

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 66055 / December 23 2011

INVESTMENT ADVISERS ACT OF 1940
Release No. 3343 / December 23 2011

ADMINISTRATIVE PROCEEDING
File No. 3-14677

In the Matter of

**INVESTMENT PLACEMENT
GROUP and ADOLFO
GONZALEZ-RUBIO,**

Respondents.

**ORDER INSTITUTING
ADMINISTRATIVE PROCEEDINGS
PURSUANT TO SECTION 15(b) OF
THE SECURITIES EXCHANGE ACT
OF 1934 AND SECTIONS 203(e) AND
203(f) 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 proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Sections 203(e) and 203(f) of the Investment Advisers Act of 1940 (“Advisers Act”) against Investment Placement Group (“IPG”) and Adolfo Gonzalez-Rubio (“Gonzalez-Rubio”) (collectively “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”), 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 them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934 and Sections 203(e) and 203(f) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions (“Order”), as set forth below.

III.

On the basis of this Order and Respondents' Offers, the Commission finds¹ that:

Summary

These proceedings arise out of the failure reasonably to supervise Aurelio Rodriguez ("Rodriguez"), a former registered representative and trader who engaged in a fraudulent interpositioning scheme. IPG was Rodriguez's employer, and Gonzalez-Rubio, then IPG's chief operating officer, was Rodriguez's direct supervisor. From approximately January through November 2008 ("relevant period"), while Rodriguez was associated with IPG, he perpetrated a fraudulent interpositioning scheme involving a Mexican investment adviser, InvesTrust, and utilizing a separate Mexican brokerage firm. Rodriguez, acting in concert with InvesTrust, violated Section 17(a) of the Securities Act of 1933 ("Securities Act") and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by needlessly interposing the Mexican brokerage firm into securities transactions between IPG and InvesTrust's institutional clients, including four Mexican pension funds. As a result of Rodriguez's misconduct, the pension funds paid approximately \$65 million more for certain credit-linked notes than they would have had the Mexican brokerage firm not been unnecessarily interposed as a "middleman." IPG and Rodriguez each received more than \$6 million as a result of Rodriguez's fraudulent scheme.

Rodriguez's fraudulent scheme went undetected by IPG due to its failure to establish adequate policies and procedures and a system for implementing those procedures which would reasonably be expected to prevent and detect interpositioning by its traders. During the relevant period, Gonzalez-Rubio was directly responsible for supervising Rodriguez and overseeing the trading room. Gonzalez-Rubio, however, delegated supervisory oversight of the trading to Rodriguez, which effectively allowed Rodriguez to supervise himself. Further, Gonzalez-Rubio failed to respond to red flags regarding Rodriguez's fraudulent scheme, including a dramatic rise in revenue resulting from the interpositioned transactions. As a result, IPG failed reasonably to supervise Rodriguez within the meaning of Section 15(b)(4)(E) of the Exchange Act and Section 203(e)(c) of the Advisers Act. As a result, Gonzalez-Rubio failed reasonably to supervise Rodriguez within the meaning of Section 15(b)(4)(E) as incorporated by Section 15(b)(6) of the Exchange Act and Section 203(e)(c) of the Advisers Act.

Respondents

1. **Investment Placement Group** is a California corporation with its principal place of business in San Diego, California. It has been registered with the Commission as a broker-dealer since 1991 and as an investment adviser from January 2006 until June 2010, when it withdrew its registration. IPG is owned, directly or indirectly through family trusts, by several individuals associated with the firm. In February 2010, IPG's owners registered a new entity called IPG Investment Advisors, LLC as an investment adviser with the Commission.

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

2. **Adolfo Gonzalez-Rubio**, age 49, resides in Coronado, California. He joined IPG in 1990 and has since held positions of increasing responsibility. During the relevant period, he was IPG's chief operating officer, directly responsible for supervising Rodriguez and overseeing the trading room. In 2009, Gonzalez-Rubio became IPG's chief executive officer, a position he currently holds. He currently owns 26% of the firm.

