UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 4453 / July 14, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17343

In the Matter of **RIVERFRONT INVESTMENT GROUP, LLC,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTIONS 203(e) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), against RiverFront Investment Group, LLC ("RiverFront" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

1. This matter arises from materially misleading disclosures made by RiverFront in its Forms ADV concerning the frequency that it traded in a manner that resulted in additional, insufficiently disclosed transaction costs to advisory clients in wrap fee programs that were not covered by the annual wrap fee. In wrap fee programs, clients pay an annual fee which is intended to cover the cost of several services "wrapped" together, such as custody, trade execution, portfolio management, and back office services. Wrap fee programs are typically created by a sponsoring firm. Sponsors provide a portion of the program's services. They also may select multiple third-party managers for their platforms, from which clients can choose. These third-party managers, often called subadvisers, have discretion over the clients' investment decisions in the programs.

2. Most wrap fee programs contemplate that subadvisers will use a sponsor-designated broker-dealer (often the sponsor itself) to execute the subadviser's trades on behalf of clients. As such, the transaction costs of the trades executed through the designated broker-dealer are included in the wrap fee that each client pays.

3. RiverFront, a registered investment adviser, serves as a subadviser to clients in various wrap fee programs created by a number of different sponsors. As a subadviser, RiverFront creates investment strategies for those wrap fee programs and executes those strategies on behalf of the clients that select RiverFront to manage their accounts, from amongst the subadviser choices available to a client on any particular platform. In this role, RiverFront has sole discretion over whether to send trades to the designated broker-dealer for execution, in which case the transaction charges are covered by the wrap fee, or to send the trades to another broker-dealer in which case the client typically pays additional transaction costs charged by that broker-dealer. The practice of sending trades to a non-designated broker-dealer is referred to as "trading away" and these trades are frequently called "trade aways." The extent to which a subadviser trades away from the designated broker-dealer is relevant to a client selecting a wrap fee program because it entails additional costs to the client and could influence the client's evaluation of the reasonableness of the wrap fee, which is often negotiable.

4. RiverFront first began serving as a subadviser to advisory clients in wrap fee programs in mid-2008. At that time, RiverFront disclosed that it may trade away in an effort to obtain best execution on behalf of its clients, but that it would "generally" execute trades through the designated broker-dealers, which it did. However, beginning in late 2009, RiverFront substantially increased the amount it was trading away. RiverFront claims that trading away resulted in improved execution prices. However, by trading away, RiverFront caused its clients to pay millions of dollars' worth of transaction costs that were not covered by the annual wrap fee,

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

rendering its existing disclosures inaccurate. By failing to make timely and accurate disclosures to its clients about this change to its trading practices, RiverFront violated Sections 207 and 204(a) of the Advisers Act and Rule 204-1(a) thereunder.

Respondent

5. RiverFront, a Delaware limited liability company based in Richmond, Virginia, is a privately-held investment adviser. RiverFront was formed in December 2007 and has been registered with the Commission as an investment adviser since February 2008.

RiverFront Failed to Make Timely and Accurate Disclosures About the Extent of its Trading Away

RiverFront Started Trading Away Most of its Wrap Trading by the Beginning of 2010

6. Investors in wrap fee programs pay an annual fee—calculated as a percentage of assets under management—for the services performed by the program sponsor, and by the subadviser (here, RiverFront). As a result, investors in the wrap fee programs are advisory clients of both the sponsor and subadviser.

7. As a subadviser, RiverFront is responsible for designing and implementing investment strategies for certain wrap fee programs. RiverFront has developed a variety of strategies for the money it manages for its clients in those wrap fee programs. These strategies involve, among other things, investments in large, mid, and small cap equities, fixed income, and exchange traded funds.

8. RiverFront also has sole responsibility for selecting which broker-dealers will execute its clients' transactions. In some cases, in an effort to obtain best execution, RiverFront may select a non-designated broker-dealer (not affiliated with the program sponsor) to execute the trades if it deems the transaction to be in the best interests of the client.

9. From mid-2008 until March 2009, RiverFront directed almost all wrap trades to the designated broker-dealers for execution. Therefore, almost all transaction costs were covered by the annual wrap fee.

