

**In the Matter of ROGER W. HONOUR Respondent**

**Admin. Proc. File No. 3-8851**

**SECURITIES AND EXCHANGE COMMISSION**

**INVESTMENT COMPANY ACT OF 1940, Release No. 21385;  
INVESTMENT ADVISORS ACT OF 1940, Release No. 1527**

**September 29, 1995**

**TEXT:**

**ORDER INSTITUTING PROCEEDINGS PURSUANT TO SECTIONS 9(b) AND (f) OF THE INVESTMENT COMPANY ACT OF 1940 AND SECTIONS 203(f) AND (k) OF THE INVESTMENT ADVISERS ACT OF 1940, MAKING FINDINGS AND IMPOSING REMEDIAL SANCTIONS**

**I.**

The Securities and Exchange Commission (Commission) deems it appropriate and in the public interest that public administrative and cease and desist proceedings be instituted pursuant to Sections 9(b) and (f) of the Investment Company Act of 1940 (IC Act) and Sections 203(f) and (k) of the Investment Advisers Act of 1940 (IA Act) against Roger W. Honour (Honour).

In anticipation of the institution of these administrative proceedings, Honour has submitted an Offer of Settlement which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission or in which the Commission is a party, and without admitting or denying the findings herein, except for those contained in paragraph II (A) below, which are admitted, Honour consents to the entry of this Order Instituting Proceedings, Making Findings and Imposing Remedial Sanctions.

**II.**

Accordingly, it is ordered that proceedings pursuant to Sections 9(b) and (f) of the IC Act and Sections 203(f) and (k) of the IA Act be, and hereby are, instituted. On the basis of this Order and the Respondent's Offer of Settlement, the Commission makes the following findings: n1

n1 The findings herein are pursuant to Respondent Honour's Offer of Settlement and are not binding on any other person or entity named as a respondent in this or any other proceeding.

**A. Honour's Affiliations**

From in or about January 1990 to the present, Honour has served as a portfolio manager for, and therefore an associated person of, three different investment advisers, each of which is registered with the Commission pursuant to Section 203 of the IA Act. During this period Honour has from time to time been the portfolio manager and officer of six separate investment companies, all of which are registered with the Commission pursuant to Section 8 of the IC Act. He is currently an associated person of a registered investment adviser and a portfolio manager of two registered investment companies whose portfolios he manages. Honour also managed the portfolios of an unregistered client from January 1990 through February 1992 and currently advises several unregistered clients;

**B. Honour's Conduct**

Between 1990 and 1992, Honour on 25 occasions personally traded in securities that he was also buying or selling for the investment companies and other clients he advised. These personal trades constituted

a conflict of interest between Honour and his advisory clients. Furthermore, in 1992, while associated with an investment adviser which required portfolio managers to obtain advance approval for all personal trades, Honour failed to disclose certain of his personal trading on required quarterly personal trading reports because he had not obtained the required advance approval for the transactions.

On these 25 occasions between August 1990 and November 1992 Honour bought or sold securities for his personal account in proximity to purchases or sales he made in 24 securities on behalf of the clients he advised. n2 Honour traded in these 24 securities under circumstances that constituted a conflict of interest because of factors including: (1) the proximity of his trading to that of his clients and (2) the low trading volume of the security in comparison to the size of the trades made for his clients. While associated with the first investment adviser, Honour provided duplicate confirmations for his transactions to that investment adviser's compliance department, as required by the firm.

n2 Most of the transactions involved personal purchases shortly before client purchases. However, on several occasions Honour made personal sales after a client purchase or during a series of client purchases.

The trading volume of the securities involved in the 25 trades was low relative to the size of the advisory clients' trades. The daily trading volume in these securities during the time of the trades ranged from 16,000 to 900,000 shares per day. Honour's trades for his advisory clients averaged 50,000 shares and ranged between 3,600 shares and 691,000 shares per day. Honour's personal trades ranged from 1,000 to 10,000 shares and averaged 2,000 shares per transaction. Honour generally held the securities purchased for his personal account for less than a month before resale. He held none of the securities in question for more than two and a half months and made a profit on 22 of the 25 sets of purchases and sales.

In eight of the 25 personal trades referred to above, Honour made the trade on the same day as a client transaction in the same securities. n3 Six of these same day transactions were in securities being traded by clients advised by Honour while two of the same day transactions were executed by clients advised by other employees of the investment adviser. Honour executed the eight same day trades while associated with an investment adviser with a personal trading policy that, under certain circumstances, prohibited same day trades.

n3 Honour retained the same broker to execute all of his personal trades. The advisory clients' transactions were executed through brokers selected by the investment adviser's trading department.

