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SEC Charges Municipal Advisor and its Managing Director with Failing to Timely and Fully Disclose Material Conflicts of Interest to Charter School Clients.

October 24, 2024 – The Securities and Exchange Commission today charged that Hamlin Capital Advisors, LLC (Hamlin Advisors) a registered municipal advisor, and its associated person and Managing Director, Michael Ferrell Braun, failed to timely and fully disclose material conflicts of interest and engaged in related violations including violations of Municipal Securities Rulemaking Board (MSRB) rules and that Hamlin Advisors breached its fiduciary duty with respect to its disclosure violations. Hamlin Advisors and Braun agreed to settle the charges without admitting or denying the SEC's findings.

According to the SEC's order, from September 2017 to at least April 2022, Hamlin Advisors and Braun provided advice to certain charter schools (directly or indirectly through related borrower entities) on the issuance of municipal bond offerings totaling over $500 million in aggregate principal amount. The SEC found that, in each of these issuances, Hamlin Advisors's affiliate, a registered investment adviser ("Hamlin Affiliate"), purchased either all or a substantial portion of the offered bonds. In most instances, Hamlin Affiliate also acted as compensated bondholder representative. According to the order, this affiliate relationship created a material conflict of interest which was not timely disclosed to the charter school clients until several days or sometimes weeks after Hamlin Advisors began advising on the structure, timing, and terms of the particular offerings at issue. The SEC found that Braun provided the advice to the clients and was responsible for providing the conflicts disclosure and the agreements for municipal advisory services. The SEC also found that when Hamlin Advisors and Braun did disclose that a material conflict of interest existed because of Hamlin Advisors's affiliation with Hamlin Affiliate, the disclosure was inadequate because it only disclosed that the firms had certain common ownership and both firms could "receive fees." It did not disclose that Hamlin Advisors had a financial incentive that was opposed to the interests of the clients, due to its affiliation with the Hamlin Affiliate. Further, the SEC's order found that Hamlin Advisors's disclosure was inadequate because it did not adequately describe the nature, implications, and potential consequences of the conflict, and did not disclose how it planned to manage and mitigate the conflict. In addition, the SEC found that, in their advisory agreements with the clients, Hamlin Advisors and Braun did not accurately describe the scope of Hamlin Advisors's municipal advisory services for the deals at issue. Finally, the SEC's order found that Hamlin Advisors's written supervisory procedures were not reasonably designed to achieve compliance with the applicable securities laws and regulations, including the applicable MSRB rules.

Hamlin Advisors and Braun consented to the SEC's cease-and-desist order censuring them and finding that they violated Section 15B(c)(1) of the Exchange Act by violating MSRB Rules and that they violated MSRB Rules G-17 and G-42, and finding that Hamlin Advisors violated Section 15B(c)(1) of the Exchange Act by violating its fiduciary duty and that it violated MSRB Rule G-44. Hamlin Advisors also agreed to pay a civil penalty of $200,000 and Braun agreed to pay a civil penalty of $75,000.

The SEC’s investigation was conducted by Michael J. Adler and was supervised by Peter J. Diskin of the Enforcement Division’s Public Finance Abuse Unit and the SEC’s Atlanta Regional Office.

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