November 13, 2008

VIA HAND DELIVERY

Massachusetts Securities Division
Attn: Joseph F. Sheehan, Esq.
Clerk to the Presiding Officer
One Ashburton Place, Room 1701
Boston, Massachusetts 02108


Dear Mr. Sheehan:

On November 6, 2008, the Enforcement Section of the Massachusetts Securities Division ("Enforcement Section") received a signed Offer of Settlement ("Offer") from Respondent Bear Stearns Asset Management, Inc. ("BSAM") via e-mail in the above captioned matter. The Enforcement Section promptly submitted the Offer to the Director for consideration. Finding that settlement in the matter is in the best interest of the public and for the protection of investors, the Director has determined to accept the proposed Offer and resolve this matter through the accompanying Order ("Order") executed this day.

Please submit the accompanying Order to the Presiding Officer. Thank you for your attention to this matter.

Respectfully,

[Signature]
Anthony M. Drenzek, Esq.
Enforcement Section

Enclosures.

cc: Michael G. Bongiorno, Esq. (via facsimile to 212-230-8888 and certified mail)
    Harry J. Weiss, Esq. (via facsimile to 202-663-6363 and first-class mail)
    Patrick J. Ahearn, Esq. (by hand, cover only)

One Ashburton Place, 17th Floor, Boston, Massachusetts 02108 · (617) 727-3548
www.state.ma.us/sec/sct
I. INTRODUCTION

This Consent Order ("Order") is entered into by the Massachusetts Securities Division ("Division") and Bear Stearns Asset Management, Inc. ("BSAM"), in connection with the Administrative Complaint (the "Complaint") filed by the Enforcement Section of the Massachusetts Securities Division (the "Enforcement Section") against BSAM on November 17, 2007. The Complaint filed by the Division against BSAM alleged certain violations of Massachusetts securities laws that occurred between 2003 and 2007. The allegations concerned the operations and management of certain hedge funds advised by BSAM. These hedge funds were known as Bear Stearns High-Grade Structured Credit Strategies Fund (the "High Grade Fund") and the Bear Stearns Enhanced Leverage Fund (the "Enhanced Leverage Fund") (collectively, the "Funds" or "BSAM Funds"). The Funds are presently in liquidation.

This Order is the final settlement of those allegations set forth in the Complaint. On November 6, 2008, BSAM submitted an Offer of Settlement (the "Offer", appended hereto) for the purpose of disposing of those allegations set forth in the Complaint thereby by prejudice. Solely for the purpose of settlement, BSAM admits to the Offer's Statement of Facts, but neither admits nor denies to the Offer's Violations of Law, and consents to the entry of this Order.
I. JURISDICTION AND AUTHORITY

The Massachusetts Securities Division is a division of the Office of the Secretary of the Commonwealth with jurisdiction over matters relating to securities, as provided for by the Act. The Act authorizes the Division to regulate: 1) offers and/or sales of securities; 2) those individuals and entities offering and/or selling securities; and 3) those individuals and entities transacting business as investment advisers within the Commonwealth.

II. RELEVANT TIME PERIOD

Except as otherwise expressly stated, the conduct described herein occurred during the approximate period of September 1, 2003, through July 31, 2007 (the “Relevant Time Period”).

III. RESPONDENT

BSAM is an investment adviser registered with the United States Securities and Exchange Commission and assigned Central Registration Depository (“CRD”) number 113359. BSAM maintains a principal place of business at 237 Park Avenue, New York, NY. BSAM has notice filed as an investment adviser in Massachusetts since February 1998. BSAM is directly owned by the The Bear Stearns Companies, LLC.

IV. STATEMENT OF FACTS

1. From the third quarter of 2003 until some point during 2007, Bear Stearns Asset Management (“BSAM” or the “General Partner”) solicited investors for the Bear Stearns High-Grade Structured Credit Strategies Limited Partnership (the “High-Grade Fund,” the “Partnership” or “BSHG”) using a Confidential Private Placement Memorandum (“PPM”) and oral presentations.

2. During the same period, BSAM was the investment manager to the Bear Stearns High-Grade Structured Credit Strategies Master Fund, Ltd. (the “Master Fund”), an exempted company incorporated under the laws of the Cayman Islands.
3. From the third quarter 2006 until 2007, BSAM solicited investors for the Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Limited Partnership (the "Enhanced Leverage Fund") using a PPM and oral presentations.

4. From the third quarter of 2006 until 2007, BSAM was the investment manager to the Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd., an exempted company incorporated under the laws of the Cayman Islands.

5. According to the High Grade Fund's 2004 PPM, the primary objective of the High Grade Fund was to achieve high current income and capital appreciation relative to the London Interbank Overnight Rate (the "LIBOR").

6. The High Grade Fund’s PPMs in use between 2004 and 2007 state that the Partnership would gain exposure on a recourse and non-recourse leveraged basis to investment-grade structured finance securities through the Master Fund’s purchase of the equity and other securities issued by structured vehicles that invest, on a leveraged or unleveraged basis, in investment-grade structured finance securities including collateralized debt obligations ("CDOs").

7. The PPMs state that the Partnership will make investments in asset-backed securities (ABS), synthetic ABS, mortgage-backed securities (MBSs), and various derivatives, including credit-default swaps, interest rate swaps, options, futures, currencies and both listed and over-the-counter forward contracts.

8. The PPMs state that the Partnership would generally operate up to a Net Leverage of its investments of 10 to 1.
9. The Master Fund relied primarily on repurchase agreements to finance its direct purchases of CDOs and ABSs although it may have also used total return swaps and other derivative transactions.

10. According to the PPM dated October 31, 2004, the Master Fund's Board of Directors would initially include four directors, two from BSAM, Barry J. Cohen and Michael Guarasci, Sr., and two from PFPC, Joan Kehoe and Tara Murphy. Joan Kehoe and Tara Murphy were defined in the PPM as unaffiliated directors.

11. The PPM states that the Master Fund Directors have the ultimate authority over the Master Fund's operations.

12. As an investment adviser registered under the Investment Advisers Act of 1940 ("Adviser's Act"), BSAM is required to comply with § 206(3) of the Adviser's Act.

13. Section 206(3) of the Adviser's Act prohibits any investment adviser from acting as principal for its own account, knowingly selling any security to or purchasing any security from a client, or acting as a broker for a person other than such client, knowingly effecting any sale or purchase of any security for the account of such client without disclosing to such client in writing before the completion of such transaction the capacity in which it is acting and obtaining the consent of the client to such transaction.

14. The Complaint alleged that the PPM, under a subsection called "Principal Trades and Related Party Transactions; Cross Transactions," explains that "prior approval of the independent Master Fund Directors... or the Consent of the Partnership" is required when the Investment Manager engages in the purchase or sale of an investment... under the "principal trade" provisions of § 206(3) of the Advisers Act.
15. The PPM explains that BSAM or its affiliates may or may not be a collateral manager or other service provider to certain of the Repackaging Vehicles held within the Partnership’s investment program.

16. The 2004 PPM states in relevant part that because the Investment Manager will serve as collateral manager of the Repackaging Vehicles, the purchase of the Repackaging Vehicle Junior Interests may be deemed to be a principal trade. The Investment manager will therefore, make appropriate disclosure to, and obtain consent from, the members of the board of directors of the Master Fund who are not affiliated with the Investment Manager prior to the investment by the Master Fund in Repackaging Vehicle Junior Interests.

17. The 2004 PPM also makes those “unaffiliated” directors of the Master Fund responsible for “approving any transactions between the Master Fund and the Investment Manager or its affiliates involving significant conflicts of interest (including principal trades).” These procedures shall hereinafter be referred to as the “PTL Procedures” or “Procedures for Related Party Transactions.” “PTL” shall refer to Principal Trade Letters.

18. Transactions requiring approval from the Unaffiliated Directors of the High Grade Fund (including Principal Transactions, transactions involving the Repackaging Vehicles and transactions involving significant conflicts of interest) shall be referred hereinafter as “Related Party Transactions”.

