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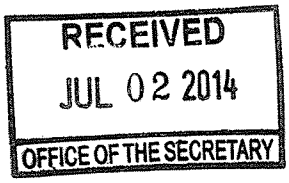

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of WEDBUSH SECURITIES INC., JEFFREY BELL, and CHRISTINA FILLHART, Respondents.	Admin. Proc. File No. 3-15913 **ANSWER OF RESPONDENT CHRISTINA FILLHART TO ORDER INSTITUTING PROCEEDINGS**

Pursuant to Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220, and in compliance with the Prehearing Order issued by the Court on June 20, 2014, Respondent Christina Fillhart ("Fillhart"), respectfully submits this Answer to the allegations in the Commission's June 6, 2014 Order Instituting Proceedings herein ("OIP").

As more fully set forth below, Fillhart denies the allegations of the Division of Enforcement that Wedbush Securities Inc. ("Wedbush Securities") violated the Commission's Rule 15c3-5, 17 C.F.R. § 240.15c3-5. Fillhart further denies that she caused, or was a cause of, any violation of Rule 15c3-5 by Wedbush Securities within the meaning of Exchange Act Section 21C, 15 U.S.C. § 78u-3 (if such violation by Wedbush Securities occurred). Fillhart further denies that she committed any act or omission that she knew or should have known

would contribute to a violation of Rule 15c3-5 by Wedbush Securities (if such violation occurred). To the contrary, Fillhart relied reasonably and in good faith in all relevant respects during the Relevant Period upon available guidance from the Commission and its staff and upon the decisions, actions, and directions of other Wedbush Securities personnel for which she is not responsible, including those of her superiors. Fillhart further denies that any remedial action is appropriate in the public interest and that any order to cease and desist should be issued as to her. Rather, this proceeding should be dismissed. All allegations not expressly admitted herein are denied.

ANSWER TO SPECIFIC ALLEGATIONS OF OIP

Fillhart 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: Fillhart admits that between July 2011 and January 2013 (the "Relevant Period"), Wedbush Securities provided market access to dozens of its correspondent broker-dealers and customers; that some of those firms were registered as broker-dealers with the Commission (correspondent broker-dealers, also known as "correspondents") and some were not registered as broker-dealers with the Commission ("customers"); that some of them were organized in the United States and some of them were organized under the laws of other countries; that such customers and correspondents in turn collectively had thousands of individual traders; and that the overall market access business of Wedbush Securities was among the U.S. market leaders, if measured by trading volume. Fillhart denies the remainder of the allegations in Paragraph 1.

Paragraph 2: Fillhart admits that Wedbush Securities received fees and/or commissions as a result of business conducted by its market access customers and correspondents. Fillhart denies the remainder of the allegations in Paragraph 2.

Paragraph 3: Fillhart admits that Wedbush Securities had communications and meetings with the Commission's staff regarding Wedbush Securities's compliance procedures. Fillhart denies the remainder of the allegations in Paragraph 3.

Paragraph 4: Fillhart denies the allegations in Paragraph 4.

Paragraph 5: Fillhart admits that Wedbush Securities is headquartered in Los Angeles, California, is registered with the Commission as a broker-dealer, and is a wholly-owned subsidiary of Wedbush, Inc. Fillhart lacks sufficient information to admit or deny the remainder of the allegations in Paragraph 5 and on that basis denies them.

Paragraph 6: Fillhart admits that Bell was Executive Vice President of the Correspondent Services Division of Wedbush Securities during the Relevant Period, and that he was also President of Lime Brokerage LLC ("Lime"). Fillhart lacks sufficient information to admit or deny the remainder of the allegations in Paragraph 6 and on that basis denies them.

Paragraph 7: Fillhart admits the allegations in Paragraph 7.

