UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 4219 / October 7, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16887

In the Matter of **Blackstone Management Partners L.L.C.,** **Blackstone Management Partners III L.L.C.,** **and** **Blackstone Management Partners IV L.L.C.,** **Respondents.**	**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 203(k) of the Investment Advisers Act of 1940 ("Advisers Act") against Blackstone Management Partners L.L.C., Blackstone Management Partners III L.L.C., and Blackstone Management Partners IV L.L.C. (collectively, "Blackstone" or "Respondents").

II.

In anticipation of the institution of these proceedings, Respondents have 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 them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing a Cease-and-Desist Order ("Order"), as set forth below.

III.

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

SUMMARY

1. These proceedings arise from inadequate disclosures that involved two distinct breaches of fiduciary duty by private equity fund advisers Blackstone Management Partners L.L.C., Blackstone Management Partners III L.L.C., and Blackstone Management Partners IV L.L.C. (collectively, "Blackstone"). First, from at least 2010 through March 2015, upon either the private sale of a portfolio company or an initial public offering ("IPO"), Blackstone terminated certain portfolio company monitoring agreements and accelerated the payment of future monitoring fees as set forth in the agreements. Although Blackstone disclosed that it may receive monitoring fees from portfolio companies held by the funds it advised, and disclosed the amount of monitoring fees that had been accelerated following the acceleration, Blackstone failed to disclose to its funds, and to the funds' limited partners prior to their commitment of capital, that it may accelerate future monitoring fees upon termination of the monitoring agreements. Second, in late 2007, Blackstone negotiated a single legal services arrangement with its primary outside law firm (the "Law Firm") on behalf of itself and the funds. For the majority of legal services performed by the Law Firm beginning in 2008 and continuing through early 2011, Blackstone received a discount that was substantially greater than the discount received by the funds. The disparate legal fee discounts were not disclosed to the funds or the funds' limited partners until August 2012. Because of its conflict of interest as the recipient of the accelerated monitoring fees and the beneficiary of the disparate legal fee discounts, Blackstone could not effectively consent to either of these practices on behalf of the funds it advised. As a result, Blackstone breached its fiduciary duty to the funds in violation of Section 206(2) of the Advisers Act and also violated Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

2. Blackstone separately violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder by failing to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act arising from the undisclosed receipt of fees and conflicts of interest.

RESPONDENTS

3. **Blackstone Management Partners L.L.C. ("BMP")** is a Delaware limited liability company with its principal place of business in New York, New York. BMP is a private equity fund adviser that has been registered with the Commission as an investment adviser since October 2005. BMP manages Blackstone Capital Partners V.

4. **Blackstone Management Partners III L.L.C. ("BMP III")** is a Delaware limited liability company that maintained its principal place of business in New York, New York. BMP III

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

was a private equity fund adviser that was registered with the Commission as an investment adviser from August 1997 through March 2014.[2] BMP III managed Blackstone Capital Partners III.

5. **Blackstone Management Partners IV L.L.C. ("BMP IV")** is a Delaware limited liability company with its principal place of business in New York, New York. BMP IV is a private equity fund adviser that has been registered with the Commission as an investment adviser since September 2001. BMP IV manages Blackstone Capital Partners IV.

OTHER RELEVANT ENTITIES

6. **Blackstone Capital Partners III Merchant Banking Fund L.P., along with a parallel fund (collectively, "Blackstone Capital Partners III")**, is a Delaware limited partnership and private investment fund formed in 1997 to make private equity investments. As of March 2014, Blackstone Capital Partners III had exited all of its portfolio company positions and distributed all remaining assets to its limited partners.

7. **Blackstone Capital Partners IV L.P. ("Blackstone Capital Partners IV")** is a Delaware limited partnership and private investment fund formed in 2001 to make private equity investments.

8. **Blackstone Capital Partners V L.P., along with parallel funds (collectively, "Blackstone Capital Partners V")**, is a Delaware limited partnership and private investment fund formed in 2005 to make private equity investments.

FACTS

A. Background

9. BMP and BMP IV are New York-based private equity fund advisers and BMP III is a former private equity fund adviser (BMP, BMP III, and BMP IV collectively, "Blackstone"). The Blackstone Group L.P. (NYSE: BX), a publicly traded company since 2007, is Blackstone's parent company and has approximately $330 billion in assets under management.

10. Blackstone has advised multiple private equity funds, including Blackstone Capital Partners III, Blackstone Capital Partners IV, and Blackstone Capital Partners V (collectively, the "Funds"), each of which was or is governed by a limited partnership agreement ("LPA") setting forth the rights and obligations of its limited partners, including their obligations to pay advisory and other fees and expenses to Blackstone pursuant to a separate management agreement between each fund and the relevant Blackstone adviser. As is typical in the industry, among other fees and expenses, Blackstone generally charges the limited partners in its Funds an annual advisory or "management fee" equivalent to 1.5% of their capital under management.

