

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

Department of Enforcement,

Complainant,

v.

**BrokerBank Securities, Inc.,
CRD No. 130116,**

and

**Philip Paul Wright,
CRD No. 2453688,**

Respondents.

**Disciplinary Proceeding
No. 2014041087701**

Hearing Officer _____

COMPLAINT

The Department of Enforcement alleges:

SUMMARY

1. During the period of January 1, 2014 through October 28, 2015 (“the relevant period”), BrokerBank Securities, Inc. (“BrokerBank” or “the firm”), acting through Philip Paul Wright, (collectively “the Respondents”), issued hundreds of misleading press releases in violation of FINRA rules.
2. The press releases, which referenced research reports on specific companies, falsely implied that BrokerBank was the author of the research (when, in fact, it was not) and, in some instances, falsely implied that BrokerBank was recommending securities covered in the research report (when, in fact, it was not).

3. Rather, BrokerBank merely acted as a conduit for a non-registered entity, “SCS,” which paid BrokerBank a fee of between \$50 and \$100 per press release to submit the press releases to a newswire service (“PRN”).

4. BrokerBank fronted for SCS because PRN would only accept press releases from a registered broker-dealer or from the covered companies themselves.

5. 22 of the press releases failed to disclose that BrokerBank was being paid to issue the press release.

6. In at least three other instances, the press releases and accompanying research reports were misleading because they omitted material negative information about the covered companies, specifically that they were subject to “going concern” qualifications by their auditors.

7. During the relevant period, BrokerBank also had no policies or procedures to ensure the press releases complied with NASD and FINRA rules.

8. Neither BrokerBank’s supervisory system nor its written policies and procedures addressed this business line.

9. Wright, who was both the Chief Executive Officer and the Chief Compliance Officer of the firm, was responsible for ensuring that the firm had adequate written procedures and an adequate supervisory system to address all business lines in which the firm engaged.

10. Wright failed to establish such written policies or supervisory system relating to the press releases.

11. As a result of the foregoing, BrokerBank and Wright violated FINRA Rules 2010 and 2210(d)(1)(A) and (B) for the misleading press releases and, NASD Rule 3010(a) and (b)¹ and FINRA Rule 2010 (for the period between January 1, 2014 and November 30, 2014) and

¹ NASD Rule 3010 was replaced by FINRA Rule 3110 on December 1, 2014.

FINRA Rules 3110(a) and (b) and 2010 (for the period from December 1, 2014 to October 28, 2015) for inadequate supervisory systems and written policies and procedures.

RESPONDENTS AND JURISDICTION

12. BrokerBank has been a member of FINRA since May 2004. During the relevant period, the firm had a main and branch office in the Minneapolis area. The branch office closed in May 2015. The firm currently has 18 registered persons, although Wright is its only full-time employee.

13. Wright has been registered with four different firms since first registering with FINRA in November 1995. He first registered as a general securities representative (Series 7) and general securities principal (Series 24) with BrokerBank in May 2004 and remains registered with the firm in those and other capacities.

14. In addition to being the Chief Executive Officer and Chief Compliance Officer, Wright is majority owner of BrokerBank and has been since the firm began operations.

FACTS

BrokerBank's Private Placement Business Declines, and it Seeks New Sources of Revenue

15. From the time BrokerBank started in 2004 until late 2013, the firm's business consisted primarily of underwriting and selling private placements for small companies. As stated on its website, the firm was formed "to fund and assist small growing companies in the medical device and high technology industries in the Upper Mid-West."

16. As an investment banking firm, BrokerBank did not deal in any way with publicly-traded securities. It did not trade securities or make markets.

17. In late 2013, Wright's partner and primary sales person effectively withdrew from the business.

18. As a result, Wright began looking for other business opportunities.

BrokerBank Agrees to Serve as a Conduit for SCS Press Releases

19. One of the new business opportunities Wright found was distributing press releases for SCS.

20. In late 2013 and early 2014, SCS described itself as an investor relations firm, stating on one of its websites that its “mission is to effectively and efficiently deliver online research about small to mid-cap publicly quoted companies for the global population of interested traders.”

21. To garner interest in its research reports, SCS sought to issue press releases about public companies, referencing research reports available through SCS’s websites.

22. PRN was a leading distributor of press releases of the type SCS wished to issue.

23. However, PRN would only accept press releases from the issuer of the securities or a registered broker-dealer. PRN would not directly accept SCS press releases for distribution.

24. Seeking a broker-dealer to meet PRN’s requirements, on or about December 19, 2013, a representative of SCS contacted Wright about having BrokerBank issue press releases on its behalf.

25. Wright, on behalf of BrokerBank, and SCS subsequently entered into an agreement pursuant to which BrokerBank would issue press releases for SCS for payment.