Paragraphs 8 through 12: Paragraphs 8 through 12 contain only recitations of legal propositions regarding Rule 15c3-5, 17 C.F.R. § 240.15c3-5, and the Commission's adopting release for that rule as published in the Federal Register, not allegations to be admitted or denied. As such, no response is necessary to Paragraphs 8 through 12.[1]

Paragraph 13: Fillhart denies that Wedbush Securities allowed its "sponsored" market access customers or correspondents or their traders "to send orders that bypassed Wedbush[Securities]'s systems" under a Wedbush Securities MPID during the Relevant Period, in that Wedbush Securities asserted direct and exclusive control over the trading platforms used by its market access customers and correspondents to send orders under a Wedbush Securities MPID during the Relevant Period. Fillhart admits the remainder of the allegations in Paragraph 13.

Paragraph 14: Fillhart admits that, during the Relevant Period, Wedbush Securities had as many as 50 sponsored access customers and aggregate monthly trading volume across the entire market access business may have reached approximately 30 billion shares in parts of the

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[1] With respect to such legal propositions, including those set forth in Paragraphs 8 through 12, 27, 37, 38, 42, 47, 48, 49, 64, 70, 77, and 78 through 83 of the OIP, Fillhart does not admit that the OIP accurately characterizes the relevant requirements of the cited laws and rules; to the extent any response is deemed necessary to these portions of the OIP, Fillhart denies them.

Relevant Period. Fillhart also admits that Wedbush Securities had several sponsored access customers with more than 1,000 authorized traders each. Fillhart also admits the allegations of the last sentence of Paragraph 14 that pertain to her, and that she at times received bonus compensation. Fillhart lacks sufficient information to admit or deny whether she received bonus compensation based on profitability of the Correspondent Services Division and on that basis denies that allegation. Fillhart lacks sufficient information to admit or deny the allegations regarding Bell's compensation and bonus and the profitability of the Correspondent Services Division with respect to Wedbush, Inc., and on that basis denies them. Fillhart denies the remainder of the allegations in Paragraph 14.

Paragraph 15: Fillhart admits the allegations in the first three sentences of Paragraph 15. Fillhart denies the allegations in the last sentence of Paragraph 15.

Paragraph 16: Fillhart denies that Chapter 31 of its WSPs described Wedbush Securities' "primary" risk management controls and supervisory procedures relating to market access. Fillhart admits the remainder of the allegations in Paragraph 16.

Paragraph 17: Fillhart admits that she and Bell were among the individuals who had certain authority to adopt and revise Wedbush Securities's controls and procedures relating to market access. Fillhart denies that she had primary responsibility for preparing and adopting Wedbush Securities's controls and procedures relating to market access, denies that she had unilateral authority to adopt and revise the firm's controls and procedures relating to market access, and denies the remainder of the allegations in Paragraph 17.

Paragraph 18: Fillhart denies the allegations in the first sentence of Paragraph 18. Fillhart admits that the Commission filed an action against an individual named Nagacievs (the "Latvian trader") in 2012 but lacks sufficient information to admit or deny the remainder of the allegations in Paragraph 18 and on that basis denies them.

Paragraph 19: Fillhart admits that the Commission filed an administrative proceeding entitled *In the Matter of Alchemy Ventures, Inc., et al.*, A.P. File No. 3-14720, in which it

obtained relief against various persons, but lacks sufficient information to admit or deny the remainder of the allegations in Paragraph 19 and on that basis denies them.

Paragraph 20: Fillhart admits that Bell wrote a comment letter to the Commission on behalf of Wedbush Securities dated February 23, 2009, the content of which speaks for itself. Fillhart lacks sufficient information to admit or deny the allegations regarding Wedbush Securities's knowledge and on that basis denies them. Fillhart denies the remainder of the allegations on Paragraph 20.

Paragraph 21: Fillhart admits that Wedbush Securities received a letter dated May 17, 2011 from Commission staff in the Office of Compliance Inspections and Examinations, the content of which speaks for itself. Fillhart denies the remainder of the allegations in Paragraph 21.