19. The offering documents, presentation materials, or other risk disclosures for the High Grade Fund did not define which transactions beyond the technical reach of 206(3) principal trades were captured by the phrase “involving significant conflicts of interest”.
20. Throughout the period from the launch of the High Grade Fund to its bankruptcy filing, Bear Stearns Securities Corp. provided Prime Brokerage services to the Master Fund.

21. In October 2003, BSAM, Ralph Cioffi ("Cioffi"), Matthew Tannin ("Tannin") created the High Grade Fund.

22. At the time the High Grade Fund was created, Staff Member A was assigned certain responsibilities including all administrative and operational tasks.

23. The management of the High Grade Fund, BSAM and BSAM Compliance did not effectively communicate the importance of completing PTLs for Related Party Transactions to the people responsible for executing those tasks.

24. The result is that significant numbers of Related Party Transactions were not approved or were not approved in a timely manner.

25. Tannin assigned Staff Member A the responsibility for obtaining PTLs on transactions between the High Grade Fund and BSC from the time of High Grade Fund’s inception in 2003.

26. Staff Member A understood that submitting PTLs was a necessary administrative procedure.

27. The Complaint alleged that Staff Member A did not understand that a failure to submit PTLs on time and accurately was a violation of Federal Law and the PPM.

28. PTLs needed to be approved by Fund directors prior to the settlement date for any Related Party Transactions.

29. Whenever Staff Member A was informed of a transaction, she would determine whether the transaction involved BSC as a counterparty.
30. If it did, Staff Member A would “put the details of a trade on a form letter that was already addressed to the administrator and [she] would send it out on trade date to the administrator for their approval and ask them to e-mail it back to [her] before settlement date.”

31. Tannin provided Staff Member A with the above referenced form letter.

32. The Division alleges that as of October 2007 Staff member A could not recall whether PTLs were required for transactions between the High Grade Fund and Klio, a structured finance vehicle managed by BSAM.

33. The PPM stated that the High Grade Fund will obtain authorization from the unaffiliated directors for transactions involving Repackaging Vehicles.

34. The Complaint alleged that the PPM stated that such consent was required for those transactions.

35. BSAM did not require that PTLs be sent to the unaffiliated directors for transactions between the High Grade Fund and Repackaging Vehicles managed by Cioffi, Tannin or other BSAM personnel until 2005 or early 2006.

36. Employees of PFPC, the fund administrator, acted as unaffiliated directors to whom the High Grade Fund sent PTL letters for consent and approval.

37. As of October 2007 Staff Member A was not sure and did not know what role PFPC played in the High Grade Fund.

38. The Division alleges that as of October 2007, Staff Member A did not know whether PFPC still reviews and consents with PTLs.
39. The Division alleges that as of October 2007 Staff Member A could not recall why the High Grade Fund was required to “obtain” a PTL prior to engaging in transactions with BSC.

40. Between the approximate dates of October 2003 and some time in 2004, Staff Member A was the person primarily responsible for obtaining PTL letters on behalf of the High Grade Fund.

41. At some point during calendar year 2004, Staff Member A had a meeting with a BSAM Compliance officer where they discussed approximately 10 or 20 missing PTLs.

42. Following this 2004 meeting, Staff Member A took steps to address and troubleshoot the issues leading to the missing PTLs.

43. BSAM Compliance personnel informed her that it was a priority to obtain PTL consents.

44. The Division alleges as of October 2007 Staff Member A could not recall whether Tannin or Cioffi explained to her why PTL consents must be obtained.

45. The High Grade team’s failure to specify which transactions required PTLs and why caused confusion among those responsible for obtaining PTLs.

46. In approximately April 2005, Staff Member B was hired to assist with trade settlement, repo transactions and complying with PTL Procedures.

47. Prior to working for the High Grade Fund, Staff Member B had no experience in obtaining PTL consents.

48. The Division alleges that Staff Member B had many other duties at the High Grade Fund, including answering phones for Ralph Cioffi, making copies and handling “a lot of stuff”.

49. Staff Member A acted as Staff Member B’s supervisor and delegated to her responsibility for obtaining PTLs.
50. Staff Member A taught Staff Member B the process for obtaining PTLs.

51. Staff Member B, after the booking of a trade where BSC was counterparty to the High Grade Fund, would input the trade date, settlement date, security description, and CUSIP into a what Staff Member B described to the Division as a “pre-written letter that all I have to do is copy... and then send it off to this e-mail address that I had. And I usually did it at the end of the day”.

52. Staff Member B never spoke with the unaffiliated directors at PPFC.

53. The unaffiliated directors never followed up a PTL e-mail from Staff Member B with a request for additional information from Staff Member B.

54. PPFC never rejected a PTL as incomplete, late, or otherwise deficient.

55. Staff Member A gave Staff Member B the authority to send PTLs under Staff Member A's signature, without Staff Member A's review.

56. Although she was ultimately responsible for obtaining PTLs, Staff Member A on at least one occasion informed Staff Member B that she did not need to be cc:ed on emails requiring approval of PTLs.

57. When Staff Member B failed to obtain PTLs, BSAM compliance would email her spreadsheets listing PTLs sent, PTLs received back with approvals, PTLs sent without any approvals, and PTLs which should have been sent but were not.

58. BSAM Compliance typically sent PTL Spreadsheets once per month.

59. The majority of the transactions reflected on the PTL Spreadsheets had settled prior to the date the PTL Spreadsheet was sent.

60. The Complaint alleges that each transaction listed on the PTL Spreadsheets as missing represented a violation of the Adviser’s Act and the PPM.
61. Upon receiving the PTL Spreadsheet, Staff Member B would send an email to the Unaffiliated Directors seeking approval for all of those transactions missing approvals ("PTL Remediation Emails").

62. Upon notification of certain Related Party Transactions after settlement, the Unaffiliated Directors nevertheless approved of the transactions.

63. Staff Member C was hired to work for the High Grade Fund in June 2005.

64. In the fall of 2005, Cioffi instructed Staff Member C to assume some of Staff Member B’s responsibilities, including obtaining PTLs for certain transactions, in addition to his other duties.

65. In the fall of 2005, Staff Member C took over the task of obtaining PTLs for certain securities.

66. Staff Member C had no prior experience obtaining PTLs.

67. Staff Member B initially trained Staff Member C on the PTL process.

68. During the period of Staff Member C’s involvement with PTL disclosure and approval process, High Grade Fund’s controls concerning those processes were weak.

69. “CIRC” is a non-recourse term funding structure that invests primarily in highly-rated securities.

70. Klio Funding ("Klio") is a structured finance vehicle managed by the investment managers of the High Grade Fund that invests in a portfolio of investment grade ABS, MBS, and CDO securities.

71. Staff Member B sent PTLs for transactions between the High Grade Fund and CIRC.

72. In October, 2007, Staff Member B could not recall whether she was required to send a PTL when the counterparty for the transaction was an entity other than BSC or CIRC.
73. The Division alleges that Staff Member C could not recall whether he had been instructed to obtain PTLs for transactions involving the Repackaging Vehicles.

74. In 2005 or early 2006, Staff Member A became aware of the requirement to obtain PTLs for transactions between the High Grade Fund and Klio as a result of an e-mail sent by Tannin to Staff Member B and copied to Staff Member A.

75. In 2005 or early 2006, Tannin sent an e-mail to Staff Member B reminding her to obtain PTLs for transactions between the High Grade Fund and Klio.

76. BSAM failed to obtain approval for significant numbers of Related Party Transactions between the High Grade Fund and Klio.

77. At the end of 2005, Staff Member C was placed on a two month probation because he had been unable to complete all the tasks given to him by his supervisors.

78. Staff Member C was relieved of his PTL duties by BSAM management in mid-2006.

79. Staff Member A became aware of Staff Members B and C’s failure to obtain approvals on PTLs when Cioffi informed her of problems with PTLs in approximately the fourth quarter of 2005.

80. Problems with PTLs that were identified in 2005 continued in 2006.

81. On January 23, 2006, one of the unaffiliated directors sent a letter to “the Directors” of the High Grade Fund at Walkers SPV Limited in the Cayman Islands, resigning her role as a Director of the High Grade Fund (the “Resignation Letter”).

