

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

Department of Enforcement,

Complainant,

v.

Lek Securities Corp.
CRD No. 33135,

and

Charles Frederik Lek
CRD No. 4672129,

Respondents.

Disciplinary Proceeding
No. 2021071137001

Hearing Officer: _____

COMPLAINT

The Department of Enforcement (“Enforcement”) alleges:

SUMMARY

1. Lek Securities Corporation (“LSC” or “the Firm”), acting through its Chief Executive Officer, Charles Frederik Lek (“Lek”), violated the terms of a December 2019 Order Accepting Offer of Settlement with FINRA (the “Order”).¹

2. Contrary to the sanctions and undertakings contained in the Order, LSC (i) accepted for deposit and liquidated microcap securities during the pendency of a microcap business line suspension;² (ii) knowingly failed to implement 18 of the 98 recommendations made by the Independent Consultant (“IC”) hired pursuant to the terms of the Order to assess and

¹ A copy of the Order is attached hereto as **Exhibit A**.

² As used herein, “microcap securities” are low-priced securities that do not trade on a national securities exchange and trade at a price of less than \$5 per share.

help the Firm improve its supervisory and anti-money laundering (“AML”) systems and procedures; and, (iii) through its CEO, Lek, falsely certified to FINRA that it, in fact, had implemented all the IC’s recommendations in order to prematurely and improperly lift the microcap business line suspension.

3. By failing to comply with their obligations under the Order, Respondents violated FINRA Rule 2010.

4. Compounding the above, from October 2019 through at least February 2022 (the “Relevant Period”), LSC liquidated *over 200 billion shares* of microcap securities without establishing and maintaining a reasonable supervisory system.

5. The Firm failed to adopt the IC’s recommendations to improve the Firm’s supervisory system; improperly relied nearly exclusively on one person, Lek, who owned nearly all of the Firm and stood to benefit financially from the microcap securities revenue, to supervise customer onboarding, deposits, liquidations, and exception report review related to microcap securities; had inexperienced and unqualified compliance staff; did not have an Anti-Money Laundering Compliance Officer (“AMLCO”) for 11 months; and excluded the Firm’s then-Chief Compliance Officer (“CCO”) from microcap review from October 2019 through February 2022.

6. In addition, the Firm routinely accepted microcap securities for deposit and liquidation with red flags that the customers were potentially engaged in unlawful activities, such as misrepresentations through promotional activity and the unlawful unregistered distribution of securities.

7. As a result, Respondents failed to reasonably supervise the Firm’s microcap securities business in violation of FINRA Rules 3110 and 2010, and they failed to establish and implement a reasonable AML program in violation of FINRA Rules 3310(a) and 2010.

8. Finally, Lek and other Firm representatives used unauthorized electronic means of communicating with each other and Firm customers, including microcap customers, regarding securities business. By failing to capture or retain these business communications, LSC violated Section 17(a) of the Securities Exchange Act of 1934 (“Exchange Act”), Exchange Act Rule 17a-4, and FINRA Rules 4511 and 2010.

RESPONDENTS

9. **Lek Securities Corporation** is a Delaware corporation headquartered in New York, NY, and has been registered with FINRA since April 1, 1996. During the Relevant Period, the Firm employed approximately 30 registered representatives in two branch offices. The Firm currently employs approximately two registered representatives and two non-registered persons in its remaining active branch office. At all relevant times herein, the Firm operated as an independent order-execution and clearing firm; its customers regularly deposited and liquidated microcap securities and LSC received significant revenue associated with its microcap securities business. LSC cleared microcap securities business for one introducing FINRA member firm until early spring of 2020 (the “Introducing BD”).

10. FINRA has jurisdiction over the Firm because it is currently a FINRA member.

11. LSC is a serial recidivist that has been repeatedly sanctioned for its past misconduct, including its failure to supervise and its facilitation of customer misconduct.

12. In December 2014, LSC was fined \$100,000 by a FINRA Hearing Panel for failing to establish and implement AML policies and procedures that were reasonably designed to achieve compliance with the Bank Secrecy Act and its implementing regulations in connection with suspicious trading by its customers. The decision was affirmed by FINRA’s National Adjudicatory Council in October 2016 and by the SEC in April 2018.

13. In February 2018, pursuant to an Order Accepting Offer of Settlement, LSC was fined \$175,000, and ordered to retain an independent consultant for systemic supervisory violations, among other violations of FINRA and SEC rules.

14. In October and December 2019, the SEC, FINRA, and various Exchanges reached settlements with LSC in separate but related actions in which LSC was fined a total of approximately \$2.4 million for aiding and abetting securities fraud, unreasonable supervision, and other violations. The Firm's founder and then CEO, CCO and AMLCO, Samuel Lek, was barred from the securities industry and fined \$420,000.

15. Separately, as alleged more fully below, in December 2019, pursuant to the Order, LSC was fined \$200,000 for AML and supervisory violations relating to microcap trading and ordered to suspend its microcap securities business until after it implemented the recommendations of the IC, as set forth in the Order. LSC's failure to comply with the sanctions and undertakings in the Order is the basis for some of the causes of action herein.

16. **Charles Lek** has been employed in the securities industry since 2007. He first registered with FINRA as a General Securities Representative through an association with LSC in February 2008. He became registered as a General Securities Principal in December 2008.

17. Lek worked in LSC's back office from October 2007 to October 2019. Lek became the Firm's CEO in October 2019 and became the Firm's CCO and AMLCO in August 2022.

18. Lek has also served as Managing Director of LSC's London-based, sister company, Lek Securities UK Limited ("Lek UK"), since 2010. Lek became the majority owner and Managing Director of Lek Securities Holdings Limited ("Lek Holdings"), the parent company of LSC and Lek UK, in October 2019.

19. FINRA has jurisdiction over Lek because he is currently associated with a FINRA member and committed the misconduct at issue while associated with a member.

FACTS

I. LSC OPERATED A ROBUST MICROCAP BUSINESS DURING THE RELEVANT PERIOD

20. Microcap securities transactions were not an ancillary business for the Firm. During the Relevant Period, LSC liquidated well over *200 billion shares* of microcap securities.

21. LSC's microcap business served domestic customers. In addition, Lek UK maintained an omnibus account with LSC through which its customers, who are domiciled outside the U.S., liquidated microcap securities in the U.S. markets.

22. LSC offered customers the ability to deposit and trade microcap securities through its independent order execution and clearing services.

23. LSC customers sent orders directly to the Firm through a front-end order management system or by telephone. All customers' microcap orders were unsolicited.

24. To the knowledge of LSC personnel, LSC's microcap customers were primarily in the business of acquiring microcap securities in private transactions, depositing the shares at LSC, and liquidating them into the public markets.

25. Generally, LSC:

- a. Did not want to accept accounts that proposed to only conduct a small number of transactions.
- b. Had a fee structure that required that microcap securities customers pay a minimum total of commissions and "review/dematerialization" fees, usually \$25,000 per month.

- c. The high fee structure charged outsized fees related to microcap securities, which was were only feasible for customers that could consistently structure their acquisition of shares to ensure that the anticipated gains on the sale well exceeded LSC's fees.

26. LSC's microcap customers often obtained and liquidated their shares over multiple liquidations, as follows:

- a. The customer purported to lend money to an issuer in exchange for a convertible note from a microcap issuer that had poor financials and little prospects, and whose shares traded below a penny a share.
- b. Rather than accept repayment (or upon default by the issuer), the customer repeatedly converted a portion of the debt for shares representing less than five percent of the issuer's outstanding shares.
- c. The notes provided for issuance of shares, usually at a discount to the current price.
- d. After depositing and liquidating the shares at LSC, often within weeks or two, the customer returned to the issuer and converted another block of shares.

II. LSC SETTLED A COMPLAINT WITH FINRA FOR SECTION 5, AML AND SUPERVISION CHARGES AND AGREED TO CERTAIN SANCTIONS AND AN UNDERTAKING

27. In November 2018, FINRA filed a six-count complaint in Disciplinary Proceeding No. 2015045312501, which alleged, among other things, that LSC, through Samuel Lek, failed to develop and implement a reasonable AML program, failed to supervise its microcap liquidation business, participated in an unlawful distribution of unregistered securities in violation of Section 5 of the Securities Act of 1933, and failed to conduct reasonable testing of its AML program or AML training for its employees (the "Complaint").

28. On December 20, 2019, FINRA issued the Order. Lek, as the Firm's new CEO, executed the offer of settlement on behalf of LSC.

29. The Order imposed against LSC a \$200,000 fine and a business line suspension on the deposit or sale of microcap securities, with two limited exceptions alleged below. It also required LSC to retain an IC, fully cooperate with the IC, adopt and implement all of the IC's recommendations, and certify that it had done so, as set forth in Exhibit A hereto, and alleged in more detail below.

III. THE BUSINESS LINE SUSPENSION AND INDEPENDENT CONSULTANT UNDERTAKING

30. The Order imposed the following business line suspension:

LSC shall not sell or accept for deposit any low priced security (defined herein as any equity security that does not trade on a national securities exchange and trades at a price of less than \$5 per share at the time it is submitted to LSC for deposit or sale) until the Firm certifies to FINRA that it has implemented the recommendations of the Independent Consultant as described below. However, LSC may execute orders to sell any such security if:

1. . . . the securities were purchased on the open market . . .; or,
2. The securities were deposited at LSC prior to the issuance of this Order

31. The Order also required LSC to retain an IC:

[T]o conduct a comprehensive review of the Firm's supervisory system and its compliance with anti-money laundering ("AML") and Section 5 obligations in connection with stock trading in low priced securities, including but not limited to:

- (i) customer onboarding;
- (ii) acceptance of low priced securities for deposit, in certificate form or otherwise;
- (iii) customer trading of low priced securities;

- (iv) the Firm's systems and controls for monitoring for, detecting, and investigating suspicious activity through the Firm; and
- (v) training of LSC staff regarding the foregoing subjects.

32. Although LSC selected the IC, the Order contained numerous provisions designed to ensure the independence of the IC and provide the IC "with access to . . . LSC's files, books, records, and personnel, as reasonably requested"

33. The Order stated that the IC's review must be completed within 160 days and that the IC must issue an Initial Report meeting the following requirements:

- (i) evaluate and address the adequacy of Respondent LSC's supervisory system and its compliance with [AML] rules and requirements . . . ;
- (ii) provide a description of the review performed and the conclusions reached; and (iii) as may be needed, make recommendations regarding how Respondent LSC should modify or supplement its processes, controls, policies, systems, procedures and training to manage its regulatory and other risks in relation to the adequacy of Respondent LSC's supervisory system and its compliance with [AML] rules and requirements

34. The Order then required LSC, within 90 days of the Initial Report, to:

[A]dopt and implement the recommendations of the Independent Consultant or, if it considers a recommendation to be, in whole or in part, unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. Respondent LSC shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and FINRA ("Proposed Alternative Procedures").

35. The IC, in turn, had up to 30 days to evaluate any of LSC's Proposed Alternative Procedures and issue a written report regarding its determination of whether to accept any of the proposed alternatives.

36. The Order required LSC to abide by that determination and "adopt and implement all recommendations deemed appropriate by the Independent Consultant."

37. As alleged above, LSC was not allowed to lift the business line suspension until it “certifie[d] to FINRA that it has implemented the [IC’s] recommendations,” either as set forth in the Initial Report or as modified in the IC’s written report regarding the Proposed Alternative Procedures.

38. In addition to that certification regarding implementation, the Order separately required the Firm’s CEO (Lek) to certify as follows:

The Firm agrees that at the conclusion of the business line suspension referenced above, its Chief Executive Officer will certify in writing to FINRA that, based on reasonable and documented steps, (i) the Firm has fully complied with the business line suspension, (ii) any sales of low priced securities during the suspension period were made in compliance with the requirements of Section 5 of the Securities Act of 1933, and (3) the Firm has in place policies, systems and procedures to address and correct the violations described in this Offer of Settlement. . . .

39. The Order also required LSC to provide, within 30 days of the Initial Report or the IC’s written report regarding Proposed Alternative Procedures, if any, a written Implementation Report detailing how the Firm implemented the IC’s recommendations.

40. Finally, the Order required LSC to retain the IC “to conduct a follow up review and submit a written final report” to LSC and FINRA one year after the Order. The Order required a fulsome review:

In the Final Report, the Independent Consultant shall address Respondent LSC’s implementation of the systems, policies, procedures, and training and make any further recommendation it deems necessary.

41. LSC was required to “adopt and implement recommendations contained in the Final Report” within 30 days.

IV. LEK CAUSED LSC TO VIOLATE THE BUSINESS LINE SUSPENSION

A. Lek Failed to Timely Provide Notice of the Business Line Suspension to LSC Staff or Its Customers

42. On December 20, 2019, Enforcement issued the Order and served it on LSC's counsel by email at 3:51 p.m. LSC's counsel forwarded the Order to Lek at 4:44 p.m.

43. The business line suspension began when the Order was issued.

44. Lek did not forward the Order to anyone at LSC until 10:42 p.m. on December 23, 2019. Lek's forwarding email stated, in full:

NO PROCESSING OF CERTIFICATED DEPOSITS (including drs
AND dwac)

THIS ORDER IS A TEMPORARY SUSPENSION TO THE
BUSSINESS [sic] LINE ONLY

45. As alleged below, by the time Lek forwarded the Order, LSC had already begun processing eight customer deposits since the onset of the business line suspension, and some had been accepted into the customers' accounts.

46. LSC's Deposit Specialist at the time, RZ, only stopped processing new deposits after Lek's 10:42 p.m. email.

47. Shortly after Lek's email, LSC's head trader and COO, MM, sent an email replying to the entire group: "If whatever has cleared and is in the account -it can still be traded correct?"

48. Lek responded 10 minutes later: "Yes. This applies to new deposits including repeat deposits. Anything currently in the account can [sic] liquidated."

49. Lek's response to his staff was misleading and contrary to the terms of the Order.

50. Based upon Lek's direction, MM treated any microcap stock that was accepted into an LSC customer's account to be free to trade during the business line suspension.

51. Lek and LSC further delayed informing its microcap customers that it was suspended from accepting new deposits.

52. For example, the Introducing BD sent customer deposits for 13 different microcap issuers to LSC from December 24–30, 2019.

53. On the morning of December 30, 2019, the Deposit Specialist at the time, RZ, asked Lek in an email to draft an explanation that she could provide to depositing customers.

54. Lek did not reply to this email. Later that morning, RZ emailed the Introducing BD: “Please do not send any more cases until further notice from Charlie Lek. None of them will be processed.”

B. LSC Accepted and Liquidated Deposits During the Suspension Period

55. While the business line suspension was in effect, the Introducing BD submitted seven deposits of microcap securities on behalf of Customers EE, AA or JS to LSC:

- a. GNBT (128,038 shares);
- b. RETC (1,505,376 shares);
- c. PPCB (82,088 shares);
- d. WCVV (26,923,076);
- e. ALDS (100,000)
- f. SFOR (16,321,286 shares); and
- g. NGTF (355,585 shares).

56. Similarly, on December 20, 2019, after the business line suspension began, Customer GP submitted a deposit of 26 million shares of GBHL, a microcap security.

