

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 58881/October 30, 2008

ADMINISTRATIVE PROCEEDING
File No. 3-13282

In the Matter of

LOUIS GREGORY RICE,

Respondent.

ORDER INSTITUTING
ADMINISTRATIVE PROCEEDINGS
PURSUANT TO SECTION 15(b) OF THE
SECURITIES EXCHANGE ACT OF 1934,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AS TO LOUIS
GREGORY RICE

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”) against Louis Gregory Rice (“Rice” 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, Respondent consents to the entry of this Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions as to Louis Gregory Rice (“Order”), as set forth below.

III.

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

Respondent

1. **Louis Gregory Rice** ("Rice"), age 42, resides in New York, New York and has been a licensed securities professional since 1987. From 1987 until he resigned in March 2005, Rice held various positions with Lazard Capital Markets LLC ("Lazard Capital Markets").² He became a managing director in 1996 and from 1996 to 2005, was the head of Lazard Capital Markets' equity sales and trading desk in the United States, supervising, among others, Robert A. Ward and W. Daniel Williams.

Other Relevant Parties

2. **Lazard Capital Markets** is registered with the Commission as a broker-dealer (File No. 8-2595) pursuant to Section 15(b) of the Exchange Act, with its principal place of business in New York, New York. Lazard Freres & Co. LLC 's capital markets assets were separated from its other businesses and transferred to Lazard Capital Markets in 2005. At all relevant times, Lazard Freres & Co. LLC was registered with the Commission as a broker-dealer pursuant to Section 15(b) of the Exchange Act and provided securities brokerage services to institutional customers.

3. **FMR Co., Inc.** ("Fidelity") is registered with the Commission as an investment adviser (File No. 801-3447) pursuant to Section 203(c) of the Investment Advisers Act of 1940 ("Advisers Act"), with its principal place of business in Boston, Massachusetts. Fidelity is a wholly owned subsidiary of Fidelity Management & Research Company ("FMR"), which is also an investment adviser registered with the Commission (File No. 801-7884) pursuant to Section 203(c) of the Advisers Act. Fidelity provides portfolio management services as a sub-adviser to certain customers of FMR, including approximately 350 registered investment companies marketed under the "Fidelity Investments" trade name and managed by FMR and its affiliates (the "Fidelity Funds").³

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.

² For purposes of this Order, unless otherwise described, the term "Lazard Capital Markets" includes its predecessor entity, Lazard Freres & Co., LLC.

³ On March 5, 2008, the Commission instituted a related administrative proceeding against Fidelity. *See In the Matter of Fidelity Management & Research Co. and FMR Co. Inc.*, Advisers Act Release No. 2713, Admin. Proc. File No. 3-19276 (March 5, 2008).

4. **Robert A. Ward** (“Ward”), age 47, resides in New York, New York and has been a licensed securities professional since 1983. From April 1998 until his resignation in March 2005, he was associated with Lazard Capital Markets as a registered account executive in the equity sales and trading department, becoming a managing director in January 2003.

5. **W. Daniel Williams** (“Williams”), age 47, resides in Westport, Connecticut and has been a licensed securities professional since 1985. From April 1998 until his resignation in March 2005, he was associated with Lazard Capital Markets as a registered account executive in the equity sales and trading department, becoming a managing director in January 2003.

6. **Thomas H. Bruderman** (“Bruderman”), age 39, lives in Boston, Massachusetts. He was a domestic equity trader at Fidelity from 1998 until December 2004.⁴

Facts

Summary

7. These proceedings concern the failure of Rice, the head of Lazard Capital Markets’ equity sales and trading desk, to supervise certain Lazard Capital Markets sales traders’ provision of extensive travel, entertainment and gifts to certain members of Fidelity’s equity trading desk. From 2000 to 2004 (the “Relevant Period”), two Lazard Capital Markets registered representatives under Rice’s supervision, Ward and Williams, expensed to Lazard Capital Markets approximately \$300,000 in connection with entertaining and providing travel and gifts to Fidelity equity trader Thomas H. Bruderman and certain other members of Fidelity’s equity trading desk. Among other things, Ward and Williams took Bruderman on trips to Europe, the Bahamas, Florida, and Napa Valley, California. These trips included airfare or lodging at high-end hotels and, on occasion, adult entertainment. Ward and Williams also provided Bruderman with tickets to concerts, race car driving lessons and expensive wine; and contributed to the expenses associated with Bruderman’s elaborate bachelor party. On occasion Ward provided Bruderman and certain other Fidelity traders with drugs, including the drug commonly referred to as “ecstasy.”⁵

