

STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
CORPORATIONS, SECURITIES & COMMERCIAL LICENSING BUREAU

In the matters of:

PHILIP WRIGHT
CRD# 2453688

Complaint No. 342742

and

BROKERBANK SECURITIES, INC.
CRD/IARD# 130116

Complaint No. 342743

Respondents.

Issued and entered
this 3rd day of February, 2021

ADMINISTRATIVE CONSENT AGREEMENT AND ORDER

A. Relevant information and statutory provisions, under the Michigan Uniform Securities Act (2002) (“Securities Act”), 2008 PA 551, MCL 451.2101 *et seq.*:

1. On October 14, 2020, the State of Michigan, Department of Licensing and Regulatory Affairs, Corporations, Securities & Commercial Licensing Bureau (“Bureau”) and the then-Interim Director of the Bureau, who serves as Administrator of the Act (the “Administrator”), issued the following two orders (“Disciplinary Orders”):
 - a. A Notice of Intent to Revoke Securities Agent Registration to Philip Wright; and

b. A Notice of Intent to Revoke Broker-Dealer Registration to
Brokerbank Securities, Inc.

2. Philip Wright (“Wright”) is a resident of the state of Minnesota registered in Michigan as an agent from in or around July 2014 to present through Brokerbank Securities, Inc. (“BBSI”), a Michigan-registered broker-dealer of which he is the majority shareholder, chief executive officer, and chief compliance officer.
3. Following issuance of the Disciplinary Orders, the Bureau and Respondents (collectively, “the Parties”) engaged in settlement negotiations through this Administrative Consent Agreement and Order (“Consent Order”).
4. Respondents consulted with or had ample opportunity to consult with legal counsel of his, her, or its choosing before executing this Consent Order.

B. STIPULATION

The Parties agree to resolve the Disciplinary Orders based on the following terms:

1. Respondents neither admit nor deny any wrongdoing in connection with this matter and consent to entry of this Consent Order only for the purpose of resolving the Disciplinary Orders in an expeditious fashion that avoids the time and expense associated with an administrative hearing and any related appeals.

2. BBSI's registration as a broker-dealer under the Act and Wright's registration as an agent under the Act are revoked effective on the issued and entered date of this Consent Order.
3. Respondents must notify all Michigan customers of BBSI, Wright, and any other agents associated with BBSI of this Order through correspondence in the format attached as Attachment A. The notification must be sent via regular U.S. mail and email within five (5) business days of the issued and entered date of this Consent Order.
4. Respondents must provide documentary proof to the Bureau that the customer notification letters were timely mailed to the customers within fifteen (15) days of the issued and entered date of this Order. The proof must be mailed to the Bureau at the address identified in Paragraph B.5 or emailed to the Bureau at LARA-CSCL-Securities-Audit@michigan.gov and must include copies of the sent correspondence and a signed written statement identifying:
 - a. Each customer to whom the letter was sent
 - b. The date that the correspondence was sent via mail and email.
5. Respondents must pay a civil fine in the amount of Two Thousand Five Hundred Dollars (\$2,500.00) within sixty (60) calendar days after the issued and entered date of this Consent Order. It must be paid by check or money order made payable to the "State of Michigan," contain identifying

information (name and “Complaint Nos. 342742 & 342743”), and be mailed
to:

Corporations, Securities & Commercial Licensing Bureau
Securities & Audit Division – Final Order Monitoring
P.O. Box 30018
Lansing, MI 48909

6. If any portion of the fine is overdue, the Administrator may refer it to the Michigan Department of Treasury for collection action against Respondents or take other available legal action to collect the fine. Respondents are responsible for all costs and expenses incurred in complying with the terms of this Consent Order and must do so within the timeframe specified. Failure to comply within the time limitations will constitute a violation of this Consent Order. The Administrator retains the right to pursue any action or proceeding permitted by law to enforce its provisions.
7. Respondents’ Hearing Requests are revoked without further action by the Parties. Following the issuance and entry of this Consent Order, the Bureau will file Forms U6 with the Central Registration Depository reflecting the Parties’ resolution of the Disciplinary Orders and update Respondents’ registration statuses to “Revoked.”
8. This matter is a public record required to be published and made available to the public, under section 11 of the Michigan Freedom of Information Act, MCL 15.241. The Bureau publishes copies of orders issued under the Act to

its website and includes a summary of order content in monthly disciplinary action reports separately published there.