57. Rather than inform the Introducing BD and Customer GP that LSC was prohibited from accepting such deposits, LSC entered all of the deposits into its proprietary tool for processing deposits of microcap securities (the “Certificate Processing Program”).

58. Three of the deposits, GBHL, SFOR and NGTF, were later abandoned.

59. As further alleged below, LSC accepted five of the deposits and liquidated them while the business line suspension was in effect.

1. Propanc Biopharma, Inc. (PPCB)

60. On December 23, 2019, the Introducing BD sent an email to LSC seeking to deposit 82,088 shares of Propanc Biopharma, Inc. (symbol: PPCB) for Customer EE.

61. At the time of the deposit, PPCB was trading at around \$0.17 and was a microcap security.

62. LSC accepted the shares on December 23, 2019, and the shares were booked to Customer EE's account the next day. LSC's acceptance of this deposit of microcap securities violated the business line suspension.

63. Lek was aware that LSC accepted this deposit while the business line suspension was in effect.

64. From December 24, 2019 through January 2, 2020, LSC liquidated all 82,088 PPCB shares. All of these sales occurred while the business line suspension was in effect and, therefore, LSC violated the Order.

65. After LSC accepted the deposit and liquidated the PPCB shares, Lek made false and misleading entries into the Firm's Certificate Processing Program regarding the acceptance of this deposit:

- a. On February 11, 2020, 50 days after the PPCB deposit was accepted, Lek entered a note "OTC Markets checked" into the Firm's Certificate Processing Program. This note made it appear as if the deposit was still being processed for acceptance by the Firm.

- b. The Certificate Processing Program lists this deposit as “ABANDONED,” which is false because the deposit was received into the Firm and liquidated.
 - c. The Certificate Processing Program lists an “Approval Date” of November 28, 2020, which is 11 months after the Firm accepted and liquidated the PPCB.
- Lek approved this deposit.

2. 12 Retech Corp. (RETC)

66. On December 23, 2019, the Introducing BD sent an email to LSC seeking to deposit 1,505,376 shares of 12 Retech Corp. (symbol: RETC) for Customer AA.
67. At the time of the deposit, RETC was trading around \$0.0031 and was a microcap security.
68. LSC accepted the shares by DWAC on December 23, 2019, and the shares were booked to Customer AA’s account the next day. LSC’s acceptance of this deposit of microcap securities violated the business line suspension.
69. From December 24, 2019, through January 3, 2020, LSC liquidated all 1,505,376 shares of RETC. All of these sales occurred while the business line suspension was in effect and, therefore, LSC violated the Order.
70. Although the shares were accepted and liquidated weeks earlier, Lek approved the deposit on January 28, 2020.

3. West Coast Ventures Inc. (WCVC)

71. On December 23, 2019, the Introducing BD sent an email to LSC seeking to deposit 26,923,076 shares of West Coast Ventures Inc. (symbol: WCVC) for Customer JS.
72. At the time of the deposit, WCVC was trading around \$0.0005 and was a microcap security.
73. LSC accepted the shares by DWAC on December 23, 2019.

74. The WCVC shares were booked to Customer JS's account on January 9, 2020.

75. LSC's acceptance of this deposit of microcap securities violated the business line suspension.

76. From January 10, 2020, through January 28, 2020, LSC liquidated all 26,923,076 shares of WCVC. All of these sales occurred while the business line suspension was in effect and, therefore, LSC violated the Order.

77. Although the shares were accepted and liquidated during the business line suspension, the Firm's Certificate Processing Program indicates that Lek approved the deposit on December 16, 2021 — nearly two years after LSC liquidated this deposit.

4. Generex Biotechnology Corp. (GNBT)

78. On December 20, 2019, one minute after Enforcement issued the Order and served it upon LSC's counsel, the Introducing BD sent an email to LSC seeking to deposit 128,038 shares of Generex Biotechnology Corp. (symbol: GNBT) for Customer EE.

79. At the time of the deposit, GNBT was trading around \$0.607 and was a microcap security.

80. The Firm did not approve the shares for deposit before the Order was issued. The Firm's Certificate Processing Program indicates "NULL" for both the "Approved By" and "Approval Date" for the GNBT deposit.

81. LSC accepted the shares by DWAC on December 23, 2019, and the shares were booked to Customer EE's account the same day. LSC's acceptance of this deposit of microcap securities violated the business line suspension.

82. From December 23, 2019, through January 3, 2020, LSC liquidated all 128,038 GNBT shares while business line suspension was in effect and, therefore, LSC violated the Order.

5. Applife Digital Solutions (ALDS)

83. On December 23, 2019, the Introducing BD sent an email to LSC seeking to deposit 100,000 shares of Applife Digital Solutions (symbol: ALDS) for Customer GHS.

84. At the time of the deposit, ALDS was trading around \$0.21 and was a microcap security.

85. The customer deposited the shares in certificate form on or after December 23, 2019.

86. The ALDS shares were booked to Customer GHS's account on January 9, 2020, and LSC charged the customer a dematerialization fee on that date.

87. LSC's acceptance of this deposit of microcap securities violated the Order.

88. Although the shares were accepted during the business line suspension, the Firm's Certificate Processing Program indicated that Lek approved the deposit on March 21, 2022, which was over two years later.

V. THE IC ISSUED THE INITIAL REPORT, CONTAINING 98 RECOMMENDATIONS, ON FEBRUARY 4, 2020

89. LSC initiated discussions with the IC to serve in that role months before Lek submitted LSC's Offer of Settlement on December 19, 2019.

90. The IC was formally engaged on December 31, 2019.

91. The IC requested certain documents from LSC, visited LSC's offices on several occasions and met with Lek, all members of the compliance department, and the Firm's Chief Financial Officer ("CFO").

92. Some of the documents that LSC provided to the IC were materially inaccurate. For example, the Firm provided a list of "Reports available through the Exception Report Program" to the IC, which was dated as of December 31, 2019. It identified a former member of

the Compliance department, who had departed the Firm over two months earlier, as the “Main Reviewer” for 22 of the Firm’s exception reports, including those related to microcap securities.

93. Pursuant to the terms of the Order, LSC was not permitted to lift the business line suspension until Lek, on behalf of the Firm, certified that the Firm had implemented all of the IC’s recommendations.

94. Lek discussed numerous proposed recommendations with the IC beginning in at least mid-January 2020. After receiving a draft of the Initial Report containing 96 recommendations on February 1, 2021, Lek discussed them with the IC.

95. On February 4, 2020, the IC issued its Initial Report and provided the report to FINRA and Lek.

96. The Initial Report contained 98 recommendations addressing areas required by the Order.

97. Lek took it upon himself to try to implement the recommendations contained in the Initial Report and kept his compliance officers, JT and AS, out of the process of determining how to implement the recommendations.

98. In fact, JT, the CCO during the Relevant Period, did not receive the Initial Report until March 2021, over a year after it was issued.

99. Although many of the IC’s recommendations relate to customer liquidations of microcap securities through LSC, Lek did not involve LSC’s head trader, MM, in the implementation process, or provide him with any of the IC’s reports.

VI. ON FEBRUARY 10, 2020, LEK SUBMITTED AN INVALID CERTIFICATION TO JUSTIFY LIFTING THE BUSINESS LINE SUSPENSION

100. On February 10, 2020, six days after receiving the Initial Report, Lek sent a letter by overnight mail to FINRA falsely certifying that the Firm had complied with the business line

suspension, that it complied with Section 5 during the business line suspension, and that it “has in place policies, systems and procedures to address and correct the violations described in this Offer of Settlement.”

101. To lift the business line suspension, however, Lek was required to certify that LSC had implemented the recommendations of the IC, either as contained in the Initial Report or as resolved through the process for Proposed Alternative Procedures provided in the Order.

102. On February 12, 2020, FINRA advised counsel for LSC that, with respect to Lek’s February 10, 2020 letter, “the business line suspension remains in effect because the Firm has not fulfilled the predicate for lifting the suspension. . . . If you do not agree, please get back to me immediately.”

103. Nonetheless, Lek and LSC treated the business line suspension as lifted after Lek sent the February 10, 2020 letter to FINRA.

104. LSC accepted and liquidated deposits of microcap securities in violation of the business line suspension on February 11 and 12, 2020.

VII. ON FEBRUARY 13, 2020, LEK CERTIFIED THAT THE FIRM HAS IMPLEMENTED ALL THE IC’S RECOMMENDATIONS

105. On February 13, 2020, Lek sent FINRA a letter to “certify that LSC has implemented the recommendations of the Independent Consultant as described in the Settlement Agreement.”

106. In an email accompanying his certification, Lek acknowledged that in his earlier, February 10, 2020 certification letter, “the language does not precisely track what is specified on page 34 of the Agreement, which requires that the Firm certifies to FINRA that it has implemented the recommendations of the Independent Consultant.” With respect to his

February 13, 2020 certification, Lek added, “I believe that this concludes the business line suspension.”

107. Lek’s February 13, 2020 email assured FINRA that LSC has implemented all of the IC’s recommendations:

The consultant did a very thorough review and submitted 98 recommendations. We have worked tirelessly to quickly and meticulously implement all of the recommendation [sic], so I feel entirely comfortable certifying this to FINRA. Moreover, FINRA is due to receive a detailed implementation report within 30 days.

108. As alleged below, Lek and LSC refused to implement some of the IC’s recommendations and failed to implement others, in whole or in part. Moreover, many of the IC’s recommendations required changes to LSC’s WSPs, but Lek did not make all of the responsive changes to the WSPs prior to his certification. Therefore, LSC was not permitted to lift the business line suspension as of February 13, 2020.

VIII. LEK ISSUED THE IMPLEMENTATION REPORT

109. On March 3, 2020, Lek issued a 65-page Implementation Report and provided it to FINRA and the IC.

110. The Implementation Report did not expressly challenge any of the IC’s recommendations or claim that it had proposed or resolved Proposed Alternative Procedures as provided in the Order. Instead, it purported to “describe[] what the Firm has done to implement the recommendations” and provided a narrative explanation of how the Firm implemented each of the IC’s 98 recommendations.

111. As alleged below, the Implementation Report stated in places that it disagreed with some of the IC’s recommendations — in those instances, LSC unilaterally and improperly failed to implement those recommendations.

112. Also as alleged below, in multiple other instances, the Implementation Report falsely represented that LSC had implemented the recommendations of the IC, when in fact that was not the case.

IX. THE IC ISSUED ITS FINAL REPORT

113. The Order required LSC to “further retain the Independent Consultant to conduct a follow up review and submit a written final report” by December 20, 2020.

114. Because LSC was having a dispute with the IC regarding the scope of work and payment, Lek requested and received two extensions of time from FINRA to obtain the Final Report.

115. The IC issued the Final Report on April 19, 2021.

116. The IC’s Final Report is 29 pages but notes that it only sought to address “points that may be of greatest relevance to FINRA” and did not address every aspect of LSC’s compliance program:

In preparing this Final Report, I am concerned by the state of [LSC’s] microcap securities compliance program and by what I have seen of [LSC’s] compliance program as a whole. It appears that a detailed review of all aspects of [LSC’s] microcap securities compliance program and its performance would result in a report of hundreds of pages.

117. The IC further noted that LSC failed to fulfill the requirement to cooperate with the IC in preparation of the Final Report:

My view is that obtaining documents and information to prepare this Final Report has been unnecessarily difficult. I did not receive many of the documents and information [I] requested. In sum, I do not believe that [LSC] has provided the cooperation set forth as Undertaking 1(b) in the [Order].

118. The IC found that LSC failed to implement numerous recommendations of the Initial Report and concluded: “In this Final Report, I do not view Lek’s actions as sufficient compliance with the Initial Report or to be sufficient compliance with” the Order.

119. The IC also made three new recommendations in the Final Report.

120. The IC's first new recommendation was that "Lek voluntarily reimpose the business line suspension set forth in the FINRA Lek Order for Lek's microcap securities program and maintain that suspension indefinitely."

121. The IC's second new recommendation was that LSC hire an experienced, full-time CCO with experience with microcap securities compliance, and that the CCO be granted "independence and authority to run [LSC's] compliance program."

122. The IC observed that LSC's designated CCO since October 2019, JT, appeared to perform few compliance functions and was "primarily a revenue producer for his own accounts."

123. In the Initial Report, 14 months earlier, the IC had noted that LSC presented JT as an interim CCO and represented that the Firm was searching for a full-time CCO. One of the IC's recommendations in the Initial Report was to continue that search.

124. In Lek's Implementation Report, he characterized JT as an "interim" CCO and claimed that the Firm was "actively" seeking a new CCO.

125. The IC's third new recommendation was that all LSC compliance personnel be registered with FINRA within 90 days.

126. The Firm's Compliance department during the Relevant Period consisted of three persons, one of whom did not have any FINRA registrations. One of the registered individuals, AS, separated from LSC in August 2021 after the issuance of the Final Report.

127. On May 19, 2021, LSC advised FINRA by letter from counsel that it rejected all of the observations and conclusions of the Final Report and requested that it "be disregarded."

X. LSC FAILED TO IMPLEMENT AT LEAST 18 OF THE IC’S INITIAL RECOMMENDATIONS AS REQUIRED BY THE ORDER

128. LSC breached the Order because it failed to implement all of the IC’s 98 Recommendations. LSC did not implement all or parts of 18 recommendations, as alleged below.

129. Because LSC failed to implement all of the recommendations of the IC, it was not permitted to lift the business line suspension.

A. Recommendations 45 and 46

130. Recommendation 45 stated:

The firm maintains notes on attorneys, transfer agents and other service providers with whom it has had a negative history. The firm should enter this information into a searchable database to minimize the chance that a service provider believed to be suspicious by some personnel at one time will not be relied upon by other personnel at a subsequent time.

131. Recommendation 46 stated:

The firm has become familiar with certain microcap securities promoters. The firm should create a searchable database or upload that information in a searchable format and making this database accessible to those who review microcap securities business or who have one or more customers engaging in this business. The database should contain promoters' names, addresses and any other relevant information that may assist LSC in identifying promotional activity. This database should [be] made searchable.

132. To implement Recommendation 45, the Implementation Report stated that the Firm created a searchable table in its Certificate Processing Program.

133. To implement Recommendation 46, the Implementation Report again referenced the searchable table and provided a screenshot of the Certificate Processing Program with a tab labeled “Persons deemed unreliable” to access the table.

134. Although Lek created the “Persons deemed unreliable” table in the Certificate Processing Program, he did not populate the table with any information, rendering it useless for any purpose.

135. No LSC staff, besides Lek, had the ability to populate the “Persons deemed unreliable” table. Lek’s empty table remained in the Certificate Processing Program, and the Firm’s Deposit Specialists, DG and her successor BF, did not understand the purpose of the table.

136. Because Lek never populated the table, Recommendations 45 and 46 were never implemented.

B. Recommendations 79, 80 and 81

137. Recommendations 79, 80 and 81 sought to strengthen the Firm’s annual AML audit and ensure that LSC addresses issues raised by the independent testing firms.

138. Recommendation 79 stated:

[LSC’s] WSP should be amended to provide that any recommendations in any independent AML testing report should be implemented in the WSP. If the firm rejects any such recommendation, then a written explanation as to why it will not implement the recommendation should be documented by the AMLCO and a copy promptly provided to the CCO and CEO.

