

TRAVIS J. ILES
SECURITIES COMMISSIONER



CLINTON EDGAR
DEPUTY SECURITIES COMMISSIONER

Mail: P.O. BOX 13167
AUSTIN, TEXAS 78711-3167

Phone: (512) 305-8300
Facsimile: (512) 305-8310

Texas State Securities Board

208 E. 10th Street, 5th Floor
Austin, Texas 78701-2407
www.ssb.texas.gov

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IN THE MATTER OF THE DEALER
REGISTRATION OF MADISON
AVENUE SECURITIES, LLC

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ORDER NO. IC23-CAF-03

TO: Madison Avenue Securities, LLC
Attn: Gail Jenson, Chief Compliance Officer
13500 Evening Creek Drive, Suite 555
San Diego, CA 92128

DISCIPLINARY ORDER

Be it remembered that Madison Avenue Securities, LLC ("Respondent"), appeared before the Securities Commissioner of the State of Texas ("Securities Commissioner") solely for the purposes of resolving an investigation with the Texas State Securities Board, and without admitting or denying consented to the entry of this order ("Order"), the Findings of Fact, the Conclusions of Law, and the Undertaking contained herein.

OVERVIEW

During the period 2014 through 2017, Respondent failed to establish, maintain, and enforce a supervisory system to supervise the activities of its agents relating to the sale of certain alternative investments. Specifically, after adopting different branch-office specific guidelines for one former agent of Respondent, Respondent did not consistently apply an alternative investment account score worksheet, which was used to assess compliance for purchases of alternative investment sales. Nor did Respondent create a new tool to monitor for the branch-office specific compliance of alternative investment sales. As such, with respect to eight transactions, Respondent failed to follow the branch-office specific guidelines for alternative investments when a former agent at that branch office recommended purchasing interests in GPB Auto for clients.

To resolve this matter with the Securities Commissioner, Respondent has agreed to pay a \$20,000 fine and enter into an undertaking whereby Respondent agrees to offer to pay the affected clients an amount equal to a portion of the clients' outstanding investment in GPB Auto.

FINDINGS OF FACT

1. Respondent has waived (a) Respondent's right to notice and hearing in this matter; (b) Respondent's right to appear and present evidence in this matter; (c) Respondent's right to appeal this Order; and (d) all other procedural rights granted to the Respondent by The Securities Act of Tex. Gov't Code §§ 4001.001-4008.105 (the "Securities Act") and the Administrative Procedure Act, Tex. Gov't Code Ann. §§ 2001-001-2001.902.
2. Respondent sells an array of alternative investment, including, but not limited to, shares of non-traded REITS, business development companies, and private placement offerings.

Respondent's Sales of GPB Private Placements

3. GPB Capital Holdings ("GPB") is a New York-based alternative asset management firm that acted as a general partner and fund manager for limited partnership funds.
4. These funds raised money through individual investors to acquire and invest in various businesses, but focusing primarily in automotive retail, debt strategies, special situations, technology-enabled services, waste management, and healthcare.
5. From 2013 through 2018, GPB raised more than \$1.7 billion for at least five of its limited partnership funds from approximately 17,000 retail investors nationwide.
6. GPB relied on independent broker dealers, like Respondent, to solicit the investments in their limited partnership funds.
7. From 2014 through 2017 (the "Relevant Period"), Respondent sold interests in GPB Automotive Portfolio, LP ("GPB Auto")—one of GPB's limited partnership funds which was formed to acquire and operate automotive dealerships.
8. In February 2021, following state and federal actions against certain principals of GPB, a court-appointed monitor was put in place to oversee material corporate transactions by GPB and GPB Auto. And in September 2021, GPB began liquidating its assets, so that there is approximately \$1 billion being held in anticipation of distributions once a receiver is appointed and plan for distribution accepted.¹

¹ As of May 8, 2023, the SEC, GPB and the court-appointed monitor have all requested appointment of a receivership from the Court overseeing the matter, which if granted, would result in a formalized distribution plan and process. For information see www.gpb-cap.com/secfilings.

