

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 82956 / March 28, 2018**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-18412**

**In the Matter of**

**Aegis Capital Corporation,**

**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE  
AND CEASE-AND-DESIST PROCEEDINGS  
PURSUANT TO SECTIONS 15(b) AND 21C  
OF THE SECURITIES EXCHANGE ACT OF  
1934 AND SECTION 203(e) OF THE  
INVESTMENT ADVISERS ACT OF 1940,  
MAKING FINDINGS, AND IMPOSING  
REMEDIAL SANCTIONS AND A CEASE-  
AND-DESIST ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Section 203(e) of the Investment Advisers Act of 1940 (“Advisers Act”) against Aegis Capital Corporation (“Aegis” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“Offer”) that the Commission has determined to accept. Respondent admits the facts set forth in paragraphs 1 to 79 in Section III below, acknowledges that its conduct violated the federal securities laws, admits the Commission’s jurisdiction over it and the subject matter of these proceedings, and consents to the entry of this order instituting administrative and cease-and-desist proceedings pursuant to Sections 15(b) and 21C of the Exchange Act and Section 203(e) of the Advisers Act, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds<sup>1</sup> that:

#### SUMMARY

From at least late 2012 through early 2014, Aegis, a registered broker-dealer, failed to file Suspicious Activity Reports ("SARs") on hundreds of transactions when it knew, suspected, or had reason to suspect that the transactions involved the use of the broker-dealer to facilitate fraudulent activity or had no business or apparent lawful purpose. Many of the transactions involved red flags of potential market manipulation, including high trading volume in companies with little or no business activity during a time of simultaneous promotional activity. Aegis did not file SARs on these transactions even when it specifically identified AML red flags implicated by these transactions in its written supervisory procedures.

Although Aegis had written supervisory procedures concerning AML compliance, the firm's internal trade review mechanisms to identify the AML red flags listed in its written supervisory procedures were ineffective. For example, the trading surveillance system used by Aegis was ineffective as it did not analyze low-priced securities transactions in Delivery Versus Payment/Receive Versus Payment accounts ("DVP/RVP").

Aegis' failure to file SARs went beyond its inadequate systems to surveil for suspicious activity. Throughout the relevant period, senior Aegis personnel became aware of transactions that exhibited numerous AML red flags through alerts from its clearing firm (hereinafter defined as "AML Alerts"). All of these AML Alerts were sent directly to Aegis' AML Compliance Officers ("AML COs") who were (i) per Aegis' written supervisory procedures, responsible for filing SARs on the firm's behalf and (ii) the primary point of contact for the clearing firms as it related to suspicious activity.

Although the AML Alerts raised many red flags – including many red flags listed in Aegis' written supervisory procedures as examples of suspicious activities – Aegis did not file SARs regarding these transactions. In fact, Aegis did not create written analyses or compile other records indicating that it had considered filing SARs. Rather, Aegis closed some accounts due at least in part to suspicious activity while neglecting to file a SAR for that activity and did not investigate why its own surveillance systems failed to detect the suspicious activity.

---

<sup>1</sup> The findings herein are made pursuant to Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

As a result of the foregoing, Aegis willfully<sup>2</sup> violated Exchange Act Section 17(a) and Rule 17a-8 thereunder.

## RESPONDENT

Aegis is a dually-registered investment adviser and broker-dealer with multiple branches and is headquartered in New York, NY. For its fiscal year 2014, Aegis had revenues of approximately \$123 million and, for its fiscal year 2015, revenues of approximately \$98 million. During those fiscal years, Aegis had revenues of approximately \$250,000 and \$270,000 from its low-priced securities business. Aegis' business consists of investment banking, venture capital, and debt market services as well as full-service retail and institutional advisory and brokerage services. Aegis' CEO is also the firm's founder and 100% owner.

## FACTS

### A. Aegis' Low Priced Securities Business

1. During the relevant period, Aegis had various brokerage customers who transacted in low-priced securities. Several of these customers did so through DVP/RVP accounts. In DVP/RVP accounts held at Aegis, the customer deposited their shares at another firm in a custodial account, and the sale transactions were effected through Aegis. During the relevant period, Aegis had relationships with various clearing firms that assisted in effecting low-priced securities transactions.
2. Aegis had customers at their branch offices who transacted in low-priced securities. Several of these customers were foreign financial institutions that effected transactions on behalf of their underlying customers, all of whom were unknown to Aegis.