Paragraph 22: Fillhart admits the allegations in the first and last sentences of Paragraph 22. Fillhart admits that, during the July 5, 2011 meeting, the Commission's staff expressed certain concerns related to the business of World Trade Securities (Cayman) Limited ("WTS"), a Cayman Islands broker-dealer that was not registered as a broker-dealer with the Commission, which was then a market access customer of Wedbush Securities. Fillhart denies the remainder of the allegations in Paragraph 22.

Paragraph 23: Fillhart denies the allegations in Paragraph 23.

Paragraph 24: Fillhart admits that certain of Wedbush Securities's market access customers and correspondents used third-party and/or proprietary trading platforms (as permitted under Rule 15c3-5). Fillhart denies the remainder of the allegations in Paragraph 24.

Paragraph 25: Fillhart admits that employees in Wedbush Securities's Correspondent Services Division had access to the trading platforms used by market access customers and correspondents of Wedbush Securities to risk view settings and trading activity, among other things. Fillhart denies the remainder of the allegations in Paragraph 25.

Paragraph 26: Fillhart admits the allegations in the first sentence of Paragraph 26. Fillhart denies the reminder of the allegations in Paragraph 26.

Paragraph 27: Fillhart admits the allegations in the first two sentences of Paragraph 27, and denies the allegations in the last sentence of Paragraph 27. The footnotes to Paragraph 27 contain only recitations of legal propositions regarding portions of the Commission's Regulation SHO and Regulation NMS, not allegations to be admitted or denied. As such, no response is necessary to the footnotes to Paragraph 27.

Paragraph 28: Fillhart admits that trading platform providers, as well as customers and correspondents, provided risk demonstrations of their trading platforms' settings as and when required by Wedbush Securities during the Relevant Period. Fillhart denies the remainder of the allegations in Paragraph 28.

Paragraph 29: Fillhart denies the allegations in Paragraph 29.

Paragraph 30: Fillhart admits that certain anti-internalization risk settings were not enabled for WTS; that a third-party trading platform provider, Sterling Trader ("Sterling"), inadvertently used an outdated list from Wedbush Securities of easy-to-borrow securities on several occasions; that Sterling in November 2011 enabled an ISO order route for WTS against Wedbush Securities' instructions; and that Wedbush Securities personnel including Fillhart became aware of these facts through their ongoing surveillance and reviews. Fillhart denies the remainder of the allegations in Paragraph 30.

Paragraph 31: Fillhart admits that the Commission's adopting release for Rule 15c3-5 contains the language excerpted in Paragraph 31.

Paragraph 32: Fillhart admits that Wedbush Securities sought to reasonably allocate, by written contract, control over certain regulatory risk management controls and supervisory procedures to certain correspondents, in accordance with Rule 15c3-5(d)(1). Fillhart denies the remainder of the allegations in Paragraph 32.

Paragraph 33: Fillhart admits that Wedbush Securities entered into allocation agreements pursuant to Rule 15c3-5(d)(1) with certain of its correspondents; that certain of its correspondents in turn had separate customers of their own; and that certain of its correspondents

owned or controlled proprietary trading platforms. Fillhart denies the remaining allocations in Paragraph 33.

Paragraph 34: Fillhart admits that Wedbush Securities's allocation agreements pursuant to Rule 15c3-5(d)(1) were based on a form that was approved by Wedbush Securities personnel, including Bell, the content of which speaks for itself. Fillhart denies the remainder of the allegations in Paragraph 34.

Paragraph 35: Fillhart admits that Wedbush Securities's allocation agreements pursuant to Rule 15c3-5(d)(1) included a statement by the correspondent that its regulatory risk management controls and supervisory procedures were reasonably designed to ensure compliance with all regulatory requirements, including the four requirements described in Rule 15c3-5(c)(2)(i)-(iv). Fillhart lacks sufficient information to admit or deny the allegations as to Bell's knowledge and on that basis denies them. Fillhart denies the remainder of the allegations in Paragraph 35.