Respondent's utilization of an alternative investment worksheet

9. During the Relevant Period, in connection with the supervision of sales of alternative investments, such as GPB Auto, and to assist in supervisory review, the Firm utilized an alternative investment account score worksheet (the "Worksheet").
10. The Worksheet was used for internal review and processing purposes with respect to the sale of alternative investments.
11. A client's account score was derived from a combination of their risk tolerance, investment objective, age, investment experience, and overall financial situation.
12. And, importantly, it identified the maximum, cumulative percentage of net worth a client could invest in alternative investments.
13. Further, the Worksheet stated at the top of the document that "percentages below represent the maximum amounts allowable and are not a suggested amount" and concluded with the same disclaimer at its end.

Respondent inconsistently applied supervisory procedures for transactions at one branch office

14. For one Texas-based branch office (the "Branch Office"), Respondent approved different branch-specific guidelines for the review and approval of alternative investment sales.
15. Whereas the Worksheet referred to a customer's net worth for purposes of calculating the overall exposure to alternative investments in a customer's account, including existing alternative investments in addition to the proposed transaction, Respondent and the agent (the "Agent") located at the Branch Office agreed to different investment criteria.
16. Specifically, the Firm and the Agent agreed that, in addition to other investment criteria, when calculating clients' alternative investment, cumulative, allowable percentages could be based on an increased percentage of a client's exclusive net worth (i.e., exclusive of the value of the home) instead of a lower percentage of a client's overall net worth (i.e., inclusive of the value of the home).
17. Importantly, Respondent did not create a new worksheet or other supervisory tool incorporating the Branch Office-specific requirements to assist Respondent to properly calculate the total alternative investment requirements of the client's exclusive net worth to detect and prevent sales that might exceed the maximum amount of alternative investments for clients of this Agent and Branch Office.

18. During the Relevant Period, one product that the Agent recommended was the aforementioned GPB Auto including to clients that were already invested in other alternative investments.
19. In connection with eight specific transactions in GPB Auto to seven client accounts from the Branch Office, Respondent appears to have calculated the total alternative investments for the proposed transaction relative to net worth instead of exclusive net worth per the Branch Office specific policy.
20. Respondent's approval of GPB Auto investments for the eight transactions were inconsistent with the stated limitation Respondent established for this Branch's customers seeking to invest in GPB Auto.
21. These eight sales of GPB Auto to seven clients totaled \$448,000.

CONCLUSIONS OF LAW

1. Respondent's failure to create a new worksheet detailing the updated alternative investment requirements for the Branch Office and subsequent approvals of such sales when they violated the procedures applicable to this Agent and Branch Office was a failure to establish, maintain and enforce a supervisory system to supervise the activities of its agents.
2. Respondent's failures to establish, maintain and enforce a supervisory system to supervise the activities of its agents are violations of §115.10 of the Board Rules.
3. Pursuant to Section 4007.106(a)(3) of the Texas Securities Act, Respondent's violations of §115.10 of the Board Rules constitute a basis for the assessment of an administrative fine against Respondent.

UNDERTAKING

1. Respondent undertakes and agrees to offer to pay the seven affected clients (regarding eight transactions) an amount equal to a portion of the clients' outstanding investments in GPB Auto.
2. Respondent further undertakes and agrees that the offer will be made within thirty (30) days of the entry of this Order.
3. Respondent further undertakes and agrees that the offer will remain open for a period of thirty (30) days from the date the offer is made.
4. Respondent further undertakes and agrees that Respondent will provide evidence and records of the offer and the acceptance of the offer by any client to the Staff within seventy-five (75) days of the entry of this Order.

ORDER

1. It is therefore ORDERED that Madison Avenue Securities, LLC shall pay an ADMINISTRATIVE FINE in the amount of Twenty-Thousand Dollars (\$20,000) to the general fund of the State of Texas within ten (10) business days of the entry of this Order.
2. It is further ORDERED that Madison Avenue Securities, LLC COMPLY with the terms of the undertaking contained herein.

SIGNED AND ENTERED BY THE SECURITIES COMMISSIONER this 30th day of
June 2023.



TRAVIS J. ILES
Securities Commissioner

Respondent:



Madison Avenue Securities
By: Gail Jensen
Chief Compliance Officer

Approved as to Form:



Clinton Edgar
Deputy Securities Commissioner



David Porteous
Counsel for Respondent



Cristi Ram3n Ochoa
Attorney
Inspections and Compliance Division