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[2] BMP III withdrew its registration with the Commission in March 2014, after Blackstone Capital Partners III – the fund it advised – exited all of its portfolio company positions and distributed all of its remaining assets to its limited partners.

11. Each Fund's LPA established a Limited Partnership Advisory Committee ("LPAC") consisting of a number of limited partners. The functions of the LPAC include, among other things, the review and approval or disapproval of any potential conflicts of interest in any transaction or relationship (including those relating to the receipt of certain fees).

B. Acceleration of Monitoring Fees

12. Each Blackstone-advised fund owns multiple portfolio companies. Blackstone typically enters into monitoring agreements with each portfolio company that is owned by a Blackstone-advised fund. Pursuant to the terms of the monitoring agreements, Blackstone charges each portfolio company an annual fee in exchange for rendering certain consulting and advisory services to the portfolio company concerning its financial and business affairs. The monitoring fees paid by each fund-owned portfolio company to Blackstone are in addition to the annual management fee paid by the Funds' limited partners to Blackstone. However, a certain percentage of the monitoring fees the portfolio companies pay to Blackstone are used to offset a portion of the annual management fees that the Funds' limited partners would otherwise pay to Blackstone. The offset percentage, which was 50 percent for BCP III and is also 50 percent for BCP IV and BCP V, is set forth in each fund's LPA or investment advisory agreement.

13. Blackstone's practice of entering into monitoring agreements with portfolio companies and collecting monitoring fees is disclosed and authorized in various pre-commitment fund documents, including private placement memoranda, LPAs, and investment advisory agreements. For example, one fund's LPA states, "The Limited Partners recognize and consent that [Blackstone] may receive financial advisory fees, monitoring fees, [and] divestment fees. . . ."

14. Prior to 2012, Blackstone monitoring agreements commonly provided for ten years of monitoring services and fees. Some of these agreements contained so-called "evergreen" provisions that automatically extended the life of the agreement for an additional term. The monitoring agreements between Blackstone and the portfolio companies also provided for acceleration of monitoring fees to be triggered by certain events. For example, upon either the private sale or IPO of a portfolio company, the monitoring agreements allowed Blackstone to terminate the monitoring agreement and accelerate the remaining years of monitoring fees, in some cases including additional renewal periods, and receive present value lump sum "termination payments." While a portion of these accelerated monitoring payments reduced management fees otherwise payable by limited partners, the net amount of the payments also reduced the value of the Funds' assets (i.e., the portfolio companies making the accelerated monitoring payments) when sold or taken public, thereby reducing the amounts available for distribution to limited partners.

15. In some instances, Blackstone terminated the monitoring agreement and accelerated monitoring fee payments even though the relevant Blackstone-advised fund had completely exited the portfolio company, meaning that Blackstone would no longer be providing monitoring services to the portfolio company. In most instances, Blackstone terminated the monitoring agreement upon a portfolio company IPO and accelerated monitoring fee payments while maintaining some ownership stake in the company. In connection with most IPOs, Blackstone continued to provide consultancy and advisory services to the publicly traded portfolio company until the fund

completely exited its investment. However, in a few instances, Blackstone accelerated monitoring fees beyond the period of time during which it held an investment in the company. The timing of the exits following the IPOs ranged from approximately one-and-a-half years to several years.

16. While Blackstone disclosed its ability to collect monitoring fees to the Funds and to the Funds' limited partners prior to their commitment of capital, it did not disclose to the Funds, the Funds' LPAC, or the Funds' limited partners its practice of accelerating monitoring fees until after Blackstone had taken accelerated fees. The disclosures were made in distribution notices, quarterly management fee reports, and, in the case of IPOs, Form S-1 filings. By the time these disclosures were made, the limited partners had already committed capital to the Funds and the accelerated fees had already been paid. The LPAC of each Fund could have objected and arbitrated over the accelerated monitoring fees after they had been taken, but never did. Finally, because of its conflict of interest as the recipient of the accelerated monitoring fees, Blackstone could not effectively consent to the practice on behalf of the Funds.

C. Disparate Legal Fee Discounts

17. From at least late 2007 through early 2011, the Law Firm performed a substantial volume of legal work for Blackstone and the Funds. During this period, the Funds generated significantly more legal fees than Blackstone.

18. In late 2007, Blackstone negotiated a single legal services arrangement with the Law Firm on behalf of itself and the Funds whereby Blackstone benefited by receiving a discount from the Law Firm that was substantially greater than the discount received by the Funds.

