UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 3763 / January 27, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-15689

In the Matter of **WESTERN ASSET MANAGEMENT COMPANY,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTIONS 203(e) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), against Western Asset Management Company ("Respondent" or "WAM").

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, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 and Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

These proceedings arise out of an investment adviser's failure to disclose its violation of an issuer-imposed restriction prohibiting plans subject to Part 4 of Subtitle B of Title 1 of the Employee Retirement Income Security Act ("ERISA plans") from participating in a private placement. Respondent was aware no later than October 2008 that it had breached this offering restriction by allocating the security to ERISA accounts that it managed, yet failed to take prompt corrective action, contrary to its disclosed error correction policy. Specifically, Respondent did not notify most of its affected ERISA clients until August 2010, more than a year after Respondent had liquidated the securities out of all client accounts.

Respondent

1. Respondent Western Asset Management Company ("WAM"), a California corporation located in Pasadena, California, is an investment adviser registered with the Commission pursuant to Section 203(e) of the Advisers Act. WAM is a wholly-owned subsidiary of Legg Mason, Inc. As of September 30, 2013, WAM reported $442.7 billion in assets under management. WAM provides investment management services primarily to institutional clients such as pension plans and mutual funds. Many of WAM's clients are ERISA plans.

Background

2. WAM's compliance policies, including its error correction policy, were set forth in WAM's Form ADV and its compliance manual. A copy of the current Form ADV was sent to each client when its account was opened.

3. During the relevant period, WAM's policies and procedures required it to notify its clients of any breach or error resulting in a loss. Specifically, WAM disclosed the following Error Correction Policy in its Form ADV from 2007 through 2009:

> Western Asset's general policy, except where contractual arrangement or regulatory requirements provide otherwise, is (i) to make a client account whole for any net loss associated with a breach or an error (ii) to retain in a client's account, a net gain resulting from an error.
>
> …
>
> Western categorizes breaches and errors as follows:
>
> 1. Breaches of investment guidelines and/or investment restrictions resulting from any transaction or other factor whereby a transaction and/or portfolio is not consistent with:
>   a. Regulatory requirements/restrictions (examples include, but are not limited to, legally improper or prohibited transactions with affiliates; legally improper or prohibited cash/currency transactions).
>   b. Client mandates (includes prospectus for a fund).
> 2. Operational Errors

a. Trading errors include, but are not limited to, execution of incorrect security transaction (other than as described above for breaches of guidelines, restrictions or regulations)

b. Settlement errors.

…

If breach or error occurs in a client portfolio, it is Western Asset's policy that the error will be corrected immediately or, in the case of guideline breaches, the client will be immediately be [sic] contacted to obtain a waiver. If a waiver is declined, the error will be promptly corrected. If the breach, after correction, results in a gain to the client, that gain is retained in the client portfolio. If the client suffers a loss as a result of the breach, Western Asset will reimburse the account.

4. WAM relied heavily on an automated compliance system from Charles River Development ("Charles River") to comply with client investment guidelines. Once the investment guidelines for a particular client were entered into Charles River, WAM could monitor pre- and post-trade compliance with client investment guidelines through the system.

5. As the portfolio managers selected a security for the clients, and before a trade was allocated to accounts, the compliance staff determined whether that security comported with client investment guidelines by running the proposed account allocations through Charles River. If a client had a restriction prohibiting the proposed trade, the system generated an alert and WAM's pre-trade compliance staff advised the trading desk that the trade had been rejected. In addition, each morning, compliance officers reviewed exception reports for their assigned accounts to identify any guideline issues triggered by the prior day's trading activity.

6. If the proposed investment was a new issue, WAM's compliance staff populated certain attributes of the security (features such as coupon rate, maturity, call date, registration status and ERISA eligibility) before the proposed trades were processed through Charles River for pre-trade review. WAM's compliance personnel used information obtained from outside providers like Bloomberg and its own trading desk to populate the data fields for a new security into Charles River. Compliance staff did not independently review any offering documents.

