



**Division of Securities**  
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## NEWS RELEASE

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### **THE RESERVE FUND CHARGED WITH SECURITIES LAW VIOLATIONS**

**Denver, Colorado** --- Colorado Securities Commissioner Fred J. Joseph announced today that he has filed a complaint in Denver District Court against a New York money market fund alleging that they have violated the anti-fraud provisions of the Colorado Securities Act in connection with the investment of public money by a Colorado local government investment pool trust fund.

Named in the complaint is **The Reserve Fund**, a business trust located in New York, which operates a series of money market funds, including The Primary Fund. Also named in the complaint are the **Reserve Management Company**, the investment adviser to, and manager of the Primary Fund; **Resrv Partners, Inc.**, an affiliate of the Reserve Management Company, and the distributor of the Primary Fund; and **Bruce R. Bent**, the chairman, president, treasurer, and a trustee of the Primary Fund, chairman and a director of the Reserve Management Company, and chairman of the Resrv Partners, all of New York, New York.

In the complaint, Commissioner Joseph alleges that in September of 2007, Colorado Surplus Asset Fund Trust ("CSAFE"), a local government investment pool trust fund, invested over \$525 million of public money in the Primary Fund, a money market fund operated by The Reserve Fund. The Primary Fund marketed itself to CSAFE as a fund that is focused on protecting the investor's principal and providing daily liquidity. The Primary Fund promised investors redemptions of their shares at the net asset value of the fund at the time of redemption. The Primary Fund also promised that proceeds from a redemption request will be transmitted to an investor no later than the next business day after receipt of the redemption request. Because the local governments needed quick access to their funds, much like with a typical checking account, the Reserve Fund's representations regarding the liquidity and safety of the Primary Fund were of primary importance to CSAFE in making an investment decision to invest in the Primary Fund.



In the complaint, the Commissioner alleges that on September 15, 2008, CSAFE requested a redemption of all its shares. The Reserve Fund confirmed the redemption at the fund's net asset value that day at \$1.00 share. Contrary to the Reserve Fund's express representations to investors that redemptions will be paid on the next day at the actual value of the shares, to date, the Reserve Fund has failed to redeem CSAFE's shares at \$1.00 a share. On September 17, 2008, the Reserve Fund suspended the right of redemption and postponed the date of payment in order to liquidate the fund in an orderly manner. Partial distributions have been made to investors, including CSAFE. Under the Reserve Fund's plan of liquidation, it appears CSAFE will not receive the full \$1.00 per share it is due and the interest that is due on the funds retained by The Reserve Fund since September 15. Losses to CSAFE could amount to several million dollars. Despite the potential losses, CSAFE has taken positive steps to mitigate those losses. The actions of the Defendants in making misrepresentations of material facts to CSAFE, and engaging in a course of conduct that operated as fraud upon CSAFE, is a violation of the anti-fraud provision of the Colorado Securities Act entitling the Commissioner to injunctive relief, restitution, and the recovery of damages on behalf of the local governmental entities.

"The Reserve Fund has failed to live up to its promises to Colorado investors," said Commissioner Joseph, "They assured our local governments safety of principal and liquidity of their investments, and their failure in this regard is a clear violation of our Securities Act."

"It is important, especially in these difficult economic times, that we hold this and other firms accountable to protect public assets just as we would protect consumers' assets," said Rico Munn, Executive Director of DORA.

A copy of the complaint can be found at:

[http://www.dora.state.co.us/securities/pdf\\_forms/enforcement/reserve-complaint.pdf](http://www.dora.state.co.us/securities/pdf_forms/enforcement/reserve-complaint.pdf) .

*DORA is dedicated to preserving the integrity of the marketplace and is committed to promoting a fair and competitive business environment in Colorado. Consumer protection is our mission.*

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