19. Blackstone did not disclose the disparate legal fee discounts the Law Firm provided from 2008 through early 2011 to the Funds, the Funds' LPAC, or the Funds' limited partners. Moreover, because of its conflict of interest as the beneficiary of the disparate legal fee discounts, Blackstone could not effectively consent to the undisclosed practice on behalf of the Funds.

20. As the result of an early-2011 internal Blackstone audit, Blackstone voluntarily ended the disparate legal fee arrangement with the Law Firm and adopted a new task-based legal services arrangement pursuant to which Blackstone and the Funds received the same discounts. In August 2012, Blackstone disclosed to all of its Funds' limited partners the disparate legal fee discounts that had been in place from late 2007 through early 2011 and stated that the rate differential generally reflected the different mix of work performed by the Law Firm for the Funds and Blackstone.

D. Blackstone Failed to Adopt and Implement Policies and Procedures Reasonably Designed to Prevent Violations of the Advisers Act and its Rules

21. While registered as investment advisers, BMP, BMP III, and BMP IV were subject to the Advisers Act rules, including the requirement to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules.

22. From at least January 2010 through March 2015, while BMP, BMP III, and BMP IV were registered with the Commission as investment advisers, they failed adequately to disclose their practice of receiving accelerated monitoring fees.

23. From January 2008 through early 2011, while BMP, BMP III, and BMP IV were registered with the Commission as investment advisers, they received a discount on the majority of their legal fees that was substantially greater than the discount received by the Funds and they failed adequately to disclose the disparate legal fee discounts.

24. Despite the practice of receiving accelerated monitoring fees and receiving a more favorable legal fee discount than the Funds, BMP, BMP III, and BMP IV did not adopt or implement any written policies or procedures reasonably designed to prevent violations of the Advisers Act or its rules arising from the undisclosed receipt of fees or conflicts of interest.

VIOLATIONS

25. Section 206(2) of the Advisers Act prohibits investment advisers from directly or indirectly engaging "in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client." A violation of Section 206(2) of the Advisers Act may rest on a finding of simple negligence. *SEC v. Steadman*, 967 F.2d 636, 643 n.5 (D.C. Cir. 1992) (citing *SEC v. Capital Gains Research Bureau, Inc.*, 375 U.S. 180, 195 (1963)). Proof of *scienter* is not required to establish a violation of Section 206(2) of the Advisers Act. *Id*. As a result of the conduct described above, BMP, BMP III, and BMP IV violated Section 206(2) of the Advisers Act.

26. Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder make it unlawful for any investment adviser to a pooled investment vehicle to "[m]ake any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to any investor or prospective investor in the pooled investment vehicle" or "engage in any act, practice, or course of business that is fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle." As a result of the conduct described above, BMP, BMP III, and BMP IV violated Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

27. Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder require registered investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules. As a result of the conduct described above, BMP, BMP III, and BMP IV violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder.

BLACKSTONE'S COOPERATION AND REMEDIAL EFFORTS

28. In determining to accept Blackstone's Offer, the Commission considered remedial acts taken by Blackstone prior to contact from Commission staff and cooperation afforded the Commission staff after Blackstone was contacted. In early 2011, Blackstone voluntarily ended its disparate legal fee arrangement with the Law Firm. In 2012, Blackstone disclosed to all limited partners, without any resulting complaints, that historical discounts offered to Blackstone exceeded discounts provided to the Funds.

29. For all funds formed after 2012, Blackstone has disclosed in the PPMs that monitoring agreements may contain acceleration provisions that trigger lump sum payments. In addition, as it disclosed to its LPACs in June 2014, since 2012, Blackstone has not entered into any monitoring agreements that have terms beyond ten years, self-renew or contain "evergreen" provisions. Blackstone has, since 2010, also not taken advantage of any evergreen provisions in existing agreements when collecting a lump sum payment. In 2012, Blackstone enhanced the disclosures it makes after taking accelerated monitoring payments by explicitly identifying termination payments in reports distributed to limited partners and setting forth in detail the assumptions underlying the calculation of such payments. In 2014, prior to the SEC investigation, Blackstone changed its business practices and further disclosed that it will not accelerate monitoring fee payments when it completely exits a portfolio company through private sale and will not accelerate more than three years (equal to the approximate average post-IPO length of time before Blackstone has made full exits) of remaining monitoring fee payments in the event of an IPO.

30. Throughout the staff's investigation, Blackstone voluntarily and promptly provided documents and information to the staff. Blackstone met with the staff on multiple occasions and provided detailed factual summaries of relevant information. Blackstone was extremely prompt and responsive in addressing staff inquiries.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents' Offer.