82. At the beginning of 2006, BSAM’s Compliance Department notified Staff Member C that there were problems related to PTLs “not being done on a timely enough basis.”

83. At some point during the first quarter of 2006, a member of BSAM’s Compliance Department convened a meeting with Staff Member B and Staff Member C where,
according to Staff Member C, “she outlined the specific rule in the Investment Advisers Act that required these letters to be sent. She explained, all right, we’ve got to send these letters, you know, prior to settlement.”

84. Between January 2006 and June 2006, Staff Member B and Staff Member C did not obtain consents for some related party transactions in a timely or consistent manner.

85. Between January 2006 and June 2006, even after late and missing PTLs had been identified as an ongoing problem, Staff Member B and Staff Member C still sought authorization for certain transactions after the date of settlement.

86. Between January 2006 and June 2006, the Unaffiliated Directors of the High Grade Fund approved late or incomplete PTLs.

87. In the late spring or early summer of 2006, BSAM personnel alerted members of BSAM Management to the High Grade Fund’s deficiencies and elevated their concerns related to those issues.

88. In or around June, 2006, BSAM convened meetings to determine the scope of the PTL failures, revamp the management of principal trading, and institute new procedures for requesting and obtaining consent on PTLs (the “PTL Meetings”).

89. Obtaining timely PTL approvals was elevated as a key priority for the High Grade Fund during the PTL Meetings.

90. In connection with the PTL Meetings, BSAM worked with Staff Member B and Staff Member C to determine the number and scope of missing PTLs.

91. That process sought to identify transactions that may not have complied with §206(3) of the Adviser’s Act, but did not seek to identify other transactions “involving significant conflicts of interest.”
92. The Complaint alleges that more than 2,300 principal transactions required approval from
the Unaffiliated Directors of the High Grade Fund prior to completion of the transactions.

93. The Complaint alleges that hundreds of the transactions that required prior approval were
not approved prior to trade settlement as required by § 206(3) of the Adviser’s Act and
the PPM.

94. BSAM identified hundreds of transactions that should have been approved by the
unaffiliated directors before settlement date but had not received timely consents.

95. The Complaint alleges that hundreds of the transactions that required prior approval by
the Unaffiliated Directors were missing such approval in 2003 through 2006.

96. On July 13, 2006, Staff Member B sent an e-mail to one of the unaffiliated directors
requesting approval for 53 principal transactions that had occurred between January and
July 2006.

97. Prior to the PTL Meetings, letters requesting approval of securities failed to include basic
identifying information about the transactions including trade dates, notional amounts
and settlement dates.

98. Such PTLs did not contain independent bids, where such bids were available, and were
frequently late.

99. The Complaint alleges that the transactions were approved despite material
insufficiencies including lack of price information, bids, or previous marks.

100. Before the PTL Meetings, BSAM sent at least thirty-five emails requesting approval for
unidentifiable types of securities.

101. Of the unidentifiable securities many were missing material such as names of the
securities and dates.
102. The approvals were granted despite these issues.

103. Staff Members B and C ceased being responsible for obtaining consents on PTLs once the scope of the PTL problems was identified.

104. During the summer of 2006, Staff Member D was hired to take over the work of sending PTLs and getting them approved by the PFPC or Walker directors.

105. One of the new compliance procedures instituted in 2006 was the creation of a new PTL form (the “New PTL Form”).

106. The New PTL Form classified transactions into several different categories and required that the disclosure to the unaffiliated directors include information such as independent price information and previous pricing, where such bids were available and required.

107. More than 165 out of 261 transactions submitted to the unaffiliated directors using the New PTL Form were deficient because they were late or because they did not meet the requirements of the New PTL Form. All of those PTLs that were missing information when submitted were nevertheless approved by the unaffiliated directors.

108. The Complaint alleges that beginning in March 2007 several PTL emails contained severe deficiencies. The Complaint alleges that of the 87 letters sent only 34 were completed correctly and 21 were late. Six of the letters did not contain letters of authorization for the transactions, and of these, three were for approximately 100 securities. All of these PTLs were approved by the unaffiliated directors.

109. The Complaint alleges that approval by unaffiliated directors of Related Party Transactions for which disclosures were missing required data demonstrated that the unaffiliated directors lacked information about certain transactions that they approved.

110. In mid-2006, BSAM placed a moratorium on its own ability to transact with BSC.
111. BSAM did not stop the High Grade Fund from engaging in Related Party Transactions with other entities managed or owned by BSAM.

112. The moratorium on trading with BSC lasted approximately from September 2006 until June 2007.

113. The reassessment of PTL procedures and controls that took place during the summer of 2006 contributed to BSAM’s decision to seek new unaffiliated directors.

114. In the summer of 2006, two Walkers senior vice presidents replaced PFPC as the unaffiliated directors as disclosed in the revised August 2006 PPM.

115. Under terms of the August 2006 PPM, the “unaffiliated directors,” were responsible for “approving principal transactions for which Master Fund consent is required pursuant to Rule 206(3) of the Advisers Act.”

116. The unaffiliated directors were also charged with responsibility for “approving any transactions between the Master Fund and the Investment Manager or its affiliates involving significant conflicts of interest” and approving of transactions with repackaging vehicles.

117. A law firm affiliated with Walkers Fund Services Limited served as legal counsel and had an attorney-client relationship with multiple hedge funds that BSAM advises, including the High Grade Fund and the Enhanced Leverage Fund.

118. Many transactions between the High Grade Fund and Klio that the Complaint alleged required consent by the unaffiliated directors under the PPM were never submitted to the Walkers directors for approval nor were approved.

119. Many transactions between the Enhanced Leverage Fund and Klio were never submitted to the Walkers directors for approval nor were approved.
120. The Complaint alleges that the Walkers directors approved more than 165 Related Party Transactions whose applications (PTLs) were incomplete or were submitted after the transactions were completed.

121. There was no procedure in place in case a principal transaction was rejected.

122. The Complaint alleged that the Walkers directors did not review, consent to and approve of all the PTLs and other related party transactions as the PPM required.

123. On August 1, 2006, the High Grade Fund was split into two funds where 36.74% of the fund became the Enhanced Leverage Fund. The creation of the new fund was accomplished by a subscription in kind. 36.74% of each asset in High Grade was redeemed from High Grade and used to launch the Enhanced Leverage Fund.

124. Many of the High Grade Fund’s investors are located in the United States.

125. Certain High Grade Fund investors are individual Massachusetts investors, family trusts, or partnerships.

V. VIOLATIONS OF LAW

Count I - Violations of G.L. c. 110A § 204(a)(2)(J)

126. Paragraphs 1 through 125 are incorporated herein.

127. Section 204(a)(2)(J) of the Act provides in pertinent part:

The secretary may by order deny, suspend, or revoke any registration if he finds (1) that the order is in the public interest and (2) that the applicant or registrant (J) has failed reasonably to supervise agents, investment adviser representatives or other employees to assure compliance with this chapter.

128. The conduct of Respondent BSAM, in failing to reasonably supervise agents, investment adviser representatives or other employees to assure compliance with the Act in the manner described above, constitutes a violation of M.G.L. c. 110A, § 204(a)(2)(J).
VI. SECRETARY'S DECISION AND ORDER

Based on the foregoing, it is the desire of all participants to settle the matter with respect to Respondent BSAM. Finding that the same is in the best interest of the public and for the protection of investors, the Secretary has determined to accept the proposed Offer and resolve this matter through this Order. THEREFORE, it is hereby ORDERED:

(A) BSAM shall permanently cease and desist from violations of the Act;
(B) BSAM shall be censured by the Massachusetts Securities Division;
(C) Within ten (10) days from the entry of the Order, BSAM shall submit in writing to the Division a proposed Independent Claims Administrator (ICA) not unacceptable to the Division and experienced in administering awards entered pursuant to securities litigation matters.

