

## SEC AND DOJ HEIGHTEN FOCUS ON AI WASHING

Jun 20, 2024

### WHAT HAPPENED

The SEC recently charged [Ilit Raz](#), the CEO of Joonko Diversity Inc., a failed recruitment startup, with "AI washing" based on allegedly false claims that her company had developed an "automatic recruiting solution" to help companies achieve DEI goals by using AI technology to identify diverse and underrepresented candidates.

The charges follow on the heels of the March settlement with two investment advisers for making false and misleading statements about their purported use of AI, as discussed in our [April 8, 2024 post](#).

In a parallel action, the U.S. Attorney's Office for the Southern District of New York [announced criminal charges](#) against Raz.

### TAKEAWAYS

Few companies are likely to make false statements as brazen as those alleged in the charges; however, the allegations serve as a reminder that public companies should remain vigilant in verifying statements in public filings and other communications.

As use of artificial intelligence in businesses continues to expand, the temptation to highlight its applications can also grow. Companies should exercise care to ensure that any discussion of AI is supported with internal documentation and balanced in presentation, with appropriate consideration of risks and limitations.

### DEEPER DIVE

According to the [SEC's complaint](#), Joonko claimed to use artificial intelligence to help clients find diverse and underrepresented candidates to fulfill their DEI hiring goals. The Joonko platform would purportedly connect companies to pre-qualified candidates and recommend candidates that had final stage interviews to other customers,

While raising over \$27 million in multiple funding rounds, the complaint alleges that Raz:

- Falsely claimed that Joonko had hundreds of customers, including Fortune 500 companies.
  - In reality, it had at most dozens of customers, which did not include many of the claimed Fortune 500.
- Provided fabricated testimonials from several companies expressing their appreciation for Joonko and praising its effectiveness.
- Falsely claimed that Joonko had earned more than \$1 million in revenue and was working with more than 100,000 active job candidates.
  - In reality, its revenue did not exceed \$100,000 and it had far fewer job candidates.
- Provided fake customer lists, falsified bank statements and forged purchase orders to investors in response to due diligence requests in order to conceal the fraud.

With respect to the Joonko platform, Raz falsely claimed that it used:

- “[S]even different AI algorithms.”
- “AI-based technology” to provide an “automated recruiting solution.”
- A “proprietary algorithm [that] uses natural language processing and computer vision to scan public data on the candidates that are referred to us.”
- “[M]achine learning to improve the matching process as candidates select the roles they’re interested in” and that the matching of candidates was “automated from end to end.”

According to the complaint, after refusing to provide investors with access to company documents, members of Joonko’s board of directors began to investigate. When confronted, Raz ultimately admitted to a representative of the board that she had lied about the number of customers, the amount of revenue, and the amount of money in its bank accounts. Ultimately, Raz resigned as CEO and Joonko filed for bankruptcy in May 2024.

The SEC is requesting a permanent injunction, disgorgement, civil penalties and a permanent officer and director bar. The [DOJ indictment](#) charges Raz with violations of securities fraud (Rule 10b-5) and wire fraud.

## **RELATED PRACTICE AREAS**

- Securities & Corporate Governance

## MEET THE TEAM



### **R. Randall Wang**

St. Louis

[randy.wang@bclplaw.com](mailto:randy.wang@bclplaw.com)

+1 314 259 2149

---

This material is not comprehensive, is for informational purposes only, and is not legal advice. Your use or receipt of this material does not create an attorney-client relationship between us. If you require legal advice, you should consult an attorney regarding your particular circumstances. The choice of a lawyer is an important decision and should not be based solely upon advertisements. This material may be “Attorney Advertising” under the ethics and professional rules of certain jurisdictions. For advertising purposes, St. Louis, Missouri, is designated BCLP’s principal office and Kathrine Dixon ([kathrine.dixon@bclplaw.com](mailto:kathrine.dixon@bclplaw.com)) as the responsible attorney.