### B. Aegis' Anti-Money Laundering Compliance Program

- i. Written Supervisory Procedures Concerning SARs and Specific Red Flags Related to Market Manipulations
3. During the relevant period, Aegis had specific written supervisory procedures concerning compliance with its AML responsibilities. Aegis' written supervisory procedures expressly identified Aegis' AML CO as the individual responsible for deciding whether Aegis needed to file a SAR. Moreover, Aegis' written supervisory procedures stated that all Aegis employees were obligated to "promptly report to the [AML CO] any known or

---

<sup>2</sup> A willful violation of the securities laws means merely "that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)).

suspected violations of anti-money laundering policies as well as other suspected violations or crimes.”

4. Pursuant to 31 C.F.R. § 1023.320 (the “SAR Rule”), Aegis was required to file SARs for transactions by, at or through the firm that involved or aggregated at least \$5,000 if Aegis knew, suspected, or had reason to suspect that, among other things, the transactions involved funds derived from illegal activity, had no business or apparent lawful purpose, or involved using Aegis to facilitate criminal activity. Aegis explicitly cited the SAR Rule in its written supervisory procedures.
5. Aegis, in its written supervisory procedures, expressly identified certain trading in low-priced securities as suspicious activity that could warrant a SAR filing:

Aegis will file [SARs] for transactions that may be indicative of money laundering activity. Suspicious activities include a wide range of questionable activities; ***examples include trading that constitutes a substantial portion of all trading for the day in a particular security . . . [and] heavy trading in low-priced securities.*** (emphasis added.)

6. Aegis, in its written supervisory procedures, also expressly identified specific AML red flags associated with low-priced securities transactions of which its employees should be aware. These specific AML red flags – many of which were also described as red flags in industry notices issued by FINRA (e.g., FINRA Notice to Members 09-05 and NASD Notice to Members 02-21) – included the following:
  - i. There is a sudden spike in investor demand for, coupled with a rising price in, a thinly-traded or low-priced security;
  - ii. The issuer has been through several recent name changes, business combinations or recapitalizations, or the company’s officers are also officers of numerous similar companies;
  - iii. The issuer’s SEC filings are not current, are incomplete, or nonexistent;
  - iv. The customer appears to be acting as an agent for an undisclosed principal, but declines or is reluctant, without legitimate commercial reasons, to provide information or is otherwise evasive regarding that person or entity;
  - v. The customer’s account has wire transfers that have no apparent business purpose to or from a country identified as a money laundering risk or a bank secrecy haven; and
  - vi. The customer, for no apparent reason or in conjunction with other “red flags,” engages in transactions involving certain types of securities, such as penny stocks . . . which although legitimate, have been used in connection with fraudulent schemes and money laundering activity.

ii. Aegis' Trade Review Mechanisms to Identify AML Red Flags Were Inadequate and Aegis Did Not Effectively Train its Employees Concerning Low-Priced Securities Transactions

7. While Aegis did have written supervisory procedures concerning AML compliance, Aegis' internal trade review mechanisms to identify the AML red flags listed in its written supervisory procedures were ineffective. Aegis had two such trade review mechanisms that were ineffective: (i) daily reviews of transactions by its branch managers and (ii) a broader surveillance system provided by its clearing firm. Moreover, Aegis did not adequately train its employees concerning AML issues associated with low-priced securities transactions.
8. Per Aegis' written supervisory procedures, Aegis' branch managers were responsible for reviewing their branch customers' trades to identify any suspicious activity. After identifying suspicious activity during their manual trade review, the branch managers were required to report it to Aegis' AML CO so that the AML CO could consider whether Aegis should file a SAR.
9. Although several of Aegis' customers engaged in suspicious sales of low-priced securities, Aegis branch managers did not report suspicious activity to the AML COs.
10. During the relevant period, Aegis used a trade review system provided by its then clearing firm to monitor its customers' low-priced securities transactions for suspicious activity. This system monitored all of the Firm's customers' transactions and automatically "flagged" – i.e. turned a row in a trade-blotter display from green to either yellow or red – questionable transactions for later review by an Aegis compliance employee.
11. Initially, Aegis used the basic version of the trade review system to monitor its transactions, but this system did not analyze DVP/RVP transactions. Subsequently, in July 2013, Aegis upgraded to the enhanced version of the trade review system.
12. Unlike the basic version, the enhanced version allowed users like Aegis to enable the system to analyze DVP/RVP accounts. Despite the receipt of specific alerts of suspicious trading in DVP/RVP accounts described below, however, Aegis did not enable until April 2015 the enhanced version of the trade review system to analyze DVP/RVP accounts.
13. Accordingly – during the relevant period – Aegis' surveillance technology did not analyze the transactions described in this order. Rather, these transactions were assigned a green flag and simply batch approved by the applicable Aegis personnel.
14. Each year, Aegis required all employees to complete a computerized training module that included training on AML issues, including SAR filing. None of these modules, however, included any discussion of the red flags associated with low-priced securities transactions. Accordingly, Aegis' employees – including those employees responsible for reviewing trades – never received any training from Aegis that included examples of

the red flags associated with low-priced securities transactions that were outlined in the firm's written supervisory procedures.

