Demetrios Hadjigeorgiou and David Stephen have referred their Decision Notices to the Upper Tribunal where they will each present their respective cases. Any findings in these individuals' Decision Notices are therefore provisional and reflect the FCA's belief as to what occurred and how it considers their behaviour is to be characterised.

Kulvir Virk has not referred the FCA's decision to the Upper Tribunal and his Final Notice has not been the subject of any judicial finding. To the extent that Kulvir Virk's Final Notice contains criticisms of Demetrios Hadjigeorgiou and David Stephen, they have received Decision Notices which set these out. They dispute many of the facts and any characterisation of their actions in Kulvir Virk's Final Notice and have referred their Decision Notices to the Upper Tribunal for determination. The Tribunal's decision in respect of the individuals' references will be made public on its website.

FINANCIAL CONDUCT AUTHORITY

12 Endeavour Square
London
E20 1JN

Tel: +44 (0)20 7066 1000
Fax: +44 (0)20 7066 1099
www.fca.org.uk

DECISION NOTICE

To: Demetrios Christos Hadjigeorgiou

Reference Number: DCH01144

Date: 25 April 2024

1. ACTION

1.1. For the reasons given in this Decision Notice, the Authority has decided to:

(1) impose on Demetrios Christos Hadjigeorgiou a financial penalty of £84,600 pursuant to section 66 of the Act; and

(2) make an order prohibiting Mr Hadjigeorgiou from performing any senior management function and any significant influence function in relation to

any regulated activities carried on by any authorised or exempt person, or exempt professional firm pursuant to section 56 of the Act.

2. SUMMARY OF REASONS

2.1. On the basis of the facts and matters described below, the Authority considers that between 3 January 2018 and 2 August 2019 (the "Relevant Period"), Mr Hadjigeorgiou breached Statement of Principle 1 (Integrity) and Statement of Principle 6 (Due skill, care and diligence) of the Authority's Statements of Principle and Code of Practice for Approved Persons Chapters of the Authority's Handbook ("APER") by failing to act with integrity and by failing to exercise due skill, care and diligence in managing the business of SVS Securities Plc ("SVS").

2.2. During the Relevant Period, Mr Hadjigeorgiou held the controlled functions of CF1 (Director) and CF3 (Chief Executive) at SVS. SVS operated a discretionary fund management business that managed investments held on behalf of retail pension customers within a self-invested personal pension ("SIPP"). The pension funds within the SIPPs were then invested into one of four portfolios of assets created and managed by SVS (the "Model Portfolios"). The Model Portfolios were called Income / Mixed / Growth / Aggressive Growth and SVS's marketing material described them as being *'high risk portfolios designed to give you maximum growth opportunities'.*

2.3. Discretionary fund managers act as agents for their customers, making investment decisions in financial markets on their behalf. Confidence that discretionary fund managers will conduct themselves properly when acting on behalf of customers is central to the relationship of trust between the industry and its customers. When making investment decisions for customers, discretionary fund managers should act in the best interests of their customers and should not let conflicts of interest interfere with their obligations to customers. The Authority has stressed the importance of discretionary fund managers managing conflicts of interest effectively.

2.4. A business model was set up at SVS that was intended to maximise the flow of retail customer funds into the Model Portfolios for onward investment into high-risk illiquid bonds operated by connected persons and business associates of SVS. This model operated throughout the Relevant Period and was driven by the financial benefit that SVS derived from commissions of up to 12% of the customer's investment, paid to SVS by the bond operators out of the principal which SVS customers invested in the bonds.

2.5. SVS entered into a series of commission-driven commercial arrangements with these bond operators that committed SVS to channel customer funds into the high-risk fixed income bonds. The model relied upon incentivising unauthorised introducers through marketing agreements by which SVS paid these introducers commission of 7-9% of the introduced customer's funds that were invested into SVS's Model Portfolios. A total of 879 customers invested £69.1 million into the Model Portfolios. Over half of these customers were advised to invest in SVS by a financial adviser firm that was wholly or partly controlled by the owners of one of the introducers to whom SVS was secretly paying incentive commission.

2.6. At a time when SVS had concerns about its financial position, and in order to generate more income, SVS decided to apply a 10% mark-down on the fixed income investments in the Model Portfolios at the expense of retail pension customers. This change was never fully disclosed to customers or their financial advisers. Mr Hadjigeorgiou was SVS's Chief Executive at the time. He did not consider the mark-down to be the fairest method by which to charge customers disinvesting from the Model Portfolios, and he was aware of concerns raised by the Model Portfolio Team that the process was not fair to customers. Despite this, Mr Hadjigeorgiou acted recklessly by closing his mind to the risk that customers would lose out financially, took no action to prevent the mark-down but instead assented to the decision. As a result, SVS earned £359,800 in income at the expense of its customers.

2.7. SVS took retail pension customers' funds and channelled them into investments which benefitted its directors and close business associates. Mr Hadjigeorgiou failed to take reasonable steps to ensure that SVS identified and managed conflicts of interest appropriately:

1) Mr Hadjigeorgiou was aware that a conflict of interest had arisen in relation to an SVS director and his dual role as a director of both SVS and of a company whose fixed income products SVS included in its Model Portfolios. Mr Hadjigeorgiou failed to take reasonable care to ensure that this conflict of interest was managed appropriately.

2) Mr Hadjigeorgiou agreed to an arrangement for SVS to take £750,000 in commission from another fixed income product provider, Innovation Capital Finance Limited ("ICFL"), up front before any due diligence had been carried out. He arranged for the commission to be accounted for as a loan but failed

to consider the conflict of interest this raised. He failed to escalate this with SVS's Compliance department, meaning that the conflict was not managed.

2.8. Mr Hadjigeorgiou was central to SVS's decision to invest in a bond issued by ICFL under its £100 million secured note programme, launched on 17 January 2019 (the "ICFL Bond"), and to the due diligence carried out on it by SVS. He was aware of the Authority's concerns about the due diligence performed on a similar product, bonds issued by CFBL (the "CFBL Bonds"), but he failed to take heed of these concerns when carrying out the due diligence on the ICFL Bond. SVS lacked the data needed to assess and monitor the ICFL Bond, and to comply with PROD 3.3.3R of the Product Intervention and Product Governance Sourcebook section of the Authority's Handbook ("PROD"), which came into force on 3 January 2018: this states that any investment product must be distributed in accordance with the needs, characteristics and objectives of its target market.

2.9. SVS provided support to Ingard Limited ("Ingard") for the listing of Ingard Property Bond 2 Designated Activity Company ("Ingard Property Bond 2") on the Cypriot Stock Exchange. Mr Hadjigeorgiou was central to the decision to invest in the bond and in the due diligence carried out by SVS. However, the close relationship between SVS and Ingard meant that any due diligence on Ingard Property Bond 2 was in essence a formality because SVS had, in substance, already decided to invest.

2.10. Mr Hadjigeorgiou was aware that the Authority had raised concerns in January 2018 that the Model Portfolios were overly exposed to one bond provider, CFBL, and that this posed a concentration risk. Although SVS gave an assurance to the Authority that it would reduce this concentration, Mr Hadjigeorgiou failed to take action to stop SVS from making further investments in the CFBL Bonds.

2.11. Mr Hadjigeorgiou failed to take reasonable care to ensure that SVS complied with the Authority's rules in relation to inducements. SVS received large commission payments from fixed income product providers in return for including their investments in the Model Portfolios, which represented a level of inducement which put at risk SVS's independence and compromised its ability to act in the best interests of its customers. COBS 2.3A.15R, which came into force on 3 January 2018, states that a firm must not accept any commission from any third party in provision of a relevant service to retail clients. As a CF1 Director and CF3 Chief Executive Mr Hadjigeorgiou should have ensured that SVS did not accept such payments after 3 January 2018.

2.12. Mr Hadjigeorgiou failed to take reasonable steps to ensure that SVS properly communicated the decision described in paragraph 2.6 to introduce a 10% mark-down to the valuation of fixed income disinvestments to customers or their financial advisers. Customers therefore took disinvestment decisions without understanding the financial implications of disinvesting their funds and lost pension savings as a result.

2.13. The Authority has concluded that in respect of the matters described in paragraph 2.6, Mr Hadjigeorgiou failed to act with integrity, in breach of Statement of Principle 1, and that in respect of the matters described in paragraphs 2.7 to 2.12, Mr Hadjigeorgiou failed to exercise due skill, care and diligence in managing the business of SVS, in breach of Statement of Principle 6.

2.14. In addition, as a result of his conduct, the Authority considers that Mr Hadjigeorgiou is not a fit and proper person, and he poses a risk to consumers and to the integrity of the financial system. The nature and seriousness of the breaches outlined above warrant the imposition of an order prohibiting him from performing any senior management function and any significant influence function in relation to any regulated activities carried on by an authorised or exempt person or exempt professional firm.

2.15. Further, the Authority considers it appropriate to impose a financial penalty of £84,600 on Mr Hadjigeorgiou for his breaches of Statement of Principle 1 and Statement of Principle 6 during the Relevant Period.

3. DEFINITIONS

3.1. The definitions below are used in this Notice:

"the Act" means the Financial Services and Markets Act 2000.

"Mr Anderson" means Stuart James Anderson.

"Angelfish" means Angelfish Investments Plc.

"the Angelfish Conflict" means the conflict of interest in relation to Mr Flitcroft's role as director of both Angelfish and SVS.

"APER" means the Statements of Principle and Code of Practice for Approved Persons.

"the Authority" means the Financial Conduct Authority.

"CFBL" means Corporate Finance Bonds Limited.

"CFBL Bonds" means various series of bonds issued by CFBL under its £500m secured note programme, launched on 21 June 2016.

"COBS" means the part of the Authority's Handbook entitled "Conduct of Business Sourcebook".

"CoI Register" means SVS's Conflicts of Interest Register.

"DEPP" means the Decision Procedure and Penalties Manual part of the Handbook.

"Mr Ewing" means David Norman Ewing.

"EG" means the Authority's Enforcement Guide set out in the Authority's Handbook.

"FIT" means the Fit and Proper Test for Approved Persons and specified significant-harm functions section of the Authority's Handbook.

"Mr Flitcroft" means Andrew John Alec Flitcroft.

"the FSCS" means the Financial Services Compensation Scheme.

"Mr Hadjigeorgiou" means Demetrios Christos Hadjigeorgiou.

"the Handbook" means the Authority's Handbook of rules and guidance.

"ICFL" means Innovation Capital Finance Limited.

"ICFL Bond" means the bond issued by ICFL under its £100m secured note programme, launched on 17 January 2019, in respect of which SVS made an investment of £10m.

"IFA" means Independent Financial Adviser.

"Ingard" means Ingard Limited.

"Ingard Alternative Funding" means Ingard Alternative Funding Limited.

"Ingard Financial" means Ingard Financial Limited.

"Ingard Property Bond 1" means the bond issued by Ingard Property Bond Designated Activity Company.

"Ingard Property Bond 2" means the bond issued by Ingard Property Bond 2 Designated Activity Company.

"Ingard Property Bonds" means Ingard Property Bond 1 and Ingard Property Bond 2.

"Investment Committee" means the SVS committee that provided oversight on discretionary and advisory services offered, handled the products in the Model Portfolios and monitored investment performance.

"Mark-down" means the difference, if any, between:

(i) the price at which the firm takes a principal position in the relevant investment in order to fulfil a customer order; and

(ii) the price at which the firm executes the transaction with its customer.

"MiFID II" means the Markets in Financial Instruments Directive (2014/65/EU).

"Model Portfolios" means the discretionary fund-managed model portfolios managed by SVS.

"Model Portfolio Employee" means the Head of the Model Portfolio Team.

"Model Portfolio Team" means the SVS staff responsible for the Model Portfolios.

"OC Finance" means OC Finance S.A.

"OC Finance Bonds" means bonds issued by OC Finance.

"PROD" means the part of the Authority's Handbook entitled *"Product Intervention and Product Governance Sourcebook".*

"Prohibition Order" means the order to be made pursuant to section 56 of the Act prohibiting Mr Hadjigeorgiou from performing any senior management function and any significant influence function in relation to any regulated activity carried on by any authorised person, exempt person or exempt professional firm.

"Queros" means Queros Capital Partners PLC.

"RDC" means the Regulatory Decisions Committee of the Authority (see further under Procedural Matters below).

"the Relevant Period" means the period between 3 January 2018 and 2 August 2019.

