UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 6666 / August 26, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-22032

In the Matter of **SOUND POINT CAPITAL MANAGEMENT, LP,** **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 and in the public interest that public 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 Sound Point Capital Management, LP ("Sound Point" 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 Respondent 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 out of the failure by Sound Point, a registered investment adviser, to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the misuse of material nonpublic information ("MNPI") concerning its trading of collateralized loan obligations ("CLOs"). Because CLOs are generally collateralized by corporate loans, the price at which a CLO tranche trades may be impacted by the price at which the underlying loans trade. At all times during the period May 2018 to June 2024 ("Relevant Period"), as a significant component of its business, Sound Point managed CLOs and traded the tranches of CLOs both that it managed ("Sound Point CLOs") and that were managed by third parties ("Third Party CLOs").

2. Prior to July 2022, Sound Point had no written policies and procedures aimed at preventing the misuse of MNPI about the underlying loans when trading Sound Point CLOs or Third Party CLOs. On July 30, 2019, after several weeks exploring the possibility of reducing Sound Point's exposure to Sound Point CLO equity tranches, Sound Point sold two Sound Point CLO equity tranches—which suffer first-loss exposure when the loans in a CLO are negatively impacted—to two counterparties. These equity tranches, as well as other CLOs and hedge funds managed by Sound Point, included loans made to a media services company ("Company A"). At the time it sold these CLO tranches, Sound Point was in possession of MNPI about Company A, which it obtained in connection with its participation in an ad hoc lender group for Company A. When this MNPI was publicly released on July 31, 2019, the value of the Company A loans in these CLO tranches dropped by over 50% and materially decreased the value of the CLO tranches Sound Point had sold the previous day by approximately $685,000. Although certain Sound Point personnel recognized that the firm was in possession of MNPI about Company A at the time of the trades of these CLO tranches, Sound Point failed to consider whether such information was also material with respect to these CLO tranches before it sold them.

3. Although Sound Point began conducting pre-clearance reviews in July 2019 to assess the potential impact of MNPI about underlying loans on the trading of Sound Point CLOs, Sound Point did not adopt written policies and procedures for such reviews until July 2022. Sound Point did not, at any point during the Relevant Period, establish, maintain, or enforce any written policies or procedures concerning the misuse of MNPI about underlying loans in Third Party CLOs, even though Sound Point was trading tranches of those CLOs.

4. As a result, Sound Point violated Sections 204A and 206(4) of the Advisers Act and Rule 206(4)-7 promulgated thereunder.

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[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.

Respondent

5. **Sound Point**, a Delaware limited partnership with its principal place of business in New York, New York, has been registered with the Commission as an investment adviser since 2011. Sound Point provides investment advisory services to private funds, to separately managed accounts, to a registered investment company, and to CLOs. In its annual updating amendment to Form ADV, filed March 29, 2024, Sound Point reported having approximately $38.3 billion in regulatory assets under management.

Facts

6. A CLO is a security that is typically collateralized with a pool of corporate loans, loan participations, or credit default swaps tied to corporate liabilities. Each CLO issues a series of bonds, the most junior tranche of which is typically referred to as the "equity" tranche, because it takes the first loss. These tranches differ in terms of subordination and priority. Cash flows from the underlying loans of a CLO are used to pay interest and principal on the debt tranches and are distributed based on a "waterfall" whereby cash flows are paid sequentially starting with the senior-most tranche until each tranche has been paid its full distribution. After expenses and liabilities are paid off, the equity tranche receives the residual distribution. As the equity tranche is subordinate to the debt tranches, it is the first to absorb losses if any of the underlying loans materially decrease in value or default. Therefore, a CLO equity tranche is generally considered to be the riskiest part of the CLO capital structure.

7. CLOs are actively managed vehicles. After a CLO is issued, there is generally a four to five year "reinvestment" period during which the manager can sell existing loans and buy new ones for the portfolio, within the parameters of the CLO's governing documents.

8. During the Relevant Period, Sound Point's investment strategies concentrated on performing credit and CLOs, opportunistic credit, structured credit, specialty finance and marketplace lending, and commercial real estate credit.

9. As part of its credit business, Sound Point often participated in ad hoc lender groups or creditors' committees, which joined other large creditors with similar interests together in order to explore potential favorable debt restructuring opportunities with the issuer of an underlying loan prior to the issuer filing for bankruptcy, reorganizing the company, or otherwise initiating formal restructuring proceedings.

10. The CLO platform managed by Sound Point consisted of approximately 55 U.S. CLOs and 16 European CLOs during the Relevant Period.

Sound Point Sold CLO Equity Tranches While in Possession of MNPI

11. By 2019, through its CLOs and hedge fund vehicles, Sound Point was one of the largest holders of term loans issued to Company A. In early 2019, Sound Point became a member of an ad hoc lender group to Company A (the "ad hoc group").

12. Through its participation in the ad hoc group, Sound Point received information that it understood to be confidential about Company A that was not available to those outside of the ad hoc group.

13. At this time, Sound Point had in place an insider trading policy that prevented Sound Point from trading in the securities of a company while Sound Point was in possession of MNPI about that company. As part of this policy, Sound Point's compliance department maintained a restricted list containing the names of issuers in whose securities Sound Point and its supervised persons could not trade, either in a business or personal capacity.

14. Sound Point's insider trading policy, however, did not contain any prohibitions on trading a CLO tranche while in possession of MNPI about the underlying loans in that CLO.