139. Recommendation 80 stated:

The WSP should be amended to contain a list of topics that an independent AML testing firm must review. This list should include (a) microcap securities, (b) the firm's process for reviewing customer deposits of unregistered shares, (c) its surveillance parameters, (d) its review of suspicious activity and (e) the type of AML training provided to its staff.

140. Recommendation 81 required LSC to hire an independent AML testing firm with expertise in the areas identified in Recommendation 80.

141. In the Implementation Report, Lek claimed that Recommendations 79, 80 and 81 were all implemented in “Section 10.3” of the WSPs.

142. However, Lek made no changes to Section 10.3 of the WSPs and the WSPs did not implement any part of Recommendations 79, 80 and 81.

C. Recommendation 27

143. Recommendation 27 stated:

If the customer has deposited any shares of this security in the past with LSC, then the firm should determine if the customer answered Yes to Question 10 on the DSRQ. If so, then LSC should contact the customer for an explanation and record and maintain written documentation of that customer's explanation.

144. The Implementation Report stated “Implementation: See new DSRQ form. Also see screen shot of new functionality in cert program.”

145. Nothing in the new DSRQ form provided with the Implementation Report implemented this recommendation.

146. The screen shot provided with the Implementation Report listed prior sales of the security by that customer, but nothing in the Firm’s “cert program” or anywhere else required the Firm to “contact the customer for an explanation” or to “record and maintain written documentation of that customer's explanation” as required by Recommendation 27.

147. The referenced documents, together or separately, did not implement the recommendation in its entirety.

D. Recommendations 70 and 96

148. In May 2019, FINRA issued “Regulatory Notice 19-18: FINRA Provides Guidance to Firms Regarding Suspicious Activity Monitoring and Reporting Obligations.” Notice 19-18 provides a lengthy list of money laundering red flags, including all of the red flags contained in FINRA’s original 2002 guidance in Notice to Members 02-21.

149. In the Initial Report, the IC noted the importance of the red flags in Notice 19-18, particularly regarding microcap securities, and their absence in LSC's WSPs:

They have been the subject of extensive discussion in the preparation of this Initial Report. [LSC's] WSP, most recently updated as of October 15, 2019, remains focused on [earlier regulatory notices and] does not contain a discussion of, or inclusion of these potential red flags In fact, [Notice 19-18] contains a number of potential red flags relating to the microcap securities business that are completely absent from previous regulatory guidance.

150. Recommendation 70 stated:

We recommend that [LSC's] WSP be amended to incorporate inclusion of those red flags in NTM 19-18 applicable to LSC's microcap securities business.

151. The Implementation Report stated: "Implemented in Section 10.11.1 of our WSPs."

152. Likewise, Recommendation 96 required the Firm to update the WSPs to add red flags from Notice 19-18.

153. To implement this recommendation, the Implementation Report stated: "Implementation: Insurance products removed. NTM 19-18 red-flags added to the AML section."

154. Section 10.11.1 of LSC's WSPs, which was the AML section, did not reference Notice 19-18 and did not include most of the new red flags in Notice 19-18.

155. Lek never fully amended the WSPs as claimed and he never otherwise adopted this recommendation.

E. Recommendation 15

156. Recommendation 15 stated:

The firm's CCO, AMLCO or the designated supervisor for microcap securities should perform a review of the Compliance Review process for microcap securities and determine whether microcap securities customers

are answering all questions completely and accurately and providing the requested documentation. This review should be documented and maintained as part of the firm's books and records.

157. The Implementation Report stated: "This recommendation has been implemented by an update to Section 13.1.5 of our WSPs."

158. However, the only update to Section 13.1.5 of LSC's WSPs was the addition of a single sentence that neither addressed the recommended review by the "CCO, AMLCO or the designated supervisor for microcap securities" nor addressed the documentation of that review.

F. Recommendation 72

159. Recommendation 72 required the Firm to review and revise its Exception Report System manual, which had not been updated since 2014.

160. The Implementation Report stated that the Firm did not implement this recommendation because, according to Lek, staff using the Exception Report Viewer were already familiar with the program.

G. Recommendation 49

161. Recommendation 49 stated:

The WSP should be amended for the firm to block attempted sales of microcap securities where the customer is (a) relying on Rule 144, (b) the holding period is less than one year and (c) the issuer is not current in its reporting requirements.

162. The Implementation Report stated that the Firm updated its "Q6 automated risk system" to obtain the "reporting status and disclosure status of the issuer through an automated feed from OTC Markets" and block the sales identified by this recommendation.

163. However, the Firm did not update its WSPs as recommended by the IC.

H. Recommendation 94

164. Recommendation 94 stated:

[LSC's] WSP does not contain any reference to who is responsible for approving new microcap securities cases, microcap securities liquidations and trading activity involving microcap securities. The firm should amend its WSP to so state.

165. To implement this recommendation, the Implementation Report stated: "The Certificate Application has been updated with list of approvers and who approved each transaction. (See prior exhibit)."

166. The Certificate Processing Program was not part of the Firm's WSPs. Thus, Lek did not update the WSPs as required by Recommendation 94.

167. Moreover, the referenced "update" only addressed the first of the three categories of Recommendation 94, *i.e.*, approving new microcap securities cases. It did not address approvals of liquidations and trading activity.

I. Recommendation 7

168. Recommendation 7 stated:

The firm's CCO, AMLCO or a designated supervisor should evaluate the performance of the firm's due diligence as to its microcap securities customers. . . . No less than annually, the CCO or AMLCO should certify to the CEO that he/she has completed this due diligence evaluation as to LSC's microcap securities customers. All the above should be added to LSC's WSP.

169. The Implementation Report stated: "The Firm has amended Section 6.8 of its WSPs and is actively conducting research on other providers."

170. However, the Firm's amendment of Section 6.8 did not contain the requirement that the CCO or AMLCO conduct this due diligence annually or certify it to the CEO.

J. Recommendation 4

171. Recommendation 4 stated:

The WSP should be amended to require that the Compliance department perform a background check on any person listed on a Form W8 submitted by a Non-Qualified Intermediary. Similarly, the WSP should be amended to require that a background check be performed for disclosed beneficial owners of a legal entity.

172. The Implementation Report stated: “To implement this recommendation, we amended Section 10.16.3.3 of our WSPs.”

173. Although Lek added an amendment to Section 10.16.3.3 of the WSPs responsive to the first sentence in Recommendation No. 4, he added nothing regarding the second (background check for disclosed beneficial owners).

K. Recommendations 58 and 59

174. Recommendations 58 and 59 together required an annual comprehensive assessment of the Firm’s exception report process to ensure reports are producing meaningful results and are being appropriately reviewed, and that reviews are appropriately documented.

175. Recommendations 58 and 59 required this assessment in the Firm’s annual Rule 3120 Report. FINRA Rule 3120 requires a firm’s designated principals to submit an annual report to the firm’s senior management that details the firm’s system of supervisory controls, the summary of the test results and significant identified exceptions, and any additional or amended supervisory procedures that have been created in response to those test results.

176. Recommendation 58 stated:

The firm’s use, selection and review (including frequency of review) of exception reports should be the subject of a comprehensive assessment in the firm’s annual Rule 3120 Policies and Procedures testing report. This should include a discussion of whether those assigned to review exception reports relating to the deposit, processing or trading of microcap securities are best suited to these responsibilities, review metrics such as the percentage of line items reviewed for each exception report, whether

reviews of exception reports are being appropriately documented and review processes memorialized whether the firm's resources are being properly allocated to the review of exception reports.

177. Recommendation 59 stated:

Further, in the annual Rule 3120 report, the CCO should review whether exception reports are producing useful data and have the correct settings and thresholds. The review would include whether reports are producing fewer meaningful results than expected or too many “false positives.”

178. The Implementation Report stated that both recommendations were implemented by adding the requirements of Recommendations 58 and 59 to Section 6.8 of the WSPs.

179. Although the WSPs were amended, LSC failed to implement the IC’s recommendations in the Firm’s next Rule 3120 Report, dated March 23, 2020 — five weeks after Lek certified that LSC had implemented the IC’s recommendations.

180. In addition, the Firm’s Rule 3120 report for the following year, 2020, issued in April 2021, contained conclusions but none of the analysis required by Recommendations 58 and 59.

L. Recommendation 54

181. Recommendation 54 required the Firm to develop exception reports that examine the red flags in the latest guidance from FINRA at the time of the report, Notice 19-18, and provided an “example” of one such report.

182. Lek’s response was to cite a single exception report (“Checks for Certificates Sold at High Prices”) that already existed and that Lek believed fit the “example” provided by the IC and ignore the rest of the red flags in Notice 19-18.

183. The “Check for Certificates Sold at High Prices” exception report already existed when the IC issued the Initial Report, and the Initial Report included discussion of that exception report in connection with Recommendation 54.

184. The “Check for Certificates Sold at High Prices” report, then called the “Large Trades Executed at Very High or Low Price” report, was one of three exception report failures described in the Order, because at that time the report was only triggered on trades that generated at least \$1 million in proceeds.

185. Lek’s claim to have implemented Recommendation 54 with a “new” exception report was false because the exception report already existed.

186. In the Final Report, the IC stated that consideration of “the other red flags laid out in NTM 19-18 . . . was, and remains, the foundation of that recommendation Therefore, I do not find this recommendation has been satisfied.”

187. Lek failed to fully implement Recommendation 54 because the Firm did not develop exception reports that responded to all of the other applicable red flags in Notice 19-18.

M. Recommendation 67

188. Recommendation 67 stated:

For all microcap securities customers, in reviewing any exception report, Compliance should perform a reasonable inquiry to determine whether the microcap securities customer’s sale or purchase is close in time to news or a significant announcement that affects the price of the security.

189. The Implementation Report stated: “Implementation: The newly designed exception report ‘Check for Certificates Sold at High Prices’ was designed to flag this.”

190. Lek did not implement the recommendation because the recommendation required LSC’s Compliance department to conduct a reasonable inquiry in response to any exception reports rather than the adoption of any particular exception report.

191. Nothing in LSC’s WSPs or other compliance-related documents required the “reasonable inquiry” with respect to any exception report.

XI. LSC'S MICROCAP SUPERVISORY SYSTEM AND AML PROGRAM

A. The Firm's System to Process Microcap Deposits

192. LSC's WSPs required customers who deposit microcap stocks into the Firm to complete a questionnaire ("DSRQ") to support any claim that sales of the securities qualify for a resale exemption from registration.

193. The DSRQ requested the customer to supply information regarding the shareholder, security, prior owners of the security, and any known restrictions on resale. In addition to the DSRQ, customers were asked to supply the Firm with documentation related to any claimed exemption from registration, such as stock purchase agreements, convertible notes, and legal opinions.

194. An LSC "Deposit Specialist" entered information from the DSRQ into the Certificate Processing Program. The Deposit Specialist ensured that customers submitted the necessary supporting documentation.

195. The WSPs required that any material inaccuracies in the DSRQ be reported to the Compliance department, who were instructed to consider filing a SAR.

196. According to LSC's Securities Manual — Microcap Securities Processing ("Certificate Processing Manual"), Deposit Specialists were also responsible for ensuring that the client legally owned the microcap security, that the client could legally sell the microcap security, and that any AML concerns were addressed.

197. The Certificate Processing Manual charged the Deposit Specialists with identifying red flags, determining if the deposited shares fall under an exemption from registration, such as Securities Act Rule 144, and reviewing recent news articles for potential promotional campaigns.

198. Where a Deposit Specialist identified potential misconduct as part of this review, they were instructed to escalate the issue to a compliance officer or Lek.

199. All microcap deposits were required to be approved by a registered principal, which, in practice, was always Lek.

B. LSC's WSPs Identified Pertinent AML Red Flags

200. The WSPs identified several risk indicators of potential money laundering by firm customers who sought to deposit microcap securities, including where:

- a. Shares “[w]ere issued by a shell company”;
- b. Shares “[w]ere issued by a company that has no apparent business, revenues or products”;
- c. Shares “[w]ere issued by a company whose SEC filings are not current, or incomplete or nonexistent”;
- d. Shares “[w]ere issued by a company that has been through several recent name changes or business combinations or recapitalizations”; and
- e. “Officers or insiders of the issuer are associated with multiple penny stock issuers.”

201. The WSPs described as a red flag that the “[a]ccount is involved in micro-cap securities.”

C. LSC's Process for Reviewing Microcap Exception Reports

202. Per the Firm's WSPs, all exception reports that pertained to microcap securities were to be reviewed by a designated principal or a registered representative with at least five years of experience. “[A]nything remarkable” in those reports was supposed to be recorded in a comment.

203. Lek was designated as a “super reviewer” to review all reviews of exception reports relating to microcap securities. Lek was the primary reviewer for nearly all microcap exception reports.

D. The Responsibilities of the CCO and AMLCO Under the WSPs

204. Other than an administrator who performed no substantive compliance function, LSC’s Compliance department consisted of JT and AS. JT was the CCO and, beginning in September 2020, AMLCO.

205. AS was not involved with microcap securities compliance and terminated his employment with LSC in August 2021. AS has not been replaced.

206. JT joined LSC at the outset of the Relevant Period and devoted a significant amount of time to his own book of business.

207. Under the WSPs, as the CCO, JT was responsible for establishing and maintaining the Firm’s supervisory systems, policies and procedures, other than financial and operations procedures.

208. Under the WSPs, the AMLCO was responsible for monitoring Firm customers to detect and prevent money laundering (or designating a monitor to do so), reviewing and investigating suspicious transactions referred by employees, and determining whether to file a SAR.

209. The WSPs did not contain any limitation as to the CCO or AMLCO’s responsibilities with respect to microcap securities.

XII. THE FIRM’S SUPERVISORY SYSTEM AND AML PROGRAM WERE UNREASONABLE

210. During the Relevant Period, Lek directly supervised all aspects of LSC’s microcap business, including onboarding of microcap-depositing customers; acceptance of

deposits; trading; and exception reports. LSC's supervisory system, however, was not reasonably designed to ensure compliance with FINRA rules and the securities laws given the type of business LSC conducted — namely, microcap securities.

A. LSC's Staff Could Not Reasonably Supervise its Microcap Business

1. LSC Did Not Have an AMLCO for 11 Months

211. For nearly a year, from October 2019 to September 2020, the Firm did not have an AMLCO.

212. When Lek filed the Firm's Continuing Membership Application in October 2019 in connection with his assumption of ownership over LSC, he represented that JT, the Firm's then-interim CCO, had begun serving as the Firm's AMLCO and would continue in that role.

213. Similarly, the Firm's WSPs beginning in October 2019 likewise designated JT as AMLCO. This designation was unchanged in subsequent versions, including Lek's revisions in response to the Initial Report.

214. JT, however, was not asked to serve as AMLCO, and did not agree to serve in that role, until September 2020. JT undertook no duties or responsibilities of the Firm's AMLCO prior to September 2020.

2. LSC's Compliance Department Was Lightly Staffed

215. Lek represented to the IC that the Compliance department consisted of five compliance personnel as of January 2020, which he claimed was an improvement over the three compliance personnel in 2016.

