SEC Enforcement Case Summary
Artificial Intelligence (AI) Washing Case

On October 10, 2024, the SEC charged state-registered investment adviser, Rimar Capital, LLC ("***Rimar LLC***"), its parent Rimar Capital USA, Inc. ("***Rimar USA***"), the firm's CEO and sole employee, and a director and consultant, for making false and misleading statements about the use of artificial intelligence (***AI***) to perform automated trading for client accounts and other material misrepresentations. The parties agreed to settle the SEC's charges and pay $310,000 in total civil penalties. The SEC's Co-Chief of the Asset Management unit cautioned, "As AI becomes more popular in the investing space, we will continue to be vigilant and pursue those who lie about their firms' technological capabilities and engage in 'AI washing'."

According to its marketing materials, Rimar LLC purported to be an advisory firm with 54 clients that offers a range of automated trading strategies through its platform with strategies purportedly driven by the use of artificial intelligence. In an effort to develop the Rimar LLC platform, the CEO and consultant conducted an offering of Simple Agreements for Future Equity ("***SAFEs***") in Rimar USA. Pursuant to the SAFE offering terms, investors would get equity in Rimar USA in the event of any equity financing and would receive a share of proceeds upon a liquidity event, such as an initial public offering. Rimar USA raised $3.725 million from 45 investors. According to the pitch decks disseminated to some prospective investors in the SAFEs, the proceeds were intended to be used for "additional engineering," "compliance," development of an app, and sales and marketing of the adviser.

According to the SEC's order, Rimar LLC, the CEO and consultant made multiple false and misleading claims in pitch decks, online posts in a members-only investment group, and emails about the expansive technological operations of Rimar LLC. This included claims about an extensive infrastructure of coders and data processing capabilities, which were misleading given that they referred to the operations of certain overseas entities, in which neither Rimar USA nor Rimar LLC had any ownership interest and for which neither Rimar LLC nor its CEO provided any advisory services. The marketing materials and SAFE offering solicitation communications also repeatedly referred to Rimar LLC as having an artificial intelligence-driven platform for trading, among other products, stock and crypto assets. However, the firm had no trading application at all at the time of the fundraising and has never had a trading platform for stock or crypto assets.

The firm claimed that Rimar LLC's assets under management (***AUM***) were between $16 and $20 million, suggesting an established base of advisory clients, when in reality, the amount was much less. They further misrepresented that Rimar LLC was managing a "hedge fund," when in fact the only clients of the Rimar LLC at the time were separately managed accounts. The CEO and consultant made multiple misleading claims about the performance purportedly achieved by Rimar LLC's managed accounts which were reported net of all fees. In reality, the performance reported represented gross returns of the separate overseas entities that were advisory clients of Rimar LLC and one priority account, not the performance of any client accounts. The CEO was further charged with using proceeds from the SAFE offering for personal purposes.

The case represents an egregious fraud against investors in the SAFE offering. However, it also highlights the SEC's emphasis on material misstatements regarding the use of AI, a practice referred to as "AI washing," as a relevant focus area for enforcement investigations.

See Summary – https://www.sec.gov/newsroom/press-releases/2024-167