"SIPP" means a self-invested personal pension. A SIPP is the name given to the type of UK government-approved personal pension scheme, which allows individuals to make their own investment decisions from the full range of investments approved by Her Majesty's Revenue and Customs.

"SIPP Trustee" means the trustee and administrator of the SIPPs used to invest in the Model Portfolios.

"Specialist Advisors" means Specialist Advisors Limited.

"the Statements of Principle" means the Statements of Principle as set out in APER.

"Mr Stephen" means David John Alexander Stephen.

"SVS" or "the firm" means SVS Securities Plc.

"SYSC" means the part of the Authority's Handbook entitled *"Senior Management Arrangements, Systems and Controls".*

"the Tribunal" means the Upper Tribunal (Tax and Chancery Chamber).

"UCITS" means Undertakings for Collective Investment in Transferable Securities.

"Mr Virk" means Kulvir Virk.

"the Warning Notice" means the Warning Notice dated 17 February 2023 given to Mr Hadjigeorgiou.

4. FACTS AND MATTERS

Background

4.1. SVS was regulated by the Authority from 9 April 2003 to 31 August 2023. It had permission under Part 4A of the Act to carry out a range of regulated advisory and transactional activities. Its principal business activities included: advising on investments, dealing in investments as agent, dealing in investments as principal, managing investments, arranging safeguarding and administration of assets, and safeguarding and administration of assets.

4.2. SVS's four main services, or business areas, were:

1) Advisory - traditional stockbroking services (private client broking) on an advisory basis to both retail and Institutional clients. This also included taking part in AIM listings and secondary placings on a principal basis;

2) Discretionary - investments into the Model Portfolios by one of the SVS discretionary team;

3) Execution only - online equity, ISA, SIPP trading on an execution only basis; and

4) Foreign exchange trading - Retail online execution only foreign exchange business that operated under the trading name of SVSFX.

4.3. Mr Hadjigeorgiou was approved by the Authority to perform the CF1 (Director) function at SVS from 4 January 2017 to 31 August 2023. Mr Hadjigeorgiou was also approved by the Authority from 1 May 2018 to 31 August 2023 to perform the CF3 (Chief Executive) function.

4.4. The Authority received a number of complaints from customers about the Model Portfolios in early 2019. On 13 May 2019, the Authority requested that SVS provide information about the due diligence that it had conducted on the investments within its Model Portfolios. On 2 July 2019, the Authority conducted a site-visit at SVS's offices.

4.5. The information gathered by the Authority from SVS raised serious concerns and on 26 July 2019, at the request of the Authority, SVS applied for requirements to be imposed on it. Accordingly, requirements were imposed on the firm on the same date. Under the voluntary requirements SVS agreed to cease all regulated activities in relation to its Discretionary Fund Management business and not to accept any new clients into any of its other business areas.

4.6. On 2 August 2019, the Authority imposed further requirements on SVS requiring it to cease all regulated activities, safeguard assets and notify affected third parties.

4.7. On 5 August 2019, SVS was placed into Special Administration. The Special Administration ended on 30 March 2023 and SVS was dissolved on 10 August 2023.

4.8. The FSCS started considering claims from Model Portfolio customers on 10 August 2020.

The Model Portfolios and Underlying Investments

Creation and Structure of the Model Portfolios

4.9. During the Relevant Period, 879 retail customers invested £69.6 million in the Model Portfolios. The vast majority of the customers who invested in the Model Portfolios were retail customers transferring their pensions from existing pension plans, including customers who had transferred from defined benefit pension schemes.

4.10. The Model Portfolios were created by SVS as part of its discretionary fund management business. The Model Portfolios were broken down into four separate portfolios: Income, Mixed, Growth and Aggressive Growth. They purported to invest in a mixture of equities, fixed income and collective funds which could be tailored to meet different customer objectives. Of the total £69.6 million invested in the Model Portfolios, around 73% of the invested monies were allocated to the fixed income products.

Governance of the Model Portfolios

4.11. The SVS Board of Directors was responsible for *'oversight and overview'* of the Model Portfolios.

4.12. Separate from the Board of Directors, there were a number of committees with formal governance responsibilities for the Model Portfolios. These included a Model Portfolio Strategic Investment Committee (the "Investment Committee"), a Fixed Income Investment Committee, a FTSE Investment Committee, a Small Cap Investment Committee and a Funds / Yield Investment Committee. Mr Hadjigeorgiou was a member of all of these committees. He was also responsible for providing specific guidance and a reporting line for the SVS Model Portfolio Manager on all operational matters.

4.13. The Model Portfolio Team had overall responsibility for the Model Portfolios, convening Investment Committee meetings, producing management information, devising and implementing operational strategy, ensuring that introducer and financial advisers were *'properly serviced',* dealing with disinvestments, and onboarding new clients.

Features of the Model Portfolios

4.14. The Model Portfolios were discretionary managed portfolios which aimed to deliver a strategy of capital growth and income through asset allocation.

4.15. By July 2019, the fixed income asset class comprised the following high risk, corporate bonds and preference shares:

1) CFBL Bonds;
2) Ingard Property Bonds;
3) ICFL Bond;
4) Angelfish preference shares; and
5) Queros.

CFBL Bonds

4.16. At the start of the Relevant Period, SVS had already invested Model Portfolio funds into the OC Finance Bonds, which were fixed income products. In 2016, Mr Anderson established CFBL as a new vehicle to attract fixed income investment. CFBL issued a £500 million secured note programme which launched on 21 June 2016. The stated aim of the programme was to provide UK companies with development capital to grow their business - through accelerated growth plans, acquisitions or realisation of new opportunities. It purported to achieve this by issuing bonds and then using the capital to lend to such businesses on a secured basis.

4.17. The CFBL £500 million secured note programme was approved by the Irish Stock Exchange on 21 June 2016. Each series of the CFBL Bonds was listed on the Global Exchange Market of Euronext Dublin. The OC Finance Bonds, into which SVS had already invested Model Portfolio funds, were rolled into the CFBL Bond programme as Series 1 and Series 2. There were eight different series of the CFBL Bonds. The bonds were issued with a fixed rate of interest (either 5.95% or 6.25%) for a fixed term of 4.5 or 5 years. The CFBL Bonds had maturity dates between 7 July 2021 and 24 April 2022.

4.18. Between 16 February 2016 and 1 July 2019, SVS invested into six series of the CFBL Bonds. As at 1 July 2019, a total of £23,912,255 of SVS customer funds was invested in the CFBL Bonds via the Model Portfolios. This represented 29% of all funds in the Model Portfolios. Over half of the fixed income investments in the Model Portfolios were invested in CFBL Bonds.

4.19. In return for investing SVS customer funds into the CFBL Bonds, CFBL paid SVS commission of 10-12% of the funds invested. The CFBL Bonds were delisted on 6 November 2019 due to the economic environment and to save costs.

4.20. By 29 April 2020, the CFBL Bonds had defaulted on coupon payments. With effect from 18 May 2020, Heritage Corporate Finance Ltd replaced CFBL as the issuer of the bonds. Customers are only expected to recover between 20-35% of the value of their investments in the CFBL Bonds.

Ingard Property Bonds

4.21. SVS included Ingard Property Bond 1 and Ingard Property Bond 2 in the Model Portfolios. The purpose of both bonds was to provide bridging loans to the UK property market. Both bonds were listed on the Cyprus Stock Exchange.

4.22. Both bonds were issued with a fixed rate of interest (either 5.75% or 7%) for a fixed term of 7 years. Ingard Property Bond 1 matured on 31 December 2023 and Ingard Property Bond 2 is due to mature on 31 December 2025. In January 2017 SVS invested Model Portfolio customer funds into Ingard Property Bond 1 and in December 2018, SVS invested Model Portfolio customer funds into Ingard Property Bond 2, in each case in return for commission of 10% of the customer funds invested. As at 1 July 2019, SVS had invested £5.7 million into the Ingard Property Bonds. This represented 7% of the total funds in the Model Portfolios.

ICFL Bond

4.23. ICFL issued a £100 million secured note programme which launched on 17 January 2019. The stated aim of the programme was to facilitate secured lending, primarily in the innovation and technology sector. The purpose of the ICFL Bond was to connect investors seeking high, fixed income yields with capital security, and borrowers seeking capital injections at competitive rates to grow their business.

4.24. As at 1 July 2019, SVS had invested £10 million in the ICFL Bond in the Model Portfolios, in return for commission of 10% of customer funds invested. The bond was issued for a fixed term until 30 January 2024 with a fixed 6.25% coupon. As at 1 July 2019, there were £9,802,834 of Model Portfolio customer funds invested in the ICFL Bond, which represented 12.3% of the total funds in the Model Portfolios. ICFL Bonds comprised 23.09% of all the fixed income investments in the Model Portfolios.

Angelfish Preference Shares

4.25. SVS invested just over £3 million in Angelfish preference shares within the Model Portfolios. Angelfish's investment strategy was focused on businesses and

companies in the technology sectors, and the stated purpose of the preference share issue was to progress development activities and provide capital for further investment opportunities as they arose. The preference shares were listed on the NEX Exchange Growth Market in the UK. As at 11 May 2016, SVS invested into the Angelfish preference shares. Subsequently SVS purchased a further tranche of preference shares in October 2018. A commission was paid to SVS of 9-10% on the October 2018 Model Portfolios' take up of preference shares issued by Angelfish. There was no historic trading activity in the Angelfish preference shares before SVS invested. As at 1 July 2019, SVS had £3,065,447 of Model Portfolio customer funds invested into the Angelfish Preference Shares, which represented 3.65% of the total funds in the Model Portfolios.

4.26. The Angelfish preference shares offered dividends at 7.1% per annum. Angelfish has defaulted on dividend payments and no payment has been received by customers since 30 June 2019. The Angelfish preference shares were converted to ordinary shares in September 2020.

The Customer Journey

4.27. SVS operated a business model that relied upon financial incentives to market its discretionary managed Model Portfolios to retail customers. SVS then used those customer funds for its own benefit by exercising its discretion to prefer fixed income investments which paid SVS itself substantial commission, calculated as a percentage of the customer funds that SVS steered into those investments.

Unauthorised Introducers

4.28. SVS entered into marketing agreements with unauthorised introducer firms and individuals. The role of the introducer was to "generate certain customer lead types … with a view to generating income" for SVS. SVS incentivised its introducers to attract customers funds into the Model Portfolios by paying them commission calculated as a percentage of the net sum invested with SVS. This incentive commission varied between 7% and 9% of customer funds invested, depending on the introducer.

Financial Advisers

4.29. The introducer firms did not introduce customers directly to SVS; they introduced prospective customers to financial advisers on the premise that they would recommend the Model Portfolios to customers where it was suitable to do so.

4.30. The unauthorised introducers introduced customers to financial advisers employed by various regulated financial advice firms; prospective customers were introduced for a pension review.

4.31. SVS had written Introducing Broker Partnership Agreements with the financial advice firms. The terms of the Introducing Broker Partnership Agreements included that the financial advisers would only introduce customers to SVS for whom the services could reasonably be expected to be suitable.

SIPP Trustees

4.32. For those customers that were advised to invest in the Model Portfolios, SIPP Trustees would enter into an arrangement with the customer to maintain a SIPP and to hold its assets. The SIPP Trustees were clients of SVS and established, operated and administered the SIPPs.

4.33. The financial advisers were responsible for contacting the SIPP Trustees on behalf of the customer.

SVS (Discretionary Fund Manager)

4.34. SVS categorised the Model Portfolio customers as retail customers. SVS made discretionary decisions on which assets to include in the Model Portfolios. Each of the Model Portfolios held the same assets but in different proportions. Customers were not asked for permission before investing, but they and their financial advisers would receive statements on a periodic basis detailing the investments.

Conflicts of Interest

4.35. In accordance with SYSC, a firm must take reasonable steps to identify whether a conflict of interest exists between itself (including its managers and employees) on the one hand and clients of the firm on the other (SYSC 10.1.3R). When considering if a conflict of interest exists, firms should take into account whether the firm (or its managers and employees) is likely to make a financial gain or avoid a financial loss, at the expense of the client, and/or the firm (or its managers and employees) has an interest in the outcome of a service provided to a client or a transaction carried out on behalf of the client which is distinct from the client's interest in that outcome. The firm must keep and regularly update a record where conflicts have arisen or may arise (SYSC 10.1.6R). Where a conflict of interest is identified, a firm must have effective arrangements so that reasonable steps can be taken to prevent conflicts of interest adversely affecting the interests of its

client (SYSC 10.1.7R). Where a firm cannot ensure that the interests of a client will not be damaged as a result of a conflict, the firm must disclose the nature or sources of the conflict and the steps taken to mitigate those risks before undertaking business for the client (SYSC 10.1.8R).

