

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 83948 / August 27, 2018

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3961 / August 27, 2018

ADMINISTRATIVE PROCEEDING
File No. 3-18684

In the Matter of

LEGG MASON, INC.,

Respondent.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT
TO SECTION 21C OF THE
SECURITIES EXCHANGE ACT OF
1934, 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 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Legg Mason, Inc. (“Respondent”).

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, Respondent admits the Commission’s jurisdiction over it and the subject matter of these proceedings, and consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ 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

1. This matter concerns violations of the internal controls provision of the Foreign Corrupt Practices Act (“FCPA”) by Legg Mason, Inc. (“Legg Mason” or the “Company”). Between 2004 and 2010, Legg Mason, through Permal Group Ltd., one of its former asset management subsidiaries (“Permal”), partnered with Société Générale S.A., a global financial services company based in Paris, France (“Société Générale”) to solicit business from state-owned financial institutions in Libya (“Libyan Financial Institutions”). In connection with this effort, bribes were paid through a Libyan middle-man (the “Libyan Intermediary”) to obtain investments from Libyan Financial Institutions.

2. From approximately 2005 to 2008, Société Générale paid the Libyan Intermediary approximately \$26.25 million for supposed “introductory” services. Nevertheless, by at least 2006, two Permal employees were aware that the intermediary was paying bribes to Libyan government officials in order to secure investments. These two now-former Permal employees agreed to continue to use the Libyan Intermediary notwithstanding that knowledge.

3. Société Générale sold the Libyan Financial Institutions seven structured notes, or debt securities, linked to funds managed in whole, or in part, by Permal. The total value of these notes was approximately \$950 million. For each of the seven transactions, Société Générale, on behalf of itself and Permal, paid to an entity incorporated under the laws of Panama and controlled by the Libyan Intermediary (the “Panamanian Company”) a commission of between one and a half and three percent of the nominal amount of the investments made by the Libyan Financial Institutions. Permal earned net revenues of approximately \$31.6 million from these transactions.

4. Legg Mason lacked appropriate internal accounting controls with respect to the use of introducing brokers and other intermediaries in emerging markets, including Libya. Accordingly, Legg Mason violated the internal controls provision of the federal securities laws set forth in Section 13(b)(2)(B) of the Exchange Act.

Respondent

5. **Legg Mason, Inc. (“Legg Mason” or the “Company”)** is a U.S. based investment management firm headquartered in Baltimore, Maryland. Its shares were publicly traded on the New York Stock Exchange and it was an “issuer” within the meaning of the Foreign Corrupt Practices Act (“FCPA”).

Other Relevant Entities

6. **Permal Group Ltd. (“Permal”)** was a U.S. headquartered investment firm and former subsidiary of Legg Mason through which Legg Mason conducted business as an asset manager. Permal’s financial statements were consolidated into Legg Mason’s financial statements and the entities participated in a net revenue sharing arrangement. All Permal employees were subject to Legg Mason’s code of conduct. In approximately 2016, Permal’s

interests in the asset management business were contributed to create a new asset management business named EnTrustPermal, and Legg Mason retained responsibility for the legacy Permal's liabilities with regard to the conduct set forth herein.

7. **Société Générale S.A. (“Société Générale”)** is a financial institution and global financial services company headquartered in Paris, France.

FACTS

Background

8. In and around 2004, as Libya emerged from international economic sanctions, Libyan Financial Institutions sought opportunities to invest the substantial assets under their control. Financial institutions from around the globe aggressively sought access to these assets. Against this backdrop, Permal explored partnerships with both introducing brokers and with other financial institutions, including Société Générale, in an effort to improve its efforts to market products and services to Libyan Financial Institutions.

9. In or about May 2004, the Libyan Intermediary met with employees of Permal to discuss how the Libyan Intermediary could provide Permal access to investments in Libya. The Libyan Intermediary was accompanied at the meeting by multiple Libyan government officials, including a close associate of one of the most senior and powerful government officials in Libya. The attendees discussed the possibility that various Libyan Financial Institutions would purchase products from Société Générale, and the products would be linked to funds managed by Permal. Following that meeting Permal understood that the Libyan Intermediary had connections in Libya that would make him an effective introducing broker for Permal in that country.

Bribes Paid to Libyan Officials Through the Libyan Intermediary to Benefit Legg Mason

10. Permal worked closely with Société Générale to sell the structured investment products to Libyan government entities. Société Générale acted as the “structuring bank,” receiving money invested by the Libyan Institutional investors in exchange for the issuance of structured notes. By agreement with Société Générale, some of the assets invested by the Libyan Financial Institutions were placed in funds managed by Permal. Permal then recognized these investments as part of its assets under management and earned fees on the amount of assets received.

11. On each transaction, Société Générale paid the Panamanian Company controlled by the Libyan Intermediary a commission of between one and a half and three percent of the nominal, or face value, amount of the investments made by Libyan institutional investors. The Libyan Intermediary used those funds to pay high-level Libyan government officials in order to secure the investments from various Libyan state institutions for Société Générale. Permal never paid the Libyan Intermediary directly under this agreement because Permal and Société Générale jointly decided that Société Générale should make commission payments to the Libyan Intermediary.