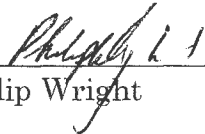
9. The Administrator may use any of the facts set out in the Disciplinary Orders when considering future applications for registration by Respondents, and Respondents agree to waive any assertion or claim under MCL 451.2412(9) which would otherwise bar the Administrator from consideration of those facts in making her determination.
10. Respondents must comply with any reasonable investigative demands made by the Bureau in the future for purposes of ensuring compliance with this Consent Order or the Act, including, but not limited to, any action taken against Mr. John Denes or REO Capital, LLC.
11. Respondents waive any right to a hearing or appeal of this Consent Order and the Disciplinary Orders under the Act, the rules promulgated under the Act, the Administrative Procedures Act of 1969, 1969 PA 306, MCL 24.201 *et seq.*, or other applicable law.
12. This Consent Order is fully effective and binding on its issued and entered date. The Administrator may accept or reject it. If the Administrator rejects it, the Bureau will submit the Hearing Request for adjudication through a formal administrative proceeding.
13. This Consent Order resolves only Respondents' activities, conduct, and Securities Act violations alleged in the Disciplinary Orders, but it does not

address or resolve any other conduct or potential Securities Act violations engaged in by Respondents not expressly alleged in the Disciplinary Orders or occurring after the date this Consent Order is entered. Further, this Consent Order does not preclude any other individual or entity, including but not limited to other authorized state or federal agencies or officials, from initiating or pursuing civil or criminal action against Respondents, and does not preclude Bureau staff from referring this matter to any law enforcement agency. The Consent Order does not preclude the Bureau or its staff from fully cooperating with any state or federal agency or official that may investigate or pursue its own civil or criminal enforcement against Respondents.

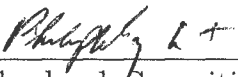
14. This Consent Order may only be modified in writing signed by each Party and approved by the Administrator's subsequent Order.
15. The Parties agree that facsimile or electronically transmitted signatures may be submitted in connection with this Consent Order and are binding on that party to the same extent as an original signature.

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Through their signatures, Respondents confirm that they read, understand, and agree to the above terms.

Signed: 
Philip Wright

Dated: 1-29-2021

Signed: 
Brokerbank Securities, Inc.
By: Philip Wright, its CCO & CEO


Dated: 1-29-2021

Approved by:

Signed: _____
Timothy L. Teague
Securities & Audit Division Director
Corporations, Securities & Commercial
Licensing Bureau

Dated: _____

Reviewed and Drafted by:

Signed: 
Mark Gabrielse (P75163)
Assistant Attorney General
Attorney for the Bureau

Dated: 2/1/2021

Through their signatures, Respondents confirm that they read, understand, and agree to the above terms.

Signed: _____
Philip Wright

Dated: _____

Signed: _____
Brokerbank Securities, Inc.
By: Philip Wright, its CCO & CEO

Dated: _____

Approved by:

Signed: Timothy L. Teague
Timothy L. Teague
Securities & Audit Division Director
Corporations, Securities & Commercial
Licensing Bureau

Dated: 2/2/2021

Reviewed and Drafted by:

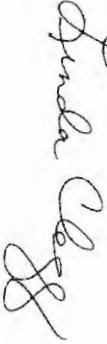
Signed: _____
Mark Gabrielse (P75163)
Assistant Attorney General
Attorney for the Bureau

Dated: _____

C. ORDER

The Administrator NOW, THEREFORE, ORDERS:

THE TERMS AND CONDITIONS IN THE ABOVE FULLY EXECUTED
CONSENT AGREEMENT ARE INCORPORATED IN THIS CONSENT ORDER.

By:  _____

Linda Clegg
Administrator and Director
Corporations, Securities & Commercial Licensing Bureau

**STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
CORPORATIONS, SECURITIES & COMMERCIAL LICENSING BUREAU**

In the matter of:

Agency No. 342742

BROKERBANK SECURITIES, INC.
CRD# 37068

Respondent.