C. Aegis Failed to File SARs on Its Customers' Low-Priced Securities Transactions

15. Aegis – throughout the relevant period – failed to file SARs on low-priced securities transactions and did not create written analyses or compile other records indicating that they considered filing SARs.
16. Aegis failed to file SARs despite the fact that numerous low-priced securities transactions effected through the firm exhibited several of the AML red flags that Aegis specifically identified in its written supervisory procedures.
17. In particular, Aegis failed to file SARs on transactions in which Aegis' customers were (i) selling large quantities of low-priced securities that comprised a significant percentage of the issuers' daily trading volume and outstanding float; (ii) trading shares of issuers who had changed names and business lines; (iii) selling substantial shares of low-priced securities during periods of spikes in price and volume of the issuers' securities and during paid promotional campaigns; and/or (iv) trading in shares of issuers' that had little or no market activity until the promotions began
18. Aegis' failure to file SARs on low-priced securities transactions went beyond its inadequate systems to surveil for suspicious activity and the red flags specifically identified in its written supervisory procedures. Indeed, as described in greater detail below, Aegis failed to file SARs on low-priced securities transactions even when it received alerts from its clearing firm about such suspicious transactions.
  - i. Aegis' Clearing Firm Identified AML Red Flags in Aegis' Low-Priced Securities Business and Described Them to Aegis in AML Alerts
19. In July 2012, Aegis hired a new clearing firm (the "New Clearing Firm") that it transitioned its clearing business to in December 2012.
20. Beginning in January 2013, the New Clearing Firm identified AML red flags in Aegis' low-priced securities business.
21. The New Clearing Firm communicated these AML red flags by, among other things, sending AML Alerts directly to senior Aegis personnel, including the then-AML COs. These AML Alerts identified specific suspicious low-priced securities transactions occurring at Aegis.
22. Despite receiving these AML Alerts, Aegis did not file any SARs concerning the identified transactions. Nor did Aegis create any written analyses or compile other records indicating that it considered filing SARs. Moreover, Aegis did not take any steps to determine why its own surveillance systems were failing to detect these suspicious transactions.

D. Illustrative Examples of Transactions in which Aegis Failed to File SARs

i. Customer A

23. Between October 17 and December 27, 2012, an Aegis customer – Customer A – sold approximately 2.1 million shares of Issuer A, which traded on OTC Link (previously “Pink Sheets”) operated by OTC Markets Group Inc. (“OTC Link”). Customer A held a DVP/RVP account at Aegis and is a private Swiss bank that traded significant volumes of low-priced securities through an omnibus arrangement with Aegis on behalf of the Swiss bank’s underlying clients who were unknown to Aegis.
24. At the same time Customer A was selling shares of Issuer A, a stock promotion touting the company’s prospects was underway. Coinciding with the promotional campaign, Issuer A’s share price fluctuated from a low of \$0.51 to a high of \$0.93 on average daily volume of 558,792 shares. In the two months prior to October 17, 2012, no shares of Issuer A traded at all. Thus, Customer A’s trading in Issuer A occurred during a period of a sudden spike in price and volume – which were specific AML red flags identified in Aegis’ written supervisory procedures.
25. Prior to Customer A’s trading in Issuer A, Issuer A had undergone several name changes – again a specific AML red flag identified in Aegis’ written supervisory procedures. Moreover, contrary to the rosy picture of Issuer A painted by the above described promotional campaign, Issuer A’s Form 10-Q for the period ending September 30, 2012 reported that Issuer A had no revenues, a net loss of \$143,345, and a “going concern” statement from its management.
26. Despite these red flags associated with the trading by Customer A, Aegis did not file a SAR.
27. From December 2012 to March 2013, Customer A again traded suspiciously in a low-priced security, this time in Issuer B – another security traded on OTC Link.
28. Indeed, during that period, Customer A sold 8.2 million shares of Issuer B for proceeds of approximately \$2.4 million. The shares it sold accounted for more than 8.8% of Issuer B’s outstanding shares. This trading coincided with a promotional campaign during which Issuer B’s share price climbed from a low of approximately \$0.40 to a high of approximately \$0.96, before falling again to approximately \$0.07, on average daily trading volume of approximately 1.5 million shares. The only trading in the six months prior to the beginning of the promotional campaign occurred on just one day and involved only 10,000 shares.
29. In addition to the suspicious trading noted above, there were other indicia that Issuer B likely was the subject of market manipulation. For example, Issuer B reported in 2013 that it was a world-class graphite company, yet two years earlier it had been a Malaysian publishing company that operated under a different name. Recent changes in an issuer’s name and business was one of the specific AML red flags identified in Aegis’ written supervisory procedures.

