



U.S. Securities and Exchange Commission

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PRESS RELEASE

SEC Charges Two Sigma for Failing to Address Known Vulnerabilities in its Investment Models

Firm ignored material vulnerabilities for years; voluntarily repaid impacted funds and accounts \$165 million

FOR IMMEDIATE RELEASE | 2025-15

Washington D.C., Jan. 16, 2025 — The Securities and Exchange Commission today announced settled charges against New York-based investment advisers Two Sigma Investments LP and Two Sigma Advisers LP (collectively, Two Sigma) for breaching their fiduciary duties by failing to reasonably address known vulnerabilities in their investment models and for related compliance and supervisory failures, as well as for separately violating the Commission’s whistleblower protection rule. Two Sigma voluntarily repaid impacted funds and accounts \$165 million during the SEC’s investigation and agreed to pay \$90 million in civil penalties to settle the SEC’s charges.

According to the SEC’s order, in or before March 2019, Two Sigma employees identified and recognized vulnerabilities in certain Two Sigma investment models that could

negatively impact clients' investment returns, but Two Sigma waited until August 2023 to address the issues. Despite recognizing these vulnerabilities, Two Sigma failed to adopt and implement written policies and procedures to address them and failed to supervise one of its employees who made unauthorized changes to more than a dozen models, which resulted in Two Sigma making investment decisions that it otherwise would not have made on behalf of its clients.

In addition, the SEC's order separately finds that Two Sigma violated the Commission's whistleblower protection rule by requiring departing individuals, in separation agreements, to state as fact that they had not filed a complaint with any governmental agency. This requirement, in effect, could identify whistleblowers and prohibit whistleblowers from receiving post-separation payments and benefits, both of which are actions to impede departing individuals from communicating directly with Commission staff about possible securities law violations, in violation of the whistleblower protection rule.

"As investment advisers rely more heavily on models and advanced technology when investing client assets, the importance of a robust compliance program grows. When an investment adviser identifies material vulnerabilities to its core investment operations that may substantially impact client returns, it must address those vulnerabilities promptly and fully. Doing nothing for years is not the answer," said Sanjay Wadhwa, Acting Director of the SEC's Division of Enforcement. "Here, Two Sigma not only failed to respond reasonably to known vulnerabilities to its investment models, but also failed to adopt and implement reasonable policies and procedures governing such models. The federal securities laws require investment advisers like Two Sigma to take steps – both proactively and reactively – to minimize operational risks to protect their clients."

The SEC's order finds that Two Sigma Investments and Two Sigma Advisers willfully violated the antifraud provisions of the Investment Advisers Act of 1940 and the Advisers Act's compliance rule, as well as Rule 21F-17(a) under the Securities Exchange Act of 1934, which prohibits impeding an individual from communicating with SEC staff about a possible securities law violation. Without admitting or denying the SEC's findings, Two Sigma Investments and Two Sigma Advisers agreed to a cease-and-desist order imposing a censure and a penalty of \$45 million each, totaling \$90 million.

The SEC's continuing investigation is being conducted by Brian Kudon, David F. Benson, and Brian Fitzpatrick, and supervised by Lee A. Greenwood and Corey Schuster, all of the Enforcement Division's Asset Management Unit, as well as Christopher Colorado, senior trial counsel in the New York Regional Office, and Alan Lenarcic and Elcin Yildirim of the Division of Examinations' Quantitative Analytics Unit. Jennifer Moldaver and Jennifer

Duggins of the Division of Examinations' Private Funds Unit and Carol Foehl of the Boston Regional Office assisted with the investigation.

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Last Reviewed or Updated: Jan. 16, 2025

RESOURCES

- **SEC Order**