

**MEMO# 3678**

April 8, 1992

# **SEC IMPOSES SANCTIONS ON FUND PORTFOLIO MANAGER FOR FAILURE TO RECORD ARRANGEMENT TO RESELL CERTAIN HIGH YIELD BONDS TO BROKER-DEALER**

April 8, 1992 TO: SEC RULES MEMBERS NO. 16-92 COMPLIANCE COMMITTEE NO. 3-92 RE: SEC IMPOSES SANCTIONS ON FUND PORTFOLIO MANAGER FOR FAILURE TO RECORD ARRANGEMENT TO RESELL CERTAIN HIGH YIELD BONDS TO BROKER-DEALER

The SEC recently imposed sanctions on a fund portfolio manager based on an alleged arrangement pursuant to which the portfolio manager purchased certain high yield bonds for the fund subject to an agreement at the time of purchase to sell the bonds back to the broker-dealer at a specified date and price. A copy of the SEC's order instituting proceedings, making findings and imposing sanctions is attached. According to the SEC, the portfolio manager violated Section 34(b) of the Investment Company Act of 1940 by failing to record on the fund's books and records the terms of his arrangement with the broker-dealer, i.e., the obligation to sell certain securities back to the broker-dealer at specified times and prices. Instead, the fund's records reflected these transactions as though they were unrelated purchases and sales. In the SEC's view, the improper recording of the transactions was significant because it made it impossible for the fund to determine whether the portfolio manager was complying with the fund's investment limitations and policies. The SEC ordered the portfolio manager permanently to cease and desist from violating or causing any future violation of Section 34(b), and suspended him from association with any broker, dealer, investment adviser, investment company or municipal securities dealer for three months. Frances M. Stadler Assistant General Counsel Attachment