30. On April 4, 2013, the New Clearing Firm sent an AML Alert to Aegis' then AML CO and other Aegis personnel concerning Customer A's trading in Issuer B. In the April 4, 2013 AML Alert, the New Clearing Firm noted that Customer A had received over 9 million shares of Issuer B into its account between December 12, 2012 and March 4, 2013, and asked how and when Customer A acquired the shares and whether there was a registration statement in effect for them.
31. Prior to this April 4, 2013 AML Alert, the New Clearing Firm had expressed concerns to Aegis about its low-priced securities practices. In fact, in March 2013, the New Clearing Firm implemented specific restrictions on Aegis' low-priced securities business. These restrictions included a requirement that, before Aegis customers could sell low-priced securities that had been physically deposited at the firm, either Aegis' AML CO, the CEO, or the COO had to sign a red flag identifiers form indicating that the signatory had reviewed the proposed transactions for red flags commonly associated with market manipulation in low-priced securities.
32. The New Clearing Firm continued to communicate with the then AML CO and other Aegis personnel with additional questions concerning Customer A's trading in Issuer B.
33. For example, on April 17, 2013, the New Clearing Firm emailed the then AML CO and other Aegis personnel citing three websites on which it found evidence of Issuer B promotions and made three requests: (i) describe the due diligence completed before executing Customer A's transactions; (ii) describe how the relationship with Customer A was established; and (iii) identify Customer A's underlying clients.
34. Despite the AML Alert and questions from the New Clearing Firm, Customer A continued to trade low-priced securities at Aegis. Accordingly, on May 20, 2013, the New Clearing Firm wrote yet again to the then AML CO about Customer A:

As you know AML is really tweaked on this [Customer A] account. Because the account is continuing to trade in multiple securities which have been subject to regulatory inquiries, we need a concrete plan to address this situation as soon as possible. In absence of receiving a mutually agreeable plan, AML going [sic] to be blocking transactions in the account beginning Tuesday prior to market opening.
35. The CEO requested extensions from the New Clearing Firm so that Customer A could continue to trade while Aegis attempted to transition Customer A's accounts to another broker-dealer. Ultimately, Aegis closed Customer A's accounts on September 13, 2013, at least in part because of concerns regarding the low-priced securities that were traded in them.
36. Despite these red flags associated with the trading by Customer A and Aegis' closure of the account due to the presence of suspicious activity, Aegis did not file a SAR and did not create written analyses or compile other records indicating that it even considered

filing a SAR. The fact that Customer A's account was a DVP/RVP account did not relieve Aegis of its SAR filing obligations with respect to that account.

ii. Customer B

37. Customer B is a British Virgin Islands company based in China that offers consulting and advisory services.
38. In an approximately one month period beginning in April 2013, Customer B sold approximately 200,000 shares of Issuer C through Aegis for proceeds of \$2.3 million, or over \$10 per share. Issuer C was listed on NASDAQ.
39. Just six months prior to these sales, Issuer C's share price was \$0.45 per share. And, a month prior to these sales, Issuer C's share price was approximately \$5 per share.
40. On April 25, 2013, Customer B sent a request to wire approximately \$600,000 of the \$2.3 million in proceeds to its bank account in Hong Kong.
41. Regarding this request, an Aegis compliance employee wrote to the then AML CO, Aegis CEO, and COO to explain that the funds included in the transfer request were proceeds from Customer B's trading and wrote "[Issuer C's] share price has risen quite a bit in the past 6 months. I'd prefer a member of senior management authorize and approve this wire."
42. After the COO asked whether Issuer C's shares were restricted when they arrived at Aegis, the compliance employee replied to the then AML CO, the Aegis CEO, and COO "[c]lean shares but the sudden spike in price is a concern."
43. Notwithstanding the red flags the compliance employee raised, Aegis did not file a SAR concerning either the suspicious trading or the substantial proceeds wired offshore and did not create written analyses or compile other records indicating that it considered filing SARs.
44. After the initial wire was sent to Customer B's Hong Kong account in late April 2013, Customer B made requests to send two more wires totaling the remainder of the proceeds from the trading. Then, On July 1, 2013, the New Clearing Firm sent Aegis an AML Alert regarding Customer B's wire transfers described above. The New Clearing Firm asked Aegis to (i) confirm the identity of the account's beneficial owner; (ii) describe the source of the beneficial owner's funds; and (iii) describe the purpose of the wires sent to Customer B's Hong Kong bank account.
45. Notwithstanding the receipt of the AML Alert from the New Clearing Firm and a subsequent regulatory request from FINRA that it received in late October 2013 concerning trading in Issuer C at the firm, Aegis did not file a SAR concerning the substantial proceeds wired offshore and did not create written analyses or compile other records indicating that it even considered filing a SAR.