10. At the end of the first quarter of 2009, RiverFront began trading away with more frequency. Over the next several quarters, RiverFront decided to trade away, on a security-type by security-type basis, virtually 100% of its "portfolio trades," *i.e.*, trades done to implement RiverFront's investment decisions for its clients.

a. By the end of the first quarter of 2009, RiverFront started trading away all portfolio trades in fixed income securities;
b. During the second quarter of 2009, RiverFront started trading away all portfolio trades in exchange traded fund securities;

c. During the third quarter of 2009, RiverFront started trading away all portfolio trades in small and mid-cap equity securities; and
d. By April 2010, RiverFront started trading away all portfolio trades in all equity securities, including large cap equities.

11. RiverFront continued to route virtually all "maintenance trades," *i.e.*, trading initiated by individual clients, such as those occasioned by deposits or withdrawals, to the designated broker-dealers for execution.

12. By the beginning of 2010, RiverFront was trading away a majority of its overall wrap trading by market value and share volume. As shown in the chart below, RiverFront traded away approximately 74% of the market value of its overall wrap fee program trading in 2010 and approximately 82% in 2011. In terms of the percentage of shares, rather than market value, those percentages were approximately 68% and 73% of all wrap trading for those two years.

Time Period	Market Value	Shares
1Q2010	57.5%	61.1%
2Q2010	73.7%	54.2%
3Q2010	82.0%	78.7%
4Q2010	79.2%	66.8%
2010 Total	73.8%	68.2%
1Q2011	78.0%	65.6%
2Q2011	80.3%	77.4%
3Q2011	85.2%	77.7%
4Q2011	83.9%	71.5%
2011 Total	82.2%	73.1%

13. RiverFront did not profit by trading away, and it claims to have obtained improved execution prices by doing so. However, when RiverFront traded away, any applicable transaction costs charged by the executing broker-dealer were passed through to clients on a per-share basis. Therefore, its clients paid millions of dollars' worth of transaction costs charged by non-designated broker-dealers that were not covered by the wrap fee.

RiverFront Failed to Promptly Update its Form ADV When it Began Trading Away

14. As a registered investment adviser, RiverFront was required to file a Form ADV. Form ADV consists of two main parts. Part 1 is a questionnaire that is filed with the Commission. Part 2, often referred to as the "brochure" portion of the Form, is the narrative portion that is filed with the Commission and provided to advisory clients.

15. Registered investment advisers like RiverFront are required to amend Form ADV at least annually, within 90 days of the end of its fiscal year, and more frequently, if required by the instructions to Form ADV. Those instructions required RiverFront to update its Form ADV "promptly" whenever information in the brochure portion of the Form became "materially inaccurate."

16. From September 2008 through its annual filing in March of 2011, RiverFront filed five Forms ADV, on September 2, 2008, March 31, 2009, March 31, 2010, August 31, 2010, and March 31, 2011.

17. RiverFront filed Forms ADV on September 2, 2008 and March 31, 2009, prior to engaging in significant trading away. In the brochure portion of these filings, RiverFront disclosed to its clients that it might trade away in an effort to obtain best execution, and that in such instances clients may pay transaction costs not covered by the annual wrap fee. However, RiverFront also stated that (i) it would typically trade through the sponsor-designated broker-dealers, (ii) clients would not be charged a commission on those trades, (iii) a portion of the wrap fee was considered to be in lieu of brokerage commissions, and (iv) RiverFront therefore generally directed trades to the designated broker-dealer "in order to enjoy the greatest cost benefits of the wrap fee program."

18. RiverFront significantly increased its trading away activity during 2009 and early 2010. Consequently, trading away began to constitute a majority of wrap trading by volume, whether measured in terms of market value or shares, during this time period. However, RiverFront did not update its Form ADV as required in light of this material change.

RiverFront Made Materially Misleading Statements in Its March 31, 2010 and August 31, 2010 Forms ADV

19. On March 31 and August 31, 2010, RiverFront filed its next two Forms ADV, including amended brochures. In those brochures, RiverFront made identical disclosures regarding trade execution in wrap fee programs that it had in its prior Forms ADV. Specifically, RiverFront repeated that wrap trading would "generally" or "customarily" be done through the sponsor-designated broker-dealers "in order to enjoy the greatest cost benefits of the wrap fee program." RiverFront also reiterated that wrap fee program trades "are generally effected without commissions."