1. The ICA submitted by BSAM to the Division shall be properly qualified to do business in the Commonwealth of Massachusetts and shall at all times abide by all federal and state statutes, regulations and rules governing the conduct of their trade.

a. The ICA submitted by BSAM to the Division shall not have been retained by, compensated by, or have otherwise maintained a business relationship with BSAM or any of its predecessors, successors, or affiliated entities for a period of two (2) years preceding the date of BSAM's submission of their information for consideration by the Division.

b. The Division shall be permitted to make any inquiry, written or otherwise, of any ICA proposed by BSAM necessary, in the Division's sole discretion, to determine the experience and capability of the ICA to administer the funds in the manner described in the Order.

2. Within ten (10) days from the Division's receipt of BSAM's proposed ICA, the Division shall notify BSAM in writing of any objection regarding the ICA to be retained.
a. The Division shall have the ability to propose an ICA in the event that the ICA proposed by BSAM is unacceptable to the Division, with such proposal being subject to approval by BSAM.

3. Within ten (10) days from the date of receipt of the Division's written notice of non-objection to the proposed ICA, BSAM shall transfer the amount of nine million two hundred ninety seven thousand six hundred and twenty dollars ($9,297,620.00 USD) into an interest bearing account (the "Account") at a banking or other financial institution which is a member of both the Federal Deposit Insurance Corporation (FDIC) and the Depositors Insurance Fund (DIF).

   a. BSAM shall provide written notice to the Division of the proposed banking or financial institution to be retained and the nature of the Account to be employed.
   
   b. BSAM shall not open or otherwise fund the Account pursuant to the Order prior to receipt of written notice of non-objection by the Division of the financial institution to be retained and the nature of the Account to be employed.
   
   c. Any Account containing funds to be distributed pursuant to the Order shall be titled in the name of the ICA and remain under the sole direction and control of the ICA at all times.
   
   d. BSAM shall be responsible for any and all diminutions in value to the Account from the time of initial funding until ultimate distribution to claimants.

      i. This responsibility excludes amounts withdrawn from the Account which are solely attributable to distributions to claimants.

      ii. Should any event, other than that set forth in clause (3)(d)(i) above, cause a diminution in value to the Account BSAM shall refund the Account to
the pre-diminution value within forty eight (48) hours following the triggering event.

e. BSAM shall be responsible for any and all fees, taxes, and other expenses incurred in the creation, funding, maintenance, and eventual closing of the Account.

4. Within ten (10) days of the funding of the Account, the ICA shall prepare and maintain, in consultation with and subject to inspection and review by representatives of the Division, a list of potential claims against BSAM, the Bear Stearns High Grade Structured Credit Strategies Master Fund, Ltd., and the Bear Stearns High Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd. by Massachusetts investors, identified by the Division to the ICA pursuant to the Order.

   a. Upon inspection of the ICA’s list of claims, the Division shall have a period of ten (10) days in which to notify the ICA of any objection relative to the list of claims.

   b. Should the ICA distribute any funds to any potential claimants in excess of the amounts and/or claimants reflected on the list of claims ultimately accepted by the Division through its notice of non-objection, BSAM shall refund the Account in an amount equal to any such resulting deficiency to the other claimants within ten (10) days of its receipt of notice of such deficiency, with such funds being subsequently distributed by the ICA, within ten (10) of deposit, according to the list of claims ultimately accepted by the Division through its notice of non-objection.

5. Within ten (10) days of the funding of the Account, the ICA shall prepare and submit to the Division in writing a proposed notice of claim to be sent to the Massachusetts
investors identified in the list submitted pursuant to clause (E)(4) above which clearly informs the potential claimant that their receipt of the notice is pursuant to the resolution of the present Administrative Proceeding between the Massachusetts Secretary of the Commonwealth and BSAM.

a. The Division shall have a period of ten (10) days following its receipt of the proposed notice from the ICA to review and submit written comments regarding the form or content of the proposed notice to the ICA, with any modifications, additions, or deletions proposed by the Division being incorporated into the proposed notice by the ICA.

b. At such time when the Division has no additional proposed modifications, additions, or deletions to the proposed notice to the ICA, the Division shall notify the ICA of its non-objection to the proposed notice.

c. The ICA shall not deliver or otherwise transmit the notice, or any portion thereof, to any potential claimant, or agent thereof, prior to receipt of the Division's notice of non-objection.

6. Within ten (10) days of the ICA's receipt of the Division's non-objection to the proposed notice the ICA shall forward to the claimant a copy of the notice and a certified bank check, equal to amounts identified for that particular claimant in clause (C)(4) above, (which amounts shall total in aggregate the amount reflected in clause 3 above) subject to any objection by the Division as provided for in (C)(4)(a) above.

7. BSAM shall waive any right to file any answer or objection to any claim filed by a potential claimant with the ICA.
8. BSAM shall pay all expenses incurred by the ICA in the administration, safeguarding, and distribution of the funds from the Account, with all such expenses billed to, and paid by, BSAM independently of the funds contained in the Account.

9. Within forty-five (45) days of the final payment to any potential claimant, the ICA shall prepare a report detailing the administration of the funds pursuant to the Order
   a. Such report shall include, but is not limited to;
      i. Distributions of funds to all validated claimants, including, but not limited to;
         1. Identification of all accepted and validated claimants.
         2. Dates and amounts, methods of the transfer of funds for all distributions.
      ii. Expenses and fees incurred by the ICA in the administration of the claims and funds pursuant to the Order; and
      iii. Any and all other expenses incurred in connection with the administration, safeguarding, and distribution of the funds as mandated in the Order.
   b. Such report shall be maintained by the ICA and be subject to inspection and review by representatives of the Division.

10. BSAM may obtain releases of liability and assignments of any claim against BSAM or and of its successors or affiliated entities from individuals who accept compensation from the ICA under the Order. The release or assignment of claim may provide that any funds paid by BSAM or the ICA to any claimant pursuant to the Order do not constitute a waiver of any release of liability assignment of claim obtained by BSAM in any prior agreement with the claimant. Prior to execution of any document which would affect the
rights of any individual or entity seeking compensation pursuant to the Order, BSAM shall provide the Division with sample copies of such document.

William Francis Galvin
Secretary of the Commonwealth

Bryan J. Lantagne
Director
Massachusetts Securities Division
One Ashburton Place, Room 1701
Boston, MA 02108

Dated: November 6, 2008

PURSUANT TO SECTION 409 OF THE ACT ANY PERSON WHO WILLFULLY VIOLATES THIS ORDER SHALL UPON CONVICTION BE FINED NOT MORE THAN ONE HUNDRED THOUSAND DOLLARS OR IMPRISONED NOT MORE THAN TEN YEARS OR BOTH.
COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE SECRETARY OF THE COMMONWEALTH
SECURITIES DIVISION
ONE ASHBURTON PLACE, ROOM 1701
BOSTON, MASSACHUSETTS 02108

IN THE MATTER OF:

BEAR STEARNS ASSET MANAGEMENT INC.

Respondent.

Docket No. E-2007-0064

OFFER OF SETTLEMENT

I. INTRODUCTION

Bear Stearns Asset Management, Inc. ("BSAM") submits this Offer of Settlement (the "Offer") with respect to the Administrative Complaint (the "Complaint"), Docket Number 2007-0064, that was filed by the Massachusetts Securities Division (the "Division") on November 14, 2007. The Complaint filed by the Division against BSAM alleged certain violations of Massachusetts securities laws that occurred between 2003 and 2007. The allegations concerned the operations and management of certain hedge funds advised by BSAM. These hedge funds were known as Bear Stearns High-Grade Structured Credit Strategies Fund (the "High Grade Fund") and the Bear Stearns Enhanced Leverage Fund (the "Enhanced Leverage Fund") (collectively, the "Funds" or "BSAM Funds"). The Funds are presently in liquidation.

In the Administrative Complaint, the Enforcement Section sought an Order of the Division: 1) requiring the Respondent to permanently cease and desist from violating the Act and Regulations; 2) censuring the Respondent; 3) requiring the Respondent to pay an administrative fine in an amount and upon such terms as the Director or Hearing Officer may determine; and 4) taking such further action as may be deemed just and appropriate by the Director or Hearing Officer for the protection of investors.
This Offer is submitted for the purpose of settlement only and with the express understanding that it will not be used in any proceeding, unless this Offer is accepted by the Division, as hereafter set forth. If this Offer is not accepted by the Division, the Offer is withdrawn and shall not be used in or become part of any proceeding. Solely for the purpose of resolution of these matters, and not as an admission in any other proceeding or for any other purpose, the Respondent hereby admits the Division's Statement Of Facts set out herein, neither admits nor denies the Violations Of Law set out herein, and consents to the entry of a Consent Order (the “Order”) by the Division, consistent with this Offer, settling the claims thereby with prejudice.