iii. Customer C

46. In early November 2013, the New Clearing Firm sent another AML Alert, this time involving a different customer, Customer C. Customer C had a DVP/RVP account at Aegis.
47. On November 1, 2013, the New Clearing Firm sent Aegis an AML Alert outlining Customer C's suspicious trading in several low-priced securities, including Issuers D and E and noting that in approximately six months Customer C had sold approximately *1 billion* shares of low-priced securities through Aegis (emphasis added). Both Issuers D and E were traded on OTC Link.
48. In its AML Alert, the New Clearing Firm noted that Customer C, between September 17 and October 31, 2013, had sold 31% of Issuer D's outstanding shares and that the average daily trading volume had increased by approximately five fold during Customer C's trading while the share price had dropped by approximately 90%.
49. Other evidence also indicates Issuer D may have been the subject of market manipulation. In particular, Issuer D had experienced a rapid increase in the company's stock price and volume that coincided with a promotional campaign that was inconsistent with the company's financial performance as reflected in its SEC filings.
50. With respect to Issuer E, the New Clearing Firm noted in its AML Alert that Issuer E had reported no revenues and that Customer C had sold over 60% of the company's outstanding shares in two and a half months while the share price had dropped by approximately 50%.
51. In addition to suspicious trading in Issuers D and E, the New Clearing Firm identified in the AML Alert similarly suspicious trading by Customer C in other low-priced securities including that Customer C – in one particular low-priced security – had sold more shares in three months than the issuer had outstanding.
52. In the AML Alert, the New Clearing Firm requested a description of: (i) the due diligence performed on the customer; (ii) the due diligence performed on the securities Customer C liquidated in the account; and (iii) how Aegis was comfortable with the activity in the account.
53. On November 5, 2013, the then AML CO informed the New Clearing Firm that Aegis had reviewed Customer C's account activity and its account opening paperwork and had decided to close the account, which it did, at least in part, because of the AML concerns outlined in the AML Alert.
54. Despite these red flags associated with the trading by Customer C and Aegis' closing the account due to the presence of suspicious activity, Aegis did not file a SAR. Moreover, Aegis did not create written analyses or compile other records indicating that it even considered filing a SAR. The fact that Customer C's account was a DVP/RVP account did not relieve Aegis of its SAR filing obligations with respect to that account.

iv. Customer D

55. Another Aegis customer – Customer D – engaged in suspicious low-priced securities transactions for which Aegis did not file a SAR. Customer D was a foreign financial institution with a DVP/RVP account at the firm and traded on behalf of underlying customers who were unknown to Aegis.
56. Over an approximately six-month period beginning in late May 2013, Customer D sold approximately 457,000 shares of Issuer F for proceeds of approximately \$2.8 million. Issuer F traded on OTC Link. Just prior to the trading – and coinciding with a promotional campaign – Issuer F’s share price climbed from \$3.90 to \$9.39 on substantially increased volume.
57. Customer D was not the only Aegis customer who traded suspiciously in Issuer F. Starting approximately two months before Customer D’s trading, Customers A and E sold a substantial amount of Issuer F shares for substantial proceeds. Customer E was yet another foreign financial institution with a DVP/RVP account at the firm and traded on behalf of underlying customers who were unknown to Aegis; it was incorporated in New Zealand and operated from Switzerland.
58. In particular, Customer A sold approximately 638,000 shares of Issuer F for proceeds of approximately \$3.7 million while Customer E sold approximately 494,000 shares of Issuer F for proceeds of approximately \$3.3 million. Thus, together Customers A and E sold over one million shares of Issuer F for proceeds of approximately \$7 million.
59. Despite these red flags associated with the trading by Customer D, Aegis did not file a SAR regarding the above trading.
60. In early June 2013 – just a few weeks after Customer D began its trading in Issuer F – Customer D traded in another low-priced security transaction, this time Issuer G. Issuer G also traded on OTC Link.
61. Between June 11 and 17, 2013 and during a paid promotional campaign for Issuer G, Customer D sold approximately 340,000 shares of Issuer G for proceeds of approximately \$248,000.
62. Moreover, another Aegis customer, Customer F, traded suspiciously in Issuer G at the same time as Customer D did. In particular, Customer F sold approximately 760,000 shares of Issuer G through Aegis during the promotion for proceeds of approximately \$840,000. Customer F was yet another foreign financial institution with a DVP/RVP account at the firm and traded on behalf of underlying customers who were unknown to Aegis.
63. On December 2, 2013, the New Clearing Firm sent an AML Alert to Aegis regarding Customer D’s trading in Issuer G, and wrote that the trading “exhibited characteristics commonly associated with a pump-and-dump scheme; including paid stock promotion, a

