Securities Regulation Daily Wrap Up, FRAUD AND MANIPULATION—S.D. Fla.: Operators of $1.2B Ponzi scheme targeted seniors, SEC alleges, (Dec. 21, 2017)

Securities Regulation Daily Wrap Up

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By Amy Leisinger, J.D.

The SEC has charged a group of unregistered funds and their owner with operating a $1.2 billion Ponzi scheme affecting over 8,000 retail investors, including many senior citizens. According to the Commission, the defendants used investor money to pay other investors until the money ultimately ran out, and the owner diverted millions for his own benefit. The complaint also alleges that the owner concealed his ownership interest in purported third-party borrowers from the fund. The court granted a temporary asset freeze to prevent further dissipation of investor funds and ordered an accounting (*SEC v. Shapiro*, December 20, 2017).

Using aggressive tactics, the defendants swindled seniors, and the only way to pay dividends and interest was through the infusion of new money, said Enforcement Co-Directors Stephanie Avakian and Steven Peikin.

Fraudulent scheme. According to the SEC, the Woodbridge funds advertised their primary business as issuing loans to third-party commercial property owners who would pay between 11 and 15 percent interest for short-term financing and promised fund investors high rates of interest. While Woodbridge claimed it made the high-interest loans to third parties, the SEC alleges, the fund owner himself had ownership interests in the majority of the borrowers, and those companies had no income and never made interest payments on the loans.

From July 2012 through December 2017, the defendants raised more than $1.22 billion, but the funds only generated approximately $13.7 million in interest income from truly unaffiliated third-party borrowers and used investor money to the interest and dividends owed to previous investors, the Commission states. Through fraudulent unregistered securities offerings, the SEC alleges that the defendants also paid nearly $65 million in commissions to sales agents who marketed the investments as "safe" and "secure." The fund owner also allegedly diverted at least $21 million to make a number of personal luxury purchases before the scheme collapsed and the funds filed for bankruptcy protection, the Commission contends.

By this conduct, the SEC alleges, the owner, the funds, and other affiliated companies violated the antifraud and broker-dealer registration provisions of the federal securities laws.

The SEC seeks permanent injunctions and repayment of ill-gotten gains with interest, as well as civil penalties.

The case is No. 17-24624.

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