WAM's Coding Error

7. On January 31, 2007, WAM purchased $50 million of the initial offering of Glen Meadow, a $500 million private placement that was designed to provide subordinated debt financing to the Hartford Insurance Group ("Hartford"). Glen Meadow was designated by market data providers as a corporate security. WAM received the preliminary offering memorandum which stated on the first page that the securities may be offered or sold only to an "eligible purchaser," defined to exclude employee benefit plans subject to ERISA. The preliminary offering memorandum also required any participant in the offering to warrant that it was an eligible purchaser and agree to transfer the security only to other eligible purchasers, noting: "Any purported purchase or transfer of the Pass-Through Trust Securities in violation of this requirement will be void and without legal effect whatsoever. The purchaser understands and acknowledges that the Pass-Through Trust may also require the sale of its Pass-Through Trust

Securities held by persons that fail to provide such certifications or otherwise comply with the [eligible purchaser requirement]."

8. Glen Meadow was initially coded in WAM's automated compliance system as an asset-backed security that was non-ERISA eligible. On February 1, 2007, a portfolio compliance officer, following up on an exception report from an overnight compliance run, directed WAM's back office staff to change the security type from "asset-backed security" to "corporate debt." Charles River, however, had been configured so that slightly different fields appeared on screen depending on whether the security was designated asset-backed or corporate debt. Changing the designation of Glen Meadow from asset-backed to corporate debt resulted in Charles River automatically populating this field as ERISA eligible without any user input.

9. Although the trader on WAM's corporate desk who was responsible for Glen Meadow was copied on the email message directing WAM's back office staff to change the security designation thereby updating ERISA field, he did not raise any concerns about ERISA. Portfolio compliance staff told WAM's back office staff to ignore alerts triggered by the Glen Meadow security, assuring them that according to the trader on WAM's corporate desk, this was "a corporate note and is ERISA eligible." Neither the portfolio compliance staff nor the trader recognized, and accordingly neither advised the back office, that the security was not eligible for ERISA accounts.

10. In the following months, WAM continued purchasing the Glen Meadow security for the accounts of its clients, ultimately purchasing $204 million of Glen Meadow for 233 client accounts, including more than $90 million par value for 99 ERISA client accounts.

WAM's Discovery and Failure to Disclose the Coding Error

11. On October 7, 2008, WAM received an email message from a former institutional client (the "Former Client") notifying WAM that the Glen Meadow security WAM had purchased for the Former Client's master pension trust account was not ERISA eligible. By the time WAM received this notice, eight of the original 99 ERISA accounts that had purchased the Glen Meadow security were closed, transferred, or had exited the position.

12. Initially, upon learning of the coding error, WAM compliance staff changed the ERISA field in Charles River from ERISA eligible to ERISA ineligible. Re-coding the security in Charles River allowed compliance staff to run "fallout" reports to determine the impact of the error. The first fallout report completed on October 8, 2008 indicated that 94 accounts were impacted and many of these accounts were coded "[n]o non-ERISA [securities]."

13. Even though WAM had promptly identified the affected accounts, it did not immediately correct the error or notify clients. WAM's compliance staff instead completed an internal portfolio breach compliance report to document the issue reported by the Former Client. According to this report, the issue arose because "[t]he security was improperly coded as ERISA eligible when it was in fact a non-ERISA eligible security." The report also indicated that the price at purchase was "100," or par. The report further noted that when the Former Client transferred its account to a new adviser on October 1, 2008, Glen Meadow was trading at a price of $73.78, resulting in an unrealized loss of $226,872.95.

14. WAM then launched a three-month investigation into the matter. Although WAM acknowledged that an internal coding issue had caused it to breach an issuer-imposed offering restriction, WAM's compliance staff first determined that there was no "error" within the meaning of WAM's error correction policy, which specifically referenced regulatory, trading and settlement errors. WAM focused its investigation on whether there had been a violation of ERISA and whether any client guidelines had been breached. WAM staff conducted key word searches of client guidelines to determine whether any of the affected ERISA clients had guidelines forbidding investment in ERISA ineligible securities. The key word searches failed to uncover the applicable guidelines for two accounts belonging to one client. WAM compliance staff also failed to discover a guideline breach unrelated to ERISA in the account of a second client. As a result, they incorrectly concluded that the allocation of the Glen Meadow security to ERISA accounts did not violate the investment guidelines applicable to these three accounts. WAM also confirmed that the issuer-imposed restriction against participation in the offering by ERISA plans was still in place. In addition, WAM consulted with outside counsel on legal aspects of the issue.

15. In December 2008, WAM's committee which oversaw the resolution of possible investment compliance issues met and received a summary of the Glen Meadow matter from inside counsel. The committee concluded, based on the factual investigation and legal analysis of inside and outside counsel presented at that meeting, that there had been no guideline breaches and no "prohibited transaction" under ERISA, 29 U.S.C. 1106 (generally forbidding transactions between an ERISA plan, on the one hand, and a plan fiduciary or a party in interest, on the other), at the time of purchase, but that WAM might have potential exposure to the issuer for breaching the terms of the offering. In light of this information, the Committee did not discuss whether WAM had any obligations to notify clients of the allocation error under its Error Correction Policy.

16. Although WAM concluded there had been no guideline breaches or ERISA prohibited transaction affecting its clients, it realized that its ERISA clients might still be concerned. As a result, WAM explored selling the Glen Meadow position out of all ERISA accounts in February and March 2009. This effort met with little success. In an email dated March 6, 2009, a WAM trader advised his colleagues that although "we're still trying to find bids, the entire space is taking a hit and the liquidity for [Glen Meadow] is not particular [sic] well." During this time, the price of the Glen Meadow security continued to deteriorate. By March 10, 2009, real-time broker quotes for the Glen Meadow security had fallen to $22. These liquidity and pricing problems caused WAM to abandon its attempts to sell the security out of all ERISA accounts.

17. Because WAM concluded that no breach or error occurred, WAM did not notify its affected ERISA clients that it had allocated the Glen Meadow security to their accounts in violation of an issuer-imposed offering restriction. Nor did WAM offer to make its affected ERISA clients whole for losses attributable to the Glen Meadow security. By interpreting its error correction policy narrowly, WAM effectively exempted issues relating to the allocation of Glen Meadow to ERISA accounts from its own compliance controls.

18. In May 2009, Hartford announced it had received preliminary approval for Troubled Asset Relief Program funds, and liquidity and pricing for Glen Meadow improved.

Accordingly, WAM sold all holdings in the Glen Meadow security from ERISA and non-ERISA client accounts between May and June 2009 pursuant to a decision of the investment desk. Although WAM was able to sell Glen Meadow, the sales were at prices materially lower than the purchase prices for Glen Meadow for all of WAM's ERISA and non-ERISA clients.

19. Before executing these sales, WAM did not inform its ERISA clients that the Glen Meadow security had been allocated to their accounts due to its coding error. Nor did WAM advise its clients of its error immediately after selling the Glen Meadow security out of their accounts.

20. WAM did not notify its ERISA clients that it had erroneously purchased the Glen Meadow security for their accounts until August 2010, by which time WAM was aware of the SEC investigation.

WAM's Violations of Section 206(2) of the Advisers Act

21. As a result of the conduct described above, WAM willfully[2] violated Section 206(2) of the Advisers Act. This section prohibits any investment adviser from engaging in any transaction, practice or course of business which operates as a fraud or deceit upon any client or prospective client. Pursuant to Section 206(2), investment advisers have a fiduciary duty that requires them to act in the best interests of their clients and to make full and fair disclosure of all material facts.

22. Although WAM's senior management was aware of the misallocation of Glen Meadow to ERISA accounts no later than December 2008, WAM did not promptly disclose it to affected ERISA clients. Instead, WAM sold the security at prices well below par in May and June 2009, resulting in substantial losses to client portfolios. More importantly, WAM did not notify its ERISA clients that Glen Meadow had been allocated to their accounts in error until more than a year after it had sold the position across all accounts. By negligently buying Glen Meadow for certain of its ERISA clients, delaying disclosure of its error and failing to promptly reimburse its clients, WAM engaged in a transaction, practice or course of business which operated as a fraud or deceit upon its clients.

WAM's Violations of Section 206(4) of the Advisers Act and Rule 206(4)-7 Thereunder

23. As a result of the conduct described above, WAM also willfully violated Advisers Act Section 206(4) and Rule 206(4)-7 thereunder. Rule 206(4)-7 requires investment advisers to "[a]dopt and implement written policies and procedures reasonably designed to prevent violation" of the Advisers Act and its rules. The Commission has stated that an adviser's failure

[2] A willful violation of the securities laws means merely "that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts'" *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

"to have adequate compliance policies and procedures in place will constitute a violation of our rules independent of any other securities law violation." Compliance Programs of Investment Companies and Investment Advisers, Advisers Act Rel. No. 2204, 68 F.R. 74714, 74715 (Dec. 24, 2003) ("Compliance Release"). The Compliance Release further provides that "[t]he policies and procedures should be designed to prevent violations from occurring, detect violations that have occurred, and correct promptly any violations that have occurred." 68 F.R. at 74716. The Compliance Release also states that "[e]ach adviser, in designing its policies and procedures, should first identify conflicts and other compliance factors creating risk exposure for the firm and its clients in light of the firm's particular operations, and then design policies and procedures that address those risks." 68 F.R. at 74716.

24. WAM's compliance policies and procedures required it to notify its clients of any breaches or errors resulting in a loss and to make clients whole for such losses. WAM's error correction policy applied to allocation and coding errors. In implementing this policy, however, WAM determined that the allocation of Glen Meadow to ERISA accounts did not trigger the notification or reimbursement provisions of WAM's error correction policy. By applying a narrow definition of the term "error" under its error correction policy, WAM was able to conclude that a coding and allocation issue affecting 99 ERISA client accounts did not require disclosure. As a result, WAM did not notify its ERISA clients that it had improperly allocated Glen Meadow to their accounts for nearly two years. WAM therefore violated Rule 206(4)-7 by failing to implement policies and procedures reasonably designed to ensure that errors and breaches are promptly corrected and disclosed to affected clients.

Respondent's Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

Undertakings

Respondent has undertaken as follows:

25. Distribution to Clients.

a. Respondent has assessed how the Glen Meadow coding error affected ERISA clients. Using a methodology not unacceptable to the Commission staff, Respondent determined that 89 of Respondent's ERISA clients[3] were impacted by their holdings of the Glen Meadow securities based on a methodology comparing the performance of Glen Meadow and

[3] While 99 accounts were impacted by WAM's allocation error, WAM has reimbursed one client for Glen Meadow-related losses for guideline breaches in two of that client's accounts, and eight other accounts were closed, transferred, or did not hold the Glen Meadow security on the date WAM received notice of its allocation error. The Respondent's methodology for calculating client impact takes into account the prior reimbursement, and the Distribution does not include the seven clients with accounts that were closed or transferred prior to the date WAM received notice.

the performance other corporate financial bonds held by such ERISA client accounts during the relevant period.

b. Respondent has undertaken to make, within 60 days of the date of entry of this Order, a payment to the affected ERISA clients in the amount of $9,620,392 (the "Distribution"). This payment represents an approximation of the amount by which such clients were impacted as a result of the conduct set forth in this Order, plus reasonable interest.