4.36. The SVS Board of Directors had high-level responsibilities to ensure that there was an operational framework in place to ensure conflicts of interest were identified and managed. Mr Hadjigeorgiou joined SVS as Finance Director in January 2017 and became the Chief Executive from 1 May 2018. As Chief Executive, it was the responsibility of Mr Hadjigeorgiou to lead the SVS Board of Directors in ensuring it met its regulatory obligations, which included identifying and managing conflicts of interest appropriately. Mr Hadjigeorgiou was also a member of the Investment Committee.

4.37. The firm's Conflicts of Interest policy document emphasised the importance of identifying and managing conflicts and set out what the policy should include. The policy set out high level *'Principles'* that were to act as guidelines for the creation of specific procedures in each of the firm's business areas. In practice there were no detailed procedures put in place for the management of potential conflicts of interest between the firm's directors, the firm itself, and its customers. However, it was evident from the high-level principles that employees were required to disclose any potential or actual conflicts of interest and that the firm relied on the *"integrity of colleagues in making them aware of actual or potential conflicts"*. All employees of the firm were also provided annual and ad-hoc training on conflicts of interest.

4.38. SVS took retail pension customers' funds and channelled them into investments which benefitted its directors and close business associates. SVS also benefitted from lucrative commission arrangements with the companies from which conflicts of interest arose. Mr Hadjigeorgiou failed to escalate these conflicts of interest to Compliance which meant that the conflicts of interest were not managed appropriately.

Failure to identify and manage conflicts of interest

4.39. The Authority identified the following actual and potential conflicts of interest which Mr Hadjigeorgiou failed to properly identify and/or manage:

1) Mr Hadjigeorgiou was aware that Mr Flitcroft, a non-executive director of SVS, was also a director of Angelfish but failed to take reasonable care to

ensure the conflict was adequately managed, see paragraphs 4.40 to 4.45; and

2) commission paid to SVS upfront by ICFL, a bond provider, in November 2018. Mr Hadjigeorgiou arranged for this commission to be accounted for as a loan, however he failed to recognise that this could be a conflict of interest and failed to escalate it to SVS's Compliance department, see paragraphs 4.46 to 4.47.

Conflicts of interest with Angelfish

4.40. During the Relevant Period, SVS included two tranches of the Angelfish preference shares in the Model Portfolios. The first tranche of the Angelfish preference shares was included at the outset of the Model Portfolios.

4.41. When the first investment into the Angelfish preferences shares was made (see paragraph 4.25), Mr Flitcroft was a director of both Angelfish and SVS (the "Angelfish Conflict"). Mr Hadjigeorgiou was aware of the Angelfish Conflict since at least May 2017.

4.42. In October 2018, Mr Flitcroft resigned as a director of Angelfish on the same date that SVS invested in the second tranche of Angelfish preference shares in order to avoid a conflict of interest. However, he continued to work for Angelfish as an adviser, and engaged with SVS in relation to a proposed conversion of preference shares to a bond (the proposed conversion did not take place).

4.43. Throughout 2018, a SIPP Trustee had raised concerns about SVS's investments in related parties, which included SVS's investments in the Angelfish preference shares and the Ingard Property Bonds. The SIPP Trustee raised further concerns in October 2018, and SVS made the investment in the Angelfish preference shares two days after the concerns were raised. Mr Hadjigeorgiou later informed the SIPP Trustee that the Angelfish Conflict was no longer present as Mr Flitcroft had resigned from Angelfish.

4.44. The Authority considers that the Angelfish Conflict was not managed appropriately as Mr Flitcroft, whilst being the sole CF2 (Non-executive director function) at SVS, approached SVS to invest in the second tranche of Angelfish preference shares, directly engaged with Mr Hadjigeorgiou on behalf of Angelfish, and was still a director of both firms when SVS management took the decision to invest. Furthermore, Mr Hadjigeorgiou later described Mr Flitcroft's resignation as

'window dressing' and the Authority considers that the purpose of it was to give the impression that he was no longer involved with both firms.

4.45. However, Mr Flitcroft's resignation as an Angelfish director and re-engagement as an adviser to Angelfish, did not resolve the conflict of interest as he continued to work for and be remunerated by both SVS and Angelfish. On behalf of Angelfish, Mr Flitcroft continued to engage directly with Mr Hadjigeorgiou into 2019, including writing to Mr Hadjigeorgiou from his Angelfish email account in June 2019 regarding assistance that SVS was providing to Angelfish to launch the proposed Angelfish listed bond, which was to replace the Angelfish preference shares, in which SVS had invested Model Portfolio customer funds. The correspondence indicates that SVS had agreed to prepare the bond memorandum and admission document. The Angelfish listed bond was never launched and the Angelfish preference shares defaulted on dividend payments at the end of that month. The Authority has not seen evidence that Mr Hadjigeorgiou took any or sufficient action to escalate, mitigate or otherwise manage the ongoing conflict indicated by this engagement.

Conflicts of interest with ICFL

4.46. As stated in paragraph 4.24, SVS invested £10 million in the ICFL Bond in return for commission of 10%. SVS took £750,000 of the £1 million commission up front due to liquidity and cashflow issues and accounted for it as a loan in case it had to be paid back.

4.47. This created a situation in which SVS had received a loan from a bond provider. The Authority considers that this amounted to a conflict of interest which should have been raised with Compliance so it could be managed appropriately. Mr Hadjigeorgiou was aware of the arrangement with ICFL and recognised that it was a conflict of interest. He was instrumental in deciding to treat the funds received by SVS from ICFL as a loan for accounting purposes. Despite this, Mr Hadjigeorgiou did not escalate the arrangement to Compliance and the conflict of interest was not managed.

Decisions to invest in fixed income assets

4.48. Section 3.3.1R of PROD, which came into force on 3 January 2018, states that a distributor must: understand the financial instruments it distributes to clients; assess the compatibility of the financial instruments with the needs of the clients to whom it distributes investment services, taking into account the manufacturer's identified target market of end clients; and ensure that financial instruments are

distributed only when this is in the best interests of the client. SVS was a distributor for purposes of the PROD rules.

Decisions to invest in the CFBL Bonds

4.49. As stated in paragraph 4.18, SVS held six series of the CFBL Bonds in the Model Portfolios. SVS senior management identified CFBL Bonds as investments to include in the Model Portfolios and made the decision for SVS to invest in the bonds. Separate decisions were not made for each series, rather once each series was fully subscribed, SVS moved on to invest in the next series.

4.50. The due diligence carried out by SVS on CFBL was insufficient. The Authority raised concerns to SVS about the due diligence carried out on the CFBL Bonds on 24 November 2017, 4 January 2018 and 23 January 2018. In addition, SVS only gathered certain due diligence material from CFBL in November 2017 because the Authority had required SVS to provide a copy of it.

4.51. On 23 January 2018, the Authority wrote to SVS outlining a series of concerns in relation to the CFBL Bonds, specifically in relation to due diligence performed by SVS, the concentration risk, the liquidity risk and SVS's analysis of the CFBL Bonds. The Authority had concerns about SVS's knowledge of the bonds as it placed too much reliance on the fact that the bonds were listed on a recognised exchange and had not assessed the credit quality, duration and gross redemption yield compared to the other offerings in the market. SVS had not provided the Authority with a sufficient level of analysis of the bonds and the various tranches. The Authority was also concerned that SVS did not know the details of the underlying loan recipients of the CFBL Bonds. Following the concerns raised by the Authority regarding the due diligence on CFBL, the Authority has not seen any evidence that SVS took steps to ensure that adequate due diligence was carried out in respect of subsequent investments in CFBL Bonds.

4.52. On 1 February 2018, SVS responded to the Authority. In relation to the Authority's concerns regarding concentration risk, SVS gave the following written assurance:

'*We accept that the SVS model portfolios have issuer concentration risk to CFBL. Notwithstanding our further comments we will look to reduce the concentration risk of this issuer within the Model Portfolios*.'

4.53. SVS decided to invest in CFBL Series 9 on 6 November 2017. When the Authority wrote to SVS on 23 January 2018, SVS had invested £1.28 million in CFBL Series 9. On 14 March 2018, approximately 40% of the Model Portfolio assets

were held in CFBL Bonds. At the SVS Board Meeting on 14 March 2018, SVS resolved *"as an interim measure that 50% of available fixed income cash may still be invested in the CFBL products, subject to these investment decisions being properly documented".* Mr Hadjigeorgiou was Chair of this Board Meeting. Notwithstanding the assurance given to the Authority, SVS continued to invest a further £5,106,150 in CFBL Series 9 between 31 January 2018 and 11 May 2018.

4.54. The concentration of CFBL Bonds within the Model Portfolios reduced from 39.3% on 31 March 2018 to 34.31% on 13 May 2019. However, whilst SVS initially considered reducing its holdings of CFBL Bonds, the concentration risk was only reduced due to SVS diluting the proportion of CFBL Bonds in the Model Portfolios by increasing its investments in other high risk, illiquid, fixed income products including ICFL, Ingard Property Bond 2, and a further tranche of the Angelfish preference shares. In fact, the total value of customer funds invested in the CFBL Bonds had increased. This was not consistent with the written assurance SVS gave to the Authority. The Authority expected SVS to reduce its holdings in the CFBL Bonds, but instead it increased its holdings and increased its investments in other similarly high risk and illiquid products.

Ingard Property Bond 2

4.55. Ingard Property Bond 2 was listed on the Cypriot Stock Exchange on 11 December 2018. SVS provided support for the listing of Ingard Property Bond 2. Ingard stated that *"without evidence of SVS's conditional placing commitment, the process will stall".*

4.56. SVS required Ingard Property Bond 2 to be rated in order for it to be included in the Model Portfolios at the insistence of a SIPP Trustee. SVS provided support to Ingard to allow Ingard Property Bond 2 to be rated and therefore be suitable for inclusion in the Model Portfolios.

4.57. Mr Hadjigeorgiou played a key role in SVS's decision to invest in Ingard Property Bond 2 and in the due diligence carried out by SVS. He informed Mr Ewing that SVS was *"happy to invest up to £4.25m"* in Ingard Property Bond 2; he offered assistance to Ingard in order to help get the bond rated having already committed to investing £4.25 million in the bond; and he subsequently carried out due diligence on the bond.

4.58. SVS had a close relationship with Ingard due to Mr Ewing being a director of both companies and SVS providing assistance in relation to the listing of both Ingard Property Bonds. The Authority considers that the close relationship between SVS

and Ingard meant that any due diligence carried out on Ingard Property Bond 2 was in essence a formality because SVS had, in substance, already decided to invest.

Decision to invest in the ICFL Bond

4.59. SVS entered into an agreement with ICFL on 1 November 2018 to invest £10 million of Model Portfolio customer funds into the ICFL Bond. This agreement provided that SVS would be paid commission of £1 million, being 10% of the minimum investment of £10 million. SVS took £750,000 of this commission up front, whilst the firm was experiencing issues with its liquidity and cashflow, and accounted for it as a loan in case it had to be paid back. The agreement was entered into, and the £750,000 commission paid, without due diligence having been undertaken and without the Model Portfolio Team's awareness. SVS took the £750,000 of the commission up front. The Model Portfolio Team subsequently attempted to gather due diligence material from ICFL on 7 February 2019. ICFL considered it to be highly unusual that SVS was undertaking due diligence after it had already paid commission to SVS.

4.60. Mr Hadjigeorgiou played a leading role in performing the due diligence on ICFL and he identified that the product was similar in nature to the CFBL Bonds. Having identified these similarities, Mr Hadjigeorgiou did not take sufficient steps to consider whether the ICFL Bond would raise the same concerns for the Authority as the CFBL Bonds. He stated to the Authority in interview that he queried whether the management of CFBL was behind the ICFL Bond but was assured that they were only acting as advisor to ICFL. Despite this, on 17 February 2019 in an internal email Mr Hadjigeorgiou stated, *`As you probably picked up from emails and text messages from SA* [Mr Anderson] *on Friday, we are now under some pressure to deal with this quickly, in the context of doing an initial £2.0m.'*

4.61. The ICFL Bond had various similarities to the CFBL Bonds:

1) Shared staff between ICFL, CFBL and Specialist Advisors (a firm with common management with CFBL), in particular Mr Anderson, acted as a consultant to ICFL to secure SVS's "cornerstone" investment into the ICFL Bond.