20. By the time RiverFront repeated these disclosures in its March 31, 2010 Form ADV, it was trading away the majority of its wrap trading. By market value, RiverFront traded away approximately 57% of the total wrap trades that quarter and approximately 61% by shares. In the next quarter, those percentages were approximately 73% and 54%, respectively.

21. By the third quarter of 2010, the quarter in which RiverFront filed the August 31, 2010 Form ADV which continued to include identical language regarding the trade away practice, RiverFront sent approximately 82% of the market value of wrap trades to non-designated broker dealers, representing approximately 78% of shares traded.

RiverFront Made Materially Misleading Statements in Its March 31, 2011 Form ADV

22. On March 31, 2011, RiverFront filed its next annual amendment to Form ADV. This amendment contained a new required section entitled "Summary of Material Changes." This new section required RiverFront to identify and discuss material changes from its prior brochure. Pursuant to Rule 204-3 under the Advisers Act, RiverFront could elect to deliver to clients only the

Summary of Material Changes section, in lieu of the entire brochure, so long as clients were also offered the entire brochure upon request.

23. In the March 31, 2011 Form ADV, RiverFront made significant changes to the language regarding execution in wrap fee programs. In most places, RiverFront had deleted the language that indicated that wrap trading would "generally" be done through the sponsors. For instance, in the brochure, RiverFront stated: "Although some brokerage transactions will be executed through the Program Sponsor, RiverFront, in many cases, may choose to place trades through broker/dealers other than the Program Sponsor." RiverFront also disclosed that, in those cases, "the client's account may be charged a commission or other fees that are not included in the wrap fee paid by the client to the Program Sponsor."

24. However, in the very next paragraph RiverFront stated, as it had in the 2010 versions, "if a client retains RiverFront through a wrap fee arrangement, RiverFront will generally execute transactions for the client's account through the client's Program Sponsor, in order to enjoy the greatest cost benefits of the wrap fee program." RiverFront made this disclosure even though, at the time, it was trading away for a majority of the volume of the wrap trading it placed on behalf of clients, and that this would continue indefinitely by virtue of its decisions to trade away all portfolio trades in all security types.

25. RiverFront also failed to disclose and discuss these changes in the "Summary of Material Changes" section of the brochure. Because RiverFront opted to deliver only the "Summary of Material Changes" section of the March 31, 2011 brochure to clients who had received a prior brochure, many clients did not receive the updated language.

26. Approximately five months later, in an amended Form ADV dated August 24, 2011, RiverFront deleted the last remaining statement that indicated that it would "generally" trade through the sponsors. In addition, it added language indicating that it would trade away "often" in pursuit of its duty to seek best execution.

Violations

27. As a result of the conduct described above, RiverFront willfully[2] violated Section 207 of the Advisers Act which makes it "unlawful for any person willfully to make any untrue statement of a material fact in any registration application or report filed with the Commission . . . or willfully to omit to state in any such application or report any material fact which is required to be stated therein."

[2] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

28. As a result of the conduct described above, RiverFront willfully violated Section 204(a) of the Advisers Act and Rule 204-1(a) promulgated thereunder, which incorporates by reference the instructions to Form ADV and therefore requires that Form ADV be amended when "information provided in [the] brochure becomes materially inaccurate."

RiverFront's Remedial Efforts

29. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

Undertakings

30. Respondent has undertaken to disclose, on a quarterly basis, on its public website, the volume of trades by market value executed away from sponsor firms and the associated transaction costs charged by non-designated broker-dealers and passed onto clients. Respondent will provide this information on an investment strategy by investment strategy basis. The location of this data will be referenced by its URL in all of Respondent's future Forms ADV and Respondent's client agreements. In determining whether to accept the Offer, the Commission has considered this undertaking.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent RiverFront's Offer.

Accordingly, pursuant to Sections 203(e) and 203(k) of the Advisers Act, it is hereby ORDERED that**:**

A. Respondent RiverFront cease and desist from committing or causing any violations and any future violations of Sections 207 and 204(a) of the Advisers Act and Rule 204-1 promulgated thereunder.

B. Respondent RiverFront is censured.

C. Respondent shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of $300,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Securities Exchange Act of 1934 Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying RiverFront Investment Group, LLC as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to G. Jeffrey Boujoukos, Division of Enforcement, Securities and Exchange Commission, 1617 JFK Boulevard, Suite 520, Philadelphia, PA 19103.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Brent J. Fields
Secretary