

Title: Lek Securities (1 of the 6 firms charged the "excess capital premium charge" by the NSCC on 1/28/21) is Likely in Default with OCC... Data/Event Timings Indicate GME Shorts May Lie Within

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*Obligatory - My brain has taken much damage and abuse over the years. None of this information is considered to be financial advice, and I am not a financial advisor.

****TL;DR**** Lek Securities appears to be very close to default status with the OCC if they aren't already in default, and some data is indicating GME short positions may be the reason. The NSCC (effective 7/19/22) and DTC (effective 9/20/22) have both filed "Cease to Act" (CTA) decisions against Lek and the SEC upheld those decisions on 5/31/22. This decision terminates Lek's right to act as a self-clearing broker and states the NSCC and DTC will no longer do business with Lek. An SEC order denying Lek's stay on this decision also showed that Lek created a plan to attempt to meet margin requirements by borrowing funds from its unnamed customers to remain in compliance. Lek's [internet homepage](<https://www.leksecurities.com/>) states all OCC options may be closed on 7/20/22 should Lek's membership be suspended due to OCC rule, Chapter XI (Suspension of a Clearing Member).

From Year-end 2020 to Y/E 2021 Lek's assets decreased 29.97% (\$142.98M). How strange to take such a beating in a bull market.

Lek ran into some hot water by needing to post an excess capital premium charge on 1/28/21, along with Robbing-the-hood and 4 others. Coincidentally, During the November 2021 GME run, Lek failed to meet its NSCC mandated unsettled activity cap 6 times from November 1st - November 7th. The NSCC even approved a request by Lek to increase the activity cap from \$300M to \$400M on November 5th.

Lek also filed for termination status with several exchanges on 7/19/22.

Lek Securities

You may have seen a few posts or comments regarding Lek Securities in the past, especially considering they were 1 of 6 firms who incurred an Excess Capital Premium charge from the NSCC on 1/28/21 (the sneeze).

[From House Committee on Financial Services Game Stopped Report](<https://preview.redd.it/5d52hyl0raf91.jpg?width=720&format=pjpg&auto=webp&s=a1a89abd56e78c0c85bd0c9a73c0e09049467f52>)

You can read the report

[here.](<https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=409578>)

A couple of recent important notices from the NSCC ceasing to act (CTA) for Lek sprung my interests:

[In March, 2022 an NSCC/DTC hearing panel determined to uphold the decision of themselves to "cease to act" (CTA) for Lek. The NSCC made the CTA active effective 7/19/22. DTC will CTA for Lek on 9/20/22](<https://preview.redd.it/4bpbe2n2raf91.jpg?width=720&format=pjpg&auto=webp&s=3670723dec9cb9d562d82e00b52d4920d6a4fdc3>)

[DTCC Important Notices](<https://www.dtcc.com/legal/important-notices>)

OCC Chapter XI

So we probed deeper, and found this on Lek Securities' website homepage:

[Interesting, but I couldn't find any public record of the Ch. 11 occurring with the OCC yet](<https://preview.redd.it/dwtesn48raf91.jpg?width=790&format=pjpg&auto=webp&s=a2c0f639d04a0f7f5ebd3663b7b7a226aade40f7>)

<https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>

From the OCC's [Default Rules & Procedures](<https://www.theocc.com/risk-management/default-rules-and-procedures>):

<https://preview.redd.it/9qtd54rdraf91.jpg?width=1260&format=jpg&auto=webp&s=b2245a05ee9e0948b857ee0c5154f2f4d83267c3>

It appears LEK is either nearing the point or at the point where it is in default with the OCC. As we'll see below, the NSCC and DTC will no longer be doing business with Lek after the CTA's are active.

Financials

In the bull market that was 2021, LEK's financials show a reduction of \$142.98M in assets from Yearend 2020 – Y/E 2021 (29.97% reduction):

[Hmmm... How did they LOSE \$ in 2021?](<https://preview.redd.it/mbslJlmiraf91.jpg?width=720&format=jpg&auto=webp&s=853d0b98647acce9ead6d42c6febef6583a5d8fa>)

<https://www.leksecurities.com/financial-statements>

SEC Denies Lek's Stay

On May 31st, 2022 the SEC issued an interesting order ****denying**** LEK's appeal for a stay on the NSCC/DTC's determination to cease to act for Lek. Let's take a look at some details:

