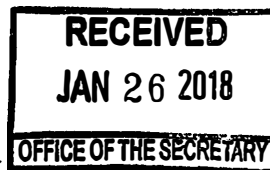


UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION



ADMINISTRATIVE PROCEEDING  
File No. 3-16293

**In the Matter of**

**LAURIE BEBO, and  
JOHN BUONO, CPA**

**Respondents.**

**RESPONDENT LAURIE BEBO'S BRIEF  
IN RESPONSE TO THE COMMISSION'S  
NOVEMBER 30, 2017 ORDER**

Respondent, by its counsel Reinhart Boerner Van Deuren s.c., submits this brief pursuant to this Court's December 14, 2017 order and the Securities and Exchange Commission's (the "Commission") November 30, 2017 Order applicable to all pending administrative proceedings (the "Order").

The Order's attempt to retroactively cure and rehabilitate a violation of the Constitution fails. First, well-established United States Supreme Court precedent establishes that the appropriate remedy where an unlawful or unconstitutional judge has presided over an administrative proceeding is a new proceeding, if it would not be time-barred. Because any new proceeding would be time-barred in this case, this case should be dismissed. Second, the Commission's purported "fix," actually fixes nothing because, on its face, it purports to ratify the "agency's prior appointment" of Commission ALJs, which indisputably never occurred in the first place. Finally, the government's admission that Commission ALJs are inferior officers under Article II necessarily requires a finding that they continue to be unconstitutional under the Supreme Court's decision *Free Enterprise Fund v. Pub. Co. Accounting Oversight Bd.*, 561 U.S. 477 (2010).

## ARGUMENT

### I. The Prior Proceedings, Before An Admittedly Unconstitutional Judge, Cannot Be Retroactively Cured.

The Appointments Clause embodies a key structure of our system of government, "preserves ... the Constitution's structural integrity by preventing the diffusion of the appointment power," and thereby preserves political accountability and liberty. *Freytag v. Commissioner*, 501 U.S. 868, 878 (1991). Because of the structural nature of the defect in the proceedings, the Supreme Court in *Freytag* addressed the taxpayers' Article II Appointments Clause challenge even though they previously consented to the Special Trial Judge that presided over their tax case. In reaching the issue, the Court reasoned that "[t]he alleged defect in the appointment of the Special Trial Judge goes to the validity of the Tax Court proceeding that is the basis for this litigation." *Id.* at 879; *see also Landry v. FDIC*, 204 F.3d 1125, 1130-1132 (D.C. Cir. 2000) (finding no waiver of Appointments Clause claim because it is a structural violation in the adjudication not subject to harmless error analysis).

*Freytag's* reasoning is part of a long line of Supreme Court precedent that stands for the proposition that proceedings that took place before an improperly appointed or otherwise unlawful judge require a fresh adjudication before a properly appointed judge. *See Wong Yang Sung v. McGrath*, 339 U.S. 33 (1950), superseded by statute as recognized in *Ardestani v. INS*, 502 U.S. 129 (1991); *Riss & Co. v. United States*, 341 U.S. 907 (1951); *United States v. L.A. Trucker Truck Lines, Inc.*, 344 U.S. 33 (1952); *Ryder v. United States*, 515 U.S. 177 (1995); *Nguyen v. United States*, 539 U.S. 69 (2003). *Wong Yang Sung* involved an immigrant that was subject to deportation proceedings. 339 U.S. at 35-36. The immigrant alleged that the administrative hearing was unlawful because it was presided over by a hearing examiner, the precursor to today's ALJs, that was not appointed consistent with the Administrative Procedures

Act. *Id.*; *Landry*, 204 F.3d at 1132 (early "examiners" under the APA were the "precursor of today's ALJ.") The government conceded non-compliance with the APA, but contended it did not apply to immigration administrative proceedings. *Id.* Finding the APA governed the appointment of the hearing examiner, the orders resulting from the proceeding had no "validity," the Court voided the action taken place as a result of the proceedings, and ordered that the immigrant be released by the government. *Id.* at 52-53.

The *L.A. Trucker* case involved a challenge to the validity of the appointment of an ICC hearing examiner, although the respondent failed to object to the examiner during the administrative proceedings. The Court held that a respondent who objects to the lawfulness of the person adjudicating its administrative case "is entitled to an examiner chosen as the Act prescribes." *L.A. Trucker*, 344 U.S. at 36. And where the appointment of the adjudicator is legally deficient, and the respondent objects, the Court held "that the defect in the examiner's appointment [is] an irregularity which would invalidate a resulting order if the Commission had overruled an appropriate objection [to the lawfulness of the examiner] made during the hearings." *Id.* at 38.

