

# Commodity Futures Trading Commission Rule 1.55(k): FCM-Specific Disclosure Document - 2019

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The Commodity Futures Trading Commission (“CFTC”) requires each Futures Commission Merchant (“FCM”), including Wedbush Securities Inc. (“Wedbush”), to provide the following information to a client(s) prior to the time the client(s) first enters into an account agreement with the FCM or deposits money or securities (funds) with the FCM. Except as otherwise noted the information set out is as of the date listed above. Wedbush will update this information annually and as necessary to take account of any material change to its business operations, financial condition or other factors that the company believes may be material to a customer’s decision to do business with Wedbush. Nonetheless, business activities and financial data are not static and will change throughout any 12-month period.

Wedbush also operates as a broker-dealer registered with the U.S. Securities and Exchange Commission (“SEC”). Information that may be material with respect to Wedbush for purposes of the CFTC’s disclosure requirements may not be material for purposes of applicable securities laws and vice versa.

## 1. THE FIRM:

### Wedbush Securities, Inc. – Corporate Headquarters

1000 Wilshire Blvd., Los Angeles, CA 90017

Telephone Number: 213-688-8000

### Wedbush Futures Division – Principal Place of Business

141 West Jackson Blvd., Suite 1710A, Chicago, IL 60604

Telephone Number: 312-786-1930

FAX Number: 312-786-0189

Email: [FuturesInfo@Wedbush.com](mailto:FuturesInfo@Wedbush.com)

## 2. PRINCIPALS OF THE FIRM:

- **Bob Fitzsimmons**

Executive Vice President; Fixed Income, Futures, Prime Brokerage and Stock Loan

141 West Jackson Blvd., Suite 1710A, Chicago, IL 60604

### *Business Background*

Robert “Bob” Fitzsimmons is an Executive Vice President at Wedbush Securities with oversight of futures, securities lending, prime brokerage and the fixed income groups. Bob joined Wedbush Securities in 2016 as its Managing Director and Head of Wedbush Futures, where he oversaw the business within the Futures Commission Merchant (“FCM”), with a focus on developing and defining the strategic direction for the Futures and Treasury Division. Bob has over 30 years of experience in the financial industry, with extensive experience in the fixed income, futures, equities and technology space. He also held CEO tenures with several other financial services organizations including ITG Derivatives and NQLX.

Bob graduated from Harvard University with a Bachelor’s degree in economics and also earned his MBA from the Booth School of Business at the University of Chicago.

- **Kevin Wirth**

Senior Vice President, Director of Finance

141 West Jackson Blvd., Suite 1710A, Chicago, IL 60604

*Business Background*

Mr. Wirth is the Senior Vice President, Director of Finance of Wedbush Futures. Mr. Wirth brings more than 25 years of experience in FCM, Investment Banking, Agency Execution and Prop Trading, to his role at the firm, where he is responsible for managing accounting, treasury, regulatory reporting and financial planning and analysis for the FCM.

Before joining Wedbush Futures, Mr. Wirth served as the Director of Finance with ITG where he supported the efforts of the US Execution Services Division. He was also the Director of Finance at IMC Chicago and Senior Vice President of Accounting at ABN AMRO Bank for their Wholesale Banking Division, where he was tasked with technical accounting, M&A and regulatory reporting. Additionally, Mr. Wirth worked at First Options of Chicago as Futures Controller for the FCM's Introducing Broker business. He began his career in finance as a staff auditor at the Chicago Mercantile Exchange before becoming a colleague at Ernst & Young.

Mr. Wirth received his Bachelor's degree in Accounting from Butler University, and is a Certified Public Accountant in the State of Illinois. Mr. Wirth also holds his Series 7 and 27 licenses. In his spare time, he serves as a Board Member for Lisle Baseball Softball and is an avid supporter of Butler University's School of Business and Athletics.

- **Terry Scott**

Chief Compliance Officer / Futures Division  
141 W Jackson Blvd, Suite 1710A, Chicago, IL 60604

*Business Background*

Mr. Scott is a compliance officer for Wedbush Futures. He sits on the FCM's Credit and Risk, Compliance, Operations, and Trade Surveillance committees.

Mr. Scott has over 35 years' experience in the futures and securities industry, having joined Wedbush in April 2016. Prior to joining Wedbush Mr. Scott worked at such firms as Citicorp, ABN AMRO, and UBS, in various management, administrative, and compliance roles. Most recently he served as COO and CCO of Uhlmann Price Securities, a FINRA registered broker/dealer. Mr. Scott is a graduate of the School of Fine Arts at the University of Arizona. He is a former member of the Chicago Board of Trade, and holds Series 3, 4, 7, 9, 10, 23, 30, 34, and 63 licenses.

