

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 78585 / August 16, 2016

INVESTMENT ADVISERS ACT OF 1940
Release No. 4487 / August 16, 2016

INVESTMENT COMPANY ACT OF 1940
Release No. 32217 / August 16, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17394

In the Matter of

EDWIN K. CHIN

Respondent.

ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, SECTION 203(f) OF THE INVESTMENT ADVISERS ACT OF 1940, AND SECTION 9(b) OF THE INVESTMENT COMPANY 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 administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), Section 203(f) of the Investment Advisers Act of 1940 (“Advisers Act”), and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”), against Edwin K. Chin (“Chin” 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 him and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, Section 203(f) of the Investment Advisers Act of 1940, and Section 9(b) of the Investment Company 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

These proceedings arise out of misleading conduct by Chin while he bought and sold residential mortgage-backed securities (“RMBS”) as a senior trader at Goldman Sachs & Co. (“Goldman”), a registered broker-dealer. Part of Chin’s job involved arranging trades between Goldman’s customers, meaning that he would buy a RMBS from one customer and then sell it to another customer. On certain occasions between 2010 and 2012 (“relevant period”), Chin misled Goldman’s customers with whom he was negotiating the sale of RMBS about the price at which Goldman had bought the RMBS and the amount of Goldman’s compensation for arranging the trades. In certain circumstances, Chin also misrepresented that he was arranging a RMBS trade between customers, when Chin really was selling the RMBS out of Goldman’s own inventory.

Many of Goldman’s customers in these RMBS trades included investment advisers, primarily advisers to hedge funds, who owed fiduciary duties to their own clients. RMBS are generally illiquid, and discovering a market price for them is difficult. In addition to fundamental valuation methods, participants in the RMBS market rely on informal sources, such as the dealer with whom they trade, for this information. Had Goldman’s customers been aware of Chin’s misrepresentations, and of the accurate facts relating to the trades they were negotiating, they would have made an effort to pay a lesser purchase price for the RMBS or less compensation to Goldman.

As a result of this misconduct, Respondent generated more revenue for Goldman and, indirectly, secured greater compensation for himself.

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.

Respondent

1. From approximately September 2003 to December 2012, Chin worked at Goldman, Sachs & Co. (“Goldman”), ultimately serving as a managing director and a trader, then the head trader, on Goldman’s RMBS trading desk. Goldman, headquartered in New York City, is a member of the Financial Industry Regulatory Authority (“FINRA”) and it has been dually registered with the Commission as a broker-dealer since 1936 and as an investment adviser since 1981. From 2013 until June 2016, Chin was associated with a registered investment adviser. During the relevant period, Chin was registered with FINRA and he held Series 7, 24, and 63 securities licenses. Chin, 35 years old, is a resident of New York, New York.

Background

2. Chin joined Goldman in 2003. He began as an analyst and then became a trader of various debt instruments (loans in which the borrower promises to repay the lender an agreed amount of interest plus principal) and derivative products (securities whose prices are dependent upon one or more underlying assets). By late 2011, Chin was the most active RMBS trader at Goldman.² A RMBS is a type of fixed income product whose underlying assets are residential loans. RMBS are debt securities, and sometimes referred to as “bonds.” Investors in RMBS receive payment from the interest and principal payments on the underlying mortgages. As a senior trader at Goldman, Chin arranged trades between buyers and sellers of RMBS and purchased and sold RMBS for and out of Goldman’s inventory. By mid-2012, Chin was the head of Goldman’s RMBS trading desk.

3. The market for RMBS is traded over the counter: there is no exchange that shows the buy and sell price for each trade as it occurs. Therefore, as a negotiation occurs, the buyer of the RMBS has no way to learn the price paid by the dealer, unless learning it from the dealer.

4. RMBS are illiquid securities, and many of the RMBS that Goldman traded in the relevant period traded at a significant discount to their face value following the 2008 financial crisis. The price of the RMBS is expressed as a percentage of its par value (the face value of a bond). A price of “100” means that the RMBS is trading at 100 percent of its par value. Similarly, a price of “80” means that the RMBS is trading at 80 percent of its par value.

5. Many of Goldman’s customers were investment advisers who managed or advised funds and other entities that invested in RMBS. In its role as an intermediary, Goldman (through Chin) negotiated a purchase of a RMBS from one customer and the subsequent resale of that RMBS to another customer, sometimes on the same day. In those circumstances, where Chin had already identified a potential buyer, Goldman typically re-sold the RMBS on a principal

² Respondent principally traded non-agency RMBS, which are mortgage-backed securities sponsored by private companies rather than government-sponsored entities.

basis, meaning that Goldman would temporarily own the RMBS in a principal account. However, Goldman typically took little risk because it knew that it was likely to resell the RMBS to another customer shortly thereafter. Chin generated profits for Goldman by purchasing the RMBS from one customer and selling it to another customer at a higher price. Because Goldman collected the spread (or difference) between Goldman's purchase price from one customer and the sale price to another customer, Goldman's profit increased as the sales price for the RMBS increased. The customers were aware that Goldman was compensated in this way, and the amount and source of the compensation were part of the negotiations around the purchase and sale of the RMBS.

