

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 20130387509**

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

RE: Aegis Capital Corp., Respondent  
CRD No. 15007

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

**I.**

**ACCEPTANCE AND CONSENT**

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

**BACKGROUND**

Aegis, a FINRA member since 1984, is a retail and institutional broker-dealer. The firm is headquartered in New York City. It maintains approximately 20 branch offices and has approximately 400 registered persons.

**RELEVANT DISCIPLINARY HISTORY**

In an Offer of Settlement (No. 2011026386001 July 17, 2015) the Firm consented, without admitting or denying, to findings that between April 2009 and June 2011 it violated Section 5 of the Securities Act of 1933, NASD Rules 3011(a) and (b), and FINRA Rules 3310(a) and 2010 by liquidating nearly 3.9 billion shares of five low-priced securities<sup>1</sup> in the accounts of seven different customers shortly after those shares were deposited into the customers’ accounts and without first conducting reasonable and meaningful inquiries of the circumstances surrounding the customers’ deposits and subsequent sales of the securities. The shares were not registered nor were the sales exempt from registration. The customers generated over \$24.5 million in proceeds and Aegis

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<sup>1</sup> Low-priced securities are defined by the SEC as securities trading at less than \$5.00 per share.

collected over \$1.1 million in commissions from these suspicious sales. In addition, Aegis consented to findings that it failed to establish, maintain, and enforce a supervisory system reasonably designed to achieve compliance with Section 5, detect and investigate red flags indicative of potentially suspicious transactions and conduct meaningful inquiries into the sales of another five low-priced securities. The Firm consented to sanctions consisting of a censure, a \$950,000 fine and a requirement to hire an independent consultant to conduct a review of its practices and written procedures related to the referenced violations.

### **OVERVIEW**

Between January 2012 and April 2014 (the “Relevant Period”), Aegis failed to establish and implement an anti-money laundering (“AML”) program reasonably designed to detect and investigate certain “red flags” indicative of potentially suspicious transactions in delivery versus payment/receive versus payment (“DVP”) accounts.<sup>2</sup>

As a result, the Firm violated FINRA Rules 3310(a) and 2010.

Similarly, the Firm failed to establish, maintain, and enforce a reasonable supervisory system, including written procedures, related to the sale of low-priced securities in DVP accounts. As a result, the Firm did not adequately monitor or investigate any trading in its DVP accounts, including low-priced securities transactions. In particular, the Firm failed to adequately monitor or investigate the trading in seven different DVP customer accounts that, during the Relevant Period, liquidated billions of shares of low-priced securities in eight issuers. The customers generated millions of dollars in proceeds in connection with these transactions.

Based on the foregoing, the Firm violated NASD Rule 3010(a) and FINRA Rule 2010.

The Firm also failed to have an adequate annual AML Training Program. While Aegis required all employees to complete a computerized training module that included training on AML issues, none of these modules included any discussion of the red flags associated with low-priced securities transactions.

As a result, the Firm violated FINRA Rules 3310(e) and 2010.

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<sup>2</sup> In a DVP account, clients buy and sell securities that are not held at the brokerage firm executing the trades. The investor’s account is held at another firm that acts as a fiduciary agent for the investor. On settlement date, the executing broker exchanges securities and funds with the client’s agent in settlement of the executed trade or trades.

## **FACTS AND VIOLATIVE CONDUCT**

### **I. Failures Related to the Firm's Low-Priced Securities Business**

Customers that hold DVP accounts at Aegis deposit shares of securities in a custodial account held at another Firm. The purchases and sales of those shares are effected through Aegis. During the Relevant Period, Aegis held a total of 4,659 DVP customer accounts and used three clearing firms.

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

#### ***A. Inadequate Policies and Procedures***

##### **1) Inadequate AML Procedures**

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 [the Bank Secrecy Act] and the implementing regulations thereunder.” The referenced implementing regulations, issued by the U.S. Department of the Treasury, 31 C.F.R. § 1023.320, require broker-dealers to file with the Financial Crimes Enforcement Network (“FinCEN”) “a report of any suspicious transaction relevant to a possible violation of law or regulation.”

FINRA Rule 2010 requires that a member, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade. Violations of other FINRA and NASD Rules result in a violation of Rule 2010.

Between January 1, 2013 and November 18, 2013 the Firm's AML Written Supervisory Procedures (“AML WSPs”) were deficient in that they were not tailored to the risks associated with the sale of low-priced securities through DVP accounts. In December 2013, the Firm added enhanced AML WSPs titled “Enhanced Procedure for Low-Priced Securities Transactions in DVP/RVP accounts.”

