

SEC Charges BlackRock Advisors With Failing to Disclose Conflict of Interest to Clients and Fund Boards

FOR IMMEDIATE RELEASE

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Washington D.C., April 20, 2015 — The Securities and Exchange Commission today charged BlackRock Advisors LLC with breaching its fiduciary duty by failing to disclose a conflict of interest created by the outside business activity of a top-performing portfolio manager.

BlackRock agreed to settle the charges and pay a \$12 million penalty. The firm also must engage an independent compliance consultant to conduct an internal review.

According to the SEC's order instituting a settled administrative proceeding, Daniel J. Rice III was managing energy-focused funds and separately managed accounts at BlackRock when he founded Rice Energy, a family-owned and operated oil-and-natural gas company. Rice was the general partner of Rice Energy and personally invested approximately \$50 million in the company. Rice Energy later formed a joint venture with a publicly-traded coal company that eventually became the largest holding (almost 10 percent) in the \$1.7 billion BlackRock Energy & Resources Portfolio, the largest Rice-managed fund. The SEC's order finds that BlackRock knew and approved of Rice's investment and involvement with Rice Energy as well as the joint venture, but failed to disclose this conflict of interest to either the boards of the BlackRock registered funds or its advisory clients.

"BlackRock violated its fiduciary obligation to eliminate the conflict of interest created by Rice's outside business activity or otherwise disclose it to BlackRock's fund boards and advisory clients," said Andrew J. Ceresney, Director of the SEC's Division of Enforcement. "By failing to make such a disclosure, BlackRock deprived its clients of their right to exercise their independent judgment to determine whether the conflict might impact portfolio management decisions."

The SEC's order also finds that BlackRock and its then-chief compliance officer Bartholomew A. Battista caused the funds' failure to report a "material compliance matter" – namely Rice's violations of BlackRock's private investment policy – to their boards of directors. BlackRock additionally failed to adopt and implement policies and procedures for outside activities of employees, and Battista caused this failure. Battista agreed to pay a \$60,000 penalty to settle the charges against him.

"This is the first SEC case to charge violations of Rule 38a-1 for failing to report a material compliance matter such as violations of the adviser's policies and procedures to a fund board," said Julie M. Riewe, Co-Chief of the SEC Enforcement Division's Asset Management Unit. "BlackRock and Battista caused the funds' failure to report Rice's violations of BlackRock's private investment policy and denied the funds' boards critical compliance information alerting them to Rice's outside business interests."

BlackRock agreed to be censured and consented to the entry of the SEC's order finding that the firm willfully violated Sections 206(2) and 206(4) of the Investment Advisers Act of 1940 and Rule 206(4)-7. The order finds that the firm caused violations of Rule 38a-1 of the Investment Company Act of 1940. Battista also consented to the entry of the order finding that he caused violations of

Section 206(4) of the Advisers Act, Rule 206(4)-7, and Rule 38a-1. BlackRock and Battista are required to cease and desist from committing or causing any further violations. BlackRock and Battista neither admitted nor denied the findings.

The SEC's investigation was conducted by Janene M. Smith, David A. Becker, and Brian E. Fitzpatrick and supervised by Jeffrey B. Finnell of the SEC Enforcement Division's Asset Management Unit.

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Related Materials

- [SEC order](#)