

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 4000 / January 16, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16345

In the Matter of

**CONSULTING SERVICES
GROUP, LLC**

Respondent.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT
TO SECTION 203(k) OF THE
INVESTMENT ADVISERS ACT OF
1940, MAKING FINDINGS, AND
IMPOSING A CEASE-AND-DESIST
ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against Consulting Services Group, LLC (“Respondent” or “CSG”).

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 Cease-and-Desist Proceedings Pursuant to Section 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

1. During the relevant time period, CSG was a registered investment adviser whose business included providing consulting services to public pension funds. These consulting services included recommending third-party investment advisers to actively manage public pension accounts. During the relevant time period, CSG either failed to disclose or mischaracterized in its Forms ADV Parts II and 2A a 2009 \$50,000 personal loan between its then Chief Executive Officer, Edgar Lee Giovannetti, and a New York-based third-party investment adviser (the “New York Investment Adviser”) that CSG had recommended to certain of its public pension and other clients. CSG’s failure to disclose this conflict of interest to its pension fund clients was in violation of Sections 206(2) and 207 of the Advisers Act.

Respondent

2. Consulting Services Group, LLC (“CSG”), is a Tennessee limited liability company with its principal office located in Memphis, Tennessee. CSG was registered with the Commission as an investment adviser from July 6, 1990, until October 4, 2013, when it withdrew its registration and ceased investment advisory activities. During the relevant time period, CSG reported assets under management ranging from \$21.7 million 2009 to \$22.5 billion in 2012. CSG’s clients included public and private pension and retirement plans, endowments and high net worth individuals. In October 2007, the Commission censured CSG and ordered it to pay a civil penalty of \$20,000 for failing to adopt a code of ethics compliant with applicable rules; failing to adopt written policies and procedures reasonably designed to prevent violations of the Advisers Act; and, the back-dating of written code of ethics acknowledgement forms by supervised persons in violation of the Sections 204 and 206(4) of the Advisers Act and Rules 204-2(a)(12), 204A-1(a)(5) and 206(4)-7, thereunder.

Relevant Person

3. Edgar Lee Giovannetti, age 58, resides in Memphis, Tennessee. At all relevant times, Giovannetti was the Chief Executive Officer of CSG and its holding company, CSG Holdings, LLC (“CSGH”), as well as Chairman of its Executive Management Committee. On December 30, 2011, he resigned his executive positions and voluntarily terminated his dual registrations with CSG and CSGH’s broker-dealer. At all relevant times, Giovannetti held the second largest equity interest in CSG’s parent entity; he currently holds the largest equity interest.

Giovannetti Obtained a Personal Loan from The New York Investment Adviser, Creating a Conflict of Interest

4. From 1990 until his resignation on December 30, 2011, Giovannetti effectively controlled CSG as its CEO and as the CEO and Chairman of CSG’s parent entity. Giovannetti also held the second largest equity interest in CSG’s parent entity with more than a 20% ownership.

5. On April 21, 2009, Giovannetti obtained a \$50,000 personal loan from the New York Investment Adviser and executed a promissory note in connection with the loan (the “Note”). The Note required payment of principal and interest within 90 days, on July 21, 2009. When he obtained the loan in April 2009, Giovannetti did not disclose it to CSG’s Compliance Department (“CSG Compliance”).²

6. Prior to, and after, April 2009, CSG recommended the New York Investment Adviser to several clients. Approximately seven CSG clients, including two public pension funds, followed CSG’s recommendation. On July 29, 2009, one of the public pension funds made an additional capital contribution of \$10 million to its investment with the New York Investment Adviser.

CSG Discovers the Conflict of Interest but Does Not Disclose It

7. In August 2009, CSG Compliance discovered the loan through regular email surveillance. CSG notified Giovannetti that borrowing money from an investment adviser that manages assets of CSG’s clients created a potential conflict of interest. In a written notice to Giovannetti, CSG Compliance attached the Note and explained that the New York Investment Adviser from whom he obtained the loan managed the assets of seven CSG clients. The notice described the potential conflict as follows:

[w]hile CSG’s Code of Ethics does not specifically restrict borrowing money from investment managers, the borrowing of money by CSG employees from investment managers that manage CSG client assets creates a potential conflict of interest in that such CSG employee may be more inclined to recommend the utilization of such investment manager due to the personal indebtedness to such investment manager.

8. CSG compliance personnel requested Giovannetti provide an update on the status of his loan. On August 8, 2009, Giovannetti sent an email to CSG’s Chief Compliance Officer in which he provided false and misleading information about the current state of his indebtedness to the New York Investment Adviser:

I am a personal investor in [the Investment Adviser’s] hedge fund and about six months ago I submitted a redemption request due to serious cash flow issues I am dealing with. The [request] was beyond the standard period stated in the PPM so ... [the New York *Investment Adviser*] *decided the best way to assist me with my personal needs was to make a loan to me...until the window to redeem was open. I redeemed July 1st and paid the loan off.* (emphasis added).

² Between December 2002 and July 2009, Giovannetti also personally invested in investments offered by the New York Investment Adviser.

9. In fact, Giovannetti had not repaid the loan and it was still outstanding as of the date of his false and misleading communication to CSG Compliance. CSG Compliance accepted Giovannetti's false explanation that the loan was fully satisfied.

10. CSG failed to disclose the loan and the material conflict of interest it created to its clients. CSG did not meet the requirements relating to disclosure of the loan in its Forms ADV Part II, dated August 6, 2009, and July 6, 2010, and in its Form ADV Part 2A, dated March 31, 2011, which contained material omissions when filed with the Commission.

CSG Continues to File False and Misleading Forms ADV Part 2A

11. In August 2011, in connection with an examination of CSG conducted by the Commission staff, Giovannetti admitted that the debt he owed to the New York Investment Adviser was still outstanding.

12. Shortly after Giovannetti's admission, CSG disclosed the existence of the debt and the potential conflict of interest in its Form ADV Part 2A, dated August 24, 2011. The same disclosure was repeated in CSG's Form ADV Part 2A, dated March 28, 2012, as follows:

Potential Conflict – Loan from [Investment Adviser] to [Giovannetti], CEO of CSG Holdings, LLC. In 2009, [Giovannetti] borrowed \$50,000 at 3.10% interest *as an advance of a redemption related to his investment in [Investment Adviser's] long/short hedge fund. Repayment has not been made and is pending.* This presents a potential conflict in that CSG may recommend [Investment Adviser] over other money managers as a result of the loan. (emphasis added).

13. These statements were false and misleading. CSG failed to disclose that the note was over two years past due, and accruing interest at the default rate of 8% per year. Additionally, the loan was not "an advance of a redemption" and it was not "related to" Giovannetti's investment. Indeed, on June 3, 2009, Giovannetti had redeemed the full value of his investment with the New York Investment Adviser in the total amount of \$84,761. He was therefore not obligated to, and did not, use the redeemed proceeds or any other funds to pay the loan back by its due date. As a result, CSG's Forms ADV Part 2A, dated August 24, 2011, and March 28, 2012, were false when filed with the Commission.

14. Giovannetti finally repaid the loan to New York Investment Adviser on July 20, 2012.

Violations

15. As a result of the conduct described above, CSG violated Section 206(2) of the Advisers Act which makes it unlawful for any investment adviser to engage in any transaction, practice or course of business, which operates as a fraud or deceit upon any client or prospective client.

16. As a result of the conduct described above, CSG violated Section 207 of the Advisers Act which makes it “unlawful for any person willfully to make any untrue statement of a material fact in any registration application or report filed with the Commission . . . or willfully to omit to state in any such application or report any material fact which is required to be stated therein.”

IV.

In view of the foregoing, the Commission deems it appropriate, to impose the sanctions agreed to in Respondent CSG’s Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 203(k) of the Advisers Act, Respondent CSG cease and desist from committing or causing any violations and any future violations of Sections 206(2) and 207 of the Advisers Act.

B. Respondent shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$150,000 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 <http://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 Consulting Services Group, 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 William P. Hicks, Associate Regional Director. Division of Enforcement, U.S. Securities and Exchange Commission, Atlanta, Regional Office, 950 East Paces Ferry Road, N.E., Suite 900, Atlanta, Georgia 30326.

By the Commission.

Brent J. Fields
Secretary