

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

SECURITIES ACT OF 1933

Release No. 8646 / December 22, 2005

SECURITIES EXCHANGE ACT OF 1934

Release No. 53011 / December 22, 2005

INVESTMENT ADVISERS ACT OF 1940

Release No. 2466 / December 22, 2005

INVESTMENT COMPANY ACT OF 1940

Release No. 27197 / December 22, 2005

ADMINISTRATIVE PROCEEDING

File No. 3-12133

In the Matter of

Veras Capital Master Fund,  
VEY Partners Master Fund,  
Veras Investment Partners, LLC,  
Kevin D. Larson, and  
James R. McBride,

Respondents.

ORDER INSTITUTING  
ADMINISTRATIVE AND CEASE-AND-  
DESIST PROCEEDINGS PURSUANT TO  
SECTION 8A OF THE SECURITIES ACT  
OF 1933, SECTION 21C OF THE  
SECURITIES EXCHANGE ACT OF 1934,  
SECTION 203(f) OF THE INVESTMENT  
ADVISERS ACT OF 1940, AND SECTIONS  
9(b) AND 9(f) 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 Section 8A of the Securities Act of 1933 (“Securities Act”), Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), and Section 9(f) of the Investment Company Act of 1940 (“Investment Company Act”) against Veras Capital Master Fund (“VCM”), Vey Partners Master Fund (“VEY”), Veras Investment Partners, LLC (“VIP”), Kevin D. Larson (“Larson”), and James R. McBride (“McBride”) (collectively, “Respondents”) and pursuant to

Section 203(f) of the Investment Advisers Act of 1940 (“Advisers Act”) and Section 9(b) of the Investment Company Act against Larson and McBride.

## 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 over the subject matter of these proceedings, Respondents consent 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 Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, Section 203(f) 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 Respondents’ Offers, the Commission finds<sup>1</sup> that:

### Summary

1. This case involves a fraudulent market timing and late trading scheme by two hedge funds, VCM and VEY (“the Veras hedge funds”), their investment adviser, VIP, and its fund traders, Larson and McBride. From January 2002 through September 2003 (“the relevant time”), Respondents used deceptive techniques to continue market timing in mutual funds that previously had detected and restricted, or that otherwise would not have permitted, the Veras hedge funds’ trading. During the relevant time, Respondents also traded mutual fund shares after 4:00 p.m. Eastern Time (“ET”) and received the same day’s price. By virtue of their conduct, Respondents caused violations of and willfully violated and aided and abetted violations of the antifraud and mutual fund pricing provisions of the federal securities laws. As a result of Respondents’ conduct, the value of the mutual funds was diluted, in the aggregate, by approximately \$35.5 million.

### Respondents

2. **Veras Capital Master Fund** is a Texas general partnership that operated as one of the Veras hedge funds during the relevant time. The VCM general partners are three feeder funds: (1) Veras Capital Partners, LP, (2) Veras Capital Partners (QP), LP, and (3) Veras Capital Partners Offshore, Ltd. The general partner to each feeder fund is the Veras Investment Group, LP (VIG), whose general partner is VIP and whose limited partners include Larson and McBride. The limited partners to each feeder fund are the Veras hedge fund investors.

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<sup>1</sup> 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.

3. **VEY Partners Master Fund** is a Texas general partnership that operated as one of the Veras hedge funds from approximately May 2002 through September 2003. The VEY general partners are two feeder funds: (1) Veras Enhanced Yield (QP), LP, and (2) Veras Enhanced Yield Offshore, Ltd. The general partner to each feeder fund is VIG, whose general partner is VIP and whose limited partners include Larson and McBride. The limited partners to each feeder fund are the Veras hedge fund investors.

4. **Veras Investment Partners, LLC**, a Texas limited liability company, provided investment advisory services to the Veras hedge funds. Larson and McBride each are owners and managing members of VIP. VIP is not registered with the Commission, although VIP was registered with the Texas Securities Board as an investment adviser. On February 24, 2004, the Texas Securities Board revoked its registration by consent.

5. **Kevin D. Larson** is 38 years old and resides in Sugar Land, Texas. Larson is an owner and managing member of VIP. During the relevant time, Larson was registered with the Texas Securities Board as an investment adviser representative. On February 24, 2004, the Texas Securities Board revoked Larson's registration by consent. Larson is licensed by the National Association of Securities Dealers ("NASD") as a Uniform Investment Advisor (Series 65).

6. **James R. McBride** is 39 years old and resides in Sugar Land, Texas. McBride is an owner and managing member of VIP. During the relevant time, McBride was registered with the Texas Securities Board as an investment adviser representative. On February 24, 2004, the Texas Securities Board revoked McBride's registration by consent.

