

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 101633 / November 15, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-22323

In the Matter of

LION STREET FINANCIAL, LLC

Respondent.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTIONS 15(b) 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) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Lion Street Financial, LLC (“Lion Street” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) 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 it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) 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 Respondent's Offer, the Commission finds¹ that:

Summary

1. Between June 30, 2020, the compliance date for Regulation Best Interest ("Regulation BI"), and April 2021 (the "Relevant Period"), Lion Street did not comply with Regulation BI in connection with recommendations to retail customers of corporate bonds called "L Bonds" offered by GWG Holdings, Inc. ("GWG"). According to GWG's disclosures during the Relevant Period: (a) L Bond investments involved a high degree of risk, including the risk of losing an investor's entire investment; (b) L Bond investments may be considered speculative; (c) L Bond investments were only suitable for investors with substantial financial resources and no need for liquidity in the investment; and (d) GWG may use a portion of the L Bond proceeds to repay existing L Bond holders.

2. Despite these disclosures, in recommending the purchase of L Bonds to certain retail customers during the Relevant Period, Lion Street did not exercise reasonable diligence, care, and skill to understand the potential risks, rewards, and costs associated with the recommendations. Lion Street and one of its registered representatives ("Registered Representative 1") also recommended L Bonds to six retail customers for whom Lion Street did not have a reasonable basis to believe that the recommendations were in the customers' best interest based on the customers' investment profiles and the potential risks, rewards, and costs associated with the L Bonds. Lion Street further did not establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Regulation BI prior to February 2021, including written policies and procedures reasonably designed to identify and disclose, mitigate, or eliminate conflicts of interest associated with recommendations.

3. As a result, Lion Street did not comply with Regulation BI's Care Obligation, Compliance Obligation, and Conflict of Interest Obligation. By not complying with Regulation BI's component obligations, Lion Street willfully violated the General Obligation of Regulation BI found in Exchange Act Rule 15l-1(a)(1) ("General Obligation").

Respondent

4. Lion Street Financial, LLC ("Lion Street") is a Delaware limited liability company headquartered in Austin, Texas, and has been registered with the Commission as a broker-dealer pursuant to Section 15(b) of the Exchange Act since 2013. Lion Street has more than 275 registered representatives. Lion Street is owned by Lion Street, LLC.

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Facts

A. GWG L Bonds

5. GWG was a publicly traded financial services company. Prior to 2018, GWG's business model involved acquiring life insurance policies in the secondary market. Following several corporate transactions in 2018 and 2019 with the Beneficient Company Group, L.P. ("Beneficient"), GWG reoriented its business to focus on Beneficient's business model of providing liquidity to holders of illiquid investments and alternative assets.

6. GWG had a history of net losses and had not generated sufficient operating and investing cash flows to fund its operations. Neither GWG nor Beneficient was profitable during 2018 or 2019, and both posted annual net losses from operations during both years that exceeded \$79 million for GWG and \$165 million for Beneficient. As of December 31, 2019, 65% of GWG's total assets consisted of Beneficient's goodwill.

7. GWG depended on financing—primarily debt financing, including through the sale of L Bonds—to fund its operations. Since 2012, GWG had raised funds for its operations by selling L Bonds to retail customers through a nationwide network of broker-dealers. The L Bonds were an illiquid investment and were not rated by any bond rating agency.

8. In June 2020, GWG started a new offering under which it planned to issue up to \$2 billion of L Bonds pursuant to a prospectus ("June 2020 Prospectus"). The L Bonds offered pursuant to the June 2020 Prospectus had possible durations of two years, three years, five years, or seven years and a minimum investment of \$25,000. The June 2020 Prospectus disclosed, among other things, that (i) the L Bonds involved a "high degree of risk," including the risk of losing one's entire investment; (ii) "[i]nvesting in L Bonds may be considered speculative"; (iii) GWG may use a portion of the L Bond proceeds to repay existing L Bond holders; and (iv) the "L Bonds are only suitable for persons with substantial financial resources and with no need for liquidity in this investment."

9. GWG temporarily ceased the sale of L Bonds in April 2021 because it was unable to file its Form 10-K for the year ended December 31, 2020 ("2020 Form 10-K"). GWG subsequently filed its 2020 Form 10-K on November 5, 2021.

10. On January 10, 2022, GWG again suspended sales of L Bonds. GWG did not make its planned January 15, 2022 interest or principal payments on outstanding L Bonds and has not made any subsequent interest or principal payments on any of its L Bonds.

11. On April 20, 2022, GWG filed for Chapter 11 bankruptcy.

12. Lion Street recommended GWG L Bonds from at least June 2020 through April 2021. In total, Lion Street sold approximately \$4.77 million of L Bonds to retail customers during the Relevant Period.