6. Chin sometimes offered the customers an "all-in" price for a RMBS that incorporated both the purchase price for the security and Goldman's compensation; on other occasions, Chin and the customer agreed that Goldman's compensation would be in addition to, or "on top of," Goldman's acquisition price for the RMBS.

7. As was standard in the industry, Goldman's traders and their customers often discussed the RMBS price and the amount of Goldman's compensation in terms of the number of "ticks" that Goldman would receive on a trade. One "tick" equals 1/32 of a point (a point is one percent). For example, a price of 65-16 means 65 and 16 ticks (sometimes expressed as $65^{16/32}$ or 65.5). Chin's communications with his customers often occurred electronically: via email, instant messaging, or online "chats."

8. The market for secondary trading in RMBS operates through relationships between customers, who buy and sell the bonds, and broker-dealers, like Goldman, that identify interested buyers and sellers and arrange the trades. Customers seek to pay the lowest price for purchases and get the highest price on sales. It is not unusual for a customer's information about the current market price for a security to come from the firm that is arranging the sale of the security. Because of this, there is an emphasis on establishing relationships, building trust, and having a good reputation within the industry. In part because of the opacity of the market, and because investment advisers owe fiduciary duties to their underlying clients, customers seek to avoid broker-dealers who are not honest with them.

9. Prior to and during the relevant period, Chin received compliance training, which included Goldman's written policies on communications with customers. The 2009 and 2010 annual training manuals prohibited making a statement that was "otherwise false/misleading in the circumstances in which it is made." The 2011 annual training manual, as well as a written policy titled "E-Communications Training," required emails to be "factually accurate." Goldman's "Introduction to Communications Policies" required "all communications [to] be truthful and complete."

Chin's Misconduct

10. From 2010 to 2012, specific instances in which Chin engaged in misconduct include the following transactions.

July 25, 2011 Trade with Customer A

11. On the morning of July 25, 2011, Chin negotiated the purchase of a \$10 million piece of a RMBS with the ticker symbol *SVHE 05OPT1 M2* (“*SVHE*”), agreeing to buy it from a hedge fund customer at a price of 45-24 (in other words, 45 percent of par value, plus 24 ticks). At approximately 11:22 a.m., Chin received written confirmation of the trade at that price.

12. Approximately five minutes later (11:27 a.m.), Chin sent an instant message to a representative of a different hedge fund customer of Goldman (“Customer A”), inquiring whether Customer A remained interested in buying the *SVHE*. Chin implied that he was actively negotiating with the third-party seller, asking, “do you still care on the *svhe* in the H47s? i think there might be something to do there, otherwise he’s going to show it away.” H47 is a shorthand reference to a price that’s between 47 and 48 percent of the bond’s par value.

13. After the Customer A representative indicated an interest in buying the bond at a price in that range, Chin wrote him another instant message at approximately 1:08 p.m. in which Chin misled the customer:

I can get you 10mm *svhe* @ 47-24. This guy was really painful and I couldn’t get him to sell any lower. You can pay me something next time.

14. After receiving this information, Customer A agreed to purchase the bond at 47-24.

15. Chin misled Customer A into believing that Chin was conducting active negotiations with another hedge fund. In actuality, Goldman had purchased the *SVHE* earlier that morning at 45-24 (not 47-24) and held it in its inventory at the time of the sale to Customer A. Chin therefore misled Customer A about the details of a negotiation. Specifically, Chin misrepresented whether Goldman already owned the RMBS being sold, and the suggestion that, because of a tough negotiation, Goldman was selling the bond to Customer A at cost (i.e. that Goldman had paid 47-24) and receiving no compensation on the trade when, in fact, Goldman earned 2 percent (or 64 ticks) on the trade.

16. Chin’s misleading statements affected the purchase price by the Customer A representative. The Customer A representative would have attempted to obtain a lower price on the RMBS trade had he known the truth.

17. Through his misconduct, Chin obtained \$200,000 in extra profit for Goldman on this trade.

July 26, 2011 Trade with Customer A

18. While arranging a trade on July 26, 2011 with the same Customer A representative as the day before, Chin again feigned an active negotiation in order to obtain a

larger profit on a RMBS transaction.

19. At approximately 10:13 a.m. on July 26, 2011, Chin agreed to purchase \$10 million of a RMBS with the ticker symbol BNCMT 07-2 A3 (“BNCMT”) from a hedge fund customer at a price of 35.