Paragraph 36: Fillhart admits that the Commission's adopting release for Rule 15c3-5 discusses "better access to [an] ultimate customer" as part of the basis for an allocation of control over regulatory risk management controls and supervisory procedures to a correspondent. Fillhart denies the remainder of the allegations in Paragraph 36.

Paragraph 37: The first sentence of Paragraph 37 recites legal propositions regarding the requirements of Rule 15c3-5(c)(2)(i), not allegations to be admitted or denied. Rule 15c3-5 speaks for itself. As such, no response is necessary thereto. Fillhart admits that the adopting release for Rule 15c3-5 referred to portions of Regulation SHO and Regulation NMS as examples of regulatory requirements that must be satisfied on a pre-order entry basis. Fillhart denies the remainder of the allegations in Paragraph 37.

Paragraph 38: Fillhart denies the allegations in the first sentence of Paragraph 38. The remainder of Paragraph 38 recites legal propositions regarding certain aspects of the requirements of Rule 203(b)(1) of Regulation SHO, 17 C.F.R. § 242.203(b)(1), also known as

the "locate rule," not allegations to be admitted or denied. As such, no response is necessary thereto.

Paragraph 39: Fillhart admits that Wedbush Securities's WSPs stated, in part, that Wedbush Securities may rely upon sponsored access customers and/or correspondents to meet locate requirements, to the extent allowed under applicable rules; that Wedbush maintained and continuously updated a list of easy-to-borrow securities ("ETB list") and required that trading platform providers upload the current ETB list each day before the beginning of trading; and that maintaining the current ETB list in the trading platforms was a step in the control process reasonably designed to achieve compliance with Rule 203(b)(1) of Regulation SHO. Fillhart denies the remainder of the allegations in Paragraph 39.

Paragraph 40: Fillhart admits the allegations in the first sentence of Paragraph 40 and denies the remainder of the allegations in Paragraph 40.

Paragraph 41: Fillhart admits that, on three occasions between July 2011 and November 2012, a trading platform provider inadvertently loaded an outdated Wedbush Securities ETB list into its system, with the result that the control process for compliance with Rule 203(b)(1) of Regulation SHO in effect on that trading platform temporarily would not require separate documentation of a "locate" for short sales in securities that were no longer on the current ETB list. Fillhart admits that she became aware of these incidents as a result of Wedbush Securities's ongoing surveillance and review; and that she and Bell were aware of or had been told about similar issues involving the ETB list which had arisen on several occasions prior to July 2011. Fillhart denies the remainder of the allegations in Paragraph 41.

Paragraph 42: Fillhart denies the allegations in the first clause of the first sentence of Paragraph 42. The remainder of Paragraph 42 recites legal propositions regarding certain aspects of the requirements of Regulation NMS and Rule 611(c) thereof, 17 C.F.R. § 242.611(c), regarding intermarket sweep orders ("ISOs"), not allegations to be admitted or denied. As such, no response is necessary thereto.

Paragraph 43: Fillhart admits that Wedbush Securities's WSPs stated, in part, that ISOs were "not permitted unless the market is swept to ensure that all better priced protected quotes are satisfied prior to sending the ISO order." Fillhart denies the remainder of the allegations in Paragraph 43.

Paragraph 44: Fillhart admits that, in April 2011, Wedbush Securities learned that Sterling had opened an order route for WTS that allowed the submission of orders marked as ISOs to one exchange; that this had occurred without Wedbush Securities's authorization; that Sterling had previously informed Wedbush Securities that WTS could not submit ISOs; and that Fillhart became aware of or was told about these facts. Fillhart denies the remainder of the allegations in Paragraph 44.

Paragraph 45: Fillhart admits the allegations in the first sentence of Paragraph 45, and that she instructed Sterling to close the relevant order route that could allow ISOs in April 2011. Fillhart denies the remainder of the allegations in Paragraph 45.