2) Two of the three members of the ICFL Lending Advisory Board were also members of the CFBL Investment Advisory Group. These were the committees who recommended loans to be made by CFBL and ICFL.

3) Both the CFBL Bonds and the ICFL Bond provided loans offering fixed coupons of between 5.95% and 6.25% per annum for a five-year term. They took similar margins: CFBL took a typical margin of 3%, ICFL sought a margin of around 2%.

4) Both CFBL and ICFL were listed on the Global Exchange Market of the Irish Stock Exchange.

5) Both CFBL and ICFL lent to a minimum of 5 borrowers with no more than 20% to each borrower.

6) The *'Lending Criteria'* applied by CFBL and ICFL in seeking to lend to businesses was almost identical.

7) The *'Bond Process'* for approving loan applications set out in the CFBL and ICFL due diligence documents was identical.

8) The *'Bond Series Loan Book Review Process'* for reviewing loans set out in the CFBL and ICFL due diligence documents was identical.

4.62. A vote was held in the Portfolio Management and Asset Allocation meeting on 19 February 2019 as to whether to:

1) increase the allocation to fixed income and high yield bonds by £2 million; and

2) purchase the ICFL Bond.

4.63. During the meeting, the Model Portfolio Team also raised the following concerns about the ICFL Bond:

1) the similarities between the ICFL Bond and the CFBL Bonds;

2) the close relationship between ICFL and CFBL;

3) the lack of liquidity of the bond and the lack of visibility on the underlying investments;

4) the high level of stocks with low liquidity in the Model Portfolios; and

5) the experience of ICFL Bond Management.

4.64. Despite the concerns raised, only one member of the Investment Committee voted against the proposals.

4.65. The vote on 19 February 2019 only related to an investment of £2 million in the ICFL Bond. However, SVS made further investments amounting to £8 million, which were not subject to a vote.

4.66. SVS informed the Authority that when assessing the suitability of a fixed income investment to be included in the Model Portfolio, it relied on it already being listed on an HMRC recognised stock exchange. However, SVS entered into an agreement to invest in the ICFL Bond, and took commission, before the listing took place.

4.67. Following the request by the Authority on 13 May 2019 for SVS to provide information about the due diligence that it had conducted on the investments within its Model Portfolios, SVS requested enhanced due diligence material from ICFL on 26 June 2019, several months after the decision had been made to invest in the ICFL Bond and SVS had received the full commission of £1 million. In addition, ICFL did not provide some of the requested information to SVS.

4.68. The Authority considers that due diligence carried out by SVS was in essence a formality as SVS had already agreed to invest in the ICFL Bond, and received commission, before due diligence was gathered.

4.69. Mr Hadjigeorgiou provided approval for Mr Virk to sign the agreement with ICFL on behalf of SVS. The Authority considers that he was aware that SVS had entered an agreement with ICFL before any due diligence had been carried out.

4.70. Mr Hadjigeorgiou was already aware of the Authority's concerns about the due diligence carried out on the CFBL Bonds from January 2018 but one year later, there were similar failings as the due diligence undertaken by SVS on ICFL was inadequate to assess and monitor the ICFL Bond. SVS lacked adequate information about the underlying loan recipients, their financial standing, their potential to meet high interest rates set by ICFL, their ability to repay the principal sum at the end of the loan term, or the performance of the loans. As stated in paragraph 4.48, this information was needed to assess the bonds and, after 3 January 2018, to comply with the rule in PROD 3.3.3R that any investment product must be distributed in accordance with the needs, characteristics and objectives of its target market.

4.71. The ICFL Bond was a similar product to the CFBL Bonds, in which the Authority expected SVS to reduce its concentration. It was similar to the CFBL Bonds as it had a similar structure and processes, had low liquidity and shared staff with CFBL and Specialist Advisors. The Authority considers that SVS increased its exposure

to high risk, illiquid bonds when it lacked the information to assess properly the risk of these investments.

4.72. SVS committed to invest in the ICFL Bond in November 2018. Due diligence later carried out on the ICFL Bond identified that the 10% commission paid to SVS was to be made up by adding it to the loans of ICFL's underlying borrowers. In a conference call in February 2019 attended by Mr Hadjigeorgiou and ICFL, together with Mr Anderson (on behalf of Specialist Advisors, advising ICFL), it was explained that *"the 10% commission which is paid to attract funding to the bond is ultimately added to borrower loans. A potential borrower wishing to drawdown net funds of £875,000 will actually be taking out a loan for £1,000,000 capital value for repayment at the period end"*.

4.73. Mr Hadjigeorgiou was central to the decision to invest in the ICFL Bond and took responsibility for the due diligence performed. He was aware of the Authority's concerns about the due diligence performed on the CFBL Bonds but failed to take heed of these concerns when carrying out due diligence on the ICFL Bond. As noted in paragraph 2.11, COBS 2.3A.15R, which was in force from 3 January 2018, states that a firm must not accept any commission from any third party in provision of a relevant service to retail clients. Furthermore, receiving the commission as an advance, due to SVS's financial position, created a significant conflict of interest as Mr Hadjigeorgiou unduly prioritised the financial benefit to SVS over the best interests of customers.

Decision to introduce a mark-down on fixed income disinvestments

4.74. The Authority requires firms to pay due regard to the interests of their customers and treat them fairly. This obligation was acknowledged in SVS's Order Execution Policy.

Decision to introduce a 10% mark-down

4.75. In November 2018, the Board of Directors decided to introduce a 10% mark-down on the valuation of the fixed income assets when a customer disinvested from the Model Portfolios. The rationale provided in contemporaneous internal documentation for taking a 10% mark-down was to earn additional income for SVS.

4.76. The decision to change the policy was made by the SVS Board of Directors, including Mr Hadjigeorgiou. At the time that this decision was taken, Mr

Hadjigeorgiou as Chief Executive was aware that SVS had financial concerns and needed new income streams.

4.77. The Authority considers that in approving this change, Mr Hadjigeorgiou closed his mind to the risk that SVS customers would lose out financially, took no action to prevent the mark-down but instead assented to the decision. He prioritised the financial benefit of the 10% mark-down to SVS at a time when the firm had financial concerns. Further, Mr Hadjigeorgiou failed to take steps to ensure that customers would be informed about the change and the adverse impact it would have on their assets in the event of disinvestment from the Model Portfolios. This meant that customers did not have the opportunity to consider the financial impact of the mark-down when deciding whether to disinvest. If customers knew about this charge, they may have decided to disinvest before it came into effect or not to disinvest after it had, both of which would have meant less income for SVS.

Failure to communicate the 10% mark-down to customers

4.78. Prior to November 2018, SVS did not charge customers when they disinvested from the Model Portfolios.

4.79. From November 2018, SVS applied a 10% mark-down on all fixed income disinvestments. This mark-down was applied to all customers who disinvested regardless of the length of time they had held their investment. This was contrary to the statement in the Model Portfolio brochure provided to customers, that exit charges to customers who disinvested would differ based on the length of time a customer had been invested.

4.80. In breach of COBS 11.2A.31R, SVS did not communicate the 10% mark-down to customers in a clear manner and did not disclose it in writing to customers, their SIPP Trustees or financial advisers for a further six months, namely on 30 May 2019. The written disclosure that was eventually made only referred to "the wider spread"; it did not include reference to the rate of the 10% mark-down.

Internal concerns regarding the introduction of the 10% mark-down

4.81. Staff within SVS raised concerns that, amongst other things, the decision to introduce a 10% mark-down was not fair to customers and would lead to complaints. Despite these concerns being raised with the SVS Board of Directors and the Head of Risk and Compliance, Mr Stephen, a number of times, they were

unreasonably disregarded and SVS continued to introduce the 10% mark-down and treated its customers unfairly.

4.82. Concerns were raised to Mr Hadjigeorgiou, other directors and Compliance in relation to the decision to introduce the 10% mark-down, and/or the operation of the process behind the 10% mark-down, on the following occasions:

1) 2 November 2018 – concerns were raised about SVS profiting unduly from a disinvestment mark-down which was higher than the proposed exit charge;

2) 19 November 2018 - concerns were raised about not having a *"fully formed procedure"*;

3) 22 November 2018 - concerns were raised that the disinvestment process was not *"a workable solution"*;

4) 26 November 2018 - staff within SVS questioned the justification for applying a 10% mark-down;

5) 11 December 2018 - concerns were raised that SVS was double counting costs charged to customers;

6) 14 December 2018 – concerns were raised that the 10% mark-down "*looks like a fee coming straight out of the models*";

7) 17 December 2018 – concerns were raised that the situation was unworkable and SVS was unable to provide an explanation to customers that could be defended;

8) 4 February 2019 – concerns were raised that the disinvestment process was not fair on customers; and

9) 13 February 2019 – concerns were raised that the new disinvestment policy was *"not an efficient way to carry out the disinvestments when compared to the application of exit charges as a percentage that reduces with each year of participation."*

4.83. Mr Hadjigeorgiou did not respond to the concerns raised about the change in the disinvestments policy but considered that the concerns had been handled appropriately. He had some sympathy with the concerns as he thought it would be fairer overall for the disinvestment charge to take account of the overall time that the clients had been invested. However, as Chief Executive he declined to

make a substantive decision about fairness to SVS's clients, deferring to Compliance's unreasonable assurance that the disinvestments policy was correct.

Financial consequences to customers due to the introduction of the 10% mark-down

4.84. SVS prioritised its profits at the expense of customers by introducing a 10% mark-down on the value of fixed income disinvestments. After the decision was made to introduce the 10% mark-down, customers disinvested £5,784,000 between October 2018 and August 2019. From these disinvestments, SVS earned £359,800 in income as customers were charged a higher amount than the cost to SVS. This income would have increased had SVS not entered administration on 5 August 2019.

4.85. The table below sets out the consequences of the introduction of the 10% mark-down in relation to three customers:

	Customer 94008	**Customer 84848**	**Customer 124128**
Amount invested	£92,890.92	£266,204.76	£20,296.10
Date of investment	16 June 2017	1 November 2016	20 February 2019
Date disinvestment actioned	4 February 2019	4 February 2019	13 March 2019
Value of investments at date of disinvestment **(A)**	£75,575.54	£223,575.15	£19,880.64
Amount returned to customer **(B)**	£71,132.62	£210,431.09	£18,645.93
Amount returned to customer (%) **(B / A)**	94%	94%	94%
Value of fixed income assets disinvested **(C)**	£35,904.41	£106,214.79	£7,029.93
Amount of fixed income assets returned to customer **(D)**	£32,314.01	£95,593.33	£6,326.97
Fixed income disinvestment mark-down **(C – D)**	£3,590.40	£10,621.46	£702.96
Fixed income disinvestment mark-down (%) **(D / C)**	10%	10%	10%
Fixed income disinvestment as % of total investment **(C-D / A)**	5%	5%	4%

4.86. Customer 94008 was 60 years old when they invested, was a carer to their elderly parent, owned a property worth £70,000, had an annual income of £4,700, and had other investments of £7,000. The Authority considers that the fixed income disinvestment mark-down of £3,590.40 taken by SVS was a significant amount to the customer.

4.87. Customer 84848 planned to retire in 10 years, was a personal assistant earning around £31,000 a year, owned a property worth £185,000, and had other savings and investments of £2,100. The Authority considers that the fixed income disinvestment mark-down of £10,621.46 taken by SVS was a significant amount to the customer. Customer 84848 submitted a complaint to SVS due to the performance of the Model Portfolios, the customer statements being unclear, and unsatisfactory service received from SVS. In the complaint, Customer 84848 also explicitly asked whether exit charges were applied, to understand why the value of the customer's investment had decreased. The response to the complaint claimed that the Firm did not apply exit charges and instead the reduction in value was due to the "*wider spread*" on fixed income products when sold "*into the market*". This misrepresented the situation to the customer as a flat 10% had been applied to the disinvestment, which operated as a charge. In reviewing the complaint, SVS considered that compensation may be appropriate for the unsatisfactory service provided but it does not appear that the firm considered the amount that the customer lost due to the disinvestment mark-down applied.