II. JURISDICTION AND AUTHORITY

The Massachusetts Securities Division is a division of the Office of the Secretary of the Commonwealth with jurisdiction over matters relating to securities, as provided for by the Act. The Act authorizes the Division to regulate: 1) offers and/or sales of securities; 2) those individuals and entities offering and/or selling securities; and 3) those individuals and entities transacting business as investment advisers within the Commonwealth.

III. RELEVANT TIME PERIOD

Except as otherwise expressly stated, the conduct described herein occurred during the approximate period of September 1, 2003, through July 31, 2007 (the “Relevant Time Period”).

IV. RESPONDENT

BSAM is an investment adviser registered with the United States Securities and Exchange Commission and assigned Central Registration Depository (“CRD”) number 113359. BSAM maintains a principal place of business at 237 Park Avenue, New York, NY. BSAM has notice filed as an investment adviser in Massachusetts since February 1998. BSAM is directly owned by The Bear Stearns Companies, LLC.
V. STATEMENT OF FACTS

1. From the third quarter of 2003 until some point during 2007, Bear Stearns Asset Management ("BSAM" or the "General Partner") solicited investors for the Bear Stearns High-Grade Structured Credit Strategies Limited Partnership (the "High-Grade Fund," the "Partnership" or "BSHG") using a Confidential Private Placement Memorandum ("PPM") and oral presentations.

2. During the same period, BSAM was the investment manager to the Bear Stearns High-Grade Structured Credit Strategies Master Fund, Ltd. (the "Master Fund"), an exempted company incorporated under the laws of the Cayman Islands.

3. From the third quarter 2006 until 2007, BSAM solicited investors for the Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Limited Partnership (the "Enhanced Leverage Fund") using a PPM and oral presentations.

4. From the third quarter of 2006 until 2007, BSAM was the investment manager to the Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd., an exempted company incorporated under the laws of the Cayman Islands.

5. According to the High Grade Fund's 2004 PPM, the primary objective of the High-Grade Fund was to achieve high current income and capital appreciation relative to the London Interbank Overnight Rate (the "LIBOR").

6. The High Grade Fund's PPMs in use between 2004 and 2007 state that the Partnership would gain exposure on a recourse and non-recourse leveraged basis to investment-grade structured finance securities through the Master Fund's purchase of the equity and other securities issued by structured vehicles that invest, on a leveraged or unleveraged basis, in investment-grade structured finance securities including collateralized debt obligations ("CDOs").
7. The PPMs state that the Partnership will make investments in asset-backed securities (ABS), synthetic ABS, mortgage-backed securities (MBSs), and various derivatives, including credit-default swaps, interest rate swaps, options, futures, currencies and both listed and over-the-counter forward contracts.

8. The PPMs state that the Partnership would generally operate up to a Net Leverage of its investments of 10 to 1.

9. The Master Fund relied primarily on repurchase agreements to finance its direct purchases of CDOs and ABSs although it may have also used total return swaps and other derivative transactions.

10. According to the PPM dated October 31, 2004, the Master Fund’s Board of Directors would initially include four directors, two from BSAM, Barry J. Cohen and Michael Guarasci, Sr., and two from PFPC, Joan Kehoe and Tara Murphy. Joan Kehoe and Tara Murphy were defined in the PPM as unaffiliated directors.

11. The PPM states that the Master Fund Directors have the ultimate authority over the Master Fund’s operations.

12. As an investment adviser registered under the Investment Advisers Act of 1940 ("Adviser’s Act"), BSAM is required to comply with § 206(3) of the Adviser’s Act.

13. Section 206(3) of the Adviser’s Act prohibits any investment adviser from acting as principal for its own account, knowingly selling any security to or purchasing any security from a client, or acting as a broker for a person other than such client, knowingly effecting any sale or purchase of any security for the account of such client without disclosing to such client in writing before the completion of such transaction the capacity in which it is acting and obtaining the consent of the client to such transaction.
14. The Complaint alleged that the PPM, under a subsection called “Principal Trades and Related Party Transactions; Cross Transactions,” explains that “prior approval of the independent Master Fund Directors... or the Consent of the Partnership” is required when the Investment Manager engages in the purchase or sale of an investment... under the “principal trade” provisions of § 206(3) of the Advisers Act.

15. The PPM explains that BSAM or its affiliates may or may not be a collateral manager or other service provider to certain of the Repackaging Vehicles held within the Partnership’s investment program.

16. The 2004 PPM states in relevant part that because the Investment Manager will serve as collateral manager of the Repackaging Vehicles, the purchase of the Repackaging Vehicle Junior Interests may be deemed to be a principal trade. The Investment manager will therefore, make appropriate disclosure to, and obtain consent from, the members of the board of directors of the Master Fund who are not affiliated with the Investment Manager prior to the investment by the Master Fund in Repackaging Vehicle Junior Interests.

17. The 2004 PPM also makes those “unaffiliated” directors of the Master Fund responsible for “approving any transactions between the Master Fund and the Investment Manager or its affiliates involving significant conflicts of interest (including principal trades).” These procedures shall hereinafter be referred to as the “PTL Procedures” or “Procedures for Related Party Transactions.” “PTL” shall refer to Principal Trade Letters.

18. Transactions requiring approval from the Unaffiliated Directors of the High Grade Fund (including Principal Transactions, transactions involving the Repackaging Vehicles and
transactions involving significant conflicts of interest) shall be referred hereinafter as “Related Party Transactions”.

19. The offering documents, presentation materials, or other risk disclosures for the High Grade Fund did not define which transactions beyond the technical reach of 206(3) principal trades were captured by the phrase “involving significant conflicts of interest”.

20. Throughout the period from the launch of the High Grade Fund to its bankruptcy filing, Bear Stearns Securities Corp. provided Prime Brokerage services to the Master Fund.


22. At the time the High Grade Fund was created, Staff Member A was assigned certain responsibilities including all administrative and operational tasks.

23. The management of the High Grade Fund, BSAM and BSAM Compliance did not effectively communicate the importance of completing PTLs for Related Party Transactions to the people responsible for executing those tasks.

24. The result is that significant numbers of Related Party Transactions were not approved or were not approved in a timely manner.

25. Tannin assigned Staff Member A the responsibility for obtaining PTLs on transactions between the High Grade Fund and BSC from the time of High Grade Fund’s inception in 2003.

26. Staff Member A understood that submitting PTLs was a necessary administrative procedure.

27. The Complaint alleged that Staff Member A did not understand that a failure to submit PTLs on time and accurately was a violation of Federal Law and the PPM.
28. PTLs needed to be approved by Fund directors prior to the settlement date for any Related Party Transactions.

29. Whenever Staff Member A was informed of a transaction, she would determine whether the transaction involved BSC as a counterparty.

30. If it did, Staff Member A would “put the details of a trade on a form letter that was already addressed to the administrator and [she] would send it out on trade date to the administrator for their approval and ask them to e-mail it back to [her] before settlement date.”

31. Tannin provided Staff Member A with the above referenced form letter.

32. The Division alleges that as of October 2007 Staff member A could not recall whether PTLs were required for transactions between the High Grade Fund and Klio, a structured finance vehicle managed by BSAM.

33. The PPM stated that the High Grade Fund will obtain authorization from the unaffiliated directors for transactions involving Repackaging Vehicles.

34. The Complaint alleged that the PPM stated that such consent was required for those transactions.

35. BSAM did not require that PTLs be sent to the unaffiliated directors for transactions between the High Grade Fund and Repackaging Vehicles managed by Clifton, Tannin or other BSAM personnel until 2005 or early 2006.

36. Employees of FFPC, the fund administrator, acted as unaffiliated directors to whom the High Grade Fund sent PTL letters for consent and approval.

