

**MEMO# 4120**

September 23, 1992

## **SEC SANCTIONS PORTFOLIO MANAGER FOR AGENCY CROSS-TRANSACTIONS**

September 23, 1992 TO: INVESTMENT ADVISER MEMBERS NO. 43-92 INVESTMENT ADVISER  
ASSOCIATE MEMBERS NO. 35-92 COMPLIANCE COMMITTEE NO. 14-92 RE: SEC SANCTIONS  
PORTFOLIO MANAGER FOR AGENCY CROSS-TRANSACTIONS

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The Securities and Exchange Commission recently issued a cease and desist order and imposed a penalty on a portfolio manager of a registered investment adviser, in connection with certain agency cross-transactions. On September 12, 1990, the manager caused two of his clients to purchase World Bank bonds issued that day. The manager subsequently learned that the purchases would not settle until October 2, 1990, which made the investment inconsistent with the desire of one of the clients to be in a cash position on September 30, 1990. On September 25th, the manager caused that client's bonds to be sold to the other client, without obtaining the purchasing client's consent, and he caused the adviser to deliver to the purchasing client portfolio summaries that incorrectly reflected that the purchase occurred in only one transaction on September 12th. Although the September 25th transaction was effected at the original issuance price, the World Bank bonds were quoted at a lower price in the secondary market on that date. The adviser subsequently reimbursed the purchasing client (through a reduction in the client's advisory fee) for the difference between the price that it was charged for the World Bank bonds purchased on September 25th and the market price on that day. The SEC found that the manager caused the adviser to violate Sections 206(2) and 206(3) of the Investment Advisers Act. In particular, the SEC found that the adviser essentially acted as broker for both clients and as adviser to the purchasing client, without disclosing the adviser's dual roles to the purchasing client or obtaining the purchasing client's consent before completing the transaction. The portfolio manager, without admitting or denying the allegations, consented to an order to cease and desist from committing or causing any violation of Section 206(2) and 206(3), and to pay a penalty of \$15,000. A copy of the SEC's order is attached. Thomas M. Selman Assistant Counsel Attachment