significant increase in both price and trading volume, followed by a precipitous drop in price and volume.”

64. In the AML Alert, the New Clearing Firm also noted that Issuer G had changed both its name and business line (to a medical device company from an auto parts manufacturer), had no revenue and minimal trading volume until the stock promotion began, and that Customer D’s trading was similar to the suspicious trading by two other Aegis customers that had prompted the New Clearing Firm to request that those accounts be closed earlier in the year.
65. Aegis ultimately closed Customer D’s accounts, at least in part, because of the AML concerns associated with it.
66. Despite these red flags associated with the trading by Customer D and at least one other Aegis customer in Issuer G, as well as the closing of Customer D’s account due at least in part to concerns regarding low-priced securities transactions, Aegis never filed a SAR. Moreover, Aegis did not create any written analyses or compile other documents indicating that it considered filing a SAR. The fact that the above described accounts were DVP/RVP accounts did not relieve Aegis of its SAR filing obligations with respect to those accounts.

E. November 18, 2013 DVP/RVP Update to Written Supervisory Procedures

67. On November 18, 2013 –in response to the deficiencies identified in an examination by the SEC’s Office of Compliance Inspections and Examinations – Aegis updated its written supervisory procedures to require that low-priced securities transactions in DVP/RVP accounts be subjected to the same due diligence as cash accounts when customers deposited physical securities.
68. In particular, Aegis’ updated written supervisory procedures required Aegis’ DVP/RVP customers to submit Deposited Securities Request Questionnaires (“DSRQs”) for any low-priced securities it wished to trade and required Aegis to complete due diligence to identify red flags associated with the issuers of low-priced securities.
69. DSRQs include, among other things, information about how the customer obtained a particular security, whether the customer is an affiliate of the issuer, and how many shares of the security the customer owns. DSRQs had to be filled out by the customer and approved by the registered representative and a member of Aegis’ management before any trading was to occur.

F. Customer G

70. Notwithstanding this update to Aegis’ written supervisory procedures, however, at least one of Aegis’ DVP/RVP customers (Customer G) traded suspiciously in low-priced securities and did so before the required DSRQ process had been completed. Customer G, a New York corporation, is a microcap hedge fund that held a DVP/RVP account at Aegis.

71. Between February 10, 2014 and February 20, 2014, Customer G sold 705.9 million shares of Issuer H through Aegis for proceeds of approximately \$1.24 million. Issuer H traded on OTC Link.
72. On February 19, 2014, the New Clearing Firm sent an AML Alert to Aegis explaining that it was going to block Customer G's account at market close because, among other reasons, Customer G had already sold 200 million shares of Issuer H that day and 2.7 *billion* shares of low-priced securities since it opened its account.
73. In addition to the suspicious trading, there were other indicia that Issuer H may have been the subject of market manipulation. For example, Issuer H experienced a large increase in price and volume that coincided with a promotional campaign. Moreover, the company's name had changed several times before becoming Issuer H.
74. The AML Alert was not limited to the suspicious Issuer H trades; it also described suspicious trading by Customer G in over 1.6 *billion* shares of the securities of ten additional microcap issuers.
75. The New Clearing Firm subsequently asked for an explanation of: (i) the due diligence Aegis performed on the customer; (ii) the due diligence Aegis performed on the securities liquidated in the account; and (iii) how Aegis was comfortable with the activity.
76. Even after Aegis received the AML Alert concerning Customer G's trading, Customer G continued to trade in Issuer H. Indeed, on February 19 and 20, 2014, Customer G sold an additional 120 million shares of Issuer H.
77. On February 25, 2014, before Aegis had responded to the New Clearing Firm, it received a regulatory request from FINRA regarding trading in Issuer H at the firm. On March 14, 2014, Aegis received a second regulatory request from FINRA.
78. At the time of Customer G's trading in February 2014, Aegis had already implemented its new DSRQ policy for trading in DVP/RVP accounts. The DSRQ packet for Customer G's trading in Issuer H, however, was not signed by any of the required Aegis personnel and, thus, Customer G should never have been allowed to liquidate any of its Issuer H shares through Aegis.
79. Despite the significant trading by Customer G in Issuer H and the other red flags associated with the transactions, Aegis never filed a SAR. Moreover, Aegis did not create written analyses or compile other records indicating the consideration of filing a SAR. The fact that Customer G's account was a DVP/RVP account did not relieve Aegis of its SAR filing obligations with respect to that account.