In its AML WSPs, the Firm 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:

There is a sudden spike in investor demand for, coupled with a rising price in, a thinly-traded or low-priced security;

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;

The issuer's SEC filings are not current, are incomplete, or nonexistent;

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;

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

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.

Although the AML WSPs described above set forth general principles and described red flags indicative of suspicious transactions, they failed to address risks specific to trading in DVP accounts. For example, the practice of depositing low-priced securities, liquidating them, and wiring out the proceeds was listed in the AML WSPs as a red flag. However, as holders of DVP accounts do not deposit securities at Aegis or wire out proceeds, these types of transactions did not trigger this red flag.

The AML WSPs did not include other red flags related to activity in DVP accounts and Firm personnel did not otherwise monitor for low-priced securities transactions, including liquidations, in DVP accounts. The Firm's AML WSPs also did not require the Firm to monitor for AML "red flags" related to the beneficial owner of DVP accounts such as the owner's background, multiple accounts held by the same owner or how the customer acquired the shares. The AML WSPs were thus not tailored to the risks associated with the sale of low-priced securities through DVP accounts.

As a result, the Firm violated FINRA Rules 3310(a) and 2010.

## 2) Inadequate General Written Supervisory Procedures

NASD Rule 3010(a) requires FINRA members to establish and maintain a supervisory system, including written procedures, to supervise each type of business in which they engage.<sup>3</sup> The system and procedures must be adequately designed to achieve compliance with applicable securities laws and regulations and with applicable NASD Rules.

Prior to November 18, 2013, the Firm's WSPs did not require that low-priced securities transactions in DVP accounts be subjected to the same due diligence as cash accounts when customers deposited physical securities.

### *November 18, 2013 DVP WSP Update*

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 accounts be subjected to the same due diligence as cash accounts when customers deposited physical securities. In particular, Aegis' updated written supervisory procedures required Aegis' DVP 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.

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.

Although the Firm adopted these DVP specific WSPs, its supervisory staff failed to implement them consistently. For example, as discussed in detail below, on at least one occasion the Firm's supervisory staff permitted a customer to trade in low-priced securities prior to the completion the required DSRQ

As a result, the Firm violated NASD Rule 3010(a) and FINRA Rule 2010.

## 3) Inadequate Implementation of Suspicious Activity Monitoring Procedures

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 inadequate during the Relevant Period.

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<sup>3</sup> NASD Rule 3010 was superseded by FINRA Rule 3110 effective December 1, 2014.

During this period, Aegis had two mechanisms in place to detect possibly suspicious trading activity. First, Aegis' branch managers were responsible for reviewing their branch customers' trades to identify any suspicious activity and for escalating any identified transactions to its AML Compliance Officer ("AMLCO").

Although several of Aegis' customers engaged in suspicious sales of low-priced securities, Aegis branch managers did not report suspicious activity to the AMLCO.

Next, 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.

Initially, Aegis used the basic version of the trade review system to monitor its transactions, but this system did not analyze DVP transactions. Subsequently, in July 2013, Aegis upgraded to the enhanced version of the trade review system.

Unlike the basic version, the enhanced version allowed users like Aegis to enable the system to analyze DVP accounts. Despite the receipt of specific alerts of suspicious trading in DVP accounts described below, Aegis did not enable until April 2015 the enhanced version of the trade review system to analyze DVP accounts.

Accordingly – during the Relevant Period – Aegis' surveillance technology did not analyze the transactions described herein. Rather, these transactions were assigned a green flag and simply batch approved by the applicable Aegis personnel. The Firm thus failed adequately to implement procedures to monitor for suspicious activity involving low-priced securities transactions in DVP accounts for the entirety of the Relevant Period.

As a result, the Firm violated FINRA Rules 3310(a) and 2010.

### ***B. Potentially Suspicious Trading Activity***

In July 2012, Aegis hired a new clearing firm (the "New Clearing Firm") that it transitioned its clearing business to in December 2012. Beginning in January 2013, the New Clearing Firm identified AML red flags in Aegis' low-priced securities business.

The New Clearing Firm communicated these AML red flags by, among other things, sending AML Alerts directly to senior Aegis personnel, including the

then-AMLCOs. These AML Alerts identified specific suspicious low-priced securities transactions occurring at Aegis.

Despite its receipt of this information, the Firm did not identify as suspicious any low-priced securities transactions executed through DVP accounts or alternatively the Firm did not create written analyses or compile other records indicating the consideration of any particular transaction as suspicious and that it had concluded that such transactions were not suspicious.