### **Background**

7. Larson and McBride created the Veras hedge funds primarily to market time publicly traded securities. Larson and McBride, who both had substantial experience with securities trading, controlled the Veras hedge funds throughout their 20-month existence through VIP. For its services, VIP was credited with management and performance fees, a portion of which was paid out or allocated to Larson and McBride based on their ownership interests in VIP.

8. Larson and McBride organized the Veras hedge funds as a series of partnerships, as outlined above. The Veras hedge funds developed proprietary trading models to trade mutual funds in certain sectors such as high yield, international, large cap, domestic, municipal bonds, and government bonds. The proprietary trading models utilized historical trading data, among other things, to give "signals" indicating that the Veras hedge funds should buy or sell. At their peak, the Veras hedge funds held more than a billion dollars in assets.

### **Market Timing**

9. Market timing includes: (i) frequent buying and selling of shares of the same mutual fund or (ii) 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 to accommodate frequent buying and selling of shares by the market timer.

10. Respondents executed a high volume of trades in mutual funds. However, many of the mutual funds in which they traded either prohibited market timing or limited the frequency of trades in order to prevent market timing. During the relevant time, numerous mutual funds complained to intermediary institutions about the Veras hedge funds' market timing activities or blocked the Veras hedge funds' accounts from future trading.

11. To evade the mutual funds' trading restrictions, Respondents employed deceptive techniques to hide the identity of the Veras hedge funds from the mutual funds in which they traded. One such deceptive technique was the creation of legal entities with names unrelated to "Veras." During the relevant time, Larson and McBride created eight such entities.

12. During the relevant time, Respondents used these entities to open multiple accounts at multiple broker dealers. Respondents traded through these accounts to, among other things, evade the restrictions imposed by the mutual funds on trading. Respondents also used the multiple accounts to divide trades into smaller dollar amounts that would more likely evade detection by the mutual funds.

13. Respondents knew or were reckless in not knowing that their deceptive market timing techniques were fraudulent within the meaning of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

### **Late Trading**

14. Rule 22c-1(a) under the Investment Company Act requires registered open-end investment companies ("mutual funds"), persons designated in such funds' prospectuses as authorized to consummate transactions in any such security, their principal underwriters, and dealers in the funds' securities to sell and redeem fund shares at a price based on the current net asset value ("NAV") next computed after receipt of an order to buy or redeem. Late trading refers to the act of executing trades in a mutual fund's shares after the time as of which the mutual fund has calculated its NAV in a manner that allows the trade to receive that day's net asset value per share, rather than the next day's net asset value per share. Most mutual funds calculate their daily net asset value as of the close of the major United States securities exchanges and markets (normally 4:00 p.m. ET). Although Respondents were not themselves subject to Rule 22c-1, persons subject to that Rule may not price trades in violation of its provisions.

15. During the relevant time, Respondents were permitted to submit late trades to dealers in mutual fund shares and to two mutual fund companies. These entities routinely allowed Respondents to communicate orders to purchase and sell mutual fund shares after 4:00 p.m. ET at that day's NAV. In some instances, Respondents communicated orders to these entities before 4:00 p.m. ET and then confirmed, altered, or cancelled the orders after 4:00 p.m. ET. By executing Respondents' late trades, these entities violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Rule 22c-1.

16. In some instances, Respondents used information obtained after 4:00 p.m. ET to make their trading decisions. In fact, one of the Veras hedge funds' proprietary trading models incorporated information obtained from the futures market between 4:00 p.m. ET and 4:15 p.m. ET to generate a signal to buy or sell. Thus, Respondents' late trading arrangements allowed them to purchase or sell mutual fund shares at prices set as of the market close, such close having occurred before they obtained aftermarket information and made some of their trading decisions.

17. Respondents knew or were reckless in not knowing that the late trading arrangements in which they participated were fraudulent within the meaning of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

### **Violations**

18. As a result of the conduct described in paragraphs 10-12 above, Respondents willfully violated Section 17(a) of the Securities Act, and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

19. As a result of the conduct described in paragraphs 14-17 above, Respondents willfully aided and abetted and caused another's violations of Section 17(a) of the Securities Act, and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

20. As a result of the conduct described in Paragraphs 14-17 above, Respondents willfully aided and abetted and caused violations of Rule 22c-1(a) under the Investment Company Act by certain mutual funds, persons designated in such funds' prospectuses as authorized to consummate transactions in any such security, their principal underwriters, or dealers in the funds' securities, which requires such persons to sell and redeem fund shares at a price based on the current NAV next computed after receipt of an order to buy or redeem.

