

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 2406 / July 18, 2005

INVESTMENT COMPANY ACT OF 1940
Release No. 26992 / July 18, 2005

ADMINISTRATIVE PROCEEDING
File No. 3-11986

In the Matter of

EDGAR M. LARSEN,

Respondent.

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

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 Sections 9(b) and 9(f) of the Investment Company Act of 1940 (“Investment Company Act”) against Edgar M. Larsen (“Respondent” or “Larsen”).

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, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 and Sections 9(b) and 9(f) of the Investment Company Act of 1940 (“Order”), as set forth below.

III.

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

Overview

A. This is a proceeding against Edgar M. Larsen, former Chief Investment Officer of AIM Advisors, Inc. (“AIM Advisors”), based on his role in authorizing or permitting certain market timing agreements, spanning January 2001 through September 2003 (the “relevant period”), within certain portfolios of the AIM mutual fund complex (“AIM Funds”). By authorizing or permitting the market timing, Larsen caused AIM Advisors to breach its fiduciary duty to AIM Funds and its shareholders. Additionally, the timing agreements contravened the AIM Funds’ prospectus disclosures relating to market timing activities.

B. Market timing includes (a) frequent buying and selling of shares of the same mutual fund or (b) buying or selling mutual fund shares in order to exploit inefficiencies in mutual fund pricing. Market timing, while not illegal per se, can harm other mutual fund shareholders because it can dilute the value of their shares if the market timer is exploiting pricing inefficiencies, or disrupt the management of the mutual fund’s investment portfolio and can cause the targeted mutual fund to incur costs borne by other shareholders to accommodate frequent buying and selling of shares by the market timer.

C. Under the market timing agreements, AIM Advisors, through Larsen and others, permitted certain investors (“market timers”) to make excessive exchanges and redemptions in select AIM Funds portfolios. In at least one instance, AIM Advisors required a market timer to leave intact “sticky assets” in AIM Funds (i.e., a long-term investment within a particular portfolio). In total, 10 market timing agreements were authorized or permitted.

D. The market timing agreements financially benefited AIM Advisors in that AIM Advisors realized additional advisory fees from the timed funds and sticky assets under its management. The fact that AIM Advisors had reason to believe that the assets invested in AIM Funds pursuant to the market timing agreements, while increasing AIM Advisors’ advisory fees, could be traded in a manner detrimental to AIM Funds, presented a conflict of interest between AIM Advisors and AIM Funds. AIM Advisors failed to disclose the conflict of interest to the board of directors of AIM Funds or to the AIM Funds’ shareholders, thereby breaching AIM Advisors’ fiduciary duty to AIM Funds.

E. The market timing agreements were also inconsistent with the disclosures made in AIM Funds’ prospectuses. According to the prospectuses, AIM Funds’ shareholders were limited to a maximum of 10 exchanges or five “roundtrip trades” (i.e., exchanges into and out of a portfolio) per calendar year, for the express reason that excessive short-term trading or market timing activity may be detrimental to mutual fund performance. AIM Funds reserved the right to reject exchanges by shareholders who exceeded the 10-exchange limit or who had not yet reached the 10-exchange limit if it determined, in its sole discretion, that the trading activity was excessive or constituted market timing activity. A reasonable implication of the prospectus language was that AIM Funds did not permit market timing. The authorized market timing was, in fact, detrimental to AIM Funds’ performance, and therefore to its shareholders, for the reasons set forth in paragraph III. B., above.

Respondent

F. Larsen has been in the securities industry since 1965, and was employed by AIM Advisors since 1996. He was Chief Equity Officer of AIM Advisors from July 1998 to June of 2003, when he became its Chief Investment Officer. Larsen, age 64, retired on January 1, 2005. He is a resident of Houston, Texas. Larsen has no disciplinary history with the Commission.

Related Entities

G. AIM Advisors, a Delaware corporation headquartered in Houston, Texas, has been registered with the Commission as an investment adviser since November 22, 1976. AIM Advisors serves as the primary investment adviser for AIM Funds. AIM Advisors is a subsidiary of AMVESCAP PLC, a UK holding company whose American Depositary Receipts are listed on the New York Stock Exchange.

Facts

Larsen's Knowledge of, and Role in Approving, Agreements with Market Timers

H. During the relevant period, Larsen was the Chief Equity Officer, and later Chief Investment Officer, of AIM Advisors. In addition to supervising AIM Advisors' portfolio managers, Larsen was the chairman of the Investment Policy Committee, which reviewed each portfolio on a quarterly basis to discuss performance-related issues with the relevant portfolio managers and AIM Advisors management. Larsen also served on the Fund Review Committee, which monitored anomalies in performance, volatility, or questions of fund management style, and the Portfolio Review Committee, which addressed issues identified by the Fund Review Committee. During this period, Larsen also regularly attended portions of the meetings of AIM Funds' board of directors. Larsen read and was familiar with AIM Funds' market timing policy as set forth in its prospectuses.

I. Larsen authorized or permitted, on behalf of AIM Advisors, certain market timing agreements. To obtain Larsen's authorization or permission for a market timing agreement, employees of AIM Advisors' transfer agent, orally or via e-mail, presented proposed market timing agreements to Larsen. The proposals included the market timer's proposed number of exchanges, the portfolio(s) involved, and the dollar amounts to be timed. Larsen then permitted or objected to the proposed agreement. In doing so, Larsen considered, among other things, the dollar amounts proposed for timing as compared to the size of the impacted portfolio(s), as well as the proposed frequency of trading.