Paragraph 46: Fillhart admits that, in November 2011, Sterling enabled an order route to an exchange for WTS that permitted orders marked as ISOs; that this had occurred without Wedbush Securities's authorization; and that certain orders were placed on that route by WTS. Fillhart admits the allegations in the second sentence of Paragraph 46, and denies the remainder of the allegations in Paragraph 46.

Paragraph 47: The first sentence of Paragraph 47 recites legal propositions regarding the requirements of Rule 15c3-5(c)(2), not allegations to be admitted or denied. Rule 15c3-5 speaks for itself. As such, no response is necessary thereto. Fillhart denies the remainder of the allegations in Paragraph 47.

Paragraph 48: Paragraph 48 recites legal propositions regarding portions of the requirements of the Commission's Rule 17a-8, 17 C.F.R. 240.17a-8, the Bank Secrecy Act, 31 U.S.C. § 5318(h), and Department of Treasury regulations thereunder, not allegations to be admitted or denied. The cited rules, statutes, and regulations speak for themselves. As such, no response is necessary thereto.

Paragraph 49: The first sentence of Paragraph 49 recites legal propositions regarding portions of the requirements of FINRA Rule 3310, not allegations to be admitted or denied. FINRA Rule 3310 speaks for itself. As such, no response is necessary thereto. Fillhart denies the remainder of the allegations in Paragraph 49.

Paragraph 50: Fillhart admits the allegations in Paragraph 50.

Paragraph 51: Fillhart admits the allegations in the first two sentences of Paragraph 51 and denies the remainder of the allegations in Paragraph 51.

Paragraph 52: Fillhart admits that most trading platforms used by Wedbush Securities's customers had risk controls that could be implemented so as to attempt to prevent potential wash trades under certain circumstances, and that some exchanges offered anti-internalization functionality that could be implemented to attempt to block potential wash trades under certain circumstances. Fillhart denies the remainder of the allegations in Paragraph 52.

Paragraph 53: Fillhart admits that she and other employees in the Correspondent Services Division from time to time referred various activity by sponsored access customers to the firm's AML Compliance Officer for review. Fillhart denies the remainder of the allegations in Paragraph 53.

Paragraph 54: Fillhart admits the allegations in Paragraph 54.

Paragraph 55: Fillhart admits that a Wedbush Securities employee who reported to her received reports from exchanges, which Wedbush Securities had requested, regarding potential wash sales or pre-arranged trades by Wedbush Securities customers and correspondents. Fillhart admits that she typically did not ask for follow up to be conducted with WTS regarding certain activity that appeared to lack indicia potentially warranting further review, such as where the two sides of a transaction identified as a potential wash trade originated from different WTS trader IDs. Fillhart denies the remainder of the allegations in Paragraph 55.

Paragraph 56: Fillhart admits that Wedbush Securities followed up with the principals of its customers and correspondents regarding transactions identified as potential wash trades; that with respect to trades initiated by WTS, on many occasions the principals of WTS and/or

SMF Trading, Inc. (the broker-dealer of which WTS was a customer after January 2012), as applicable, advised Wedbush Securities that the trades in question were not wash trades or were erroneous; and that sometimes Wedbush Securities did not receive a full response to its inquiries regarding WTS's trades. Fillhart denies the remainder of the allegations in Paragraph 56.

Paragraph 57: Fillhart denies the allegations in Paragraph 57.

Paragraph 58: Fillhart denies the allegations in Paragraph 58.

Paragraph 59: Fillhart denies the allegations in Paragraph 59.

Paragraph 60: Fillhart admits that she had communications with personnel at two exchanges during the Relevant Period regarding potential "layering"; and that the term "layering" was used by the Commission in the *Hold Brothers* settled order in September 2012 to describe a potentially manipulative practice involving "submitting and cancelling large numbers of non-bona fide orders on one side of the market in order to obtain executions at more favorable prices for smaller bona fide orders." Fillhart denies the remainder of the allegations in Paragraph 60.

