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

**SECURITIES EXCHANGE ACT OF 1934**
**Release No. 102769 / April 4, 2025**

**ADMINISTRATIVE PROCEEDING**
**File No. 3-22469**

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| **In the Matter of**<br><br>**VELOX CLEARING LLC**<br><br>**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 Velox Clearing LLC ("Respondent" or "Velox").

## 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 finds that:

## Summary

1. This matter concerns Velox's failure to file suspicious activity reports ("SARs") as required by Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.

2. From at least July 2019 through December 2022 (the "Relevant Period"), Velox, a registered broker-dealer, acted as a clearing broker for foreign correspondent introducing broker-dealers trading by means of omnibus accounts ("Foreign Correspondents"). During the Relevant Period, Velox maintained omnibus accounts for four Hong Kong-based Foreign Correspondents who were registered with the Hong Kong securities regulator, but not with the Commission. During the Relevant Period, one of these Foreign Correspondents, which accounted for the majority of Velox's revenues, was its affiliate, Affiliate A.

3. Despite engaging in the business of clearing Foreign Correspondent securities transactions, Velox did not reasonably design or adequately implement its anti-money laundering ("AML") policies and procedures ("AML WSPs") to address the risks associated with its business. During the Relevant Period, Velox failed to identify numerous red flags and failed to investigate certain conduct as required by its AML WSPs. The AML WSPs also failed to incorporate red flags identified in public regulatory guidance as potentially suspicious and relevant to the firm's business. Due to the deficiencies in Velox's design and implementation of its AML WSPs and its failure to identify and sufficiently investigate red flags, Velox failed to file at least 218 SARs for transactions that it should have had reason to suspect (1) involved funds derived from illegal activity or is conducted to disguise funds derived from illegal activities as part of a plan to violate or evade any Federal law or regulation or to avoid any transaction reporting requirement; (2) were designed to evade any requirement of the BSA; (3) had no business or apparent lawful purpose and the broker-dealer knows of no reasonable explanation for the transaction after examining the available facts; or (4) involved the use of the broker-dealer to facilitate criminal activity. As a result, Velox willfully violated Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.

## Respondent

4. **Velox** has been a Commission-registered broker-dealer since May 2018, is organized in Nevada as a limited liability company, and has its principal place of business in Anaheim, California. The firm provides clearing services to primarily foreign, and to a lesser extent domestic broker-dealers.

## Other Relevant Entity

5. **Affiliate A** is a Hong Kong-based introducing broker-dealer, which is licensed by the Hong Kong Securities Futures Commission. Through its clearing relationship with Velox, it provides its customers with access to the U.S. capital markets.

## Background

6. The Bank Secrecy Act ("BSA") and implementing regulations promulgated by the Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") require that broker-dealers file SARs with FinCEN to report a transaction (or pattern of transactions of which the transaction is a part) conducted or attempted by, at, or through the broker-dealer involving or aggregating to at least $5,000 that the broker-dealer knows, suspects, or has reason to suspect: (1) involves funds derived from illegal activity or is intended or conducted to disguise funds or assets derived from illegal activities as part of a plan to violate or evade any Federal law or regulation or to avoid any transaction reporting requirement; (2) is designed to evade any requirement of the BSA; (3) has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the broker-dealer knows of no reasonable explanation for the transaction after examining the available facts; or (4) involves use of the broker-dealer to facilitate criminal activity. 31 C.F.R. § 1023.320(a)(2) ("SAR Rule").

7. To be liable for failing to file a SAR, a broker-dealer must know, suspect, or have reason to suspect that a transaction falls into one of the four categories of suspicious activity in 31 C.F.R. § 1023.320(a)(2). The Financial Industry Regulatory Authority ("FINRA") and FinCEN also have longstanding regulatory guidance highlighting red flags related to penny stock transactions and FINRA has cautioned firms that its examples of red flags are "merely illustrative" and that other situations may arise that require further investigation. See FinCEN's The SAR Activity Review Trends Tips & Issues, Issue 15, "ln Focus: The Securities and Futures Industry;" FINRA's Updated Small Firm Template Anti-Money Laundering (AML) Program (updated January 2010); FINRA Regulatory Notice 09-05 (Jan. 2009). In May 2019, FINRA issued Regulatory Notice 19-18, which included a list of previously identified red flags and provided additional examples of red flags potentially indicative of suspicious activity. FINRA Regulatory Notice 19-18 (May 2019), at 3–11; *see also* SEC Staff Bulletin: Risks Associated with Omnibus Accounts Transacting in Low Priced Securities (November 12, 2020).

8. The BSA and its implementing regulations require the filing of a SAR no later than 30 calendar days after the date of the broker-dealer's initial detection of facts that may constitute a basis for filing a SAR. If no suspect is identified on the date of such initial detection, a broker-dealer may delay filing a SAR for an additional 30 calendar days to identify a suspect, but in no case shall reporting be delayed more than 60 calendar days after the date of such initial detection. 31 C.F.R. § 1023.320(b).

