

1 DANIEL O. BLAU (Cal. Bar No. 305008)  
Email: blaud@sec.gov  
2 M. LANCE JASPER (Cal. Bar No. 244516)  
Email: jasperml@sec.gov  
3 AMY JANE LONGO (Cal. Bar No. 198304)  
Email; longoa@sec.gov

4 Attorneys for Plaintiff  
5 Securities and Exchange Commission  
Michele Wein Layne, Regional Director  
6 Alka N. Patel, Associate Regional Director  
Amy Jane Longo, Regional Trial Counsel  
7 444 S. Flower Street, Suite 900  
Los Angeles, California 90071  
8 Telephone: (323) 965-3998  
Facsimile: (213) 443-1904

9  
10 **IN THE UNITED STATES DISTRICT COURT**  
11 **FOR THE DISTRICT OF ARIZONA**

12 Securities and Exchange Commission,  
13 Plaintiff,  
14 vs.  
15 Arthur S. Hoffman,  
16 Defendant.  
17

Case No.  
**COMPLAINT**

18  
19 Plaintiff Securities and Exchange Commission (“SEC”) alleges:

20 **JURISDICTION AND VENUE**

21 1. The Court has jurisdiction over this action pursuant to Sections 209(d),  
22 209(e)(1) and 214 of the Investment Advisers Act of 1940 (“Advisers Act”) [15 U.S.C.  
23 §§ 80b-9(d), 80b-9(e)(1) & 90b-14]; Sections 20 and 22 of the Securities Act of 1933  
24 (“Securities Act”) [15 U.S.C. §§ 77t, 77v]; and Sections 21(d)(1), 21(d)(3)(A), 21(e) and  
25 27(a) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d)(1),  
26 78u(d)(3)(A), 78u(e) & 78aa(a)].

27 2. Defendant has, directly or indirectly, made use of the means or  
28

1 instrumentalities of interstate commerce, of the mails, or of the facilities of a national  
2 securities exchange in connection with the transactions, acts, practices and courses of  
3 business alleged in this complaint.

4 3. Venue is proper in this district pursuant to Section 214 of the Advisers Act,  
5 15 U.S.C. § 90b-14]; Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)]; and  
6 Section 27(a) of the Exchange Act [15 U.S.C. § 78aa(a)], because certain of the  
7 transactions, acts, practices and courses of conduct constituting violations of the federal  
8 securities laws occurred within this district. In addition, venue is proper in this district  
9 because Defendant Arthur Hoffman resides in this district.

10 **SUMMARY**

11 4. This matter involves an investment adviser who, in violation of his  
12 fiduciary duties, deceived his clients about his financial conflicts of interest and  
13 perpetuated this deception by taking steps to conceal his misconduct from the SEC-  
14 registered investment adviser with whom he was associated. From May 2019 to  
15 December 2019, while working as an investment adviser representative of Ameriprise  
16 Financial Services, LLC, Hoffman recommended that eight of his investment adviser  
17 clients invest in securities issued by a private issuer without disclosing that the issuer had  
18 agreed to lend him up to \$1.5 million at a below-market interest rate in return for his  
19 efforts to solicit investors and that, in most cases, Hoffman already owed the private  
20 issuer tens of thousands of dollars under that agreement (and ultimately borrowed at least  
21 \$170,000). Hoffman also engaged in extensive efforts to conceal his recommendations  
22 from Ameriprise and thwart its efforts to supervise his conduct with clients. In total,  
23 eight of Hoffman's clients invested more than \$640,000 with the private issuer. Six of  
24 them lost a total of more than \$610,000 when the private issuer's principals were arrested  
25 and charged by the criminal authorities, effectively ending the issuer's operations.

26 5. By this conduct, Hoffman violated Sections 206(1) and (2) of the Advisers  
27 Act; Section 17(a) of the Securities Act; and Section 10(b) of the Exchange Act and Rule  
28 10b-5 thereunder.



1 in digital assets by its affiliated entity, Zima Digital Assets, LLC (collectively,  
2 “Zima”). Zima Global and its securities offering are not registered with the  
3 Commission. Zima’s principals were arrested and charged with conspiracy to  
4 commit wire fraud and money laundering on January 30, 2020  
5 ([https://www.justice.gov/usao-az/pr/two-arrested-connection-cryptocurrency-investment-](https://www.justice.gov/usao-az/pr/two-arrested-connection-cryptocurrency-investment-fund)  
6 [fund](https://www.justice.gov/usao-az/pr/two-arrested-connection-cryptocurrency-investment-fund)).

