

## SEC Charges Manager with MNPI-Related Compliance Failures

June 2020

On May 26, 2020, the SEC issued an order against a large private equity sponsor for failing “to implement and enforce” compliance policies sufficient “to prevent the misuse of potentially material nonpublic information” obtained by holding a seat on a portfolio company’s board and being party to a loan agreement with that portfolio company.

The order found that the manager’s fund clients purchased approximately 17% of the portfolio company’s shares while in possession of “potentially material nonpublic information” without requiring its compliance personnel, “prior to approving the trades, to sufficiently inquire and document whether [the manager’s personnel] possessed material nonpublic information relating to the portfolio company.” The SEC found that this alleged omission violated Sections 204A and 206(4) of the Investment Advisers Act and Rule 206(4)-7, which collectively require registered investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder, as well as the sponsor’s compliance policies.

Given the important issues raised by this settlement, we will be hosting a webinar on this matter and the implications it raises in the near future.

# SchulteRoth&Zabel Private Funds Regulatory UPDATE

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