UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 6948 / February 25, 2026

ADMINISTRATIVE PROCEEDING
File No. 3-22599

In the Matter of **MADISON CAPITAL FUNDING LLC,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 203(e) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act") against Madison Capital Funding LLC ("Respondent" or "Madison Capital").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-And-Desist Proceedings, Pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-And-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

Summary

1. From March 2020 to May 2020 (the "Relevant Period"), Madison Capital, which at the time was an investment adviser registered with the Commission, priced principal trades with pooled investment vehicles ("Funds") it advised without reasonably determining whether those trades were at fair market value, contrary to Madison Capital's obligations under its advisory agreements and representations to investors. Madison Capital, using funds from its parent company, originated certain senior loans for private equity sponsors acquiring lower-middle market companies and sold portions of those loans to the Funds, typically after holding them for thirty to sixty days. The Funds' advisory agreements and disclosures to investors stated that Madison Capital would sell the loans to the Funds at "fair value" or "fair market value" after an independent review agent provided consent to the sales on behalf of the Funds. Madison Capital's practice was to use the par value less the unamortized loan fee as the fair market value and sale price of these recently originated loans. Yet, between March 2020 and May 2020, at the start of the coronavirus pandemic, during a period of disruption in U.S. financial markets, Madison Capital continued to sell performing loans it originated before the market disruption at par value less the unamortized loan fee and failed to determine the effect of the market disruption on the fair market value of those loans. As a result, Madison Capital breached its fiduciary duty to the Funds and failed to act in accordance with the disclosures to investors.

Respondent

2. Madison Capital Funding LLC was incorporated in Delaware in 2001 with a principal place of business in Chicago, Illinois. During the Relevant Period, Respondent was a wholly-owned subsidiary of a large life insurance company. Madison Capital registered with the Commission as an investment adviser in 2012 and maintained that registration through the Relevant Period. As of its Form ADV filed in May 2020, Madison Capital had approximately $3.7 billion in regulatory assets under management.

Madison Capital's Loan Origination Business

3. Madison Capital offered lending to companies being acquired by private equity firms, primarily to help them purchase middle-market companies through leveraged buyouts. The sponsors would provide equity financing and Madison Capital would provide senior debt financing to facilitate the buyout.

4. Madison Capital would sell portions of the loans it originated to private funds, including the Funds. Madison Capital set up and organized the Funds for institutional investors, such as banks, insurance companies, family offices, and other asset managers, and provided advisory services to each of the Funds. As a general matter, Madison Capital retained approximately 40-50% of the underlying loan, and the remaining portions of each loan were

allocated to the Funds in accordance with Madison Capital's Investment Practices and Allocation Policy.

5. As outlined in the Funds' private placement memoranda ("PPMs"), the loans Madison Capital made and sold to the Funds were subject to credit risk, referring to the likelihood that the borrower would default, and interest rate risk associated with market changes in interest rates.

6. As part of its loan origination process, Madison Capital deal teams conducted due diligence into the underlying companies and presented the findings to its internal Investment Committee for approval. The deal teams conducted initial due diligence on a prospective borrower's operations and financial performance prior to proposing potential deals to the Investment Committee. If the Investment Committee agreed to move forward with a prospective deal, the deal team would then conduct additional due diligence on the company before presenting an underwriting memorandum for final approval by the Investment Committee. If Madison Capital's Investment Committee approved a deal after the further due diligence by Madison Capital's deal team, Madison Capital closed the deal and provided the senior debt financing as part of the private equity sponsor's leveraged buyout of the underlying company.

7. After closing, Madison Capital typically held the loans on its books for thirty to sixty days before selling portions of those loans to the Funds. This was done for several reasons, including to comply with tax regulations for offshore investors, or because the Funds did not have enough liquidity at the time to purchase the loans.

Madison Capital's Internal Credit Rating System

8. Madison Capital assigned each loan it underwrote an internal credit rating ranging from "A" to "F," which helped Madison Capital monitor the overall portfolio based on the performance of the underlying assets. Madison Capital would originate only loans that received a "B" credit rating, meaning that Madison Capital deemed the underlying company a stable and performing business. To the extent a business significantly outperformed projections or its debt declined meaningfully, Madison Capital could upgrade the credit rating of that loan to "A" or "B+." Conversely, if a business underperformed in one of several different ways, Madison Capital would downgrade the credit rating to a "C+" or lower, pursuant to its Loan Rating System. For example, a loan could be downgraded to a "C+" if there were potential disruptions to the industry but there had been no issues with payment. A loan would be downgraded to a "C" for a covenant default, a "D" if there were continuing covenant violations or liquidity concerns, an "E" for not meeting payment obligations, and an "F" if the loan required a write-off. Madison Capital viewed loans rated "D" or below as impaired. Madison Capital sold loans to the Funds only if the loans were rated "B" or above at the time of the proposed sale. Madison Capital performed final credit checks on the day before a scheduled sale by asking the credit team whether there were any downgrades or anticipated downgrades of the loans scheduled to be sold. Provided that there were

no downgrades or anticipated downgrades, the loans were then sold to the Funds based on Madison Capital's allocation policy.

Madison Capital's Principal Trade Process and Pricing

9. Madison Capital's sales to the Funds were principal transactions subject to Section 206(3) of the Advisers Act, which requires, among other things, an adviser acting as principal in a transaction with a client to disclose to such client in writing before the completion of such transaction the capacity in which the adviser is acting, and to obtain the consent of the client. To comply with Section 206(3) of the Advisers Act, each Fund contracted with a third-party agent to serve as an independent review party ("Funds' Review Agent"). The Funds' Review Agent was responsible for reviewing the proposed transactions and providing consent to the sales on behalf of the Funds.