- **Gary L. Wedbush**

Co-President  
1000 Wilshire Blvd., Los Angeles, CA 90017

Gary Wedbush is Co-President of Wedbush Securities, overseeing day-to-day management, the strategic direction, development, and growth of all Wedbush Securities client services. Prior to this, Gary was Wedbush Securities' Executive Vice President and Head of Capital Markets and Correspondent Services, responsible for all Capital Markets functions, including investment banking, equities, fixed income, and clearing and execution services. He has been with the firm since February 1998.

Gary is a member of the Wedbush Securities President's Executive and Executive Management Committees, and a Board Member of Lime Brokerage. Before joining the firm, Gary was Principal and Director of Convertible Securities of the former Montgomery Securities (now Bank of America Merrill Lynch Securities) in San Francisco. He also served as an institutional trader in the Convertible Securities departments at Lehman Brothers and S.G. Warburg in New York.

He received his Bachelor of Science from the University of California, Los Angeles, and an MBA from the Kellogg School of Management, Northwestern University.

- **Vincent Moy**  
Co-Chief Compliance Officer (Wedbush Securities, Inc)  
1000 Wilshire Blvd., Los Angeles, CA 90017

*Business Background*

Mr. Moy is Senior Vice President, Co-Chief Compliance Officer, and Business Conduct (“Compliance”) Manager of Wedbush Securities Inc. He joined Wedbush in September 1995 and has over 22 years of experience in the securities industry including in the Credit area and in Equity Research as Supervisory Analyst and managing research operations. Mr. Moy received his Bachelor of Arts in Economics and a Master of Business Administration at the University of Southern California. Prior to Wedbush he was at T. Rowe Price as Investor Representative.

- **Eric Segall**  
COO and Co-Chief Compliance Officer (Wedbush Securities, Inc.)  
1000 Wilshire Blvd., Los Angeles, CA 90017

*Business Background*

Mr. Segall is Senior Vice President and Co-Chief Compliance Officer of Wedbush Securities Inc. He joined Wedbush in October 2007 and has 35 years of experience in the securities industry. He attended California State University, Northridge and obtained his J.D. from the University of La Verne College of Law in 1994. Prior to Wedbush he held positions as Vice President and Trading Manager at Pacific Brokerage Services, Vice President and Director of Operations at Dreyfus Brokerage Services and COO, CCO and CFO at Magna Securities and American Home Securities. He also previously maintained his own law practice in Wills, Trusts and Estates.

- **Dan E. Billings**  
Executive Vice President & Chief Financial Officer  
1000 Wilshire Blvd., Los Angeles, CA 90017

*Business Background*

Dan Billings is the Executive Vice President and Chief Financial Officer at Wedbush Securities. With an extensive background in financial services and experience with FINRA and SEC filings, his previous roles include public accounting, treasury, financial statements preparation, and regulatory reporting. Prior to joining Wedbush, Dan served as Vice President, Treasury, and Senior Vice President, Legal Entity Controller and Product Controller at Jefferies high yield trading division, before eventually becoming their Senior Vice President, General Ledger Controller. Preceding this, Dan served as Audit Manager at KPMG US, where he managed all aspects of audit engagements for SEC registrants, asset managers, registered broker dealers, and precious metal brokers.

Dan is a Certified Public Accountant and currently holds his Series 27, Financial & Operations Principal, license. He earned his Bachelor’s Degree in Accounting from Pepperdine University.

- **Donald W. Hultgren, CFA**  
Executive Vice President & Chief Administrative Officer  
1000 Wilshire Blvd., Los Angeles, CA 90017

*Business Background*

Donald W. Hultgren is an Executive Vice President and Chief Administrative Officer (“CAO”) at Wedbush Securities. With over 35 years of experience in the financial industry, Don joins Wedbush after being President of Three Part Advisors, LLC, a Texas-based, capital markets advisory firm. Previously, he was President and Chief Executive Officer of SWS Group, the New York Stock Exchange listed holding company of Southwest Securities. Don began his career in 1981 as an equity research analyst and was Director of Equity Research at Raymond James and Associates before moving on to SWS. Prior to joining Wedbush Securities as CAO, Don has served on the Board of Directors of Wedbush Securities since 2013, and is a current director.

Mr. Hultgren earned his Bachelor of Arts in Accounting and Business/Management from Augustana College in Rock Island, IL, and then went on to complete his MBA with a concentration in Finance, from the University of Texas at Austin.

- **R. James Richards**

Executive Vice President & Head of Client Services  
1000 Wilshire Blvd., Los Angeles, CA 90017

*Business Background*

Jim is Executive Vice President of Client Financial Services and is a member of the Wedbush Executive Management Committee. He has been with Wedbush Securities for 27 years and is currently responsible for Information Technology, Human Resources, merger and acquisition activity as well as management of Client Financial Services. Jim was previously the Head of Private Client Services, Clearing & Technology, and Operations.

He received his Bachelor of Science degree in Business Administration from California State University, Los Angeles.

