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Securities and Exchange Commission (SEC) Sanctions Three Investment Advisory Firms for Violating Custody Rule

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Article By Vedder Price
Investment Services Group
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On October 28, 2013, the SEC sanctioned **Further Lane Asset Management, LLC** (FLAM), GW & Wade, LLC (GW & Wade) and Knelman Asset Management Group, LLC (KAMG) for, among other violations, failing to maintain custody of their clients' funds and securities in accordance with Rule 206(4)-2 under the Advisers Act.

The SEC's order against FLAM found that FLAM maintained custody of the assets of the hedge funds it managed, but that FLAM failed to arrange for annual surprise examinations to verify the hedge funds' assets or for investors to receive quarterly account statements from the hedge funds' qualified custodian. FLAM agreed to pay $347,122 in disgorgement and prejudgment interest, and its chief executive officer agreed to pay a $150,000 civil monetary penalty and be suspended from the industry for one year. FLAM also agreed to undertake certain compliance-related actions, including retaining a compliance consultant.

The SEC's order against GW & Wade found that GW & Wade had custody of client assets that it could access and transfer to third parties, but that GW & Wade failed to obtain an examination by an independent public accountant and to identify such assets in its public disclosures. The SEC found that GW & Wade's policies and procedures for its custody arrangements were inadequate and contributed to a third-party's fraudulent withdrawal of $290,000 from one client's account. GW & Wade refunded the amount to the harmed client and agreed to pay a $250,000 civil monetary penalty. GW & Wade also agreed to undertake certain compliance-related actions, including retaining a compliance consultant.

The SEC's order against KAMG found that KAMG maintained custody of the assets of a fund of private equity funds it managed, but failed to arrange for annual surprise examinations to verify the fund's assets, or alternatively, to provide investors with audited financial statements for the fund. KAMG agreed to pay a $60,000 civil monetary penalty, and its chief executive officer (who also served as KAMG's chief compliance officer) agreed to pay a $75,000 civil monetary penalty and be barred from acting as a chief compliance officer for three years. KAMG also agreed to undertake certain compliance-related actions, including retaining a compliance consultant.