37. As of October 2007 Staff Member A was not sure and did not know what role FFPC played in the High Grade Fund.
38. The Division alleges that as of October 2007, Staff Member A did not know whether PFFC still reviews and consents with PTLs.

39. The Division alleges that as of October 2007 Staff Member A could not recall why the High Grade Fund was required to “obtain” a PTL prior to engaging in transactions with BSC.

40. Between the approximate dates of October 2003 and some time in 2004, Staff Member A was the person primarily responsible for obtaining PTL letters on behalf of the High Grade Fund.

41. At some point during calendar year 2004, Staff Member A had a meeting with a BSAM Compliance officer where they discussed approximately 10 or 20 missing PTLs.

42. Following this 2004 meeting, Staff Member A took steps to address and troubleshoot the issues leading to the missing PTLs.

43. BSAM Compliance personnel informed her that it was a priority to obtain PTL consents.

44. The Division alleges as of October 2007 Staff Member A could not recall whether Tannin or Cloffi explained to her why PTL consents must be obtained.

45. The High Grade team’s failure to specify which transactions required PTLs and why caused confusion among those responsible for obtaining PTLs.

46. In approximately April 2005, Staff Member B was hired to assist with trade settlement, repo transactions and complying with PTL Procedures.

47. Prior to working for the High Grade Fund, Staff Member B had no experience in obtaining PTL consents.

48. The Division alleges that Staff Member B had many other duties at the High Grade Fund, including answering phones for Ralph Cloffi, making copies and handling “a lot of stuff.”
49. Staff Member A acted as Staff Member B’s supervisor and delegated to her responsibility for obtaining PTLs.

50. Staff Member A taught Staff Member B the process for obtaining PTLs.

51. Staff Member B, after the booking of a trade where BSC was counterparty to the High Grade Fund, would input the trade date, settlement date, security description, and CUSIP into a what Staff Member B described to the Division as a “pre-written letter that all I have to do is copy... and then send it off to this e-mail address that I had. And I usually did it at the end of the day”.

52. Staff Member B never spoke with the unaffiliated directors at PFPC.

53. The unaffiliated directors never followed up a PTL e-mail from Staff Member B with a request for additional information from Staff Member B.

54. PFPC never rejected a PTL as incomplete, late, or otherwise deficient.

55. Staff Member A gave Staff Member B the authority to send PTLs under Staff Member A’s signature, without Staff Member A’s review.

56. Although she was ultimately responsible for obtaining PTLs, Staff Member A on at least one occasion informed Staff Member B that she did not need to be cc:ed on emails requiring approval of PTLs.

57. When Staff Member B failed to obtain PTLs, BSAM compliance would email her spreadsheets listing PTLs sent, PTLs received back with approvals, PTLs sent without any approvals, and PTLs which should have been sent but were not.

58. BSAM Compliance typically sent PTL Spreadsheets once per month.

59. The majority of the transactions reflected on the PTL Spreadsheets had settled prior to the date the PTL Spreadsheet was sent.
60. The Complaint alleges that each transaction listed on the PTL Spreadsheets as missing represented a violation of the Adviser's Act and the PPM.

61. Upon receiving the PTL Spreadsheet, Staff Member B would send an email to the Unaffiliated Directors seeking approval for all of those transactions missing approvals ("PTL Remediation Emails").

62. Upon notification of certain Related Party Transactions after settlement, the Unaffiliated Directors nevertheless approved of the transactions.

63. Staff Member C was hired to work for the High Grade Fund in June 2005.

64. In the fall of 2005, Cioffi instructed Staff Member C to assume some of Staff Member B's responsibilities, including obtaining PTLs for certain transactions, in addition to his other duties.

65. In the fall of 2005, Staff Member C took over the task of obtaining PTLs for certain securities.

66. Staff Member C had no prior experience obtaining PTLs.

67. Staff Member B initially trained Staff Member C on the PTL process.

68. During the period of Staff Member C's involvement with PTL disclosure and approval process, High Grade Fund's controls concerning those processes were weak.

69. "CIRC" is a non-recourse term funding structure that invests primarily in highly-rated securities.

70. Klio Funding ("Klio") is a structured finance vehicle managed by the investment managers of the High Grade Fund that invests in a portfolio of investment grade ABS, MBS, and CDO securities.

71. Staff Member B sent PTLs for transactions between the High Grade Fund and CIRC.
33. In October, 2007, Staff Member B could not recall whether she was required to send a PTL when the counterparty for the transaction was an entity other than BSC or CIRC.

73. The Division alleges that Staff Member C could not recall whether he had been instructed to obtain PTLs for transactions involving the Repackaging Vehicles.

74. In 2005 or early 2006, Staff Member A became aware of the requirement to obtain PTLs for transactions between the High Grade Fund and Klio as a result of an e-mail sent by Tannin to Staff Member B and copied to Staff Member A.

75. In 2005 or early 2006, Tannin sent an e-mail to Staff Member B reminding her to obtain PTLs for transactions between the High Grade Fund and Klio.

76. BSAM failed to obtain approval for significant numbers of Related Party Transactions between the High Grade Fund and Klio.

77. At the end of 2005, Staff Member C was placed on a two month probation because he had been unable to complete all the tasks given to him by his supervisors.

78. Staff Member C was relieved of his PTL duties by BSAM management in mid-2006.

79. Staff Member A became aware of Staff Members B and C’s failure to obtain approvals on PTLs when Cioffi informed her of problems with PTLs in approximately the fourth quarter of 2005.

80. Problems with PTLs that were identified in 2005 continued in 2006.

81. On January 23, 2006, one of the unaffiliated directors sent a letter to “the Directors” of the High Grade Fund at Walkers SPV Limited in the Cayman Islands, resigning her role as a Director of the High Grade Fund (the “Resignation Letter”).

82. At the beginning of 2006, BSAM’s Compliance Department notified Staff Member C that there were problems related to PTLs “not being done on a timely enough basis.”
83. At some point during the first quarter of 2006, a member of BSAM's Compliance Department convened a meeting with Staff Member B and Staff Member C where, according to Staff Member C, "she outlined the specific rule in the Investment Advisers Act that required these letters to be sent. She explained, all right, we've got to send these letters, you know, prior to settlement."

84. Between January 2006 and June 2006, Staff Member B and Staff Member C did not obtain consents for some related party transactions in a timely or consistent manner.

85. Between January 2006 and June 2006, even after late and missing PTLs had been identified as an ongoing problem, Staff Member B and Staff Member C still sought authorization for certain transactions after the date of settlement.

86. Between January 2006 and June 2006, the Unaffiliated Directors of the High Grade Fund approved late or incomplete PTLs.

87. In the late spring or early summer of 2006, BSAM personnel alerted members of BSAM Management to the High Grade Fund's deficiencies and elevated their concerns related to those issues.

88. In or around June, 2006, BSAM convened meetings to determine the scope of the PTL failures, revamp the management of principal trading, and institute new procedures for requesting and obtaining consent on PTLs (the "PTL Meetings").

89. Obtaining timely PTL approvals was elevated as a key priority for the High Grade Fund during the PTL Meetings.

90. In connection with the PTL Meetings, BSAM worked with Staff Member B and Staff Member C to determine the number and scope of missing PTLs.
91. That process sought to identify transactions that may not have complied with §206(3) of the Adviser’s Act, but did not seek to identify other transactions “involving significant conflicts of interest.”

92. The Complaint alleges that more than 2,300 principal transactions required approval from the Unaffiliated Directors of the High Grade Fund prior to completion of the transactions.

93. The Complaint alleges that hundreds of the transactions that required prior approval were not approved prior to trade settlement as required by § 206(3) of the Adviser’s Act and the PPM.

94. BSAM identified hundreds of transactions that should have been approved by the unaffiliated directors before settlement date but had not received timely consents.

95. The Complaint alleges that hundreds of the transactions that required prior approval by the Unaffiliated Directors were missing such approval in 2003 through 2006.

96. On July 13, 2006, Staff Member B sent an e-mail to one of the unaffiliated directors requesting approval for 53 principal transactions that had occurred between January and July 2006.

