

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 4780 / September 28, 2017

ADMINISTRATIVE PROCEEDING
File No. 3-18234

In the Matter of

**SIX FINANCIAL
INFORMATION USA INC.,**

Respondent.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 203(k) OF THE INVESTMENT
ADVISERS ACT OF 1940, MAKING
FINDINGS, AND IMPOSING REMEDIAL
SANCTIONS AND A CEASE-AND-
DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against SIX Financial Information USA Inc. (“SFI” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) 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 to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order

Instituting Cease-and-Desist Proceedings Pursuant to Section 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

Summary

1. These proceedings arise from misconduct by SFI, an outside valuation agent, in providing valuation services to an investment firm concerning the value of four complex European options held by several series of a managed futures fund. Specifically, an SFI valuation expert represented to a client, the investment firm, that SFI was providing an independent valuation of the European options at fair value by using a proprietary Black-Scholes-based model. In reality, the SFI valuation expert did not perform an independent valuation of the European options, nor did he use a Black-Scholes-based model to determine fair value. Instead, he calculated a valuation range for the European options by making purported liquidity adjustments to valuations provided by the investment firm. As a result, SFI misled the investment firm as to the type of valuation work it had performed.

Respondent

2. **SIX Financial Information USA Inc. (“SFI”)**, a corporation headquartered in Stamford, Connecticut, provides financial information for portfolio management, financial analysis, investment advisory services, and securities administration. In approximately April 2010, SFI acquired the assets of a small valuation company that specialized in valuing complex or illiquid securities, and SFI began offering third-party pricing services for complex or illiquid securities to its clients. SFI is not registered as an investment adviser with the Commission.

Other Relevant Entities

3. **“Managed Futures Fund” (“MFF”)**, a Delaware statutory trust, is a publicly registered managed futures fund. MFF operates as a series trust, with numerous series engaged in separate trading strategies. The assets of each MFF series are valued and accounted for separately, and each series strikes a daily net asset value (“NAV”). Each MFF series registered the offering of its units under the Securities Act of 1933.

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

4. “**Investment Firm**” is an asset management firm that specializes in managed futures. Investment Firm is registered as an investment adviser with the Commission and as a commodity pool operator with the U.S. Commodity Futures Trading Commission. Investment Firm serves as MFF’s commodity pool operator and managing owner. Investment Firm is responsible for the preparation and filing of MFF’s financial statements and periodic filings.

Facts

Background

5. From approximately October 2007 through May 2009, four MFF series began investing in separate European OTC call options (the “European Options”). The reference assets of the respective European Options were one or more private managed futures funds. By year-end 2010, four MFF series had invested a total of approximately \$84 million of cash in the European Options.

6. Investment Firm was responsible for the daily calculations of each MFF series’ NAV, and therefore was responsible for determining the valuation of all investments held by each MFF series. The European Options did not have readily determinable fair values because they were not traded on an open market and did not have publicly reported prices. From the respective dates of purchase through the third quarter of 2010, Investment Firm valued the European Options using an internal valuation methodology. During 2010, MFF’s auditors recommended that Investment Firm engage a third-party valuation agent to independently value the European Options and incorporate that information into its valuation process.

Investment Firm Sought an Independent Valuation of the European Options from SFI

7. In October 2010, Investment Firm contracted with a data and valuation firm (“Data Firm”) to obtain daily valuations for the European Options. Investment Firm’s contract with Data Firm indicated that the valuation services would be provided by SFI, and Data Firm in turn contracted with SFI to perform all of the work to produce daily valuations. SFI received 65% of the fees that Investment Firm paid to Data Firm.

8. Data Firm functioned as an intermediary in transmitting SFI’s daily valuations for the European Options to Investment Firm, and in facilitating communications between Investment Firm and SFI. Investment Firm’s understanding was that SFI was performing independent valuations of the European Options.

