

# Court Penalizes Wells Fargo Securities for Disclosure Failures in 38 Studios Bond Offering

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## ***Securities and Exchange Commission v. Rhode Island Commerce Corporation (f/k/a Rhode Island Economic Development Corporation), et al., No. 1:16-cv-107 (D.R.I. filed Mar. 7, 2016)***

A federal court has ordered Wells Fargo Securities to pay more than \$800,000 in civil penalties for disclosure failures associated with a municipal bond offering it underwrote to finance startup video game company 38 Studios.

The Securities and Exchange Commission [charged](#) Wells Fargo in 2016. The SEC's complaint alleged, among other things, that Wells Fargo, which served as the placement agent for the 38 Studios bond offering, failed to disclose that the project being financed by the bonds, the development of a video game, could not be completed with the financing the bonds would provide. The SEC also alleged that the defendants did not disclose that even with the proceeds of the loan financed by the 38 Studios Bonds, 38 Studios faced a known shortfall in funding. In addition, the SEC alleged that Wells Fargo and its lead banker on the deal, Peter M. Cannava, failed to disclose to bond purchasers that Wells Fargo was receiving additional compensation from 38 Studios, totaling \$400,000, that was directly tied to the issuance of the municipal bonds.

The final judgment against Wells Fargo, entered on March 20, 2019 by the Honorable John J. McConnell, Jr. in federal court in Rhode Island, enjoins Wells Fargo from violating provisions of the federal securities laws that require disclosure of material information and fair dealing in municipal bond transactions, specifically Section 17(a)(2) of the Securities Act of 1933, Section 15B(c)(1) of the Securities Exchange Act of 1934 and Rule G-17 promulgated by the Municipal Securities Rulemaking Board and orders Wells Fargo to pay a \$812,500 civil penalty. The civil penalty paid by Wells Fargo will be transferred to the bond Trustee for the benefit of bondholders. Wells Fargo consented to the entry of the judgment without admitting or denying the allegations.

The SEC's litigation continues against Cannava.