

The SEC's Northern Lights Enforcement Action: Implications For Fund Directors

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On May 2, 2013, the Securities and Exchange Commission (the "SEC") settled charges that the five trustees (the "Trustees") of two registered series trusts (the "Trusts"), the Trusts' CCO-service provider, Northern Lights Compliance Services ("NLCS"), and the Trusts' fund administrator, Gemini Fund Services, LLC ("GFS") violated the Investment Company Act of 1940 (the "Investment Company Act") in 2009 and 2010. The charges against the Trustees arose from (i) the Trusts' disclosure to investors regarding the Trustees' approval of investment advisory contracts and (ii) the Trustees' approval of compliance manuals of investment advisers to the Trusts. Although this action did not result in the imposition of a monetary penalty on the Trustees, the Trustees consented to the entry of an SEC cease-and-desist order against them. The inclusion of the Trustees in this action highlights the SEC's apparent newfound willingness to bring enforcement actions against registered fund directors and may also be a warning to other directors.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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