Finally, in *Ryder v. United States*, the Supreme Court held that one subject to a trial before an unconstitutionally appointed judge "is entitled to a hearing before a properly appointed panel of that court." 515 U.S. at 188. There, Ryder was convicted in a trial before a military judge. He appealed his conviction to a Coast Guard Court of Military Review, members of which are inferior officers under Article II. Members of Ryder's panel served in violation of Article II. Ryder appealed to the Court of Military Appeals, which agreed with defendant's Appointments Clause argument, but nevertheless affirmed the lower court's decision based on the *de facto* officer doctrine. *Id.* at 179-80.

The Supreme Court rejected application of the doctrine, which, like the ratification doctrine, would have the effect of retroactively blessing an adjudication before an unconstitutional officer. *Id.* at 188. The Court held that Ryder was entitled to a new hearing before a panel of properly appointed judges. The Court emphasized that “[a]ny other rule would create a disincentive to raise Appointments Clause challenges with respect to questionable judicial appointments.” *Id.*

Under this established precedent, the only legally proper order to be issued by the Commission or this Court is a dismissal of this case. The Supreme Court recognizes that administrative adjudication must take place before a validly appointed ALJ, that any order issued by an invalid ALJ or resulting from an adjudicatory proceeding before an improperly appointed ALJ is invalid. Thus, even the Order Instituting Proceedings in this matter is legally invalid, as itself purports to assign the matter to admittedly unconstitutional ALJs. As dictated by cases like *Wong Yang Sung* and *Ryder*, the remedy in an adjudicatory context cannot entail after-the-fact ratification, but rather any order and proceedings funneling the adjudicatory process through the unconstitutionally appointed ALJ are invalid, and new orders and hearings must take place.

Here, because it is indisputable that any new, and potentially valid OIP (from an Article II perspective) would be barred by the five-year statute of limitations governing the Division's claims under 28 U.S.C. § 2462, the only legally viable option for this Court and for the Commission is to dismiss the case with prejudice.<sup>1</sup> See *FEC v. NRA Political Victory Fund*, 513 U.S. 88, 98 (1994); *Forbes Pioneer Boat Line v. Board of Comm'rs*, 258 U.S. 338, 339

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<sup>1</sup> Even if the OIP could be considered valid, this Court is without authority under Commission rules to ratify the Initial Decision. The version of Rule 360 of the Commission's Rules of Practice in place at the time of Bebo's proceeding before this Court, the Rule required the Court to issue an Initial Decision within 300 days of the filing of the OIP. Because the 300-day deadline has long since passed, this Court lacks the authority to re-issue its Initial Decision and these proceedings against Bebo should be dismissed. See *NRA*, 513 U.S. at 98.

(1922) ("But generally ratification of an act is not good if attempted at a time when the ratifying authority could not lawfully do the act.").

**II. The Commission's Attempt To Cure The Appointments Clause Violation Through Ratification Is Unsupported By Precedent.**

Unlike each of the cases described above, which involve an unlawful or unconstitutional judge, the cases upon which the Division relies (in its January 5 letter to the Court) in support of the legal viability of the ratification process all involve ratification of administrative decisions entirely distinct from the judicial decision-making. None of them involve the improper appointment of a judge overseeing the principal legal and fact-finding stage of proceedings like *Wong Yang Sung* and its progeny. Consequently, they do not provide any support to the government's position that its ratification scheme can somehow remedy the constitutional violation that individuals like Bebo were forced to endure when their cases were assigned to and heard by judges not appointed in compliance with the Appointments Clause.

First, the Division points to *Doolin Sec. Sav. Bank, F.S.B. v. Office of Thrift Supervision*, 139 F.3d 203 (D.C. Cir. 1998). *Doolin* involved the legal validity of a Notice of Charges against a bank in proceedings before the OTS. The Notice of Charges was signed by Jonathan Fiechter, an "Acting Director" of the OTS at the time, but he was not appointed in compliance with Article II. *Id.* at 204-05. The case proceeded to a trial in front of an ALJ. *Id.* at 204. There was no dispute in that case that the ALJ was appointed properly. After the ALJ issued findings and recommendations, a new, properly appointed Director of OTS, Nicolas Retsinas, adopted the ALJ's findings and issued a Cease and Desist Order. *Id.* at 204, 211.