Other Relevant Person

3. **Aurelio Rodriguez**, age 42, formerly of Coronado, California, currently resides in Zapopan, Mexico. Rodriguez is not currently associated with a registered broker-dealer. Rodriguez was a registered representative with IPG from 1995 until November 12, 2010, when he resigned from the firm.

Background

4. In 2001, an IPG registered representative approached IPG with a proposal from InvesTrust. In exchange for placing institutional client trades through IPG and referring clients, InvesTrust would receive 70% of the markups that IPG earned from trading by InvesTrust's institutional clients. IPG agreed to the proposal and opened a separate proprietary trading account with its clearing firm ("IPG Proprietary Account") through which Rodriguez executed principal trades on behalf of IPG, with IPG acting as a counterparty to InvesTrust's institutional clients. The remaining 30% of the markups earned in the IPG Proprietary Account would be split evenly among the registered representative, IPG, and Rodriguez.

5. Between 2001 through 2007, InvesTrust invested primarily in Mexican government and corporate bonds and steadily increased the size and number of institutional trades it placed through IPG. Beginning in 2008, InvesTrust invested its pension fund clients in credit-linked notes, dramatically increasing the number trades it placed through IPG. By this time, InvesTrust had also increased its share of the markups generated from these trades to 75%, with the registered representative, IPG, and Rodriguez splitting the remaining 25% equally.

The Interpositioning Scheme

6. From January through November 2008, Rodriguez, acting in concert with InvesTrust, acquired ten different credit-linked notes in the IPG Proprietary Account. Rodriguez knew that the notes were slated for InvesTrust's pension fund clients. IPG, through Rodriguez, added a markup of roughly 1.5% to 4.5% to the purchase price, and then sold the notes to the Mexican brokerage firm. Within a day or so, IPG, through Rodriguez, repurchased the notes from the Mexican brokerage firm (at a slightly higher price), added another markup, and then sold the securities to InvesTrust's pension fund clients. In some instances, Rodriguez repeated the buy/sell pattern with the Mexican brokerage firm multiple times, driving up the price with each successive trade, before finally selling the notes to the pension funds at artificially inflated prices.

7. For each transaction, InvesTrust specified in advance the trade date, the amount of securities to be bought and sold by IPG and the Mexican brokerage firm, the successively higher prices to be paid (and thus the markup to be charged on each trade), and the final price to be paid by its pension fund clients. Rodriguez received the instructions for the fraudulent transactions

from InvesTrust at his San Diego, California office. From there, he confirmed the order with the Mexican brokerage firm via e-mail and then submitted the principal trade electronically to IPG's U.S.-based clearing firm for processing.

8. Beginning in July 2008, the number of interpositioned trades between IPG and the Mexican brokerage firm increased as the pension funds purchased new credit-linked notes. The interpositioning scheme added about 12% to 14% to the cost of four new notes the pension funds purchased from IPG between July and November 2008.

Failure Reasonably to Supervise Rodriguez

9. IPG failed reasonably to supervise Rodriguez because it did not establish adequate policies and procedures and a system to implement the procedures which would reasonably be expected to prevent and detect Rodriguez's fraudulent interpositioning scheme. IPG's written supervisory procedures ("WSP") listed interpositioning as a prohibited activity but only summarily stated that "[a] trader may not interpose IPG or any account or any other dealer between a customer order and the best available market." Aside from this statement in the WSP, IPG failed to establish sufficient procedures for reviewing transactions in the IPG Proprietary Account, where Rodriguez executed the InvesTrust trades, to monitor for suspicious trading, such as interpositioning. If IPG had procedures that required periodic supervisory review of transactions in the IPG Proprietary Account, the firm could have reasonably discovered that Rodriguez was interposing the Mexican brokerage firm between IPG and the ultimate purchasers of the securities, thereby generating millions in improper markups.

