UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 4781 / September 28, 2017

INVESTMENT COMPANY ACT OF 1940
Release No. 32841 / September 28, 2017

ADMINISTRATIVE PROCEEDING
File No. 3-18235

In the Matter of PERRY H. BEAUMONT, Respondent.	ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTIONS 203(f) AND 203(k) 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 203(f) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), and Section 9(b) of the Investment Company Act of 1940 ("Investment Company Act") against Perry H. Beaumont ("Beaumont" 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 203(f) and 203(k) 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 finds[1] that:

Summary

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

Respondent

2. **Perry H. Beaumont ("Beaumont")**, age 54, was the founder, president, and sole owner of an evaluated pricing company, CSV, Incorporated ("CSV"). In April 2010, Beaumont sold the assets of CSV to an outside valuation firm ("Valuation Firm") and immediately began working for the firm under a consulting contract. In May 2012, the Valuation Firm terminated its relationship with Beaumont and transferred his responsibilities to other personnel.

Other Relevant Entities

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[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.

3. **Outside Valuation Firm ("Valuation Firm")**, a corporation headquartered in Stamford, Connecticut, provides financial information for portfolio management, financial analysis, investment advisory services, and securities administration. In approximately April 2010, Valuation Firm acquired the assets of CSV, a small valuation company that specialized in valuing complex or illiquid securities, and began offering third-party pricing services for complex or illiquid securities to its clients. Valuation Firm is not registered as an investment adviser with the Commission

4. **"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.

5. **"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

6. 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.

7. 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 Valuation Firm

8. 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 Valuation Firm, and Data

Firm in turn contracted with Valuation Firm to perform all of the work to produce daily valuations. Valuation Firm received 65% of the fees that Investment Firm paid to Data Firm.

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

10. Valuation Firm had started offering valuation services for complex or illiquid securities in 2010 following its acquisition of the assets of CSV, a small valuation firm that specialized in valuing complex or illiquid securities. Valuation Firm called this new unit the Evaluated Pricing Group (the "EP Group"). Valuation Firm hired a relatively small group of valuation professionals to work in the EP Group. Valuation Firm also entered into a consulting agreement with Beaumont, who was CSV's former president and owner, to function as Valuation Firm's initial expert and to head the new EP Group. In that role, Beaumont 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.

Valuation Firm Acted as an Investment Adviser

11. With respect to the valuation of the European Options, Valuation Firm 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, Valuation Firm provided advice to Investment Firm about the value of securities (the European Options) in exchange for compensation by the Data Firm. Beaumont reported to management of the Valuation Firm, and was a person associated with Valuation Firm within the meaning of Section 202(a)(17) of the Advisers Act.

12. Valuation Firm was responsible for completing each of the steps necessary to value the European Options. Among other things, Beaumont (with assistance from various Valuation Firm 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.

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

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

14. Investment Firm provided Valuation Firm 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 Beaumont, Investment Firm also sent Valuation Firm its daily internally-developed valuations of the European Options. Beaumont represented that Valuation Firm sought Investment Firm's valuations of the European Options for use as a "cross-check" to Valuation Firm's valuations.

15. In October 2010, Valuation Firm 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, Valuation Firm 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 Valuation Firm was using an appropriate model to independently value the European Options at fair value.

16. In late 2010, Beaumont 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 Beaumont 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 Valuation Firm had the technical expertise and experience necessary to independently value the European Options, and that Valuation Firm was using a complex, proprietary model to value the European Options.

17. In January 2011, MFF's auditor asked Beaumont for a detailed explanation of the model used to value the European Options. In response, Beaumont 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. Beaumont 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."

18. Beginning in late December 2010, Investment Firm began using the median valuation from Valuation Firm 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 Valuation Firm'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 Valuation Firm's valuations to corroborate the counterparty's valuations while the respective European Options were held by the various MFF series.

<u>Beaumont Did Not Independently Value the European Options Using a Modified Black-Scholes Model</u>

19. Contrary to Beaumont's statements, Beaumont knew that Valuation Firm was not performing an independent valuation of the European Options because he developed the valuation model. Beaumont'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 Valuation Firm provided to Investment Firm were completely derivative of Investment Firm's valuations, and therefore did not constitute independent valuations.

20. Moreover, Beaumont 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."

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

22. In May 2012, Valuation Firm terminated its consulting agreement with Beaumont and transferred his responsibilities to other personnel.

<u>Violations</u>

23. As a result of the conduct described above, Beaumont willfully aided and abetted and caused[2] Valuation Firm to violate Section 206(2) of the Advisers Act, which 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. A violation of Section

[2] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

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 Sections 203(f) and 203(k) of the Advisers Act, and Section 9(b) of the Investment Company 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 be, and hereby is:

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

(2) 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 one (1) year 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. Respondent shall pay a civil money penalty 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). Respondent shall pay $20,000 within 60 days of the entry of the Order, and the remaining $30,000 within 360 days of the entry of the

Order. If timely payment 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 Beaumont 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, U.S. Securities and Exchange Commission, Bryon G. Rogers Federal Building, 1961 Stout Street, Suite 1700, Denver, CO 80294.

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, 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.

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