97. Prior to the PTL Meetings, letters requesting approval of securities failed to include basic identifying information about the transactions including trade dates, notional amounts and settlement dates.

98. Such PTLs did not contain independent bids, where such bids were available, and were frequently late.

99. The Complaint alleges that the transactions were approved despite material insufficiencies including lack of price information, bids, or previous marks.
100. Before the PTL Meetings, BSAM sent at least thirty-five emails requesting approval for
unidentifiable types of securities.

101. Of the unidentifiable securities many were missing material such as names of the
securities and dates.

102. The approvals were granted despite these issues.

103. Staff Members B and C ceased being responsible for obtaining consents on PTLs once
the scope of the PTL problems was identified.

104. During the summer of 2006, Staff Member D was hired to take over the work of sending
PTLs and getting them approved by the PPFC or Walker directors.

105. One of the new compliance procedures instituted in 2006 was the creation of a new PTL
form (the “New PTL Form”).

106. The New PTL Form classified transactions into several different categories and required
that the disclosure to the unaffiliated directors include information such as independent
price information and previous pricing, where such bids were available and required.

107. More than 165 out of 261 transactions submitted to the unaffiliated directors using the
New PTL Form were deficient because they were late or because they did not meet the
requirements of the New PTL Form. All of those PTLs that were missing information
when submitted were nevertheless approved by the unaffiliated directors.

108. The Complaint alleges that beginning in March 2007 several PTL emails contained
severe deficiencies. The Complaint alleges that of the 87 letters sent only 34 were
completed correctly and 21 were late. Six of the letters did not contain letters of
authorization for the transactions, and of these, three were for approximately 100
securities. All of these PTLs were approved by the unaffiliated directors.
109. The Complaint alleges that approval by unaffiliated directors of Related Party Transactions for which disclosures were missing required data demonstrated that the unaffiliated directors lacked information about certain transactions that they approved.

110. In mid-2006, BSAM placed a moratorium on its own ability to transact with BSC.

111. BSAM did not stop the High Grade Fund from engaging in Related Party Transactions with other entities managed or owned by BSAM.

112. The moratorium on trading with BSC lasted approximately from September 2006 until June 2007.

113. The reassessment of ETL procedures and controls that took place during the summer of 2006 contributed to BSAM’s decision to seek new unaffiliated directors.

114. In the summer of 2006, two Walkers senior vice presidents replaced PFFC as the unaffiliated directors as disclosed in the revised August 2006 PPM.

115. Under terms of the August 2006 PPM, the “unaffiliated directors,” were responsible for “approving principal transactions for which Master Fund consent is required pursuant to Rule 206(3) of the Advisers Act.”

116. The unaffiliated directors were also charged with responsibility for “approving any transactions between the Master Fund and the Investment Manager or its affiliates involving significant conflicts of interest” and approving of transactions with repackaging vehicles.

117. A law firm affiliated with Walkers Fund Services Limited served as legal counsel and had an attorney-client relationship with multiple hedge funds that BSAM advises, including the High Grade Fund and the Enhanced Leverage Fund.
118. Many transactions between the High Grade Fund and Klio that the Complaint alleged required consent by the unaffiliated directors under the PPM were never submitted to the Walkers directors for approval nor were approved.

119. Many transactions between the Enhanced Leverage Fund and Klio were never submitted to the Walkers directors for approval nor were approved.

120. The Complaint alleges that the Walkers directors approved more than 165 Related Party Transactions whose applications (PTLs) were incomplete or were submitted after the transactions were completed.

121. There was no procedure in place in case a principal transaction was rejected.

122. The Complaint alleged that the Walkers directors did not review, consent to and approve of all the PTLs and other related party transactions as the PPM required.

123. On August 1, 2006, the High Grade Fund was split into two funds where 36.74% of the fund became the Enhanced Leverage Fund. The creation of the new fund was accomplished by a subscription in kind. 36.74% of each asset in High Grade was redeemed from High Grade and used to launch the Enhanced Leverage Fund.

124. Many of the High Grade Fund’s investors are located in the United States.

125. Certain High Grade Fund investors are individual Massachusetts investors, family trusts, or partnerships.

VI. VIOLATIONS OF LAW

**Count I - Violations of G.L. c. 110A § 204(a)(2)(I)**

126. Paragraphs 1 through 125 are incorporated herein.

127. Section 204(a)(2)(I) of the Act provides in pertinent part:

The secretary may by order deny, suspend, or revoke any registration if he finds (I) that the order is in the public interest and (2) that the applicant or registrant (I) has failed reasonably to
supervise agents, investment adviser representatives or other employees to assure compliance with this chapter.

128. The conduct of Respondent BSAM, in failing to reasonably supervise agents, investment adviser representatives or other employees to assure compliance with the Act in the manner described above, constitutes a violation of M.G.L. c. 110A, § 204(a)(2)(J).

VII. REPRESENTATIONS AND AGREEMENTS

BSAM, in full settlement of these matters and for the purpose of achieving a resolution of the Division's Complaint, while admitting the Statement of Facts set forth herein, but neither admitting nor denying the Violations of Law set forth herein, agrees to the following undertakings as part of the Offer:

(A) BSAM agrees to permanently cease and desist from violations of the Act;
(B) BSAM agrees to be censured by the Massachusetts Securities Division;
(C) Within ten (10) days from the entry of the Order, BSAM agrees to submit in writing to the Division a proposed Independent Claims Administrator (ICA) not unacceptable to the Division and experienced in administering awards entered pursuant to securities litigation matters.

1. The ICA submitted by BSAM to the Division shall be properly qualified to do business in the Commonwealth of Massachusetts and shall at all times abide by all federal and state statutes, regulations and rules governing the conduct of their trade.

   a. The ICA submitted by BSAM to the Division shall not have been retained by, compensated by, or have otherwise maintained a business relationship with BSAM or any of its predecessors, successors, or affiliated entities for a period of two (2) years preceding the date of BSAM's submission of their information for consideration by the Division.
b. The Division shall be permitted to make any inquiry, written or otherwise, of any ICA proposed by BSAM necessary, in the Division’s sole discretion, to determine the experience and capability of the ICA to administer the funds in the manner described in the Order.

2. Within ten (10) days from the Division’s receipt of BSAM’s proposed ICA, the Division shall notify BSAM in writing of any objection regarding the ICA to be retained.
   a. The Division shall have the ability to propose an ICA in the event that the ICA proposed by BSAM is unacceptable to the Division, with such proposal being subject to approval by BSAM.

3. Within ten (10) days from the date of receipt of the Division’s written notice of non-objection to the proposed ICA, BSAM agrees to transfer the amount of nine million two hundred ninety seven thousand six hundred and twenty dollars ($9,297,620.00 USD) into an interest bearing account (the “Account”) at a banking or other financial institution which is a member of both the Federal Deposit Insurance Corporation (FDIC) and the Depositors Insurance Fund (DIF).
   a. BSAM agrees to provide written notice to the Division of the proposed banking or financial institution to be retained and the nature of the Account to be employed.
   b. BSAM agrees to not open or otherwise fund the Account pursuant to the Order prior to receipt of written notice of non-objection by the Division of the financial institution to be retained and the nature of the Account to be employed.
   c. Any Account containing funds to be distributed pursuant to the Order shall be titled in the name of the ICA and remain under the sole direction and control of the ICA at all times.
d. BSAM agrees to be responsible for any and all diminutions in value to the Account from the time of initial funding until ultimate distribution to claimants.

i. This responsibility excludes amounts withdrawn from the Account which are solely attributable to distributions to claimants.

ii. Should any event, other than that set forth in clause (3)(d)(i) above, cause a diminution in value to the Account BSAM shall refund the Account to the pre-diminution value within forty eight (48) hours following the triggering event.

e. BSAM shall be responsible for any and all fees, taxes, and other expenses incurred in the creation, funding, maintenance, and eventual closing of the Account.

