

SEC Enforcement Case Summary Failure to Disclose Fee Increases to Clients

On September 5, 2024, the SEC charged Raskob Kambourian Financial Advisors, Ltd., a formerly registered investment adviser, with breaching its fiduciary duties by failing to disclose fee increases in financial planning and investment management fees to clients. Pursuant to the firm's advisory agreements, clients paid advisory fees calculated as a percentage of assets under management (AUM). Financial planning clients were charged separate flat fees for such services, as set forth in advisory agreements. Over time, the firm materially increased the percentage of AUM fees as well as the flat financial planning fee. In 2019, the firm reportedly implemented a "tiered" billing system which increased AUM fees for clients with more than \$1 million in AUM with fees charged at annualized rates that were 15 to 22 basis points higher than what were previously charged. The firm implemented additional fee increases in 2020 and 2021.

The SEC order notes that while the firm generated monthly billing summaries for clients that showed the fee calculation to be charged to the client's custodial account, the firm did not send these billing summaries to clients. The client simply received brokerage and custodian statements showing fees debited from the account as a single line item with no explanation as to how they were calculated.

The firm apparently updated Form ADV Part 2A (the Brochure) to reflect the updated fee schedules and in 2019, reported these changes in the summary of material changes. However, the firm did not deliver the Brochure to clients. Amendments to the Brochure in 2020 and 2021 included updates to the fee schedule but did not disclose these revisions in the summary of material changes, and the firm did not deliver the Brochure to clients. After a 2022 SEC examination, the firm did finally disclose in the summary of material changes that it had made changes to the Brochure over the years including changes to fees charged. However, the Brochure was not delivered timely to clients within 120 days of its fiscal year end.

The SEC charged the firm with multiple violations of the Investment Advisers Act of 1940, including: 1) breach of fiduciary duty under Section 206(2); 2) books and records failures under Rule 204-2; 3) failure to disclose material changes in Form ADV Part 2A and deliver such information to clients pursuant to Section 204(a) and Rule 204-3; and 4) failure to maintain effective compliance policies and procedures to prevent such violations pursuant to Rule 206(4)-7. The firm withdrew its registration as an investment adviser in 2023 and consented to a final judgement including disgorgement of over \$1.5 million in excess fees plus interest and a \$225,000 penalty.

See Summary - <https://www.sec.gov/enforcement-litigation/litigation-releases/lr-26097>