216. However, LSC's Compliance department was never composed of more than three members during the Relevant Period: JT, AS and JQ.

3. The CCO/AMLCO Was Excluded From, and Unfamiliar with, the Firm's Microcap Compliance

217. Prior to leaving the Firm, Samuel Lek arranged for JT to become interim CCO under the new management structure beginning in late September 2019.

218. JT did not have any compliance role at LSC prior to becoming interim CCO.

219. Nevertheless, shortly after Lek issued the Implementation Report in March 2020, LSC made JT the permanent CCO.

220. JT's practice since becoming CCO was to focus upon serving his own customers during the workday unless a particular compliance issue arose. He otherwise performed his compliance duties when the stock markets were closed.

221. JT had no expertise related to microcap securities business.

222. Lek, not JT, handled compliance issues related to microcap securities. At Lek's direction, JT excluded microcap securities from his compliance functions and delegated review of LSC's exception reports related to microcap to Lek.

223. The Compliance department under JT occasionally held meetings, but they rarely, if ever, involved microcap issues.

224. Lek directed JT to exclude the Firm's microcap securities business from JT's AML compliance responsibilities. Lek was responsible for filing suspicious activity reports with respect to microcap securities business.

225. Lek was also responsible for reviewing and updating the Firm's procedures relating to microcap securities, including any testing related to those procedures.

226. Despite serving for over two years in his role as CCO, and over one year as AMLCO, as of December 2021, JT was unaware of key compliance issues and functions in this area, including the Firm's "Q6" system; exception reports relating to microcap securities; the

identity of the Firm's microcap customers; or even that customers of Lek UK deposited microcap securities with the Firm.

4. The Deposit Specialists Were Inexperienced and Not Part of the Compliance Department

227. When Lek issued the Implementation Report, LSC began to employ a so-called Deposit Specialist, first DG and then BF, who worked directly with Lek on microcap deposits without the involvement of the Compliance department. The Deposit Specialist was not a member of the Compliance department.

228. Neither DG nor BF had the knowledge, training, or expertise necessary to review deposits for red flags of violative activity.

229. Neither DG nor BF had been provided with any of the IC's reports or Lek's Implementation Report.

230. Neither DG nor BF had experience or education related to compliance issues or the finance or securities industries when they joined LSC.

231. DG's and BF's role at LSC was limited to data collection and entry into the Certificate Processing Program from the DSRQ, documents supplied by customers depositing microcap stocks, and the OTC Markets website; making sure that the documentation was complete; and ensuring that information on the DSRQ matches the documents submitted. Their role was largely administrative.

232. Despite their duties outlined in the Certificate Processing Manual, in practice, BF and DG had no responsibility for identifying red flags of violative activity in the deposits and did not do so in their reviews. They left that determination solely to Lek.

233. After a year as the LSC Deposit Specialist, BF and DG lacked knowledge of key terms and concepts related to the microcap deposits, including:

- a. What is a convertible promissory note, the primary instrument by which most of LSC's microcap customers obtain their shares;
- b. That Lek UK, or customers of Lek UK, deposit any kind of securities with LSC; and
- c. What is a "distributor" of the issuer, as that term is used in the Certificate Processing Program.

B. The Firm's System to Supervise Trading Was Not Reasonable

234. As Head Trader and COO, MM was responsible for monitoring liquidations transacted through LSC.

235. Using the Firm's front-end order management system, many of LSC's customers entered their own orders and could direct their orders to an exchange, market maker, dark pool or other venue for execution.

236. LSC's microcap customers often liquidated their shares shortly after significant news, issuer announcements or other promotional activity that appeared to inflate the price and trading volumes of the shares.

237. At the time LSC's microcap customers liquidated their shares, nobody at LSC monitored for significant news, issuer announcements or other promotional activity that may substantially affect the price and trading volume of the shares.

C. Lek's Review of Exception Reports Related to Microcap Securities Was Not Meaningful or Documented

238. Lek was responsible for reviewing all microcap-related exception reports since becoming the Firm's CEO.

239. LSC's Exception Report Viewer displayed, for each type of exception report, multiple, unrelated, triggering instances. When Lek reviewed an exception report, his practice

was to enter one short, vague comment that failed to identify the triggering instances to which the comment applies.

240. Lek's practice failed to adequately document his resolution of red flags in exception reports. For example:

- a. On March 29, 2021, the exception report "OTC Symbols liquidated by more than one account last week" was triggered by liquidations in 18 microcap securities. Ten different LSC customers liquidated more than one of these stocks. However, Lek entered one comment for this exception report: "client recieved [sic] stocks in different transactions. not working together."
- b. On January 20, 2021, the exception report "Check for Certificates Sold at High Prices" was triggered by liquidations in 11 securities. Lek entered one comment for this exception report: "Report reviewed."

241. Lek failed to reasonably identify and investigate red flags appearing in exception reports involving microcap securities. For example:

- a. Quanta, Inc. (QNTA): Beginning March 5, 2021, LSC Customers AA, GW and ACM collectively liquidated over 16 million shares of QNTA over ten weeks in the midst of a continuing, sensational promotional campaign touting a scorpion-venom-based cure for cancer and COVID-19. These liquidations triggered two LSC exception reports over the ten-week period:
 - i. Seven exception reports for "OTC Symbols liquidated by more than one account last week." Lek's comments for these reports ranged from a simple "Report reviewed" to "Report reviewed. Not trading in concert. Clients invested in different ways to issuer" or a variation thereof.

- ii. Six exception reports for “Check for Certificates Sold at High Prices.” Lek’s comments for these reports ranged from a simple “Report reviewed” to “News articles reviewed for hype or spamming / sensational news and nothing detected.”
- b. South Beach Spirits Inc. (SBES): From September 1, 2021, to December 22, 2021, LSC Customer YT liquidated nearly 950 million shares of SBES, which was approximately 17 percent of the SBES outstanding shares. Customer YT sold over 209 million of those shares after December 15, 2021, which was the start of a promotional campaign that caused the price increase by over 450 percent. These liquidations triggered four exception reports for “Check for Certificates Sold at High Prices.” Lek’s comments for these reports all stated nothing more than a variation of “reviewed news articles [sic] for hype/spamming/sensational news and nothing negative detected in searches.”
- c. Illustrato Pictures International, Inc. (ILUS): From January 28, 2021, to April 1, 2021, LSC Customer GP liquidated over 250 million shares of ILUS coinciding with a promotional campaign involving acquisitions and new lines of business. These liquidations triggered 16 exception reports for “Check for Certificates Sold at High Prices.” Lek’s comments for these reports all stated nothing more than a variation of “reviewed news articles [sic] checked for hype or spamming — nothing negative detected in searches.”

242. Beyond the comments contained in exception reports, Lek failed to document additional investigative steps taken or the results of any such investigation.

XIII. LSC ACCEPTED AND LIQUIDATED MICROCAP DEPOSITS DESPITE RED FLAGS OF POTENTIALLY ILLEGAL DISTRIBUTIONS OR FRAUD

A. Red Flags in LSC Customer Activity

243. The Deposit Specialist and Lek ignored or failed to reasonably investigate price spikes in securities around the time of the deposit. For example, from February 2 to February 8, 2021, the price of Blue Water Global Group, Inc. (symbol: BLUU) increased by approximately 1,300 percent from 0.0008 to 0.0102. Four days later Customer AF deposited 91,149,841 shares with LSC. The Certificate Processing Program notes for that deposit state, “Trading activity reviewed for spikes or other abnormalities -nothing negative detected.”

244. The Deposit Specialist and Lek ignored or failed to investigate instances where the price the customer paid for the shares is substantially less than the market price. Most of LSC’s microcap deposits consisted of shares issued from a convertible note at a steep discount to the recent price of the issuer’s common stock. The Firm did nothing to investigate this red flag. For example, Customer GP deposited 50 million shares of Ilustrato Pictures International Inc. (symbol: ILUS) with LSC on August 6, 2021. On August 5, 2021, per LSC’s records, ILUS was trading at 0.0471 but Customer GP converted the shares that same day with a conversion price of 0.0001 — a 99.8 percent discount.

245. The Deposit Specialist and Lek ignored or failed to reasonably investigate public promotional campaigns and hype by issuers or promoters of deposited securities around the time of the deposit, such as the QNTA promotional activity alleged above.

246. When checking for news or promotional activity, the Deposit Specialist only checked the most recent article on the OTC Markets website, ignoring any recent, earlier articles.

247. The Deposit Specialist and Lek ignored or failed to reasonably investigate patterns of repeated deposits of the same microcap stock by a customer that indicate that the

customer may be engaged in a distribution. For example, from April 2020 to August 2021, three LSC customers cumulatively deposited over 4 billion shares of Sugarmade, Inc. (symbol: SGMD) in 46 increments. These deposits comprised 54 percent of the total shares of SGMD in August 2021 and their issuance represented an over 450 percent increase in SGMD shares during that period.

248. The Deposit Specialist and Lek ignored or failed to reasonably investigate red flags related to close-in-time microcap liquidations by multiple customers, some of whom have disclosed or undisclosed common ownership or affiliations. For example, customers AA and YT had discoverable, but unacknowledged, indicia of common ownership. Both customers liquidated South Beach Spirits (symbol: SBES) in June and July 2021.

249. The Deposit Specialist and Lek failed to identify negative public information concerning parties involved in the deposit, notwithstanding that the Deposit Specialist and Lek supposedly checked the OTC Markets website for that information. For example, when Customer GP submitted deposits of DNA Brands, Inc. (symbol: DNAX) in July 2020 (37,500,000 shares) and January 2021 (312,500 shares), it supported the tradability of the shares with a legal opinion by an attorney on the OTC Markets Prohibited Service Provider list.

XIV. DURING THE RELEVANT PERIOD, LSC STAFF, INCLUDING LEK AND MM, USED COMMUNICATIONS SYSTEMS THAT WERE NOT CAPTURED BY LSC'S BOOKS AND RECORDS

250. LSC's WSPs contained an Electronic Communications Policy that required, among other things, that "Electronic business communications must be accessed and transmitted only through firm-sponsored systems."

A. Lek Repeatedly Used His Lek UK Email Address to Communicate with LSC’s Microcap Customers Regarding Securities Business

251. The Firm’s WSPs stated that “Approved firm-sponsored systems include” email accounts provided by LSC that are accessed through “the firm’s systems.”

252. LSC did not provide Lek UK email accounts to any of its personnel, and Lek UK emails are not captured by the Firm’s surveillance systems nor preserved in the Firm’s books and records unless the email also includes an LSC email address.

253. Lek had both a LSC email address and a Lek UK email address resulting from his association with both firms.

254. Lek has repeatedly used his Lek UK email address to communicate with LSC customers regarding LSC business that have no business relationship with Lek UK.

B. The Firm’s COO and Head Trader, MM, Used Unapproved Instant Messaging with Microcap Customers and LSC Staff

255. The Firm’s WSPs stated that “Approved firm-sponsored systems include: Instant messaging limited to Compliance-approved portals.”

256. MM’s messaging application was not approved by the Firm for instant messaging.

257. MM used the unapproved messaging application to communicate with customers and LSC personnel regarding the Firm’s securities business.

258. Instant messages sent outside of Compliance-approved portals were not captured by the Firm’s surveillance systems and were not preserved in the Firm’s books and records.

C. LSC Representatives Used WhatsApp to Communicate with Customers Regarding Securities Business

259. WhatsApp is a freeware application that allows users to send text messages, share documents, and make phone calls.

260. WhatsApp was not a Compliance-approved portal for instant messaging.

261. WhatsApp messages were not retained by LSC.

262. Five LSC representatives, JB, MG, RP, TC, and TT, used WhatsApp to communicate with LSC customers in over 1000 total instances.

263. Many of the WhatsApp communications related to LSC business. For example, through WhatsApp, a customer placed trade orders, discussed an ACAT request, and received information on how to access his account statements.

FIRST CAUSE OF ACTION
FAILURE TO COMPLY WITH ORDER ACCEPTING SETTLEMENT
BY VIOLATING BUSINESS LINE SUSPENSION
Violation of FINRA Rule 2010
(LSC and Lek)

264. Enforcement realleges and incorporates by reference all preceding paragraphs.

265. FINRA Rule 2010 requires associated persons to “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of their business.

266. Violating a term of a FINRA settlement order is a breach of FINRA Rule 2010.

267. As alleged above, the Order included a business line suspension that prohibited LSC from accepting deposits of low-priced securities or, with two limited exceptions, executing orders to sell such securities.

268. The business line suspension went into effect on December 20, 2019 and was to remain in effect until the Firm certified to FINRA that it had implemented all of the recommendations of the IC.

269. LSC violated the business line suspension by accepting five deposits of low-priced securities while the business line suspension was in effect: PPCB, RETC, WCVC, GNBT and ALDS.

270. LSC further violated the business line suspension by liquidating shares of PPCB, RETC, WCVV, and GNBT during the period of the business line suspension.

271. Lek, on behalf of LSC, purported to lift the business line suspension on or about February 10, 2020, without having certified to FINRA that the Firm had implemented all of the recommendations in the IC's Initial Report.

272. In addition to the violative deposits and liquidations alleged above, LSC also accepted and liquidated deposits of low-priced securities in violation of the business line suspension beginning on or around February 11, 2020. Lek approved and facilitated the acceptance of all the violative deposits.

273. On February 13, 2020, Lek submitted a certification to FINRA that the Firm had implemented all of the recommendations in the IC's Initial Report.

274. The Firm had not implemented all of the recommendations in the IC's Initial Report as of February 13, 2020. Accordingly, Lek's February 13, 2020 certification was false and did not lift the business line suspension.

275. Because LSC did not meet the conditions to lift the business line suspension set forth in the Order, all low-priced securities that LSC has accepted or, subject to the two limited exceptions in the Order, liquidated since February 11, 2020, have been in violation of the Order.

276. Lek caused the Firm to accept deposits and liquidate low-priced securities in violation of the business line suspension by, among other things, failing to timely notify Firm personnel and customers of the commencement of the business line suspension, providing false guidance to LSC staff regarding the applicability of the business line suspension to recently received deposits, failing to take steps to prevent the Firm from accepting violative deposits and liquidations, and prematurely purporting to lift the business line suspension.

277. For the foregoing reasons, Respondents violated FINRA Rule 2010.

SECOND CAUSE OF ACTION
FAILURE TO COMPLY WITH ORDER ACCEPTING SETTLEMENT
BY FAILING TO IMPLEMENT IC'S RECOMMENDATIONS
Violation of FINRA Rule 2010
(LSC and Lek)

278. Enforcement realleges and incorporates by reference all preceding paragraphs.

279. As alleged above, the Order required LSC to retain and cooperate with an IC.

The Order further required LSC to adopt and implement the recommendations of the IC.

280. The IC issued its Initial Report on February 4, 2020 containing 98 recommendations.

281. Although the Order provided a procedure for LSC to submit Proposed Alternative Procedures with respect to any recommendation that the Firm considered “in whole or in part, unduly burdensome or impractical,” LSC did not do so.

282. Pursuant to the Order, LSC was responsible for adopting and implementing each of the IC's 98 recommendations.

283. As alleged above, Lek, on behalf of LSC, failed to adopt and implement 18 recommendations contained in the Initial Report, in whole or in part.

