for an admission or denial, and therefore no response is required.

III. and IV.

Sections III and IV of the OIP do not contain any factual allegations against Wedbush and no response is necessary thereto. To the extent any response is required, Wedbush asserts that these administrative proceedings are unfounded and the essential charging allegations in the OIP are legally and factually groundless. Wedbush asserts that it and its personnel properly discharged their obligations in accordance with the federal securities laws, and existing

regulations and guidance. Wedbush requests a hearing at which it may have a full and fair opportunity to contest the allegations and present its additional defenses.

ADDITIONAL AFFIRMATIVE DEFENSES

In asserting the following additional affirmative defenses, Wedbush does not assume the burden of proof on any issue on which it does not have such burden.

FIRST AFFIRMATIVE DEFENSE

The OIP fails to state a claim for violation of the federal securities laws or the Commission's rules thereunder for which relief may be granted.

SECOND AFFIRMATIVE DEFENSE

Wedbush and its personnel relied in good faith on the available guidance provided by the Commission and its Staff regarding the supervision with a view to preventing and detecting violations of the federal securities laws, including without limitation, Sections 17(a)(l) and (3) of the Securities Act, Sections 9(a)(2) and l0(b) of the Exchange Act and Rule l0b-5(a) and (c) thereunder.

THIRD AFFIRMATIVE DEFENSE

On information and belief, the Commission and/or Division of Enforcement failed to comply with federal statutory deadlines in initiating this proceeding, and the OIP is therefore untimely and should accordingly be treated as null and void.

FOURTH AFFIRMATIVE DEFENSE

The claims and proposed relief in the OIP are barred by the doctrine of fair notice. Among other things, the relevant portions of Sections 17(a)(l) and (3) of the Securities Act, Sections 9(a)(2) and l0(b) of the Exchange Act and Rule l0b-5(a) and (c)thereunder are impermissibly vague, unclear, ambiguous, and uncertain, both in general and as sought to be

applied to Wedbush in this proceeding, such that they failed to give fair notice to Wedbush of the requirements that the OIP contends it imposed.

FIFTH AFFIRMATIVE DEFENSE

Wedbush respectfully submits that the instant administrative proceeding is improperly before an Administrative Law Judge. On January 12, 2018, the United States Supreme Court granted certiorari in *Lucia v. SEC*, 138 S. Ct. 736 (2018) which raises the question of the constitutionality of the Securities and Exchange Commission's administrative law judges.

SIXTH AFFIRMATIVE DEFENSE

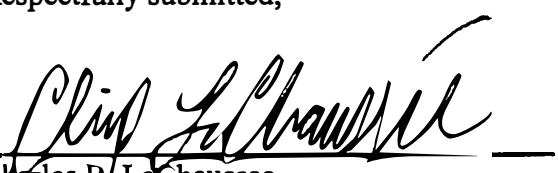
As of the date of this Answer, Wedbush has not yet had an opportunity to review the vast majority of the documents in the Commission staff's investigative file as such materials are voluminous. As a result, Wedbush may have additional affirmative defenses that are presently unknown to it. Wedbush reserves the right to seek to raise any such additional or further defenses that may be supported by the record to be developed in this case before or at the hearing.

PRAYER

Wedbush respectfully requests that this proceeding be dismissed and that Wedbush be awarded such costs and fees of this proceeding to which it may be entitled under applicable law, and such other and further relief as may be just and proper.

Date: 4/24/2018

Respectfully submitted,



Charles B. LaChaussee
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Attorneys for Respondent Wedbush Securities Inc.

PROOF OF SERVICE
STATE OF CALIFORNIA, COUNTY OF LOS ANGELES

I am employed in the County of Los Angeles, State of California. I am over the age of 18 and not a party to the within action; my business address is Wedbush Securities Inc., Legal Department, 1000 Wilshire Blvd., Los Angeles, California 90017.

On April 24, 2018, I served the foregoing documents described as ANSWER OF RESPONDENT WEDBUSH SECURITIES INC. TO CORRECTED ORDER INSTITUTING ADMINISTRATIVE PROCEEDINGS on the parties as follows:

Securities and Exchange Commission c/o Lindsay Moilanen, Esq. Howard Fischer, Esq. John Enright, Esq. New York Regional Office 200 Vesey Street, Suite 400 New York, NY 10281 Tel. (212) 336-1021 Brent Fields, Secretary MoilanenL@sec.gov Fischer.H@sec.gov EnrightJ@sec.gov	Brent J. Fields, Secretary Office of the Secretary U.S. Securities and Exchange Commission 100 F. Street, N.E. / MS 1090 Washington, D.C. 20549-2557 FieldsB@sec.gov **One Original and 3 Copies**
The Honorable James Grimes Administrative Law Judge U.S. Securities and Exchange Commission 100 F Street, N.E. Washington, DC 20549-2557 ALJ@sec.gov	

☒ U.S. MAIL AND E-MAIL TRANSMISSION: I caused the documents to be sent to the above-named persons at the mailing and e-mail addresses exhibited therewith.

Executed on April 24, 2018 at Los Angeles, California. I declare under penalty of perjury under the laws of the State of California and United States of America that the foregoing is true and correct.

CHARLES B. LACHAUSSEE