9. SFI had started offering valuation services for complex or illiquid securities in 2010 following its acquisition of the assets of a small valuation firm that specialized in valuing complex or illiquid securities. SFI called this new unit the Evaluated Pricing Group (the “EP Group”). SFI hired a relatively small group of valuation professionals to work in the EP Group. SFI also entered into a consulting agreement with the former president and owner of the small valuation firm to function as SFI’s initial valuation expert (the “Valuation Expert”) and to head the new EP Group. In that role, Valuation Expert determined what valuation models should be

used for many valuation assignments, handled questions about models and valuation challenges, developed new models, and functioned as part of the EP Group management team.

SFI Acted as an Investment Adviser

10. With respect to the valuation of the European Options, SFI acted as an investment adviser under Section 202(a)(11) of the Advisers Act because it was engaged in the business of advising others as to the value of securities for compensation. Specifically, SFI provided advice to Investment Firm about the value of securities (the European Options) in exchange for compensation by the Data Firm.

11. SFI was responsible for completing each of the steps necessary to value the European Options. Among other things, the Valuation Expert (with assistance from various SFI employees): determined the valuation methodology; developed valuation model templates; determined the sources for inputs into the models; operated the model templates to generate daily valuations; made professional judgments about whether the valuations generated by the model templates were appropriate or required further adjustment; created a daily report that summarized the upper, lower, and median valuation for each European Option; transmitted the daily valuation report to the Data Firm (who in turn transmitted it to Investment Firm); answered questions from Investment Firm and MFF's auditor about the valuations and methodologies used; and resolved pricing challenges from Investment Firm.

SFI Misled Investment Firm That It Was Independently Valuing the European Options Using a Modified Black-Scholes Model

12. The Valuation Expert had primary responsibility for discussions with Investment Firm concerning how SFI planned to value the European Options and acknowledged in emails that he understood that Investment Firm was seeking an independent valuation.

13. Investment Firm provided SFI with weekly price reports for the underlying reference assets for the European Options because that information was not generally available in the market. At the request of the Valuation Expert, Investment Firm also sent SFI its daily internally-developed valuations of the European Options. The Valuation Expert represented that SFI sought Investment Firm's valuations of the European Options for use as a "cross-check" to SFI's valuations.

14. In October 2010, SFI began producing daily valuation reports for Investment Firm that provided an upper bound, lower bound, and median valuation for each of the European Options. In those reports, SFI indicated that a basket option model was being used that incorporated appropriate adjustments to determine the current market value of the European Options. Based upon these valuation reports and their course of dealings, Investment Firm believed that SFI was using an appropriate model to independently value the European Options at fair value.

15. In late 2010, the Valuation Expert also sent academic papers to Investment Firm and MFF's auditor, which he explained were related to the methodology being used to value the European Options. The papers were complex and the Valuation Expert did not identify the specific methodology being used to value the European Options. Based upon their receipt of these academic papers and other materials, Investment Firm's personnel believed that SFI had the technical expertise and experience necessary to independently value the European Options, and that SFI was using a complex, proprietary model to value the European Options.

16. In January 2011, MFF's auditor asked the Valuation Expert for a detailed explanation of the model used to value the European Options. In response, the Valuation Expert represented in a February 2011 email provided to Investment Firm and MFF's auditor that a modified Black-Scholes model was being used to value the European Options. The Valuation Expert further explained that the volatility component in the model was derived from a combination of implied and historical values, and that the "implied values are taken from observed exchange-traded options where practicable and historical values are calculated using observed market data points for appropriate underlyings."

17. Beginning in late December 2010, Investment Firm began using the median valuation from SFI to price the European Options on a daily basis to strike the NAV of the respective MFF series that held those investments. Investment Firm continued to use SFI's valuation to price the European Options until August 2011, when Investment Firm changed its valuation methodology and began using the counterparty's valuations. However, Investment Firm continued to use SFI's valuations to corroborate the counterparty's valuations while the respective European Options were held by the various MFF series.

