

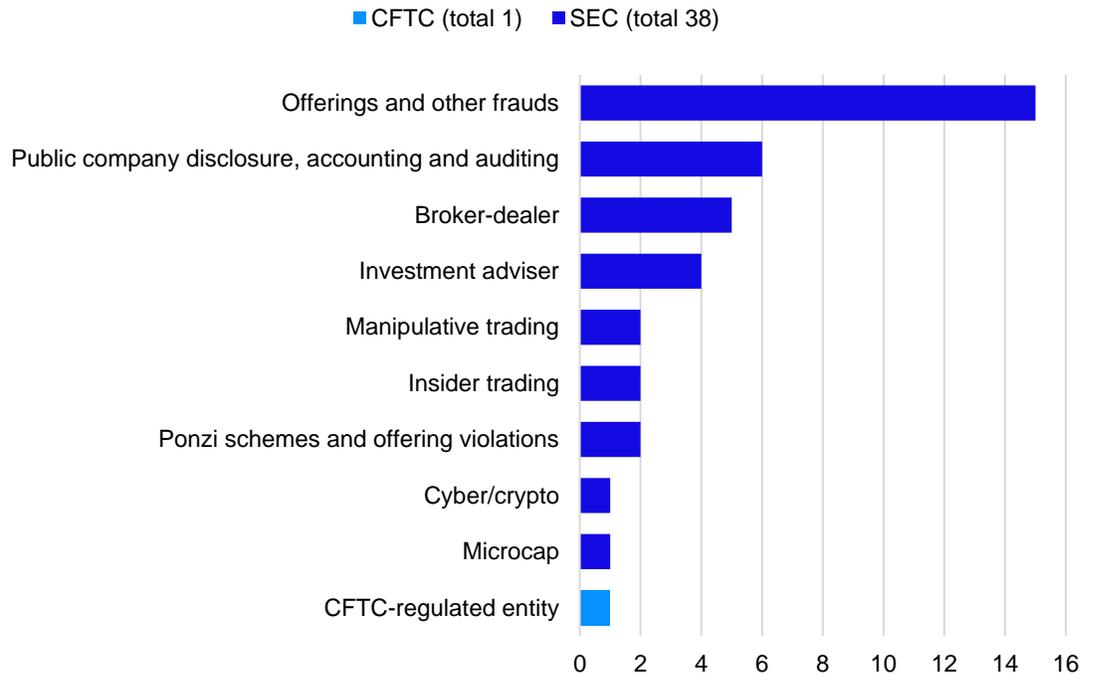
# SEC & CFTC Enforcement Update

July 2021

In July 2021, the SEC filed 38 enforcement actions and the CFTC filed one, against a combined total of 69 defendants and respondents. (This tally excludes follow-on actions, bars and suspensions.) The SEC’s actions included its first case in the new administration for disclosures involving a SPAC transaction, as well as several public company accounting cases, investment adviser, broker-dealer, fraud, and manipulative trading cases. The CFTC’s action concerned a precious metals leasing scheme.

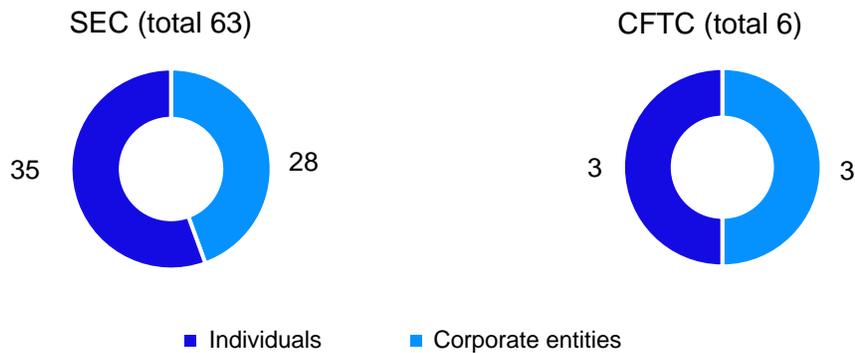
## Actions initiated by the SEC and CFTC in July 2021