13. Lion Street received a commission of 3.25% to 5% of the value of each L Bond sold

depending on the term of the L Bond, and it paid approximately 91% to 92% of that commission to the Lion Street registered representatives who sold the L Bonds. In addition to the commissions, Lion Street received compensation from GWG in the form of a “reallowance fee” of up to 00.37% on nearly all the L Bonds it sold.

B. Lion Street Did Not Comply with the Reasonable Basis Prong of Regulation BI’s Care Obligation

14. Regulation BI’s Care Obligation requires, among other things, that in making a recommendation of any securities transaction or investment strategy involving securities to a retail customer, brokers, dealers and associated persons of a broker or dealer exercise reasonable diligence, care, and skill to understand the potential risks, rewards, and costs associated with the recommendation. Exchange Act Rule 15l-1(a)(2)(ii)(A).

15. Lion Street has an investment committee that approves the products its registered representatives can sell to customers (the “Investment Committee”). Members of the Investment Committee include Lion Street’s President and Chief Executive Officer (“CEO”), Chief Compliance Officer (“CCO”), and the president of Lion Street, LLC.

16. The Investment Committee originally approved GWG L Bonds as suitable for sale to at least some of Lion Street’s customers in October 2017.

17. With respect to recommendations made during the Relevant Period, Lion Street did not exercise reasonable diligence, care, and skill in assessing the risks, rewards, and costs associated with the L Bonds as described in the June 2020 Prospectus. In particular, Lion Street did not assess the risks, rewards, and costs associated with the L Bonds after GWG underwent fundamental changes in its business model and finances following corporate transactions with Beneficient in 2018 and 2019, despite policies and procedures requiring the firm’s Investment Committee to consider whether an alternative investment required additional review and diligence in the event of a material modification to the product, including changes in risk to the customer.

18. By not exercising reasonable diligence, care, and skill to understand the potential risks, rewards, and costs associated with the recommendation of L Bonds to retail customers, Lion Street did not comply with Regulation BI’s Care Obligation.

C. Lion Street Did Not Comply with the Customer-Specific Prong of Regulation BI’s Care Obligation

19. Regulation BI’s Care Obligation also requires that, in making a recommendation of any securities transaction or investment strategy involving securities to a retail customer, brokers, dealers and associated persons of a broker or dealer exercise reasonable diligence, care, and skill to have a reasonable basis to believe the recommendation is in the best interest of a particular retail customer based on the customer’s investment profile and the potential risks, rewards, and costs associated with the recommendation. Exchange Act Rule 15l-1(a)(2)(ii)(B).

20. During the Relevant Period, Lion Street and Registered Representative 1 recommended L Bonds to six retail customers for whom they did not have a reasonable basis to believe that the L Bonds were in the customers' best interest. The totality of these retail customers' circumstances, which included factors such as their ages, investment objectives and risk tolerances, annual income, net worth, liquid net worth, concentration of liquid net worth in L Bonds, investment time horizons, and need for liquidity, were a mismatch for high-risk, potentially speculative, illiquid investments such as L Bonds. Each of these customers was at or near retirement age and most invested a substantial percentage of their liquid net worth in L Bonds based on a recommendation from Lion Street and Registered Representative 1, despite Lion Street's policy that registered representatives limit their recommendations to purchase any one alternative investment such as L Bonds to 10% of a customer's liquid net worth. Information about these six example recommendations is summarized below:

Customer A – Customer A was 78 years old and retired at the time of her purchase of L Bonds, with a net worth of \$1.2 million, a liquid net worth of \$600,000, and an annual income of \$66,000. She invested \$200,000, which was 33% of her liquid net worth, in a seven-year L Bond that she purchased on January 27, 2021, at the recommendation of Registered Representative 1. Customer A's investment objective was income, her risk tolerance was aggressive, and her general investment knowledge and experience was moderate. Customer A's stated purpose for investing in L Bonds, as reflected in a form completed by Registered Representative 1 or an employee of his firm, was, "Client is needing additional income to help cover the expense of cancer treatments. Client understands the risks." Customer A passed away in April 2022.

Customer B – Customer B, a married couple, were 81 and 74 years old, respectively, at the time of their L Bond purchase, with a net worth of \$1.3 million, a liquid net worth of \$800,000, and an annual income of \$120,000. They invested a total of \$100,000, which was 12.5% of their liquid net worth, in a three-year and seven-year L Bond that they purchased on July 9, 2020, at the recommendation of Registered Representative 1. Their investment objective was income, their risk tolerance was moderately aggressive, and their general investment knowledge and experience was extensive. At the time of their purchase of L Bonds, the husband was the owner of a construction company and the wife was a homemaker. Their stated purpose for investing in L Bonds, as reflected in a form completed by Registered Representative 1 or an employee of his firm, was, "Client is looking for income as nearing retirement, wanted something like stock risk and income. [They] really liked the income and not subject to market fluctuations daily. Understands the default risk."

