

MEMO# 20671

December 8, 2006

Registered Broker-Dealer, Trader and Supervisor Settle with SEC and NASD Over Alleged Improper Gifts and Entertainment

©2006 Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice. [20671] December 8, 2006 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 27-06 FIXED-INCOME ADVISORY COMMITTEE No. 11-06 RE: REGISTERED BROKER-DEALER, TRADER AND SUPERVISOR SETTLE WITH SEC AND NASD OVER ALLEGED IMPROPER GIFTS AND ENTERTAINMENT The Securities and Exchange Commission and the National Association of Securities Dealers simultaneously announced that they have settled charges against a registered broker-dealer, a trader formerly employed by the firm, and the trader's supervisor relating to alleged improper gifts and entertainment.¹ Both regulators alleged that the trader provided over \$1.6 million in improper gifts and entertainment to equity traders employed by an investment adviser to a mutual fund complex, in order to win mutual fund trading business. They further alleged that the broker-dealer provided the trader with an annual travel and entertainment budget of \$1.5 million, and routinely reimbursed him for the improper gifts and entertainment provided, and that this constituted failure to supervise by the broker-dealer and the supervisor. All three respondents consented to the settlements without admitting or denying the allegations. Based on the alleged conduct, NASD permanently barred the former trader from associating with any NASD-registered firm in any capacity. The supervisor was fined \$50,000, suspended from associating with any NASD-registered firm in a supervisory capacity for three months, and prohibited from supervising business entertainment gifts or travel for two years. The broker-dealer was ordered to pay \$5.5 million in penalties, and to undertake certain remedial efforts. ¹ See "Jefferies Settles SEC Charges Involving Illegal Gifts and Entertainment," SEC Press Release 2006-198 (Dec. 4, 2006), available at <http://www.sec.gov/news/press/2006/2006-198.htm>; "NASD Fines Jefferies & Company \$5.5 Million for Providing Improper Gifts and Excessive Entertainment to Fidelity Traders," NASD Press Release (Dec. 4, 2006), available at http://www.nasd.com/PressRoom/NewsReleases/2006NewsReleases/NASDW_018022. See also In the Matter of Jefferies & Co., Inc. and Scott Jones, SEC Release No. 34-54861, Admin. Proc. File No. 3-12495 (Dec. 1, 2006), available at <http://www.sec.gov/litigation/admin/2006/34-54861.pdf>; In the Matter of Kevin W. Quinn, SEC Release Nos. 34-54862, 40-27588, Admin. Proc. No. 3-12496 (Dec. 1, 2006), available at <http://www.sec.gov/litigation/admin/2006/34-54862.pdf>. ² The SEC, based on the same conduct, censured the broker-dealer and ordered it to pay \$4.2 million in disgorgement and

to undertake certain remedial undertakings. The trader was ordered to pay \$468,000 in penalties to a Fair Fund for the benefit of the fund adviser's clients, and was barred from association with any broker or dealer and from acting in certain capacities with respect to any registered investment company. The supervisor was ordered to pay a civil penalty of \$50,000 and was suspended from acting in a supervisory capacity for a broker or dealer for three months. Mara Shreck Assistant Counsel

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