9. Exchange Act Rule 17a-8 requires broker-dealers registered with the Commission to comply with the reporting, record-keeping, and record-retention requirements of the BSA. The failure to file a SAR as required by the SAR Rule is a violation of Section 17(a) of the Exchange Act and Rule 17a-8 thereunder. The SAR Rule applies to all broker-dealers, whether acting as market-makers or introducing or clearing brokers, each of whom has an independent obligation to file SARs.

## Facts

10. Velox adopted AML WSPs purportedly to address its AML risks that were in effect during the Relevant Period. Velox's AML WSPs contained a section entitled "Certain Securities Transactions" and listed as an AML red flag when a customer engages in prearranged or other non-competitive trading.

11. However, Velox's AML WSPs were not reasonably designed to monitor for, detect, and report suspicious activity based on the risks associated with the firm's particular business and as required by the SAR Rule. The AML WSPs did not include red flags identified in public regulatory guidance relevant to the firm's business, such as transactions by omnibus accounts held at foreign financial institutions, deposits that represent a large percentage of the float of a security, trading activity by a customer that represents a significant proportion of the daily trading volume of a security, and trading by a customer when a stock's price and volume dramatically increase absent relevant news.

12. Velox's implementation of its AML WSPs during the Relevant Period was also deficient. Velox failed to conduct the reviews required by its AML WSPs of numerous transactions and patterns of activity that, when taken together, raised red flags about the issuers, trading patterns, and/or the customers engaged in the trading. In numerous instances, these failures to conduct required reviews led Velox to fail to file at least 218 SARs on suspicious activity.

13. Contrary to the requirements of its AML WSPs, Velox did not have a person in the position of Assistant Vice President of Surveillance, who was meant to be responsible for the ongoing monitoring of trading activity of accounts for potentially suspicious or manipulative transactions. The firm also did not utilize electronic exception reports of any kind for AML monitoring, as required by its AML WSPs, and did not document any red flag investigations, with the results of such investigations and further actions taken.

14. During the Relevant Period, Velox failed to identify or investigate red flags of potentially suspicious conduct listed in its AML WSPs, including matched trading activity, as well as other red flags identified in public regulatory guidance, such as deposits of stock that represent a large percentage of the float of a security, instances when a customer's trading activity makes up a significant portion of the daily trading activity of a security, and customer trading activity during dramatic spikes in a stock's price and volume absent any news. It ultimately did not file SARs on these suspicious transactions.

15. For example, Velox failed to detect matched trading activity in connection with trading in Affiliate A's omnibus accounts. Such trading is highly indicative of manipulative activity and was listed as a red flag in the AML WSPs. On at least 152 occasions during the Relevant Period, Velox failed to investigate, and as a result did not file any SARs in situations when an Affiliate A omnibus account entered a buy or sell order for a specific quantity and price of a stock while at nearly the same time entering the same order on the opposite side of the buy

or sell market in the same or another Affiliate A omnibus account and the orders executed against each other.

16. As a further example, Velox failed to investigate instances in which Affiliate A's omnibus accounts accepted large deposits of securities. In at least three notable instances in 2022, Affiliate A's accounts accepted deposits that either alone, or when aggregated as a pattern of deposits, equaled between 20 and 97 percent of the publicly traded float of the security. These large deposits prompted no inquiry by Velox either into the deposits or subsequent transactions in the stock by the receiving omnibus accounts. Velox also did not attempt to compute the aggregate shares received in different deposits received within a few days of each other to determine the omnibus account's aggregate position in the stock relative to the public float of the security. Velox again did not file any SARs in these circumstances.

17. In another example, Velox failed to investigate instances in which trading activity in Affiliate A's omnibus accounts represented a significant proportion of the daily trading volume of a security, even when such activity took place during large spikes in the stock's price and volume absent any public market-moving news. In at least 63 instances in 2022, Affiliate A's trading in a stock accounted for between 10 and 100 percent of the daily trading volume in that stock. In certain of these instances, there were dramatic spikes in both price and trading volume in the stock absent any contemporaneous news. However, Velox did not identify any red flags related to this trading or conduct any follow-up inquiry, and ultimately did not file any SARs with respect to these transactions.

## Violations

18. As a result of the conduct described above, Velox willfully[1] violated Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.

## Undertakings

19. Respondent has undertaken to:

A. Within 30 days from the issuance of this Order, at its own cost, hire an independent AML Compliance Consultant, not unacceptable to the Commission staff, to conduct a comprehensive review of Respondent's AML compliance program and the implementation and effectiveness of Respondent's AML policies and procedures. The Respondent shall require the Compliance Consultant to submit to the Commission's staff a written report (the "Report") on the 90th day from the issuance of this Order describing the review it performed, the names of the individuals who performed the review, the conclusions reached, and the Compliance Consultant's recommendations for changes in or improvements to Respondent's AML program.

[1] "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).

B. Respondent shall adopt all recommendations contained in the Report within one hundred eighty (180) days of the issuance of this Order; provided, that within one hundred and fifty (150) days after the date of the Order's issuance, Respondent shall in writing advise the Compliance Consultant and the Commission staff of any recommendation that Respondent considers to be unduly burdensome, impractical, or inappropriate. With respect to any recommendation that Respondent considers unduly burdensome, impractical, or inappropriate, Respondent need not adopt that recommendation at that time but shall propose in writing an alternative policy, procedure, or system designed to achieve the same objective or purpose.