⁴ On March 5, 2008, the Commission instituted a related administrative proceeding against Bruderman and nine other employees of Fidelity’s equity trading desk. *See In the Matter of Scott DeSano, et al., Advisers Act Release No. 2715, Admin. Proc. File No. 3-12978 (March 5, 2008).*

⁵ Simultaneously with the commencement of this proceeding, the Commission has issued Orders with respect to Lazard Capital Markets and Messrs. Ward, Williams and David L. Tashjian. *See the following Commission Orders: In the Matter of Lazard Capital Markets LLC, Admin. Proc. File No. 3-13281 (October 30, 2008); In the Matter of Robert A. Ward, Admin. Proc. File No. 3-13283 (October 30, 2008); In the Matter of W. Daniel Williams, Admin. Proc. File No. 3-13285 (October 30, 2008); and In the Matter of David L. Tashjian, Admin. Proc. File No. 3-13284 (October 30, 2008).*

8. Rice viewed the provision of travel and entertainment as a part of a strategy – in competition with other securities brokerage firms – to increase Lazard Capital Markets’ brokerage business with the Fidelity Funds. To that end, Rice encouraged Ward and Williams to supply Bruderman and certain other Fidelity traders with travel and entertainment. Throughout the Relevant Period, the brokerage commissions Ward and Williams generated from Fidelity were a significant portion of Lazard Capital Markets’ overall commission revenue. For example, from 2001 to 2003, Fidelity commissions generated by Fidelity traders to whom Ward and Williams provided travel, entertainment and gifts constituted an average of over 16% of Lazard Capital Markets’ annual commission revenue during that period. During the Relevant Period, commissions from Fidelity far exceeded commissions from any other Lazard Capital Markets customer.

9. During the Relevant Period, Bruderman personally directed Fidelity securities orders to Ward and Williams that generated approximately \$21.6 million in commissions - over ten percent of Lazard Capital Markets’ overall commission revenue during that five-year period.

10. Section 17(e)(1) of the Investment Company Act of 1940 (“Investment Company Act”) makes it unlawful for an affiliated person of a registered investment company, or an affiliate of an affiliate, when acting as an agent, to accept compensation from any source (other than a salary or wages from the registered investment company) for the purchase or sale of any property to or for the registered investment company. Bruderman and the other Fidelity traders were affiliated persons of Fidelity, which is an affiliated person of registered investment companies (the Fidelity Funds), because Fidelity is the adviser to those funds. Bruderman’s and the other Fidelity traders’ receipt of travel, entertainment and gifts from Ward and Williams constituted compensation within the scope of the prohibition of Section 17(e)(1) of the Investment Company Act.

11. Section 15(b)(6) of the Exchange Act, incorporating by reference Section 15(b)(4)(E) of the Exchange Act, authorizes the Commission to sanction a person associated with, or at the time of the alleged misconduct was associated with, a broker or dealer for failing reasonably to supervise, with a view to preventing violations of the federal securities laws, another person who commits such a violation, if that person is subject to the person’s supervision.

12. As the head of Lazard Capital Markets’ equity sales and trading desk and a licensed securities professional, Rice was responsible for being familiar with, and ensuring that employees under his supervision fully complied with, Lazard Capital Markets’ travel and entertainment policies and applicable securities rules and regulations. Rice was aware of the nature and frequency of most of the travel, entertainment and gifts that Ward and Williams provided to Bruderman and certain Fidelity traders and failed reasonably to respond to red flags that certain of their conduct violated both Lazard Capital Markets’ policies and the applicable securities rules and regulations.

13. As a result of the conduct described above, Rice failed reasonably to supervise, within the meaning of Section 15(b)(6) of the Exchange Act, incorporating by reference Section

15(b)(4)(E) of the Exchange Act, Ward and Williams, with a view to preventing their aiding and abetting and causing violations of Section 17(e)(1) of the Investment Company Act.