_____ /

Issued and entered
This 14th day of October, 2020

NOTICE OF INTENT TO REVOKE BROKER-DEALER REGISTRATION

I. RELEVANT FACTS AND APPLICABLE LAW.

Relevant information and statutory provisions, under the Michigan Uniform Securities Act (2002), 2008 PA 551, as amended, MCL 451.2101 *et seq* (the "Securities Act"):

Factual Background

1. Brokerbank Securities, Inc. (CRD#130116, "Respondent") is a Minnesota corporation which is registered as a broker-dealer under the Securities Act in Michigan. Philip Wright (CRD#2453688, "Wright") is Respondent's principal owner, chief executive officer, and chief compliance officer. Wright is the individual responsible for supervising Respondent's associated persons and is registered as an agent under the Securities Act in Michigan.
2. The Director ("Administrator") of the Corporations, Securities & Commercial Licensing Bureau ("the Bureau") within the Department of Licensing and Regulatory Affairs issued a Final Order against John F. Denes (CRD# 1831276, "Denes") in or around August of 2015 ("2015 Denes C&D") after a contested case hearing found that Denes violated MCL 451.2505 by submitting false statements to the Administrator. The false statements were made in connection with an investigation by Bureau staff into whether REO Capital, LLC, a California entity owned and operated by Denes from his home in Michigan, was violating the Securities Act.
3. On the same date and following the same 2015 contested case hearing, the Administrator issued a final order against REO Capital, LLC ("2015 REO Capital C&D") for acting as an unregistered broker-dealer in violation of MCL 451.2401.
4. In late 2015, Denes applied for registration as an agent of Respondent and in or around May 2016, the Administrator, after hearing, issued a final order ("2016 Denial Order") denying the registration as a result of prior conduct, including being subject the 2015

Denes C&D, and for engaging in dishonest or unethical business practices in the securities within the previous ten years. Respondent terminated Denes's association with the firm in or around October 2016.

5. On or around February 16, 2017, Respondent again submitted a Form U4 application for registration for Denes to associate him with Respondent and to register Denes in the State of California (the filing did not attempt to register Denes in Michigan). Denes never became registered in California or in any other state, and on or around November 12, 2018, Respondent terminated Denes's association with the firm.
6. The Bureau became aware in or around June 2016 that Denes and REO Capital, LLC may have been engaging in activities prohibited by the 2015 Denes C&D, the 2015 REO Capital C&D, and the 2016 Denial Order. An investigation uncovered evidence that Denes and REO Capital, LLC had been hired to act as a "placement agent"¹ for a securities issuer seeking to raise capital and that Denes and REO Capital, LLC performed those activities in and from Michigan.
7. The Administrator filed a civil complaint in Oakland County Circuit Court in or around May of 2017 which resulted in a December 2017 consent order (2017 Consent Injunction) enjoining Denes and REO Capital, LLC from engaging in activities in violation of the Securities Act including, but not limited to, acting as unregistered broker-dealers or agents in or from the State of Michigan.
8. Evidence obtained by the Bureau demonstrates that subsequent to the issuance of the 2017 Consent Injunction, and while under the supervision of Respondent and Philip Wright, Denes and REO Capital, LLC acted as an agent and a broker-dealer in Michigan without registration or an exemption from registration. Evidence shows that Denes and REO Capital, LLC conducted business from Michigan, including holding meetings with issuers seeking to engage their services in Michigan and working out of a home office in Michigan to solicit investors for those issuers. The Bureau asserts that this unregistered, non-exempt agent and broker-dealer conduct by Denes and REO Capital, LLC violated the Securities Act, administrative orders, and the 2017 Consent Injunction.
9. Denes and REO Capital, LLC became subject to orders of the Administrator to cease and desist from violating the Securities Act beginning in 2015. Despite these multiple orders, they continued to engage in activities in violation of the Securities Act and administrative orders, resulting in the issuance of the injunction by the Oakland County Circuit Court in 2017. Denes and REO Capital, LLC, notwithstanding the law, administrative orders, and court orders spanning several years have continued violating

¹ Denes and REO Capital, LLC have repeatedly taken the position that they are acting as a placement agent and not as a broker-dealer subject to registration; however, this is a distinction without a difference. The United States Securities and Exchange Commission ("SEC") in its "Guide to Broker-Dealer Registration" plainly states, "[P]lacement agents are not exempt from broker-dealer registration." *See*: <https://www.sec.gov/reportspubs/investor-publications/divisionsmarketregbdguidehtm.html> (internal quotation marks omitted).

the Securities Act, and for much of that time, were employed by or associated with Respondent and subject to supervision by Wright.