10. During the relevant period, Gonzalez-Rubio, IPG's chief operating officer, was directly responsible for supervising Rodriguez and overseeing the trading room. Gonzalez-Rubio failed reasonably to supervise Rodriguez with a view towards preventing Rodriguez's antifraud violations because he unreasonably delegated oversight of activity in the IPG Proprietary Account to Rodriguez, which resulted in Rodriguez effectively supervising himself. Gonzalez-Rubio knew that no one except Rodriguez executed trades for InvesTrust. While in response to Gonzalez-Rubio's daily inquiries, Rodriguez repeatedly assured Gonzalez-Rubio verbally that everything was fine with InvesTrust, Gonzalez-Rubio did not independently review InvesTrust's overall trading activity in the IPG Proprietary Account. As a result, Rodriguez was able to use the IPG Proprietary Account to carry out the interpositioning scheme and charge additional markups without detection.

11. Gonzalez-Rubio also failed reasonably to supervise Rodriguez because he failed to respond to red flags that could have led to discovery of Rodriguez's misconduct. These red flags included: (a) a dramatic increase in IPG's 2008 revenues, 78% of which was derived from the additional markups that IPG earned from the interposed trades; and (b) Gonzalez-Rubio's discovery in August 2008 that InvesTrust had been receiving 70% of the markups in the IPG Proprietary Account generated from trades by InvesTrust's institutional clients; and (c) InvesTrust's insistence that its share of the markups be deposited directly into a foreign bank account held in name of a related Nevis-based entity, rather than into U.S. bank accounts, as had been its prior practice. Had Gonzalez-Rubio responded to these red flags, it is likely that he could have prevented and detected Rodriguez's antifraud violations.

Violations

12. As a result of the conduct described above, Rodriguez willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase, or sale of securities.

13. Section 15(b)(4)(E) of the Exchange Act allows for the imposition of a sanction against a broker or dealer who “has failed reasonably to supervise, with a view to preventing violations of the securities laws, another person who commits such a violation, if such other person is subject to his supervision.” The Commission has emphasized that the “responsibility of broker-dealers to supervise their employees by means of effective, established procedures is a critical component in the federal investor protection scheme regulating the securities markets.” See, e.g., Gilford Sec., Inc., et al., Securities Act Rel. No. 9264, 2011 SEC LEXIS 3419 (Sept. 30, 2011). Section 15(b)(6) incorporates by reference Section 15(b)(4)(E) and allows for the imposition of sanctions against persons associated with a broker or dealer for failing reasonably to supervise. Similarly, Sections 203(e) and 203(f) of the Advisers Act authorize the Commission to sanction an investment adviser or person associated with an investment adviser for failure to supervise. The Commission has repeatedly emphasized that the duty to supervise is a critical component of the federal regulatory scheme. See, e.g., Thomas C. Palmer and Aeneas Capital Mgmt., L.P., Advisers Act Rel. No. 1693, 2008 SEC LEXIS 1693 (July 23, 2008).

14. As a result of the conduct described above, IPG and Gonzalez-Rubio failed reasonably to supervise Rodriguez with a view to detecting and preventing Rodriguez’s willful violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

IPG’s Remedial Efforts

15. In determining to accept the Offers, the Commission considered remedial acts promptly taken by the Respondents and the cooperation afforded the Commission staff.

Undertakings

16. IPG has undertaken to review its policies, procedures, and systems regarding the detection and prevention of interpositioning violations. Within ninety days of the entry of this Order, unless otherwise extended by the staff of the Commission for good cause shown, IPG shall submit a report to the Commission describing the review performed and the conclusions and changes made as a result of this review. Further, at the time that IPG submits the report, IPG shall certify to the Commission in writing that it has established procedures, and a system for applying such procedures, which are reasonably expected to prevent and detect, insofar as practicable, the violations described in this Order.

17. Gonzalez-Rubio has undertaken to provide to the Commission, within 15 days after the end of the three-month suspension period described below, an affidavit that he has complied fully with the sanctions described in Section IV below.