4.88. Customer 124128, and their partner, invested all of their pension funds of £20,296 into the Model Portfolio and had no other savings or investments. The customer planned to retire within 10 years, was a road maintenance worker earning £30,000 a year, and jointly owned a property worth £500,000. The customer was only invested in the Model Portfolios for 3 weeks and lost £702.96 due to the disinvestment mark-down, which the Authority considers to be a significant amount to the customer.

Summary

4.89. The decision to introduce a 10% mark-down on all fixed income disinvestments was approved by Mr Hadjigeorgiou and was not made with the best interests of customers in mind. In particular, the decision was made to generate revenue for SVS at a time when the firm had financial concerns, and it improperly prioritised the financial interests of the firm over the interests of the firm's customers.

4.90. Furthermore, SVS did not inform customers in writing of the change until six months after the change had been made, and the disclosure did not specify that SVS was taking a 10% mark-down. Concerns about the process were raised by the Model Portfolio Team, but were not handled appropriately by Mr Hadjigeorgiou who unreasonably dismissed the concerns.

4.91. The Authority considers that Mr Hadjigeorgiou was responsible for the decision which was made to generate income for SVS at the expense of retail pension customers and the failure to ensure that the concerns raised were dealt with in an appropriate manner; further Mr Hadjigeorgiou did not take reasonable steps to ensure that the decision was communicated to customers or their financial advisers in a durable format.

High level of fees and commission received by SVS

4.92. SVS received high levels of commission from the Model Portfolio fixed income product providers. COBS 2.3A.15R came into force on 3 January 2018, in line with MiFID II, and relates to the payment of inducements including commission. It states that a firm must not accept any commission from any third party in provision of a relevant service to retail clients. However, throughout the Relevant Period, SVS was paid commission from product providers calculated as a percentage of the customer funds SVS directed to that product. This incentivised SVS to maximise the investment of customer funds into these products. As a CF1 Director and CF3 Chief Executive Mr Hadjigeorgiou should have ensured that SVS did not accept such payments. These inducements put at risk SVS's independence and compromised its ability to act in the best interests of its customers.

4.93. When SVS placed customer funds into the fixed income investments, it received the following commission:

1) in relation to investments in CFBL, SVS received 10% commission from CFBL and 2% from Specialist Advisors. This investment totalled £23,436,165, or 54.41% of the fixed income investments;

2) in relation to investments in the Ingard Property Bonds, SVS received 10% commission from Ingard Alternative Funding and 2% from Ingard Financial. This investment totalled £5,700,000, or 13.23% of the fixed income investments;

3) in relation to investments in ICFL, SVS received 10% commission. SVS drew down £750,000 of the £1 million commission upfront due to liquidity and cashflow issues. This investment totalled £9,802,834, or 22.76% of the fixed income investments;

4) in relation to an investment in Angelfish preference shares in October 2018, SVS received 9-10% commission. This investment totalled £3,065,447, or 7.12% of the fixed income investments; and

5) in relation to investments in Queros, SVS did not receive any commission. This investment totalled £1,067,093 or 2.48% of the fixed income investments.

4.94. The amounts invested by SVS in the fixed income investments correspond with the amount of commission generated. The largest fixed income investments in the Model Portfolios were the CFBL Bonds, for which SVS received the greatest amount of commission. The smallest fixed income investment in the Model Portfolios was Queros, for which SVS received no commission.

4.95. The additional 2% paid on investments in CFBL and the Ingard Property Bonds was also determined by reference to the amount of customer funds invested by SVS in the relevant product.

4.96. The commission paid to SVS by the fixed income product providers was used to pay the marketing fees to the introducer firms to incentivise them to steer new customers into the Model Portfolios.

4.97. The commission payments expressed as a percentage of the customer funds invested into the product, together with the trigger for payment (channelling investor funds into bond products) that arose after 3 January 2018 were accordingly in breach of COBS 2.3A.15R. The Authority has found no evidence to indicate that the commission payments SVS received were necessary for the services it provided.

4.98. Mr Hadjigeorgiou played a key role in relation to the investments in the Ingard Property Bonds, Angelfish and ICFL and was aware of the commission paid to SVS. As the holder of the firm's CF1 (Director) and CF3 (Chief Executive) functions, the Authority considers that Mr Hadjigeorgiou should have taken reasonable care to ensure that the firm remained compliant with the Authority's rules in relation to inducements.

4.99. SVS charged commission of 1.5% on all transactions, which was reduced to 0.75% in April 2019. Taking into account the IFA advice fee of up to 4% of the customer's investment, this meant that Model Portfolio customers lost up to 5.5% of their investment at the outset. As SVS also took up to 10% of its customer's funds for commission in respect of fixed income products, this increased the risk of product default, so the likelihood that Model Portfolio customers would get back what they paid in was reduced further.

5. FAILINGS

5.1. The statutory and regulatory provisions relevant to this Notice are referred to in Annex A.

5.2. Based on the facts and matters described above, and for the reasons set out below, the Authority considers that during the Relevant Period Mr Hadjigeorgiou breached Statement of Principle 1 and Statement of Principle 6.

Breach of Statement of Principle 1

5.3. Mr Hadjigeorgiou breached Statement of Principle 1 during the Relevant Period because he failed to act with integrity in carrying out his accountable functions.

5.4. Specifically, Mr Hadjigeorgiou was Chief Executive of SVS at a time when it decided to introduce a 10% mark-down to the valuation of fixed income disinvestments, at the expense of retail pension customers. The mark-down was introduced to generate more income for SVS, which was experiencing financial concerns.

5.5. Mr Hadjigeorgiou did not consider the mark-down to be the fairest method by which to charge customers disinvesting from the Model Portfolios, and he was aware of concerns raised by the Model Portfolio Team that the process was not fair to customers. Despite this, Mr Hadjigeorgiou acted recklessly by closing his mind to the risk that SVS customers would lose out financially, took no action to prevent the mark-down but instead assented to the decision. As a result of the mark-downs, SVS earned £359,800 in income at the expense of its customers.

5.6. As a result of the above failings, during the Relevant Period, Mr Hadjigeorgiou failed to act with integrity. He was reckless as to the risk to customers from the 10% mark-down, with the result that his actions directly led to SVS customers being adversely impacted whilst SVS benefitted financially.

Breach of Statement of Principle 6

5.7. Mr Hadjigeorgiou breached Statement of Principle 6 during the Relevant Period because he failed to exercise due skill, care and diligence in managing the business of SVS. Mr Hadjigeorgiou:

1) failed to take reasonable care to ensure that conflicts of interest were identified and managed appropriately:

a. Mr Hadjigeorgiou was fully aware of the Angelfish Conflict but failed to take reasonable care to ensure that it was managed appropriately. He was aware that Mr Flitcroft only resigned from Angelfish on the same date that SVS invested in the second tranche of Angelfish preference shares in a move which Mr Hadjigeorgiou described as *'window dressing'*. Mr Hadjigeorgiou continued to engage with Mr Flitcroft in relation to a business opportunity involving SVS and Angelfish and failed to take any or sufficient action to escalate, mitigate or otherwise manage the ongoing conflict indicated by this continuing engagement;

b. Mr Hadjigeorgiou made the decision to treat the £750,000 commission income from ICFL as a loan. However, he failed to consider that this could lead to a conflict of interest and to escalate it to SVS's Compliance department, so that the conflict could be managed appropriately; and

c. Mr Hadjigeorgiou was central to the decision to invest in the ICFL Bond and took responsibility for the due diligence performed. He was aware of the Authority's concerns about the due diligence performed on the CFBL Bonds, but failed to take heed of these concerns when carrying out due diligence on the ICFL Bond. The Authority considers that the due diligence carried out was in essence a formality as SVS had already agreed to invest in the ICFL Bond and received £750,000 in commission before any due diligence was gathered. Furthermore, SVS only undertook more detailed due diligence in June 2019, after SVS had already invested in the ICFL Bond;

2) was central to the decision to invest in Ingard Property Bond 2 and to the due diligence carried out on it by SVS,. SVS assisted Ingard with getting Ingard Property Bond 2 listed on the Cypriot Stock Exchange. However, the close relationship between SVS and Ingard meant that the due diligence carried out was in essence a formality;

3) failed to take action to stop SVS from continuing to invest in CFBL Series 9, even though he was aware of the Authority's concerns about the concentration risk in relation to the CFBL Bonds, and despite SVS providing assurance to the Authority to reduce its concentration in the CFBL Bonds;

4) arranged for SVS to receive large amounts of commission from the fixed income product providers, which after 3 January 2018 should not have been accepted by SVS under COBS 2.3A.15R. These inducements put at risk SVS's independence and compromised its ability to act in the best interests of its customers. Mr Hadjigeorgiou therefore failed to take reasonable care to ensure that the firm remained compliant with the Authority's rules in relation to inducements; and

5) failed to take reasonable steps to ensure that SVS properly communicated the decision to introduce a 10% mark-down to the valuation of fixed income disinvestments to customers or their financial advisers. Customers therefore took disinvestment decisions without understanding the financial implications of disinvesting their funds and lost pension savings as a result.

5.8. As a result of the above failings, during the Relevant Period, Mr Hadjigeorgiou failed to exercise due skill, care and diligence in managing the business of SVS, with the result that SVS's customers were adversely impacted whilst SVS benefitted financially.

Fit and Proper test for Approved Persons

5.9. The Authority and consumers rely on senior management function holders to ensure that authorised firms are properly managed and comply with the requirements of the regulatory regime. Mr Hadjigeorgiou's failings were not confined to a single area but occurred across a business for which, as CF1 Director and later CF3 Chief Executive, he was responsible: Mr Hadjigeorgiou took no action to prevent SVS treating customers unfairly with the introduction of the disinvestment mark-down—with the result that customers disinvesting from the Model Portfolio suffered financial detriment; failed to identify and manage conflicts of interest; failed to take reasonable care to ensure that SVS complied with rules governing the payment of inducements; and failed to take reasonable care to ensure that SVS conducted adequate due diligence on investments into the Model Portfolios.

5.10. By reason of the facts and matters described above, the Authority considers that Mr Hadjigeorgiou's conduct demonstrates a serious lack of integrity, competence and capability such that he is not a fit and proper person to perform any senior management function or significant influence function in relation to regulated activities carried on at any authorised person, exempt person or exempt professional firm.

6. SANCTION

Financial penalty

6.1. The Authority's policy for imposing a financial penalty is set out in Chapter 6 of DEPP. The Authority applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5B sets out the details of the five-step framework that applies in respect of financial penalties imposed on individuals in non-market abuse cases.

Step 1: disgorgement

6.2. Pursuant to DEPP 6.5B.1G, at Step 1 the Authority seeks to deprive an individual of the financial benefit derived directly from the breach where it is practicable to quantify this.

6.3. The Authority has not identified any financial benefit that Mr Hadjigeorgiou derived directly from the breach.

6.4. Step 1 is therefore £0.

Step 2: the seriousness of the breach

6.5. Pursuant to DEPP 6.5B.2G, at Step 2 the Authority determines a figure that reflects the seriousness of the breach. That figure is based on a percentage of the individual's relevant income. The individual's relevant income is the gross amount of all benefits received by the individual from the employment in connection with which the breach occurred, and for the period of the breach.

6.6. The period of Mr Hadjigeorgiou's breaches of Statements of Principle 1 and 6 was from 3 January 2018 to 2 August 2019. Mr Hadjigeorgiou has provided the Authority with details of his relevant income from his employment at SVS. The Authority considers Mr Hadjigeorgiou's relevant income for this period to be £282,243.

6.7. In deciding on the percentage of the relevant income that forms the basis of the Step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 40%. This range is divided into five fixed levels which represent, on a sliding scale, the seriousness of the breach; the more serious the breach, the higher the level. For penalties imposed on individuals in non-market abuse cases there are the following five levels:

Level 1 – 0%

Level 2 – 10%

Level 3 – 20%

Level 4 – 30%

Level 5 – 40%

6.8. In assessing the seriousness level, the Authority takes into account various factors which reflect the impact and nature of the breach, and whether it was committed deliberately or recklessly.

6.9. DEPP 6.5B.2G(12) lists factors likely to be considered 'level 4 or 5 factors'. Of these, the Authority considers the following factors to be relevant:

1) the breaches caused a significant loss to individual consumers (DEPP 6.5B.2G (12)(a));

2) Mr Hadjigeorgiou failed to act with integrity (DEPP 6.5B.2G(12)(d);

3) as an experienced individual in a senior management position, Mr Hadjigeorgiou abused a position of trust and failed to put the customer at the heart of the decisions made, thus causing risk of loss to a large number of consumers (DEPP 6.5B.2G (12)(e)); and

4) the breach described in paragraphs 5.3 to 5.6 was committed recklessly (DEPP 6.5B.2G(12(g)).

