UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 56542 / September 27, 2007

ADMINISTRATIVE PROCEEDING
File No. 3-12838

In the Matter of **REGIONAL BROKERS, INC. and PATRICK LUBIN,** **Respondents.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER PURSUANT TO SECTIONS 15(b), 15B(c) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b)(4), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Regional Brokers, Inc. ("Regional" or "Firm") and Sections 15(b)(6), 15B(c)(4) and 21C of the Exchange Act against Patrick Lubin ("Lubin") (collectively "Respondents").

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement ("Offers") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 15(b), 15B(c) and 21C of the Securities Exchange Act of 1934 ("Order"), as set forth below.

III.

On the basis of this Order and Respondents' Offers, the Commission finds that:

A. OVERVIEW

This matter involves misrepresentations and other fraudulent conduct by Regional, a broker-dealer that operates as a municipal securities "broker's broker," and Lubin, one of the Firm's principals. As part of its business, Regional acts as an intermediary for other municipal securities broker-dealers to pair buy and sell orders in municipal bonds in bond auctions. In connection with these auctions, Respondents engaged in one or more of the practices described in Section III.C. below, and violated various sections and rules of the Exchange Act and MSRB Rules.

B. RESPONDENTS

Regional Brokers, Inc., headquartered in Philadelphia, Pennsylvania, is a broker-dealer registered with the Commission pursuant to Section 15(b) of the Exchange Act and is a municipal securities dealer pursuant to Section 15B of the Exchange Act. Regional is also a member of the NASD. Regional's operations consist mostly of matched book trades as a broker's-broker in municipal securities.

Patrick Lubin, a resident of Moorestown, New Jersey, was Regional's President and Chief Compliance Officer from May 1999 until November 2006, and an associated person with Regional from August 1992 until November 2006. Lubin was also one of three Directors at Regional. At all relevant times, Lubin held a Series 7 general securities license as well as a Series 24, 27, 53, and 63 license.

C. FACTS

1. <u>Background</u>

a. Municipal Securities Broker's-Brokers

A municipal securities broker's-broker is a securities firm that acts as an agent exclusively for other municipal securities broker-dealers. The role of the municipal securities broker's-broker is to pair buy and sell orders in municipal bonds. The broker's-brokers normally do not take any positions in municipal issues, and therefore, all transactions by a broker's-broker are effectively riskless-principal transactions, and are only executed when both sides of the transaction have agreed to the trade. In this way, the broker's-broker never holds any securities in inventory.

b. Bids-Wanted Auctions

One method used by a broker's-broker to sell a bond is called the "bids-wanted" auction. In this method, the selling broker-dealer asks the broker's-broker to auction the bond, in an effort to obtain the best price available. Potential bidders are notified of the auction via phone, email, or the broker's-broker's website. Bidders typically phone in bids, although they can also bid directly through the broker's-broker's website, facsimile or via email and instant messages. When the auction closes, the bid with the highest price wins the auction. Regional allows bidders to change or cancel their bids as long as the bidding process remains open. Bidders are not, however, allowed to know their position relative to other bidders. The losing bidders are not told the value of the winning bid or the number of bids received during the auction process.

Following the bidding process, it is common for broker's-brokers to tell the buyer and/or seller the value of the second highest bid. The second highest bid is called the "cover bid" and the spread between the winning bid and the cover bid is called the "cover." Besides the cover, the amount of additional information that is revealed to the buyers and sellers varies from customer to customer within and among broker's-brokers.

A typical bids-wanted auction is called a "Sharp Time" auction. In this kind of auction, the closing time of the bidding is quoted in the form "by X, firm until Y." The first time (X), called the *sharp time*, tells the bidding broker-dealers when the bidding closes, and the second time (Y), called the *firm time*, tells them how long they are obligated to honor their bids. For example, a "by 12:00 p.m., firm until 2:00 p.m." auction would require that bidders submit bids prior to 12:00 p.m., and would obligate the winning broker-dealer to purchase the bonds at the submitted price up until 2:00 p.m., at which time the bidder has no obligation to enter into the transaction. In all situations, the selling broker-dealer has the right to accept or reject the high bidder.

2. Regional's Bids-Wanted Process

From December 2003 through December 2004, Regional entered bids on behalf of the Firm during bids-wanted auctions, using an account numbered "666." The "666" account number was denoted on the firm's customer list as "RBI" or "Regional Brokers," indicating that the bid was placed on behalf of the firm. The bids entered on behalf of the Firm using the "666" account were never the winning bid or highest bid, but were frequently entered as the second highest bid, known as the "cover" bid. In fact, within a five month period, the "666" account was used to denote a bid in 7% of all bids-wanted auctions conducted by Regional. Out of the 564 times the "666" account was used, 47.7% of the time it was positioned as the second highest bid or the cover bid.