Background

14. From at least 1996 through 2005, Rice headed Lazard Capital Markets' equity sales and trading desk. In 1998, Rice hired Ward and Williams from another brokerage firm in an effort to increase Lazard Capital Markets' brokerage business. From 1998 until they resigned in 2005, Ward and Williams reported to Rice.

15. Ward and Williams were given access to a travel and entertainment budget, which they were able to access through Lazard Capital Markets-issued credit cards. The equity sales and trading desk had a common office calendar, which Rice could access, on which its employees would list their travel and entertainment events. Equity sales and trading desk employees would prepare vouchers identifying their travel and entertainment expenses, which would be submitted to Lazard Capital Markets for reimbursement.

16. From 2000 through at least January 2003, Rice directly reviewed Ward's and Williams' entertainment expenses. In January 2003, Ward and Williams became managing directors, after which their expenses were directly reviewed by Lazard Capital Markets' chief financial officer. Rice, however, remained Ward's and Williams' supervisor and still had access to the common office calendar in which they continued to document entertainment events.

Lazard Capital Markets' Policies

17. Lazard Capital Markets' policies prohibited providing gifts in excess of \$100. From 2001 through at least mid-2004, Lazard Capital Markets' Compliance Manual stated:

An employee may not give any gratuity in excess of \$100 per person per year to any principal, officer, or employee of another ... *financial institution*.... Records shall be retained for at least three years of all such gratuities and compensation for inspection by Exchange examiners. (emphasis added).

Lazard Capital Markets also subjected its managing directors and employees to the prerequisites of relevant law and reasonable conduct and required that:

Any questions regarding the application or interpretation of behavior or conduct that may be acceptable must be brought to the attention of the General Counsel or his designee *before* any action is taken. (emphasis added).

18. Lazard Capital Markets' General Supervision manual made it clear that supervisors were responsible for ensuring employee compliance with its gifts and entertainment policies. Under the heading "Conflicts of Interest," the manual provided that:

Supervisory Personnel are responsible for being familiar with these [gifts and gratuities] rules, and they must make certain that the employees under their supervision fully comply with them. Any doubts or concerns regarding the propriety of a gift or gratuity should be brought to the attention of the Legal and Compliance Department.

19. Under the heading "Entertainment of Customers," Lazard Capital Markets' General Supervision Manual stated:

Firm policy provides that a Managing Director must approve all entertainment expenditures and document their approval in writing on the appropriate forms.... If a Supervisor confronts a compliance problem concerning the entertainment of customers, he should immediately contact the Legal and Compliance Department to plan an appropriate response.

Ward and Williams Aided and Abetted and Caused Bruderman's and Certain Other Fidelity Traders' Violations of Section 17(e)(1) of the Investment Company Act

20. During the Relevant Period, with Rice's overt or tacit approval, Ward and Williams expensed to Lazard Capital Markets over \$300,000 in connection with providing travel, entertainment and gifts to Bruderman and a few other Fidelity traders. The travel, entertainment and gifts consisted of approximately 15 trips (several of which Rice attended), including air travel, luxury accommodations, meals and/or other entertainment; numerous expensive gifts such as a \$1,750 golf instructional video, \$1,300 case of wine and \$1,329 humidior; and a number of tickets to concerts and the theater.

21. On certain occasions, Ward provided prohibited compensation in the form of drugs, including "ecstasy," to Bruderman and a few other Fidelity traders. Most of the drugs were provided in connection with entertainment events, such as concerts or trips, which were paid for by Lazard Capital Markets. Rice failed reasonably to respond to red flags that indicated that Ward provided drugs to Fidelity employees on some of these occasions.

22. The travel, entertainment and gifts provided to Bruderman and certain other Fidelity traders by Ward and Williams constituted prohibited "compensation" within the scope of the prohibition of Section 17(e)(1) of the Investment Company Act.

Lazard Capital Markets Received Substantial Business from Fidelity During the Period Ward and Williams Provided Travel, Entertainment and Gifts to Fidelity Certain Traders

23. Rice viewed the provision of travel and entertainment as part of a strategy – in competition with other securities brokerage firms – to increase Lazard Capital Markets’ brokerage business with the Fidelity Funds. To that end, Rice encouraged Ward and Williams to supply Bruderman and certain other Fidelity traders with travel and entertainment.

