

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 63964 / February 24, 2011

ADMINISTRATIVE PROCEEDING
File No. 3-14273

In the Matter of

ELIZABETH PAGLIARINI,

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 Elizabeth Pagliarini (“Pagliarini” 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 her 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

These proceedings arise out of Pagliarini's failure to supervise Tony Ahn, a registered representative who, between September 2005 and September 2007 (the "relevant period"), helped manipulate the prices of several microcap issuers' stocks. During this time, Ahn was associated with Hunter World Markets, Inc. ("HWM"), a registered broker-dealer for which Pagliarini was the designated compliance officer, as well as Ahn's direct supervisor. Ahn directly violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and aided and abetted and caused HWM's violations of Section 15(c)(1) of the Exchange Act, by executing a number of trades, including wash trades, the apparent purposes of which were to manipulate the prices of microcap companies stocks and to generate over \$600,000 in sales credits to HWM, which the firm considered to be the equivalent of commissions. Pagliarini failed reasonably to supervise Ahn because she failed to follow HWM's procedures that required her to follow up on suspicious transactions, such as the wash trades, that lacked business sense or exhibited a lack of concern regarding risks, commissions, or other transaction costs.

Pagliarini also willfully aided and abetted and caused HWM's violation of Section 17(a) of the Exchange Act and Rule 17a-8 thereunder. Rule 17a-8 requires brokers and dealers to comply with the recordkeeping, retention, and reporting obligations imposed by the Currency and Financial Transactions Reporting Act of 1970 (commonly referred to as the Bank Secrecy Act ("BSA")), 12 U.S.C. § 1829b, 12 U.S.C. §§ 1951-1959, and 31 U.S.C. §§ 5311-5330. HWM violated that rule when it failed to file any suspicious activity reports ("SARs") with respect to several large money transfers into and out of the brokerage account of Florian Homm ("Homm"), one of HWM's co-owners at the time, a large transfer of funds to a third party account at a Canadian bank by Colin Heatherington ("Heatherington"), as well as with respect to the wash trades described above. As HWM's compliance officer and the firm's anti-money laundering ("AML") compliance officer, Pagliarini was directly responsible for causing the firm to file SARs, yet she failed to do so with respect to any of Homm's suspect money transfers, the Heatherington transfer, or the wash trades.

Respondent

1. Pagliarini was the chief compliance officer and AML compliance officer of HWM from October 2004 through May 2008 and Ahn's supervisor during the relevant period. Ahn was a

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.

registered representative with HWM, a now defunct broker-dealer that had been registered with the Commission during the relevant period. Pagliarini, 39 years old, is a resident of Mission Viejo, California.

Other Relevant Individuals and Entities

2. Hunter World Markets, Inc. is a California corporation formerly based in Beverly Hills, California. During the relevant period, HWM conducted both a brokerage and investment banking business. HWM was registered as a broker-dealer with the Commission from March 1996 through November 30, 2009, when HWM's Form BDW, withdrawing its registration from the Commission as a broker-dealer, became effective.

3. Tony Ahn was associated with HWM as a registered representative and was its primary trader during the relevant period.

4. Florian Wilhelm Jurgen Homm was a co-owner and director of HWM during the relevant period. Homm was also the co-founder, the original chief investment officer and later the co-chief investment officer of Absolute Capital Management Holdings Limited ("ACMH"), a London-based hedge fund management company.

5. ACMH was organized under the laws of the Cayman Islands. It was quoted on the London Alternative Investment Market and was registered with the Commission as an investment adviser until September 10, 2007. During the relevant period, ACMH managed eight Cayman Islands-domiciled hedge funds (the "Absolute funds") that have subsequently either been liquidated or are now managed by a different fund management company. ACMH has no securities registered under the Exchange Act.

Background

6. During the relevant period, HWM and several individuals associated with the firm, including Ahn, manipulated upward the prices of several thinly traded microcap issuer stocks or maintained the prices of those stocks at artificially high levels. A variety of techniques were employed to manipulate the issuers' stock prices, including matched orders, marking the close, wash trades and purchases at artificially increasing prices. As a result of the manipulation, HWM's co-owners, as well as other individuals, reaped over \$65.5 million. During the course of the manipulation, Pagliarini served as HWM's chief compliance officer, with the responsibility to file SARs on HWM's behalf.

Pagliarini Failed Reasonably to Supervise Ahn

7. Pagliarini was directly responsible for supervising Ahn, HWM's primary trader. As part of her supervisory duties, Pagliarini reviewed and approved all order tickets generated from Ahn's trading activity. The firm's procedures required Pagliarini to follow up on suspicious

transactions, such as those where the customer engages in transactions that lack business sense, or exhibits a lack of concern regarding risks, commissions, or other transaction costs.