6.10. DEPP 6.5B.2G(13) lists factors likely to be considered 'level 1 or 2 or 3' factors. Of these, the Authority considers the following factor to be relevant:

1) some of Mr Hadjigeorgiou's breaches were committed negligently.

6.11. Taking these factors into account, the Authority considers the seriousness of the breaches to be level 4 and so the Step 2 figure is 30% of £282,243.

6.12. Step 2 is therefore £84,673.

Step 3: mitigating and aggravating factors

6.13. Pursuant to DEPP 6.5B.3G, at Step 3 the Authority may increase or decrease the amount of the financial penalty arrived at after Step 2, but not including any amount to be disgorged as set out in Step 1, to take into account factors which aggravate or mitigate the breach.

6.14. The Authority has considered whether any of the mitigating or aggravating factors listed in DEPP 6.5B.3G, or any other such factors, apply in this case and has concluded that none applies to a material extent, such that the penalty ought to be increased or decreased.

6.15. Step 3 is therefore £84,673.

Step 4: adjustment for deterrence

6.16. Pursuant to DEPP 6.5B.4G, if the Authority considers the figure arrived at after Step 3 is insufficient to deter the individual who committed the breach, or others, from committing further or similar breaches, then the Authority may increase the penalty.

6.17. The Authority considers that the Step 3 figure of £84,673 represents a sufficient deterrent to Mr Hadjigeorgiou, and so has not increased the penalty at Step 4.

6.18. Step 4 is therefore £84,673.

Step 5: settlement discount

6.19. The Authority and Mr Hadjigeorgiou have not reached an agreement to settle and so no discount applies to the Step 4 figure. Pursuant to DEPP 6.5B.5G, if the Authority and the individual on whom a penalty is to be imposed agree the amount of the financial penalty and other terms, DEPP 6.7 provides that the amount of the financial penalty which might otherwise have been payable will be reduced to reflect the stage at which the Authority and the individual reached agreement. The settlement discount does not apply to the disgorgement of any benefit calculated at Step 1.

6.20. No settlement discount applies. Step 5 is therefore £84,673. In accordance with the Authority's usual practice this is to be rounded down to £84,600.

Penalty

6.21. The Authority has therefore decided to impose a total financial penalty of £84,600 on Mr Hadjigeorgiou for breaching Statements of Principle 1 and 6.

Prohibition Order

6.22. The Authority has the power to prohibit individuals under section 56 of the Act. The Authority has had regard to the guidance in Chapter 9 of the Enforcement Guide in considering whether Mr Hadjigeorgiou should be prohibited and the nature of any such prohibition. The relevant provisions of the Enforcement Guide are set out in Annex A to this Notice. In particular, the Authority has been mindful of the following factors:

a. whether the individual is fit and proper to perform functions in related to regulated activities;

b. whether, and to what extent, the approved person has failed to comply with the Statements of Principle issued by the Authority with respect to the conduct of approved persons;

c. the relevance and materiality of any matters indicating unfitness;

d. the particular controlled function the approved person was performing, the nature and activities of the firm concerned and the markets in which he operates; and

e. the severity of the risk which the individual poses to consumers and to confidence in the financial system.

6.23. Given the nature and seriousness of the failures set out above, Mr Hadjigeorgiou's conduct demonstrated a lack of integrity and competence such that he not a fit and proper person to perform any senior management function and any significant influence function in relation to any regulated activities carried on by any authorised or exempt person, or exempt professional firm. The Authority considers that, in the interests of consumer protection, and in order to maintain market confidence, it is appropriate and proportionate in all the circumstances to impose on Mr Hadjigeorgiou the Prohibition Order in the terms set out above.

7. REPRESENTATIONS

7.1 Annex B contains a brief summary of the key representations made by Mr Hadjigeorgiou, and by the third party, Mr Flitcroft, in response to the Warning

Notice and how they have been dealt with. In making the decision which gave rise to the obligation to give this Notice, the Authority has taken into account all of the representations made by Mr Hadjigeorgiou and by the third party, Mr Flitcroft, whether or not set out in Annex B.

8. PROCEDURAL MATTERS

8.1. This Notice is given to Mr Hadjigeorgiou under section 57 and 67 and in accordance with section 388 of the Act.

8.2. The following statutory rights are important.

Decision maker

8.3. The decision which gave rise to the obligation to give this Notice was made by the RDC. The RDC is a committee of the Authority which takes certain decisions on behalf of the Authority. The members of the RDC are separate to the Authority staff involved in conducting investigations and recommending action against firms and individuals. Further information about the RDC can be found on the Authority's website:

https://www.fca.org.uk/about/committees/regulatory-decisions-committee-rdc

The Tribunal

8.4. Mr Hadjigeorgiou has the right to refer the matter to which this Notice relates to the Tribunal. Under paragraph 2(2) of Schedule 3 of the Tribunal Procedure (Upper Tribunal) Rules 2008, Mr Hadjigeorgiou has 28 days from the date on which this Notice is given to him to refer the matter to the Tribunal. A reference to the Tribunal is made by way of a signed reference notice (Form FTC3) filed with a copy of this Notice. The Tribunal's contact details are: Upper Tribunal, Tax and Chancery Chamber, Fifth Floor, Rolls Building, Fetter Lane, London EC4A 1NL (tel: 020 7612 9730; email: fs@hmcts.gsi.gov.uk).

8.5. Further information on the Tribunal, including guidance and the relevant forms to complete, can be found on the HM Courts and Tribunal Service website:

http://www.justice.gov.uk/forms/hmcts/tax-and-chancery-upper-tribunal

8.6. A copy of Form FTC3 must also be sent to the Authority at the same time as filing a reference with the Tribunal. A copy should be sent to Mark Lewis at the Financial Conduct Authority, 12 Endeavour Square, London E20 1JN.

8.7. Once any such referral is determined by the Tribunal and subject to that determination, or if the matter has not been referred to the Tribunal, the Authority will issue a final notice about the implementation of that decision.

Access to evidence

8.8. Section 394 of the Act applies to this Notice.

8.9. The person to whom this Notice is given has the right to access:

1) the material upon which the Authority has relied in deciding to give this Notice; and

2) the secondary material which, in the opinion of the Authority, might undermine that decision.

Third party rights

8.10. A copy of this Notice is being given to each of Stuart Anderson, David Ewing and Andrew Flitcroft as third parties identified in the reasons above and to whom in the opinion of the Authority the matter to which those reasons relate is prejudicial. Each of those parties has similar rights to those mentioned in paragraphs 8.4 and 8.9 above, in relation to the matter which identifies him.

Confidentiality and publicity

8.11. This Notice may contain confidential information and should not be disclosed to a third party (except for the purpose of obtaining advice on its contents). In accordance with section 391 of the Act, a person to whom this Notice is given or copied may not publish the Notice or any details concerning it unless the Authority has published the Notice or those details.

8.12. However, the Authority must publish such information about the matter to which a Decision Notice or Final Notice relates as it considers appropriate. The persons to whom this Notice is given or copied should therefore be aware that the facts and matters contained in this Notice may be made public.

Authority contacts

8.13. For more information concerning this matter generally, contact Mark Lewis at the Authority (direct line: 020 7066 8442 / email: mark.lewis2@fca.org.uk).

Tim Parkes
Chairman, Regulatory Decisions Committee

ANNEX A

RELEVANT STATUTORY AND REGULATORY PROVISIONS

1. RELEVANT STATUTORY PROVISIONS

1.1. The Authority's statutory objectives, set out in section 1B(3) of the Act, include the operational objective of securing an appropriate degree of protection for consumers (section 1C).

1.2. Section 66 of the Act provides that the Authority may take action against a person if it appears to the Authority that he is guilty of misconduct and the Authority is satisfied that it is appropriate in all the circumstances to take action against him. A person is guilty of misconduct if, while an approved person, he has failed to comply with a statement of principle issued under section 64A of the Act, or has been knowingly concerned in a contravention by a relevant authorised person of a relevant requirement imposed on that authorised person.

1.3. Section 56 of the Act provides that the Authority may make an order prohibiting an individual from performing a specified function, any function falling within a specified description or any function, if it appears to the Authority that that individual is not a fit and proper person to perform functions in relation to a regulated activity carried on by an authorised person, exempt person or a person to whom , as a result of Part 20, the general prohibition does not apply in relation to that activity. Such an order may relate to a specified regulated activity, any regulated activity falling within a specified description, or all regulated activities.

2. RELEVANT REGULATORY PROVISIONS

Statements of Principle and Code of Practice for Approved Persons

2.1. The Authority's Statements of Principle and Code of Practice for Approved Persons ("APER") have been issued under section 64A of the Act.

2.2. During the Relevant Period, Statement of Principle 1 stated:

"An approved person must act with integrity in carrying out his accountable functions."

2.3. During the Relevant Period, Statement of Principle 6 stated:

"An approved person performing an accountable higher management function must exercise due skill, care and diligence in managing the business of the firm for which they are responsible in their accountable function."

2.4. 'Accountable functions' include controlled functions and any other functions performed by an approved person in relation to the carrying on of a regulated activity by the authorised person to which the approval relates.

2.5. APER sets out descriptions of conduct which, in the opinion of the Authority, do not comply with a Statement of Principle. It also sets out factors which, in the Authority's opinion, are to be taken into account in determining whether an approved person's conduct complies with a Statement of Principle.

The Fit and Proper Test for Approved Persons

2.6. The part of the Authority's Handbook entitled *"The Fit and Proper Test for Approved Persons"* ("FIT") sets out the criteria that the Authority will consider when assessing the fitness and propriety of a candidate for a controlled function. FIT is also relevant in assessing the continuing fitness and propriety of an approved person.

2.7. FIT 1.3.1G states that the Authority will have regard to a number of factors when assessing the fitness and propriety of a person. The most important considerations will be the person's honesty, integrity and reputation, competence and capability and financial soundness.

The Authority's policy for exercising its power to make a prohibition order

2.8. The Authority's policy in relation to prohibition orders is set out in Chapter 9 of the Enforcement Guide ("EG").

2.9. EG 9.1 states that the Authority may exercise this power where it considers that, to achieve any of its regulatory objectives, it is appropriate either to prevent an individual from performing any functions in relation to regulated activities or to restrict the functions which he may perform.

Conduct of Business Sourcebook

2.10. The Authority's rules and guidance for Conduct of Business are set out in COBS. The rules in COBS relevant to this Notice are 2.3A.15 and 11.2A.31R.

Senior Management Arrangements, Systems and Controls Sourcebook

2.11. The Authority's rules and guidance for senior management arrangements, systems and controls are set out in SYSC. The rules in SYSC relevant to this notice are 10.1.3R, 10.1.4R, 10.1.6R, 10.1.7R, 10.1.8R.

Product Intervention and Product Governance Sourcebook

2.12. The Authority's rules and guidance for Product Intervention and Product Governance are set out in PROD. The rules and guidance in PROD relevant to this notice are 3.3.1R and 3.3.3R.

Decision Procedure and Penalties Manual

2.13. Chapter 6 of DEPP sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act.

ANNEX B

Demetrios Hadjigeorgiou's Representations

1. A summary of the key representations made by Mr Hadjigeorgiou, and of the Authority's conclusions in respect of them (in bold type), is set out below.

Reality of roles and responsibilities

2. Mr Hadjigeorgiou was SVS's Finance Director and CF1 (Director) from 4 January 2017 and became the CF3 (Chief Executive) on 1 May 2018. As Finance Director, Mr Hadjigeorgiou did not have a formal role in relation to Model Portfolio investment decision-making, and the job specification for his Finance Director role identified his role as relating to accounting matters and a secondary role as Company Secretary. Mr Hadjigeorgiou's responsibilities as Finance Director were to provide high-level and strategic advice to SVS's finance department and to assist in the response to two of the Authority's skilled person's requirements ongoing at the time. Mr Hadjigeorgiou had little focus on the Model Portfolios for the first 6-9 months of his employment with SVS and his responsibilities related to the firm's finances, not to its day-to-day operations, policies and procedures.

3. Mr Hadjigeorgiou's responsibilities as Finance Director were clearly scoped and did not extend to the Model Portfolio business, which was the responsibility of others at SVS. Mr Hadjigeorgiou did not assume any responsibility for the Model Portfolios whilst acting as Finance Director. Accordingly, Mr Hadjigeorgiou should not be held responsible, whilst holding the position of Finance Director, for any alleged failures in relation to investments into CFBL Bonds between January 2018 and May 2018.

