

## Despite Fraud Focus, SEC Still Targeting Technical Violations

By **Carolyn Welshhans, Ali Rivett and Emily Renshaw** (October 3, 2025, 4:17 PM EDT)

Under the current administration, the U.S. Securities and Exchange Commission has made known its commitment to investigating and charging cases based on fraud. Consistent with that message, the SEC has filed a number of enforcement actions this year alleging variations of intentional and negligence-based fraud.

The commission has also, however, steadily continued pursuing enforcement actions concerning nonfraud-based rule violations, particularly in matters involving registered entities such as investment advisers and broker-dealers. Thus, it is important to recognize that while matters involving alleged fraud and manipulation will continue to make headlines, the SEC also remains focused on matters involving technical rule violations.

### The SEC Under the Current Administration

Under this administration, the SEC has shifted its enforcement approach. The commission has emphasized its back-to-basics strategy, focusing on identifying and combating fraud and manipulation, as noted in statements by Chairman Paul Atkins and recently appointed Enforcement Director Margaret Ryan, also a senior judge in the U.S. Court of Appeals for the Armed Forces.[1]

Likely gone — for now — are cases focused on, among other things, registration violations by crypto issuers and trading venues, stand-alone off-channel communications violations, and internal controls-only charges. Recent enforcement actions reflect this shift, with numerous cases involving insider trading,[2] market manipulation,[3] Ponzi schemes[4] and other fraud charges.[5]

At the same time, however, the commission has continued to pursue nonfraud-based actions targeting technical rule violations. To date, these efforts have primarily focused on registered entities, such as investment advisers and broker-dealers.

Although these cases do not tend to garner the same level of press as those alleging fraud, we expect this trend to continue, particularly where the SEC can allege how the misconduct may affect retail investors or erode investors' confidence in the markets.

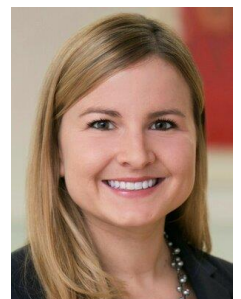
### Cases Involving Investment Advisers and Broker-Dealers



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### ***The Custody Rule***

On Aug. 1, the SEC announced settled charges against Munakata Associates LLC, a registered investment adviser, for failing to comply with the custody rule.[6]

From at least 2018 to 2024, the firm's president, who also served as its chief compliance officer, served as a co-trustee of two trusts that were advisory clients of the firm; had signatory authority on four clients' accounts; and had power of attorney on five clients' accounts. The SEC alleged that the firm therefore had custody of certain client funds and securities, and thereby was required to — and failed to — adhere to the requirements of the custody rule.

In particular, the SEC alleged the firm failed to arrange for surprise examinations as required by the rule. As a result, Munakata was ordered to pay a penalty of \$50,000.

While no fraud-based charges were levied against the firm, the SEC's settled order specifically described the custody rule as being "designed to protect investment advisory clients from, among other things, the loss, misuse, or misappropriation of their funds and securities," reiterating the SEC's focus on investor protection.

### ***Rule 105***

On Aug. 4, the SEC announced it settled charges against Sourcerock Group LLC, a registered investment adviser, for violating Rule 105 of Regulation M under the Securities Exchange Act. Rule 105 prohibits short selling an equity security and then purchasing the same security during a restricted period without an applicable exception.[7]

The SEC found the firm violated the rule once in November 2022 for the accounts of six private fund clients. The SEC acknowledged that Sourcerock promptly conducted a review for prior violations, finding none, and updated both its related trading processes and its compliance policies and procedures. The firm was ordered to pay a civil penalty of \$250,000.

The SEC's order emphasized the rule's intent "to foster secondary and follow-on offering prices that are determined by independent market dynamics and not by potentially manipulative activity." It further noted that "Rule 105 is prophylactic and prohibits the conduct irrespective of the short seller's intent."

### ***The Marketing Rule***

On Sept. 4, the SEC announced settled charges against Meridian Financial LLC, a registered investment adviser, for its violations of the marketing rule, as well as recordkeeping and compliance violations.[8]

The SEC alleged that the firm disseminated an advertisement claiming it "refuse[d] all conflicts of interest." However, the SEC's order noted that the firm acknowledged various conflicts of interest inherent in its role as an investment adviser, including those it disclosed in its Form ADV, Part 2A, brochure.

As such, the SEC found that the firm violated the marketing rule by lacking a reasonable basis to substantiate the material statement of fact in its advertisement that it refused all conflicts of interest.

Additionally, the SEC found that Meridian failed to conduct an annual review of its compliance policies

and procedures, and failed to implement policies and procedures concerning reliance on third parties for recordkeeping. As a result, the firm was ordered to pay a \$75,000 civil penalty and engage in undertakings to correct the compliance failures.

### ***Recordkeeping Violations***

On July 11, the SEC announced settled charges against the former chief compliance officer and former president of American Portfolios Advisors Inc., an investment adviser, for allegedly creating backdated documents and providing them to the SEC during a compliance examination.[9]

According to the commission's settled orders, in response to an SEC request letter, the CCO created three documents that purported to memorialize contemporaneous compliance reviews for three years. The CCO and president then allegedly signed and backdated the documents, and the CCO provided the documents to SEC staff.