Additionally, when the "666" account was the cover bid, 81.48% of the time it was entered after the winning bid had already been placed. This timing indicated that Regional knew that its bid would not win the auction. In these instances, Regional's bid had the effect of narrowing the spread between the winning bid and the next highest bid (the true cover bid).

Using the "666" account as the cover bid was advantageous to Regional for several reasons. First, the Firm was able to satisfy bidding broker-dealers, who won the bids-wanted auction, by reporting a smaller cover spread than would have existed without the intervening "666" bid. As a result, the winning bidder did not perceive the true spread between its bid and what others in the market were willing to pay. Second, by reporting the false cover to the selling broker-dealer, Regional appeared to have successfully solicited more bids on an item than it actually had been able to obtain – making the auction look more competitive. As a result, the selling broker-dealer may have been more likely to employ Regional for future bond sales because it believed that the Firm could obtain more bids, and potentially, a higher price for the bonds. By giving the appearance that Regional was conducting municipal bond auctions with tighter spreads between the winning bids and cover bids and by creating the illusion of additional interest in the bonds through the use of the "666" account, Regional deceived its customers in an attempt to obtain future business.

3. **Regional Accepted Late Bids in Sharp Time Auctions**

From December 2003 through December 2004, Regional consistently accepted late bids in Sharp Time auctions. In June 2004 alone, Regional conducted 163 bids-wanted auctions with a Sharp Time deadline and accepted a late bid 161 times, or 98% of the time. In those cases where a late bid was accepted, the late bid was the winning bid in 150 transactions, or 92% of the time.

During a Sharp Time auction, Regional traders allowed bidding broker-dealers to submit bids after a designated sharp time with knowledge that the bidding broker-dealers' late bid was the highest bid – and therefore the winning bid in the auction. When Regional traders accepted late bids in a Sharp Time auction, they never informed the other bidding broker-dealers of the late bid – which in most cases was the highest bid. This conduct favored the late bidder and disadvantaged other auction participants who had submitted their bids within the required sharp time.

4. **Regional and Lubin Failed Reasonably to Supervise the Firm's Traders**

Regional and Lubin failed reasonably to supervise the Firm's traders to prevent and detect the violative conduct described above. Lubin also condoned and participated in the conduct. The Firm only had approximately 15 traders, who worked at a single trading desk or who were in constant communication with the trading desk. Lubin was aware of everything that occurred at the Firm and, in fact, signed off on most of the conduct described above.

Additionally, Regional and Lubin failed to establish polices and procedures or a system to implement these procedures reasonably designed to prevent and detect its traders' violative conduct. Specifically, the Firm's procedures failed reasonably to describe the business of the Firm and failed to adequately describe the responsibilities and activities of the traders with respect to the Firm's municipal securities business, and, in particular, the conduct of the auctions.

5. **Regional Failed to Properly Retain Certain Books and Records**

a. Failure to Maintain Facsimiles

Regional received bids and conducted business by facsimile. However, Regional did not retain the facsimiles, and in fact, most traders discarded the facsimiles soon after their receipt. The facsimiles that were discarded contained information directly related to Regional's municipal securities business.

b. Failure to Maintain Emails

Regional utilized two different email systems - an internal one and one facilitated by an outside vendor. Regional's internal email system – through which Regional's traders could email each other and individuals outside the firm – did not archive any emails relating to its municipal securities business until November 2004. Furthermore, Regional never took steps to preserve emails relating to its business that were facilitated by the outside vendor.

IV.

As a result of the conduct described above, the Commission finds that:

Regional willfully violated (i) Section 15(c)(1)(A) of the Exchange Act as defined in Rule 15c1-2, in that it, while acting as a broker-dealer, effected transactions in the purchase and sale of securities by means of manipulative, deceptive, and other fraudulent devices or contrivances[1], (ii) Section 15B(c)(1) of the Exchange Act, in that it, while acting as a broker-dealer or municipal securities dealer, used the mails or interstate commerce "to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal securities in contravention of any rule" of the MSRB and, (iii) MSRB Rule G-17, in that it, while acting as a broker-dealer or municipal securities dealer, dealt unfairly with persons and engaged in a "deceptive, dishonest, or unfair practice." Specifically, Regional placed bids for the Firm "666" account, never intending to buy the bonds. Often, these bids were placed in the cover position, after the high bid had already been made, and right before the close of the auction. Regional did not disclose this practice to either the buyer or seller of the bonds. By giving the appearance that Regional was conducting municipal bond auctions with tighter spreads between the winning bids and cover bids and by creating the illusion of additional interest in the bonds through the use of the "666" account, Regional deceived its customers.