*Number of actions, by matter type*



**Actions initiated by the SEC and CFTC in July 2021 (cont.)**

*Types of defendants/respondents*



**Key cases and developments**

**SEC brings case against SPAC, target for misleading disclosures**

**In re Momentum Inc. et al. (A.P. July 13, settled)**

**SEC v. Mikhail Kokorich (D.D.C. July 13, contested)**

As detailed in our recent [client update](#), the SEC brought a case against a SPAC, the SPAC’s sponsor, the SPAC’s proposed merger target, and the companies’ CEOs for misleading disclosures about the target’s technology and its CEO’s associated national security risks. The case was brought prior to the closing of the proposed business combination. The SEC alleged that the target told investors that it had “successfully tested” its propulsion technology when in fact its only test had resulted in failure. The SEC further alleged that the target and its CEO misrepresented the extent to which national security concerns associated with the target’s CEO undermined the target’s ability to secure essential government licenses. According to the SEC’s order, the SPAC claimed to have conducted extensive due diligence on the target, but never reviewed the target’s test results nor documents relevant to assessing the target CEO’s national security risks.

The target, SPAC, and SPAC’s CEO agreed to pay civil penalties of \$7 million, \$1 million, and \$40,000 respectively. The target and SPAC also agreed to provide PIPE investors with the right to terminate their subscription agreements prior to the shareholder vote to approve the merger. The sponsor agreed to forfeit 250,000 founders’ shares it would otherwise have received upon consummation of the transaction. The target agreed to enhance disclosure controls, create an independent board committee, and temporarily retain an internal compliance consultant. The SPAC’s CEO is contesting the case against him.

[SEC press release](#) | [SEC order](#) | [SEC complaint](#)

## **SEC settles with retailer, former CEO for accounting control failures**

**In re Tandy Leather Factory, Inc. and Shannon Greene, CPA (A.P. July 21, 2021, settled)**

The SEC brought a case against a specialty leather retailer and its former CEO for accounting control and reporting failures. The SEC alleged that the retailer's systems could not support its inventory accounting methodology because it did not maintain historical cost information for inventory, resulting in inaccurate financial statements and related books and records. The SEC further alleged that the former CEO was aware of limitations of the retailer's systems but failed to design and maintain (i) proper accounting controls to account for these limitations and (ii) ensure accurate financial reporting. Further, the SEC alleged that the former CEO inaccurately certified that the retailer's disclosure controls and procedures and internal control over financial reporting were effective. The retailer and former CEO agreed to pay civil money penalties of \$200,000 and \$25,000 respectively. The SEC noted that it considered the retailer's remedial actions following discovery of the issues detailed in the SEC's order when it accepted the retailer's settlement offer.

[SEC press release](#) | [SEC order](#)

## **SEC brings case against executives for accounting fraud**

**SEC v. Michael Palleschi and David Lethem (M.D. FI. July 15, 2021, contested)**

The SEC brought a case against the former CEO and CFO of a network infrastructure company for running a multi-year accounting fraud. The SEC alleged that the executives misled the company's accountants and outside auditor about material terms of the company's issuance of convertible notes and directed the professionals to recognize revenue for nonexistent projects. As a result, company revenues were inflated by as much as 108 percent for some periods and almost \$23 million in convertible notes were concealed. The SEC further alleged that the executives misappropriated company funds for personal use. A parallel criminal action was filed in the Southern District of New York.

[SEC press release](#) | [SEC complaint](#)

## **SEC files Form CRS sweep**

The SEC brought cases against 21 investment advisers and 6 broker-dealers for failing to timely file and deliver client or customer relationship summaries ("Form CRS") to retail investors. In June of 2019, the SEC adopted Form CRS and required SEC-registered investment advisers and broker-dealers to deliver them to existing retail investors or clients by the end of July of 2020 and post their current Form CRS on their website. The SEC's orders noted that none of the firms filed or delivered their Form CRS until being twice reminded of the missed deadlines by regulators. All 27 of the investment advisers and broker-dealers settled their cases and agreed to pay civil penalties ranging from \$10,000 to \$97,523.