20. Approximately five minutes later (10:18 a.m.), Chin wrote to the Customer A representative, “I am getting a 36-16 counter on the bncmt on 10mm.” Chin’s representation about getting a “counter,” which references a counter-offer from a supposed seller, was false. There was no “counter” from a seller at 10:18 because the sale had been completed at 10:13. In response to Chin’s instant message, the Customer A representative told Chin to increase Customer A’s bid from 35-16 to 35-24, and then the following dialogue ensued:

Chin: i think 36 gets a trade done

Customer A: i figured, but didn’t want to go there and have him nickle and dime @ the qrter . . . if you get them 36, can pay u from there

Chin: on it

21. Customer A agreed to purchase the bond at a price of 36-04 at approximately 11:00 a.m., intending the additional four ticks to be Goldman’s compensation for arranging the trade.

22. As he had done the day before, during Chin’s negotiation with Customer A, Chin misrepresented Goldman’s acquisition price and the compensation Goldman would receive on the trade. He did not buy the RMBS at 36, as he represented, but at 35. Thus, instead of the 4 ticks that the Customer A representative thought he was paying as compensation, Customer A actually paid Goldman 36 ticks for the trade (the difference between Customer A’s purchase price of 36-04 and Goldman’s actual purchase price of 35).

23. Chin’s misleading statements affected the purchase price by the Customer A representative. The Customer A representative would have attempted to obtain a lower price on the trade had he known the truth.

24. Through his misconduct, Chin obtained an extra profit of \$100,000 for Goldman on this trade.

June 22, 2012 Trade with Customer B

25. At approximately 12:06 p.m. on June 22, 2012, Chin agreed to purchase \$25,650,000 of a RMBS with the ticker symbol ABFC 06OPT1 A3C2 (“ABFC”) at a price of 67-28 from a hedge fund customer.

26. At approximately 12:43 p.m., Chin approached a representative of another Goldman customer (“Customer B”), suggesting that Chin was actively negotiating the purchase of ABFC from a third-party seller. At approximately 12:45 p.m., the Customer B representative authorized Chin to offer a purchase price of 68-20. Chin said “ok . . . brb.” (In industry parlance, “brb” is short for “be right back.”)

27. Minutes later (at approximately 12:48 p.m.), Chin reported that Customer B could buy the bond for “69-04 fok.” (In industry parlance, “fok” is short for “fill or kill,” meaning a take-it-or-leave-it offer.) At approximately 12:52 p.m., the Customer B representative requested five minutes to consider the offer. Chin immediately replied that there was no time, suggesting that a competing bidder existed who was willing to buy the bond immediately:

Chin: I don’t have 5 mins...I think he’s going to trade it away... he’s gotten that bid.

Customer B: will he pay u?

Chin: I don’t know.

Customer B: 69 was where I ran out of rm but don’t wanna miss trd for 4 tics... if I can get em at 69-04 I’ll buy em.

Chin: you can’t pay us 2 ticks?

Customer B: sure I can take em at 69-06.

Chin: ...ok ...he said he had a better than 69-04 bid in hand – so he’s not paying me ...which is fine...he wanted us to kill it...the trade is done ...

Customer B: so u make 2 tics from my end but nothing from him?

Chin: no, he said he was doing us a favor... he could have gotten it higher away . . . so nice buy for you

Customer B: I don’t wanna operate that way...I can pay u 4 tics, wish it could be more but I really dont have room...I’ll take em at 69-08...is that cool?

Chin: I appreciate it...thx...69-08 is great

28. The Customer B representative agreed to buy the bonds at 69-08. Based on Chin’s misrepresentations and misleading conduct, the Customer B representative believed Goldman had purchased the bond at 69-04 and that the seller was not paying Goldman any commissions on the trade (“he’s not paying me”). Based on this understanding, the Customer B representative agreed to pay Goldman’s purported cost of 69-04 plus 4 ticks as compensation for

arranging the trade (“I can pay u 4 tics”).

29. In actuality, Goldman had purchased the RMBS at 67-28 almost an hour earlier, and held it in its inventory at the time of the sale to Customer B. During the negotiation with Customer B, Chin therefore misrepresented Goldman’s compensation and the fact that the RMBS was being sold out of Goldman’s inventory. In doing so, Chin obtained compensation of 44 ticks for Goldman, or eleven times the 4 tick compensation agreed to by the Customer B representative.

30. Chin’s misleading statements affected the purchase price by the Customer B representative. The Customer B representative would have attempted to obtain a lower price on the trade had he known the truth.