Regional willfully violated MSRB Rule G-17, in that it, while acting as a broker-dealer or municipal securities dealer, dealt unfairly with persons and engaged in a "deceptive, dishonest, or unfair practice." Specifically, Regional consistently accepted late bids from bidding broker-dealers in Sharp Time auctions. When Regional traders accepted late bids, they never informed the other bidding broker-dealers of the late bid – which in most cases was the highest bid. This conduct favored the late bidder and disadvantaged other auction participants who had submitted their bids within the required sharp time and who had less time to prepare their bids in accordance with the explicit terms of the auction.

Regional willfully violated MSRB Rule G-13, in that it, while acting as a broker-dealer or municipal securities dealer, caused to be distributed or published,[2] a quotation[3] relating to

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1 Rule 15c1-2 under the Exchange Act provides that the term "manipulative, deceptive or other fraudulent device or contrivance," as used in Section 15(c)(1)(A) of the Exchange Act, is defined to include "any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person."

2 MSRB Rule G-13(a) defines the terms "distributed" or "published" as "the dissemination of quotations by any means of communication."

municipal securities which did not represent a bona fide bid for, or offer of, municipal securities by such broker, dealer or municipal securities dealer. MSRB Rule G-13 states that a quotation shall be deemed to represent a "bona fide bid for, or offer of, municipal securities" if the broker, dealer, or municipal securities dealer making the quotation is prepared to purchase or sell the security which is the subject of the quotation at the price stated in the quotation and under such conditions, if any, as are specified at the time the quotation is made. Specifically, Regional placed bids on municipal bonds, using the Firm's "666" account, without the intent of ever purchasing the bonds. Because the "666" bids were placed without the intent of purchasing the bond the bids were not "bona fide bids for" municipal securities, as defined by MSRB Rule G-13. Some Regional traders communicated bids that were not bona fide to both the selling broker-dealers and bidding broker-dealers, and therefore Regional willfully violated MSRB Rule G-13.

Regional willfully violated Section 17(a) of the Exchange Act, Exchange Act Rule 17a-4 and MSRB Rules G-8 and G-9, by failing to maintain originals of all communications received and copies of all communications sent by the broker-dealer relating to its business as such for a period of not less than three years. Specifically, Regional failed to retain facsimiles and e-mails relating to its business for three years as required pursuant to Exchange Act Rule 17a-4 and MSRB Rules G-8 and G-9. Regional's traders aided and abetted, and caused Regional's violations of Sections 15(c)(1)(A), 15B(c)(1), and 17(a) of the Exchange Act, Rule 17a-4 thereunder, and MSRB Rules G-8, G-9, G-13, and G-17.

Regional and Lubin failed reasonably to supervise Regional's traders pursuant to Section 15(b)(4)(E) of the Exchange Act with a view towards preventing the traders from aiding and abetting and causing Regional's violations of Sections 15(c)(1)(A), 15B(c)(1) and 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder, and MSRB Rules G-8, G-9, G-13, and G-17. Regional and Lubin failed to establish procedures or a system to implement procedures reasonably designed to prevent and detect its traders from engaging in the violative conduct. Additionally, Lubin not only failed reasonably to supervise Regional's traders to prevent and detect the violative conduct, but also condoned and participated in the conduct. Lubin was aware of the conduct that occurred at the Firm and, in fact, signed off on most of the violative conduct described above. The lack of supervisory structure and controls in place at Regional and the participation and approval by senior management created an inadequate supervisory system at Regional. Additionally, Regional failed to supervise the conduct of its traders as required by MSRB Rule G-27.