Illustrative Examples:

*1) Customer BGU*

Between October 17 and December 27, 2012, an Aegis customer – Customer BGU – sold approximately 2.1 million shares of Issuer ABC, which traded on OTC Link (previously “Pink Sheets”) operated by OTC Markets Group Inc. (“OTC Link”). Customer BGU held a DVP 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.

At the same time Customer BGU was selling shares of Issuer ABC, a stock promotion touting the company’s prospects was underway. Coinciding with the promotional campaign, Issuer ABC’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 ABC traded at all. Thus, Customer BGU’s trading in Issuer ABC occurred during a period of a sudden spike in price and volume – which were specific AML red flags identified in Aegis’ written supervisory procedures.

Prior to Customer BGU’s trading in Issuer ABC, Issuer ABC 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 ABC painted by the above described promotional campaign, Issuer ABC’s Form 10-Q for the period ending September 30, 2012 reported that Issuer ABC had no revenues, a net loss of \$143,345, and a “going concern” statement from its management. Despite these red flags associated with the trading by Customer BGU, Aegis did not identify any of the transactions as suspicious or alternatively Aegis did not create written analyses or compile other records indicating the consideration of any particular transaction as suspicious and that it had concluded such transactions were not suspicious.

From December 2012 to March 2013, Customer BGU again traded suspiciously in a low-priced security, this time in Issuer DEF – another security traded on OTC Link.

Indeed, during that period, Customer BGU sold 8.2 million shares of Issuer DEF for proceeds of approximately \$2.4 million. The shares it sold accounted for more than 8.8% of Issuer DEF's outstanding shares. This trading coincided with a promotional campaign during which Issuer DEF'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.

In addition to the suspicious trading noted above, there were other indicia that Issuer DEF likely was the subject of market manipulation. For example, Issuer DEF 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.

On April 4, 2013, the New Clearing Firm sent an AML Alert to Aegis' then AMLCO and other Aegis personnel concerning Customer BGU's trading in Issuer DEF. In the April 4, 2013 AML Alert, the New Clearing Firm noted that Customer BGU had received over 9 million shares of Issuer DEF into its account between December 12, 2012 and March 4, 2013, and asked how and when Customer BGU acquired the shares and whether there was a registration statement in effect for them.

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, a member of senior management 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.

The New Clearing Firm continued to communicate with the then AMLCO and other Aegis personnel with additional questions concerning Customer BGU's trading in Issuer DEF.

For example, on April 17, 2013, the New Clearing Firm emailed the then AMLCO and other Aegis personnel citing three websites on which it found evidence of Issuer DEF promotions and made three requests: (i) describe the due diligence completed before executing Customer BGU's transactions; (ii) describe how the relationship with Customer BGU was established; and (iii) identify Customer BGU's underlying clients.

Despite the AML Alert and questions from the New Clearing Firm, Customer



BGU continued to trade low-priced securities at Aegis. Accordingly, on May 20, 2013, the New Clearing Firm wrote yet again to the then AMLCO about Customer BGU:

As you know AML is really tweaked on this [Customer BGU] 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.

The Firm requested extensions from the New Clearing Firm so that Customer BGU could continue to trade while Aegis attempted to transition Customer BGU's accounts to another broker-dealer. Ultimately, Aegis closed Customer BGU's accounts on September 13, 2013, at least in part because of concerns regarding the low-priced securities that were traded in them.

Despite these red flags associated with the trading by Customer BGU, Aegis did not identify any of the transactions as suspicious or alternatively Aegis did not create written analyses or compile other records indicating the consideration of any particular transaction as suspicious and that it had concluded such transactions were not suspicious.

## 2) *Customer LCI*

Customer LCI is a British Virgin Islands company based in China that offers consulting and advisory services.

In an approximately one month period beginning in April 2013, Customer LCI sold approximately 200,000 shares of Issuer GHI through Aegis for proceeds of \$2.3 million, or over \$10 per share. Issuer GHI was listed on NASDAQ. Just six months prior to these sales, Issuer GHI's share price was \$0.45 per share, and a month prior to these sales, Issuer GHI's share price was approximately \$5 per share.

On April 25, 2013, Customer LCI sent a request to wire approximately \$600,000 of the \$2.3 million in proceeds to its bank account in Hong Kong. Regarding this request, an Aegis compliance employee wrote to senior management to explain that the funds included in the transfer request were proceeds from Customer LCI's trading and wrote "[Issuer GHI'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."