### 7 THE ALLEGATIONS

8 11. Ameriprise Financial Services, LLC (“Ameriprise”) is an investment  
9 adviser registered with the SEC.

10 12. Hoffman joined Ameriprise as a registered broker-dealer representative and  
11 investment adviser representative in 2016. Hoffman’s clients paid an annual fee to  
12 Ameriprise, and Hoffman received a significant percentage of those fees as  
13 compensation. Hoffman was his clients’ main point of contact at Ameriprise and the  
14 only person at Ameriprise who provided them with investment advice.

#### 15 **A. Zima’s Securities Offering**

16 13. In approximately March 2019, Zima began offering up to \$25 million in  
17 membership units for the stated purpose of pooling investor funds for Zima to trade  
18 cryptocurrencies and other digital assets (the “Membership Units”). The offering  
19 materials provided for distributions to investors on a *pro rata* basis, starting in December  
20 2020, in two phases: first, with the return of initial investments plus profits equal to  
21 twenty percent per year, and second, with a split between investors and Zima’s principals  
22 of any additional profits from Zima’s trading activities. Purchasers of the Membership  
23 Units expected their funds to be pooled with other investors’ funds for Zima’s trading  
24 activities. They had no right to participate in Zima’s management or operations and  
25 expected all profits to be generated from Zima’s trading of digital assets.

#### 26 **B. Hoffman’s Compensation for Soliciting Clients**

27 14. In May 2019, Zima agreed to extend low-interest, unsecured loans to  
28 Hoffman in return for Hoffman’s efforts to solicit his clients to purchase the Membership

1 Units. Specifically, Zima agreed to lend Hoffman up to \$1.5 million at two percent  
2 interest per year with repayment due in five years (the “Lending Agreement”).

3 15. From May 2019 to December 2019, eight of Hoffman’s clients invested  
4 more than \$640,000 in Membership Units in ten transactions, and Hoffman received at  
5 least \$170,000 in loans from Zima. Hoffman’s receipt of those loans coincided with  
6 investments made by his clients in the Membership Units.

7 **C. Hoffman’s Deceptive Solicitation of Clients**

8 16. Hoffman solicited his clients to invest in the Membership Units through  
9 emails, text messages and telephone calls.

10 17. Hoffman provided clients with offering materials concerning the  
11 Membership Units and helped clients understand the terms of Zima’s offering. He  
12 recommended Zima’s securities to clients as an opportunity for high returns.

13 18. When recommending the Membership Units to clients, Hoffman failed to  
14 disclose the Lending Agreement and, over time, the fact that he owed Zima tens of  
15 thousands of dollars. Hoffman also did not disclose the resulting conflicts of interest  
16 created by the Lending Agreement.

17 19. For example, Hoffman solicited two of his Ameriprise clients to invest in  
18 the Membership Units via email and text messages from approximately April 2019  
19 through the middle of December 2019. During that period, Hoffman described the  
20 Membership Units to those clients as an investment that could be highly profitable. In  
21 late April 2019, Hoffman emailed the clients a Confidential Private Placement  
22 Memorandum concerning the Membership Units. In early November 2019, Hoffman  
23 sent the clients a text message stating that Zima was offering to guarantee 18.5% returns  
24 for the first year on new investments. During that time, Hoffman did not disclose the  
25 Lending Agreement, his borrowing from Zima, or his resulting conflicts of interest to  
26 those clients. Those clients invested approximately \$135,000 in the Membership Units  
27 based on Hoffman’s recommendations, including in May and December of 2019.

28 20. From approximately May 2019 through approximately August 2019,

1 Hoffman solicited two other Ameriprise clients to invest in the Membership Units.  
2 Hoffman communicated with those clients via email and text messages, and consistently  
3 described the Membership Units as a great investment opportunity for them. In  
4 approximately August 2019, one of those clients asked Hoffman if he received any  
5 compensation from Zima for recommending the Membership Units, and Hoffman replied  
6 that he was limited to receiving a one-percent commission because he recommended the  
7 Membership Units to clients in his capacity as an Ameriprise adviser. This explanation  
8 was false and misleading because Ameriprise's policies and procedures prohibited  
9 Hoffman from recommending the Membership Units to clients, which Hoffman knew at  
10 the time. It was also false and misleading because Hoffman's true compensation was  
11 low-interest loans from Zima that ultimately totaled more than twenty-five percent of  
12 what his clients invested in the Membership Units. Those clients subsequently invested  
13 more than \$350,000 in the Membership Units.