4. Whilst it is accepted that, as Chief Executive, Mr Hadjigeorgiou took on broader responsibility for, amongst other matters, oversight of the firm's compliance with the Authority's rules, he reasonably relied on the support of SVS's Head of Compliance, Mr Stephen, as well as other senior management members responsible for making investment decisions into the Model Portfolios. Compliance was central to decision-making within SVS, it was involved in key decisions, and was a strong function which could not be ignored or bypassed. Mr Hadjigeorgiou relied on the Compliance function to ensure that the steps he took were considered and reasonable in all the circumstances.

5. **The Authority has taken into account Mr Hadjigeorgiou's formal job specification, together with his changing role and responsibilities (initially as Finance Director before becoming Chief Executive on 1 May 2018), in assessing the standard of his conduct.**

6. **Reliance on others at SVS, including the Compliance function, does not mean that Mr Hadjigeorgiou is able to avoid his responsibilities as a member of SVS's Board and (from 1 May 2018) as Chief Executive. He was, as a CF1 and CF3, responsible for SVS's business as a whole, even where issues had been delegated to others. As the Tribunal stated in *Burns v Financial Conduct Authority*[1], whilst a board can: "*vest prime responsibility for matters such as compliance in one of their number who is more expert than the others on***

[1] Burns v Financial Conduct Authority [2018] UKUT 0246 (TCC) at paragraph 285.

***such matters… it does not absolve the other members of the board from obtaining a sufficient understanding of the business of the firm which they are ultimately responsible for managing, the key issues that are likely to arise out of its business model, and the manner in which they are being addressed"*. Such responsibility for the business as a whole is referred to in the Authority's guidance on conduct likely to breach Statement of Principle 6[2].**

7. **Whilst he was Finance Director, Mr Hadjigeorgiou had specific involvement in and responsibilities with respect to the Model Portfolio business: he attended Investment Committee meetings from February 2017, when it was that committee, under the supervision of the Board, which was formally responsible for Model Portfolio investment decisions. This is illustrated by the resolution of the Board (made at a meeting of which he was the Chair) on 14 March 2018, that further investment could be made into CFBL. For the reasons set out in the section below on Concentration Risk (see paragraphs 60 to 68) the Authority considers that Mr Hadjigeorgiou, whilst he was Finance Director and before he became Chief Executive, took responsibility for that decision.**

8. **Similarly, the Authority also considers that, for the reasons set out in the section on Commissions/inducements below (see paragraphs 74 to 77), Mr Hadjigeorgiou was responsible for SVS's failure to take reasonable steps to ensure that SVS was compliant with the Authority's rules on inducements, and more specifically COBS 2.3A.15R.**

Decision to introduce a mark-down on fixed income disinvestments

9. Mr Hadjigeorgiou recalls that there had been discussion for some time about whether to introduce a fee in circumstances where a customer wished to exit the Model Portfolios. Mr Hadjigeorgiou initially favoured a tapering approach whereby customers who had been invested for some time paid less or nothing, compared with those who had been invested for a shorter time. Mr Hadjigeorgiou took advice from Mr Stephen who advised him on whether introducing the disinvestment spread was the right thing to do.

10. The spread has been mischaracterised as a "mark-down'' ignoring standard market practice across asset classes to operate on a best execution spread basis for fixed income, collective investments, main market shares and AIM shares. It was entirely reasonable for SVS to apply an investment spread. The value of the disinvestment spread was calculated on a best-efforts basis by comparison to the bid/offer spread which would likely be applied, if the customer sold their investment into the open market or requested an early redemption from the fixed income product provider. The figure of 10% for the disinvestment spread reflected Mr Stephen's view of a spread achievable on a best execution basis in circumstances whereby SVS took the disinvested product onto its own principal trading book. Without the 10% disinvestment spread, SVS's customers who were seeking to exit their investment in the Model Portfolios early would otherwise have had a limited number of choices, and

[2] See APER 4.6.3G to APER 4.6.10G

would likely have incurred a substantial bid/offer spread of more than 10% on the investment due to the relative illiquidity of the investments.

11. The Authority has failed to investigate what happened when customers disinvested from the Model Portfolios. It has not reconciled its case on the spread applied to fixed income assets disinvested against the actual flow of funds onto SVS's principal book. Mr Hadjigeorgiou considers that adverse findings to him should not be made based on inferences and assumptions in circumstances "*where due to the deficiencies in the investigation, the documentary picture is likely to be incomplete*"[3].

12. The responsibility for communicating the 10% disinvestment spread fell to others, and not Mr Hadjigeorgiou, as they were the individuals responsible for the daily operation of the Model Portfolios and held the relationships with the IFAs. Mr Hadjigeorgiou's regulatory obligation to take reasonable steps to ensure that customers were informed of the disinvestment spread was discharged by delegating responsibility for the daily running of the Model Portfolios to other senior colleagues at SVS. Mr Hadjigeorgiou was unaware whether customers were informed of the disinvestment arrangements, as he was not responsible for the daily operations of the Model Portfolios, whilst he was Chief Executive. His understanding was that customers received a more advantageous spread than they would have obtained, had they sold their assets on the open market. Even if the Authority concluded that Mr Hadjigeorgiou was aware of the risk of loss to customers (which is disputed by Mr Hadjigeorgiou), he acted reasonably because he relied on the expertise of SVS's Head of Compliance and other members of the SVS Board.

13. Mr Hadjigeorgiou considered that it was not within his role as Chief Executive to overrule those with higher levels of expertise in particular areas such as Mr Stephen, who had advised that the disinvestment arrangements were in the best interests of SVS's customers. Mr Hadjigeorgiou therefore assented to the introduction of what he considered in all the circumstances to be an acceptable fixed percentage disinvestment spread to be applied on a customer's investment.

14. Mr Hadjigeorgiou did not close his mind to the risks associated with the change to the disinvestment policy, but instead thought carefully about the matter and relied upon the advice of SVS's Head of Compliance. Mr Hadjigeorgiou was not reckless as to the risk to customers, as the disinvestment spread represented a discount on the customers' investment which was the same or smaller than the spread which would have been applied on the sale of the customer's investment into the market or to the fixed income provider.

15. In addition, Mr Hadjigeorgiou took reasonable steps to satisfy himself that the approach taken to disinvestments was compliant with applicable regulations by relying on the views of Mr Stephen, SVS's Head of Compliance and, so far as ensuring that customers were informed of the disinvestment charges, by relying on Mr Stephen and those to whom he had delegated the daily operation of the Model Portfolios. In addition, SVS's IT systems were undergoing a significant overhaul at the time and there was limited capability to establish a simple disinvestment process.

[3] Seiler and others v Financial Conduct Authority [2023] UKUT 00133 (TCC) at paragraph 67.

16. **If SVS's clients held their interest in their fixed income investments until maturity, they could have expected to receive back 100% of the price which they had paid for that interest, unless the bond issuer had become insolvent in the meantime. Whilst the fixed income investments were being held, clients were also entitled to their share of the regular coupon payments which were made by the product issuers. Furthermore, during that period SVS accounted to clients for the value of the fixed income investments at par (i.e. 100% of their issue price). At some point prior to 2 November 2018, it was suggested within SVS that clients who sought to disinvest should no longer receive the full value of the fraction of the fixed income investments currently attributed to them. The approach taken by SVS was for it, as principal, to acquire such investments from the disinvesting clients at 90% of their par value and then allocate them to other clients invested in the Model Portfolios at 100%. The person who conducted the trades in question for SVS stated to Mr Stephen and others on 5 December 2018 that: "*The models will purchase via CROSS from disinvesting clients at MID [mid-market price]. The client will be charged the flat 10% thereafter as a contract charge. This has the net effect of the firm making the 10% cut on price*".**

17. **The fixed income investments within the Model Portfolios were from different bond programmes, each of which had different maturity dates, and preference share issues. Accordingly, there was no single maturity date for the Model Portfolios, at which a disinvestment mark-down could be avoided. Although investors were informed that the fixed income investments should be held for five years, they were entitled to realise their investments at any time in accordance with SVS's Model Portfolio terms and conditions of business. Since the majority of the £69.6 million invested in the Model Portfolios represented money invested on behalf of SVS's clients for the purpose of funding their pensions, the Authority considers that Mr Hadjigeorgiou must have known that certain of those clients were likely to wish to realise their investments for retirement, by disinvesting, before some or all of those maturity dates. This meant that, sooner or later, certain of the investors would incur the 10% disinvestment mark-down. In practice, the revenue which accrued to SVS from the 10% mark-down totalled £359,800.**

18. **Prior to the adoption by SVS of the mark-down, SVS had itself made a market for the fixed income products by routinely using the Model Portfolios to purchase them from disinvesting clients at par value (100%). Accordingly, the investments could have been purchased by SVS's Model Portfolios at par, as had previously been the case.**

19. **Mr Hadjigeorgiou informed the Authority that he saw a decreasing exit fee as "*fairer*" than the mark-down. Mr Hadjigeorgiou clearly recognised that the mark-down amounted to a charge to customers and, notwithstanding his reservations, appears to have been willing as Chief Executive to go along with what Mr Virk and Mr Stephen were saying should happen.**

20. **The Authority has not seen any evidence that SVS was holding the disinvested investments on its principal book at all. The Authority concludes**

that, in reality, there was no market risk for SVS and that the 10% mark-down was not a "best execution" market spread; it simply constituted a profit for SVS. As such, the disinvestment mark-down was contrary to investors' best interests. Further, that profit was not fairly disclosed to clients at the appropriate time, so clients lost the opportunity of deciding not to invest at all or subsequently not to disinvest on those terms. The Authority concludes that SVS (and Mr Hadjigeorgiou) saw an opportunity to make a profit of 10% from disinvesting clients, without fairly disclosing it, and took that opportunity.

21. **Mr Hadjigeorgiou has sought to avoid responsibility by asserting that he followed Mr Stephen's advice, and that deference to Mr Stephen was reasonable in the circumstances. Whilst the Authority considers that Mr Stephen was part of the decision to impose the disinvestment mark-down, this does not absolve Mr Hadjigeorgiou of his responsibility in circumstances where Mr Hadjigeorgiou knew that the mark-down was not truly "a spread"; he was aware of concerns raised by the Model Portfolio Team that the process was not fair to consumers and that it was so obviously to the detriment of investors and for the enrichment of SVS. Mr Hadjigeorgiou was Chief Executive at the time; he failed to ensure that SVS followed a principled approach and instead assented to the proposal for SVS to introduce the mark-down.**

22. **Accordingly, the Authority considers that Mr Hadjigeorgiou acted recklessly by closing his mind to the risk, namely that customers would suffer financially, and by failing to take action to prevent the mark-down.**

23. **In addition, the Authority considers that Mr Hadjigeorgiou did not need to be in day-to-day contact with IFAs or the Model Portfolios to know that the introduction of the new 10% mark-down would have been inconsistent with what investors had previously agreed to. Mr Hadjigeorgiou failed to take reasonable steps to check that clients were informed of the disinvestment mark-down at the appropriate time.**

Conflicts of Interest and due diligence

Angelfish Conflict

24. In March 2014, Mr Virk and Mr Flitcroft had considered whether the potential Angelfish Conflict needed to be disclosed, following which Mr Flitcroft prepared that disclosure, and Angelfish changed its corporate advisers to ensure that there was no conflict of interest. The disclosure was contained in an investor presentation and information memorandum for the issue of preference shares by Angelfish.

25. The Angelfish Conflict arose prior to Mr Hadjigeorgiou joining SVS, it concerned a long-standing director of SVS who was in-role when Mr Hadjigeorgiou joined the firm, and Mr Hadjigeorgiou had been assured that the conflict had been managed. Mr Hadjigeorgiou was entitled to rely on Mr Stephen's advice that SVS was managing the Angelfish Conflict and that it was not required to disclose it expressly at that time. The fact of the conflict was widely known and for Mr Hadjigeorgiou to make a separate, express disclosure would have served no further purpose. Mr Hadjigeorgiou notes that

the skilled person, appointed in August 2016, to consider the firm's systems and controls in relation to financial crime and corporate governance, had considered conflicts of interest and found that SVS's systems and controls were adequate, subject to limited remediations. Mr Hadjigeorgiou was reasonably entitled to rely on the output of that review as having been managed by SVS's Compliance team.

