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SEC Fines Ex-Broker for Retail Order Period Scheme.

A former broker has agreed to be barred from the industry and pay a \$40,000 penalty to settle Securities and Exchange Commission charges he dishonestly obtained new-issue bonds meant for retail customers, instead placing orders on behalf of broker-dealers.

The settled proceeding against Anthony Falsetta, announced Tuesday, is the latest in a string of SEC cases targeting violations of retail order periods. Some of that conduct has been labeled “flipping,” though that is not an official legal term, because of the practice of “flipping” the bonds to other broker-dealers at a profit. Falsetta did not admit nor deny the SEC’s findings.

“Between January 2016 and April 2018, Falsetta violated retail order period priority provisions in certain new-issue municipal bond offerings by placing orders for broker-dealers, who were attempting to buy bonds for their inventory, as retail customer orders,” the SEC found. “Falsetta did so despite knowing that pursuant to issuer priority rules, orders on behalf of broker-dealers do not qualify for retail priority.”

According to the SEC, Falsetta earned about \$122,353 in commissions on 106 retail allotments he sold to Hilltop and Wells Fargo (WFC) while acting as a broker at Philadelphia-based Drexel Hamilton. As an institutional sales representative, Falsetta marketed new-issue municipal bonds that Drexel Hamilton was offering.

The SEC found that Falsetta in January 2016 contacted Daniel Tracy, a Hilltop representative who was the subject of a separate SEC action in July, and invited him to submit orders for new-issue bonds. Falsetta had previously worked together with Tracy at a different firm, and Falsetta knew the orders would be for Hilltop’s inventory, the SEC said. Falsetta had a similar arrangement with an unnamed Wells Fargo (WFC) representative, the SEC found.

“Falsetta understood that the stock orders he received from Tracy and Trader A did not qualify for retail priority,” the SEC found. “Falsetta submitted these orders as retail to create the false appearance that they were submitted on behalf of an individual rather than on behalf of a broker-dealer.”

The SEC has been worried about this and similar conduct for several years now, in part because it risks crowding legitimate retail purchasers out of offerings. In perhaps the most significant of these cases, the SEC in 2018 charged two firms and 18 individuals with operating a wide-ranging scheme to circumvent retail order restrictions.

Further cases followed, some linked to that initial case. Last year Roosevelt & Cross Inc. and its CEO agreed to pay some \$1 million to settle the SEC’s charges linked to that flipping investigation.

The SEC said Falsetta took certain steps to conceal his activity, including delaying writing the sales tickets for the orders until the bonds were “free to trade.” This created the false appearance that the bonds were sold in the secondary market, the SEC alleged.

Falsetta's conduct violated the anti-fraud provisions of the securities laws, as well as Municipal Securities Rulemaking Board rules G-17 on fair dealing and G-11 on primary offering practices.

Falsetta signed a statement attesting to his inability to pay disgorgement, though under the terms of the settlement he will pay the \$40,000 civil penalty in installments. He can reapply to be eligible for a securities license after three years.

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