14 21. Hoffman perpetuated his deception of clients by hiding his activities from  
15 Ameriprise's compliance department, including by using a non-Ameriprise email account  
16 to communicate with clients about the Membership Units, submitting false and  
17 misleading information to Ameriprise concerning his outside business activities, and  
18 submitting false explanations to Ameriprise concerning wire transfers from his clients'  
19 accounts to Zima.

20 22. In one instance, when Hoffman learned that Ameriprise planned to contact  
21 two of his clients to ask them about wire transfers from their accounts to Zima, Hoffman  
22 persuaded the clients not to tell Ameriprise that he solicited their investments, even  
23 though the clients learned about the possibility of investing with Zima from Hoffman,  
24 and Hoffman had recommended that they invest in Zima's securities over the preceding  
25 six months.

26 23. By using a non-Ameriprise email account to communicate with his clients,  
27 Hoffman also violated Ameriprise's policies and procedures concerning communications  
28 with clients.

1           24.    Zima collapsed in January 2020 when its principals were arrested for  
2 defrauding investors, leaving Hoffman’s clients with more than \$610,000 in unreturned  
3 principal.

4           25.    Ameriprise terminated Hoffman on May 13, 2020.

5 **D.    Hoffman’s Scienter and the Materiality of his False Statements**

6           26.    During all relevant times, Hoffman acted with scienter.

7           27.    When soliciting clients to invest in the Membership Units, Hoffman  
8 knowingly or recklessly failed to disclose the Lending Agreement, his borrowing from  
9 Zima, and the resulting conflicts of interest.

10          28.    Hoffman knowingly or recklessly told one client that, because he  
11 recommended the Membership Units in his capacity as an Ameriprise adviser, he  
12 received only a one-percent commission for recommending those securities.

13          29.    Hoffman knowingly or recklessly hid his Zima-related activities from  
14 Ameriprise, including by using a non-Ameriprise email account to communicate with  
15 clients about Zima, and, during the time he solicited clients to invest in the Membership  
16 Units, he knowingly or recklessly provided false information to Ameriprise about his  
17 outside business activities and wire transfers from clients to Zima.

18          30.    Hoffman knowingly or recklessly persuaded two clients not to tell  
19 Ameriprise that he recommended the Membership Units to them.

20          31.    In addition, Hoffman failed to exercise reasonable care by failing to  
21 disclose material financial conflicts of interest to clients and, in one instance, by  
22 misrepresenting the compensation he received from Zima.

23          32.    Hoffman’s fraudulent acts were material because they concerned financial  
24 conflicts of interest and hid his involvement in recommending securities to Ameriprise  
25 clients that he was not permitted by Ameriprise to recommend. The amount and terms of  
26 Hoffman’s compensation from Zima would also have been important to a reasonable  
27 client.

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1 **E. Hoffman's Role as an Investment Adviser**

2 33. At all relevant times, Ameriprise was registered as an investment adviser  
3 with the SEC.

4 34. While associated with Ameriprise, Hoffman provided investment advice to  
5 clients and received compensation in connection with that service, including a significant  
6 percentage of the fees his clients paid to Ameriprise. Hoffman was the only person at  
7 Ameriprise who gave his clients investment advice.

8 35. As an investment adviser, Hoffman owed his clients a fiduciary duty and  
9 was prohibited from making untrue statements of material fact or from omitting to state  
10 material facts necessary to make his statements not misleading. Hoffman violated these  
11 obligations by committing the acts alleged in this Complaint.

12 **FIRST CLAIM FOR RELIEF**

13 **Fraud by an Investment Adviser**

14 **Violations of Sections 206(1) and 206(2) of the Advisers Act**

15 **(against Defendant)**

16 36. The SEC realleges and incorporates by reference paragraphs 1 through 35  
17 above.