10. Madison Capital's advisory agreements with the Funds required that all transactions between Madison Capital and the Funds be "no less favorable to [the Funds] as the terms [they] would obtain in a comparable arm's length transaction with a non-Affiliate." The advisory agreements further provided that Madison Capital would make principal transactions at "fair value as reasonably determined by Madison Capital without any third-party valuation." The Funds' PPMs also included disclosures that the purchase price paid by the Funds for loans acquired from Madison Capital would be "an amount equal to the fair market value thereof as reasonably determined by [Madison Capital], consistent with applicable law and without third-party valuation."

11. Madison Capital's written valuation policy, during the Relevant Period, provided that Madison Capital's purchase price, less the unamortized loan fee or discount at the time of the transfer, would be used as the price for the sale of a loan, or portion thereof, by Madison Capital to a Fund, "subject to market adjustments that may be made in Madison's sole discretion."

12. In practice, Madison Capital sold loans to the Funds at par value less the unamortized loan fee, based on Madison Capital's belief that the closing price of the loan generally represented the fair market value given the limited time period between origination and the sale to the Funds, and since Madison Capital sold loans to the Funds only if they were rated "B" or above at the time of the proposed sale by Madison Capital. When Madison Capital decided to sell a loan to a Fund, it sent the Funds' Review Agent a consent form with information about the loan, as well as credit and underwriting memoranda. In the request for consent, Madison Capital certified that: (1) the purchase was being conducted on an arm's length basis in accordance with Madison Capital's management agreement, and (2) based on current market conditions, Madison Capital believed the acquisition to be at fair market value. Madison Capital knew the Funds' Review Agent relied on Madison Capital's certification that the sale was made at fair market value and was not responsible under its agreements with the Funds for making its own determination of fair market value.

Sales Between March 2020 and May 2020

13. In March 2020, the coronavirus pandemic began and there was disruption in U.S. financial markets, including the fixed income markets. Credit spreads widened substantially across the fixed income market, reducing liquidity and market volume in less liquid fixed income markets such as the loan market in which the Funds invested, and resulting in a decline in prices of many existing fixed income investments. This disruption lasted months.

14. In a March 11, 2020, update to investors in the Funds, Madison Capital acknowledged the market disruption and stated that "we anticipate the private credit market could see widening of interest rate spreads, reflecting global instability and the dynamic news-cycle . . . In the near term, we do expect a slow-down in private equity transaction volume. Investment banks and potential sellers will likely wait to see how the current macro environment impacts valuations and underlying company performance before transacting." Consequently, in response to market uncertainty and to reflect the market's response to increased risk to lenders during the coronavirus pandemic, borrowers, including Madison Capital's borrowers, paid higher interest rates on any new originations relative to the rates on loans originated earlier in late 2019 and the beginning of 2020.

15. In response to the market disruption, Madison Capital took steps to increase monitoring of its existing portfolio companies and implemented a day-ahead check to confirm loans being sold still maintained a "B" credit rating or better according to its proprietary rating system, but it did not perform other analyses to determine whether the fair market value of those loans declined as a result of the changing market conditions.

16. All of the loans were subject to downward price pressure, and certain borrowers' operations were directly affected by market conditions, such as a franchisee of a national fitness center chain that temporarily paused in-person operations. Madison Capital executed 143 sales to the Funds between March 2020 and May 2020 at par value less the unamortized loan fee, without any market adjustments in light of then-current market conditions. For each of these transactions, Madison Capital represented to the Funds' Review Agent that the price was fair market value based on current market conditions. While, aside from one loan, the loans sold during this period either continue to perform or have been fully paid by the borrowers, Madison Capital failed to determine the effect of the market disruption on the fair market value of those loans at the time of purchase by the Funds.

Violations

17. Based on the conduct described above, Madison Capital willfully[1] violated Section 206(2) of the Advisers Act, which makes it unlawful for any investment adviser, directly or indirectly, to "engage in any transaction, practice or course of business which operates as a fraud or deceit upon any client or prospective client." Scienter is not required to establish a violation of Section 206(2), but rather a violation may rest on a finding of negligence. *SEC v. Steadman*, 967 F.2d 636, 643 n.5 (D.C. Cir. 1992) (citing *SEC v. Capital Gains Research Bureau, Inc.*, 375 U.S. 180, 194-95 (1963)).

18. Based on the conduct described above, Madison Capital willfully violated Section 206(4) of the Advisers Act, and Rule 206(4)-8 thereunder, which together make it unlawful for any investment adviser to a pooled investment vehicle to (1) make any untrue statement of material fact or to omit to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to any investor or prospective investor in the pooled investment vehicle; or (2) otherwise engage in any act, practice, or course of business that is fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle. Scienter is not required to establish a violation of Section 206(4) of the Advisers Act and the rules thereunder. *Id.* at 647.

Respondent's Remedial Efforts

19. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. In May 2021, in response to a Commission staff examination deficiency letter concerning the above, Madison Capital voluntarily reimbursed the Funds $5,010,854.90, plus $203,819.69 in interest, as compensation for the sale of loans to the Funds at purchase price less the unamortized loan fee. Madison Capital also voluntarily made certain enhancements to its disclosures and policies regarding its loan transfer practices.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 203(e) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Sections 206(2) and 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

[1] "Willfully," for purposes of imposing relief under Section 203(e) of the Advisers Act "'means no more than a person charged with the duty knows what he is doing.'" *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965).

B. Respondent is censured.

C. Respondent shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of $900,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at https://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Madison Capital Funding LLC as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Jeffrey Shank, Assistant Director, Division of Enforcement, Securities and Exchange Commission, 175 W. Jackson Blvd., Suite 1450, Chicago, IL 60604.

D. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, a Fair Fund is created for the penalties referenced in Section IV.C above. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a

"Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary