

ADMINISTRATIVE PROCEEDING
File No. 3-17538

Private Equity Fund Adviser Settles with SEC for Failing to Disclose Financial Conflicts

September 14, 2016 – The Securities and Exchange Commission announced today that Greenwich, Connecticut-based private equity fund adviser First Reserve Management, L.P. (First Reserve) has agreed to settle charges that it failed to disclose conflicts of interest arising from its practice of charging certain fees and expenses to funds its advised (the Funds) and accepting the benefit of a discount from an outside law firm that the Funds did not also receive.

According to the SEC's order, First Reserve typically made investments on behalf of the Funds directly in companies in the energy industry. In one instance in 2014, however, First Reserve caused the Funds to invest in a pooled investment vehicle that would later deploy capital for ultimate investments in companies in a particular sector of the energy industry. This resulted in the creation of two additional entities to advise the pooled vehicle, and a significant portion of the Funds' invested capital was used to pay the fees and expenses of these entities. By structuring the investment in this matter, First Reserve caused the Funds to incur additional administrative and advisory expenses, and at the same time First Reserve avoided incurring extra expenses in connection with providing advisory services to the Funds, giving rise to a financial conflict of interest that First Reserve did not disclose to the Funds or investors in the Funds.

Also according to the SEC's order, First Reserve allocated insurance premiums to the Funds that did not relate to the management of the Funds. Based on the large volume of work that an outside law firm performed for the Funds, First Reserve negotiated a discounted fee on the law firm's services for itself, while the Funds did not receive any discount from the law firm on the same services. First Reserve's practice of accepting – and not disclosing – the legal fee discount created a conflict of interest as between itself and the Funds, to which First Reserve could not effectively consent as the beneficiary of the discount.

Following an SEC examination, First Reserve voluntarily reimbursed more than \$8 million to the Funds, representing overcharged expenses and unapplied legal fee discounts. First Reserve also revised its practices, policies, and disclosures regarding its treatment of the relevant expenses and legal fee discount.

The SEC's order finds that First Reserve violated Sections 206(2) and 206(4) of the Investment Advisers Act of 1940 and Rules 206(4)-7 and 206(4)-8 thereunder.

Without admitting or denying the findings in the SEC's order, First Reserve agreed to the entry of a cease-and-desist order and to pay a civil penalty of \$3.5 million. The SEC's order acknowledges First Reserve's cooperation with the SEC staff during the SEC's investigation.

The SEC's investigation in this matter was conducted by Robert Baker, Cynthia Baran, Gregory MacCordy, and Naomi Sevilla of the Enforcement Division's Asset Management Unit with assistance from Rory Alex and Lily Chan-Sann of the Boston Regional Office. The SEC examination that led to the investigation was conducted by Igor Rozenblit of the National Exam

Program's Private Funds Unit in conjunction with Mayeti Gametchu, Stephen Latin, Kenneth Leung, and Charles Liu in the Boston Regional Office.

See also: [Order](#)