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

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| Department of Enforcement,<br><br>Complainant,<br><br>v.<br><br>Lek Securities Corp.,<br>CRD No. 33135,<br><br>and<br><br>Samuel Frederik Lek,<br>CRD No. 1642936,<br><br>Respondents. | Disciplinary Proceeding No. 2015045312501<br><br>Hearing Officer: __________ |

# COMPLAINT

The Department of Enforcement ("Enforcement") alleges:

## SUMMARY

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

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

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

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

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

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

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

## RESPONDENTS

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

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

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

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

12. Lek has been employed in the securities industry since August 1986 and founded the Firm in January 1990.

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

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

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

## FACTS

### The Firm Participated in Microcap Stock Activity

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

17. This generated significant revenues for the Firm.

18. During the Relevant Period, the Firm generated approximately $110 million in revenue through its independent order execution and clearing services, of which approximately $5.3 million was derived from microcap stock activity — $3.6 million attributable to microcap stock trading and $1.7 million from dematerializing microcap stock certificates (*i.e.,* converting physical stock certificates into electronic book-entry form in order for those shares to be traded and settled on the Firm's platform).

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

a. Firm customers deposited thinly traded microcap stocks into the Firm at times when the shares were not acquired through an effective registration statement and, in certain instances, not eligible for public resale; and

b. Firm customers sold microcap stocks into the secondary market at times when numerous red flags existed of potential microcap fraud, such as cautionary information about the issuer or the issuer's affiliates or shareholders; dubious promotional activity; and significant movements in microcap stock price and volume contemporaneous to trading activity.

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

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

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

**The Firm's Certificate Review Process**

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

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

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

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

27. They were not expected or required to (i) scrutinize the supporting materials provided by customers; (ii) review the SEC EDGAR database to determine if issuers were

current in their reporting requirements; or (iii) review any of the issuer's filings, such as 10-Qs or 10-Ks.

**The Firm's Surveillance of Trading Activity**

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

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

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

31. Lek exercised this responsibility in various ways:

a. He provided the instructions and guidance to implement the automated surveillance system;

b. He directed Firm staff on when and how to create surveillance system exception reports;

c. He established the thresholds that would cause an exception report to be populated with alerts; and,

d. After exception reports were reviewed by other Firm personnel, he made the ultimate determination as to whether any particular customer or trading activity warranted the filing of a suspicious activity report ("SAR").

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

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

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

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

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

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

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

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

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

**The Firm's Review of Exception Reports**

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

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

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

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

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

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

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

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

**The Firm's Procedures Regarding AML Risks**

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

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

b. "The customer engages in suspicious activity involving the practice of depositing penny stocks, liquidates them, and wires proceeds";

c. "Transactions patterns show a sudden change inconsistent with normal activities";

d. "Customer transactions include a pattern of receiving stock in physical form";

e. "The customer has opened multiple accounts with the same beneficial owners or controlling parties for no apparent business reason";

f. "Use of sub accounts";

g. "Account is involved in micro-cap securities";

h. "Penny Stock related transactions" in which the issuer "has no business, no revenues and no product," "undergoes frequent material changes in business strategy or its line of business," "Officers or insiders of the issuer have a history of securities violations," "has not made disclosures in SEC or other regulatory filings," and "has been the subject of a prior trading suspension";

i. “Physical certificate does not bear a restrictive legend, but based on history of the stock and/or volume of shares trading, it should have such a legend”;

j. “Customer's explanation of how he or she acquired the certificate does not make sense or changes”; and

k. “Customer deposits the certificate with a request to journal the shares to multiple accounts, or to sell or otherwise transfer ownership of the shares.”