The SEC's settled orders found that the CCO and president willfully aided and abetted, and caused, the investment adviser's violations of certain recordkeeping provisions of the Investment Advisers Act. As a result, the CCO was ordered to pay a civil penalty of \$10,000, and the president was ordered to pay a civil penalty of \$20,000.

A few days later, the SEC announced settled charges with a former CCO at another investment adviser, Inland Investment Advisors LLC, for altering records and creating fictitious forms in response to an SEC examination of the firm.[10]

The SEC alleged that the CCO modified the dates and/or filled in missing information on preclearance trading forms requested by the SEC during a compliance examination and, in some cases, created a form and affixed the trader's name to it without the trader's knowledge or authorization before providing it to the SEC staff. The SEC found that the CCO aided and abetted and caused her firm's violations of certain recordkeeping provisions of the Investment Advisers Act.

As a result, the CCO was ordered to pay a civil penalty of \$40,000, and she was barred from acting in a compliance capacity at, among other places, any broker, dealer, investment adviser or registered investment company for a period of three years.

### ***Regulation Best Interest***

On Aug. 11, the SEC brought settled cases against Emerson Equity LLC, a broker-dealer,[11] and Tony Barouti, a registered representative,[12] for violations of Regulation Best Interest. Unlike the matters described above, these matters alleged direct investor harm and accordingly included a disgorgement remedy.

In addition, although it does not require a finding of fraud, Reg BI's provisions impose duties on broker-dealers in their interactions with retail clients, as well as more technical policy and procedure requirements. The SEC under the current administration has given no indication that it intends to back away from enforcement of Reg BI.

In both of its settled orders in August, the SEC extensively discussed Reg BI's requirements that broker-dealers and their associated persons act in the best interest of retail clients, and not place the financial or other interest of the broker, dealer or associated person ahead of the interest of the retail client.

The SEC found that the broker-dealer and its registered representative willfully violated Reg BI by recommending certain securities to retail customers without exercising reasonable diligence, care or skill to have a reasonable basis to believe the recommendations were in the best interest of each particular client based on that retail customer's investment profile and the potential risks, rewards, and costs associated with the recommendation.

In addition, the SEC found that the broker-dealer also failed to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI. As a result, the broker-dealer was ordered to pay \$4,035 in disgorgement, \$1,006 in prejudgment interest and a \$100,000 civil penalty. The registered representative was ordered to pay \$50,140 in disgorgement, \$12,501 in prejudgment interest and a civil penalty of \$50,000.

### **What This Means for Registered Entities**

Despite commentary focused on fraud, registrants should be mindful that the SEC is expected to continue to closely review compliance with rules and regulations that do not require a finding of fraud and instead are aimed at preventing misconduct. To mitigate enforcement risks and prepare for potential regulatory scrutiny, registered entities should consider taking the following steps.

#### ***Review and update policies and procedures regularly.***

Investment advisers and broker-dealers should periodically revisit their policies and procedures to ensure that they remain reasonably designed for the company's business model, client base and risks.

If the investment adviser or broker-dealer acquires a new business line, begins offering a new type of product or makes other similar changes, it may be a good time to consider whether previously inapplicable SEC rules and regulations now apply to the company and its conduct.

#### ***Review marketing materials for context.***

In addition to periodically reviewing marketing materials for accuracy, registered entities should regularly review for context and consider whether they are using easily understood language with potential customers that provides the full picture.

#### ***Focus on employee training.***

Conduct regular, tailored training on known regulatory issues of interest with appropriate audiences, such as employees with retail customer interactions, employees who handle marketing and advertising, employees with recordkeeping responsibilities, and employees with trading roles.

### **Conclusion**

By proactively addressing these risk areas, broker-dealers and investment advisers can position themselves to better withstand SEC scrutiny and minimize potential exposure under the current regulatory environment.

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[1] See <https://www.sec.gov/newsroom/press-releases/2025-108-sec-names-judge-margaret-ryan-director-division-enforcement> and <https://www.sec.gov/newsroom/press-releases/2025-113-sec-announces-formation-cross-border-task-force-combat-fraud>.

[2] See <https://www.sec.gov/enforcement-litigation/litigation-releases/lr-26380> and <https://www.sec.gov/enforcement-litigation/litigation-releases/lr-26378>.

[3] See <https://www.sec.gov/enforcement-litigation/litigation-releases/lr-26371>.

[4] See <https://www.sec.gov/enforcement-litigation/litigation-releases/lr-26391> and <https://www.sec.gov/newsroom/press-releases/2025-111-sec-charges-pennsylvania-resident-his-companies-770-million-ponzi-scheme>.

[5] See <https://www.sec.gov/enforcement-litigation/litigation-releases/lr-26353> and <https://www.sec.gov/enforcement-litigation/litigation-releases/lr-26344>.

[6] See <https://www.sec.gov/enforcement-litigation/administrative-proceedings/ia-6901-s>.

[7] See <https://www.sec.gov/enforcement-litigation/administrative-proceedings/34-103629-s>.

[8] See <https://www.sec.gov/files/litigation/admin/2025/ia-6916.pdf>.

[9] See <https://www.sec.gov/enforcement-litigation/administrative-proceedings/ia-6893-s>.

[10] See <https://www.sec.gov/enforcement-litigation/administrative-proceedings/ia-6896-s>.

[11] See <https://www.sec.gov/files/litigation/admin/2025/34-103674.pdf>.

[12] See <https://www.sec.gov/files/litigation/admin/2025/34-103675.pdf>.