

Watts Water Technologies, Inc. / Lessen Chang

Case ID:

ST-380

Case Cluster :

Watts Water Technologies, Inc.

Jurisdiction of Settlement:

United States

Jurisdiction of Settlement / Enforcement Agency:

Securities and Exchange Commission

Jurisdiction of Foreign Public Official(s) :

China

Year of Settlement:

2011

Month/Day of Settlement (or Notes):

10/13

Other Jurisdictions of Settlement:

Unknown

Settlement with Individual or Legal Person?:

Individual

Type of Settlement:

Civil

Legal Form of Settlement:

Consent to Cease-and-Desist Order

Monetary Sanctions (Types):

Civil Penalty

Total Monetary Sanctions (US\$):

\$25,000.00

Civil Fine / Penalty (US\$):

\$25,000

Monetary Sanctions Returned / Ordered Returned (US\$):

\$0

UNCAC Articles(s) Implicated:

Art.16

OECD Anti-Bribery Convention Articles Implicated:

Art. 1, Art. 8

Offenses - Alleged:

Failure to Maintain Books and Records

Offenses - Settled:

No admission or denial of alleged offenses

Public Procurement Contract / SOE Involved?:

Yes

Summary:

According to the finding of facts in US Securities and Exchange Commission's Cease and Desist Order, which the company and Chang neither admitted or denied as part of their settlement, the violations of FCPA books and records and internal controls provisions took

place at Watts Valve Changsha Co., Ltd. ("CWV") a wholly owned Chinese subsidiary established in 2005 by Watts to purchase the assets and businesses of Changsha Valve Works ("Changsha Valve"). CWV acquired Changsha Valve in April 2006 and Watts sold CWV in January 2010. CWV produced and supplied large valve products for infrastructure projects in China which are mostly developed, constructed and owned by state-owned entities. These entities routinely retain state-owned design institutes to assist in the design and construction of these projects. CWV employees made improper payments to employees at certain design institutes, thereby generating profits for Watts of more than \$2.7 million. Chang is a former interim general manager of CWV and vice president of sales for Watts' management subsidiary in China, and approved many of the payments to the design institutes which were improperly recorded on Watts' books as commission. Specifically, the CWV Sales policy provided that all sales-related expenses, including travel, meals and entertainment and payment of "consultant fees" to design institutes would be borne by the CWV sales employees' commissions. The typical commission was 7 to 7-1/2 percent of the contract price with the Sales Policy expressly providing that sales personnel could use their commissions to make payments to design institutes of up to 3% of the total contract amount. (Source: In the Matter of Watts Water Technologies, Inc. and Lessen Chang (October 13, 2011), Administrative Proceeding File No. 3-14585, Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Cease-and-Desist Orders and Civil Penalties.)

Sources :

In the Matter of Watts Water Technologies, Inc. and Lessen Chang (October 13, 2011), Administrative Proceeding File No. 3-14585, Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Cease-and-Desist Orders and Civil Penalties, accessed at <http://www.sec.gov/litigation/admin/2011/34-65555.pdf>.