

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2015045755003**

TO: Department of Enforcement  
Financial Industry Regulatory Authority ("FINRA")

RE: WFG Investments, Inc., Respondent  
Member Firm  
CRD No. 22704

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent WFG Investments, Inc. ("WFG," the "Firm," or "Respondent") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondent alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Respondent hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

**BACKGROUND**

WFG has been a FINRA member firm since 1988. WFG conducts a general securities business and is headquartered in Dallas, Texas. WFG currently has approximately 237 registered individuals and 118 branch offices.

**RELEVANT DISCIPLINARY HISTORY**

In June 2012, FINRA issued an AWC (No. 2009016279101) in which WFG was censured and fined \$40,000 for violations of SEC Rules 15c2-4, 17a-3(a) and 17a-4(b); MSRB Rules G-8 and G-27(c); and NASD Rules 2110, 2440, 6230 and 3010(b). The firm consented to findings that, among other things, it had inadequate supervisory systems and procedures to supervise all aspects of its securities business.

## **OVERVIEW**

WFG failed to appropriately supervise the sales practices of MB, a registered representative who engaged in unsuitable trading in the brokerage and advisory accounts of his customers, primarily by inappropriately concentrating his customers' accounts in low-priced securities.

As a result of the foregoing conduct, WFG violated NASD Rules 3010 and 3040(c)(2) and FINRA Rule 2010.

## **FACTS AND VIOLATIVE CONDUCT**

NASD Rule 3010 requires member firms (and their supervisory personnel) to establish maintain and enforce supervisory procedures that are reasonably designed to achieve compliance with applicable securities laws and regulations. Rule 3010 requires that a supervisor take reasonable steps to ensure that securities transactions are in compliance with applicable securities laws and regulations, and that he or she investigate red flags of potential misconduct and take appropriate action when misconduct has occurred.

NASD Rule 3040(c)(2) requires, in part, that member firms (and their supervisory personnel) supervise a registered representative's authorized private securities transactions "as if the transaction[s] were executed on behalf of the member."

FINRA Rule 2010 requires that member firms and associated persons "observe high standards of commercial honor and just and equitable principles of trade." A violation of NASD Rules 3010 and 3040 also constitutes a violation of FINRA Rule 2010.

### **MB's Misconduct**

Between January 1, 2012 and June 20, 2013 (the "Relevant Time Period"), MB was a registered representative who was associated with WFG and who worked in the Firm's San Antonio branch office. During the Relevant Time Period, MB engaged in extensive trading in low-priced securities (*i.e.*, securities that were priced \$5 or less) in his customers' WFG and RIA<sup>1</sup> accounts, which resulted in unsuitable concentrations of his customers' accounts in such securities. For instance, during the year 2012, 67% of MB's advisory account purchases and 66% of his WFG account purchases were in low-priced securities. In 2013, MB's percentage of advisory account purchases in low-priced securities rose to 80%.

---

<sup>1</sup> WFG authorized MB to execute private securities transactions away from the firm through MB's RIA.

As a result, the vast majority of MB's customers held substantial positions in four or five low-priced securities. Most of these customers had at least 80% of their accounts concentrated in low-priced securities and/or illiquid and highly speculative private placement and REIT investments. These excessive concentrations existed irrespective of the customers' financial situation, risk tolerance and/or investment objectives.

#### WFG Failed to Appropriately Supervise MB

During the Relevant Time Period, senior personnel at WFG were aware of red flags that MB was engaged in unsuitable trading with respect to low-priced securities. Notwithstanding their knowledge of these red flags, the Firm consistently failed to take adequate supervisory steps to ensure that MB's sales of low-priced securities to his customers were suitable.

For instance, in August 2012, the Firm held a meeting at WFG's headquarters that was attended by senior supervisory and compliance personnel, as well as WG, MB's direct supervisor. During this meeting, compliance personnel noted that MB was unsuitably concentrating his customers' portfolios in low-priced securities. WG was instructed during this meeting not to permit MB or other representatives in the San Antonio branch office to purchase any more positions in a specific security, LB, on behalf of their clients. WG, however, failed to enforce this directive. In fact, MB continued to sell low-priced securities, including LB, in his WFG and RIA accounts. The Firm and its personnel also failed to follow up appropriately on red flag information that they learned about MB's sale practices during this meeting.

In September 2012, the Firm conducted an inadequate inspection of MB's branch office in San Antonio. The Compliance Manager assigned to conduct this audit, JA, had participated in the August 2012 meeting. Notwithstanding his knowledge of potential sales practice violations involving low-priced securities, the audit conducted by JA related only to non-sales practice issues, such as the review of change of address requests and a check of controls over the receipt of incoming mail. During this audit, JA did not review: (1) advisory activity by representatives in this branch office, including MB, (2) trading in low-priced securities, including LB; or (3) suitability of transactions recommended or executed in this branch office.

In January 2013, the Firm held another meeting at its headquarters with senior supervisory and compliance personnel, as well as WG and MB. During this meeting, compliance personnel raised continuing concerns about ongoing unsuitable trading in low-priced securities in MB's accounts and about undisclosed complaints against MB from his time with his previous employer.

DY, the Firm's CCO, directed that two actions be taken after this meeting. First, she required that WG, MB's direct supervisor, contact MB's customers to ensure that they had approved of and understood the activity in their accounts. WG, however, failed to follow through with this task, and no one at WFG followed up with WG to confirm whether the customers had been contacted.

Second, JA was charged with the responsibility of drafting a heightened supervision plan for MB. Although JA drafted and forwarded a plan to WFG's compliance department, neither he nor anyone else at WFG (including DY, who was responsible for the implementation of heightened supervision plans) took any steps ensure that it was implemented. Indeed, despite the Firm's knowledge of numerous red flags regarding MB, he was never placed on heightened supervision during his tenure with the Firm.

WFG thus failed to appropriately respond to red flags that were made aware of at the August 2012 and January 2013 meetings, and failed to appropriately supervise the activities of MB. This supervisory failure facilitated MB's ongoing sales practice violations, which continued over an 18-month period at WFG.

By virtue of the foregoing, WFG violated NASD Rules 3010 and 3040(c)(2), and FINRA Rule 2010.

B. Respondent also consents to the imposition of the following sanctions:

A censure and a fine of \$150,000.

WFG agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. WFG has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

WFG specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against me;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;

- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council (“NAC”) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person’s or body’s participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person’s or body’s participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

### III.

#### OTHER MATTERS

Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (“ODA”), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against me; and
- C. If accepted:
  - 1. this AWC will become part of Respondent’s permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
  - 2. this AWC will be made available through FINRA’s public disclosure program in accordance with FINRA Rule 8313;
  - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce Respondent to submit it.

Respondent WFG Investments, Inc.



By: \_\_\_\_\_  
(Signature)

Name: David Williams  
(Print Name)

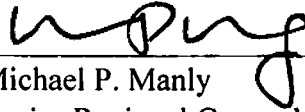
Title: President

5/4/17  
Date

Accepted by FINRA:

May 31, 2017  
Date

Signed on behalf of the  
Director of ODA, by delegated authority



---

Michael P. Manly  
Senior Regional Counsel  
FINRA Department of Enforcement  
12801 North Central Expy., Ste. 1050  
Dallas, Texas 75248  
Phone (972) 716-7612  
Fax (972) 701-8554  
Email: Michael.Manly@finra.org