Customer C – Customer C, a married couple, were 83 and 80 years old, respectively, at the time of their L Bond purchase, with a net worth of \$1.4 million, a liquid net worth of \$435,000, and an annual income of \$20,000 to \$40,000. Both were retired at the time of their purchase. They invested a total of \$100,000, which was 23% of their liquid net worth, in a two-year and five-year L Bond that they purchased on September 1, 2020, at the recommendation of Registered Representative 1. Their investment objective was income, their risk tolerance was moderately aggressive, and their general investment knowledge and experience was moderate. Their stated purpose for investing in L Bonds, as reflected in a form completed by Registered Representative 1 or an employee of his firm, was, "Clients want more predictable monthly income. Clients aware of all risks. This is clients [*sic*] only alt[ernative] inv[estment]."

Customer D – Customer D was a 58-year-old homemaker at the time of her L Bond purchase, with a net worth of \$750,000, a liquid net worth of \$74,000, and an annual income of \$24,400. She invested \$30,000, which was 40% of her liquid net worth, in a seven-year L Bond that she purchased on January 25, 2021, at the recommendation of Registered Representative 1. Her investment objective was income, her risk tolerance was moderately aggressive, and her general investment knowledge and experience was moderate. Her stated purpose for investing in L Bonds, as reflected in a form completed by Registered Representative 1 or an employee of his firm, was, “Client wanting to generate income. Aware of all risks.”

Customer E – Customer E was 66 years old and retired at the time of his L Bond purchase, with a net worth of \$500,000 to \$625,000, a liquid net worth of \$90,000, and an annual income of \$50,000. His investment objective was income, his risk tolerance was moderately aggressive, and his general investment knowledge and experience was moderate. He invested \$30,000, which was 33% of his liquid net worth, in a two-year L Bond that he purchased on August 25, 2020, at the recommendation of Registered Representative 1. The source of funds for his L Bond investment was Pension/IRA/Retirement Savings, and his stated purpose for investing in L Bonds, as reflected in a form completed by Registered Representative 1 or an employee of his firm, was, “[C]lient wants a predictable amount of income from this investment and understands risks involved.”

Customer F – Customer F was a 58-year-old subject matter expert for a consulting firm at the time of his L Bond purchase, with a net worth of \$1.01 million, a liquid net worth of \$905,000, and an annual income of \$135,000. He invested \$400,000, which was 44% of his liquid net worth, in a seven-year L Bond that he purchased on October 20, 2020, at the recommendation of Registered Representative 1. The source of funds for his L Bond investment was Pension/IRA/Retirement Savings. His investment objective was income, his risk tolerance was moderately aggressive, and his general investment knowledge and experience was moderate. His stated purpose for investing in L Bonds, as reflected in a form completed by Registered Representative 1 or an employee of his firm, was, “Client is moving to Italy and needs emidiate [*sic, immediate*] income to get visa. He understands the liquidity charge and risk but needs the income to prove income.”

21. These six recommendations were not in the best interest of these customers and, as a result, Lion Street did not comply with Regulation BI’s Care Obligation.

D. Lion Street Did Not Comply with Regulation BI’s Compliance Obligation

22. Regulation BI’s Compliance Obligation requires brokers or dealers to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Regulation BI. Exchange Act Rule 15c-1(a)(2)(iv).

23. Lion Street maintains its written policies and procedures in a document called the Written Supervisory Procedures (“WSPs”) and also provides written policies and procedures to its registered representatives in a document called the Registered Representative Manual (“RRM”).

24. Despite having a year in advance of Regulation BI’s compliance date to prepare, Lion Street did not update its WSPs or RRM to incorporate and provide reasonable guidance on how to

comply with the requirements of Regulation BI until February 2021 and March 2021, respectively, both eight to nine months after the June 30, 2020 compliance date of Regulation BI and after Lion Street began selling the June 2020 offering of L Bonds to customers.