All but one of the remaining client transactions took place within seven days of Honour's personal trades. Honour made a total of \$ 115,615 in profits from the 25 personal trades that he executed in conflict of interest with the advice he gave to clients. n4

n4 While one personal transaction was made 21 calendar days from a client transaction, the client's trade of 5,000 shares represented 59% of the total trading of 8,500 shares in the security on the day of the client's transaction, and 31% of the average daily trading volume of 16,000 shares per day. Section 17(j) of the IC Act applies only with respect to registered investment companies. This provision does not apply to this trade because the client was not a registered investment company.

In each of the foregoing instances, clients' trading activity was in conflict of interest with Honour's trading decisions because the clients' investments could reasonably have been foreseen to affect his personal profits. Thus, his investment advice to clients could have been subject to the influence of his own trading in the same securities as those of his clients. His clients should have been informed of Honour's personal financial interest in the securities in which he advised them to invest.

Moreover, while serving as an associated person of another investment adviser, which required associated persons such as Honour to obtain advance approval of all personal securities transactions, Honour failed to obtain such approval for 12 personal trades. Honour also failed to report those 12 trades on quarterly reports, required by the Commission, that disclose all personal securities trades by associated persons of an investment adviser.

We have previously stated that personal investments require particularly careful scrutiny. In In the Matter of Chancellor Capital Management et al, Administrative Proceedings File No. 3-8524 (October 18, 1994), we emphasized the seriousness of the obligation of investment advisers and their associated persons to identify potential conflicts of interest and make complete and accurate disclosure of those conflicts. Because Honour had a personal financial interest in the securities which he caused his clients to buy and sell, he was required to disclose his interest to the clients. Honour was cognizant of his personal trading in securities which the clients he advised were also trading and failed to fulfill his obligation to disclose his personal trading to those to whom he was rendering investment advice; and

### **C. Honour's Violations**

Based on the foregoing, the Commission finds that Honour willfully violated Section 17(j) of the IC Act and Rule 17j-1(a) and (c) promulgated thereunder and willfully violated Sections 206(1) and 206(2) of the IA Act.

### **III.**

In view of the foregoing, it is in the public interest to impose the sanctions specified in the Offer of Settlement.

Accordingly, IT IS HEREBY ORDERED THAT:

- a. Honour cease and desist from committing or causing any violations and any future violations of Section 17(j) of the IC Act and Rules 17j-1(a) and (c) thereunder and Sections 206(1) and 206(2) of the IA Act;
- b. Honour be, and hereby is, censured;
- c. Honour be, and hereby is, pursuant to Section 9(e) of the IC Act and Section 203(j) of the IA Act, ordered to, within ten days of the date of this Order, disgorge \$ 115,615, plus prejudgment interest to the United States Treasury. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered to the Comptroller, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549; and (D) submitted under cover letter identifying Honour as a Respondent in these proceedings, the file number of these proceedings and the Commission's case number (C-2741), a copy of which shall be sent to Mary E. Keefe, Regional Director, Midwest Regional Office, 500 West Madison, Suite 1400, Chicago, Illinois 60661;
- d. Honour be, and hereby is, pursuant to Section 9(d) of the IC Act and 203(i) of the IA Act, ordered to, within ten days of the date of this Order, pay a civil penalty of \$ 275,000. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered to the Comptroller, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549; and (D) submitted under cover letter identifying Honour as a Respondent in these proceedings, the file number of these proceedings and the Commission's case number (C-2741), a copy of which shall be sent to Mary E. Keefe, Regional Director, Midwest Regional Office, 500 West Madison, Suite 1400, Chicago, Illinois 60661;
- e. Effective the thirtieth day after the issuance of this Order, Honour shall be prohibited from becoming an associated person of any investment adviser or affiliated person of any investment company, unless and until the investment adviser where he is an associated person, on the date of the issuance of the Commission's Order, provides a written summary of such Order to each and every client invested in the registered investment companies he is advising on that date, such summary having been approved by the Commission's Midwest Regional Office prior to dissemination. Moreover, Honour shall be prevented from serving as an associated person of any investment adviser or affiliated person of any investment company unless any investment adviser where he is an associated person at any time during the period of one year from the date of the issuance of the Order provides a written summary of the Order,

approved by the Commission's Midwest Regional Office, to all known prospective investors in the portfolios he advises prior to the time any such investor makes a decision to invest in any such portfolio.

f. Honour shall perform the undertakings to refrain from executing, directly or indirectly, any personal securities transactions or transactions for brokerage accounts in which he has a beneficial interest, except for transactions in registered investment companies, as long as he is an associated person of an investment adviser or an affiliated person of an investment company. The undertakings described in this item were implemented by Honour in February 1993 and shall be maintained.

By the Commission.