[As we saw in the DTCC Important Notices, the NSCC & DTC have decided to CTA for LEK, including an activity cap on Lek's trading](<https://preview.redd.it/raxq45ioraf91.jpg?width=844&format=jpg&auto=webp&s=fd5ada1721bf55b3c8be13fdc6750d2ec5f1ae4e>)

[The CTA will cause LEK to no longer operate as a self-clearing broker AND the Clearing Agencies will NO LONGER DO BUSINESS WITH LEK](<https://preview.redd.it/5rrgriltraf91.jpg?width=826&format=jpg&auto=webp&s=dab37fc50b34daec0a7847b27105c09fe05c7de3>)

[The CTA actually began on 10/26/21 and Lek has got some serious problems... Gotta watch that LEVEL OF RISK ACTIVITY and maybe not lie about it.](<https://preview.redd.it/qrgv0ioxraf91.jpg?width=840&format=jpg&auto=webp&s=fbb3a414b1027b651bb533f85b59327bd9ad5faf>)

[November? Violated the Activity Cap 6 Times? What Coincidental timing to run into issues during the Sneeze and the November GME run](<https://preview.redd.it/iftqmbf0saf91.jpg?width=720&format=jpg&auto=webp&s=cfc7af6fe2ef8d68501ebed2756e478a6a3f7176>)

[November GME Run - November 5 highlighted as that is the day the NSCC increased Lek's Activity Cap](<https://preview.redd.it/rmejip83saf91.jpg?width=1180&format=jpg&auto=webp&s=a6d2edef34ef5fde2472f89575442e0731d15fae>)

I'm going to keep going but with bullet points (and summarizations) from here on out. You can access the SEC Order here for additional information:

[SEC Opinions/Orders (Go to 5/31/22)](<https://www.sec.gov/litigation/opinions.htm>)

[Lek Securities Corporation NSCC & DTC (Order Denying Motion for a Stay and Scheduling Briefs) (PDF)](<https://www.sec.gov/litigation/opinions/2022/34-95014.pdf>)

* In early 2021, due to a rule change, margin requirements were increased for Lek. Lek also lost \$100M in bank lines of credit in 2021 and its bank credit was no longer able to meet its margin requirements.

* ****"Lek conceded that if it failed to satisfy its margin requirements even once it would be out of business."****

* **Lek tried to borrow money from its customers** ****"in an amount necessary to cover what \[Lek\] calculates to be the initial required margin on the trade"*** through a program they called "Lek Holdings Note Program."

* This was deemed not an acceptable way to post *minimum margin requirements*.

* Lek also did not disclose the names of their customers

* Lek's Required Fund Deposit was increased from \$20M to \$27M in November, 2021 (GME run).

* *The Decision found further that* ***Lek's CEO made "knowingly false" and "unequivocally. . . not accurate" representations about FINRA's statements regarding the Lek Holdings Note Program.***

* *The Decision found that since* ***Lek's customers engage in trading in illiquid*** ***and microcap*** ***securities****, "margin swings for \[Lek\] are even more likely to happen and be material."*

* \[Lek's\] *margin requirements have at times exceeded \$80 million.*

* *Lek, as of January 2021, it had only an \$8 million line of credit from one bank to use for posting margin at NSCC and after it lost that line of credit it established a \$10 million unsecured line of credit at another bank.*

* *The Decision recognized that the* ***Lek Holdings Note Program was initially set at \$50 million and then increased to \$100 million****. But the Decision observed that Lek Holdings did not appear to have sufficient assets to fund the program on its own and that* ***the ultimate source of the program's cash would come from Lek's customers or investors—none of whom were known to or vetted by NSCC.*** *The Decision thus found that the Lek Holdings Note Program was an unreliable source of funding regardless of the amount of money Lek sought to obtain through it.*

Reviewing [Lek's Broker Check Disclosure](<https://brokercheck.finra.org/firm/summary/33135>) we're able to see that Lek has also filed for termination from several exchanges:

<https://preview.redd.it/ggnb3w9bsaf91.jpg?width=532&format=jpg&auto=webp&s=a1def9d3b26fa74815984cb1d5f4d0c05461fdd7>

Long story short, Lek has been in trouble for quite some time, particularly around the sneeze and November run. It appears they are nearing default status with the OCC, if they are not already in default, due to failed obligations and the CTA decisions from the NSCC and DTC. The data and timing of certain events makes it plausible that this has occurred due to GME short positions.

Yes, Buy, Hodl, DRS

Tanks fo reedin