

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 59913 / May 13, 2009**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-13469**

**In the Matter of**

**Wolfe & Hurst Bond Brokers,  
Inc. and Peter J. Debany**

**Respondents.**

**ORDER INSTITUTING ADMINISTRATIVE  
AND CEASE-AND-DESIST PROCEEDINGS,  
PURSUANT TO SECTIONS 15(b), 15B(c) AND  
21C OF THE SECURITIES EXCHANGE ACT  
OF 1934, MAKING FINDINGS, AND  
IMPOSING REMEDIAL SANCTIONS AND A  
CEASE-AND-DESIST ORDER**

**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), 15B(c) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Wolfe & Hurst Bond Brokers, Inc. (“Wolfe & Hurst”) and Peter J. Debany (“Debany”) (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 Pursuant to Sections 15(b), 15B(c) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

### III.

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

#### Summary

1. This matter involves the misconduct of Wolfe & Hurst Bond Brokers, Inc. ("Wolfe & Hurst"), a registered broker-dealer that operates as a municipal securities "brokers' broker," and Peter J. Debany ("Debany"), a registered representative formerly associated with the firm. From January 2002 through December 2003 ("the relevant time period"), Wolfe & Hurst and Debany manipulated bids-wanted auctions for municipal bonds by: 1) lowering the bids of the highest bidders and 2) entering cover bids in amounts between the winning bid and the existing cover bid during the auctions and advising the high bidder and the seller that those new bids were cover bids received from other municipal securities broker-dealers.

#### **Respondents**

2. **Wolfe & Hurst Bond Brokers, Inc.**, headquartered in Jersey City, New Jersey, is a broker-dealer operating as a brokers' broker registered with the Commission pursuant to Section 15(b) of the Exchange Act since July 2, 1980. Wolfe & Hurst is also a member of the Financial Industry Regulatory Authority. During the relevant time period, the firm employed 39 individuals, of whom 32 were associated persons, and had branch offices in North Carolina, Florida, Illinois, Minnesota, Texas, California and Arizona.

3. **Peter J. Debany**, age 52, was formerly associated with Wolfe & Hurst from May 25, 1985 to September 28, 2007. Debany is not currently associated with any member firm. At all relevant times, Debany held a Series 52 License. Debany worked in Wolfe & Hurst's Jupiter, Florida branch office. During the relevant time period, Debany was one of the firm's most senior municipal bond traders and highest producers.

#### Background

4. A municipal securities brokers' broker is a securities firm that acts as an agent exclusively for other municipal securities brokers or dealers.<sup>1</sup> The role of the municipal securities

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<sup>1</sup> Exchange Act Rule 15c3-1(a)(8)(ii) defines a municipal securities brokers' broker as "a municipal securities broker or dealer . . . who has no 'customers' as defined in this rule." Rule 15c3-1 establishes net capital requirements for brokers and dealers, including municipal securities brokers' brokers. A "customer" for purposes of this rule is defined within the context of whether a broker "carries customer or broker or dealer accounts and receives or holds funds or securities for those persons." Rule 15c3-1(a)(2)(i). Thus, under Rule 15c3-1(a)(8)(ii), if a brokers' broker does not carry accounts or receive or hold funds for broker-dealers or other persons, it does not have "customers" for purposes of this rule.

brokers' broker is to match buy and sell orders in municipal bonds. The brokers' brokers do not take any positions in municipal issues, and therefore, all transactions by a brokers' 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 brokers' broker never holds any securities in inventory. The brokers' broker receives a commission from the selling broker-dealer in a transaction.

5. A brokers' broker sells bonds in two primary ways: "offering" and "bids-wanted." In an "offering," the seller will tell the brokers' broker at what price the seller wants to sell the bond. The brokers' broker will then call all of its contacts and try to sell the bond that is being offered. Potential buyers are free to counter the offer with a bid, and if the bond is ultimately sold, the final price is often a negotiated amount, with the brokers' broker acting as an intermediary. Offerings typically remain open until a transaction is made, or until the selling broker-dealer decides to pull the item from consideration. This is the method selected by the seller when he or she wants the brokers' broker to negotiate a sale of municipal bonds on his or her behalf.

6. In contrast, when a seller wishes to sell bonds at auction for the best price available, the seller asks a brokers' broker to conduct a "bids-wanted" auction on his or her behalf. In this format, the brokers' broker notifies potential bidders of specific bonds that are up for auction via phone, email or the firm's website. Bidders typically phone in bids on the items that interest them, although they can also bid directly through the firm's website, or via email and instant messages. When the auction closes, the seller will receive the highest price bid at the auction. Typically, the brokers' broker allows bidders to change or cancel their bids as long the bidding process remains open. However, the auction is "blind" in that bidders are not allowed to know their position relative to other bidders' positions and the brokers' brokers are not expected to intervene in the bidding process, absent a bona-fide error on the part of a bidder. After an auction is concluded, it is customary for brokers' brokers to tell the winning bidder and the seller the amount of the second-highest, bona-fide bid, also known as the "cover bid."