10. In or around April of 2020, the Bureau received information indicating that Respondent and Wright may have failed to supervise Denes and REO Capital, LLC after the 2017 Injunction was issued by the Oakland County Circuit Court.
11. Respondent and Wright were required by Financial Industry Regulatory Authority (“FINRA”) rules, the Securities Act, and the rules and orders under the Securities Act to supervise Denes and his Other Business Activity (“OBA”) REO Capital, LLC. Respondent and Wright failed to do so. These failures to supervise Denes and REO Capital, LLC facilitated repeated violations of the 2015 cease and desist orders, the 2016 Denial Order, 2017 Injunction, the Securities Act, and the rules and orders under the Securities Act.
12. In or around December 2016, Respondent and Wright were warned in writing by the Bureau that they may have failed to supervise Denes and his OBA, REO Capital, LLC, and that the Respondent, as a registered broker-dealer in Michigan, was obligated to ensure that it adequately supervise its associated persons.
13. Respondent and Wright frequently communicated with Denes and were aware or should have been aware that Denes and REO Capital, LLC continued to engage in broker-dealer and agent conduct in the State of Michigan notwithstanding the 2015 Denes C&D, the 2015 REO Capital C&D, the 2016 Denial Order, and the 2017 Injunction.
14. Respondent and Wright arranged payments to Denes for broker-dealer activities through an affiliate of Respondent and to an account owned by Denes or Denes’ spouse in spite of the fact that Denes and REO Capital, LLC were not registered to conduct such business in Michigan.
15. Respondent and Wright represented that they monitored email accounts for Denes and REO Capital, LLC when no such supervision over the REO Capital, LLC email account occurred, and neither Respondent nor Wright even had access to those emails because they were not monitored, maintained, or archived as required by relevant recordkeeping rules.
16. Respondent’s and Wright’s failures to monitor emails for Denes and REO Capital, LLC despite the a prior warning from the Bureau, knowledge of the outside email account, and their affirmative actions to pay Denes and REO Capital, LLC for unregistered broker-dealer activities in violation of multiple administrative orders and a circuit court injunction, constituted a failure to supervise Denes and his OBA, REO Capital, LLC under the Securities Act in Michigan.

Relevant Statutory Provisions

17. Section 412(2) of the Securities Act, MCL 451.2412(2), states:

If the administrator finds that the order is in the public interest and subsection (4) authorizes the action, an order under this act may revoke, suspend, condition, or limit the registration of a registrant and if the registrant is a broker-dealer or investment adviser, of a partner, officer, or director, or a person having a similar status or performing similar functions, or a person directly or indirectly in control of the broker-dealer or investment adviser...

18. Section 412(3) of the Securities Act, MCL 451.2412(3), states:

If the administrator finds that the order is in the public interest and subsection (4)(a) to (f), (i) to (j), or (l) to (n) authorizes the action, an order under this act may censure, impose a bar, or impose a civil fine in an amount not to exceed a maximum of \$10,000.00 for a single violation or \$500,000.00 for more than 1 violation on a registrant...

19. Section 412(4) of the Securities Act, MCL 451.2412(4) states in relevant part:

(4) A person may be disciplined under subsections (1) to (3) if any of the following apply to the person:

(i) The person has failed to reasonably supervise an agent, investment adviser representative, or other individual, if the agent, investment adviser representative, or other individual was subject to the person's supervision and committed a violation of this act or the predecessor act or a rule adopted or order issued under this act or the predecessor act within the previous 10 years....

20. Section 412(7) of the Securities Act, MCL 451.2412(7), states:

(7) Except under subsection (6), an order shall not be issued under this section unless all of the following have occurred:

- (a) Appropriate notice has been given to the applicant or registrant.
- (b) Opportunity for hearing has been given to the applicant or registrant.
- (c) Findings of fact and conclusions of law have been made on the record pursuant to the administrative procedures act of 1969, 1969 PA 306, MCL 24.201 to 24.328.