- **Eric D. Wedbush**

Chairman  
1000 Wilshire Blvd., Los Angeles, CA 90017

*Business Background*

Eric has been investing in and advising private and public middle market companies for over twenty years. Currently, he directs WEDBUSH's investment activities, oversees its strategic initiatives, and serves on the Board of Directors. His investment experience includes leveraged buyouts, recapitalizations, growth equity, negotiated investments into public companies, and venture capital. His specific industry experience and focus includes consumer products and services, basic manufacturing, financial services, environmental and specialty retailing.

Prior to joining WEDBUSH in 2000, Eric spent ten years as an executive with Wedbush Securities in the Equity Capital Markets Group, most recently as the Director of Equity Research. Prior to his role as Director of Research, Eric was a Managing Director of Investment Banking where he advised middle market companies and institutional investors on equity financings, mergers and acquisitions, and leveraged buyouts.

Eric began his private equity career with Wedbush Capital Partners, an institutional investment partnership where he completed several management buyouts and growth financings for lower middle market companies.

Eric currently serves on the Boards of WEDBUSH, Inc., Wedbush Securities, Lime Brokerage, and The UCLA Anderson School of Management Price Center Board of Advisors. Additionally, he serves as a Managing Director of both Wedbush Capital Partners and is the President of Wedbush Asset Management.

Eric holds an M.B.A. from The Anderson School at University of California, Los Angeles. He received his Bachelor of Science in Finance from San Diego State University.

**3. BUSINESS ACTIVITIES:****Wedbush Securities Inc.**

Wedbush Securities is the largest holding of parent company Wedbush Capital. The combined strength and resources of Wedbush, Inc.'s subsidiaries provides a full line of banking and investment services for individual, institution or issuing clients.

Wedbush provides innovative financial solutions through our Private Client Services, Capital Markets, Clearing & Execution and Futures divisions. Wedbush limits proprietary futures trading to hedging the firm's interest rate and foreign exchange exposure; there is no speculative proprietary futures trading.

Wedbush's Designated Self-Regulatory Organizations ("DSRO") are the following:

**Broker-Dealer** - Financial Industry Regulatory Authority ("FINRA"), [www.finra.org](http://www.finra.org)

**FCM** – The CME Group ("CME"), [www.cmegroup.com](http://www.cmegroup.com)

**Asset and Capital Usage**

In general, Wedbush Securities Inc.'s capital and assets are dedicated to all of the Broker-Dealer and Futures Commission Merchant activities since it is all part of one entity. As of June 30, 2019, Wedbush has further allocated the estimated \$165 Million of excess net capital as follows: 45% to Advanced Clearing Services, 25% to Futures Division, 5% to Capital Markets, 10% to Wealth Management, and 10% to Stock Loan/Repos. The remainder of capital is allocated to the Corporate divisions. Please note that this is subject to change at any time and may fluctuate as customer activity and market conditions require.

**Futures & Commodities**

The Futures Division is engaged in the business of execution and clearing for exchange traded commodity futures and options.

The business is broken down into four categories:

1. Professional Traders
2. Wholesale (Introducing Brokers, CTA's, Foreign Brokers, Omnibus Accounts... etc.)
3. Retail Customers
4. Commercial Hedgers

Carrying Brokers Used:

INTL FC Stone  
CIBC World Markets Inc.  
Phillip Futures Pte Ltd  
Phillip Capital USA

Wedbush customers are both foreign and domestic and trade on the following markets:

- \* Represents Self-Clearing Member
- \*\* Represents Non-Clearing Member ("NCM")
- \*\*\* Trading Participant

Chicago Board of Trade\*  
Chicago Mercantile Exchange\*  
COMEX\*  
ERIS\*  
ICE – US\*  
Minneapolis Grain Exchange\*  
New York Mercantile Exchange\*  
NYSE Liffe\*\* (now ICE EU)  
EUREX\*\*  
Euronext Amsterdam\*\* (Inactive NCM)  
Euronext Paris\*\* (Inactive NCM)  
ICE – Europe\*  
London Metals Exchange  
SIMEX  
Sydney Futures Exchange  
Montreal Exchange  
OneChicago\* (clearing membership with OCC)  
CBOE Futures Exchange\* (clearing membership with OCC)

Wedbush's current Credit Policy for firm Counterparties are as follows:

- To obtain and utilize the services of Carrying Brokers who are well capitalized and in good standing with the exchanges for which they provide services to Wedbush. Such firms shall be capable of and deliver superior customer service to Wedbush.
- To obtain and utilize services of Banks that is well capitalized and approved by the CME as settlement banks.
  - Wedbush reserves the right to utilize other banking relationships on a case-by-case basis. All such banks shall be approved by the Wedbush Steering Committee.

Wedbush Securities, Inc. - Creditworthiness and Leverage

As of June 30, 2018, Wedbush maintains equity capital of approximately \$311.376MM and no long term debt .

