

MEMO# 6744

March 9, 1995

SEC SANCTIONS PORTFOLIO MANAGER FOR FALSIFYING PRICES OF FUND SECURITIES

March 9, 1995 TO: ACCOUNTING/TREASURERS MEMBERS No. 14-95 COMPLIANCE
COMMITTEE No. 15-95 SEC RULES MEMBERS No. 17-95 RE: SEC SANCTIONS PORTFOLIO
MANAGER FOR FALSIFYING PRICES OF FUND SECURITIES

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Securities and Exchange Commission recently sanctioned a fund portfolio manager in connection with the pricing of certain derivative securities held in the fund's portfolio. A copy of the Commissions order is attached. According to the Commissions order, the portfolio manager used inflated prices for certain derivative instruments held by the fund he managed, and that by recording these false prices in the funds records, he caused the fund to overstate its net asset value. Specifically, the Commission found that during a period in 1993 after two broker-dealers ceased providing daily prices to the fund for certain derivatives, the portfolio manager independently priced those instruments instead of obtaining bid side prices from broker-dealers as required by the funds registration statement. In addition, during part of that period he was found to have provided the fund with prices for the instruments that were materially higher than the bid side of the market. He also was found to have supplied two broker-dealer firms with pricing assumptions for certain derivatives held by the fund. The firms then used those assumptions, rather than consulting with their trading desks, to price those instruments. Finally, the Commission found that the portfolio manager requested that a broker-dealer supply him with offered, rather than bid side daily prices, in violation of the funds policies and procedures as set forth in its registration statement. The Commission ordered the portfolio manager to cease and desist from committing or causing any violation of Sections 31(a) and 34(b) of the Investment Company Act and Rules 22c-1 and 31a-1 thereunder, and Sections 206(1) and 206(2) of the Advisers Act. In addition, the portfolio manager was fined \$11,000 and barred from association with, among others, any investment company or investment adviser. Amy B.R. Lancellotta Associate Counsel Attachment