c. Respondent shall be responsible for administering the payment of the Distribution to the 89 affected ERISA clients. Respondent shall:

i. deposit the amount of the Distribution into a segregated account such as a separate bank account (the "Distribution Account") within 30 days of the date of entry of the Order and provide the Commission staff with evidence of such deposit in a form acceptable to the Commission staff;

ii. submit to the Commission staff, within 30 days after the date of entry of the Order, a distribution plan ("Distribution Plan") that identifies (1) each ERISA client that will receive a portion of the Distribution, (2) the exact amount of that payment as to each client, and (3) the methodology used to determine the exact amount of that payment as to each client; and

iii. complete payment of the Distribution to the accounts of all affected ERISA clients pursuant to the Distribution Plan within 60 days after the date of entry of the Order.[4]

d. Respondent agrees to be responsible for all of Respondent's tax compliance responsibilities associated with the Distribution and shall retain any professional services necessary. The costs and expenses of any such professional services shall be borne by Respondent and the payment of taxes applicable to the Distribution Account, if any, shall not be paid out of Distribution funds.

e. Within 90 days after the date of entry of the Order, Respondent shall submit to the Commission staff for its approval a final accounting, in a form acceptable to the Commission, and certification of the disposition of the Distribution. The final accounting and certification shall include but not be limited to: (1) the amount paid to each payee, (2) the date of each payment, (3) the check number or other identifier of money transferred or proof of payment made, (4) the date and amount of any returned payment, (5) a description of any effort to locate a prospective payee whose payment was returned, or to whom payment was not made due to factors beyond Respondent's control, and (6) an affirmation that the amount of the Distribution represents a fair and accurate calculation of the approximate impact to ERISA accounts on their holdings of the Glen Meadow security, based on a methodology comparing the performance of

[4] WAM has negotiated separate settlements of the Glen Meadow transactions with both the Commission and the Secretary of the United States Department of Labor. The Distribution reflects amounts to be paid in settlement of both agencies' respective actions.

Glen Meadow and the performance other corporate financial bonds held by such ERISA client accounts during the relevant period, plus reasonable interest. Any and all supporting documentation for the accounting and certification shall be provided to the Commission staff upon request. Respondent shall cooperate with reasonable requests for information in connection with the accounting and certification.

f. After Respondents have submitted the final accounting to the Commission staff, the staff shall submit the final accounting to the Commission for approval.

g. Commission staff may extend any of the procedural dates set forth in this paragraph 25 for good cause shown. Deadlines for dates relating to the Distribution shall be counted in calendar days except that if the last day falls on a weekend or federal holiday the next business day shall be considered to be the last day.

26. Independent Compliance Consultant.

a. Respondent shall retain, within 30 days of the date of entry of this Order, the services of an Independent Compliance Consultant not unacceptable to the Commission staff. The Independent Compliance Consultant's compensation and expenses shall be borne exclusively by Respondent. Respondent shall require the Independent Compliance Consultant to conduct a comprehensive review of Respondent's supervisory, compliance, and other policies and procedures designed to resolve allocation and coding errors by Respondent and its employees, including whether such policies and procedures are sufficiently detailed to constrain Respondent's discretion to determine whether such errors are subject to Respondent's Error Correction Policy. As part of its comprehensive review, the Independent Compliance Consultant will evaluate whether Respondent's Error Correction Policy adequately discloses Respondent's practices with respect to the treatment of such errors.

b. Respondent shall provide to the Commission staff, within thirty (30) days of retaining the Independent Compliance Consultant, a copy of an engagement letter detailing the Independent Consultant's responsibility, which shall include the reviews described in paragraph 26.a above.

c. Respondent shall require that, at the conclusion of the review, which Respondent shall request that the Independent Compliance Consultant complete in no more than 180 days after the date of entry of this Order, the Independent Compliance Consultant shall submit a Report to Respondent and the staff of the Commission. The Report shall address the issues described in paragraph 26.a above, and shall include a description of the review performed, the conclusions reached, the Independent Compliance Consultant's recommendations for changes in or improvements to policies and procedures for Respondent, and a procedure for implementing the recommended changes in or improvements to those policies and procedures.

d. Respondent shall adopt all recommendations contained in the Report of the Independent Compliance Consultant; provided, however, that, within 210 days after the date of entry of this Order, or within 30 days after delivery to WAM of the Report (whichever date is later) Respondent shall, in writing, advise the Independent Compliance Consultant and the staff of the Commission of any recommendations that it considers to be unnecessary, unduly

burdensome, impractical, or inappropriate. With respect to any such recommendation, Respondent need not adopt that recommendation at that time but shall propose, in writing, an alternative policy, procedure or system designed to achieve the same objective or purpose.