Accordingly, pursuant to Section 203(k) of the Advisers Act, it is hereby ORDERED that**:**

A. Respondents BMP, BMP III, and BMP IV cease and desist from committing or causing any violations and any future violations of Sections 206(2) and 206(4) of the Advisers Act and Rules 206(4)-7 and 206(4)-8 thereunder.

B. Respondents BMP, BMP III, and BMP IV shall pay, jointly and severally, disgorgement and prejudgment interest as follows:

i. Respondents shall pay a total of $28,911,756 consisting of disgorgement of $26,225,203 and prejudgment interest of $2,686,553 (collectively, the

"Disgorgement Fund") to compensate the Funds and limited partners therein that invested in private equity transactions from 2010 to March 2015 that resulted in payment of undisclosed accelerated monitoring fees;

ii. Within ten (10) days of the entry of this Order, Respondents shall deposit the full amount of the Disgorgement Fund into an escrow account acceptable to the Commission staff and shall provide the Commission staff with evidence of such deposit in a form acceptable to the Commission staff. If timely deposit of the Disgorgement Fund is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600;

iii. Respondents shall be responsible for administering the Disgorgement Fund. When possible, Respondents shall distribute the amount of the Disgorgement Fund to the applicable funds or limited partners as a credit against or other effective reduction of certain fees or other amounts that the funds would otherwise be obligated to pay to Blackstone or that Blackstone would otherwise be entitled to receive. Within 30 days of the entry of this Order, Blackstone shall submit a proposed distribution to the staff for review and approval. The proposed distribution will include the names of the applicable funds or limited partners and their respective payment amounts and a description of the methodology used to determine the exact amount of payment or credit for each fund or limited partner that will receive a distribution. The distribution of the Disgorgement Fund shall be made in the next two fiscal quarters immediately following the entry of this Order but no later than within 270 days of the date of the Order, based on the methodology set forth in the proposed distribution and as reviewed and not objected to by the staff. If Respondents do not distribute any portion of the Disgorgement Fund for any reason, including factors beyond Respondents' control, Respondents shall transfer any such undistributed funds to the Commission for transmittal to the United States Treasury. Any such payment shall be made in accordance with Section IV.C below;

iv. Respondents agree to be responsible for all tax compliance responsibilities associated with distribution of the Disgorgement Fund and may retain any professional services necessary. The costs and expenses of any such professional services shall be borne by Respondents and shall not be paid out of the Disgorgement Fund; and

v. Within 270 days after the date of the entry of the Order, Respondents shall submit to the Commission staff a final accounting and certification of the disposition of the Disgorgement Fund not unacceptable to the staff, which shall be in a format to be provided by the Commission staff. The final accounting and certification shall include: (i) the amount paid or credited to each fund or limited partner; (ii) the date of each payment or credit; (iii) the check number or other identifier of money transferred or credited to the fund or limited partner; and (iv) any amounts not distributed to be forwarded to the Commission for transfer to the United States Treasury. Respondents shall submit the final accounting and certification, together with proof and supporting documentation of such payments and credits in a form acceptable to Commission staff, under a cover letter that identifies BMP, BMP III, and BMP IV as the Respondents in these proceedings and the file number of these proceedings to Anthony S. Kelly, Assistant Director, Asset Management Unit, Division of Enforcement, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-5010. Any and all supporting documentation for the accounting and certification shall be provided to the Commission staff upon request. Once the Commission approves the final accounting, Respondents shall pay any amounts that have not been distributed to the Commission for transmittal to the United States Treasury.

C. Respondents BMP, BMP III, and BMP IV shall pay, jointly and severally, within ten (10) days of the entry of this Order, a civil monetary penalty in the amount of $10,000,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Section 21F(g)(3) of the Securities Exchange Act of 1934. 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) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondents 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) Respondents 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

Payment by check or money order must be accompanied by a cover letter identifying BMP, BMP III, and BMP IV as Respondents 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 Anthony S. Kelly, Assistant Director, Asset Management Unit, Division of Enforcement, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-5010.

D. Respondents acknowledge that the Commission is not imposing a civil penalty in excess of $10,000,000 based upon their cooperation in a Commission investigation and related enforcement action. If at any time following the entry of the Order, the Division of Enforcement ("Division") obtains information indicating that Respondents knowingly provided materially false or misleading information or materials to the Commission or in a related proceeding, the Division may, at its sole discretion and with prior notice to the Respondents, petition the Commission to reopen this matter and seek an order directing that the Respondents pay an additional civil penalty. Respondents may contest by way of defense in any resulting administrative proceeding whether it knowingly provided materially false or misleading information, but may not: (1) contest the findings in the Order; or (2) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Brent J. Fields
Secretary