### **Proprietary and Affiliate Activities**

Wedbush Capital, the parent company of Wedbush Securities, Inc. is a global financial services firm that, through its holdings, provides private and institutional brokerage, investment banking, research, securities trading technologies, private capital, commercial banking, and asset management services. Below please find reference to the Wedbush Securities, Inc. audited financial statements, which notes affiliated activities. Wedbush Securities, Inc. does not maintain speculative proprietary trading accounts.

## **5. IMPORTANT RISK DISCLOSURES:**

See our website ([www.wedbushfutures.com/disclosures/](http://www.wedbushfutures.com/disclosures/)) for important disclosures regarding risk and conflicts of interest, please read them carefully.

- [Risk Disclosure Document](#)

*PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. TRADING COMMODITY FUTURES AND OPTIONS IS SPECULATIVE AND INCLUDES LEVERAGED TRANSACTIONS. TRADING COMMODITY FUTURES AND*

*OPTIONS INVOLVES RISK OF LOSS (WHICH MAY INCLUDE MORE THAN YOUR INITIAL INVESTMENT), AND IS NOT SUITABLE FOR ALL INVESTORS*

**Foreign Futures**

Foreign futures transactions involve executing and clearing trades on a foreign exchange. Customers who trade on foreign exchanges may not be afforded certain protections which apply to domestic transactions; including, the right to use domestic alternative dispute resolution procedures. In particular, funds received from customers to margin foreign futures transactions may not be provided the same protections as funds received to margin futures transactions on domestic exchanges. Before you trade, you should familiarize yourself with the foreign rules which will apply to your particular transaction.

**Outstanding Litigation**

Commodity Futures Trading Commission ("CFTC") Regulation 1.55(k)(7) requires Wedbush Futures to disclose any material administrative, civil, enforcement or criminal complaints or actions filed against FCM where such complaints or actions have not concluded, and any enforcement complaints or actions filed against FCM during the last three years.

Wedbush Futures is a division of Wedbush Securities Inc. Wedbush Securities Inc. is also a broker-dealer registered with FINRA and the SEC.

Such issues and actions may be found at the following websites:

Wedbush Securities Inc. – Find actions at <http://www.finra.org>. This link will take you to the FINRA homepage. At the top center-right of the page, click on BROKERCHECK. There are boxes on the top of the next page for INDIVIDUAL and FIRM. Click on FIRM, and type in "Wedbush Securities". On the resulting page, click on MORE DETAILS to access Wedbush's posted regulatory history.

Additional actions can be found at <http://www.nfa.futures.org/basicnet/welcome.aspx>. This link will take you to the NFA homepage. Click on the BASIC box of the top-right of the page. Click on FIRM, and type in "Wedbush Securities". Choose WEDBUSH SECURITIES INC, with NFA ID: 0086156. On the resulting page, click on VIEW ALL ACTIONS to access Wedbush's posted regulatory history.

Also see the following link for additional financial information: <https://www.wedbush.com/financial-statements/>.

**Recent Regulatory Actions:**

Pursuant to an offer of settlement in which Wedbush Securities Inc. ("Wedbush") neither admitted nor denied the rule violations upon which the penalty is based, on March 28, 2017, a Panel of the Chicago Mercantile Exchange Business Conduct Committee ("Panel") found that between March 2015 and January 2016, Market Regulation staff issued requests to Wedbush for the production of records, documents and information related to regulatory inquiries. Wedbush, acting principally through its former Chief Compliance Officer, failed to respond in a timely manner to numerous requests. The Panel concluded that Wedbush thereby violated CME Rules 432.L.3 and 432.W. In accordance with the settlement offer, the Panel ordered Wedbush to pay a fine of \$55,000

Pursuant to an offer of settlement in which Wedbush Securities Inc. neither admitted nor denied the rule violations upon which the penalty is based, on March 30, 2017, the Clearing House Risk Committee found that Wedbush Securities Inc. violated CBOT Rules 951., 958.C., 970.A., 970.A.1., 970.A.3.d., 970.C.2., 971.A., 980.B.3. and 980.C. In accordance with the settlement offer, the Committee imposed a \$500,000 fine. In accepting this offer, the Committee agreed to waive \$250,000 of the fine based on the firm's compliance with industry rules, regulations and requirements through the completion of the next risk based examination. At the April 2018 Clearing House Risk Committee Meeting, the Committee determined to assess the remaining \$250,000 fine.

A Subcommittee of the ICE US Business Conduct Committee ("BCC Subcommittee") determined on May 21, 2017 that Wedbush Securities Inc. ("Wedbush") may have violated Exchange Rule 2.21(a) by failing to submit a copy of the firm's financial statement certified by an independent Certified Public account within the requisite time period. In accordance with the settlement offer, the Subcommittee ordered Wedbush to pay a fine of \$10,000.



