# SEC (Securities and Exchange Commission) Announces Major Fines In First Pay-to-Play Enforcement Case

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The Securities & Exchange Commission hit a Philadelphia-area private equity firm today with a major penalty, in the SEC's first case involving alleged violations of its 2010 "pay-to-play" rules.  More enforcement actions may be coming.

The SEC pay-to-play  were adopted to prevent, among other things, executives of investment firms from making political contributions in an attempt to secure investments from state and local pension funds.  In this case, the facts alleged by the SEC suggest a quintessential pay-to-play violation. According to the SEC's order, in 2011, an unnamed "covered associate" of a private equity firm called TL Ventures made a $2,500 contribution to a Philadelphia mayoral candidate and a $2,000 contribution to the Governor of Pennsylvania.  Because the Philadelphia mayor and the Governor of Pennsylvania could appoint some members of public retirement boards that had invested public pension funds with TL Ventures, the SEC asserted that the firm had violated pay-to-play rules.

According to the SEC's , TL Ventures agreed to settle the pay-to-play charges (and a charge that it failed to register as an investment adviser) by disgorging its $256,697 in profits, plus interest, and paying a $35,000 penalty.  In large part, these significant fines stemmed from the simple fact that a single employee made political contributions totaling less than $5,000.

In its , the director of the SEC's Enforcement Division signaled that this case may not be the last: "We will use all available enforcement tools to ensure that public pension funds are protected from any potential corrupting influences," he said.  Pay-to-play enforcement cases like this one may be an easy way for the SEC to pick-off low hanging fruit and increase its enforcement figures.  Unlike other areas of securities law, almost all of the elements of a pay-to-play violation are already public record. By matching up public campaign finance reports with public lists of state contractors, the SEC can easily identify potential violations.  This, of course, further underscores the need for hedge funds, private equity funds, and other investment advisers to ensure they have adopted, and follow, pay-to-play compliance policies.



National Law Review, Volume IV, Number 171