12. Two Permal employees (each, a “Permal Employee,” and, together, the “Permal Employees”), both of whom are no longer employed by Legg Mason or any of its subsidiaries or affiliates, nor were ever employed by EnTrustPermal, were aware at the time that the Libyan Intermediary was paying bribes and other improper financial benefits to Libyan government officials in order to secure investments for Société Générale. The Permal Employees and employees of Société Générale discussed their belief and understanding that, in order to secure deals for Permal and Société Générale, the Libyan Intermediary was using some portion of the commissions from Société Générale to pay Libyan government officials, and was providing smaller payments and improper benefits, such as free travel and entertainment, to other Libyan officials.

13. The Permal Employees, along with employees of Société Générale, also used coded language in furtherance of the scheme, including discussing when the Libyan Intermediary had “cooked” various Libyan government officials, which was used to connote that the Libyan Intermediary had established control over the official, whether through bribery or other means. For example, on or about September 5, 2006, the Libyan Intermediary transferred approximately \$75,000 to a relative of a Libyan government official. The Libyan Intermediary used the term “cooking” to describe his ability to cause Libyan government officials to invest with Société Générale and Permal by any means necessary, including bribes, threats, and intimidation. That same day, the Libyan Intermediary placed a telephone call, which was recorded, to a Société Générale employee, during which he stated about the Libyan government official: “I cooked him. . . . Only we have to go there, start the fire, have a barbecue.” During another telephone call the same day with a Permal Employee, a Société Générale employee stated: “[the Libyan government official] is coming, for your information, at my place this weekend I’m going to cook the guy, cook him very hot to make sure everything is clean . . . let’s make sure by working on [the Libyan government official], by working on him that we get back on these transactions, done at least 100 on each fund . . . [Libyan Intermediary] is saying the proposals you’re going to do for [this Libyan Financial Institution], he’ll do the same one for [another Libyan Financial Institution].”

14. Approximately one week later, in September 2006, a Permal Employee sent the Libyan government official a proposal for a structured note issued by Société Générale and linked to a fund managed by Permal. On or about September 19, 2006, a Société Générale employee told a senior Permal employee by email that the Société Générale employee had “cooked” the Libyan government official and that the Société Générale employee was confident that Permal would be included in the upcoming deals.

15. On or about March 27, 2007, two Libyan Financial Institutions jointly invested in three structured notes totaling \$500 million issued by a Société Générale subsidiary, two of which were linked to the performance of certain funds, including funds managed by Permal. On or about April 11, 2007, Société Générale paid, in connection with the March 2007 transactions, a total of \$15 million to the Libyan Intermediary via the Panamanian Company’s account at Société Générale.

16. Additionally, at least one of the Permal Employees was aware that Société Générale employees were taking steps to conceal the Libyan Intermediary's payments from the Libyan Financial Institutions.

17. Permal through certain of its employees had further involvement in subsequent transactions with Libyan Financial Institutions that were obtained through bribes paid by Société Générale, as set forth below.

Legg Mason Obtains \$150 Million Investment From Libyan Financial Institution

18. On or about June 21, 2007, Société Générale sold to a Libyan Financial Institution a \$150 million, three-year structured note issued by a Société Générale subsidiary, linked to funds managed by both Permal and Société Générale. Certain Société Générale employees prepared and transmitted a term sheet setting out the terms and conditions of the investment and deal documents to the Libyan Financial Institution, incorporating Permal's logo and information in the materials.

19. On or about July 25, 2007, Société Générale closed a second deal with the same Libyan Financial Institution. In this transaction, the investor purchased a \$100 million, five-year structured note issued by a Société Générale subsidiary, linked to funds managed by Permal.

20. On or about and between August 10, 2007 and March 19, 2009, Société Générale paid a total of approximately \$5.25 million to the Libyan Intermediary via the Panamanian Company's account at Société Générale in connection with these two transactions.

Legg Mason Obtains \$300 Million Investment From Libyan Financial Institution

21. By in or about September 2007, Permal had begun pursuing a direct investment by another Libyan Financial Institution into a fund managed by Permal, instead of through a Société Générale structured note. Ultimately, however, the LIA purchased a structured note issued by a Société Générale subsidiary, linked to funds managed by Permal.

22. On or about October 17, 2007, one of the Permal Employees sent an email to a Libyan government official informing him that the contemplated investment with Permal would be managed out of its New York office. On or about October 26, 2007, the Permal Employee sent an email to set up a meeting between the Libyan Intermediary and Permal's then-Chief Executive Officer and Chairman.

23. On or about November 28, 2007, the Libyan Financial Institution purchased from Société Générale \$300 million worth of structured notes issued by a Société Générale subsidiary, linked to funds managed by Permal. According to the term sheet, which was prepared by Société Générale employees but had Permal's logo on the cover, Permal would be the investment adviser of the fund to which the performance of the structured note was linked. Although Permal employees had originally pitched the deal without the assistance of the Libyan Intermediary, and the Libyan Intermediary had played no role in negotiating or

structuring the deal, the term sheet stated that the Panamanian Company had collaborated with Société Générale and was remunerated for its services.

