

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 89009 / June 4, 2020

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 4146 / June 4, 2020

ADMINISTRATIVE PROCEEDING
File No. 3-19822

In the Matter of

ARGO GROUP
INTERNATIONAL
HOLDINGS, LTD.,

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 Argo Group International Holdings, Ltd. (“Argo” or “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, 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 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:

Summary

1. This matter arises from Argo Group International Holding, Ltd.'s failure to disclose in its definitive proxy statements that, from 2014 through 2018, it paid over \$5.3 million to its then Chief Executive Officer, President and member of its Board of Directors, Mark E. Watson III, in the form of a wide range of perquisites and personal benefits. In connection with this conduct, Argo violated Sections 13(a), 13(b)(2)(A), 13(b)(2)(B), and 14(a) of the Exchange Act and Rules 12b-20, 13a-1, 14a-3, and 14a-9 thereunder. In late 2019, Watson resigned and agreed to reimburse Argo for certain perquisites and/or personal expenses.

Respondent and Relevant Individual

2. Respondent Argo Group International Holdings, Ltd. is organized under the laws of, and headquartered in, Bermuda. Argo is an international underwriter of specialty insurance and reinsurance products in the property and casualty market, with significant operations in the United States. The company's common stock is registered under Section 12(b) of the Exchange Act and trades on the New York Stock Exchange under the ticker symbol "ARGO."

3. Mark E. Watson III was the Chief Executive Officer, President and a director of Argo from 2000 until late 2019. His resignation as Argo's Chief Executive Officer and President became effective on November 5, 2019, and his resignation as a member of Argo's Board of Directors became effective on December 30, 2019.

Facts

4. In definitive proxy statements disclosing executive compensation paid for 2014 through 2018, which were filed in 2015 through 2019, Argo disclosed a total of approximately \$1.22 million worth of perquisites and personal benefits provided to Watson, with an annual average of approximately \$244,000. The disclosed perquisites and personal benefits consisted predominately of 401(k) and retirement contributions, the imputed value of insurance coverage, supplemental executive retirement plan benefits, housing and home leave allowances, medical premiums and financial planning services.

5. However, these same definitive proxy statements failed to disclose over \$5.3 million worth of additional perquisites and personal benefits provided to Watson, thereby understating the perquisites and personal benefits portion of Watson's compensation by an annual average of over \$1 million, or 400%. Items that Argo paid for on Watson's behalf, but did not disclose, include, but are not limited to, expenses associated with personal use of corporate aircraft,

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.

rent and other housing costs, personal use of corporate automobiles, helicopter trips, other personal travel costs, use of a car service by family members, club and concierge service memberships, tickets and transportation to sporting, fashion or other entertainment events, personal services provided by Argo employees, and watercraft-related costs.

6. In February 2019, an Argo shareholder issued a press release in which it alleged, among other things, the misuse of Argo assets by Watson, including undisclosed personal usage of corporate aircraft. On April 12, 2019, during a proxy contest with this shareholder in connection with Argo's May 2019 annual shareholders meeting, Argo filed a definitive proxy statement that failed to disclose over \$1 million worth of perquisites, including over \$230,000 related to Watson's use of corporate aircraft.

7. From 2015 through 2019, Argo incorporated its definitive proxy statements into its annual reports by reference.

8. From 2014 through 2018, Argo incorrectly recorded payments for the benefit of, and reimbursements to, Watson as business expenses, and not compensation. As a result, its books, records, and accounts did not, in reasonable detail, accurately and fairly reflect its disposition of assets.

9. In addition, Argo failed to devise and maintain internal accounting controls relating to payments for the benefit of, and reimbursements to, Watson that were sufficient to provide reasonable assurances that transactions were recorded as necessary to maintain the accountability of assets. These failures included, for instance, a practice of providing expense reimbursements to Watson without requiring an adequate explanation of a business purpose for the expense, allowing Watson to approve his own expense reimbursements, and a lack of a mechanism to ensure Watson paid for personal usage of corporate aircraft.

10. Argo conducted an internal investigation, which was launched in June 2019 after receipt of a subpoena from the Commission staff. Thereafter, Watson resigned and agreed to reimburse Argo for certain perquisites and/or personal expenses, subject to an arbitration process as to any items Watson disputes.