284. LSC's failure to adopt and implement all of the recommendations of the Initial Report caused LSC to violate the undertaking in the Order requiring the Firm to implement the IC's recommendations.

285. For the foregoing reasons, Respondents violated FINRA Rule 2010.

THIRD CAUSE OF ACTION
MAKING FALSE CERTIFICATIONS AND REPRESENTATIONS TO FINRA
Violation of FINRA Rule 2010
(LSC and Lek)

286. Enforcement realleges and incorporates by reference all preceding paragraphs.

287. Making false certifications and representations to FINRA is a violation of FINRA Rule 2010.

288. As alleged above, on February 10, 2020, Lek, on behalf of LSC, submitted a certification to FINRA that represented that the Firm had fully complied with the business line suspension.

289. Lek was aware that his February 10, 2020 certification was false because he knew the Firm had accepted deposits of low-priced securities and permitted liquidations of low-priced securities that did not fall within the two limited exceptions in the Order while the business line suspension was in effect.

290. On February 13, 2020, Lek, on behalf of LSC, submitted a certification to FINRA that the Firm had implemented all of the recommendations in the IC's Initial Report.

291. Lek was aware that his February 13, 2020 certification was false because he knew that the Firm had not implemented all of the recommendations in the IC's Initial Report.

292. On March 3, 2020, Lek submitted the Implementation Report to FINRA representing that the Firm had fully implemented the IC's recommendations in the Initial Report.

293. Lek knew those representations in the Implementation Report were false because he knew that the Firm had not fully implemented the IC's recommendations in its Initial Report.

294. For the foregoing reasons, Respondents violated FINRA Rule 2010.

FOURTH CAUSE OF ACTION
FAILURE TO ESTABLISH AND IMPLEMENT A REASONABLE AML PROGRAM
Violation of FINRA Rules 3310(a) and 2010
(LSC and Lek)

295. Enforcement realleges and incorporates by reference all preceding paragraphs.

296. FINRA Rule 3310(a) requires members to develop and implement a written anti-money laundering program reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act and the implementing regulations promulgated thereunder by the Department of the Treasury. A member's program shall, at a minimum, "[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. §5318(g) [the Bank Secrecy Act] and the implementing regulations thereunder."

297. The Department of the Treasury issued the implementing regulation, 31 C.F.R. § 103.19(a)(1) on July 1, 2002, setting forth the final rules concerning the reporting of suspicious activity. It provided that, "[e]very broker or dealer in securities within the United States . . . shall file with FinCEN . . . a report of any suspicious transaction relevant to a possible violation of law or regulation."

298. In August 2002, FINRA issued Notice to Members ("NTM") 02-47, which provided an overview of the final rule promulgated by the United States Department of the Treasury for the securities industry regarding the reporting of suspicious activity and advised broker-dealers of their duty to file a suspicious activity report (SAR) in certain circumstances.

299. FINRA and the SEC have both repeatedly issued updated guidance since then, including Regulatory Notice 19-18, which updated the non-exhaustive list of red flags provided in NTM 02-21.

300. During the Relevant Period, with respect to microcap securities, the Firm, under Lek's direction, failed to implement AML policies, procedures, and internal controls reasonably expected to detect and cause the reporting of suspicious transactions and reasonably designed to achieve compliance with the Bank Secrecy Act, 31 U.S.C. § 5311, *et seq.*, and the implementing regulations promulgated thereunder by the Department of the Treasury.

301. During the Relevant Period, Lek assumed responsibility and was responsible for AML compliance related to the Firm's microcap customers, microcap deposits, and microcap sales through the Firm.

302. The Firm failed to develop and implement an AML program reasonably designed to comply with the BSA and its implementing regulations during the Relevant Period.

303. The Firm's WSPs have failed to include the latest regulatory guidance from Notice 19-18, and when the IC recommended that the Firm update its WSPs to include new red flags from that Notice, the Firm largely declined to do so.

304. The Deposit Specialists working directly under Lek have been inexperienced and unqualified to detect and investigate suspicious behavior by the Firm's microcap customers.

305. The Firm did not have an AMLCO for the first 11 months of the Relevant Period. Afterward, since September 2020, JT has served as the AMLCO, but he has been excluded from effectively reviewing the Firm's microcap securities business.

306. LSC's microcap customer activity regularly implicated red flags of potentially violative behavior set forth in regulatory guidance, but the Firm and Lek failed to detect and reasonably investigate such red flags.

307. To the extent that the Firm's exception reports identified potentially suspicious activity, the Firm and Lek failed to reasonably investigate that activity and failed to adequately document any investigation they undertook.

308. As a result, the Firm executed customer orders to sell microcap securities without reasonable detection, investigation, and determination as to whether such transactions should be reported on a SAR.

309. By virtue of this conduct, LSC and Lek violated FINRA Rules 3310(a) and 2010.

FIFTH CAUSE OF ACTION
FAILURE TO SUPERVISE MICROCAP SECURITIES BUSINESS
Violation of FINRA Rules 3110(a) and 2010
(LSC and Lek)

310. Enforcement realleges and incorporates by reference all preceding paragraphs.

311. FINRA Rule 3110(a) requires each member to establish and maintain a system, including written supervisory procedures, to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD and FINRA Rules. The procedures must be tailored to the business lines in which the firm engages, and they also must set out mechanisms for ensuring compliance and detecting violations, not merely set out what conduct is prohibited.

312. The deposit and sale of microcap securities present well-known risks of potential violations of federal securities laws and FINRA rules, including manipulation, fraud and unlawful distributions of unregistered securities.

313. FINRA has issued guidance to the industry concerning the need to tailor supervisory systems to the address the risks posed by microcap securities, including Regulatory Notice 09-05 (unregistered distributions), Regulatory Notice 19-18, and Regulatory Notice 21-03.

314. In addition to his general supervisory responsibilities as CEO, Lek assumed all responsibility for supervision and compliance related to the Firm's microcap customers, microcap deposits, and microcap sales through the Firm.

315. LSC, through Lek, failed to establish and maintain a supervisory system reasonably designed to supervise the Firm's microcap securities business, and otherwise failed to supervise this business, by:

- a. Concentrating all supervision and compliance-related functions related to onboarding microcap customers, acceptance of microcap deposits, and review of microcap exception reports to Lek himself to the exclusion of the Compliance department and the CCO.
- b. Understaffing the Firm's compliance function and hiring compliance staff and Deposit Specialists with no experience or qualifications.
- c. Providing late notice of the business line suspension, providing misleading guidance regarding acceptance of deposits received after the suspension began, and prematurely lifting the business line suspension.
- d. Making inaccurate entries to the Firm's Certificate Processing Program regarding the Firm's improper acceptance and liquidation of deposits during the business line suspension, including PPCB.
- e. Failing to implement all of the recommendations of the IC's Initial Report, nearly all of which related to supervision of the Firm's microcap securities business, and falsely certifying implementation to FINRA. Adopting a largely check-the-box process for reviewing deposits of securities, which regularly missed obvious red flags in either the deposit packages or available through internet searches.

- f. Inadequately documenting due diligence and investigative steps, if any, in connection with deposit reviews, review of exception reports, and other reviews of red flags of violative behavior.
 - g. Having no process, at the trading stage, for checking for promotional campaigns or favorable press releases that may drive the price or volume of the stock.
 - h. Using, and allowing use of, electronic methods of business-related communications with customers and among staff that are not captured, monitored or retained in the books and records of the Firm.
 - i. Failing to update the Firm's WSPs with the latest regulatory guidance, including Notice 19-18 and Regulatory Notice 21-03.
316. By virtue of this conduct, LSC and Lek violated FINRA Rules 3110 and 2010.

SIXTH CAUSE OF ACTION
WILLFUL FAILURE TO RETAIN BOOKS AND RECORDS
EXCHANGE ACT SECTION 17(a), EXCHANGE ACT RULE 17a-4, FINRA RULES 4511 AND 2010
(RESPONDENT LSC)

317. The Department of Enforcement realleges and reincorporates by reference all preceding paragraphs.

318. Exchange Act Section 17(a) requires registered broker-dealers to “make and keep for prescribed periods such records . . . as the Commission, by rule, prescribes as necessary or appropriate in the public interest.”

319. Exchange Act Rule 17a-4 requires broker-dealers maintain and preserve, for a period of not less than three years, originals of all communications received and copies of all communications sent relating to the firm's business.

320. FINRA Rule 4511 requires member firms to “make and preserve books and records as required under the FINRA rules, the Exchange Act and the applicable Exchange Act rules.”

321. A violation of the Exchange Act, SEC rules, and FINRA Rule 4511 is also a violation of FINRA Rule 2010.

322. During the Relevant Period, Lek used his Lek UK email address for LSC business-related communications.

323. During the Relevant Period, MM used text messaging services provided with his phone for LSC business-related communications.

324. From January 1, 2018 to January 29, 2021, five LSC representatives used WhatsApp for LSC business-related communications.

325. Lek’s UK emails, MM’s text messages, and the WhatsApp communications were not retained by LSC nor reviewed for compliance purposes during the Relevant Period.

326. By virtue of this conduct, LSC willfully violated Exchange Act Section 17(a), Exchange Act Rule 17a-4, and FINRA Rules 4511 and 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

- A. make findings of fact and conclusions of law that Respondents committed the violations charged and alleged herein;
- B. order that one or more of the sanctions provided under FINRA Rule 8310(a) be imposed, including that Respondents be required to disgorge fully any and all ill-gotten gains and/or make full and complete restitution, together with interest;
- C. order that the Respondents bear such costs of proceeding as are deemed fair and appropriate under the circumstances in accordance with FINRA Rule 8330; and

- D. make specific findings that Respondent LSC willfully violated Section 17(a) of the Exchange Act.

FINRA DEPARTMENT OF ENFORCEMENT

DATED: September 9, 2022

Respectfully submitted,



Gregory R. Firehock
Senior Litigation Counsel
Department of Enforcement
Financial Industry Regulatory Authority
1601 Market Street, Suite 2700
Philadelphia, Pennsylvania 19103
215.209.2812
gregory.firehock@finra.org

David Monachino
Senior Litigation Counsel
FINRA Department of Enforcement
303 Perimeter Center North, Suite 550
Atlanta, Georgia 30346
212.416.0682
david.monachino@finra.org

Mark S. Geiger
Counsel
Department of Enforcement
Financial Industry Regulatory Authority
Brookfield Place
200 Liberty Street, 11th Floor
New York, New York 10281
212.858.5218
mark.geiger@finra.org

EXHIBIT A

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

COMPLAINANT,

V.

**LEK SECURITIES CORP.,
CRD No. 33135,**

AND

**SAMUEL FREDERIK LEK,
CRD No. 1642936,**

RESPONDENTS.

Disciplinary Proceeding No. 2015045312501

Hearing Officer — DRS

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: December 20, 2019

INTRODUCTION

Disciplinary Proceeding No. 2015045312501 was filed on November 26, 2018, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA or Complainant). Respondents Lek Securities Corp. and Samuel Frederik Lek submitted an Offers of Settlement (Offer) to Complainant dated December 19, 2019. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondents have consented, without admitting or denying the allegations of the Complaint, 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, to the entry of

findings and violations consistent with the allegations of the Complaint, and to the imposition of the sanctions set forth below, and fully understand that this Order will become part of Respondents' permanent disciplinary records and may be considered in any future actions brought by FINRA.

BACKGROUND

Lek Securities Corporation (the "Firm" or "LSC") is a Delaware corporation headquartered in New York, NY, and has been registered with FINRA since April 1, 1996. The Firm operates as an independent order-execution and clearing firm providing customers direct market access to numerous exchanges.

FINRA has jurisdiction over the Firm, pursuant to Article IV, Section 1(a)(1) of the By-Laws and FINRA Rule 0140 as the Firm is a FINRA member.

The Firm is a recidivist violator and was previously sanctioned for failing to comply with AML rules.

In a December 30, 2014, Decision by the Office of Hearing Officers, the Firm was censured and fined \$100,000 for failing, from January 1, 2008 to October 31, 2010, to establish and implement AML policies and procedures that were reasonably designed to achieve compliance with the BSA and its implementing regulations, in violation of NASD Conduct Rules 3011(a) and 2110 and FINRA Rules 3310(a) and 2010. On October 11, 2016, the findings and sanction were affirmed by the National Adjudicatory Council. On April 2, 2018, the findings and sanction were affirmed by the Securities and Exchange Commission (SEC).

Samuel Frederik Lek ("Lek") has been employed in the securities industry since August 1986 and founded the Firm in January 1990.

Lek was the Firm's AML Compliance Officer ("AMLCO") as well as its Chief Executive Officer ("CEO"), and Chief Compliance Officer ("CCO").

Throughout the Relevant Period, Lek had the ultimate authority at the Firm to develop, maintain, and deploy compliance resources as he deemed appropriate.

FINRA has jurisdiction over Lek because he is currently associated with a FINRA member and committed the misconduct at issue while associated with a member.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

SUMMARY

Between January 2014 and December 2016 (the "Relevant Period"), Lek Securities Corporation (the "Firm" or "LSC"), acting through Samuel Frederik Lek ("Lek"), failed to develop and implement a reasonable Anti-Money Laundering ("AML") program and supervisory system for one of its lines of business, namely the deposit and trading of low-priced penny stocks ("microcap stocks") by Firm customers.

As a result of these failures, the Firm, through Lek, did not establish and implement AML policies and procedures that could be reasonably expected to detect, investigate and report, where appropriate, potentially suspicious activity in microcap stocks, thereby violating FINRA Rules 3310(a) and 2010.

In addition, the Firm failed to comply with numerous other AML obligations, including failing to conduct Financial Crimes Enforcement Network ("FinCEN") 314(a) reviews in violation of FINRA Rules 3310(b) and 2010; failing to conduct reasonable AML testing in violation of FINRA Rules 3310(c) and 2010; and failing to provide reasonable AML training in violation of FINRA Rules 3310(e) and 2010.

The Firm, through Lek, also failed to establish, maintain and enforce a supervisory system reasonably designed to achieve compliance with Section 5 of the Securities Act of 1933, in violation of NASD Rule 3010 and FINRA Rules 3110 and 2010.

As a result, the Firm also facilitated the unlawful distribution of securities in contravention of Section 5 of the Securities Act of 1933 and thus in violation of FINRA Rule 2010.

All of the violations described above occurred while the Firm allowed its account owners to engage in millions of dollars of microcap stock deposit and trading, including accounts that were owned by individuals previously charged with regulatory violations, known toxic-debt financiers, and omnibus accounts established in foreign jurisdictions with unknown beneficial owners.

In total, these particular Firm accounts liquidated more than 56 billion shares of microcap stocks and generated approximately \$100 million of proceeds, for which the Firm received approximately \$1.6 million in commissions.

FACTS

The Firm Participated in Microcap Stock Activity

The Firm offered customers the ability to deposit and trade microcap securities through its independent order execution and clearing services.

This generated significant revenues for the Firm.

During the Relevant Period, the Firm generated approximately \$110 million in revenue through its independent order execution and clearing services, of which approximately \$5.3 million was derived from microcap stock activity — \$3.6 million attributable to microcap stock trading and \$1.7 million from dematerializing microcap stock certificates (*i.e.*, converting

physical stock certificates into electronic book-entry form in order for those shares to be traded and settled on the Firm's platform).