25. Lion Street also did not enforce certain of its policies and procedures, which would have helped achieve compliance with Regulation BI in connection with its recommendations of L Bonds. For example:

- a. Lion Street's policies and procedures contained concentration limits for alternative investments that limited investors from investing more than 10% of their liquid net worth in any one alternative investment, limited investors of age 69 or younger from investing more than 25% of their liquid net worth in alternative investments collectively, and limited investors of age 70 or older from investing more than 15% of their liquid net worth in alternative investments collectively. In practice, these limitations were treated as guidelines. Lion Street's sales supervisors, who reviewed and approved all recommended transactions, had full discretion to grant exceptions to these limits. Lion Street, however, provided no guidance to them regarding when exceptions could appropriately be granted.
- b. Lion Street's policies and procedures required that customer paperwork be "completed in full" and that registered representatives be "immediately contacted" regarding any questionable or missing information on these forms. However, paperwork submitted to Lion Street by registered representatives for L Bond recommendations contained errors, blanks, and inconsistencies, which Lion Street did not resolve.
- c. Lion Street registered representatives were required to complete an online training prior to selling L Bonds, but this policy was inconsistently enforced in such a way that it did not help ensure that registered representatives adequately understood L Bonds. For example, at least two Lion Street registered representatives who were permitted to sell L Bonds were not required to complete the online training at all.
- d. Lion Street's policies required the firm and its registered representatives to "understand the nature, and potential risks and rewards associated with [a] recommended security." However, this requirement was not enforced.

26. By not establishing, maintaining, and enforcing written policies and procedures reasonably designed to achieve compliance with Regulation BI, Lion Street did not comply with Regulation BI's Compliance Obligation.

E. Lion Street Did Not Comply with Regulation BI's Conflict of Interest Obligation

27. Regulation BI's Conflict of Interest Obligation requires brokers or dealers that make recommendations to retail customers to establish, maintain, and enforce written policies and procedures that, among other things, "[i]dentify and at a minimum disclose . . . or eliminate, all conflicts of interest

associated with such recommendations” and “[i]dentify and mitigate any conflicts of interest associated with such recommendations that create an incentive for a natural person who is an associated person of a broker or dealer to place the interest of the broker, dealer, or such natural person ahead of the interest of the retail customer . . .” Exchange Act Rule 15l-1(a)(2)(iii).

28. For much of the Relevant Period, Lion Street did not establish written policies and procedures reasonably designed to identify conflicts of interest associated with recommendations and to disclose, mitigate, or eliminate such conflicts of interest, as Lion Street had no Regulation BI policies and procedures in effect prior to February 2021.

29. As a result, Lion Street did not comply with Regulation BI’s Conflict of Interest Obligation.

Violations

30. As a result of the conduct described above, Respondent Lion Street did not comply with Regulation BI’s Care Obligation, *see* Exchange Act Rule 240.15l-1(a)(2)(ii), Compliance Obligation, *see* Exchange Act Rule 240.15l-1(a)(2)(iv), and Conflict of Interest Obligation, *see* Exchange Act Rule 240.15l-1(a)(2)(iii). By not doing so, Respondent willfully² violated Regulation BI’s General Obligation, which requires brokers, dealers and their associated persons, when making a recommendation of any securities transaction or investment strategy involving securities to a retail customer, to act in the best interest of the retail customer. *See* Exchange Act Rule 240.15l-1(a)(1).

Disgorgement

31. The disgorgement and prejudgment interest ordered in Section IV.C below is consistent with equitable principles and does not exceed Respondent’s net profits from its violations and will be distributed to harmed investors to the extent feasible. The Commission will hold funds paid pursuant to Section IV.C in an account at the United States Treasury pending distribution. Upon approval of the distribution final accounting by the Commission, any amounts remaining that are infeasible to return to investors, and any amounts returned to the Commission in the future that are infeasible to return to investors, may be transferred to the general fund of the U.S. Treasury, subject to Section 21F(g)(3) of the Exchange Act.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Lion Street’s Offer.

² “Willfully,” for purposes of imposing relief under Section 15(b) of the Exchange Act “‘means no more than that the person charged with the duty knows what he is doing.’” *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor “also be aware that he is violating one of the Rules or Acts.” *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965).

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

- A. Respondent Lion Street cease and desist from committing or causing any violations and any future violations of Rule 15l-1(a)(1) of the Exchange Act.
- B. Respondent Lion Street is censured.
- C. Respondent Lion Street shall, within 10 days of entry of this Order, pay disgorgement of \$14,899.55, prejudgment interest of \$3,683.32, and a civil money penalty of \$135,000 to the Securities and Exchange Commission. If timely payment of disgorgement and prejudgment interest is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. If timely payment of the civil money penalty is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Lion Street as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to David A. Becker, Assistant Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549-5010.

E. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, a Fair Fund is created for the disgorgement, prejudgment interest, and penalty referenced in Section IV.C above. This Fair Fund may be combined with and/or receive funds received in proceedings arising out of the same conduct that is the subject of this Order. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this

action (“Penalty Offset”). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission’s counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a “Related Investor Action” means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary