ADMINISTRATIVE PROCEEDING
File No. 3-18194

SEC Charges Investment Adviser for Allocating All Broken Deal Expenses to Private Equity Funds Without Disclosure

September 21, 2017 – The Securities and Exchange Commission today announced the institution of a settled action against Beverly Hills-based investment adviser, Platinum Equity Advisors, LLC, for charging three of its private equity fund clients with about $1.8 million in undisclosed broken deal expenses.

According to the SEC's order, from 2004 to 2015, the three private equity funds invested in 85 companies, in which co-investors connected with Platinum also invested. During this time, Platinum incurred expenses related to potential fund investments that were not ultimately made, known as "broken deal expenses." While the co-investors participated in Platinum's successful transactions and benefited from Platinum's sourcing of private equity transactions, Platinum did not allocate any of the broken deal expenses to the co-investors. Instead, it allocated *all* broken deal expenses to the private equity funds even though the agreements governing the funds did not disclose that the funds would be responsible for anything other than their own expenses. The Commission found that from Q2 2012 to 2015 (the applicable limitations period for disgorgement in this matter), the private equity funds were allocated $1,811,501 in broken deal expenses that were not disclosed in the fund agreements. In addition, Platinum did not adopt and implement a written compliance policy or procedure governing its broken deal expense allocation practices.

The SEC's order finds that Platinum violated Sections 206(2) and 206(4) of the Advisers Act, and Rule 206(4)-7 thereunder. Without admitting or denying the findings in the SEC's order, Platinum consented to the entry of a cease-and-desist order and agreed to pay a total of $1,902,132 in disgorgement and prejudgment interest and a $1.5 million civil penalty.

The SEC's investigation was conducted by Adam Schneir, Brian Fitzpatrick, and Sara Kalin of the Enforcement Division's Asset Management Unit. The SEC examination that led to the investigation was conducted by Benjamin Faulkner, Nina Freedman, Joshua Hantman, Monique Robinson, and Tamara Heller in the Los Angeles Regional Office.

See also: Order