This microcap activity raised significant supervisory concerns for the Firm. As alleged further below:

- a. Firm customers deposited thinly traded microcap stocks into the Firm at times when the shares were not acquired through an effective registration statement and, in certain instances, not eligible for public resale; and
- b. Firm customers sold microcap stocks into the secondary market at times when numerous red flags existed of potential microcap fraud, such as cautionary information about the issuer or the issuer's affiliates or shareholders; dubious promotional activity; and significant movements in microcap stock price and volume contemporaneous to trading activity.

Some of the Firm's customers that were involved in the microcap stock trading also raised red flags given their own disciplinary history and prior conduct.

For example, as alleged further below, accounts involved in microcap stock trading through the Firm included: (i) six accounts owned by an individual previously sanctioned by the SEC for violating securities laws; (ii) an account owned by an individual previously sanctioned by the U.S. Department of Justice for mortgage fraud; (iii) multiple accounts owned by known toxic-debt financiers; and (iv) multiple omnibus accounts established in foreign jurisdictions with unknown beneficial owners.

As alleged further below, despite the volume and type of microcap activity, the Firm failed to reasonably supervise the deposit and trading process.

The Firm's Certificate Review Process

Customers who deposited microcap stocks into the Firm were required to complete a “deposit for securities request certificate questionnaire” (“DSRQ”) to support any claim that sales of the securities qualified for a resale exemption.

The DSRQ requested the customer to supply information regarding the shareholder, security, prior owners of the security, and any known restrictions on resale. In addition to the DSRQ, customers supplied the Firm with documentation related to any claimed exemption from registration, such as stock purchase agreements, convertible notes, and legal opinions.

However, the Firm did not take reasonable steps to review the information provided to ensure that the deposited shares were eligible for sale.

Firm staff, under the personal direction of Lek, were only expected to perform a “ cursory” review of the materials provided.

They were not expected or required to (i) scrutinize the supporting materials provided by customers; (ii) review the SEC EDGAR database to determine if issuers were current in their reporting requirements; or (iii) review any of the issuer's filings, such as 10-Qs or 10-Ks.

The Firm's Surveillance of Trading Activity

Throughout the Relevant Period, Firm accounts conducted over 250,000 transactions per day, and of that total, over 1,500 microcap transactions per day.

The Firm monitored the microcap stock transactions through an automated surveillance system that it created internally under the personal direction of Lek.

Pursuant to the Firm's WSPs, Lek, as the Firm's AMLCO, CEO and CCO, was responsible for the Firm's surveillance program, including its automated surveillance system.

Lek exercised this responsibility in various ways:

- a. He provided the instructions and guidance to implement the automated surveillance system;
- b. He directed Firm staff on when and how to create surveillance system exception reports;
- c. He established the thresholds that would cause an exception report to be populated with alerts; and,
- d. After exception reports were reviewed by other Firm personnel, he made the ultimate determination as to whether any particular customer or trading activity warranted the filing of a suspicious activity report (“SAR”).

The Firm’s surveillance system, however, was not reasonably designed to detect suspicious microcap activity.

As a threshold matter, many of the Firm’s exception reports were strictly operational and thus unable to detect any potentially suspicious microcap activity whatsoever.

Primarily, only three exception reports were used to detect suspicious activity in microcap securities: “UTC Wash Sales,” “Potential Marking the Close,” and “Large Trades Executed at Very High or Low Price.”

Each of the three exception reports only reviewed narrow bands of trading activity and thus they could not — and did not — review the vast majority of the Firm’s microcap stock trading activity.

Moreover, the thresholds of the three exception reports were never adjusted throughout the Relevant Period to capture a reasonable amount of activity, despite the microcap stock deposit and trading that continued throughout the Relevant Period.

The “Large Trades Executed at Very High or Low Price” report only identified trading if two thresholds were met: (1) the trade was executed at a price that was 15 percent higher or lower than the trailing 20-day average and (2) the trade generated proceeds of at least \$1,000,000.

However, the vast majority of microcap stock trading conducted during the Relevant Period generated proceeds of amounts below the \$1,000,000 threshold. Thus, this report was essentially useless for purposes of reviewing the suspicious microcap stock trading occurring through the Firm.

Finally, in addition to the Firm’s exception reports, the Firm maintained a pre-trade threshold within its system: “Block of OTC Stock Trades in Excess of 20% of Average Daily Volume for the Last 20 Days.”

However, this pre-trade threshold was either disengaged or overridden to allow customers to trade numerous orders in excess of 20 percent.

The Firm’s Review of Exception Reports

Even in those instances when exception reports were triggered, the Firm, through Lek, failed to reasonably guide staff on the purpose of the reports and process by which to conduct a review.

The Firm’s “Exception Reports Manual” provided merely mechanical explanations of how the exception reports were to be opened, commented on, and closed.

The Exception Reports Manual did not provide any guidance regarding how staff should evaluate the exception reports or discern suspicious trading from legitimate trading.

The implementation of the Firm's AML system through its personnel was also not reasonable, in that the Firm engaged only a small number of compliance staff to conduct these reviews.

Moreover, Firm personnel were not sufficiently trained to conduct their critical functions of detecting and investigating suspicious activity.

In particular, a Firm staff person who routinely reviewed exception reports, including the "UTC Wash Sale" report and "Large Trades Executed at Very High or Low Price" had no prior experience conducting such reviews at any firm, was unaware of the dollar amount threshold for filing of a SAR, infrequently consulted the Firm's WSPs, and did not utilize the WSP "red flags" as part of the analysis.

Another staff person who was responsible for reviewing the exception reports routinely reported findings and sought advice from the Firm president, who had no familiarity or experience with AML compliance.

In the limited number of instances that Firm staff did escalate an exception report review for further investigation, the process was often conducted verbally or without an adequate memorialization of the concerns being deliberated.

The Firm's Procedures Regarding AML Risks

The Firm's WSPs identified the following red flags as "risk indicators" of potential money laundering:

- a. "The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations";

- b. “The customer engages in suspicious activity involving the practice of depositing penny stocks, liquidates them, and wires proceeds”;
- c. “Transactions patterns show a sudden change inconsistent with normal activities”;
- d. “Customer transactions include a pattern of receiving stock in physical form”;
- e. “The customer has opened multiple accounts with the same beneficial owners or controlling parties for no apparent business reason”;
- f. “Use of sub accounts”;
- g. “Account is involved in micro-cap securities”;
- h. “Penny Stock related transactions” in which the issuer “has no business, no revenues and no product,” “undergoes frequent material changes in business strategy or its line of business,” “Officers or insiders of the issuer have a history of securities violations,” “has not made disclosures in SEC or other regulatory filings,” and “has been the subject of a prior trading suspension”;
- i. “Physical certificate does not bear a restrictive legend, but based on history of the stock and/or volume of shares trading, it should have such a legend”;
- j. “Customer’s explanation of how he or she acquired the certificate does not make sense or changes”; and
- k. “Customer deposits the certificate with a request to journal the shares to multiple accounts, or to sell or otherwise transfer ownership of the shares.”

Red Flags Evident in Microcap Stock Transactions

On numerous occasions throughout the Relevant Period, Firm customers conducted microcap deposit and trading activity during which red flags, of the kind enumerated above and contained within the Firm's WSPs, presented themselves.

However, these trades were either not detected, not investigated, or disregarded by the Firm, as illustrated below.

Account AA's ("AA") Deposit and Trading of Daniels Corporate Advisory Co., Inc. ("DCAC")

AA was a Firm account owned and controlled by AA1, a known penny stock financier. During the Relevant Period, AA1 also held accounts at the Firm in the names of at least five other entities, three of which also engaged in the deposit and trading of microcap stocks.

In November 2013, AA1 was charged by the SEC for violating the federal securities laws for purchasing billions of shares in a microcap companies and failing to register them before they were re-sold to investors for sizeable profits. AA1 paid \$1.4 million, among other sanctions, to settle the charges.

Despite the regulatory action in 2013, the Firm continued to allow entities controlled by AA1 to engage in microcap liquidation activity thereafter without any additional supervision or review.

During the relevant period, the six AA1 accounts sold approximately 10 billion shares in dozens of microcap issuers through the Firm, generating proceeds of approximately \$15 million for AA1, and \$430,000 in commissions for the Firm.

Among the microcap stocks deposit and traded by AA was DCAC. According to the company's SEC filings, DCAC was incorporated in 2002 in Nevada and provided corporate financial consulting and merchant banking services.

DCAC reported in its 10-Q on November 2, 2015, \$0 in revenue and a net loss of \$1,242,570 in the nine months prior to August 31, 2015. Despite this financial condition, the DCAC website claimed its subsidiary, Daniels Logistics, Inc. (“Daniels Logistics”), was “generating current sales and earnings that equate, on a yearly pro-forma basis, to a public market valuation of \$4 – \$5 Million.” However, the operations of Daniels Logistics were discontinued sometime prior to May 31, 2015, according to DCAC’s SEC filings.

DCAC issued three press releases in September 2015 and October 2015, claiming the company was pursuing acquisitions of nightclubs and cafés in the New York area. One release described the potential acquisition of a club with “over \$2 million in annual Revenues and 17+ percent reconstructed earnings before taxes.”

Another release described the potential acquisition of two cafes which “generate \$1 million in annual sales with approximately \$300,000 EBITDA” and that it “expects to complete both acquisitions by the end of November 2015.” As of April 2016, none of the acquisitions were made.

An unsolicited e-mail sent October 20, 2015 from an unknown source stated, “Invest in Daniels Corporate Advisory Company, Inc. (DCAC) now before the other traders hog all of the upside action.” The e-mail refers to DCAC stock as a “Top Pick”, includes an “expected price” of \$0.60 for DCAC shares — at a time when the stock was trading around \$0.04, and did not have a disclaimer statement indicating any payment from, or affiliation with, the issuer.

DCAC was also featured in paid newsletters in May 2015 and November 2015 by online stock promotion companies. One May 2015 newsletter, indicated that DCAC paid it \$20,000 for “this and other newsletters.” The author of a second November 2015 newsletter, indicated that it had been paid \$6,000 from an unidentified party.

The Firm facilitated the liquidation of millions of DCAC shares through AA without investigating the red flags alleged above. Specifically, from November 3, 2015 to March 17, 2016, the Firm facilitated the liquidation of approximately 234.5 million shares, generating approximately \$187,000 in proceeds for AA, and \$5,000 in commissions for the Firm.

The DCAC trades conducted by AA took place on 34 days. AA accounted for over 20 percent of the total market volume on 23 of those 34 days.

Moreover, the trading referenced above, far outpaced prior activity. In the 20 days prior to AA's trades, DCAC average daily volume was approximately 403,000 shares; however, AA's trades over the next 34 days averaged 6.8 million shares each day.

In addition, within the trading period the price of DCAC fluctuated as much as 50 percent from the prior day's price on at least three days.

The Firm was or should have been aware of the red flags alleged above. Nevertheless, none of AA's DCAC trades triggered an exception report review or investigation by the Firm to determine whether the trades were suspicious.

Account BB's ("BB") Deposit and Trading of Cherubim Interests, Inc. ("CHIT")

BB was a Firm account owned and controlled by BB1, a known penny stock financier.

In December 2011, BB1 was charged by the US Attorney's office for the Southern District of New York for engaging in civil mortgage fraud. As part of the civil action, BB1 and his affiliates paid \$1.2 million in damages and penalties.

Despite the regulatory action in 2013, the Firm continued to allow BB, owned and controlled by BB1, to engage in microcap transactions thereafter without any additional supervision or review

During the relevant period, BB sold approximately 10.7 billion shares of dozens of microcap issuers through the Firm. This activity generated proceeds of approximately \$6.7 million for BB, and \$174,000 in commissions for the Firm.

Among the microcap stocks deposited and traded by BB was CHIT. According to the company's SEC filings, CHIT was incorporated in the State of Nevada under its prior iteration, Innocent Inc., on September 27, 2006. On August 5, 2014, Innocent Inc. changed its name to Panther Energy Inc. and its ticker symbol from INCT to PNEG.

On September 2, 2014, Panther Energy Inc. changed its name to Falcon Crest Energy Inc. ("Falcon Crest") and its ticker symbol from PNEG to FCEN. On April 27, 2015, Falcon Crest agreed to acquire all of the membership interests of Cherubim Interests, LLC ("Cherubim Interests"), a privately-held limited liability company, from OTC issuer Victura Construction Group, Inc..

After the acquisition of the privately-held Cherubim Interests, Inc. the company changed its business direction from the energy industry to multi-family real estate development and construction of "retail and grow facilities for the cannabis industry."

As of July 20, 2015, Falcon Crest had changed its name to Cherubim Interests Inc., and had changed its ticker symbol from FCEN to CHIT, and effected a 1-for-15 reverse stock split. CHIT reported in its 10-Q \$0 in revenue and a net loss of \$108,502 in the nine months prior to May 31, 2015.

During the period August 3, 2015 through October 5, 2015, CHIT issued several press releases announcing various corporate developments including:

- a. On August 3, 2015 CHIT announced that "it has engaged the investor relations services of [a third party]" who will "use its vast network of partners,

daily and weekly newsletters, social media channels, blogs and other outreach tools to raise awareness of Cherubim’s initiatives among existing shareholders and the broader investment community”

- b. On October 5, 2015 CHIT announced that “[a second] consultation and research and development firm based in Eugene, Oregon, has teamed up with” the company to “provide an answer to the rapidly expanding needs of the fastest growing industry in the United States,” further stating that the consulting firm’s CEO is a “successful professional business owner, entrepreneur, consultant, master gardener and horticultural expert within the cannabis industry.”

During the period September 2 through September 22, 2015, eight stock promotion entities collectively disseminated at least eight email newsletters touting the purported investment merits of CHIT, including that “CHIT is short-term trading gold.” Disclaimers contained within some of the newsletters indicate that one of the promotion entities was paid \$12,500 to conduct investor relations advertising and marketing for CHIT.

An additional newsletter stated that another entity had been paid at least \$7,500 and 750,000 restricted CHIT shares for coverage.

Despite the presence of the numerous red flags noted above, the Firm facilitated the sale of millions of CHIT shares for BB.

Specifically, during the period from September 24, 2015 to November 23, 2015, the Firm facilitated the liquidation of approximately 101.4 million shares, generating approximately \$159,000 in proceeds for BB, and \$4,000 in commissions for the Firm.

The CHIT trades conducted by BB took place on 21 days. BB accounted for over 20 percent of the total market volume on 13 of those 21 days.

Moreover, the trading alleged above far outpaced prior activity. In the preceding 20 days prior to BB's trades, CHIT average daily volume was approximately 2.3 million shares. Yet, BB's trades over the next 21 days averaged 4.8 million shares each day.

In addition, within the trading period, the price of CHIT fluctuated from 50 percent to 250 percent from the prior day's price on at least three days.

The Firm was or should have been aware of the red flags alleged above. None of BB'S CHIT trades triggered an exception report review or investigation by the Firm to determine whether the trades were suspicious.