18 37. Defendant Hoffman breached his fiduciary to and defrauded his advisory  
19 clients by soliciting investments in the Membership Units without disclosing his financial  
20 conflicts of interest and, in one instance, by misrepresenting the compensation he  
21 received from Zima and falsely claiming that it was limited by his role as an Ameriprise  
22 adviser.

23 38. Hoffman also defrauded his advisory clients by hiding his Zima-related  
24 activities from Ameriprise and thereby preventing Ameriprise from halting his activity of  
25 recommending securities to clients that were not permitted by Ameriprise's policies and  
26 procedures, including by using an email address outside of Ameriprise's supervision to  
27 communicate with clients about Zima, providing false and misleading information to  
28 Ameriprise about his outside business activities, providing false and misleading

1 information to Ameriprise about wire transfers from clients to Zima, and persuading two  
2 clients not to discuss his involvement in recommending the Membership Units when  
3 Ameriprise contacted those clients about their wire transfers.

4 39. By engaging in the conduct described above, Hoffman, directly or  
5 indirectly, by use of the mails or means and instrumentalities of interstate commerce  
6 employed or is employing devices, schemes or artifices to defraud clients or prospective  
7 clients, and engaged in or is engaging in transactions, practices, or courses of business  
8 which operated as a fraud or deceit upon clients or prospective clients.

9 40. Hoffman, with scienter, employed devices, schemes or artifices to defraud  
10 clients or prospective clients; and with scienter or negligence, engaged in transactions,  
11 practices, or courses of business which operated as a fraud or deceit upon clients or  
12 prospective clients.

13 41. By engaging in the conduct described above, Hoffman has violated, and  
14 unless restrained and enjoined, is reasonably likely to continue to violate, Sections 206(1)  
15 and (2) of the Advisers Act, 15 U.S.C. §§ 80b-6(1) & 80b-6(2).

16 **SECOND CLAIM FOR RELIEF**

17 **Fraud in the Offer or Sale of Securities**

18 **Violations of Section 17(a) of the Securities Act**

19 **(against Defendant)**

20 42. The SEC realleges and incorporates by reference paragraphs 1 through 35  
21 above.

22 43. In the offer or sale of securities, Hoffman made materially false and  
23 misleading statements to prospective and/or actual investors by soliciting investments in  
24 the Membership Units without disclosing his financial conflicts of interest and, in one  
25 instance, by misrepresenting the compensation he received from Zima and falsely  
26 claiming that it was limited by his role as an Ameriprise adviser.

27 44. In addition, Hoffman engaged in a scheme to defraud whereby he hid his  
28 Zima-related activities from Ameriprise by using an email address outside of

1 Ameriprise's supervision to communicate with clients about Zima, providing false and  
2 misleading information to Ameriprise about his outside business activities, providing  
3 false and misleading information to Ameriprise about wire transfers from clients to Zima,  
4 and persuading two clients not to discuss his involvement in recommending the  
5 Membership Units when Ameriprise contacted those clients about their wire transfers.

6 45. By engaging in the conduct described above, Hoffman, directly or  
7 indirectly, in the offer or sale of securities, by use of the means or instruments of  
8 transportation or communication in interstate commerce or by use of the mails  
9 (a) employed devices, schemes, or artifices to defraud; (b) obtained money or property by  
10 means of untrue statements of a material fact or by omitting to state a material fact  
11 necessary in order to make the statements made, in light of the circumstances under  
12 which they were made, not misleading; and (c) engaged in transactions, practices, or  
13 courses of business which operated or would operate as a fraud or deceit upon the  
14 purchaser.

15 46. Hoffman, with scienter, employed devices, schemes, or artifices to defraud;  
16 and Hoffman, with scienter or negligence, obtained money or property by means of  
17 untrue statements of a material fact or by omitting to state a material fact necessary in  
18 order to make the statements made, in light of the circumstances under which they were  
19 made, not misleading; and Hoffman, with scienter or negligence, engaged in transactions,  
20 practices, or courses of business which operated or would operate as a fraud or deceit  
21 upon the purchaser.

22 47. By reason of the foregoing, Hoffman has violated, and unless restrained  
23 and enjoined will continue to violate, Sections 17(a) of the Securities Act [15 U.S.C. §  
24 77q(a)].