After a member of senior management asked whether Issuer GHI's shares were restricted when they arrived at Aegis, the compliance employee replied to senior

management “[c]lean shares but the sudden spike in price is a concern.” Notwithstanding the red flags the compliance employee raised, Aegis did not identify any of the transactions as suspicious or alternatively Aegis did not create written analyses or compile other records indicating the consideration of any particular transaction as suspicious and that it had concluded such transactions were not suspicious.

After the initial wire was sent to Customer LCI’s Hong Kong account in late April 2013, Customer LCI 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 LCI’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 LCI’s Hong Kong bank account.

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 GHI at the firm, Aegis did not identify any of the transactions as suspicious or alternatively Aegis did not create written analyses or compile other records indicating the consideration of any particular transaction as suspicious and that it had concluded such transactions were not suspicious.

### 3) *Customer GPR*

In early November 2013, the New Clearing Firm sent another AML Alert, this time involving a different customer, Customer GPR. Customer GPR had a DVP account at Aegis.

On November 1, 2013, the New Clearing Firm sent Aegis an AML Alert outlining Customer GPR’s suspicious trading in several low-priced securities, including Issuers JKL and MNO and noting that in approximately six months Customer GPR had sold approximately *1 billion* shares of low-priced securities through Aegis. Both Issuers JKL and MNO were traded on OTC Link.

In its AML Alert, the New Clearing Firm noted that Customer GPR, between September 17 and October 31, 2013, had sold 31% of Issuer JKL’s outstanding shares and that the average daily trading volume had increased by approximately five fold during Customer GPR’s trading while the share price had dropped by approximately 90%.

Other evidence also indicates Issuer JKL may have been the subject of market manipulation. In particular, Issuer JKL 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.

With respect to Issuer MNO, the New Clearing Firm noted in its AML Alert that Issuer MNO had reported no revenues and that Customer GPR 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%.

In addition to suspicious trading in Issuers JKL and MNO, the New Clearing Firm identified in the AML Alert similarly suspicious trading by Customer GPR in other low-priced securities including that Customer GPR – in one particular low-priced security – had sold more shares in three months than the issuer had outstanding. 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 GPR liquidated in the account; and (iii) how Aegis was comfortable with the activity in the account.

On November 5, 2013, the then AMLCO informed the New Clearing Firm that Aegis had reviewed Customer GPR'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.

Despite these red flags associated with the trading by Customer GPR, Aegis did not identify any of the transactions as suspicious or alternatively Aegis did not create written analyses or compile other records indicating the consideration of any particular transaction as suspicious and that it had concluded such transactions were not suspicious.

#### *4) Customers BIA, BGU, LCN and ECA*

Another Aegis customer – Customer BIA – engaged in suspicious low-priced securities transactions. Customer BIA was a foreign financial institution with a DVP account at the firm and traded on behalf of underlying customers who were unknown to Aegis.

Over an approximately six-month period beginning in late May 2013, Customer BIA sold approximately 457,000 shares of Issuer PQR for proceeds of approximately \$2.8 million. Issuer PQR traded on OTC Link. Just prior to the trading – and coinciding with a promotional campaign – Issuer PQR's share price climbed from \$3.90 to \$9.39 on substantially increased volume.

Customer BIA was not the only Aegis customer who traded suspiciously in Issuer PQR. Starting approximately two months before Customer BIA's trading, Customers BGU and LCN sold a substantial amount of Issuer PQR shares for substantial proceeds. Customer LCN 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.

In particular, Customer BGU sold approximately 638,000 shares of Issuer PQR for proceeds of approximately \$3.7 million while Customer LCN sold approximately 494,000 shares of Issuer PQR for proceeds of approximately \$3.3 million. Thus, together Customers BGU and LCN sold over one million shares of Issuer PQR for proceeds of approximately \$7 million.

Despite these red flags associated with the trading by Customer BIA, Aegis did not identify any of the transactions as suspicious or alternatively Aegis did not create written analyses or compile other records indicating the consideration of any particular transaction as suspicious and that it had concluded such transactions were not suspicious.

In early June 2013 – just a few weeks after Customer BIA began its trading in Issuer PQR – Customer BIA traded in another low-priced security transaction, this time Issuer STU. Issuer STU also traded on OTC Link.

Between June 11 and 17, 2013 and during a paid promotional campaign for Issuer STU, Customer BIA sold approximately 340,000 shares of Issuer STU for proceeds of approximately \$248,000.

Moreover, another Aegis customer, Customer ECA, traded suspiciously in Issuer STU at the same time as Customer BIA did. In particular, Customer ECA sold approximately 760,000 shares of Issuer STU through Aegis during the promotion for proceeds of approximately \$840,000. Customer ECA 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.