BB's Deposit and Trading of New Colombia Resources, Inc. ("NEWC")

Another microcap stock deposited and traded by BB was NEWC. According to company filings, NEWC was formerly known as VSUS Technologies Inc. and incorporated in Delaware on September 20, 2000.

On January 24, 2013, VSUS Technologies, Inc. changed its name to New Colombia Resources, Inc. and changed its ticker symbol from VSUS to NEWC.

According to its filings with the SEC, NEWC "is focused on the acquisition and development of high quality metallurgical coal properties in Colombia, considered one of the most attractive emerging markets."

According to NEWC's Form 10-K dated April 30, 2015, on December 1, 2014, NEWC acquired 50 percent of ownership interest in Sannabis SAS, a Colombian entity, and "moved into the legal medical cannabis and hemp industries to take advantage of Colombia's ideal growing environment."

The company's President and director was previously employed as a registered representative with an expelled broker-dealer.

The company's prior CEO, from at least 2010 through 2012, was charged by the SEC on September 24, 2010, for his role in a market manipulation scheme involving microcap securities and the payment of cash kickbacks to an undercover FBI agent.

According to its Form 10-Q dated May 20, 2015, NEWC disclosed that it "has not been able to generate cash flows sufficient to support its operations, and has been dependent primarily on debt and equity financing." In addition to negative cash flow from operations, NEWC "has experienced recurring losses and had an accumulated deficit of \$28,217,316 as of March 31, 2015." These conditions raise substantial doubt as to NEWC's "ability to continue as a going concern."

NEWC was then delinquent in its periodic filings with the Commission and filed a Form 12b-25 on August 17, 2015, disclosing the late filing of its Form 10-Q for the period ended June 30, 2015.

NEWC, however, included unaudited financial statements in its Form 8-K dated July 11, 2016 for the period ended March 31, 2016, which reported total cash and cash equivalents of \$7,602, total assets of \$638,770, consisting mostly of equipment, and total liabilities of \$1,466,788, consisting mostly of "other liability."

NEWC also reported no revenue, and a net loss of \$49,651 for the three months ended March 31, 2016.

Between October 2015 and June 2016, NEWC issued numerous press releases relaying positive company news.

On November 9, 2015 and July 20, 2016, NEWC was touted by multiple stock promotion websites that were compensated by NEWC for their publications.

Despite the presence of the numerous red flags noted above, the Firm facilitated the sale of millions of NEWC shares for BB.

Specifically, during the period from May 2, 2016 to May 17, 2016, the Firm facilitated the liquidation of approximately 13.5 million shares, generating approximately \$275,000 in proceeds for BB, and \$7,000 in commissions for the Firm.

The NEWC trades conducted for BB took place on nine days, and BB accounted for over 30 percent of the total market volume on seven of those nine days.

In addition, within the trading period, the price of NEWC fluctuated at least 15 percent from the prior day's price on at least five days.

The Firm was or should have been aware of the red flags alleged above. None of BB's NEWC trades triggered an exception report review or investigation by the Firm to determine whether the trades were suspicious.

Account CC's ("CC") Deposit and Trading of U.S. Stem Cell Inc. ("USRM")

CC was a Firm account owned and controlled by CC1, a known penny stock financier.

CC was affiliated with CCA, which was also owned and controlled by CC1. A June 24, 2015, PR Newswire article revealed that CCA and its principals, including CC1, were the subject of a \$50 million lawsuit by another microcap CEO claiming a "scheme to manipulate" microcap stock pricing which "involved the issuance of phony press releases, hypothecation and naked short selling . . . and attempted corporate bribery."

Among the microcap stocks deposited and traded by CC was USRM. According to SEC filings, USRM was the latest corporate iteration of a company incorporated in Florida on

August 12, 1999 as Bioheart, Inc. (“BHRT”). On February 27, 2009, BHRT was delisted from NASDAQ. On November 4, 2015, BHRT effected a 1-for-1,000 share reverse stock split and changed its name to U.S. Stem Cell, Inc. On December 1, 2015, the company changed its symbol to “USRM.”

USRM made the following suspicious claim in its filings with the Commission: “We estimate that the products and services we offer through US Stem Cell Training, Vetbiologics, and US Stem Cell Clinics has the potential, although we cannot provide assurances as to if and when it will be accomplished, to drive up to \$100 million dollars in cumulative peak annual revenues.”

Despite describing itself as a “research and development company,” the 10-Q, filed on November 5, 2015 listed the company’s “research and development expenses” for the nine months ending September 30, 2015 as \$39,696, while the company’s “marketing, general, and administrative expenses” for the same time period was \$2,252,057. During this same time period, the company also operated at a net loss of \$282,982.

Despite the red flags alleged above, the Firm facilitated the liquidation of millions of USRM shares for CC. Specifically, during the period from February 22, 2016, to June 15, 2016, the Firm facilitated the liquidation of approximately 2.5 million shares, generating approximately \$197,000 in proceeds for CC, and \$300 in commissions for the Firm.

The USRM trades conducted for CC took place over 61 trading days, CC accounted for over 20 percent of the total market volume on 50 of those 61 days, and over 50 percent of the total market volume on 16 of those 61 days.

Moreover, the trading alleged above, far outpaced prior activity. In the preceding 20 days before CC's trades, USRM average daily volume was approximately 18,000 shares. Yet, CC's trades over the next 61 days averaged 42,000 shares each day.

In addition, within the trading period, the price of USRM fluctuated at least 20 percent from the prior day's price on at least fifteen days.

The Firm was or should have been aware of the red flags alleged above. However, only one of CC's USRM trades triggered an exception report and was it deemed immaterial. Moreover, none of the trades triggered an investigation by the Firm to determine whether the trades were suspicious.

Red Flags Evident in Additional Microcap Stock Transactions

The Firm failed to establish and implement a reasonable system to fulfill its obligations to conduct a searching inquiry to determine whether microcap securities deposited at the Firm were eligible for immediate resale to the public.

The Firm regularly failed to conduct a searching inquiry where customers who routinely engaged in the deposit and liquidation of microcap securities either presented the Firm with information that it knew or should have known was false or information that should have led the Firm to make further inquiries about the eligibility of the securities for sale without a registration statement, as illustrated below.

Lek UK Omnibus Account's ("LUO") Deposit and Trading of Cannabis Science, Inc. ("CBIS")

LUO was an omnibus account controlled by a Firm affiliate and utilized to conduct trading for underlying customers located outside the U.S. Throughout the Relevant Period, LUO engaged in the deposit and liquidation of microcap shares.

From July 17, 2015 to June 30, 2016, an LUO customer made at least nine deposits of CBIS totaling at least 128,000,000 shares and during the same time period, sold approximately 125,000,000 shares of CBIS for \$2,300,000 in proceeds.

According to the due diligence documents collected by the Firm, the source of some of the deposits followed a similar pattern — deriving from promissory notes that did not contain a conversion provision. The promissory notes were issued to intermediaries and then were cancelled in exchange for the issuance of CBIS shares. The CBIS shares were then sold to the LUO customer. In each deposit at the Firm, the LUO customer claimed to be able to sell the shares using the Securities Act Rule 144 safe harbor, and by extension, the Section 4(a)(1) exemption.

These transactions raised numerous red flags, including:

- a. Many of the promissory notes converted to shares did not contain stock conversion features, did not pay interest, and matured on the same day they were issued.
- b. CBIS's President, CEO, and Chairman of the Board, had a significant disciplinary history. He was sanctioned by the British Columbia Securities Commission in 2005 for issuing 22 press releases that contained misrepresentations, and he was sanctioned by the SEC in 2010 for manipulating the stock price and volume of a microcap stock, unlawfully selling unregistered securities, and disseminating press releases containing materially false information.
- c. Trading in CBIS was suspended in Canada on June 4, 2015, which was prior to the LUO customer's deposits of the stock at the Firm.

In addition, within the trading period, the price of CBIS fluctuated at least 20 percent from the prior day's price on at least seven days, including two days where the price fluctuated 47 percent and 117 percent from the prior day's price.

Despite these red flags, the Firm did not require its staff to conduct a searching inquiry to determine whether these shares qualified for a resale exemption and could be sold through the Firm.

Specifically, the Firm did not require its staff to determine whether the holding period the customer claimed to rely upon to sell the shares could be tacked back to date the promissory notes were acquired.

In addition, none of CBIS trades triggered an exception report review or investigation by the Firm to determine whether the trades were suspicious.

BB's Deposit and Trading of Zentric, Inc. ("ZNTR")

Among other microcap stocks traded by BB was ZNTR. From January 13, 2015 to January 12, 2016, BB deposited 488,280,301 shares of ZNTR into its direct brokerage account at the Firm.

The shares were purportedly from the conversion of a series of promissory notes entered into between BB and ZNTR, beginning in June 20, 2014. As reflected in the DSRQ and supporting materials provided to the Firm, these securities were obtained by BB directly from the issuer through transactions not involving a public offering of securities. BB's acquisition of convertible notes was not covered under an effective registration with the SEC. The common stock were restricted from resale and could not be resold without the benefit of an applicable resale exemption.

According to its SEC filings, ZNTR was initially known as Constant Environment, Inc. and incorporated in Nevada on July 21, 2008, as “an early stage product and services company that provides microclimate systems to specialty markets, who have a need to protect and preserve rare and/or valuable items.” Then on December 16, 2009 the company changed its name to Zentric, Inc. (“Zentric”) and described itself as a “battery technology company based on a new technology that incorporates high voltage dual electrolytes to produce higher voltages and power.”

Despite having been in existence for several years, Zentric’s April 15, 2014, 10-K, revealed an extended period of failure to make progress toward its stated business plan. The 10-K noted that the company did not “generate any revenues for the years ended December 31, 2013 and December 31, 2012” and provided a bleak outlook:

We will not generate any revenues in the next twelve months and we will be required to raise additional capital by issuing equity or debt securities in exchange for cash in order to continue as a going concern. We cannot assure you that any financing can be obtained or, if obtained, that it will be on reasonable terms. Without realization of additional capital, it would be unlikely for us to continue as a going concern.

Zentric’s quarterly filings in 2014 continued to note a lack of any revenue, minimal cash, and nominal operations. Specifically, in its November 14, 2014 10-Q, the company declared \$0 in revenue, \$270 of total assets consisting of cash, and an organization of “two officers . . . contributing their services without payment and certain consultants have accepted shares for services.”

Despite Zentric’s financial condition, and lack of revenue and meaningful operations, BB deposited restricted shares of ZNTR into its account at LSC and purported to rely upon Rule 144 to resell the shares.

However, the Firm failed to consider whether Zentric was a “shell” at the time the shares were issued and whether the shares were therefore not eligible for resale under Rule 144.

During the period from January 14, 2015 through January 28, 2016, LSC facilitated the liquidation of at least 385,780,300 shares of ZNTR for BB for net proceeds of at least \$68,241, and commissions of at least \$1,884.

During this activity, the Firm did not require its staff to conduct a review of SEC filings in each instance and did not guide its staff in how to assess whether the public filings revealed relevant information, such as whether the company had meaningful operations, assets, or revenue.

*Account DD’s (“DD”) Deposit and Trading
of First Colombia Gold Corp. (“FCGD”)*

DD was a Firm account owned and controlled by, DD1, a known penny stock financier.

On March 27, 2015, DD deposited 67,486,954 common shares of FCGD into its direct brokerage account at the Firm.

The shares were purportedly issued from conversion of a \$100,000 convertible promissory note entered into between DD and FCGD, on September 3, 2014. As reflected in the DSRQ and supporting materials provided to the Firm, the shares were obtained by DD directly from the issuer through a transaction not involving a public offering of securities. DD’s acquisition of the convertible note was not covered under an effective registration with the SEC. These common shares were restricted from resale and could not be resold without the benefit of an applicable resale exemption.

On March 26, 2015, DD submitted a conversion notice to convert \$11,135.35 of the convertible note at a conversion price of \$0.000165 into 67,486,954 shares of FCGD. DD’s

instructions were for the shares to be transferred by DWAC to DD's account at the Firm. This conversion took place less than seven months after the convertible note was purchased

FCGD's Form 10K for 2014 was due on March 31, 2015, but FCGD did not file it until July 1, 2015. As a result, during the period from April 1, 2015 through June 30, 2015, FCGD was not current with its periodic reporting requirements.

During this time, the Firm did not require its staff to conduct a review of SEC filings and did not guide its staff in how to assess whether the public filings revealed relevant information, such as whether the company was current with its periodic reporting requirements.

Despite the issuer not being current with its reporting requirements, DD deposited shares into the Firm and purported to rely upon Rule 144 to sell the shares, yet the Firm failed to consider whether the company was current in its reporting requirements. During the period from April 1, 2015 through April 7, 2015, LSC facilitated the liquidation of 67,486,954 shares of FCGD for DD for net proceeds of \$26,074.

Searches Pursuant to 314(a)

Section 314(a) of the USA PATRIOT Act of 2001, requires the Secretary of the Treasury to adopt regulations to encourage regulatory and law enforcement authorities to share with financial institutions information regarding individuals, entities, and organizations engaged in or reasonably suspected, based on credible evidence, of engaging in terrorist acts or money laundering activities.

To implement the Act, FinCEN established the 314(a) Program which requires certain financial institutions to search their records and identify if they have responsive information with respect to the particular investigative subject.

In September 2015, through an independent test of the Firm's AML program, the Firm became aware that it had failed to conduct timely searches pursuant to Section 314(a) on at least three prior bi-weekly information requests. The recommendation from that test further reminded the Firm that it "should ensure that 314(a) notices are being reviewed as required and any positive matches reported within 14 days of receipt."

Despite becoming aware of its prior deficiency in this area, the Firm continued to ignore FinCEN's information requests during five out of the next nine months.

In particular, from at least December 10, 2015 through February 25, 2016, and again from at least April 7, 2016 to June 27, 2016, the Firm failed to access the FinCEN online portal to conduct searches mandated under Section 314(a).

As a result, the Firm failed to conduct timely reviews of at least eight FinCEN 314(a) information requests that were received during that time.

AML Testing

During the relevant period, LSC engaged various third parties to conduct the Firm's annual independent test of its AML program.

The Firm had discretion in determining both the entity that conducted these tests and the scope of each test.

Each of these tests, in 2014, 2015, and 2016, was substantively inadequate. The tests were narrow in scope and evidenced a very limited review of the Firm's AML process and procedures, failing to conduct any substantive assessment of the Firm's microcap business.

Despite the significant amount of transactions and revenue associated with microcap activity at the Firm, none of the AML tests evinced any scrutiny of this area of business, nor any scrutiny of the Firm's process for reviewing customer deposit of unregistered shares, the Firm's

surveillance parameters, the Firm's review or investigation of suspicious activity, nor the type of training provided to its staff.

The 2014 AML audit questionnaire completed by the Firm identified a person purportedly responsible for "Funds & Securities activity reviews," yet the person identified did not participate in the review of any trading activity related to ensuring the Firm's AML obligations are met.

The 2015 audit report stated that the test included a review of the "monitoring of customer transactions/accounts," yet nowhere within the report was there any further description of any transaction monitoring samples, results, or findings.