e. As to any recommendation with respect to Respondent's policies and procedures on which Respondent and the Independent Compliance Consultant do not agree, such parties shall attempt in good faith to reach an agreement within 240 days of the date of entry of this Order, or within 60 days after delivery to WAM of the Report (whichever date is later). In the event Respondent and the Independent Compliance Consultant are unable to agree on an alternative proposal, Respondent shall abide by the determinations of the Independent Compliance Consultant.

f. Respondent shall cooperate fully with the Independent Compliance Consultant and shall provide the Independent Compliance Consultant with access to files, books, records, and personnel as reasonably requested for the review.

g. To ensure the independence of the Independent Compliance Consultant, Respondent shall not terminate the Independent Compliance Consultant or substitute another independent compliance consultant for the initial Independent Compliance Consultant without the prior written approval of the staff of the Commission. Respondent shall compensate the Independent Compliance Consultant for services rendered pursuant to this Order at its reasonable and customary rates. Neither Respondent nor any of its affiliates shall be in or have an attorney-client relationship with the Independent Compliance Consultant and neither Respondent nor its affiliates shall seek to invoke the attorney-client or any other doctrine or privilege to prevent the Independent Compliance Consultant from transmitting any information, reports, or documents to the staff of the Commission.

h. Except to the extent that the Independent Compliance Consultant is the same entity chosen for the Western Asset Management Company matter, AP File No. 3-15689, being settled with the SEC at the same time, Respondent shall require that the Independent Compliance Consultant, for the period of the engagement and for a period of two years from completion of the engagement, shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondent or any of its present affiliates, directors, officers, employees, or agents acting in their capacity as such. Respondent shall require that any firm with which the Independent Compliance Consultant is affiliated in the performance of his, her or its duties under this Order shall not, without prior written consent of the staff of the Commission, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondent or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

27. Certification. Respondent shall certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Lorraine B. Echavarria, Associate Director, Division of

Enforcement, Securities and Exchange Commission, Los Angeles Regional Office, 5670 Wilshire Blvd., 11th Floor, Los Angeles, CA 90036, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

28. Recordkeeping. Respondent shall preserve for a period not less than six years from the end of the fiscal year last used, the first two years in an easily accessible place, any record of their compliance with the undertakings set forth above.

29. Deadlines. The staff of the Commission may extend any of the procedural dates set forth above for good cause shown.

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 Sections 203(e) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations Sections 206(2) and 206(4) of the Advisers Act and Rule 206(4)-7 promulgated thereunder.

B. Respondent is censured.

C. Respondent shall pay disgorgement of $8,111,582 and prejudgment interest of $1,508,810, which shall be deemed satisfied on compliance with the distribution undertaking described in paragraph 25.

D. Respondent shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of $1 million to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or
(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Western Asset Management Company as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Lorraine B. Echavarria, Associate Director, Division of Enforcement, Securities and Exchange Commission, Los Angeles Regional Office, 5670 Wilshire Blvd., 11th Floor, Los Angeles, CA 90036.

E. The Division of Enforcement ("Division") may, at any time following the entry of this Order, petition the Commission to: (1) reopen this matter to consider whether Respondent provided accurate and complete financial information at the time such representations were made; and (2) seek an order directing payment of disgorgement and pre-judgment interest. No other issue shall be considered in connection with this petition other than whether the financial information provided by Respondent was fraudulent, misleading, inaccurate, or incomplete in any material respect. Respondent may not, by way of defense to any such petition: (1) contest the findings in this Order; (2) assert that payment of disgorgement and interest should not be ordered; (3) contest the amount of disgorgement and interest to be ordered; or (4) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

F. Respondent shall comply with the undertakings enumerated in paragraphs 25-28 above.

By the Commission.

Elizabeth M. Murphy
Secretary