SEC Announces Charges Against N.Y.-Based Firm and Three Executives Accused of Siphoning Investor Money

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Washington D.C., Dec. 29, 2014 — The Securities and Exchange Commission today announced charges against three fund managers and their New York-based firm accused of secretly diverting investor money for their own benefit to prop up a fledgling side business.

The SEC Enforcement Division alleges that VERO Capital Management's president Robert Geiger, general counsel George Barbaresi, and chief financial officer Steven Downey managed a pair of funds whose offering documents indicated they would aim to achieve attractive returns by investing primarily in mortgage-backed securities. After deciding to wind down the funds, instead of returning all of the cash to investors as the funds liquidated their investments, the three officers diverted $4.4 million by causing the funds to make undocumented "bridge loans" to an affiliated company purportedly in the risk management business. The Enforcement Division alleges that VERO Capital and the officers never disclosed to investors or the funds' director that they were making unauthorized loans to their other company out of investor funds. In fact, in one instance they even lied to the funds' custodial bank to withdraw $800,000 from the funds' bank account to divert to the other company.

"VERO Capital and its officers allegedly misled their investors about the funds' investment activities and funneled money to their side project while winding down the funds," said Andrew M. Calamari, Director of the SEC's New York Regional Office.

According to the order instituting an administrative proceeding against VERO Capital, Geiger, Barbaresi, and Downey, the SEC Enforcement Division additionally alleges that although VERO Capital had custody of client assets, the firm failed to have the funds audited by independent auditors for 2012 or 2013. The firm also failed to arrange for a surprise examination to be performed as required.

The SEC Enforcement Division further alleges that VERO Capital and the three officers caused the funds to purchase three notes worth a total of $7 million from an affiliate of the firm, which constituted principal transactions that require written notice to a client as well as the client's consent before completing the transaction. However, they allegedly made no efforts to provide the required notice to the funds or obtain the required consents for these three transactions.

The SEC Enforcement Division alleges that VERO Capital, Geiger, Barbaresi, and Downey willfully violated Sections 206(1), 206(2), and 206(4) of the Investment Advisers Act of 1940 and Rule 206(4)-8. The Enforcement Division further alleges that VERO Capital willfully violated Advisers Act Sections 206(3) and 206(4) as well as Rule 206(4)-2, and Geiger, Barbaresi, and Downey aided and abetted and caused these violations. The matter will be scheduled for a public hearing before an administrative law judge for proceedings to adjudicate the Enforcement Division's allegations and determine what, if any, remedial actions are appropriate.

The SEC Enforcement Division's investigation was conducted by Matthew Watkins, John Lehmann, Jacqueline Fine, Nancy Brown, and Thomas P. Smith Jr. of the New York Regional Office. The case was supervised by Amelia A. Cottrell, and the Enforcement Division's litigation will be led by Kevin McGrath.

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Related Materials

- SEC order