**Red Flags Evident in Microcap Stock Transactions**

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

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

*Account AA’s (“AA”) Deposit and Trading of Daniels Corporate Advisory Co., Inc. (“DCAC”)*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

72. On September 2, 2014, Panther Energy Inc. changed its name to Falcon Crest Energy Inc. ("Falcon Crest") and its ticker symbol from PNEG to FCEN. On April 27, 2015, Falcon Crest agreed to acquire all of the membership interests of Cherubim Interests, LLC

("Cherubim Interests"), a privately-held limited liability company, from OTC issuer Victura Construction Group, Inc..

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

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

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

a. On August 3, 2015 CHIT announced that "it has engaged the investor relations services of [a third party]" who will "use its vast network of partners, daily and weekly newsletters, social media channels, blogs and other outreach tools to raise awareness of Cherubim's initiatives among existing shareholders and the broader investment community"

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

90. According to its Form 10-Q dated May 20, 2015, NEWC disclosed that it "has not been able to generate cash flows sufficient to support its operations, and has been dependent primarily on debt and equity financing." In addition to negative cash flow from operations, NEWC "has experienced recurring losses and had an accumulated deficit of $28,217,316 as of

March 31, 2015." These conditions raise substantial doubt as to NEWC's "ability to continue as a going concern."

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

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

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

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

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

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

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

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

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

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

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

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

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

103. Among the microcap stocks deposited and traded by CC was USRM. According to SEC filings, USRM was the latest corporate iteration of a company incorporated in Florida on August 12, 1999 as Bioheart, Inc. ("BHRT"). On February 27, 2009, BHRT was delisted from NASDAQ. On November 4, 2015, BHRT effected a 1-for-1,000 share reverse stock split and changed its name to U.S. Stem Cell, Inc. On December 1, 2015, the company changed its symbol to "USRM."

104. USRM made the following suspicious claim in its filings with the Commission: "We estimate that the products and services we offer through US Stem Cell Training, Vetbiologics, and US Stem Cell Clinics has the potential, although we cannot provide assurances

as to if and when it will be accomplished, to drive up to $100 million dollars in cumulative peak annual revenues."

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

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

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

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

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

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

**Red Flags Evident in Additional Microcap Stock Transactions**

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

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

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

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

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

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

116. These transactions raised numerous red flags, including:

a. Many of the promissory notes converted to shares did not contain stock conversion features, did not pay interest, and matured on the same day they were issued.

b. CBIS's President, CEO, and Chairman of the Board, had a significant disciplinary history. He was sanctioned by the British Colombia Securities Commission in 2005 for issuing 22 press releases that contained misrepresentations, and he was sanctioned by the SEC in 2010 for manipulating the stock price and volume of a microcap stock, unlawfully selling unregistered securities, and disseminating press releases containing materially false information.

c. Trading in CBIS was suspended in Canada on June 4, 2015, which was prior to the LUO customer's deposits of the stock at the Firm.

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

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

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

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

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

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

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

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

124. Despite having been in existence for several years, Zentric's April 15, 2014, 10-K, revealed an extended period of failure to make progress toward its stated business plan.

The 10-K noted that the company did not "generate any revenues for the years ended December 31, 2013 and December 31, 2012" and provided a bleak outlook:

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

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

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

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

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

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

*Account DD's ("DD") Deposit and Trading*
*of First Colombia Gold Corp. ("FCGD")*

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

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

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

133. On March 26, 2015, DD submitted a conversion notice to convert $11,135.35 of the convertible note at a conversion price of $0.000165 into 67,486,954 shares of FCGD. DD's instructions were for the shares to be transferred by DWAC to DD's account at the Firm. This conversion took place less than seven months after the convertible note was purchased

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

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

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

**Searches Pursuant to 314(a)**

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

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

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

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

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

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

**AML Testing**

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

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

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

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

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

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

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

**AML Training**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

176. No exemption from registration applied.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## RELIEF REQUESTED

WHEREFORE, the Department respectfully requests that the Panel:

A. make findings of fact and conclusions of law that Respondent 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 Respondent 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: November 26, 2018

Respectfully submitted,

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