4. Within ten (10) days of the funding of the Account, the ICA shall prepare and maintain, in consultation with and subject to inspection and review by representatives of the Division, a list of potential claims against BSAM, the Bear Stearns High Grade Structured Credit Strategies Master Fund, Ltd., and the Bear Stearns High Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd. by Massachusetts investors, identified by the Division to the ICA pursuant to the Order.

a. Upon inspection of the ICA's list of claims, the Division shall have a period of ten (10) days in which to notify the ICA of any objection relative to the list of claims.

b. Should the ICA distribute any funds to any potential claimants in excess of the amounts and/or claimants reflected on the list of claims ultimately accepted by the Division through its notice of non-objection, BSAM agrees to refund the Account in an amount equal to any such resulting deficiency to the other claimants within
ten (10) days of its receipt of notice of such deficiency, with such funds being subsequently distributed by the ICA, within ten (10) of deposit, according to the list of claims ultimately accepted by the Division through its notice of non-objection.

5. Within ten (10) days of the funding of the Account, the ICA shall prepare and submit to the Division in writing a proposed notice of claim to be sent to the Massachusetts investors identified in the list submitted pursuant to clause (C)(4) above which clearly informs the potential claimant that their receipt of the notice is pursuant to the resolution of the present Administrative Proceeding between the Massachusetts Secretary of the Commonwealth and BSAM.

a. The Division shall have a period of ten (10) days following its receipt of the proposed notice from the ICA to review and submit written comments regarding the form or content of the proposed notice to the ICA, with any modifications, additions, or deletions proposed by the Division being incorporated into the proposed notice by the ICA.

b. At such time when the Division has no additional proposed modifications, additions, or deletions to the proposed notice to the ICA, the Division shall notify the ICA of its non-objection to the proposed notice.

c. The ICA shall not deliver or otherwise transmit the notice, or any portion thereof, to any potential claimant, or agent thereof, prior to receipt of the Division's notice of non-objection.

6. Within ten (10) days of the IGA's receipt of the Division's non-objection to the proposed notice the ICA shall forward to the claimant a copy of the notice and a certified bank
check, equal to amounts identified for that particular claimant in clause (C)(4) above, (which amounts shall total in aggregate the amount reflected in clause 3 above) subject to any objection by the Division as provided for in (C)(4)(a) above.

7. BSAM agrees to waive any right to file any answer or objection to any claim filed by a potential claimant with the ICA.

8. BSAM agrees to pay all expenses incurred by the ICA in the administration, safeguarding, and distribution of the funds from the Account, with all such expenses billed to, and paid by, BSAM independently of the funds contained in the Account.

9. Within forty-five (45) days of the final payment to any potential claimant, the ICA shall prepare a report detailing the administration of the funds pursuant to the Order.

   a. Such report shall include, but is not limited to;

      i. Distributions of funds to all validated claimants, including, but not limited to;

         1. Identification of all accepted and validated claimants.

         2. Dates and amounts, methods of the transfer of funds for all distributions.

      ii. Expenses and fees incurred by the ICA in the administration of the claims and funds pursuant to the Order; and

      iii. Any and all other expenses incurred in connection with the administration, safeguarding, and distribution of the funds as mandated in the Order.

   b. Such report shall be maintained by the ICA and be subject to inspection and review by representatives of the Division.
10. BSAM may obtain releases of liability and assignments of any claim against BSAM or and of its successors or affiliated entities from individuals who accept compensation from the ICA under the Order. The release or assignment of claim may provide that any funds paid by BSAM or the ICA to any claimant pursuant to the Order do not constitute a waiver of any release of liability assignment of claim obtained by BSAM in any prior agreement with the claimant. Prior to execution of any document which would affect the rights of any individual or entity seeking compensation pursuant to the Order, BSAM agrees to provide the Division with sample copies of such document.

VIII. WAIVER

BSAM hereby waives any right to file an answer in response to the Consent Order entered pursuant to this Offer, any right to hearing, to written findings of fact, conclusions of law, to any other process provided by statute or otherwise, and to judicial review of the Consent Order entered pursuant to this Offer. Nothing herein shall bind BSAM in any proceeding in which the Division is not a party.

IX. AUTHORITY

BSAM hereby states that the tender of the Offer is a voluntary act on its part, and it has the power and authority to tender and execute this Offer, and that it has had an opportunity to consult legal counsel regarding the terms and conditions of the Offer.

Bear Stearns Asset Management, Inc. (or successor entity)

Signature of Appropriate Principal

Print Name

22
On November 5, 2008, Gregory Quarital, a person known to me, personally appeared before me and acknowledged executing the foregoing Consent.

[Signature]

Notary Public
Commission expires: 12/31/2009

Approved as to form:

[Signature]

Harry Weiss, Esq.
Michael Bongiorno, Esq.
WilmerHale LLP
60 State Street
Boston, MA 02109
(617) 526-6000
(Attorneys for the Respondent)

Dated: November 5, 2008
November 10, 2008

By Hand

Anthony M. Drenzek, Esq.
Commonwealth of Massachusetts
Office of the Secretary of the Commonwealth
Securities Division
One Ashburton Place, Room 1701
Boston, Massachusetts 02108


Dear Tony:

Enclosed please find executed signature pages in the above referenced matter.

Best regards,

[Signature]

Timothy Perla
Enclosure
cc: Michael G. Bongiorno
10. BSAM may obtain releases of liability and assignments of any claim against BSAM or and of its successors or affiliated entities from individuals who accept compensation from the ICA under the Order. The release or assignment of claim may provide that any funds paid by BSAM or the ICA to any claimant pursuant to the Order do not constitute a waiver of any release of liability assignment of claim obtained by BSAM in any prior agreement with the claimant. Prior to execution of any document which would affect the rights of any individual or entity seeking compensation pursuant to the Order, BSAM agrees to provide the Division with sample copies of such document.

VIII. WAIVER

BSAM hereby waives any right to file an answer in response to the Consent Order entered pursuant to this Offer, any right to hearing, to written findings of fact, conclusions of law, to any other process provided by statute or otherwise, and to judicial review of the Consent Order entered pursuant to this Offer. Nothing herein shall bind BSAM in any proceeding in which the Division is not a party.

IX. AUTHORITY

BSAM hereby states that the tender of the Offer is a voluntary act on its part, and it has the power and authority to tender and execute this Offer, and that it has had an opportunity to consult legal counsel regarding the terms and conditions of the Offer.

Bear Stearns Asset Management, Inc. (or successor entity)

[Signature]
Signature of Appropriate Principal

[Print Name]

Print Name
On November 5, 2008, Gregory Quental, a person known to me, personally appeared before me and acknowledged executing the foregoing Consent.

Elena M. Sindo
Notary Public
Commission expires: 12/31/2009

Approved as to form:

Harry Weiss, Esq.
Michael Bongiorno, Esq.
WilmerHale LLP
60 State Street
Boston, MA 02109
(617) 526-6000
(Attorneys for the Respondent)

Dated: November 5, 2008
COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE SECRETARY OF THE COMMONWEALTH
SECURITIES DIVISION
ONE ASHBURTON PLACE, ROOM 1701
BOSTON, MASSACHUSETTS 02108

IN THE MATTER OF:

BEAR STEARNS ASSET MANAGEMENT INC.

Respondent.

Docket No. E-2007-0064

CERTIFICATE OF SERVICE

I hereby certify under the pains and penalties of perjury that on this date I caused a true and accurate copy of the attached letter to the Presiding Officer and Consent Order to be served in the manner indicated on the parties listed below:

Michael G. Bongiorno, Esq. (counsel for Bear Stearns Asset Management, Inc.)
WilmerHale, LLP
399 Park Avenue
New York, New York 10022
(via facsimile and certified mail)
Fax: (212) 230-8888

Joseph F. Sheehan, Esq.
Clerk to the Presiding Officer
Massachusetts Securities Division
One Ashburton Place, Room 1701
Boston, MA 02108
(by hand)

Harry J. Weiss, Esq. (counsel for Bear Stearns Asset Management, Inc.)
WilmerHale, LLP
1875 Pennsylvania Avenue, NW
Washington, DC 20006
(via facsimile and first-class mail)
Fax: (202) 663-6363

Anthony M. Drenzek, Esq.

Dated: November 13, 2008