

MEMO# 3537

February 24, 1992

PERMANENT INJUNCTION ISSUED AGAINST CALIFORNIA ADVISER ALLEGED TO HAVE DEFRAUDED SMALL MUNICIPALITIES

February 24, 1992 TO: INVESTMENT ADVISER MEMBERS NO. 6-92 INVESTMENT ADVISER
ASSOCIATE MEMBERS NO. 5-92 RE: PERMANENT INJUNCTION ISSUED AGAINST CALIFORNIA
ADVISED ALLEGED TO HAVE DEFRAUDED SMALL MUNICIPALITIES

The U.S. District Court for Central California entered a judgment permanently enjoining an investment adviser from further violations of the federal securities laws. Without admitting or denying any of the SEC's allegation, the adviser consented to the entry of the Order. The SEC alleged that the adviser defrauded its clients, most of which were small municipalities, of approximately \$100 million. (See Memorandum to Investment Adviser Members No. 1-92 and Investment Adviser Associate Members No. 1-92, dated January 3, 1992.) A copy of the Order and the adviser's Consent are attached. The Order enjoins the adviser from further: (1) fraudulent conduct in violation of Section 17(a) of the Securities Act, Section 10(b) of the Securities Exchange Act and Rule 10b-5 thereunder, and Sections 206(1) and (2) of the Investment Advisers Act; (2) fraudulent principal transactions in violation of Rule 206(3) of the Advisers Act; (3) fraudulent custody of client funds and securities in violation of Section 206(4) of the Advisers Act and Rule 206(4)-2 there under; and (4) failure to maintain books and records in violation of Section 204 of the Advisers Act and Rule 204-2 thereunder. In addition, the adviser is required to pay any disgorgement and civil fines and/or penalties that the Court determines are payable. In a related criminal case, the adviser was indicted on January 2 by a federal grand jury on charges of securities fraud, mail fraud, money laundering and obstruction of justice. We will keep you informed of developments on this matter. Amy B.R. Lancellotta Associate General Counsel Attachments

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