Pursuant to an offer of settlement in which Wedbush Securities Inc. neither admitted nor denied the rule violations upon which the penalty is based, in June 2018, the Clearing House Risk Committee found that Wedbush Securities Inc. violated CBOT Rules 951., 970.A., 971.A., 971.A.1. and 980.B. In accordance with the settlement offer, the Clearing House Risk Committee imposed a \$100,000 fine.

Pursuant to an offer of settlement in which Wedbush Securities Inc. neither admitted nor denied the rule violation upon which the penalty is based, on November 29, 2018, the Clearing House Risk Committee found that Wedbush Securities Inc. violated CBOT Rule 980.B.3. In accordance with the settlement offer, the Committee imposed a \$100,000 fine.

Potentially material actions that have not been concluded and are not noted above:

Chart Trading Development LLC v. Trade Station Group, Inc., et al. in the U.S. District Court for the Eastern Division of Texas, Tyler Division, Case No. 6:15-CV-1136-JDL. This action names Wedbush, along with numerous other defendants, for direct and indirect infringement of certain U.S. patents allegedly owned by plaintiff. Litigation in the case has been stayed pending the outcome of a review by the US Patent and Trademark Office of the applicability of the relevant patents. It is not possible presently to estimate the potential for injunctive relief or loss, if any. We believe we have meritorious defenses to the allegations made and intend to defend the firm vigorously.

Joseph Semprini vs. Wedbush Securities Inc. filed with the Orange County California Superior Court, Case No. 30-2015-00776114-CU-OE-CXC. This is a Class Action Complaint for Damages, Injunctive Relief and Restitution by former Newport Beach F.A., Joseph Semprini. The Class is generally all current and former Wedbush California employees who, in the period within four years of the filing of the complaint, were subject to the same allegedly unlawful conduct as Semprini. Plaintiff's motion for class certification was granted on June 28, 2017. No trial date has been set. We are attempting to coordinate a mediation. It is not possible presently to estimate the potential for any loss, if any. The firm believes it has meritorious defenses to the allegations made and intends to defend the firm vigorously.

Bright Harry vs. KCG Americas LLC filed with the Northern California District Court Case No. C17-2385. Mr. Harry filed this action seeking to recover more than \$45 Million in damages and other relief arising from alleged misconduct of the above-named defendants for the period November 2013 to April 2015. On April 4, 2018, counsel for Wedbush prepared to file a motion asking the court to relieve Wedbush of any obligation to file a response to Claimant's Notice of Motion and Motion for Judicial Review pending the outcome of our to be filed motion to dismiss Harry's recently filed amended complaint. Wedbush is indemnified by the prior clearing firm ("KCG") for this claim and will seek to coordinate a response working with counsel at KCG.

## **6. Customer Complaints**

Contact the Compliance Department at 312-786-1930 or email: [futurescompliance@wedbush.com](mailto:futurescompliance@wedbush.com)

A customer that wishes to file a complaint about Wedbush or one of its employees with the Commission can contact the Division of Enforcement either electronically at <http://www.cftc.gov/ConsumerProtection/FileaTiporComplaint/index.htm> or by calling the Division of Enforcement toll-free at 866-FON-CFTC (866-366-2382).

A customer that wishes to file a complaint about Wedbush or one of its employees with the CME can contact CME either electronically at <http://www.cmegroup.com/market-regulation/file-complaint.html> or by calling CME directly at 312-341-7970.



## **7. CUSTOMER FUNDS SEGREGATION**

Customer Accounts:

FCMs may maintain up to three different types of accounts for customers, depending on the products a customer trades:

- (i) Customer Segregated Account for customers who trade futures and options on futures listed on U.S. futures exchanges;
- (ii) 30.7 Account for customers who trade futures and options on futures listed on foreign boards of trade; and
- (iii) Cleared Swaps Customer Account for customers trading swaps that are cleared on a DCO registered with the Commission.

The requirement to maintain these separate accounts reflects the different risks posed by the different products. Cash, securities and other collateral (collectively, Customer Funds) required to be held in one type of account, e.g., the Customer Segregated Account, may not be commingled with funds required to be held in another type of account, e.g., the 30.7 Account, except as the Commission may permit by order. For example, the Commission has issued orders authorizing ICE Clear Europe Limited, which is registered with the Commission as a DCO, and its FCM clearing members: (i) to hold in Cleared Swaps Customer Accounts Customer Funds used to margin both (a) Cleared Swaps and (b) foreign futures and foreign options traded on ICE Futures Europe, and to provide for portfolio margining of such Cleared Swaps and foreign futures and foreign options; and (ii) to hold in Customer Segregated Accounts Customer Funds used to margin both (c) futures and options on futures traded on ICE Futures US and (d) foreign futures and foreign options traded on ICE Futures Europe, and to provide for portfolio margining of such transactions.