SFI's Valuation Expert Did Not Independently Value the European Options Using a Modified Black-Scholes Model

18. Contrary to the Valuation Expert's statements, SFI was not performing an independent valuation of the European Options. Instead, the Valuation Expert's model template merely used Investment Firm's estimated valuation of the respective European Options, and then applied a relatively simple formula to calculate an upper bound, lower bound, and median valuation range around Investment Firm's valuations. As a result, the valuation ranges SFI provided to Investment Firm were completely derivative of Investment Firm's valuations, and therefore did not constitute independent valuations.

19. Moreover, the Valuation Expert did not use a Black-Scholes-based model to value the European Options. Among other things, the model did not include numerous standard Black-Scholes model inputs, including: (a) the underlying prices of the respective *reference assets*; (b) the European Options' strike prices; (c) the time to expiration of the European Options; (d) volatility; or (e) an applicable risk-free interest rate. Furthermore, even if the model templates had incorporated some measure of volatility, there is no evidence that implied volatility numbers were taken from "observed exchange-traded options" or that historical values were "calculated using observed market data points for appropriate underlyings."

20. Based on the foregoing, SFI made materially misleading statements to Investment Firm regarding the valuations SFI was providing of the European Options.

21. In May 2012, SFI terminated its consulting agreement with the Valuation Expert and transferred his responsibilities to other personnel.

Violations

22. Section 206(2) of the Advisers Act prohibits investment advisers from directly or indirectly engaging “in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client.” As a result of the conduct described above, SFI violated Section 206(2) of the Advisers Act. A violation of Section 206(2) does not require a showing of scienter but “may rest on a finding of simple negligence.” SEC v. Steadman, 967 F.2d 636, 643 n.5 (D.C. Cir. 1992) (citing SEC v Capital Gains Research Bureau, Inc., 375 U.S. 180, 191 (1963)).

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent’s Offer.

Accordingly, pursuant to Section 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 206(2) of the Advisers Act.

B. Respondent shall pay disgorgement of \$27,411, prejudgment interest of \$5,296, and a civil penalty of \$75,000 to the Securities and Exchange Commission within 30 days from the date of entry of this Order. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of \$107,707, plus any additional interest accrued pursuant to SEC Rule of Practice 600 and/or pursuant to 31 U.S.C. 3717, shall be due and payable immediately, without further application.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or

- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying SFI as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Jason Burt, Assistant Regional Director, Asset Management Unit, Division of Enforcement, Denver Regional Office, U.S. Securities and Exchange Commission, Bryon G. Rogers Federal Building, 1961 Stout Street, Suite 1700, Denver, CO 80294.

C. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended, a Fair Fund is created for the disgorgement, prejudgment interest, and penalty referenced in paragraph B above. Regardless of whether such a Fair Fund distribution is made, the amount ordered to be paid as a civil money penalty pursuant to this Order shall be treated as penalty paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

D. After receipt of the disgorgement, interest, and penalty referenced in paragraph B above, the Commission shall, within 90 days, make a payment of \$43,330 (the fees paid to Data Firm in the amount of \$42,170 plus interest in the amount of \$1,160, calculated at the Federal short-term rate) to Investment Firm. The Commission staff will seek the appointment of a tax administrator in regard to the payment to Investment Firm as it constitutes a payment from a qualified settlement fund ("QSF") under section of 468B(g) of the Internal Revenue Code (IRC), 26 U.S.C. Section 468B(g), and related regulations, 26 C.F.R Sections 1.468B-1 through 1.468B-5. Taxes, if any, and related administrative expenses shall be paid from funds remaining after the

payment has been made to Investment Firm. After the distribution payment and all taxes and administrative expenses are paid, the Commission staff will transfer the remaining funds to the general fund of the United States Treasury subject to Exchange Act Section 21F(g)(3).

By the Commission.

Brent J. Fields
Secretary