

## SEC Enforcement Case Summary Failure to Supervise Relying Advisers

On September 20, 2024, the SEC announced settled charges against Jordan/Zalaznick Advisers, Inc. (“JZAI”), the primary filing adviser for an umbrella registration with multiple relying advisers, for failing to implement compliance policies and procedures to supervise its relying advisers. A condition of umbrella registration is that every adviser under the “umbrella” operate under a single code of ethics and a unified compliance program administered by a single chief compliance officer (“CCO”). Each relying adviser, its employees, and persons acting on its behalf are subject to the filing adviser’s supervision and control.

According to the SEC order, some of JZAI’s relying advisers had foreign offices and operations, which likely made supervision of such relying advisers’ operations more challenging. The firm’s compliance policies and procedures required JZAI to conduct compliance training for supervised personnel generally and to coordinate training on JZAI’s code of ethics specifically. However, while JZAI apparently required annual certifications from supervised persons attesting that they had received, read and understood the firm’s compliance policies, the firm did not conduct annual compliance training for supervised persons employed by relying advisers.

Moreover, the compliance manual required JZAI to conduct 1) “spot-checks” of the books and records required to be maintained; and 2) periodic inspections of each adviser’s principal place of business. Such reviews were intended to identify potential conflicts of interest or other prohibited practices. However, while the SEC noted that JZAI compliance personnel reviewed various records and correspondence, the firm specifically did not conduct spot-checks of books and records of its relying advisers and did not conduct any inspections of the offices of relying advisers.

During an SEC examination, JZAI made staff of the Division of Examinations aware that it had recently identified potentially fraudulent conduct involving one of its relying advisers. Examiners identified various deficiencies in the firm’s compliance program as part of their examination. In response to the examination, JZAI took steps to remediate these deficiencies, including engaging an independent compliance consultant to conduct ongoing email monitoring and provide periodic employee compliance training. JZAI also hired an additional person to join its compliance team. The SEC acknowledged the firm’s remedial action in the enforcement order, nevertheless JZAI was ordered to pay a civil penalty of \$150,000.

This is a novel case that highlights the obligation of a primary filing adviser to adequately supervise the activities of its relying advisers. It also serves as an important reminder that advisers must ensure that they are doing what is stated in their policies and procedures. We encourage clients and their CCOs to make sure they are aware of all supervisory and review procedures that are noted in compliance manuals and ensure that such activities are calendared and conducted regularly, consistent with and at intervals proscribed by the relevant compliance policies and procedures.

**See Summary - <https://www.sec.gov/enforcement-litigation/administrative-proceedings/ia-6711-s>**