8. Pagliarini failed to follow up on the red flags presented by the wash transactions Ahn executed while at HWM. Specifically, Pagliarini never followed up on the wash transactions by obtaining any information on why they were being placed. The wash transactions, which effectively moved issuer stock between accounts held by the same Absolute fund, had no ostensible business purpose other than to either manipulate the price of the stock or to generate sales credits to HWM. By failing to follow-up on these suspect wash transactions, Pagliarini failed to prevent Ahn's securities law violations. Accordingly, Pagliarini failed reasonably to supervise Ahn.

HWM's Failure to File Suspicious Activity Reports

9. In April 2002, Congress passed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001. The Patriot Act amended provisions of the BSA and substantially expanded a broker-dealer's obligations to detect and prevent money laundering. The regulations implementing the BSA mandate that, effective December 31, 2002, broker-dealers report suspicious transactions by filing a SAR with the Financial Crimes Enforcement Network ("FinCEN") to report any transaction (or a pattern of transactions of which the transaction is a part) involving or aggregating to at least \$5,000 that it "knows, suspects, or has reason to suspect": (1) involves funds derived from illegal activity or is conducted to disguise funds derived from illegal activities; (2) is designed to evade any requirements of the BSA; (3) has 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) involves use of the broker-dealer to facilitate criminal activity. 31 C.F.R. § 103.19(a)(2).

10. Rule 17a-8 of the Exchange Act requires broker-dealers to comply with the recordkeeping, retention, and reporting obligations of the regulation under 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. Pagliarini was responsible for filing SARs on behalf of HWM.

11. The information available to HWM and Pagliarini should have indicated that the wash transactions executed by Ahn were suspicious and involved the type of conduct that should have caused Pagliarini to file SARs on behalf of HWM. However, HWM did not, and Pagliarini did not cause HWM to, file a SAR with respect to any of these wash transactions.

12. HWM also failed to file SARs with respect to certain suspicious cash transfers made into and out of Homm's brokerage account. Although Homm conducted only minimal securities trading in the account, large amounts of cash were routinely transferred into this account from HWM's operations account, and soon thereafter transferred to various bank accounts in Switzerland and overseas. In fact, HWM's clearing agent became concerned over certain transfers,

and sent HWM an anti-money laundering inquiry in May 2006 regarding the source of the funds in Homm's account. The clearing agent also inquired about the nature and purpose of the account. Pagliarini responded that HWM was comfortable with the source of the funds and business purpose of the account, even though the account conducted few actual trades.

13. HWM also failed to file a SAR with respect to a \$4 million wire transfer by Ficeto from Heatherington's CIC Global Capital, Ltd. account at HWM to a Canadian bank account in the name of a different company. This transfer was against HWM's policy to disallow wires from customer accounts to third parties. Although Pagliarini's concerns over the transfer were evidenced when she did not sign off on this transaction and required that the funds be returned, she did not file a SAR.

14. In light of these red flags, and given the potential that Homm was, in fact, laundering money through his account, these cash transfers were suspicious and Pagliarini should have caused HWM to have filed a SAR with respect to these transfers. Pagliarini knew of her obligation to assist HWM in fulfilling its requirements to file SARs, and knew, or was reckless in not knowing, that significant suspicious activity was not being reported by HWM as a result of her actions.

Violations

15. As a result of the conduct described above, Pagliarini failed reasonably to supervise Ahn with a view to preventing Ahn's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and aiding and abetting violations of Section 15(c)(1) of the Exchange Act through the execution of the wash transactions.

16. As a result of the conduct described above, Pagliarini willfully aided and abetted and caused HWM's violations of Section 17(a) of the Exchange Act and Rule 17a-8 thereunder through the failure to file SARs.

IV.

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

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

A. Respondent Pagliarini shall 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 Pagliarini be, and hereby is suspended from acting in a supervisory capacity with any broker or dealer for a period of twelve months, effective on the second Monday following the entry of the Order.

C. Respondent shall pay a civil money penalty in the amount of Twenty Thousand Dollars (\$20,000) to the United States Treasury. Payment shall be made in the following four installments: (a) Five Thousand Dollars (\$5,000) to be paid within twenty-one days of the entry of this Order; (b) Five Thousand Dollars (\$5,000) to be paid within six (6) months of the entry of this Order; (c) Five Thousand Dollars (\$5,000) to be paid within nine (9) months of the entry of this Order; and (d) a final payment of Five Thousand Dollars (\$5,000) to be paid within one year of the entry of this Order. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of civil penalties, plus any additional interest accrued pursuant to 31 U.S.C. 3717, shall be due and payable immediately, without further application. Payments shall be: (A) made by wire transfer, 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 Elizabeth Pagliarini 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 Michele Layne, Associate Regional Director, 5670 Wilshire Boulevard, 11th Floor, Los Angeles, California 90036.

By the Commission.

Elizabeth M. Murphy
Secretary

Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of the 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"), on the Respondent and her legal agent.

The attached Order has been sent to the following parties and other persons entitled to notice:

Honorable Brenda P. Murray
Chief Administrative Law Judge
Securities and Exchange Commission

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