15. On or about June 27, 2019, as a result of Sound Point's role as a member of the ad hoc group, certain Sound Point personnel became aware of the likely failure of an expected major asset sale by Company A and Company A's need for rescue financing. This information constituted MNPI about Company A, whose loans were included in certain Sound Point CLOs.

16. On July 30, 2019, after several weeks exploring the possibility of reducing Sound Point's exposure to Sound Point CLO equity tranches, a Sound Point co-portfolio manager for its CLO investments emailed Sound Point's compliance department to request approval to sell portions of two equity tranches of Sound Point CLOs that contained loans by Company A. In the email, the co-portfolio manager noted that neither CLO was a candidate for a planned refinancing, reset, or reissue. Previously Sound Point investment personnel who were aware of the MNPI by virtue of Sound Point's role on the ad hoc group communicated Company A's need for rescue financing to Sound Point's compliance personnel.

17. In July 2019, Sound Point did not maintain policies and procedures requiring it to take into consideration the impact of MNPI relating to a given corporate borrower on the value of a CLO tranche containing a loan to that borrower when evaluating a proposed trade of that CLO tranche. Accordingly, Sound Point's compliance department approved the proposed sales of the CLO equity tranches containing loans to Company A.

18. Sound Point sold portions of these two CLO equity tranches to two counterparties on July 30, 2019, although it continued to hold other CLO and hedge fund positions with exposure to Company A loans.

19. On July 31, 2019, when the MNPI concerning Company A became public, the prices of Company A's loans immediately dropped by more than 50% and thus the value of the two CLO tranches Sound Point had sold the previous day declined in value by approximately 11% or $685,000.

20. Thereafter, one of the counterparties to which Sound Point had sold these CLO equity tranches contacted Sound Point and demanded either rescission of the sale or a reduction in the purchase price equal to the decline in the value of the CLO tranches in response to the Company A MNPI becoming public (approximately $350,000) and threatened litigation. Sound Point paid the amount requested by the counterparty in full.

Sound Point's Deficient Policies and Procedures

21. Prior to July 2022, Sound Point had no written policies and procedures aimed at preventing the misuse of MNPI about underlying loans in its CLO trading. While Sound Point's compliance manual set forth its policy regarding insider trading, the manual did not address the possibility that MNPI Sound Point obtained about a company's loans could impact its CLO trading if a CLO contained such loans.

22. Following the events involving Company A in July 2019, Sound Point began to conduct compliance reviews prior to trades of Sound Point CLOs. These reviews took into consideration the loan exposure of the CLO tranches at issue, as well as potential MNPI that Sound Point possessed concerning the pertinent borrowers. But Sound Point did not establish, maintain, or enforce written policies or procedures governing these pre-trade reviews until July 2022.

23. In addition, throughout the Relevant Period, Sound Point failed to establish, maintain, or enforce any written policies or procedures concerning its possession of MNPI about underlying loans held by a Third Party CLO. Unlike its pre-trade compliance reviews for Sound Point CLOs, Sound Point conducted no such reviews for Third Party CLOs. Sound Point also did not maintain any information barriers between its personnel responsible for the firm's credit investment decisions (including those potentially exposed to MNPI from Sound Point's participation in ad hoc lender groups) and its personnel responsible for its CLO trading.

24. In April 2024, as a result of the staff's investigation, Sound Point began conducting pre-clearance reviews aimed at preventing the misuse of MNPI about the underlying loans in the Third Party CLOs it traded. Sound Point adopted written policies and procedures for these reviews thereafter in June 2024.

Violations

25. Section 204A of the Advisers Act requires investment advisers subject to Section 204 of the Advisers Act to establish, maintain, and enforce written policies and procedures reasonably designed, taking into consideration the nature of such investment adviser's business, to prevent the misuse of material, nonpublic information by such investment adviser or any person associated with such investment adviser in violation of the Advisers Act or the Securities Exchange Act of 1934 ("Exchange Act") or the rules or regulations thereunder. As a result of the conduct described above, Sound Point willfully[2] violated Section 204A.

[2] "Willfully," for purposes of imposing relief under Section 203(e) of the Advisers Act, "means no more than 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.

26. Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder require registered investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder by the investment adviser or its supervised persons. As a result of the conduct described above, Sound Point failed to adopt or implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules, and willfully violated Section 206(4) and Rule 206(4)-7 thereunder.

Sound Point's Remedial Efforts

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

IV.

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

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

A. Respondent cease and desist from committing or causing any violations and any future violations of Sections 204A and 206(4) of the Advisers Act and Rule 206(4)-7 promulgated thereunder.

B. Respondent is censured.

C. Respondent shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of $1,800,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Section 21F(g)(3) of the Exchange Act. 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

1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965). The decision in *The Robare Group, Ltd. v. SEC*, which construed the term "willfully" for purposes of a differently structured statutory provision, does not alter that standard. 922 F.3d 468, 478-79 (D.C. Cir. 2019) (setting forth the showing required to establish that a person has "willfully omit[ted]" material information from a required disclosure in violation of Section 207 of the Advisers Act).

(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 Sound Point 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 Lee A. Greenwood, Assistant Regional Director, Asset Management Unit, Division of Enforcement, Securities and Exchange Commission, New York Regional Office, 100 Pearl Street, Suite 20-100, New York, NY 10004.

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.

Vanessa A. Countryman
Secretary