

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 101184 / September 25, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-22199

In the Matter of

**Investment Security
Corporation,**

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 Investment Security Corporation (“Investment Security” 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. This matter involves Investment Security's failure to file with the Commission and to deliver to retail investors a Form CRS that complies with the requirements of Rule 17a-14 under the Exchange Act. Among other things, Investment Security was required to disclose that it and its financial professionals had legal or disciplinary history when it filed its initial Form CRS on June 17, 2020, but failed to do so. Investment Security did not correct its Form CRS's legal or disciplinary history disclosure until August 30, 2023. As a result, Investment Security violated Section 17(a)(1) of the Exchange Act and Rule 17a-14 thereunder.

Respondent

2. Investment Security is incorporated in California with its principal place of business in Calabasas, California. Investment Security has been registered with the Commission as a broker-dealer pursuant to Section 15 of the Exchange Act since November 29, 1999. Investment Security offers services to retail investors.

Facts

3. On June 5, 2019, the Commission adopted Form CRS and rules creating new requirements for Commission-registered broker-dealers offering services to a retail investor.² See *Form CRS Relationship Summary; Amendments to Form ADV*, Exchange Act Release No. 86032, Advisers Act Release No. 5247 (June 5, 2019), 84 Fed. Reg. 33,492 (July 12, 2019) ("*Form CRS Adopting Release*").

4. *The Form CRS Filing Requirement.* Rule 17a-14 under the Exchange Act requires all Commission-registered broker-dealers offering services to a retail investor ("Retail BDs") to electronically file on the Central Registration Depository ("Web CRD") operated by the Financial Industry Regulatory Authority, Inc. ("FINRA") an initial Form CRS satisfying the requirements of Rule 17a-14 no later than June 30, 2020.

5. *The Form CRS Delivery Requirement.* Rule 17a-14(c) under the Exchange Act requires each Retail BD to deliver its current Form CRS to each retail investor. Rule 17a-14(c)(3)

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.

² For purposes of Form CRS, the term "retail investor" means "a natural person, or the legal representative of such natural person, who seeks to receive or receives services primarily for personal, family or household purposes." Rule 17a-14(e)(2) under the Exchange Act.

requires each Retail BD to post its current Form CRS prominently on its website, if it has one, in a location and format that is easily accessible to retail investors.

6. Rule 17a-14(b)(1) under the Exchange Act requires a Retail BD to prepare its Form CRS by following the instructions in the form. The Instructions to Form CRS identify specific information and language to be included in Form CRS. *See* Instructions to Form CRS (Sept. 2019). General Instruction 2.B. of Form CRS requires all the information in a Retail BD's Form CRS to be true and prohibits omission of any material facts necessary to make the disclosures required by the Instructions and applicable Item, in light of the circumstances under which they were made, not misleading.

7. Item 4 of the Instructions to Form CRS requires a Retail BD to disclose the legal or disciplinary history of the firm and its financial professionals. Specifically, the Retail BD must provide a "Yes" or "No" answer to the question "Do you or your financial professionals have legal or disciplinary history?" and direct the retail investor to visit Investor.gov/CRS for a free and simple search tool to research the Retail BD and its financial professionals. The Retail BD must answer "Yes" if it or any of its financial professionals currently disclose, or are required to disclose, (1) disciplinary history in Item 11 of Part 1A or Item 9 of Part 2A of Form ADV; (2) legal or disciplinary history in Items 11A–K of Form BD; or (3) disclosures in Items 14A–M on Form U4, Items 7A or 7C–F of Form U5, or on Form U6, except to the extent such information is not released to BrokerCheck pursuant to FINRA Rule 8312. *See* Instructions to Form CRS, Item Instructions, Item 4 (Sept. 2019); *see also Form CRS Adopting Release*, 84 Fed. Reg. at 33,537–38.

8. Investment Security did not disclose that it and its financial professionals had legal or disciplinary history as required by Rule 17a-14(b)(1). Investment Security filed and delivered its initial Form CRS on June 17, 2020. Therein, Investment Security responded "No" to the question "Do you or your financial professionals have legal or disciplinary history?" In fact, Investment Security did have disciplinary history disclosed in Item 11E of its Form BD. In addition, four of Investment Security's financial professionals had legal or disciplinary history disclosed on Items 14E, 14I, or 14J of Form U4. Certain of the financial professionals also had legal or disciplinary history disclosed on Form U5. Investment Security did not correct its Form CRS's legal or disciplinary history disclosure until August 2023, while it was undergoing an examination by the Commission's Division of Examinations. On or about August 30, 2023, Investment Security filed its updated Form CRS with the Commission and delivered the updated Form CRS to existing retail customers.

Violations

9. As a result of the conduct described above, Investment Security willfully³ violated Section 17(a)(1) of the Exchange Act and Rule 17a-14 thereunder.

³ "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*

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Investment Security'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)(1) of the Exchange Act and Rule 17a-14 thereunder.
- B. Respondent is censured.
- C. Respondent shall pay a civil money penalty in the amount of \$25,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Section 21F(g)(3) of the Exchange Act. Payment shall be made in the following installments: \$8,334 to be paid within 10 days of the entry of the Order; \$8,333 to be paid within 180 days of the entry of the Order; and the remaining balance to be paid within 300 days of the entry of the 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

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). The decision in *The Robare Group, Ltd. v. SEC*, which construed the term “willfully” for purposes of a differently structured statutory provision, does not alter that standard. 922 F.3d 468, 478–79 (D.C. Cir. 2019) (setting forth the showing required to establish that a person has “willfully omit[ted]” material information from a required disclosure in violation of Section 207 of the Advisers Act).

- (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 Investment Security 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 Stacy L. Bogert, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549 or such other person or address as the Commission staff may provide.

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.

By the Commission.

Vanessa A. Countryman
Secretary