The 2016 audit report stated that "[t]he Firms [sic] advised [auditor] that the Firm did not have any foreign correspondent accounts. After reviewing of a sample of the Firm's client/counter-party files [audit] staff did not detect any indication of any foreign accounts." Yet, the Firm conducted business with multiple correspondent accounts on a daily basis throughout the time period of the test, including hundreds of microcap trades per day with its UK affiliate foreign financial institution ("FFI") and with a Cypriot-based FFI.

AML Training

During the relevant period, LSC provided annual AML training to its Firm employees. However, staff that were primarily responsible for compliance functions, including the review of customer accounts, microcap deposits, trading surveillance, and investigations were not provided reasonable guidance to fulfill their roles.

The Firm's compliance staff were not reasonably trained on how to fulfill their AML duties.

In particular, staff responsible for conducting the review of microcap deposits were not reasonably trained on how to conduct a searching inquiry and staff responsible for reviewing exception reports were not reasonably trained on how to scrutinize the trading within the Firm's exception reports.

Moreover, the Firm's compliance staff lacked a basic understanding of the information necessary to fulfill their AML-related roles.

In particular, the Firm's primary staff person who conducted the review of restricted shares lacked an awareness of the meaning or import of routine SEC filings; the Firm's primary staff person who conducted the review of exception reports for suspicious activity was not aware of the monetary threshold for when a SAR should be filed with FinCEN; and a Firm "compliance officer" regularly sought advice related to determinations of "suspicious activity" from the Firm's President who was neither familiar with nor experienced in the subject matter.

FIRST CAUSE OF ACTION
FAILURE TO ESTABLISH AND IMPLEMENT A REASONABLE AML PROGRAM
Violation of FINRA Rules 3310(a) and 2010
(LSC and Lek)

FINRA Rule 3310(a), requires members to "[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. §5318(g) [the Bank Secrecy Act] and the implementing regulations thereunder."

The United States Department of the Treasury issued the implementing regulation, 31 C.F.R. § 103.19(a)(1) on July 2, 2002. It provided that, with respect to any transaction after December 31, 2002, "[e]very broker or dealer in securities within the United States . . . shall file with FinCEN . . . a report of any suspicious transaction relevant to a possible violation of law or regulation."

In August 2002, FINRA issued Notice to Members (“NTM”) 02-47, which set forth the final AML rules promulgated by the United States Department of the Treasury for the securities industry. This NTM further advised broker-dealers of their duty to file a SAR for any suspicious transactions occurring after December 31, 2002.

As the Firm’s AMLCO, CEO, and CCO, Lek was responsible for the Firm’s AML program and, as alleged above, was actively involved in all facets of its implementation.

Lek’s involvement in the Firm’s AML program included, but was not limited to, (i) providing instruction and guidance on AML system implementation, (ii) directing Firm staff on when and how to create exception reports, (iii) establishing parameters that would cause alerts to be triggered, and (iv) making the ultimate determinations as to whether any particular activity warranted the filing of a SAR.

During the Relevant Period, the Firm and Lek failed to implement AML policies, procedures, and internal controls reasonably expected to detect and cause the reporting of suspicious transactions and reasonably designed to achieve compliance with the Bank Secrecy Act, 31 U.S.C. § 5311, *et seq.*, and the implementing regulations promulgated thereunder by the Department of the Treasury.

The activity resulted in microcap trades being conducted without reasonable detection, investigation, and determination as to whether such transactions should be reported on a SAR.

By virtue of this conduct, the Firm and Lek violated FINRA Rules 3310(a) and 2010.

SECOND CAUSE OF ACTION
FAILURE TO SUPERVISE FOR COMPLIANCE WITH SECTION 5 OF THE SECURITIES ACT OF 1933
Violation of NASD Rule 3010, and FINRA Rules 3110 and 2010
(LSC and Lek)

NASD Rule 3010 and FINRA Rule 3110 require each member to establish and maintain a system, including written supervisory procedures, to supervise the activities of each associated

person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD and FINRA Rules.

As the Firm's AMLCO, CEO, and CCO, Lek was responsible for the Firm's supervisory system, including the Firm's certificate review process.

Lek's involvement in the Firm's supervisory system included, but was not limited to, directing Firm staff about the level of diligence to use when reviewing customer deliveries of penny stock.

During the Relevant Period, the Firm and Lek failed to establish reasonable written supervisory procedures to fulfill the Firm's obligations to conduct a searching inquiry, prior to liquidating microcap securities, to determine whether the customer's resale of those shares was registered or subject to an exemption from registration.

The Firm, acting under Lek's direction, also failed to conduct reasonable due diligence on the deposits, customers, and issuers despite red flags that existed at the time of deposit or trading of microcap securities, including instances where:

- a. a sudden spike in investor demand existed, coupled with a rising price in, the securities;
- b. the issuers were shell companies when they issued the shares;
- c. the issuers' SEC filings were not current, or were incomplete or non-existent;
- d. there was limited or negative public information available about the issuers, their affiliates, their officers, or their shareholders; and
- e. information available about the issuers was derived from questionable press releases or promotional campaigns.

By virtue of this conduct, the Firm and Lek violated NASD Rule 3010, and FINRA Rules 3110 and 2010.

**THIRD CAUSE OF ACTION
SALE OF UNREGISTERED SECURITIES
Violation of FINRA Rule 2010
(LSC)**

Section 5 of the Securities Act of 1933 prohibits the sale of securities unless a registration statement is in effect as to such securities or the sales are exempt from registration.

The Firm sold, during the period from January 14, 2015 through January 28, 2016, 385,780,300 shares of ZNTR, resulting in net proceeds of \$68,241.

The Firm also sold, during the period April 1, 2015 through April 7, 2015, 67,486,954 shares of FCGD, resulting in net proceeds of \$26,074.

No registration statement was in effect for the foregoing sales of ZNTR and FCGD and the Firm used the means or instruments of transportation or communication in interstate commerce in connection with those sales.

No exemption from registration applied.

By engaging in these sales of unregistered securities in transactions not subject to an exemption from the registration requirements, the Firm acted in contravention of Section 5, and thus violated FINRA Rule 2010.

**FOURTH CAUSE OF ACTION
FAILURE TO CONDUCT SEARCHES PURSUANT TO SECTION 314(A) OF THE PATRIOT ACT
Violation of FINRA Rules 3310(b) and 2010
(LSC)**

FINRA Rule 3310(b) requires that firms "[e]stablish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder."

Pursuant to Section 314(a) of the PATRIOT Act and 31 CFR 1010.520, upon receiving bi-weekly information requests from FinCEN through its online portal, a financial institution is required to search its records to determine whether it maintains or has maintained any account, or engaged in any transaction with, parties named in FinCEN's request.

From at least December 10, 2015 through February 25, 2016, and again from at least April 7, 2016 to June 27, 2016, the Firm failed to access the FinCEN online portal to conduct searches mandated under Section 314(a).

By failing to conduct timely reviews of at least eight FinCEN 314(a) information requests, the Firm violated FINRA Rules 3310(b) and 2010.

**FIFTH CAUSE OF ACTION
FAILURE TO CONDUCT REASONABLE AML TESTING
Violation of FINRA Rules 3310(c) and 2010
(LSC)**

FINRA Rule 3310(c) requires firms to conduct “annual (on a calendar-year basis) independent testing for compliance” of their AML program.

During the relevant period, LSC engaged various third parties to conduct the Firm’s annual independent test. Each of these tests, in 2014, 2015, and 2016, were substantively inadequate. The tests were narrow in scope and evidenced a very limited review of the Firm’s AML process and procedures, thereby failing to conduct any substantive assessment of the Firm’s microcap business.

Despite the significant amount of transactions and revenue associated with microcap activity at the Firm, none of the AML tests evince any scrutiny of this area of business, nor any scrutiny of the Firm’s process for reviewing customer deposit of unregistered shares, the Firm’s surveillance parameters, the Firm’s review or investigation of suspicious activity, nor the type of training provided to its staff.

By failing to conduct reasonable testing of its AML program, the Firm violated FINRA Rules 3310(c) and 2010.

**SIXTH CAUSE OF ACTION
FAILURE TO PROVIDE REASONABLE AML TRAINING
Violation of FINRA Rules 3310(e) and 2010
(LSC)**

FINRA Rule 3310(e) requires firms to “provide ongoing training for appropriate personnel.”

During the relevant period, LSC provided annual training to its employees, but the training was substantively inadequate. In particular employees that were primarily responsible for compliance functions, including the review of customer accounts, microcap deposits, trading surveillance, and investigations were not provided reasonable guidance to conduct their roles.

By failing to reasonably train its staff, the Firm violated FINRA Rules 3310(e) and 2010.

Based on the foregoing, Respondent violated the Section 5 of the Securities Act of 1933, NASD Rule 3010, and FINRA Rules 3110, 3310(a), 3310(b), 3310(c), 3310(e) and 2010.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondents from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

B. It is ordered that Respondent Lek Securities Corp. of¹

\$200,000 fine

¹ Respondent Samuel Lek is not separately sanctioned herein because he has been barred in FINRA Disciplinary Proceeding No. 20110297130-04.

Business line suspension: LSC shall not sell or accept for deposit any low priced security (defined herein as any equity security that does not trade on a national securities exchange and trades at a price of less than \$5 per share at the time it is submitted to LSC for deposit or sale) until the Firm certifies to FINRA that it has implemented the recommendations of the Independent Consultant as described below. However, LSC may execute orders to sell any such security if:

1. LSC obtains and retains a trade confirmation evidencing that the securities were purchased on the open market, as opposed to having been deposited at LSC or other financial institution; or,
2. The securities were deposited at LSC prior to the issuance of this Order, provided that all such sales otherwise comply with the Firm's legal obligations, including under Section 5 of the Securities Act of 1933.

Undertakings:

1. Respondent LSC has undertaken to do the following:
 - a. Retain at its own expense one or more qualified independent consultants (the "Independent Consultant") not unacceptable to FINRA, within 60 days of the date of the Order Accepting Offer of Settlement to conduct a comprehensive review of the Firm's supervisory system and its compliance with anti-money laundering ("AML") and Section 5 obligations in connection with stock trading in low priced securities, including but not limited to:
 - (i) customer onboarding;
 - (ii) acceptance of low priced securities for deposit, in certificate

form or otherwise;

(iii) customer trading of low priced securities;

(iv) the Firm's systems and controls for monitoring for, detecting, and investigating suspicious activity through the Firm; and

(v) training of LSC staff regarding the foregoing subjects.

The Independent Consultant, any firm with which the Independent Consultant is affiliated, and any person engaged to assist the Independent Consultant in performance of his/her duties, shall not have provided consulting, legal, auditing or other professional services to, or had any affiliation with, Respondents LSC or Samuel Lek during the two years prior to the date of the Order Accepting Offer of Settlement.

- b. Cooperate with the Independent Consultant in all respects, including providing the Independent Consultant with access to Respondent LSC's files, books, records, and personnel, as reasonably requested for the above-mentioned reviews. Respondent LSC shall require the Independent Consultant to report to FINRA on its activities as FINRA may request and shall place no restrictions on the Independent Consultant's communications with FINRA. Further, Respondent LSC upon request, shall make available to FINRA any and all communications between the Independent Consultant and the Firm and documents reviewed by the Independent Consultant in connection with this review. Once retained, Respondent LSC shall not terminate the

relationship with the Independent Consultant without FINRA's written approval; Respondent LSC shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports or documents to FINRA;

- c. At the conclusion of the Independent Consultant's review, which shall be no more than 160 days after the date of the Order Accepting Offer of Settlement, require the Independent Consultant to submit to the Firm and FINRA staff a written report ("the Initial Report"). The Initial Report shall, at a minimum: (i) evaluate and address the adequacy of Respondent LSC's supervisory system and its compliance with anti-money laundering ("AML") rules and requirements as set forth in Section 1.a above; (ii) provide a description of the review performed and the conclusions reached; and (iii) as may be needed, make recommendations regarding how Respondent LSC should modify or supplement its processes, controls, policies, systems, procedures and training to manage its regulatory and other risks in relation to the adequacy of Respondent LSC's supervisory system and its compliance with anti-money laundering ("AML") rules and requirements as set forth in Section 1.a above; and
 - (i) Within 90 days after delivery of the Initial Report, Respondent LSC shall adopt and implement the recommendations of the

Independent Consultant or, if it considers a recommendation to be, in whole or in part, unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective.

Respondent LSC shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and FINRA (“Proposed Alternative Procedures”).

(ii) Within 30 days of receipt of any Proposed Alternative Procedures, Respondent LSC shall require the Independent Consultant to: (i) reasonably evaluate the alternative procedures and determine whether they will achieve the same objective as the Independent Consultant’s original recommendation; and (ii) provide the firm and FINRA with a written decision reflecting its determination (“Written Report Regarding Proposed Alternative Procedures”). Respondent LSC must abide by the Independent Consultant’s ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant.

(iii) Within 30 days after the issuance of the later of the Independent Consultant’s Initial Written Report or Written Report Regarding Proposed Alternative Procedures (if any),

Respondent LSC shall provide the Independent Consultant and FINRA staff with a written implementation report, certified by an officer of the firm, attesting to, containing documentation of, and setting forth the details of the firm's implementation of the Independent Consultant's recommendations. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. FINRA may make reasonable requests for further evidence of compliance, and Respondent LSC agrees to provide such evidence.

- d. Require the Independent Consultant to enter into a written agreement that provides that for the duration of this engagement and for a period of two years from the completion of this engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with Respondent LSC, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any firm with which the Independent Consultant is affiliated, and any person engaged to assist the Independent Consultant in the performance of its duties pursuant to the Order Accepting Offer of Settlement, shall not, without prior written consent of FINRA, enter into any employment, consultant, attorney-client, auditing or other

professional relationship with Respondent LSC or any of Respondent LSC's present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

- e. Respondent LSC shall further retain the Independent Consultant to conduct a follow up review and submit a written final report ("Final Report") to Respondent LSC and to FINRA no later than one year from the date of the Order Accepting Offer of Settlement. In the Final Report, the Independent Consultant shall address Respondent LSC's implementation of the systems, policies, procedures, and training and make any further recommendation it deems necessary. Within 30 days of receipt of the Independent Consultant's Final Report, Respondent LSC shall adopt and implement recommendations contained in the Final Report, and inform FINRA in writing that it has done so.

2. Upon written request showing good cause, FINRA may extend any of the procedural dates set forth above.

Certification: The Firm agrees that at the conclusion of the business line suspension referenced above, its Chief Executive Officer will certify in writing to FINRA that, based on reasonable and documented steps, (i) the Firm has fully complied with the business line suspension, (ii) any sales of low priced securities during the suspension period were made in compliance with the requirements of Section 5 of the Securities Act of 1933, and (3) the Firm has in place policies, systems and procedures to address and correct the violations described in this

Offer of Settlement. This certification shall be addressed to Perry Hubbard,
Senior Director, 15200 Omega Drive, Suite 300, Rockville, Maryland 20850.

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

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

SO ORDERED.

FINRA

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



Gregory R. Firehock
Senior Litigation Counsel
Department of Enforcement
Financial Industry Regulatory Authority
1601 Market Street, Suite 2700
Philadelphia, Pennsylvania 19103
215.209.2812
gregory.firehock@finra.org