### **Cooperation and Undertakings**

21. In determining to accept the Offers, the Commission considered the cooperation afforded by Respondents to the Commission staff and Respondents' undertaking of ongoing cooperation. Respondents shall continue to cooperate fully with the Commission in any and all investigations, litigation, or other proceedings relating to or arising from the matters described in the Order. In connection with such cooperation, Respondents have undertaken:

- a. To produce promptly, without service of a notice or subpoena, any and all documents and other information requested by the Commission's staff;
- b. To use their best efforts to cause their current employees who were employed at the time of the alleged conduct described in the Order to be interviewed by the Commission's staff at such times as the staff reasonably may direct;
- c. To use their best efforts to cause their current employees who were employed at the time of the alleged conduct described in the Order to appear and testify truthfully and completely without service of a notice or subpoena in such investigations, depositions,

hearings or trials as may be requested by the Commission's staff, at such times as the staff reasonably may direct; and

- d. That in connection with any testimony of Respondents to be conducted at deposition, hearing or trial pursuant to a notice or subpoena, Respondents:
  - i. Agree that any such notice or subpoena for Respondents' appearance and testimony may be served by regular mail as follows: (a) for VCM, VEY, or VIP on Paul A. Leder, Esq., Richards Spears Kibbe & Orbe LLP, 1775 Eye Street NW, Washington, DC 20006; (b) for Kevin D. Larson on Guy Petrillo, Esq., Dechert LLP, 30 Rockefeller Plaza, NY, NY 10112-2200; and (c) for James McBride on Steven G. Kobre, Esq., Kobre & Kim LLP, 800 Third Avenue, New York, NY 10022;
  - ii. Agree that any such notice or subpoena for Respondents' appearance and testimony in an action pending in a United States District Court may be served, and may require testimony, beyond the territorial limits imposed by the Federal Rules of Civil Procedure.

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

22. Respondents undertake pursuant to Rule 1101 of the Commission's Rules on Fair Fund and Disgorgement Plans [17. C.F.R. § 201.1101], and in consultation with the staff of the Commission, to develop a plan to distribute the disgorgement and civil penalties as provided for in the Order ("Distribution Plan"), which will be submitted to the Commission within 60 days for notice in accordance with Rule 1103 [17 C.F.R. § 201.1103]. Following a Commission order approving a Distribution Plan, as provided in Rule 1104 [17 C.F.R. § 201.1104], Respondents shall take all necessary and appropriate steps to assist the Commission-appointed Administrator of the final Distribution Plan. Respondents shall bear the costs of administering and implementing the final Distribution Plan on a joint and several basis.

#### 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 8A of the Securities Act, Section 21C of the Exchange Act, Section 203(f) of the Advisers Act, and Sections 9(b) and 9(f) of the Investment Company Act, it is hereby ORDERED that:

A. Respondents cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and from causing any violations and any future violations of Rule 22c-1(a) under the Investment Company Act;

B. Larson and McBride be, and hereby are barred from association with any investment adviser, and are 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 reapply for association in all capacities after eighteen months to the appropriate self-regulatory organization, or if there is none, to the Commission;

C. Any reapplication for association by Larson or McBride 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 them, 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. Respondents shall pay, within ten days of the entry of this Order, on a joint and several basis, \$35,554,903 in disgorgement and \$645,585 in prejudgment interest. Larson and McBride shall each pay, within ten days of the entry of this Order, a civil money penalty in the amount of \$750,000, for a total payment of \$37,700,488.

1. Such payments 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, Alexandria, Stop 0-3, VA 22312; and (D) submitted under cover letter that identifies VCM, VEY, VIP, Larson, and McBride as Respondents in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Robert J. Burson, Senior Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, 175 W. Jackson Boulevard, Suite 900, Chicago, IL 60604.

2. There shall be, pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, a Fair Fund established for the funds described in Section IV.D., which shall be distributed to the affected mutual funds. Regardless of whether any such Fair Fund distribution is made, 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, Larson and McBride agree that they shall not, in any Related Investor Action, benefit from any offset or reduction of any investor's claim by the amount of any Fair Fund distribution to such investor in this proceeding that is proportionately attributable to the civil penalty paid by Larson and McBride ("Penalty Offset"). If the court in any Related Investor Action grants such an offset or reduction, Larson and McBride agree that they shall, within 30 days after entry of a final order granting the offset or reduction, notify the Commission's counsel in this action

and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. 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 Larson and McBride by or on behalf of one or more investors based on substantially the same facts as set forth in the Order in this proceeding.

E. Within ten days of the entry of the Commission order approving a Distribution Plan, referenced in Section III.22. above, the Commission shall direct the remittance of disgorgement, interest and civil penalties referenced in Section IV.D. above and any interest thereon for distribution in accordance with the approved final Distribution Plan.

F. Respondents shall comply with the undertakings enumerated in Paragraph 22 above.

G. Other Obligations and Requirements. Nothing in this Order shall relieve Respondents of any other applicable legal obligation or requirement, including any rule adopted by the Commission subsequent to this Order.

By the Commission.

Jonathan G. Katz  
Secretary