Violations

11. Section 14(a) of the Exchange Act makes it unlawful to solicit any proxy in respect of any security (other than an exempted security) registered pursuant to Section 12 of the Exchange Act in contravention of such rules and regulations as the Commission may prescribe. Rule 14a-3 prohibits issuers with securities registered pursuant to Section 12 of the Exchange Act from soliciting proxies without furnishing proxy statements containing the information specified in Schedule 14A, including executive compensation disclosures pursuant to Item 402 of Regulation S-K. Item 402 of Regulation S-K requires disclosure of the total value of all perquisites and other personal benefits provided to named executive officers (including CEOs) who receive at least \$10,000 worth of such items in a given year. Item 402 of Regulation S-K also requires disclosure of all perquisites and personal benefits by type, and specific identification of any perquisite or personal benefit that exceeds the greater of \$25,000 or 10% of the total perquisites. Rule 14a-9

prohibits the use of proxy statements containing materially false or misleading statements or materially misleading omissions. No showing of scienter is required to establish a violation of Section 14(a) of the Exchange Act and Rules 14a-3 and 14a-9 thereunder. *See, e.g., Gerstle v. Gamble-Skogmo, Inc.*, 478 F.2d 1281, 1299-1300 (2d Cir. 1973). As a result of the conduct described above, Argo violated Section 14(a) of the Exchange Act and Rules 14a-3 and 14a-9 thereunder.

12. Section 13(a) of the Exchange Act and Rule 13a-1 thereunder require every issuer of a security registered pursuant to Section 12 of the Exchange Act to file with the Commission, among other things, annual reports as the Commission may require. The Commission need not prove scienter to establish a violation of Section 13(a) of the Exchange Act (or Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, or Exchange Act Rules 12b-20 and 13a-1). *See, e.g., SEC v. McNulty*, 137 F.3d 732, 740-41 (2d Cir. 1998). As a result of its incorporation of deficient proxy statements by reference in its annual reports, Argo violated Section 13(a) of the Exchange Act and Rule 13a-1 thereunder.

13. As a result of the conduct described above, Argo violated Rule 12b-20 under the Exchange Act, which requires that, in addition to the information expressly required to be included in a statement or report filed with the Commission, there shall be added such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading.

14. As a result of the conduct described above, Argo violated Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets.

15. As a result of the conduct described above, Argo violated Section 13(b)(2)(B) of the Exchange Act, which requires reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that, among other things, transactions are recorded as necessary to maintain accountability for assets.

Undertakings

16. Respondent undertakes to cooperate fully with the Commission in any and all investigations, litigations or other proceedings relating to or arising from the matters described in the Order. In connection with such cooperation, Respondent undertakes:

a. To produce, without service or notice of subpoena, any and all documents and other information reasonably requested by the Commission's staff, with a custodian declaration as to their authenticity, if requested;

b. To use its best efforts to cause Respondent's current and former employees, officers and directors to be interviewed by the Commission's staff at such times and places as the staff reasonably may direct;

c. To use its best efforts to cause Respondent's current and former employees, officers and directors to appear and testify truthfully and completely without service of a notice or subpoena in such investigations, depositions, hearings or trials as may be reasonably requested by the Commission's staff; and

d. In connection with any interviews of Respondent's current and former employees, officers and directors to be conducted pursuant to this undertaking, requests for such interviews may be provided by the Commission's staff by regular or electronic mail to Barry Rashkover of Sidley Austin LLP, or such other counsel that may be substituted by Respondent.

17. In determining whether to accept the Offer, the Commission has considered these undertakings.

Argo's Remedial Efforts and Cooperation

18. In determining to accept the Offer, the Commission considered remedial acts undertaken by Respondent and cooperation afforded the Commission staff. Specifically, Argo undertook remedial efforts including (i) engagement of outside counsel and an independent forensic accounting firm to conduct an investigation; (ii) engagement of a third-party consultant to assist in reviewing and revising its executive compensation process, policies and controls; (iii) replacing its Chief Executive Officer; (iv) entering into an agreement to obtain repayments from the former Chief Executive Officer; (v) implementing new internal controls and compliance policies and procedures concerning perquisites, airplane usage, expense reimbursement, travel, and charitable contributions; and (vi) changing the composition of its Board of Directors. In addition, Argo shared the results of its internal investigation with the Commission staff.

IV.

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

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Respondent Argo cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), 13(b)(2)(B), and 14(a) of the Exchange Act and Rules 12b-20, 13a-1, 14a-3 and 14a-9 thereunder.

B. Respondent shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$900,000 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 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 Argo Group International Holding, Ltd. 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 Brendan P. McGlynn, Assistant Regional Director, Philadelphia Regional Office, Division of Enforcement, Securities and Exchange Commission, 1617 JFK Blvd., Suite 520, Philadelphia, PA 19103.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

D. Respondent acknowledges that the Commission is not imposing a civil penalty in excess of \$900,000 based upon its 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 Respondent 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 Respondent, petition the Commission to reopen this matter and seek an order directing that the Respondent pay an additional civil penalty. Respondent 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.

Vanessa A. Countryman
Secretary