

SEC Enforcement Case Summary

Chief Compliance Officer Charged in Connection with Coverup of Illegal Securities Offering

The role of Chief Compliance Officer (**CCO**) carries with it a level of liability that causes many to be reluctant to bear that title in fear that they will be named in an enforcement action. In reality, the Securities and Exchange Commission (**SEC**) does not routinely bring enforcement actions against CCOs. However, on occasion, CCOs are named in enforcement actions, and when they are, those cases can be instructive as to what activities, behaviors or failures on the part of the CCO caused them to be targeted.

On January 17, 2025, the SEC announced charges against three formerly dually registered personnel (the **registered representatives**) with Arete Wealth Management LLC, a broker-dealer, and Arete Wealth Advisors LLC, an affiliated investment adviser (together **Arete**), for fraud, registration violations, and aiding and abetting recordkeeping violations. The SEC also charged the firm's CCO and General Counsel, UnBo (**Bob**) Chung, with various violations of the federal securities laws related to a coverup of the registered representatives' allegedly fraudulent conduct and other compliance failures.

The charges stem from a prior 2021 case involving a scheme to defraud investors through a sham oil-and-gas company. The SEC's complaint alleged that the registered representatives sold shares in the sham company to many of their clients and customers without approval by the firm, and tried to hide the sales by communicating through means not subject to surveillance by Arete, such as personal phones and email. According to the SEC's complaint, after Chung and Arete management learned that many clients had invested in the sham oil and gas company, Chung and Arete ordered the three registered representatives to obtain settlement agreements releasing the Arete entities and their management from liability relating to the investment. However, the settlement agreements, which were ultimately signed by more than 100 Arete clients, allegedly contained false and misleading statements as well as an illegal broad liability disclaimer that could lead a client to incorrectly believe that the client had waived non-waivable causes of action against the adviser, thereby further victimizing already defrauded investors.

The SEC claimed that Chung knew (or at least recklessly or negligently disregarded) that the releases falsely claimed that the investors understood that the registered representatives had not recommended investments in the sham company and that the registered representatives were not acting as financial advisers when doing so. While the releases disclosed that the registered representatives had purchased shares in the sham company at a discount, they misleadingly failed to disclose that they had received these shares in return for raising millions of dollars for the company.

The SEC order noted that Arete, through Chung, failed to maintain adequate compliance policies and procedures and failed to conduct required annual reviews of the firm's compliance policies for almost four years after SEC staff had warned Chung of these deficiencies in the firm's compliance program. And many employees of the adviser, including its CEO and the registered representatives, used their personal phones to communicate about firm business without retaining these messages in violation of recordkeeping provisions of the federal securities laws.

Chung was charged with aiding and abetting the registered representatives' fraud charges and the adviser's compliance rule violations. CCOs clearly should expect that they may be charged when they themselves engage in the illegal activities and when they willfully coverup securities law violations. They may also be charged when they negligently overlook fraudulent activities or fail to properly execute a compliance program as required under Rule 206(4)-7, particularly after having been admonished by SEC

examiners. In instances where securities law violations occur but the CCO was not complicit in the activities and was actively fulfilling his/her role in administering the compliance program, the CCO likely will not be targeted as the SEC continues to view CCOs as their advocates within firms to compel and enforce compliance.

See SEC Summary - <https://www.sec.gov/newsroom/press-releases/2025-27>