24. On or about January 21, 2008, Société Générale prepared a \$9 million invoice for the Libyan Intermediary to send to Société Générale. On or about February 2, 2008, Société Générale paid \$9 million to the Panamanian Company's account at Société Générale in Zurich in connection with the November 2007 transaction.

25. On or about April 27, 2008, Société Générale learned from the Libyan Intermediary that the Libyan Financial Institution would be requiring financial firms doing business with it to disclose whether the firms were using intermediaries or third parties in connection with soliciting investments.

26. On or about April 28, 2008, employees of Société Générale and one of the Permal Employees spoke by telephone. During that recorded phone call, a Société Générale employee described the requirement to disclose the use of agents as a "Libyan bomb." The Permal Employee responded, "I know, man. I know the can of worms opened."

27. On or about and between May 4, 2008 and May 9, 2008, a Permal Employee and a Libyan government official connected to these transactions traveled together to Boston, Massachusetts, where Permal provided the official with a course in negotiations at a university, as well as luxury hotel accommodations and entertainment. The Libyan government official and the Permal Employee then traveled from Boston to New York.

28. On or about and between May 9, 2008 and May 12, 2008, a Société Générale employee and the Libyan Intermediary traveled to New York to meet the Libyan government official, to pitch him on a prospective deal, and to provide him with entertainment in New York. While in New York, a Société Générale employee discussed with the Libyan government official the prospect of Société Générale securing approximately \$4 billion worth of additional investments from a Libyan Financial Institution. A Société Générale employee also provided the Libyan government official and the Libyan Intermediary with multiple days of entertainment in New York, including overnight stays at an upscale hotel, extravagant meals and nightlife entertainment, and gifts of luxury goods.

29. As a result of the corrupt scheme, Permal obtained seven investments and earned net revenues of approximately \$31.6 million. Permal continued to earn management fees in connection with some of the transactions described herein until 2012. All seven transactions involving Permal were terminated no later than 2012.

Legg Mason Lacked Adequate Internal Accounting Controls

30. Legg Mason failed in a timely manner to devise and maintain an adequate system of internal accounting controls with respect to the Company's widespread use of introducing brokers and other intermediaries in emerging markets, including Libya. The controls in place during the relevant period were minimal and deficient.

31. The internal accounting controls were not reasonably sufficient with respect to the Company's use of, and payments to, intermediaries. Legg Mason did not timely institute appropriate risk-based due diligence and compliance requirements pertaining to the retention and oversight of such agents and business partners.

32. Legg Mason did not take adequate steps to identify or mitigate the risks of bribery and corruption in making use of middlemen such as the Libyan Intermediary.

Legal Standards and Violations

33. As a result of the conduct described above Legg Mason violated Section 13(b)(2)(B) of the Exchange Act, which requires issuers that have a class of securities registered pursuant to Section 12 of the Exchange Act and issuers with reporting obligations pursuant to Section 15(d) of the Exchange Act to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Cooperation and Remedial Action

34. In determining to accept the Offer, the Commission considered the significant cooperation Legg Mason provided to the Commission staff throughout the investigation. Legg Mason's cooperation included summarizing the findings of its internal investigation, making foreign-based employees available to the Commission staff including providing for their travel to the United States for interviews, and providing timely factual summaries of witness interviews and other information developed in the course of its internal investigation. Legg Mason's cooperation assisted the Commission in collecting information that might not have been otherwise available to the staff.

35. The Commission also considered the remedial efforts undertaken by Respondent. Legg Mason's remedial action included replacing the employees involved in the violation, increasing the number of professionals focused on the company's compliance efforts including establishing a new anti-corruption officer position, and enhancing its internal accounting controls to prevent and detect the type of misconduct described herein.

Non-Prosecution Agreement

36. Legg Mason has entered into a non-prosecution agreement with the Department of Justice that acknowledges responsibility for criminal conduct relating to certain findings in the Order.

Non-Imposition of a Civil Penalty

37. Respondent acknowledges that the Commission is not imposing a civil penalty based upon the imposition of a \$32,625,000 criminal fine as part of Legg Mason's resolution with the United States Department of Justice on June 4, 2018.

IV.

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

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Respondent cease and desist from committing or causing any violations and any future violations of Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)].

B. Respondent shall, within 10 days of the entry of this Order, pay disgorgement of \$27,594,729 and prejudgment interest of \$6,907,765, for a total payment of \$34,502,494 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. 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 Web site 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 Legg Mason as the 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 Paul G. Block, Assistant Regional Director, FCPA Unit, Enforcement Division, Boston Regional Office, U.S. Securities and Exchange Commission, 33 Arch Street, Suite 2300, Boston, Massachusetts 02110.

By the Commission.

Brent J. Fields
Secretary