26. The agreement provided that Wright, on behalf of BrokerBank, would review and advise SCS on each press release and enter the press releases on the PRN platform for distribution.

27. The agreement was not dated but was first implemented in early 2014.

28. Pursuant to the agreement, SCS paid BrokerBank and Wright \$100 per press release until around the middle of 2014, when the parties orally agreed to lower the payment to \$50 per press release.

29. The agreement was amended again verbally in or around June 2015 to provide for a payment of \$60 per release.

BrokerBank Issues Numerous Press Releases, Authored by SCS, on PRN

30. Beginning in early 2014, BrokerBank, through Wright, began issuing press releases on behalf of SCS.

31. The headlines and content of the press releases were intentionally worded in ways designed to suggest the information provided in the releases and the referenced research reports were produced by BrokerBank.

32. This was because Wright had been told specifically by a representative of PRN that the releases needed to show a clear relationship between the content of the release and BrokerBank.

33. The press releases were actually written by a representative of SCS and sent to Wright along with a copy of the research report being referenced for Wright's review and submission to PRN.

34. However, Wright did not make any changes to the press releases, other than correcting typographical mistakes or correcting the analyst's name if the wrong name was entered in error.

35. Nor did Wright make or recommend changes to the research reports being promoted, believing he was not permitted to do so.

36. BrokerBank issued approximately 376 press releases on behalf of SCS during the relevant period.

37. As alleged above, Wright was paid, on behalf of BrokerBank, between \$50 and \$100 per release.

38. Wright continued issuing the press releases in BrokerBank's name even after being advised by FINRA that the releases violated FINRA rules.

The Press Releases Were Misleading

39. As alleged above, the press releases BrokerBank issued for SCS were worded and titled intentionally to give the impression that BrokerBank was the author of research analyst reports and/or was recommending securities covered in the analyst reports, although neither was true.

40. Examples of headlines that gave the false impression that BrokerBank, as a FINRA member, recommended the securities covered in the press releases and research analyst reports linked to the releases include:

- “Shares of Vodacom Group Limited Appear Undervalued in this High-Yielding South-African Based Telecom Company by BrokerBank Securities, Inc.”
- “Elite Pharmaceuticals Showing Long Term Promise, Analyst Report by BrokerBank Securities, Inc.”
- “Seabridge Gold Analyst Report: Short-Term Strength, Long-Term Potential, by BrokerBank Securities, Inc.”
- “Analyst Coverage Updates Shareholders of Petrotech Oil and Gas by BrokerBank Securities, Inc.” and

- “Fortitude Group, Inc. Analyst Report: Providing Perspective of Current Business Model by BrokerBank Securities, Inc.”

41. Examples of headlines that gave the false impression that BrokerBank was the author of the referenced research analyst reports include:

- “Analyst Coverage Global Links Corp. by BrokerBank Securities, Inc.”
- “Nuvilex Comprehensive Analyst Report Answers Vital Questions for Shareholders, by BrokerBank Securities, Inc.”
- “SoftBank Merger with Sprint Initiates Analyst Coverage by BrokerBank Securities, Inc.”
- “The Wet Seal, Inc. Analyst Evaluation of a Turnaround Strategy by BrokerBank Securities, Inc.”
- “Novagant Brings Revolutionary and Innovative Lighting System to the Cannabis Growers Market; Analyst Report by BrokerBank Securities, Inc.”
- “Correction Forthcoming – Nugene International Analyst Brief by BrokerBank Securities Inc.”
- “Alliance Creative Group, Inc.: Increasing Revenues Initiates Analyst Coverage by BrokerBank Securities, Inc.”
- “Mining Materials of Mexico, Corp. Analyst Research Report by BrokerBank Securities, Inc.”
- “A Forefront of 4K - NanoTech Entertainment Analyst Report by BrokerBank Securities, Inc.” and
- “Propanc Health Group Shares Jump 22% - BrokerBank Securities Provides Insights.”

42. Between January 27, 2014 and March 10, 2014, BrokerBank and Wright issued 22 press releases which failed disclose that BrokerBank had been paid to issue the press release. Many of these press releases also expressly included a disclaimer stating that the covered company had not paid BrokerBank, SCS or the analyst who wrote the report for the coverage.

43. Other press releases issued by BrokerBank omitted material information which caused the press releases to be misleading.

44. For example, BrokerBank issued a press release concerning a research analyst report on Elite Pharmaceuticals on May 5, 2014. The press release stated that the company had recently entered a financing agreement that could provide adequate funding for the company in the near term, linking to an analyst report that according to the release discussed “risk factors” and the “financial position” of the company.