Lubin willfully aided and abetted and caused Regional's violations of Sections 15(c)(1)(A), 15B(c)(1) and 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder and MSRB Rules G-8, G-9, G-13 and G-17. As the primary supervisor of the trading desk, Lubin was aware of and approved the use of the "666" account to decrease the spread between winning bids and relatively low cover bids. He also knew that when a trader placed a bid on behalf of the Firm, there was no intent to purchase the bonds and that the trader would not disclose the true nature of the bid to the buyers and sellers of the bonds. Additionally, Lubin endorsed the Firm's practice of accepting late bids in Sharp Time auctions. Finally, Lubin was also responsible for overseeing whether the Firm maintained all communications relating to its business. However, Lubin failed to carry out this

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[3] MSRB Rule G-13(a) defines the term "quotation" as any bid for, or offer of, municipal securities, or any request for bids for or offers of municipal securities, including indications of "bid wanted" or "offer wanted."

duty by not establishing and enforcing adequate procedures for maintaining facsimiles and e-mails relating to Regional's business.

V.

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

Accordingly, it is hereby ORDERED that**:**

A. Pursuant to Sections 15(b) and 15B(c) and of the Exchange Act, Regional and Lubin are hereby censured.

B. Pursuant to Section 21C of the Exchange Act, Regional shall cease and desist from committing or causing any violations and any future violations of Sections 15(c)(1)(A) and 17(a) of the Exchange Act and Rule 17a-4 promulgated thereunder.

C. Pursuant to Section 21C of the Exchange Act, Regional shall cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act, including (1) failing to deal fairly with all persons and not engage in any deceptive, dishonest or unfair practice under MSRB Rule G-17, (2) failing to make and keep current certain books and records under MSRB Rules G-8 and G-9, (3) failing to distribute or publish, a quotation relating to municipal securities which represents a bona fide bid for, or offer of, municipal securities under MSRB Rule G-13 and (4) failing to supervise the conduct of its associated persons to ensure compliance with the MSRB rules under MSRB Rule G-27.

D. Regional shall pay a civil money penalty in the amount $100,000 to the United States Treasury in four installments according to the following schedule: (1) $50,000, within 15 days of entry of this Order, (2) $15,000, within 120 days of entry of this Order, (3) $15,000, within 240 days of entry of this Order, and (4) $20,000 within 360 days of entry of this Order.

   Regional agrees that if the full amount of any payment described above is not made by the date the payment is required by this Order, the entire amount of the civil penalties, $100,000, plus any interest accrued pursuant to 31 U.S.C. § 3717 minus payments made, if any, is due and payable immediately without further application.

E. Pursuant to Section 21C of the Exchange Act, Lubin shall cease and desist from causing any violations and any future violations of Sections 15(c)(1)(A) and 17(a) of the Exchange Act and Rule 17a-4 promulgated thereunder,

F. Pursuant to Section 21C of the Exchange Act, Lubin shall cease and desist from causing any violations and any future violations of Section 15B(c)(1), including (1) failing to deal fairly with all persons and not engage in any deceptive, dishonest or unfair practice under

MSRB Rule G-17, (2) failing to make and keep current certain books and records under MSRB Rules G-8 and G-9 and (3) failing to distribute or publish, a quotation relating to municipal securities which represents a bona fide bid for, or offer of, municipal securities under MSRB Rule G-13.

G. Lubin shall pay a civil money penalty in the amount $50,000 to the United States Treasury in four installments according to the following schedule: (1) $25,000, within 15 days of entry of this Order, (2) $10,000, within 120 days of entry of this Order, (3) $10,000, within 240 days of entry of this Order, and (4) $5,000 within 360 days of entry of this Order.

Lubin agrees that if the full amount of any payment described above is not made by the date the payment is required by this Order, the entire amount of the civil penalties, $50,000, plus any interest accrued pursuant to 31 U.S.C. § 3717 minus payments made, if any, is due and payable immediately without further application.

H. Pursuant to Sections 15(b)(6) and 15B(c)(4) of the Exchange Act, Lubin be, and hereby is barred from association with any broker or dealer or municipal securities dealer with the right to reapply for association after one year to the appropriate self-regulatory organization, or if there is none, to the Commission. Any reapplication for association by Lubin will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against Lubin, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

I. Pursuant to Sections 15(b)(6) and 15B(c)(4) of the Exchange Act, Lubin be, and hereby is barred from association with a broker or dealer or municipal securities dealer in a supervisory capacity. Any reapplication for association by Lubin will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against Lubin, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

J. Payments of civil money penalties shall be : (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of

Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under a cover letter that identifies the Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Cheryl J. Scarboro, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., N.E., Washington, DC 20549.

K. Not later than 6 months after the date of this Order, unless otherwise extended by the staff of the Commission for good cause shown, Regional shall certify in writing to the staff of the Commission that it has implemented policies and procedures that are reasonably designed to prevent and detect failures by Regional as outlined in this Order.

By the Commission.

Nancy M. Morris
Secretary