31. Because of Chin’s misconduct, Chin obtained \$251,859 in extra profits for Goldman on this trade.

July 9, 2012 Trade with Customer A

32. On July 9, 2012, Chin fabricated an active negotiation while arranging a trade with the Customer A representative.

33. At approximately 3:42 p.m. on July 9, 2012, Chin agreed to purchase a \$14 million RMBS with the ticker symbol *AMSI 05R2 M4* (“*AMSI*”) from a Goldman customer at a price of 45. Over half an hour later (4:16 p.m.), Chin falsely described to the Customer A representative supposed negotiations with the seller that were ongoing:

[S]howed him 45...got a 46-28 counter. i don’t think he has any real room...46-16 might get something done...might take 46-24.

34. At approximately 4:17 p.m., the Customer A representative told Chin to offer the seller 46. During the next 20 minutes, Chin made statements to the Customer A representative via instant message such as “i’m trying not to appear too eager,” and “he needs a few mins . . . to clear with his boss . . . brb.” At approximately 4:40 p.m., Chin falsely informed the Customer A representative that the seller agreed to 46. The Customer A representative offered to pay Goldman 20 ticks on the trade as compensation, bringing Customer A’s total purchase price to 46-20.

35. Chin misled the Customer A representative about the purchase price, the negotiation, Goldman’s compensation, and the fact that the RMBS was being sold out of Goldman’s inventory. Goldman bought the RMBS at 45, not 46, as Chin represented. Because Customer A offered to pay Goldman 20 ticks as compensation for arranging the trade (purchasing the RMBS at 46-20), Goldman actually earned 52 ticks on the trade, not 20.

36. Chin's misleading statements affected the purchase price by the Customer A representative. The Customer A representative would have attempted to obtain a lower price on the trade had he known the truth.

37. Through his misconduct, Chin obtained an additional \$140,000 of extra profits for Goldman on this trade.

July 19, 2012 Trade with Customer C

38. At approximately 9:15 a.m. on July 19, 2012, Chin negotiated Goldman's purchase of a \$30,000,000 RMBS with the ticker symbol JPMAC 06CW1 A5 ("JPMAC") from a hedge fund customer at a price of 58-08.

39. At approximately 9:29 a.m., Chin contacted a trader at a Goldman customer ("Customer C"), to gauge the trader's interest in the JPMAC bond, stating that the seller was offering it to Chin at a price of 61: "following up on jpmac . . . I got him down to 61-00 net to me." At approximately 9:32 a.m., the Customer C trader told Chin that he was "still a 58 bid."

40. Over the next few hours, Chin made statements to the Customer C trader such as, "need to act on jpmac soon...i gave him a lot of crap of going subject on us...I sold him the bond to him originally...so he owed me...wait a sec...calling him now...he's giving us a 61 fok. ... I think he has at least that bid away." (In industry parlance, "going subject on us" means making a take-it or leave-it offer and "bid away" means an offer from another bidder.)

41. At approximately 12:30 p.m., the Customer C trader agreed to buy the bond at 61, offering to pay an additional 6 ticks to compensate Chin for arranging the trade.

42. Once again Chin invented details of an active negotiation and misrepresented Goldman's acquisition price and the compensation Goldman would receive. Chin did not purchase the RMBS at 61, as stated, but at 58-08. Goldman also had owned the bond for approximately three hours. Thus, instead of the 6 ticks the Customer C trader believed he was paying Goldman for negotiating a trade, the firm actually was compensated 94 ticks--almost three full percentage points--on a trade out of its own inventory.

43. Chin's misleading statements affected the purchase price by the Customer C representative. The Customer C representative would have attempted to obtain a lower price on the trade had he known the truth.

44. As a result of his misconduct, Chin obtained \$825,000 in extra profits for Goldman on this trade.

45. As a result of the conduct described above, Chin willfully violated Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5, which prohibits fraudulent conduct in connection with the purchase or sale of securities.

IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest, and for the protection of investors to impose the sanctions agreed to in Respondent Chin's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, Section 203(f) of the Advisers Act, and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent Chin cease and desist from committing or causing any violations and any future violations of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5.

B. Respondent Chin be, and hereby is:

barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization; and

prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter;

with the right to apply for reentry after two years to the appropriate self-regulatory organization, or if there is none, to the Commission.

C. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Chin shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of \$150,000, disgorgement of \$200,000, and prejudgment interest of \$50,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment of disgorgement and prejudgment interest is not made, additional interest shall accrue pursuant to SEC Rule of

Practice 600, and if timely payment of a civil money penalty is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. 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 Chin 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 Celia D. Moore, Assistant Director, Division of Enforcement, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 24th Floor, Boston, Massachusetts 02110.

E. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties 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, he shall not argue that he is entitled to, nor shall he 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 he 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.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondent, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields
Secretary