Application of Factual Background to Statutory Provisions

21. The Administrator may revoke Respondent's broker-dealer registration pursuant to sections 412(2) and 412(4)(i) of the Securities Act, MCL 451.2412(2) and MCL 451.2412(4)(i), and may fine Respondent under section 412(3), MCL 451.2412(3), because it is in the public interest, and because Respondent, by Philip Wright, failed to reasonably supervise John Denes, a securities agent under Respondent's supervision who committed violations of the Securities Act, rules, and orders thereunder, within the previous 10 years including but not limited to the following:
- A. Respondent Brokerbank Securities, Inc., by Philip Wright, undertook to review email accounts for John Denes and his OBA REO Capital, LLC which it knew were housed off of Respondent's own email server; however, Respondent failed to ensure that it had access to those emails. Respondent and Wright knew or should have known that John Denes and REO Capital, LLC were conducting unregistered broker-dealer business on behalf of Respondent using the off-server email in violation of the Securities Act, and nonetheless failed to ensure it had access to the account.
 - B. Respondent Brokerbank Securities, Inc., by Philip Wright, knew that Denes and REO Capital, LLC were not registered to conduct brokerage business under the Securities Act in Michigan. Respondent and Wright encouraged Denes and REO Capital, LLC to seek out brokerage business and paid them for obtaining such business and conducting it through REO Capital, LLC in Michigan notwithstanding the lack of registrations as broker-dealers or agents under the Securities Act in Michigan, in addition to the multiple administrative and circuit court orders prohibiting the conduct.

II. ORDER.

The Administrator finds that this ORDER is authorized, appropriate, and in the public interest based on the above-cited facts and law.

IT IS ORDERED as follows:

1. The Administrator intends TO REVOKE THE BROKER-DEALER REGISTRATION OF BROKERBANK SECURITIES, INC. under sections 412(2) and 412(4)(i) of the Securities Act, MCL 451.2412(2) and MCL 451.2412(4)(i), because it failed to reasonably supervise John F. Denes, a securities agent subject to its supervision who committed violations of the Securities Act, rules under the Securities Act, orders under the Securities Act, and an injunction issued by the Oakland County Circuit Court within the previous 10 years, supporting the revocation of Respondent's broker-dealer registration under the above-cited provisions of the Michigan Uniform Securities Act (2002), 2008 PA 551, MCL 451.2101 *et seq.*

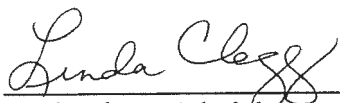
2. In a final order, the Administrator intends to impose a civil fine of \$10,000.00 against Respondent under section 412(3) of the Securities Act, MCL 451.2412(3).

3. In accordance with sections 412(2) and 412(7) of the Securities Act, MCL 451.2412(2) and MCL 451.2412(7): This is NOTICE that the Administrator intends to commence administrative proceedings to revoke Respondent's broker-dealer registration, and that Respondent has thirty (30) days after the date that this Order is served on Respondent to respond in writing to the enclosed Notice of Opportunity to Show Compliance. If the Administrator timely receives a written request, depending upon the election, the Administrator shall either promptly schedule a compliance conference, or schedule a hearing within fifteen (15) days after receipt of the written request. If you fail to respond to this Notice and Order within the time frame specified, the Administrator shall schedule a hearing. If a hearing is requested or ordered, the Administrator, after notice of and an opportunity for hearing to Respondent, may modify or vacate this Order or extend the Order until final determination.

If Respondent requests a hearing, the request must be in writing and filed with the Department of Licensing and Regulatory Affairs, Corporations, Securities & Commercial Licensing Bureau, Regulatory Compliance Division, P.O. Box 30018, Lansing, MI 48909.

Electronic hearing requests may be submitted at CSCL-FOIA@michigan.gov.

DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
CORPORATIONS, SECURITIES, AND COMMERCIAL LICENSING BUREAU



Linda Clegg, Administrator and Interim Director
Corporations, Securities & Commercial Licensing Bureau

10/14/2020

Date