

Independent Investment Research Focused on Public Company Interactions with the SEC.

Possible SEC Investigation Found

*This research note was first sent to clients on 08-Feb-2024.  
It has been re-formatted, but not updated since.  
Market data as of the close on Wednesday, 28-Feb-2024.*

**New Warning.** Early signal of a possible SEC investigation received on 18-Jan-2024. We also learned of a second, and recent, undisclosed SEC investigation that just ended in Jan-2024. No clear disclosure of SEC investigative activity found in the last two years. Signal is not yet confirmed. This is our first time researching B. Riley. We have one page of records from that separate SEC investigation that ended in Jan-2024 (Excerpt below).

**Notable Events:** Social media has been especially active with allegations of fraud at Riley. On 21-Jan-2024, *Bloomberg* broke news that the SEC was investigating Riley's deals with a client linked to a securities fraud, and the use of his assets to help the company get a loan from Nomura.

The company denied knowledge of this specific SEC investigation in a statement issued on 22-Jan-2024,

*"B. Riley Financial is not aware of any such SEC investigation regarding any of these matters and, in the event one were to materialize, would cooperate fully with it."*

**Company Disclosures of Note:**

- **10-Q filed 04-Nov-2022: Last time internal controls were declared effective.**
- **8-K filed 01-Mar-2023: 10-K delayed. Cannot timely complete audit.**
- **10-K filed 16-Mar-2023: Material weaknesses in internal controls problems first disclosed.** Auditor issued an adverse attestation report on the same.
- **8-K filed 16-Mar-2023: Restatement.** According to the 8-K,

*"The Company is restating the Specified Financial Statements to reflect the correction of the classification of dividend income and realized and unrealized gains (loss) on certain investments from revenue to other income in the Company's consolidated statement of operations."*

- **10-Q filed 08-May-2023: Internal controls still ineffective.**
- **10-Q filed 09-Aug-2023: Internal controls still ineffective.**
- **10-Q filed 09-Nov-2023: Internal controls still ineffective.**


**DI's Take:** To our view, Riley was already a poster child for a company likely to get investigated by the SEC, even absent the social media drumbeats of fraud, or recent *Bloomberg* story. A delayed 10-K, restatement, and ongoing internal controls problems are catnip for SEC enforcement officials.

**But didn't the company deny the existence of an SEC investigation after the Bloomberg story?** Yes, but only narrowly. Look carefully at the company's word choice. Riley did not deny the existence of any SEC investigation; they merely denied one concerning the subject of the *Bloomberg* story. Clever. Slippery too. We will be shocked if this possible investigation we found is not later confirmed as ongoing.

Finally, we have no idea what this recently-ended investigation of Riley was about. Unfortunately, the SEC withheld, in full, the related two-page opening and closing narrative, along with a five-page case closing recommendation. The meta data on these records suggest to us this was no minor matter, but not massive either.

-- John P. Gavin, CFA  
763-595-0900 (USA)


Document received from the SEC investigation of Riley that ended in Jan-2024:



**SEC DIVISION OF ENFORCEMENT**

Case Closing Report

As of: 01/03/2024



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**Matter No.:** MHO-14817 **Matter Name:** B. Riley Financial, Inc.

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The undersigned has been designated by the Director of the Division of Enforcement to exercise delegated authority to terminate and close all investigations authorized by the Commission pursuant to Section 20 of the Securities Act of 1933 [15 U.S.C. 77t], Section 21 of the Securities Exchange Act of 1934 [15 U.S.C. 78u], Section 18 of the Public Utility Holding Company Act of 1935 [15 U.S.C. 79r], Section 42 of the Investment Company Act of 1940 [15 U.S.C. 80a-41], and section 209 of the Investment Advisers Act of 1940 [15 U.S.C. 80b-9].

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I hereby close this case, pursuant to delegated authority.

  
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 Signature  
  
 \_\_\_\_\_  
 Associate Director  
 \_\_\_\_\_  
 Title  
  
 \_\_\_\_\_  
 January 10, 2024  
 \_\_\_\_\_  
 Date

## What's an Early Signal?



DI's Early Signals are only **POSSIBLE indicators of SEC investigative activity**. We are publishing these data to give you the earliest indication of the existence of a possible SEC investigation.

That is why we use the term "possible" in describing SEC investigations at this point in our research process. We will only describe an investigation "confirmed" after we file an administrative appeal and have received a response that says as much.

**Important:** The SEC reminds us that its assertion of the law enforcement exemption should not be construed as an indication by the Commission or its staff that any violations of law have occurred with respect to any person, entity, or security. In its responses, the SEC did

not disclose the details on investigative activity referenced herein. All we know is that they somehow pertain to the conduct, transactions, and/or disclosures of the companies.

**The data we present here is recently received.** New SEC investigative activity could theoretically begin or end after the date covered by the latest information in this report, which would not be reflected here. Unless we indicate otherwise, we will continue the research process on these companies and may publish updates at any time.

The FOIA data reflected in this report are only current as of the dates indicated for each individual company. Similarly, public company activities and/or disclosures made since the dates indicated herein could impact your analysis.

Only companies with **confirmed, undisclosed SEC investigations** are maintained on our Watch List of companies with undisclosed SEC investigations. If SEC investigative activity has already been disclosed by a company as we go to print, we will endeavor to tell you as much. Further, we may have researched and published on some of these companies in the past. It's also possible some of the companies are already on our Watch List of companies with Confirmed, Undisclosed SEC Investigations. An update to our Watch List report is published at the beginning of each month.

**There are several reasons the SEC might cite the law enforcement exemption as basis to block our access to records.** Not all would be of concern to investors today.

After we receive an Early Signal of a possible SEC investigation, we then file an administrative appeal with the Office of the General Counsel of the SEC on the company in question. After careful review of our appeal, the General Counsel's office typically informs us of one of the following:

1. An ongoing enforcement proceeding is confirmed. Only then will we use the term "confirmed" next to the company's name on our Watch List.
2. There was an investigation that is now over and the file has been remanded for further processing. We may learn more about what took place if the SEC provides documents to us.
3. There are no records responsive to our request. This could be because there was an investigation that concluded in the past but the SEC's records were not current at the time of our request. Alternatively, there may be an investigation involving not the company, but some other person or entity and the company was incidentally named or tangentially listed.
4. Rarely, the appeal response will inform us a clerical error was made by the SEC's FOIA Office in processing our original request.

Clients are welcome to contact us anytime to learn more.

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Telephone: 763-595-0900 (USA)

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to get access to our full research archive.

Clients are invited to contact us anytime, in total confidence,  
to discuss the data and/or risks we identify here.

*Disclosure Insight research provides data, commentary, and analysis on public company interactions with investors and with the SEC. Our work is heavily reliant on company disclosures and our expertise in using the Freedom of Information Act.*

To learn more about our research process, including how to best use this information in your own decision-making, [click here](#).

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