C. As to any recommendation with respect to Respondent's policies and procedures on which Respondent and the Compliance Consultant do not agree, Respondent and the Compliance Consultant shall attempt in good faith to reach an agreement within one hundred and eighty (180) days after the date the Order is issued. Within fifteen (15) days after the conclusion of the discussion and evaluation by Respondent and the Compliance Consultant, Respondent shall require that the Compliance Consultant inform Respondent and the Commission staff in writing of the Compliance Consultant's final determination concerning any recommendation that Respondent considers to be unduly burdensome, impractical, or inappropriate. Respondent shall abide by the determinations of the Compliance Consultant and, within thirty (30) days after final agreement between Respondent and the Compliance Consultant or final determination of the Compliance Consultant, whichever occurs first, Respondent shall adopt and implement all of the recommendations that the Compliance Consultant deems appropriate.

D. Within thirty (30) days of Respondent's adoption of all of the recommendations in the Report that the Compliance Consultant deems appropriate, as determined pursuant to the procedures set forth herein, certify in writing to the Compliance Consultant and the Commission staff that Respondent has adopted and implemented all of the Compliance Consultant's recommendations in the Report. Thereafter, beginning two hundred sixty days (260) after the entry of the Order, the Compliance Consultant shall conduct such review as it deems appropriate to verify that Respondent has appropriately implemented the recommendations in the Report. Unless otherwise directed by the Commission staff, all Reports, certifications, and other documents required to be provided to the Commission staff shall be sent to Thomas P. Smith, Jr., Associate Regional Director, New York Regional Office, 100 Pearl Street, 20-100, New York, NY 10004.

E. Cooperate fully with the Compliance Consultant and provide the Compliance Consultant with access to such files, books, records, and personnel as are reasonably requested by the Compliance Consultant for review.

F. To ensure the independence of the Compliance Consultant for the remainder of the engagement: (1) not have the authority to terminate the Compliance Consultant or substitute another compliance consultant for the Compliance Consultant without the prior written approval of the Commission staff; and (2) compensate the Compliance Consultant and persons engaged to assist the Compliance Consultant for services rendered pursuant to this Order at their reasonable and customary rates.

G. For the period of engagement and for a period of two years from completion of the engagement, Respondent shall not (i) retain the Compliance Consultant for any other professional services outside of the services described in this Order; (ii) enter into any other professional relationship with the Compliance Consultant, including any employment, consultant, attorney-client, auditing or other professional relationship; or (iii) enter, without prior written consent of the Commission staff, into any such professional relationship with any of the Compliance Consultant's present or former affiliates, employers, directors, officers, employees, or agents acting in their capacity as such.

H. Preserve for a period of not less than six years from the end of the fiscal year last used, the first two years in an easily accessible place, any record of its compliance with the undertakings set forth herein.

I. Certify, in writing, compliance with its undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting materials shall be submitted to Thomas P. Smith, Jr., Associate Regional Director, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

J. For good cause shown, the Commission staff may extend any of the procedural dates relating to the undertakings. Deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered to be the last day.

K. The reports by the Compliance Consultant will likely include confidential financial, proprietary, and competitive business or commercial information. Public disclosure of the reports could discourage cooperation, impede pending or potential government investigations or undermine the objectives of the reporting requirement. For these reasons, among others, the reports and the contents thereof are intended to remain and shall remain non-public, except (1) pursuant to court order, (2) as agreed to by the parties in writing, (3) to the extent that the Commission determines in its sole discretion that disclosure would be in furtherance of the Commission's discharge of its duties and responsibilities, or (4) is otherwise required by law.

## IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest to impose the sanctions agreed to in Respondent Velox's Offer.

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

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Exchange Act and Rule 17a-8 thereunder.

B. Respondent Velox is censured.

C. Respondent shall pay a civil penalty of $500,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3).

Payment shall be made in the following installments:

(1) $100,000 within the 14 days of the entry of this Order;

(2) $133,333 within 120 days of the entry of this Order;

(3) $133,333 within 240 days of the entry of this Order; and

(4) any remaining amount outstanding within 360 days of the entry of this Order.

Payments shall be applied first to post order interest, which accrues pursuant to 31 U.S.C. § 3717. Prior to making the final payment set forth herein, Respondent shall contact the staff of the Commission for the amount due. If Respondent fails to make any payment by the date agreed and/or in the amount agreed according to the schedule set forth above, all outstanding payments under this Order, including post-order interest, minus any payments made, shall become due and payable immediately at the discretion of the staff of the Commission without further application to the Commission.

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 Velox 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 Thomas P. Smith, Jr., Associate Regional Director, Securities and Exchange Commission, 100 Pearl Street, Suite 20-100, New York, NY 10004.

D. 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.

E. Respondent shall comply with the undertakings enumerated in Paragraph 19 above.

By the Commission.

Vanessa A. Countryman
Secretary