Paragraph 61: Fillhart admits that she had a communication with WTS in February 2011 in which she relayed a report of potential "layering" from an exchange, including that the exchange had described layering as a "manipulative activity." Fillhart denies the remainder of the allegations in Paragraph 61.

Paragraph 62: Fillhart admits that Wedbush Securities personnel in the Correspondent Services Division, including Bell and Fillhart, met to discuss risks posed by WTS and other sponsored access customers during the Relevant Period; and that Wedbush Securities had decided before the Relevant Period not to expand or take on new business involving potential customers with business models similar to WTS. Fillhart denies the remainder of the allegations in Paragraph 62.

Paragraph 63: Fillhart admits that Wedbush Securities filed suspicious activity reports related to potentially suspicious trading activity during the Relevant Period, including potential

wash sales and pre-arranged trading. Fillhart denies the remainder of the allegations in Paragraph 63.

Paragraph 64: The first two sentences of Paragraph 64 contain only recitations of legal propositions regarding portions of Rule 15c3-5, not allegations to be admitted or denied. As such, no response is necessary thereto. Fillhart observes, however, that the second sentence of Paragraph 64 mischaracterizes Rule 15c3-5(c)(2)(iii). Fillhart denies the remainder of the allegations in Paragraph 64.

Paragraph 65: Fillhart admits that the first two sentences of Paragraph 65 fairly paraphrase a portion of Wedbush Securities' WSPs. Fillhart denies the remainder of the allegations in Paragraph 65.

Paragraph 66: Fillhart admits that Wedbush Securities performed pre-account-opening procedures to verify identity and backgrounds of all persons for whom such procedures were required to be performed pursuant to all existing laws and regulations. Fillhart denies the remainder of the allegations in Paragraph 66.

Paragraph 67: Fillhart admits that some sponsored access customers or trading platform providers may have had their own internal forms regarding individual traders; Wedbush Securities generally did not use its customers' or trading platform providers' forms. Fillhart denies the remainder of the allegations in Paragraph 67.

Paragraph 68: Fillhart admits that Wedbush Securities required each sponsored access customer to maintain a list of its authorized traders and their ID numbers. Fillhart also admits that Wedbush Securities employees who reported to her began to perform OFAC checks on individual traders for certain sponsored access customers, including WTS, shortly after Rule 15c3-5 became effective, and that such OFAC checks were typically performed shortly after the issuance of new trader IDs. Fillhart denies that it was her responsibility to maintain lists of customers' authorized traders, and denies the remainder of the allegations in Paragraph 68.

Paragraph 69: Fillhart admits that she generally did not instruct Wedbush Securities employees to speak to individual traders at Wedbush Securities customers that had "hundreds or

thousands of traders"; and that she on one occasion had temporary difficulty locating a list of trader information for one client. Fillhart lacks sufficient information to admit or deny the allegations as to Bell and on that basis denies them. Fillhart denies the remainder of the allegations in Paragraph 69.

Paragraph 70: The first sentence of Paragraph 70 contains only recitations of legal propositions regarding Rule 15c3-5(e), not allegations to be admitted or denied. As such, no response is necessary thereto. Fillhart admits that she was one of the Wedbush Securities employees responsible for designing and/or overseeing the implementation of certain aspects of Wedbush Securities's controls and procedures relating to its market access business, under the supervision of Bell, but Fillhart denies that her responsibility extended to designing, establishing, documenting, maintaining, or implementing a system for regularly reviewing the effectiveness of risk management controls and supervisory procedures relating to market access or the conduct of such reviews of the market access business. Fillhart denies the remainder of the allegations in Paragraph 70.

Paragraph 71: Fillhart lacks sufficient information to admit or deny the allegations in Paragraph 71 and on that basis denies them.

Paragraph 72: Fillhart lacks sufficient information to admit or deny the allegations in Paragraph 72 and on that basis denies them.

Paragraph 73: Fillhart lacks sufficient information to admit or deny the allegations in Paragraph 73 and on that basis denies them.

Paragraph 74: Fillhart lacks sufficient information to admit or deny the allegations in Paragraph 74 and on that basis denies them.

Paragraph 75: Fillhart lacks sufficient information to admit or deny the allegations in Paragraph 75 and on that basis denies them.

Paragraph 76: Fillhart lacks sufficient information to admit or deny the allegations in Paragraph 76 and on that basis denies them.

Paragraph 77: The first sentence of Paragraph 77 contains only recitations of legal propositions regarding Exchange Act Section 17(a) and Rule 17a-4 thereunder, not allegations to be admitted or denied. As such, no response is necessary thereto. Fillhart denies the remaining allegations in Paragraph 77.

Paragraph 78: Fillhart denies the allegations in Paragraph 78.

Paragraph 79: Fillhart denies the allegations in Paragraph 79.

Paragraph 80: Fillhart denies the allegations in Paragraph 80.

Paragraph 81: Fillhart denies the allegations in Paragraph 81.

Paragraph 82: Fillhart denies the allegations in Paragraph 82.

Paragraph 83: Fillhart denies the allegations in Paragraph 83.

III. and IV.

Sections III and IV of the OIP do not contain any factual allegations against Respondents and no response is necessary thereto. To the extent any response is required, Fillhart asserts that these administrative and cease-and-desist proceedings are unfounded and the essential charging allegations in the OIP are legally and factually groundless as to her. Fillhart asserts that she properly discharged her obligations in accordance with the federal securities laws, and existing regulations and guidance. Fillhart requests a hearing at which she may have a full and fair opportunity to contest the allegations and present her additional defenses.

ADDITIONAL AFFIRMATIVE DEFENSES

In asserting the following additional affirmative defenses, Fillhart does not assume the burden of proof on any issue on which she 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 as to Fillhart.

SECOND AFFIRMATIVE DEFENSE

Fillhart relied in good faith on the available guidance provided by the Commission and its Staff regarding Rule 15c3-5, including, without limitation, the Adopting Release.

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 Rule 15c3-5 are impermissibly vague, unclear, ambiguous, and uncertain, both in general and as sought to be applied to Wedbush Securities and to Fillhart in this proceeding, such that Rule 15c3-5 failed to give fair notice to Fillhart of the requirements that the OIP contends that Rule imposed.

FIFTH AFFIRMATIVE DEFENSE

As of the date of this Answer, Respondents have not yet had an opportunity to review the vast majority of the documents in the Commission staff's investigative file, despite the requirement of Rule 230 of the Commission's Rules of Practice that such materials be made available to Respondents within 7 days of service of the OIP, *i.e.*, at least 13 days before an Answer is due; and despite Respondents' requests for access to such materials. The staff of the Division of Enforcement has represented that such materials are voluminous and include more than 100,000 separate documents. As a result, Respondents may have additional affirmative defenses that are presently unknown to them. Respondents reserve 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.

SIXTH AFFIRMATIVE DEFENSE

This proceeding cannot go forward against Fillhart under Exchange Act Section 15(b), 15 U.S.C. § 78*o*(b), because the OIP makes no allegations as to Fillhart for which proceedings may be initiated against her by the Commission under Exchange Act Section 15(b). As to Fillhart, therefore, the purported proceedings under Exchange Act Section 15(b) must be dismissed.

SEVENTH AFFIRMATIVE DEFENSE

This proceeding cannot go forward against Fillhart under Advisers Act Section 203(e), 15 U.S.C. § 80b-3(e), because the OIP makes no allegations as to Fillhart for which proceedings may be initiated against her by the Commission under Advisers Act Section 203(e). As to Fillhart, therefore, the purported proceedings under Advisers Act Section 203(e) must be dismissed.

PRAYER

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

Date: July 1, 2014

Respectfully submitted,

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