## **VIOLATION**

80. The Bank Secrecy Act ("BSA"), and implementing regulations promulgated by the Financial Crimes Enforcement Network ("FinCEN"), require that broker-dealers file SARs with FinCEN to report a transaction (or a pattern of transactions of which the transaction is a part) conducted or attempted by, at, or through the broker-dealer

involving or aggregating to at least \$5,000 that the broker dealer knows, suspects, or has reason to suspect: (1) involves funds derived from illegal activity or is conducted to disguise funds derived from illegal activities; (2) is designed to evade any requirement of the BSA; (3) has no business or apparent lawful purpose and the broker-dealer knows of no reasonable explanation for the transaction after examining the available facts; or (4) involves use of the broker-dealer to facilitate criminal activity. 31 C.F.R. § 1023.320(a)(2).

81. Exchange Act Rule 17a-8 requires broker-dealers to comply with the reporting, record-keeping, and record retention requirements of the BSA. The failure to file a SAR as required by the SAR Rule is a violation of Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.
82. By engaging in the conduct described above, Aegis willfully violated Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.

### **REMEDIAL EFFORTS**

83. In determining to accept the Offer, the Commission considered remedial acts undertaken by Respondent. Aegis retained a third-party AML compliance consultant (“Compliance Consultant”) with whom it had never worked before to conduct a review of Aegis’ AML program relating to transactions and/or business in low-priced securities and Aegis’ handling of DVP/RVP accounts, including Aegis’ relevant policies and procedures, for compliance with the Bank Secrecy Act. For the purpose of this review, “low-priced security” and “low-priced securities” meant any equity security that trades at or below \$5 per share.
84. The Compliance Consultant submitted to the Commission’s staff a written report (the “Report”) describing the review it performed, the names of the individuals who performed the review, the conclusions reached, and the Compliance Consultant’s recommendations for changes in or improvements to Aegis’ policies and procedures.

### **UNDERTAKINGS**

Aegis has undertaken to:

85. Compliance Consultant. With respect to its retention of the Compliance Consultant, Aegis has agreed to the following undertakings:
  - a. Aegis will continue to retain the services of the Compliance Consultant to complete the tasks, as outlined in these undertakings, associated with the review and Report described in paragraphs 83-84. The Compliance Consultant’s compensation and expenses shall be borne exclusively by Aegis.
  - b. Aegis shall adopt all recommendations contained in the Report within sixty (60) days the issuance of this Order; provided, however, that within thirty (30) days after the date of the Order’s issuance, Aegis shall in writing advise the Compliance Consultant and the Commission staff of any recommendations that

Aegis considers to be unduly burdensome, impractical, or inappropriate. With respect to any recommendation that Aegis considers unduly burdensome, impractical, or inappropriate, Aegis need not adopt that recommendation at that time but shall propose in writing an alternative policy, procedure, or system designed to achieve the same objective or purpose.

