

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

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 53251 / February 8, 2006**

**INVESTMENT ADVISERS ACT OF 1940**  
**Release No. 2484 / February 8, 2006**

**INVESTMENT COMPANY ACT OF 1940**  
**Release No. 27223 / February 8, 2006**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-12177**

**In the Matter of**

**MORGAN KEEGAN & CO.,  
INC.,**

**Respondent.**

**ORDER INSTITUTING  
ADMINISTRATIVE AND CEASE-AND-  
DESIST PROCEEDINGS, MAKING  
FINDINGS, AND IMPOSING REMEDIAL  
SANCTIONS AND A CEASE-AND-DESIST  
ORDER PURSUANT TO SECTION 15(b)  
OF THE SECURITIES EXCHANGE ACT  
OF 1934, SECTION 203(e) 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 Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”), Section 203(e) of the Investment Advisers Act of 1940 (“Investment Advisers Act”), and Sections 9(b) and 9(f) of the Investment Company Act of 1940 (“Investment Company Act”) against Morgan Keegan & Co., Inc. (“Morgan Keegan” 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 it and the subject matter of these proceedings, Morgan Keegan 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 Section 15(b) of the Securities Exchange Act of 1934, Section 203(e) 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:

#### A. RESPONDENT

1. Morgan Keegan, a Tennessee corporation, is a registered broker-dealer and registered investment adviser headquartered in Memphis, Tennessee. Morgan Keegan is a member of the New York Stock Exchange, Inc. ("NYSE"), the Chicago Board Options Exchange, the National Association of Securities Dealers, Inc., and other major exchanges. The firm is a subsidiary of bank holding company Regions Financial Corporation.

#### B. LATE TRADING

1. In February 2003, representatives from Morgan Keegan's Dallas, Texas branch office began talks with a hedge fund adviser based in Houston, Texas (the "Hedge Fund Adviser") about the Hedge Fund Adviser's opening a Morgan Keegan account for purposes of trading in mutual funds. After the initial meeting in February, the Hedge Fund Adviser's principals asked Morgan Keegan about what deadline it used for the receipt and processing of mutual fund orders during the day. Specifically, they wanted to know "how late" they could submit an order to Morgan Keegan.

2. Although Morgan Keegan's system allowed its wire operators to submit previously received orders to the various fund families until 4:30 p.m. Central Time ("CT")/5:30 p.m. Eastern Time ("ET"), Morgan Keegan had an unwritten policy that provided that trade tickets for mutual fund orders were to be submitted to the wire operators by 2:45 p.m. CT/3:45 p.m. ET in order to have them entered that day.<sup>1</sup> Orders received from customers after that time were supposed to be entered the following day and would receive that day's net asset value ("NAV").

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<sup>1</sup> On September 13, 2003, Morgan Keegan provided written notice to its registered representatives and administrative personnel that mutual fund tickets received after 3:00 p.m. CT would not be processed that day.

3. Through a series of miscommunications, Morgan Keegan told the Hedge Fund Adviser that it could submit orders as late as 4:30 p.m. CT/5:30 p.m. ET and receive that day's NAV.

4. After being told that it could place trades up to 4:30 p.m. CT/5:30 p.m. ET, the Hedge Fund Adviser opened its first Morgan Keegan account, wired in \$35 million dollars, and began trading. Between May 2003 and early September 2003 (the "relevant period"), Morgan Keegan submitted approximately 90 mutual fund trades for the Hedge Fund Adviser. These trades were received after the time specified in the mutual funds' prospectuses for calculating those funds' NAVs (3:00 p.m. CT/4:00 p.m. ET or as of the close of the New York Stock Exchange), and were entered into the Morgan Keegan system prior to 4:30 p.m. CT/5:30 p.m. ET on the day of receipt, with the result being that the trades received that day's NAV.

5. Morgan Keegan made approximately \$418,000 in fees on the Hedge Fund Adviser relationship during the relevant period.

6. Section 22 of the Investment Company Act of 1940 and Rule 22c-1(a) promulgated thereunder impose certain requirements relating to the pricing of redeemable securities offered by mutual fund companies. Rule 22c-1(a) provides in pertinent part that:

No registered investment company issuing any redeemable security, no person designated in such issuer's prospectus as authorized to consummate transactions in any such security, and no principal underwriter of, or dealer in, any such security shall sell, redeem, or repurchase any such security except at a price based on the current net asset value of such security which is next computed after receipt of a tender of such security for redemption or of an order to purchase or sell such security . . . .

7. The Hedge Fund Adviser's mutual fund trading with Morgan Keegan was limited to certain funds within two fund families. For both fund families involved, Morgan Keegan was party to contractual dealer agreements that allowed Morgan Keegan to effect transactions in the various funds on behalf of its customers. The dealer agreements specified that Morgan Keegan must act as a dealer or principal for its own account in all transactions with their respective funds.

8. Rule 22c-1(b) requires that mutual funds compute their NAV at least once a day on Monday through Friday. Rule 22c-1(d) gives each investment company's board of directors the authority to specify the "time or times during the day that the current net asset value shall be computed."

9. The prospectuses for the mutual funds involved in this case contained disclosure specifying that they would determine their NAV as of the close of the NYSE. For

example, the prospectuses for the funds from the first fund family at issue state that their NAV would be calculated “as of the close of trading on the New York Stock Exchange (NYSE) (usually 4:00 p.m. Eastern time) . . . Orders to buy and sell shares received by dealers by the close of trading on the NYSE . . . will be based on the NAV determined as of the close of trading on the NYSE that day.” Similarly, the prospectuses for the funds from the second fund family at issue indicated that “[e]ach . . . fund determines the net asset value of its shares on each day the NYSE is open for business, as of the close of the customary trading session, or any earlier NYSE closing time that day . . . You can purchase, exchange or redeem shares during the hours of the customary trading session of the NYSE.”

10. As a result of the conduct described above, Morgan Keegan willfully violated Rule 22c-1(a) under the Investment Company Act when, acting as a dealer, it effected transactions in the shares of the mutual funds involved in a manner that would receive a particular day’s NAV after receiving the orders for those trades from the Hedge Fund Adviser after the 3:00 p.m. CT/4:00 p.m. ET cut-off time established by the funds.

#### 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 Section 15(b) of the Exchange Act, Section 203(e) of the Investment Advisers Act, and Sections 9(b) and 9(f) of the Investment Company Act, it is hereby ORDERED that:

- A. Morgan Keegan is censured;
- B. Morgan Keegan shall cease and desist from committing or causing any violations and any future violations of Rule 22c-1(a) under the Investment Company Act; and
- C. Morgan Keegan shall, within thirty days of the entry of this Order, pay disgorgement in the amount of \$418,834.93 and prejudgment interest thereon in the amount of \$39,972.06, and a civil money 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, Alexandria, Stop 0-3, VA 22312; and (D) submitted under cover letter that identifies Morgan Keegan 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 Richard P. Murphy, Assistant District Administrator, Atlanta District Office, Securities and Exchange Commission, 3475 Lenox Road, N.E., Suite 500, Atlanta, Georgia 30326-1232.

By the Commission.

Nancy M. Morris  
Secretary