[SEC press release](#)

## **SEC brings case against founder for disseminating false info**

**SEC v. Trevor R. Milton (S.D.N.Y. July 29, 2021, contested)**

The SEC brought a case against the founder (and former CEO) of an alternative fuel vehicle company for repeatedly disseminating false and misleading information about the company's products. The SEC alleged that before and during the time that the company combined with a special purpose acquisition company (SPAC), the founder used his social media accounts to communicate directly with investors about the company. According to the SEC's complaint, the founder misled investors with false information about the company's technology, products, and production capabilities. The information included claims that the company's prototype semi-truck could be driven under its own power, that the company was producing hydrogen at one-fourth the cost of the prevailing market rate, and that the company had "billions and billions" of dollars of committed truck orders – all before the company had produced a commercial product. The SEC alleged that the founder personally profited by tens of millions of dollars from the scheme. A parallel criminal action was filed in the Southern District of New York.

[SEC press release](#) | [SEC complaint](#)

## SEC settles case against individual for defrauding investors

**SEC v. Aron Govil (S.D.N.Y. July 19, 2021, settled)**

The SEC brought a case against an individual for defrauding investors in two companies that he controlled. The SEC alleged that, when serving as executive director and controlling shareholder, the individual misappropriated over \$7 million of investor funds. The SEC further alleged that the individual engaged in insider trading and scalping—secretly selling the company’s stock while paying stock promoters to recommend its purchase to retail investors. According to the SEC, he also falsely told investors that the other company had an app allowing users to transact in cryptocurrencies and had started work on an app that detected COVID-19. The individual agreed to pay disgorgement in the amount of \$626,782, prejudgment interest in the amount of at least \$76,693.95, and a civil penalty of \$620,000.

[SEC press release](#) | [SEC complaint](#)

## SEC settles case against ICO profiling website for unlawful touting

**In re Blotix Ltd. (A.P. July 14, 2021, settled)**

The SEC settled a case against the operator of a website profiling initial coin offerings (ICOs) of cryptocurrencies for failing to disclose the compensation it received from issuers of the cryptocurrencies it profiled. According to the SEC’s order, the website profiled cryptocurrencies, including presenting “trust scores” in each cryptocurrency’s profile that the website claimed to derive from due diligence on the credibility and risk of the cryptocurrency. However, the SEC alleged that the website failed to disclose that issuers paid the website operator to profile and advertise their cryptocurrencies. The website operator agreed to pay \$43,000 in disgorgement and a civil penalty of \$154,434.

[SEC press release](#) | [SEC order](#)

## SEC brings case against individual for selling fake insider trading tips

**SEC v. Apostolos Trovias (S.D.N.Y. July 9, 2021, contested)**

The SEC brought a case against an individual for orchestrating a scheme to sell “insider trading tips” on the Dark Web. The SEC alleged that the individual claimed that the information he was selling consisted of order-book data from a securities trading firm as well as pre-release earnings reports for public companies. According to the SEC, the individual sold over 100 subscriptions and made additional one-off sales to investors via the Dark Web. A parallel criminal action was filed in the Southern District of New York.

[SEC press release](#) | [SEC complaint](#)

## SEC sues company, executives for false COVID-19 disclosures

**SEC v. Parallax Health Sciences, Inc. (S.D.N.Y. July 7, 2021, settled)**

The SEC brought a case against a healthcare company and its CEO and CTO for making false statements about the company’s efforts to fight COVID-19. The SEC alleged that in March and April of 2020, the company issued press releases falsely claiming that its COVID-19 screening test would be available soon and that the company had medical and personal protective equipment for “immediate sale.” According to the SEC, the executives drafted the false press release to boost the company’s stock price. The company, CEO, and CTO agreed to pay civil penalties of \$100,000, \$45,000, and \$40,000 respectively. The CEO and CTO also agreed to bars.

[SEC press release](#) | [SEC complaint](#)

## Personnel and organizational changes

The SEC announced notable personnel and organizational changes this month:

- Peter Driscoll, Director of the Division of Examinations, left the SEC. Daniel Kahl was named Acting Director of the Division of Examinations.

[SEC press release](#)

- YJ Fischer was named Director of the Office of International Affairs.

[SEC press release](#)

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