45. However, neither the press release nor the analyst report gave any indication that the company’s auditors had expressed substantial doubt that the company would be able to continue as a going concern in the company’s then-current Form 10K.

46. Similarly, BrokerBank issued a press release concerning Amazonica Corp. on April 9, 2014 touting a research analyst report under the headline “Amazonica Corp. Analyst Research Report: High Risk Patent Potential, by BrokerBank Securities.” The press release made positive statements about the company’s prospects and linked to a research report which purported to include “risk factors” and the “financial position” of the company.

47. Both the press release and research report failed to disclose that Amazonica’s then-current financial statements contained an opinion by the company’s auditors that there was substantial doubt about the company’s ability to continue as a going concern.

48. Wright and BrokerBank issued a press release referencing a research analyst report on Warp 9 Securities on January 13, 2015. That press release and the referenced research report made positive statements about the company's prospects, but the press release and analyst report both failed to state that Warp 9's auditors had included a going concern opinion in the company's then-current Form 10K.

49. In nine instances, the SEC issued trading halts in the securities of companies being promoted by the press releases.

50. In total, BrokerBank, through Wright, issued at least nine press releases for companies in which the SEC suspended trading in the following weeks or months due to questions about publicly disseminated information about the companies.

FIRST CAUSE OF ACTION

Conduct Inconsistent with Just and Equitable Principles of Trade Violations of FINRA Rule 2010

51. The Department realleges and incorporates by reference paragraphs 1 through 50 above.

52. BrokerBank and Wright issued approximately 376 press releases under BrokerBank's name referencing research reports that recommended specific investments during the relevant period.

53. BrokerBank and Wright knew or should have known that readers would believe that BrokerBank was the author of the press releases and the research analyst reports or was recommending securities covered in the analyst reports.

54. By issuing press releases that falsely implied that BrokerBank was the author of the press releases and research analyst reports or was recommending securities covered in the analyst reports, BrokerBank and Wright violated FINRA Rule 2010.

SECOND CAUSE OF ACTION

False, Misleading or Exaggerated Communications with the Public Violations of FINRA Rules 2210 and 2010

55. The Department realleges and incorporates by reference paragraphs 1 through 54 above.

56. FINRA Rule 2210(d)(1)(A) requires that all communications with the public be fair and balanced and provide a sound basis for evaluating the facts in regard to any security, type of security, industry, or service. A communication may not omit any material fact or qualification if the omission, in light of the content of the material presented, would cause the communication to be misleading.

57. FINRA Rule 2210(d)(1)(B) prohibits members from making any false, exaggerated, unwarranted, promissory, or misleading statements or claim in any communication. A member cannot publish, circulate or distribute any communication that the member knows or has reason to know contains any untrue statement of a material fact or is otherwise false or misleading.

58. The press releases issued by BrokerBank were “communications with the public” subject to FINRA Rule 2210.

59. The press releases issued by BrokerBank and Wright falsely suggested that BrokerBank was the author of the press releases and the linked research analyst reports or was recommending securities covered in the analyst reports.

60. In 22 press releases, BrokerBank and Wright improperly failed disclose that the firm had been paid to issue the press release.

61. In at least 3 instances the press releases and associated research reports failed to disclose material adverse information about the covered companies, namely that they were subject to a going concern qualification by their auditors.

62. By virtue of the foregoing, BrokerBank and Wright violated FINRA Rules 2210 and 2010.

THIRD CAUSE OF ACTION

Supervision

Violations of NASD Rule 3010 (for conduct occurring prior to Dec. 1, 2014), FINRA Rule 3110 (for conduct occurring on or after Dec. 1, 2014) and FINRA Rule 2010

63. The Department realleges and incorporates by reference paragraphs 1 through 63 above.

64. BrokerBank had no written policies or procedures to ensure the press releases complied with NASD and FINRA rules during the relevant period.

65. BrokerBank did not have an adequate supervisory system in place and Wright and the firm failed to implement an adequate supervisory system during the relevant period to ensure the press releases complied with NASD/FINRA rules during the review period.

66. Wright was responsible for ensuring that the firm had proper written procedures and an adequate supervisory system during the relevant period.

67. By virtue of this conduct, BrokerBank and Wright violated NASD Rule 3010 and FINRA Rules 3110 and 2010.

RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

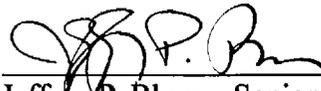
- A. make findings of fact and conclusions of law that Respondents committed the violations charged and alleged herein;

- B. order that one or more of the sanctions provided under FINRA Rule 8310(a), including monetary sanctions, be imposed; and
- 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.

FINRA DEPARTMENT OF ENFORCEMENT

DATED: March 30, 2016

Respectfully submitted,



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