18. IPG undertakes to cooperate fully with the Commission in any and all investigations, litigations or other proceedings relating to or arising from the matters described in this Order. In connection with such cooperation, IPG has undertaken:

a. To produce, without service of a notice or subpoena, any and all documents and other information reasonably requested by the Commission's staff, with a custodian declaration as to their authenticity, if requested;

b. To use its best efforts to cause IPG's current and former employees to be interviewed by the Commission's staff, at the option of the staff with representatives of other government agencies present, at such times and places as the staff reasonably may direct. Live interviews on one week's notice at the Commission's Los Angeles office, or at any U.S or state government office in San Diego, California, and telephone interviews on 72 hours notice, at the option of the staff, shall be deemed to be reasonable.

c. To use its best efforts to cause IPG's employees to appear and testify truthfully and completely without service of a notice or subpoena in such investigations, depositions, hearings or trials as may be reasonably requested by the Commission's staff; and

d. In connection with any interviews of IPG employees to be conducted pursuant to this undertaking, requests for such interviews may be provided by the Commission's staff to Sean T. Prosser, Morrison & Foerster LLP, 12531 High Bluff Drive, Suite 100, San Diego, CA 92130-2040, or such other counsel that may be substituted by IPG.

In determining whether to accept the Offers, the Commission has considered IPG's undertakings.

19. IPG undertakes to certify, in writing, compliance with the undertaking(s) set forth above. The certification shall identify the undertaking(s), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and IPG agrees to provide such evidence. The certification and supporting material shall be submitted to Michele Wein Layne, Associate Regional Director, Los Angeles Regional Office, Securities and Exchange Commission, 5670 Wilshire Boulevard, 11th Floor, Los Angeles, CA 90036, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

IV.

In view of the foregoing, the Commission deems it appropriate, and in the public interest, to impose the sanctions agreed to in Respondents' Offers.

Accordingly, pursuant to Section 15(b) of the Exchange Act and Sections 203(e) and 203(f) of the Advisers Act, it is hereby ORDERED that:

A. Respondent IPG is censured.

B. Respondent IPG shall, within 30 days of the entry of this Order, pay a civil penalty in the amount of \$260,000 to the United States Treasury. It is further ordered that Respondent IPG shall pay disgorgement of \$3,572,015.56 and prejudgment interest of \$240,012.37 to the United States Treasury. Payment shall be made in the following installments. Respondent IPG shall, within 30 days of the entry of the Order, pay \$1,000,000. The remaining balance of \$2,812,027.93, plus post-judgment interest pursuant to SEC Rule of Practice 600, shall be paid in sixteen (16) equal installments. Each installment shall be due within ten (10) days after the end of the quarter for the sixteen (16) quarters following the entry of this Order.

C. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of disgorgement, prejudgment interest, and civil penalties, plus any additional interest accrued pursuant to SEC Rule of Practice 600 or pursuant to 31 U.S.C. §3717, shall be due and payable immediately, without further application. Payment shall be: (A) made by wire transfer, 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 or mailed to the Securities and Exchange Commission, Office of Financial Management, 100 F St., NE, Stop 6042, Washington, DC 20549; and (D) submitted under cover letter that identifies IPG as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Michele Wein Layne, Associate Regional Director, Securities and Exchange Commission, 5670 Wilshire Blvd., Suite 1100, Los Angeles, CA 90036.

D. Respondent IPG shall comply with the undertakings enumerated in Section III, Paragraphs 16 and 19, above.

E. Respondent Gonzalez-Rubio be, and hereby is, suspended from association in a supervisory capacity with any broker, dealer, investment adviser, municipal securities dealer, municipal adviser, transfer agent, or nationally recognized statistical rating organization for a period of three (3) months, effective on the second Monday following the entry of this Order.

F. Respondent Gonzalez-Rubio shall comply with the undertaking enumerated in Section III, Paragraph 17, above.

By the Commission.

Elizabeth M. Murphy
Secretary