- c. As to any recommendation with respect to Aegis' policies and procedures on which Aegis and the Compliance Consultant do not agree, Aegis and the Compliance Consultant shall attempt in good faith to reach an agreement within sixty (60) days after the date this Order is issued. Within fifteen (15) days after the conclusion of the discussion and evaluation by Aegis and the Compliance Consultant, Aegis shall require that the Compliance Consultant inform Aegis and the Commission staff in writing of the Compliance Consultant's final determination concerning any recommendation that Aegis considers to be unduly burdensome, impractical, or inappropriate. Aegis shall abide by the determinations of the Compliance Consultant and, within thirty (30) days after final agreement between Aegis and the Compliance Consultant or final determination of the Compliance Consultant, whichever occurs first, Aegis shall adopt and implement all of the recommendations that the Compliance Consultant deems appropriate.
- d. Within thirty (30) days of Aegis' adoption of all of the recommendations in the Report that the Compliance Consultant deems appropriate, as determined pursuant to the procedures set forth herein, Aegis shall certify in writing to the Compliance Consultant and the Commission staff that Aegis has adopted and implemented all of the Compliance Consultant's recommendations in the Report. Thereafter, beginning one hundred eighty days (180) after the entry of this Order, the Compliance Consultant shall conduct such review as it deems appropriate to verify that Aegis has appropriately implemented the recommendations in the Report. Prior to two hundred and ten (210) days after the entry of this Order, the Compliance Consultant shall confirm to the Commission staff that Aegis has adopted and implemented all of the Compliance Consultant's recommendations in the Report. Unless otherwise directed by the Commission staff, all Reports, certifications, and other documents required to be provided to the Commission staff shall be sent to Antonia Chion, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549, or such other address as the Commission staff may provide.
- e. On the anniversary of the date of the submission of the Report described in paragraph 84, the Compliance Consultant shall conduct a review to determine whether: (1) Aegis is implementing all of the Compliance Consultant's recommendations adopted pursuant to the foregoing provisions and this provision; and, (2) there have been any changes in the law or Aegis' business operations such that the recommendations should be amended and updated to take into account any such changed circumstance. Within forty-five (45) days after the anniversary date of the submission of the Report, the Compliance Consultant shall submit a written and dated report of its findings to Aegis and the Commission

staff (the “Anniversary Report”). Aegis shall require that the Anniversary Report include a description of the review performed, the names of the individuals who performed the review, the conclusions reached, and any further recommendations concerning changes in or improvements to Aegis’ policies and procedures directed at effecting implementation of the recommendations in the initial Report or the Anniversary Report or directed at addressing any changes in the law or business. Any recommendations made in the Anniversary Report shall be subject to the same processes set forth in subparagraphs 85(b) through (d).

- f. Aegis shall cooperate fully with the Compliance Consultant and shall provide the Compliance Consultant with access to such of its files, books, records, and personnel as are reasonably requested by the Compliance Consultant for review.
  - g. To ensure the independence of the Compliance Consultant for the remainder of the engagement, Aegis: (1) shall not have the authority to terminate the Compliance Consultant or substitute another compliance consultant for the Compliance Consultant without the prior written approval of the Commission staff; and (2) shall compensate the Compliance Consultant and persons engaged to assist the Compliance Consultant for services rendered pursuant to this Order at their reasonable and customary rates.
  - h. Aegis shall maintain its agreement with the Compliance Consultant, which provides that for the period of engagement and for a period of two (2) years from completion of the engagement, the Compliance Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with Aegis, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Aegis shall similarly maintain its agreement with the Compliance Consultant requiring that any firm with which the Compliance Consultant is affiliated or of which the Compliance Consultant is a member, and any person engaged to assist the Compliance Consultant in the performance of the Compliance Consultant’s duties under this Order shall not, without prior written consent of the Commission staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Aegis, or any of its 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 (2) years after the engagements.
  - i. Recordkeeping. Aegis shall preserve for a period of not less than six years from the end of the fiscal year last used, the first two years in an easily accessible place, any record of its compliance with the undertakings set forth herein.
86. Deadlines. For good cause shown, the Commission staff may extend any of the procedural dates relating to the undertakings. Deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered to be the last day.

87. Certifications of Compliance by Respondents. Aegis shall certify, in writing, compliance with its undertakings set forth above. 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. The Commission staff may make reasonable requests for further evidence of compliance, and Aegis agrees to provide such evidence. The certification and supporting material shall be submitted to Antonia Chion, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549, or such other address as the staff of the Commission may provide, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

#### IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Aegis' Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act and Section 203(e) of the Advisers Act it is hereby ORDERED that Aegis:

- A. cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Exchange Act and Rule 17a-8 thereunder;
- B. is censured;
- C. shall pay a civil monetary penalty in the amount of \$750,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment shall be made in the following installments: \$75,000 within ten (10) days after the institution of this Order, with the remaining civil penalties, and interest accrued pursuant to 31 U.S.C. § 3717, due in nine (9) monthly installments of \$75,000 beginning on the first day of the month following the institution of this Order and continuing on the first day of each month thereafter for eight (8) months.

If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of the civil penalties, plus any additional interest accrued pursuant to 31 U.S.C. 3717, shall be due and payable immediately, without further application.

Payment must be made in one of the following ways:

- 1. Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- 2. Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or

3. Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Aegis as Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Antonia Chion, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549.

Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

- D. shall comply with the undertakings enumerated in Section III above.

By the Commission.

Brent J. Fields  
Secretary