As to ratification, the *Doolin* court simply found Retsinas effectively ratified the Notice of Charges by issuing a written decision and Cease and Desist Order that adopted the ALJ's view that the charges had merit. *Id.* at 213-214. *Doolin*, however, sheds no light on whether the

hearing and other proceedings before the *ALJ* were valid or had to start anew. In addition, the *Doolin* court premised its decision on the fact that "[n]o statute of limitations would have barred Retsinas from reissuing the Notice of Charges himself and starting the administrative proceedings over again." *Id.* at 213. As noted above, here the statute of limitations would bar reissuing charges against Bebo.

The Division also cites *FEC v. Legi-Tech, Inc.*, 75 F.3d 704 (D.C. Cir. 1996). In *Legi-Tech*, the Court considered whether a probable cause finding and decision to initiate an enforcement proceeding could be ratified after-the-fact. *See id.* at 707. There, the Federal Election Commission conducted an investigation and found that probable cause existed to bring certain charges against Legi-Tech. This triggered a statutorily prescribed settlement "conciliation" process with Legi-Tech, before the FEC could file a enforcement lawsuit in federal district court. *Id.* at 706. After the lawsuit was filed, the D.C. Circuit held, in a separate case, that the FEC was not properly constituted. *Id.* A reconstituted FEC later voted to find probable cause and to authorize its general counsel to continue the pending case against Legi-Tech. *Id.*

Thus, the *Legi-Tech* court simply held the FEC did not have to repeat the conciliation process and could ratify its probable cause finding and decision to litigate. *Id.* at 708-709. *Legi-Tech* involved no administrative adjudication whatsoever, and is inapposite.

Finally, the Division cites *Advanced Disposal Services East, Inc. v. NLRB*, 820 F.3d 592 (3d Cir. 2016). There, Advanced employees held an election on whether they would chose to unionize. That election was overseen by an NLRB Regional Director that was improperly appointed because the NLRB lacked a quorum at the time. *Id.* at 596. Advanced challenged the outcome of the election, and that challenge was adjudicated before a hearing officer. *Id.* at 597.

There was no dispute as to the legal authority of the hearing officer. A properly constituted NLRB adopted the hearing officer's recommendation that the election was valid. *Id.* at 597, 602.

The NLRB also adopted an order that "confirm[ed], adopt[ed], and ratif[ied] *nunc pro tunc* all administrative, personnel, and procurement matters approved by the Board..." when it lacked a valid quorum. *Id.* at 602. The Regional Director then ratified all of his previous actions in overseeing the election at Advanced. *Id.* Ultimately, the Court found this ratification was sufficient and allowed the orders issued by the NLRB as part of the proceedings to have legal effect. *Id.* at 605-606.

Unlike the cases cited by the Division, none of which involve the lawfulness of a judge, here the Commission is attempting to ratify both the alleged appointment of its Administrative Law Judges ("ALJs") and the entire hearing and initial decision in Bebo's case. The Commission is, therefore, attempting to ratify the entire administrative process, and every decision an unconstitutional judge made along the way. Ratification of an initial decision, including ratification of the civil penalties levied against Bebo, is vastly different from ratification of the decision to initiate proceedings against an individual or entity. Because the cases the Division relies on are unlike the case at hand, this Court cannot employ this ratification scheme to paper over the months long process of preparing for and participating in an unconstitutional hearing in front of an ALJ who, at the time of the hearing, did not have the authority to hear or decide such matters.

### **III. Even Assuming A Ratification Process Could Be Appropriate, The Commission's Order Does Not Cure the Appointments Clause Violation.**

Even if ratification might be proper to remedy some constitutional violations, the Commission's attempt at ratification is unsuccessful here. The Commission's Order attempts to "put to rest any claim that administrative proceedings pending before, or presided over by,

Commission administrative law judges violate the Appointments Clause." (Order at 1.) The Order employs a two-step ratification scheme to purportedly ratify both the prior appointment of "Chief Administrative Law Judge Brenda Murray and Administrative Law Judges Carol Fox Foelak, Cameron Eliot, James E. Grimes, and Jason S. Paul" and the prior actions of all ALJs presiding over pending matters. (*Id.*) But this ratification attempt cannot be successful here, as the Commission does not have the authority to ratify what it calls the "appointment" of Commission ALJs.