7. When a brokers' broker operates a bids-wanted auction, bidders and sellers typically judge the performance of the brokers' broker based on, among other things, the spread between the winning bid and the cover bid (the "spread"). A narrow spread may indicate to the seller and bidders that the auction was competitive and, therefore, was well-run. A large spread could convey the opposite impression.

#### **Wolfe & Hurst and Debany Conducted Bids-Wanted Auctions**

8. During the relevant time period, Wolfe & Hurst, through Debany, while conducting certain bids-wanted auctions for municipal bonds, knowingly engaged in materially manipulative conduct, which had the effect of reducing the spreads and, in some cases, may have affected the prices paid for the municipal bonds.

9. First, Wolfe & Hurst through Debany, at or near the end of auctions during the relevant time period, on numerous occasions, inserted cover bids at prices between the winning bids and the existing cover bids. When the auctions concluded, Wolfe & Hurst and Debany then communicated the prices of the “new” cover bids to the winning bidders and the sellers advising them that those new bids were cover bids received from other municipal securities broker-dealers. By creating these “new” cover bids, however, Wolfe & Hurst and Debany narrowed the spreads in these auctions. Further, Wolfe & Hurst and Debany did not disclose to the buyers or the sellers participating in these auctions that Debany had entered these “new” cover bids.

10. While the “new” cover bids did not affect the actual prices paid for the municipal bonds at the affected auctions, the information communicated to the high bidder and the seller did not reflect the true spread between the high bid and what others in the market were willing to pay, which may have created a misleading impression about the bidding range and potential demand for the municipal bonds at issue.

11. Further, by reporting these cover bids to the sellers, Wolfe & Hurst and Debany may have made the auction look more competitive by creating the appearance that it had successfully solicited more bids on an item than it actually had been able to obtain. As a result, the seller may have been more likely to employ Wolfe & Hurst for future bids-wanted auctions because it believed that the firm could obtain more bids, and potentially, a higher price for the bonds. By giving the appearance that Wolfe & Hurst 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 inserted cover bids, Wolfe & Hurst manipulated the auctions in an attempt to obtain future business.

12. Second, in numerous auctions, Wolfe & Hurst through Debany, lowered the bids of the highest bidders to prices closer to the cover bids, thereby allowing the highest bidders to win these auctions at reduced prices and narrowing the spread for these auctions. Wolfe & Hurst and Debany engaged in this practice in order to earn goodwill from the high bidders who they needed to return and create demand in future auctions.

13. Wolfe & Hurst and Debany failed to disclose to the affected sellers that Debany had lowered the prices of these winning bids and that he had artificially narrowed the spreads. This omission may have potentially misled the sellers, who thought they had received the highest bid placed during the auction. This conduct may have also have deprived the sellers of the opportunity to obtain the highest bids received during the auctions and impacted the prices paid for the bonds offered and sold during the auctions.

### **Violations**

14. Section 15(c)(1)(A) of the Exchange Act makes it unlawful for any broker or dealer “to effect any transaction in ... any security ... by means of any manipulative, deceptive, or fraudulent device or contrivance.”

15. Section 15B(c)(1) of the Exchange Act makes it unlawful, while acting as a broker, dealer or municipal securities dealer, using the mails or interstate commerce “to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule” of the MSRB.

16. MSRB Rule G-17 mandates that: “In the conduct of its municipal securities activities, each broker, dealer, and municipal securities dealer shall deal fairly with all persons and shall not engage in any deceptive, dishonest, or unfair practice.”

17. As a result of the conduct described above, Wolfe & Hurst willfully violated Sections 15(c)(1)(A) and 15B(c)(1) of the Exchange Act and MSRB Rule G-17.

18. As a result of the conduct described above, Debany willfully aided and abetted and caused Wolfe & Hurst’s violations of Sections 15(c)(1)(A) and 15B(c)(1) of the Exchange Act and MSRB Rule G-17.

#### IV.

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, pursuant to Sections 15(b)(6), 15B(c) and 21C of the Exchange Act, it is hereby ORDERED that:

1. Wolfe & Hurst and Debany are censured.
2. Wolfe & Hurst shall cease and desist from committing or causing any violations and any future violations of Sections 15(c)(1)(A) and 15B(c)(1) of the Exchange Act and MSRB Rule G-17.
3. Debany shall cease and desist from causing any violations and any future violations of Sections 15(c)(1)(A) and 15B(c)(1) of the Exchange Act and MSRB Rule G-17.
4. Debany be, and hereby is, barred from association with any broker, dealer or municipal securities dealer with the right to reapply for association after one (1) year to the appropriate self-regulatory organization, or if there is none, to the Commission. Any reapplication for association by Debany 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 Debany, 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.

5. Wolfe & Hurst shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$25,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Such payment 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 cover letter that identifies Wolfe & Hurst as a 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 Elaine C. Greenberg, Associate Regional Director, Philadelphia Regional Office, Securities and Exchange Commission, 701 Market Street, Suite 2000, Philadelphia, PA 19106.

6. Debany shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$25,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Such payment 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 cover letter that identifies Debany as a 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 Elaine C. Greenberg, Associate Regional Director, Philadelphia Regional Office, Securities and Exchange Commission, 701 Market Street, Suite 2000, Philadelphia, PA 19106.

By the Commission.

Elizabeth M. Murphy  
Secretary