

Crown Capital Securities to Pay \$1.6 Million to Settle SEC Charges

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The Securities and Exchange Commission has ordered Crown Capital Securities LP, a dually registered investment adviser and broker-dealer, to pay nearly \$1.6 million in disgorgement, interest, and fines to settle charges that it breached its fiduciary duties related to its mutual fund share class selection practices and undisclosed revenue sharing arrangements it had with unaffiliated clearing brokers.

Crown Capital is based in Southern California and had approximately \$1.2 billion in regulatory assets under management, as of the first quarter of 2021.

According to the SEC, since at least 2014, Crown Capital recommended that clients purchase or hold mutual fund share classes that charged 12b-1 fees when lower-cost share classes of the same funds were available. Thus, the firm received fees that it would not have collected had its advisory clients been invested in the available lower-cost



share classes of those funds.

Crown Capital is also accused of failing to disclose a revenue sharing arrangement it had with unaffiliated clearing brokers that offered a no-transaction fee (NTF) platform, which provided Crown Capital access to certain mutual funds. The clearing brokers shared a percentage of the NTF revenue with Crown Capital when its clients invested in a mutual fund on the platform.

The firm also reportedly had a revenue sharing arrangement with a clearing broker for cash sweep money market funds, which are accounts used by brokerages to hold uninvested cash until the investor or their adviser decides how to invest the money.

The SEC alleged that Crown predominantly recommended and invested in money market funds that paid the highest revenue sharing, even though the clearing broker made several funds available that would have paid Crown's clients higher yields, but where Crown would have received less or no revenue sharing.

The SEC indicated that the firm, although eligible, did not self-report mutual fund sales misconduct under the share class selection disclosure initiative, which gave advisers until June 2018 to self-report in exchange for more favorable settlement terms, including no civil penalties.

Crown Capital must pay disgorgement of \$1.14 million, prejudgment interest of \$154,200, and a \$295,000 civil penalty.

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In addition to the fine and disgorgement, Crown Capital must review and correct relevant disclosure documents concerning mutual fund share class selection and 12b-1 fees, sweep account revenue sharing, and NTF revenue sharing. They must also evaluate whether existing clients should be moved to a lower cost mutual fund share class, alternative cash sweep product, or mutual funds that do not include NTF revenue.

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