Putting aside whether ratification could ever be appropriate in these circumstances, in order for it to be valid it is "essential that the party ratifying should be able not merely to do the act ratified at the time the act was done, but also at the time the ratification was made." *Doolin*, 139 F.3d at 212; *see also FEC v. NRA Political Victory Fund*, 513 U.S. 88, 98 (1994) (same). In *NRA*, the Supreme Court rejected an attempt by the Solicitor General to ratify the decision that the FEC would file a petition for *certiorari* because, at the time of the ratification, the Solicitor General lacked the authority to do the act he sought to ratify; namely, file a petition for *certiorari*. *NRA*, 513 U.S. 88. The Solicitor General lacked the power to file a petition at that time because the limitations period for filing a petition had run. *See id.* at 98.

Here, the Commission is attempting to ratify an act that it lacks the authority to do today—delegation of the selection and hiring of Commission ALJs. Although the Order claims that the Commission is ratifying the prior "appointment" of the ALJs, the reality is that there is no appointment to ratify. Rather, the Commission attempts to convert the former selection and hiring of ALJs, which, importantly, was done by the Chief ALJ and its human resources department as opposed to the Commission itself, into an appointment through ratification. But ratification works only to ratify actions the Commission could carry out today, not to transform



an unconstitutional delegation of authority and hiring into a constitutional appointment. For that reason, the Commission's attempt to ratify the former hiring of its ALJs is unsuccessful. And because the ALJs have not yet been constitutionally appointed, they lack the authority to ratify decisions made during the unconstitutional hearings held prior to the date of the Order.

**IV. These Proceedings Must Be Dismissed Because This Court, And All Commission ALJs, Remain In Violation Of Article II Of The Constitution.**

The government's concession that Commission ALJs constitute "inferior officers" under Article II of the Constitution, necessarily requires that this case be dismissed because their two-layer tenure protection violates the Take Care Clause of Article II.<sup>2</sup>

Article II of the U.S. Constitution vests "[t]he executive Power . . . in a President of the United States of America," who must "take Care that the Laws be faithfully executed[.]" U.S. Const. art. II, § 1, cl. 1; *id.* § 3. Under the Supreme Court's decision in *Free Enterprise*, 561 U.S. at 483-84, Article II's vesting of the executive power in the President and the Take Care Clause, requires that inferior officers, such as the Commission ALJs, cannot be separated from the President by multiple levels of protection from removal. *Id.* at 484 (citation omitted).

Consequently, Article II is violated when an executive officer can only be removed for good cause, and the power to remove that officer is held by another officer who can only be removed for good cause. *See id.* Commission ALJs enjoy at least two levels of good-cause protection, with the result being Commission ALJs are unconstitutionally unaccountable to the President. *See id.* at 495 (Commissioners, who have the power to remove the ALJs, cannot be removed by the President from their position except for "inefficiency, neglect of duty, or malfeasance in office."); 5 U.S.C. § 7521(a) (Commission ALJs are protected from removal

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<sup>2</sup> Indeed, this Court cannot possibly ratify its Initial Decision regarding Bebo's Article II claims because the sole basis for concluding they were "meritless" was the Commission's earlier, improper decision that Commission ALJs were not inferior officers.

except for "good cause" as determined by the Merit Systems Protection Board); 5 U.S.C. § 1202(d) (MSPB members can "be removed by the President only for inefficiency, neglect of duty, or malfeasance in office.").

In sum, because Commission ALJs are protected by multiple layers of for-cause removal, these proceedings are a continuing violation of Article II.

### CONCLUSION

For the reasons stated above, these proceedings pursuant to the Order are improper and themselves unconstitutional.<sup>3</sup> Put simply, this Court has no legal authority (and never did) to preside over these proceedings, including specifically the actions the Commission has ordered. This administrative proceeding should therefore be immediately dismissed.

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<sup>3</sup> This, of course, is in addition to all of the other constitutional infirmities, factual error, and legal error that Bebo has identified in prior submissions in this administrative proceeding which Bebo does not waive by filing this brief or otherwise participating in these proceedings in response to the Order.

**CERTIFICATE OF COMPLIANCE**

I hereby certify that Respondent Laurie Bebo's Brief In Response To The Commission's November 30, 2017 Order contains 2,982 words (as calculated by the Microsoft Word count feature), exclusive of the caption, signature block and this certification.

Dated: January 25, 2018

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**Respondents.**

**CERTIFICATE OF SERVICE**

Ryan S. Stippich of Reinhart Boerner Van Deuren s.c. certifies that on January 25, 2018, he caused a true and correct copy of Respondent Laurie Bebo's Brief in Response to the Commission's November 30, 2017 Order to be served on the following by e-mail and United States mail:

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Dated this 25th day of January, 2018.

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