Customer Segregated Account. Funds that customers deposit with an FCM, or that are otherwise required to be held for the benefit of customers, to margin futures and options on futures contracts traded on futures exchanges located in the U.S., i.e., designated contract markets, are held in a Customer Segregated Account in accordance with section 4d(a)(2) of the Commodity Exchange Act and Commission Rule 1.20. Customer Segregated Funds held in the Customer Segregated Account may not be used to meet the obligations of the FCM or any other person, including another customer.

All Customer Segregated Funds may be commingled in a single account, i.e., a customer omnibus account, and held with: (i) a bank or trust company located in the U.S.; (ii) a bank or trust company located outside of the U.S. that has in excess of \$1 billion of regulatory capital; (iii) an FCM; or (iv) a DCO. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM's customers. Unless a customer provides instructions to the contrary, an FCM may hold Customer Segregated Funds only: (i) in the U.S.; (ii) in a money center country; or (iii) in the country of origin of the currency.

An FCM must hold sufficient U.S. dollars in the United States to meet all U.S. dollar obligations and sufficient funds in each other currency to meet obligations in such currency. Notwithstanding the foregoing, assets denominated in a currency may be held to meet obligations denominated in another currency (other than the U.S. dollar) as follows: (i) U.S. dollars may be held in the U.S. or in money center countries to meet obligations denominated in any other currency; and (ii) funds in money center currencies may be held in the U.S. or in money center countries to meet obligations denominated in currencies other than the U.S. dollar.

30.7 Account. Funds that 30.7 Customers deposit with an FCM, or that are otherwise required to be held for the benefit of customers, to margin futures and options on futures contracts traded on foreign boards of trade, i.e., 30.7 Customer Funds, and sometimes referred to as the foreign futures and foreign options secured amount, are held in a 30.7 Account in accordance with Commission Rule 30.7.

Funds required to be held in the 30.7 Account for or on behalf of 30.7 Customers may be commingled in an omnibus account and held with: (i) a bank or trust company located in the U.S.; (ii) a bank or trust company located outside the U.S. that has in excess of \$1 billion in regulatory capital; (iii) an FCM; (iv) a DCO; (v) the clearing organization of any foreign board of trade; (vi) a foreign broker; or such clearing organization's or foreign broker's designated depositories. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM's 30.7 Customers. As explained below, Commission Rule 30.7 restricts the amount of such funds that may be held outside of the U.S.

Customers trading on foreign markets assume additional risks. Laws or regulations will vary depending on the foreign jurisdiction in which the transaction occurs, and funds held in a 30.7 Account outside of the U.S. may not receive the same level of protection as

Customer Segregated Funds. If the foreign broker carrying 30.7 Customer positions fails, the broker will be liquidated in accordance with the laws of the jurisdiction in which it is organized, which laws may differ significantly from the U.S. Bankruptcy Code. Return of 30.7 Customer Funds to the U.S. will be delayed and likely will be subject to the costs of administration of the failed foreign broker in accordance with the law of the applicable jurisdiction, as well as possible other intervening foreign brokers, if multiple foreign brokers were used to process the U.S. customers' transactions on foreign markets.

If the foreign broker does not fail but the 30.7 Customers' U.S. FCM fails, the foreign broker may want to assure that appropriate authorization has been obtained before returning the 30.7 Customer Funds to the FCM's trustee, which may delay their return. If both the foreign broker and the U.S. FCM were to fail, potential differences between the trustee for the U.S. FCM and the administrator for the foreign broker, each with independent fiduciary obligations under applicable law, may result in significant delays and additional administrative expenses. Use of other intervening foreign brokers by the U.S. FCM to process the trades of 30.7 Customers on foreign markets may cause additional delays and administrative expenses.

To reduce the potential risk to 30.7 Customer Funds held outside of the U.S., Commission Rule 30.7 generally provides that an FCM may not deposit or hold 30.7 Customer Funds in permitted accounts outside of the U.S. except as necessary to meet margin requirements, including prefunding margin requirements, established by rule, regulation, or order of the relevant foreign boards of trade or foreign clearing organizations, or to meet margin calls issued by foreign brokers carrying the 30.7 Customers' positions. The rule further provides, however, that, in order to avoid the daily transfer of funds from accounts in the U.S., an FCM may maintain in accounts located outside of the U.S. an additional amount of up to 20 percent of the total amount of funds necessary to meet margin and prefunding margin requirements to avoid daily transfers of funds.

Cleared Swaps Customer Account Funds deposited with an FCM, or otherwise required to be held for the benefit of customers, to margin swaps cleared through a registered DCO, i.e., Cleared Swaps Customer Collateral, are held in a Cleared Swaps Customer Account in accordance with the provisions of section 4d(f) of the Act and Part 22 of the Commission's rules. Cleared Swaps Customer Accounts are sometimes referred to as LSOC Accounts. LSOC is an acronym for "legally separated, operationally commingled." Funds required to be held in a Cleared Swaps Customer Account may be commingled in an omnibus account and held with: (i) a bank or trust company located in the U.S.; (ii) a bank or trust company located outside of the U.S. that has in excess of \$1 billion of regulatory capital; (iii) a DCO; or (iv) another FCM. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM's Cleared Swaps Customers.