J. Larsen believed that, for a market timing agreement to be presented for his consideration, the market timer would either have significant assets already invested in AIM Funds, or would invest significant assets in AIM Funds. Larsen did not believe that a market timing proposal could be implemented over his objection.

K. Larsen knew or should have known that the assets invested in AIM Funds pursuant to the market timing agreements would increase AIM Advisors' advisory fees. Larsen further

knew or should have known that the market timing assets could be traded in a manner harmful to AIM Funds. Market timing's foreseeable benefit to AIM Advisors, and foreseeable risk of harm to AIM Funds, posed a conflict of interest between AIM Advisors and AIM Funds that was not disclosed to the AIM Funds' board of directors or shareholders. By virtue of the undisclosed conflict of interest, AIM Advisors breached its fiduciary duty to AIM Funds and its shareholders, and Larsen was a cause of the breach.

**Although AIM Funds' Prospectuses Prohibited Market Timing,
Certain Investors Were Permitted to Engage in Market Timing**

L. During the same period that AIM Advisors entered into agreements with market timers, AIM Funds' prospectuses disclosed that AIM Advisors discouraged market timing by limiting the number of exchanges a shareholder could make in each portfolio to a maximum of 10 exchanges or five "roundtrip trades" per calendar year. According to the prospectuses, market timing activity poses a risk of harm to mutual fund performance. Additionally, AIM Funds reserved the right to reject exchanges by shareholders who exceeded the 10-exchange limit or who had not yet reached the 10-exchange limit, if AIM Funds determined, in its sole discretion, that the trading activity was excessive or constituted market timing activity.

M. Throughout the relevant period, AIM Advisors provided prospectuses to shareholders and prospective shareholders of AIM Funds. The prospectuses were included in AIM Funds' registration statements filed with the Commission.

N. Based on his role in authorizing or permitting certain market timing agreements, Larsen knew that the number of exchanges granted to certain market timers exceeded 10 per calendar year. Larsen knew or should have known that the arrangements that were authorized or permitted allowing market timing rendered the statements filed with the Commission inaccurate and he did not correct those statements, allowing further misleading filings to be made. Larsen was generally aware that market timing could harm mutual fund performance, and was advised in e-mails from portfolio managers that market timing activity was negatively impacting AIM Funds' performance. Finally, Larsen knew or should have known that AIM Advisors failed to conduct sufficient analysis to determine whether the trading conducted pursuant to the market timing agreements was harming AIM Funds' performance.

Larsen's Efforts to Control Market Timing

O. Notwithstanding the conduct described above, Larsen generally tried to detect, deter, and prevent market timing in AIM Funds. Larsen objected to far more proposals from market timers than he permitted, and most of the rejected proposals involved more money and more exchanges than the money and exchanges provided for in the market timing agreements. Larsen also encouraged policies and practices designed to combat market timing, including encouraging adoption of redemption fees and “fair value” pricing for international funds.

Violations

P. As a result of the above-described conduct, Larsen:

1. willfully¹ aided and abetted and caused AIM Advisors' violations of Section 206(2) of the Advisers Act. Section 206(2) prohibits an investment adviser from engaging in transactions, practices, or courses of business which operate or would operate as a fraud or deceit upon clients or prospective clients. A violation of Section 206(2) may be established by a showing of negligence. SEC v. Steadman, 967 F.2d 636, 643 n.5 (D.C. Cir. 1992). Specifically, Larsen permitted arrangements whereby favored AIM Funds shareholders engaged in market timing, notwithstanding the market timing prohibition in AIM Funds' prospectuses and AIM Funds' policy of prohibiting market timing. In addition, Larsen failed to disclose the market timing arrangements and the conflict of interest posed by the arrangements to the AIM Funds' shareholders and board of directors;

2. caused AIM Advisors' violations of Section 17(d) of the Investment Company Act and Rule 17d-1 thereunder, pertaining to certain prohibited transactions involving registered investment companies and their affiliated persons; and

3. caused AIM Advisors' violations of Section 34(b) of the Investment Company Act, in that he caused AIM Advisors to make untrue statements of material fact in a registration statement, application, report, account, record, or other document filed or transmitted pursuant to the Investment Company Act, or omitted to state therein facts necessary in order to prevent the statements made therein, in the light of the circumstances under which they were made, from being materially misleading.

¹ “Willfully” as used in this Order means intentionally committing the act which constitutes the violation. *See Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000); *Tager v. SEC*, 344 F.2d 5, 8 (2nd Cir. 1965). There is no requirement that the actor also be aware that he or she is violating one of the Rules or Acts.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Larsen's Offer. Accordingly, pursuant to Sections 203(f) and 203(k) of the Investment Advisers Act of 1940, and Sections 9(b) and 9(f) of the Investment Company Act of 1940, it is hereby ORDERED that:

A. Larsen cease and desist from committing or causing any violations and any future violations of Section 206(2) of the Advisers Act and Sections 17(d) and 34(b) of the Investment Company Act and Rule 17d-1 thereunder;

B. Larsen be, and hereby is, suspended from association with any investment adviser, and is 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 for six months from the date of this Order; and

C. Larsen shall, within 30 days of the entry of the Order, pay a civil penalty in the amount of \$100,000 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 or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Edgar M. Larsen 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 Harold F. Degenhardt, Fort Worth District Office, Securities and Exchange Commission, Burnett Plaza, Suite 1900, 801 Cherry Street, Unit #18, Fort Worth, Texas 76102-6882.

By the Commission.

Jonathan G. Katz
Secretary