On December 2, 2013, the New Clearing Firm sent an AML Alert to Aegis regarding Customer BIA's trading in Issuer STU, 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."

In the AML Alert, the New Clearing Firm also noted that Issuer STU 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 BIA'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.

Aegis ultimately closed Customer BIA's accounts, at least in part, because of the AML concerns associated with it.

Despite these red flags associated with the trading by Customer BIA and at least one other Aegis customer in Issuer STU, Aegis did not identify any of the

transactions as suspicious or alternatively Aegis did not create written analyses or compile other records indicating the consideration of any particular transaction as suspicious and that it had concluded such transactions were not suspicious.

#### 5) *Customer CEQ*

Notwithstanding the November 18, 2013 update to Aegis' written supervisory procedures, however, at least one of Aegis' DVP customers (Customer CEQ) traded suspiciously in low-priced securities and did so before the required DSRQ process had been completed. Customer CEQ, a New York corporation, is a microcap hedge fund that held a DVP account at Aegis.

Between February 10, 2014 and February 20, 2014, Customer CEQ sold 705.9 million shares of Issuer VWX through Aegis for proceeds of approximately \$1.24 million. Issuer VWX traded on OTC Link.

On February 19, 2014, the New Clearing Firm sent an AML Alert to Aegis explaining that it was going to block Customer CEQ's account at market close because, among other reasons, Customer CEQ had already sold 200 million shares of Issuer VWX that day and *2.7 billion* shares of low-priced securities since it opened its account.

In addition to the suspicious trading, there were other indicia that Issuer VWX may have been the subject of market manipulation. For example, Issuer VWX 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 VWX.

The AML Alert was not limited to the suspicious Issuer VWX trades; it also described suspicious trading by Customer CEQ in over *1.6 billion* shares of the securities of ten additional microcap issuers.

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.

Even after Aegis received the AML Alert concerning Customer CEQ's trading, Customer CEQ continued to trade in Issuer VWX. Indeed, on February 19 and 20, 2014, Customer CEQ sold an additional 120 million shares of Issuer VWX.

On February 25, 2014, before Aegis had responded to the New Clearing Firm, it received a regulatory request from FINRA regarding trading in Issuer VWX at the firm. On March 14, 2014, Aegis received a second regulatory request from FINRA.

At the time of Customer CEQ's trading in February 2014, Aegis had already implemented its new DSRQ policy for trading in DVP accounts. The DSRQ packet for Customer CEQ's trading in Issuer VWX, however, was not signed by any of the required Aegis personnel and, thus, Customer CEQ should never have been allowed to liquidate any of its Issuer VWX shares through Aegis.

Despite the significant trading by Customer CEQ in Issuer VWX and the other red flags associated with the transactions, Aegis did not identify any of the transactions as suspicious or alternatively Aegis did not create written analyses or compile other records indicating the consideration of any particular transaction as suspicious and that it had concluded such transactions were not suspicious.

Based on the above, the Firm violated FINRA Rules 3310(a) and 2010 and NASD Rule 3010(a).

### **C. Inadequate AML Training**

FINRA Rule 3310(e) requires members to "[p]rovide ongoing training for appropriate personnel." The rule also requires that the firm's training is adapted to its customer base and business activities.

Each year, during the relevant period, Aegis required all employees to complete a computerized training module that included training on AML issues. 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.

Based on the foregoing, the Firm violated FINRA Rules 3310(e) and 2010.

B. The Firm also consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$550,000.

Respondent agrees to pay the monetary sanction upon notice that this AWC 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.

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

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

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

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

- A. To have a Complaint issued specifying the allegations against the Firm;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

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

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

## **III.**

### **OTHER MATTERS**

Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove

any of the allegations against the Firm; and

C. If accepted:

1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;
2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondents: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

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

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


03/14/18  
Date (mm/dd/yyyy)

Aegis Capital Corp.  
Aegis Capital Corp.  
Respondent

By: [Signature], CEO



Reviewed by:

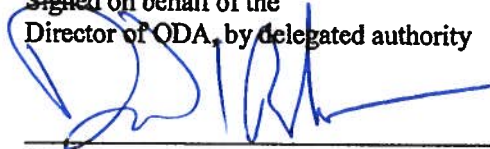


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(212) 930-9700

Accepted by FINRA:

3/26/18  
Date

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



David L. Friedman  
Senior Counsel  
FINRA Department of Enforcement  
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