U.S. SECURITIES AND EXCHANGE COMMISSION

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SEC Announces Fraud Charges Against Two Florida-Based Investment Advisers

Washington D.C., Nov. 20, 2013 —

The Securities and Exchange Commission today announced charges against two Tampa-area investment advisers accused of committing fraud by failing to truthfully inform clients about compensation received from offshore funds they were recommending as safe investments despite substantial risks and red flags.

The advisers also are charged with contributing to violations of the “custody rule” that requires investment advisory firms to establish specific procedures to safeguard and account for client assets.

The SEC’s Enforcement Division alleges that Gregory J. Adams and Larry C. Grossman solicited and directed clients of their investment firm Sovereign International Asset Management to invest almost exclusively in funds controlled by an asset manager named Nikolai Battoo, who the SEC charged in a separate enforcement action last year. Grossman and Adams failed to inform clients about the conflict of interest in recommending these investments as Battoo was paying them millions of dollars in compensation for steering investors to his funds.

“Investment advisers have a fiduciary duty to act in utmost good faith when recommending investments, and they must fully disclose all of the relevant facts to their clients,” said Eric I. Bustillo, director of the SEC’s Miami Regional Office. “Adams and Grossman breached this duty when they misstated their compensation and failed to disclose serious conflicts of interest.”

According to the SEC’s order instituting administrative proceedings, Grossman was paid approximately $3.3 million and Adams received $1 million in the undisclosed compensation arrangements. Grossman and Adams promoted the investments as safe, diversified, independently administered and audited, and suitable for the investment objectives and risk profiles of their clients who were often retirees. However, Battoo’s funds were in fact risky, lacked diversification, and lacked independent administrators and auditors. Grossman and Adams also failed to investigate – and in some cases wholly disregarded – numerous red flags surrounding Battoo and his funds.

The SEC’s Enforcement Division alleges that Grossman and Adams aided and abetted Sovereign’s violations of the custody rule when they instructed clients to transfer their investment funds to a bank account controlled by a related entity. Grossman and Adams pooled clients’ money in this bank account before investing it in Battoo’s offshore funds. Sovereign failed to comply with the custody rule, which requires an investment adviser to comply with surprise examinations or certain other procedures to verify and safeguard client assets.

According to the SEC’s order, Grossman and Adams willfully violated Section 17(a)(2) of the Securities Act of 1933, Section 15(a) of the Securities Exchange Act of 1934, and Sections 206(1), 206(2), 206(3) and 207 of the Investment Advisers Act of 1940. They willfully aided and abetted violations of Section 15(a) of the Exchange Act and Section 206(4) of the Advisers Act and Rules 204-3 and 206(4)-2.

The SEC’s investigation was conducted by Andre J. Zamorano, Sunny H. Kim, and Kathleen Strandell in the SEC’s Miami office. The case was supervised by Thierry Olivier Desmet, and the litigation will be led by Patrick R. Costello. The SEC examination of Sovereign that led to the investigation was conducted by Roda A. Johnson and Jean M. Cabot under the supervision of John C. Mattimore.