

Platinum Equity fined over broken-deal expenses

Private Funds Manager

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The SEC alleged the firm misallocated \$1.8m in costs to three of its private equity funds between 2004-15.

A private equity firm has been fined \$3.4 million by the Securities and Exchange Commission for allegedly charging three of its private equity fund clients broken-deal expenses that should have been paid by co-investors.

Between 2004 and 2015 Beverley Hills-based Platinum Equity Advisors' three private equity funds invested in 85 companies, in which co-investors connected with the firm also invested.

The co-investors benefited from Platinum's successful transactions, but the firm did not charge them their share of the expenses – \$1.8 million – incurred as a result of broken deals during the investment process, the SEC said.

“During this period, Platinum allocated all of the broken-deal expenses to the private equity funds. The limited partnership agreements did not disclose that the private equity funds would pay the broken deal expenses for the portion of each investment that would have been allocated to the co-investors,” the SEC filing said.

The firm also failed to adopt and implement a written compliance policy or procedure governing its broken-deal expense allocation practices, the filing said.

The firm settled without admitting or denying the charges.

“The SEC reaches all the way back to 2004 to calculate disgorgement even though the firm did not register until 2012. Private fund firms that registered in 2012 should re-examine their expense allocation practices for years prior to 2012 and consider LP reimbursement before the SEC brings a public enforcement case,” Todd Cipperman, chief executive of Cipperman Compliance Services, said.

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