24. Throughout the Relevant Period, the brokerage commissions Ward and Williams generated from Fidelity were a significant portion of Lazard Capital Markets’ overall commission revenue. In addition, the commissions Lazard Capital Markets received from the Fidelity Funds grew after Ward joined Lazard Capital Markets. In 1998, the year Lazard Capital Markets hired Ward and Williams, Lazard Capital Markets received \$1.4 million in commissions from Fidelity. By contrast, during the 2001 to 2003 period, for example, Ward and Williams were responsible for generating the following commissions from Fidelity, representing the following percentages of Lazard Capital Markets’ overall gross commission revenue:

| Year | Approximate Gross Commission Revenue Ward and Williams Generated From Fidelity | Approximate Percentage of Lazard Capital Markets’ Overall Commission Revenue |
|-------------|---|---|
| 2001 | \$7.4 million | 16.2% |
| 2002 | \$7.2 million | 16.4% |
| 2003 | \$6.1 million | 16.1% |

During the Relevant Period, commissions from Fidelity far exceeded commissions from any other Lazard Capital Markets customer.

25. Bruderman, the primary beneficiary of Ward’s and Williams’ largesse, alone sent trades generating a total of \$21.6 million in brokerage commissions to Lazard Capital Markets during the Relevant Period, as follows:

| | |
|------|---------------|
| 2000 | \$3.6 million |
| 2001 | \$6.4 million |
| 2002 | \$5.6 million |
| 2003 | \$3.8 million |
| 2004 | \$2.2 million |

The commissions generated from Bruderman represented over ten percent of Lazard Capital Markets’ overall commission revenue during that five-year period.

Rice Failed to Supervise Ward and Williams

26. Rice supervised Ward and Williams and was responsible for being familiar with, and ensuring that they and other employees under his supervision fully complied with, Lazard Capital Markets' travel and entertainment policies and applicable securities rules and regulations. Rice failed to discharge the duties placed upon him, and permitted Ward and Williams to provide travel, entertainment and gifts to Fidelity employees in violation of applicable rules, regulations and policies. He openly encouraged Ward and Williams to provide travel and entertainment to Bruderman and certain other Fidelity traders, and otherwise ignored obvious indicia of excessive gifts and entertainment, in an effort to generate brokerage business for Lazard Capital Markets.

27. Rice was aware of the nature and extent of much of the travel, entertainment and gifts that Ward and Williams provided to Bruderman and certain Fidelity traders. He joined Ward and Williams on several out-of-town trips, during which Ward and Williams provided airfare, extravagant lodging, and/or other entertainment. Until they were made managing directors in January 2003, Rice reviewed and approved each of Ward's and Williams' travel and entertainment expenses and approved extravagant events, such as assorted trips to resorts in Florida and California. He failed reasonably to respond to numerous red flags that were contrary to Lazard Capital Markets' policies and in violation of Section 17(e)(1) of the Investment Company Act. Had Rice appropriately responded to the concerns raised by this conduct, it is likely he could have prevented and detected Ward's and Williams' securities law violations.

Violations

28. As a result of the conduct described above, Rice failed reasonably to supervise Ward and Williams, with a view to preventing their aiding and abetting and causing of Fidelity's employees' violations of Section 17(e)(1) of the Investment Company Act, within the meaning of Section 15(b)(6) of the Exchange Act, incorporating by reference Section 15(b)(4)(E) of the Exchange Act.

Undertakings

29. Respondent Rice agrees to provide the Commission, within 10 days after the end of the 6-month suspension period described below, an affidavit that he has complied fully with the sanctions described in Section IV below.

30. In determining whether to accept the Offer, the Commission considered these undertakings.

IV.

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

Accordingly, pursuant to Section 15(b) of the Exchange Act, it is hereby ORDERED that:

A. Respondent Rice be, and hereby is, suspended from acting in a supervisory capacity for any broker or dealer for a period of six months, effective on the second Monday following the entry of this Order.

B. IT IS FURTHER ORDERED that Respondent Rice shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$60,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. 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 Rice 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 David P. Bergers, Regional Director, Boston Regional Office, Securities and Exchange Commission, 33 Arch Street, 23rd Floor, Boston, Massachusetts 02110-1424.

By the Commission.

Florence E. Harmon
Acting Secretary