#### Investment of Customer Funds:

Section 4d(a)(2) of the Act authorizes FCMs to invest Customer Segregated Funds in obligations of the United States, in general obligations of any State or of any political subdivision thereof, and in obligations fully guaranteed as to principal and interest by the United States. Section 4d(f) authorizes FCMs to invest Cleared Swaps Customer Collateral in similar instruments.

Commission Rule 1.25 authorizes FCMs to invest Customer Segregated Funds, Cleared Swaps Customer Collateral and 30.7 Customer Funds in instruments of a similar nature. Commission rules further provide that the FCM may retain all gains earned and is responsible for investment losses incurred in connection with the investment of Customer Funds. However, the FCM and customer may agree that the FCM will pay the customer interest on the funds deposited.

#### Permitted investments include:

- (i) Obligations of the United States and obligations fully guaranteed as to principal and interest by the United States (U.S. government securities);
- (ii) General obligations of any State or of any political subdivision thereof (municipal securities);
- (iii) Obligations of any United States government corporation or enterprise sponsored by the United States government (U.S. agency obligations);<sup>3</sup>

- (iv) Certificates of deposit issued by a bank (certificates of deposit) as defined in section 3(a)(6) of the Securities Exchange Act of 1934, or a domestic branch of a foreign bank that carries deposits insured by the Federal Deposit Insurance Corporation;
- (v) Commercial paper fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (commercial paper);
- (vi) Corporate notes or bonds fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (corporate notes or bonds); and
- (vii) Interests in money market mutual funds.

The duration of the securities in which an FCM invests Customer Funds cannot exceed, on average, two years.

An FCM may also engage in repurchase and reverse repurchase transactions with non-affiliated registered broker-dealers, provided such transactions are made on a delivery versus payment basis and involve only permitted investments. All funds or securities received in repurchase and reverse repurchase transactions with Customer Funds must be held in the appropriate Customer Account, i.e., Customer Segregated Account, 30.7 Account or Cleared Swaps Customer Account. Further, in accordance with the provisions of Commission Rule 1.25, all such funds or collateral must be received in the appropriate Customer Account on a delivery versus payment basis in immediately available funds.<sup>4</sup>

For additional information on the protection of customer funds, please see the Futures Industry Association's "Protection of Customer Funds Frequently Asked Questions" located at [http://www.futuresindustry.org/downloads/PCF\\_questions.pdf](http://www.futuresindustry.org/downloads/PCF_questions.pdf).

Wedbush Securities is dually registered as an FCM with the Commodities Futures Trading Commission and as a broker/dealer with the Securities and Exchange Commission. The funds you deposit with a futures commission merchant for trading futures positions are not protected by insurance in the event of the bankruptcy or insolvency of the futures commission merchant, or in the event your funds are misappropriated. The funds you deposit with a futures commission merchant for trading futures positions are not protected by the Securities Investor Protection Corporation even if the futures commission merchant is registered with the Securities and Exchange Commission as a broker or dealer.

On the Broker-Dealer side of the business, the company segregates cash, certificates of deposit, short-term investments purchased under an agreement to resell, and securities owned according to the regulatory standards of 15c3-3 of the Securities and Exchange Act of 1934. These assets are held in segregated accounts exclusively for the benefit of clients. Cash is held in money market deposit accounts at banks. Short-term investments are purchased under agreements to resell and are carried at the amounts at which the securities will subsequently be resold, as specified in the related agreements and consist of U.S. treasuries and securities guaranteed by the U.S. government. Securities segregated consist of securities guaranteed by the U.S. government.

#### **8. FINANCIAL DATA: (as of: June 30, 2019)**

- Wedbush proprietary margin requirements as a percentage of total is de minimis.
- Smallest number of customers = 50% of Segregated Funds = 6
- Smallest number of customer = 50% of Secured Funds = 3
- Aggregate notional value by asset class of all non-hedged, principal OTC transactions the firm has entered in to is zero; there are no non-hedge principal OTC positions.

- Wedbush Securities Inc. currently has in excess of \$440M Secured and \$95M Unsecured formal lines of credits, consisting of \$85M of committed lines and \$10M of uncommitted lines. These are derived from general bank lines of credit and are periodically used as business needs dictate. As of June 30, 2019 the firm has drawn upon \$74.5 of the secured lines and \$85M of the unsecured lines.
- Wedbush does not provide financing for customer transactions involving illiquid financial products.
- Wedbush has not written-off any Futures Division customer receivables determined as uncollectable other than de minimus amounts, therefore <1% as a percentage of customer funds.