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**THIRD CLAIM FOR RELIEF**

**Fraud in the Connection with the Purchase and Sale of Securities**

**Violations of Section 10(b) of the Exchange Act and Rule 10b-5**

**(against Defendant)**

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5 48. The SEC realleges and incorporates by reference paragraphs 1 through 35  
6 above.

7 49. In connection with the purchase or sale of securities, Defendant Hoffman  
8 made materially false and misleading statements to prospective and/or actual investors by  
9 soliciting investments in the Membership Units without disclosing his financial conflicts  
10 of interest and, in one instance, by misrepresenting the compensation he received from  
11 Zima and falsely claiming that it was limited by his role as an Ameriprise adviser.

12 50. In addition, Hoffman engaged in a scheme to defraud whereby he hid his  
13 Zima-related activities from Ameriprise by using an email address outside of  
14 Ameriprise's supervision to communicate with clients about Zima, providing false and  
15 misleading information to Ameriprise about his outside business activities, providing  
16 false and misleading information to Ameriprise about wire transfers from clients to Zima,  
17 and persuading two clients not to discuss his involvement in recommending the  
18 Membership Units when Ameriprise contacted those clients about their wire transfers.

19 51. By engaging in the conduct described above, Defendant Hoffman, directly  
20 or indirectly, in connection with the purchase or sale of a security, by the use of means or  
21 instrumentalities of interstate commerce, of the mails, or of the facilities of a national  
22 securities exchange: (a) employed devices, schemes, or artifices to defraud; (b) made  
23 untrue statements of a material fact or omitted to state a material fact necessary in order  
24 to make the statements made, in the light of the circumstances under which they were  
25 made, not misleading; and (c) engaged in acts, practices, or courses of business which  
26 operated or would operate as a fraud or deceit upon other persons.

27 52. By engaging in the conduct described above, Defendant Hoffman violated,  
28 and unless restrained and enjoined will continue to violate, Section 10(b) of the Exchange

1 Act, 15 U.S.C. § 78j(b), and Rules 10b-5(a), 10b-5(b), and 10b-5(c) thereunder, 17  
2 C.F.R. §§ 240.10b-5(a), 240.10b-5(b) & 240.10b-5(c).

3 **PRAYER FOR RELIEF**

4 WHEREFORE, the SEC respectfully requests that the Court:

5 **I.**

6 Issue findings of fact and conclusions of law that Defendant Hoffman committed  
7 the alleged violations.

8 **II.**

9 Issue judgments, in forms consistent with Rule 65(d) of the Federal Rules of Civil  
10 Procedure, permanently enjoining Defendant Hoffman, and his officers, agents, servants,  
11 employees and attorneys, and those persons in active concert or participation with any of  
12 them, who receive actual notice of the judgment by personal service or otherwise, and  
13 each of them, from violating Sections 206(1)-(2) of the Advisers Act [15 U.S.C. §§ 80b-  
14 6(1) & 80b-6(2)]; Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)(1)-(3)]; and  
15 Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)], and Rule 10b-5 thereunder [17  
16 C.F.R. § 240.10b-5].

17 **III.**

18 Order Defendant Hoffman to disgorge all funds received from his illegal conduct,  
19 together with prejudgment interest thereon, pursuant to Exchange Act Sections 21(d)(5)  
20 and 21(d)(7) [15 U.S.C. §§ 78u(d)(5) and 78u(d)(7)].

21 **IV.**

22 Order Defendant Hoffman to pay civil penalties under Section 209(e) of the  
23 Advisers Act [15 U.S.C. §80b-9(e)]; Section 20(d) of the Securities Act [15 U.S.C. §  
24 77t(d)]; and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)].

25 **V.**

26 Retain jurisdiction of this action in accordance with the principles of equity and  
27 the Federal Rules of Civil Procedure in order to implement and carry out the terms of all  
28 orders and decrees that may be entered, or to entertain any suitable application or motion

1 for additional relief within the jurisdiction of this Court.

2 **VI.**

3 Grant such other and further relief as this Court may determine to be just and  
4 necessary.

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6 Dated: February 24, 2022

7 */s/ Daniel O. Blau*

8 Daniel O. Blau

9 M. Lance Jasper

10 Amy Jane Longo

11 Attorneys for Plaintiff

12 Securities and Exchange Commission  
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