Proprietary Margin Requirements as a percentage of the aggregate margin for:

- Futures Customers .01%
- Cleared Swaps Customers: N/A
- 30.7 Customers 0.0%

**The following additional financial data may be found on the Wedbush website:**

<http://www.wedbush.com/aboutus/financialStatements>

Daily Segregation Statements – Rolling 12 months

Daily Statement of Secured Funds – Rolling 12 months

Monthly Focus

Annual Audit, including Section 3gation and Secured Statements

Monthly:

Tentative Net Capital

Net Capital

Excess Net Capital

Please note the following balances as of June 30, 2019.

Tentative Net Capital	\$206,161,259
Net Capital	\$201,773,949
Capital Requirement	\$36,545,311
Excess Net Capital	\$165,228,638

Further information as to how Wedbush Securities, Inc. invests and holds customer funds can be found on the NFA website.

<http://www.nfa.futures.org/NFA-investor-information/fcm-financial-information.HTML>

<http://www.nfa.futures.org/basicnet/welcome.aspx>

Further information regarding FCM financial information can be found on the CFTC website,

<http://www.cftc.gov/MarketReports/financialcmdata/index.htm>

## **9. RISK PRACTICES, CONTROLS AND PROCEDURES:**

The risk management policies and procedures of Wedbush are designed to identify, measure, and manage risks associated with the operations of the FCM. The following is intended to summarize risk management policies and procedures of Wedbush as they relate to the futures and options on futures trading activities of customers and affiliated entities.

### **Margin Requirement**

Margin deposits are good faith deposit posted by each client to collateralize their obligation to the Company under open futures and options on futures positions. Generally, all futures clients are required to pre-fund their accounts with adequate margin to collateralize the risk associated with such clients' positions prior to establishing such positions. Margin requirements established by the Company may not be less than those mandated by the relevant exchange and/or clearinghouse and in certain circumstances such margin requirements may be increased above the exchange minimums at the sole discretion of the Company. The Risk Management Department of Wedbush monitors margin levels and compliance with funding requirements throughout all

trading hours. Margin calls are issued daily and in certain circumstances intra-day. Under-margined accounts that fail to meet a margin call may be subject to a reduction of open positions or immediate liquidation.

**New Accounts**

Prior to opening of a futures account, the clients must complete relevant new account documents, which include certain information about the client. Such documents may include, without limitation:

- The Futures Division Customer Agreement
- CFTC Regulation 1.55 Risk Disclosure Statement
- Consent to Jurisdiction
- Electronic Trading Disclosure Form
- Identity Verification Document/Corporate Documents
- Financial Information

Additionally, a potential client must disclose certain information about his financial status, yearly income, and trading experience. Wedbush reserves the right to decline accounts that do not meet our standards for credit worthiness, financial resources, and/or trading experience.

**Trading Limits**

Pursuant to CFTC Regulation 1.73(a)(1) and (2) et al, each electronic trading system must maintain pre-execution credit and risk control features. Such features must allow Wedbush Risk Management personnel to set and maintain the following:

- Maximum order size
- Maximum theoretical position limits, or
- buying power/margin

The Wedbush Risk Management Department sets credit limits and risk controls for each electronic trader prior to enabling such trader's access to The Wedbush Futures Electronic Access Point. Determinations regarding the level of maximum order size, maximum position limit, and maximum dollar loss are set based on the review of relevant information for the client. Factors affecting risk management decisions in this area may include:

- Amount of funds on deposit
- Contemplated activity
- Trading experience
- Creditworthiness – as determined by the criteria set forth herein
- External market condition
- Client's historical activity with Wedbush

As part of its risk management program, Wedbush utilizes risk management tools provided by futures exchanges and/or futures clearing houses to the extent that such tools are available. Such tools shall be utilized in conjunction with other relevant tools and procedures as set forth herein.

**Post Execution Risk Management**

The Risk Management Department maintains ongoing post-execution surveillance of the trading activity in the accounts. Trading activity is captured by our risk management systems on a virtual real-time basis. Our post-execution surveillance contains, but is not limited to, the following:

**a. Stress Testing**

Pursuant to CFTC Regulation 1.73(a)(4), it is the policy of Wedbush to stress-test all futures client positions. Such stress-testing shall be conducted daily. Further, the Risk Management Department may stress-test futures positions held by clients and affiliates at more frequent intervals. Stress-testing shall include, but is not limited to, the following types of risk:

- Adverse price movement
- Adverse changes in volatility

**b. Estimation of Liquidation Costs**

Pursuant to CFTC Regulation 1.73(a)(7), Wedbush Risk Management Department evaluates periodically the ability to liquidate positions in an orderly manner. Further, the costs of such liquidation are also evaluated. The evaluation may include, but is not limited to:

- A review of positions and stress-testing of positions
- A review of internal calculation of “max risk” reports designed to estimate the effect of extreme movements on the value of open positions and subsequent account value.