26. When he became Chief Executive, Mr Hadjigeorgiou's understanding was that the Angelfish Conflict was known to, and continued to be appropriately managed by, SVS's Compliance team. Mr Hadjigeorgiou does not recall Mr Flitcroft exercising any influence over decisions made by SVS in respect of the investments made by the Model Portfolios.

27. By the time SVS had invested in the second tranche of Angelfish preference shares, Mr Flitcroft had resigned as a director of Angelfish, and SVS had conducted due diligence (as overseen by Mr Hadjigeorgiou) into the second tranche of shares. At the time of (and following) Mr Flitcroft's resignation, SVS continued to manage the Angelfish Conflict appropriately. Dealings with Angelfish continued to be conducted at commercial arm's length. The Angelfish Conflict was also disclosed in the annual investment report which Mr Hadjigeorgiou was aware of, and Mr Hadjigeorgiou was entitled to consider that SVS's interactions with the Authority showed that Mr Stephen was aware of the Angelfish Conflict, that it was being managed, Mr Stephen was open with the Authority about the conflict and its management, and the Authority was satisfied that the conflict was appropriately managed, as evidenced by the late disclosure of the Authority's internal review in September 2017.

28. Mr Hadjigeorgiou does not consider that the use of the words "*window dressing"* reflects his view of the way in which the Angelfish Conflict was managed which was that it was being managed appropriately throughout.

29. **The Angelfish Conflict arose from Mr Flitcroft's dual role as director of both SVS and Angelfish, and the Authority criticises Mr Hadjigeorgiou with respect to the October 2018 investment, when he was Chief Executive.**

30. **The skilled person did not give a clean bill of health about the conflicts of interest approach of SVS and made recommendations for implementation and for the firm to "*undertake further steps to ensure that conflicts of interest are being managed holistically*". SVS appeared to respond by saying in around February/March 2017 "*Conflict disclosure now forms part of all Investment decision and recorded by relevant business area. This will also be reported to Compliance as standard & reported in relevant Board reports".* This did not mean that Mr Hadjigeorgiou could ignore conflicts in future, as long as some disclosure had been made. Whilst the Authority's correspondence with SVS after September 2017 did not focus on conflicts of interest, neither SVS nor Mr Hadjigeorgiou should have assumed that conflicts were being managed properly within the firm, because the Authority had indicated it had no further queries at that time. The Authority's internal findings in September 2017, which were not made available to SVS until they were disclosed for the purpose of these proceedings, were based solely on the information provided to it by SVS prior to September 2017.**

31. **Mr Flitcroft approached Mr Hadjigeorgiou on 25 July 2018 whilst still a director of Angelfish and they discussed a further investment on the premise that Mr Flitcroft would resign but stay on at Angelfish as a consultant. The Authority considers that Mr Flitcroft's resignation as a director of Angelfish on 17 October 2018 at or shortly before the Angelfish board meeting held that day to approve the issue of 2.35 million preference shares was intended to give the impression that there was no conflict with respect to the investment decision. Mr Hadjigeorgiou undertook the due diligence on the investment and approved it, whilst Mr Flitcroft was still a director. Further, six days after Mr Flitcroft's resignation, but whilst he was a consultant to Angelfish, Mr Hadjigeorgiou emailed a SIPP provider (who had previously raised the conflict as a problem) to inform it that "*th[is] investment [is] no longer "connected" to SVS … Andrew Flitcroft …has recently resigned as a director of Angelfish investments*". This gave the impression that the conflict had been resolved when it had not. Mr Flitcroft's ongoing relationship, as a consultant, remained a conflict.**

32. **The Authority considers that Mr Hadjigeorgiou's use of the phrase "*window dressing"* in interview with the Authority is pertinent, notwithstanding he has sought to subsequently downplay its significance. It is a natural inference for the Authority to draw that Mr Hadjigeorgiou thought that the purpose of Mr Flitcroft's resignation from Angelfish was to give the impression that he was no longer involved with both Angelfish and SVS, and accordingly this did not resolve the Angelfish Conflict, as he continued to work for and be remunerated by both SVS and Angelfish.**

33. **Accordingly, the Authority considers that Mr Hadjigeorgiou failed to take reasonable steps to ensure that the Angelfish Conflict was managed appropriately.**

ICFL Bond

34. The Authority is seeking to hold SVS (and Mr Hadjigeorgiou) to a standard that is not justifiable based on the regulations as they applied at the time. The Authority's contention, that SVS was unaware of the underlying loan recipients of the ICFL Bond, misunderstands the nature of the product. At the point at which one invests in a fixed income product, whose issuer will use the proceeds to make loans, no loans will have yet been made. Accordingly, understanding the exact loan profile is not possible at the outset of the investment, nor is it necessary to meet the relevant product governance requirements set out in PROD 3[4] (or RPPD[5] before 3 January 2018).

35. After 3 January 2018, SVS went beyond what was required by PROD. It was not SVS's role, and would in any event have been impractical, to expect it to have monitored the underlying loan recipients within this bond on a regular basis. It would require SVS to second-guess the issuer's decision-making, having undertaken due diligence on the issuer, including its decision-making process. Regardless of Mr Hadjigeorgiou's

[4] On or after 3 January 2018.
[5] Before 3 January 2018: The Responsibilities of Providers and Distributors for the Fair Treatment of Customers https://www.handbook.fca.org.uk/handbook/document/RPPD_FCA_20130401.pdf

own role and the reasonable steps he took, SVS was compliant with applicable regulations/guidance during the Relevant Period.

36. After becoming SVS's Chief Executive in May 2018, Mr Hadjigeorgiou took positive steps to introduce improved due diligence practices into the investment process beyond what had been undertaken for previous fixed income products which had been invested in under the limited requirements of the RPPD regulatory regime.

37. Mr Hadjigeorgiou understood that the payment of £750,000 by ICFL to SVS was to be treated as a loan, and SVS's finance team treated it accordingly in its accounting records. Commission could not be paid on a bond that had not yet been created, and if the conditions in the memorandum of understanding between SVS and ICFL dated 1 November 2018 ("the ICFL MoU") were not satisfied, the money would be returned. SVS would therefore have returned the funds to ICFL, if the investment did not progress, as was expressly stipulated in the ICFL MoU.

38. SVS was not bound to invest in the ICFL Bond from 1 November 2018 (before the Authority alleges that due diligence was carried out). The ICFL MoU was not an unconditional commitment to invest in the ICFL Bond, but rather contained a number of conditions, the failure of which would entitle SVS to decline to invest. Day-to-day oversight of investments into the Model Portfolios was not Mr Hadjigeorgiou's responsibility.

39. When considering an investment in the ICFL Bond, Mr Hadjigeorgiou took reasonable steps to ensure that adequate due diligence was undertaken by SVS. This included Mr Hadjigeorgiou attending a meeting with ICFL's director when the data required for due diligence was discussed, together with ongoing monitoring of the investment. ICFL submitted due diligence documents to SVS's Model Portfolio team on 29 January 2019, which included, amongst other documents, a completed SVS due diligence questionnaire, AML documentation, Listing Particulars and Irish Stock Exchange approval confirmation. In February 2019, SVS insisted that further due diligence was required. In the February 2019 Investment Committee meeting, Mr Hadjigeorgiou outlined the analysis that had gone behind the decision to invest in ICFL. As part of the due diligence process, Mr Hadjigeorgiou identified and raised the similarities between the ICFL Bonds and the CFBL Bonds and Mr Hadjigeorgiou took reasonable steps to satisfy himself that this was not another *"Stuart Anderson vehicle"* and that the investments and loan recipients were fundamentally different. Compliance also reviewed the due diligence undertaken on the ICFL Bond.

40. Accordingly, Mr Hadjigeorgiou took reasonable steps to ensure that due diligence was undertaken appropriately.

41. **The Authority has not asserted a higher standard than that required of SVS at the time; it has assessed Mr Hadjigeorgiou's (and SVS's) conduct by the applicable standards at the time. The opening statement in the RPPD, at paragraph 1.1, sets out an important caveat for providers and distributors to consider the relevant standards to adhere to[6]: it was not, and did not seek to**

[6] Paragraph 1.1 states as follows: In this Regulatory Guide ("Guide") we give our view on what the combination of Principles for Businesses ("the Principles") and detailed rules require respectively of providers and distributors in certain circumstances to treat customers fairly. However, it is not, and does not seek to be, a complete

be, a complete exposition of all of a provider's or distributor's responsibilities to the customer or to each other.

42. **With respect to due diligence, the Authority considers that SVS should have gained a proper understanding of the loans that were intended to be made, and the criteria to be applied by the issuer, and should have continued to monitor the position during the life of the investment. SVS should have kept its assessment of the investments under constant review and should have understood the status of the loan book. SVS did not do this. The Authority does not suggest that SVS should have "second-guessed" the issuer's lending decisions; however, it should have been a relatively straightforward matter for SVS to have made its own assessment, checked the credit rating of those to whom loans were made, and then to check for downgrades during the life of the bonds. This was not done. This assessment and monitoring would not have been impractical for SVS to have undertaken and, accordingly, these reasonable steps were not taken.**

43. **Mr Hadjigeorgiou was involved in the decision to invest in the ICFL Bond. He took responsibility for the due diligence undertaken, despite being aware of the Authority's concerns about the due diligence previously performed on the CFBL Bonds, and failed to apply lessons learned to an investment in the ICFL Bond. Actions taken by SVS, namely Mr Virk's agreement to the ICFL MoU, reviewed and endorsed by Mr Hadjigeorgiou, together with acceptance of the £750,000 advance commission (of which Mr Hadjigeorgiou was aware), effectively committed it to investing customer funds into the ICFL Bond, before Mr Hadjigeorgiou, the Model Portfolio Employee or anyone else had the opportunity to undertake proper due diligence. This meant that the due diligence was, in essence, a formality.**

44. **The Model Portfolio Employee stated in an email to ICFL, on 7 February 2019, that enhanced due diligence would be necessary. ICFL queried this request 36 minutes later as follows: "*…this is the first time [enhanced due diligence] has been mentioned… and … why this has only been raised now as when we entered into the process a Memorandum of Understanding was signed between our two companies which explicitly pledges a minimum investment of £10million to be invested immediately upon the bond receiving a rating of BBB+ or higher.*" The Model Portfolio Employee responded that he knew of no such Memorandum of Understanding and would refer to the directors. He then sought instructions noting SVS's commitment to the bond and asking how the Board would like to proceed. The Authority notes that the Model Portfolio Employee did not show surprise that a commitment had already been made for SVS to make a significant investment in ICFL without him being informed of such commitment.**

45. **At the subsequent due diligence meeting between SVS and ICFL both parties were fully aware that, if the investment did not go ahead, SVS would need to repay the commission advance. The Authority considers: (1) that it is not credible that SVS, having received an advance commission of £750,000 from**

exposition of all of a provider's or a distributor's responsibilities to the customer or to each other; nor does it alter, replace or substitute applicable Principles, rules, guidance or law, such as those relating to unfair contract terms.

ICFL (at a time when SVS was experiencing issues with its liquidity and cashflow), would have backed out of the commitment that had already been made to invest; and (2) that this awareness influenced the due diligence which was performed.

46. **Mr Hadjigeorgiou arranged for the advance commission to be treated as a loan (which was not what the ICFL MoU stated) for accounting purposes. Receiving a £750,000 loan from a bond provider (particularly considering that the firm was experiencing liquidity and cashflow issues at the time) amounted to an obvious conflict of interest which should have been identified and escalated to Compliance, so it could have been managed appropriately. This conflict of interest was not identified and managed prior to the decision being formally made by Investment Committee on 19 February 2019 (which included Mr Hadjigeorgiou) for SVS to invest in the ICFL Bond. In the circumstances, the Authority has concluded that Mr Hadjigeorgiou failed to take reasonable steps to ensure that this conflict of interest was identified and managed appropriately.**

Ingard Property Bond 2

47. Ingard first engaged with SVS in relation to Ingard Property Bond 2 in or around the end of June 2018. SVS undertook due diligence to understand the bond and to ensure that it was appropriately structured and insured in order to protect investors. Due diligence work was undertaken by the Model Portfolio Employee and Mr Hadjigeorgiou during July 2018, and Mr Hadjigeorgiou reviewed various aspects of the Ingard loan book, including the actual and forecasted financials, KPIs, its loan to value ratios, loan spreads and exit strategies.

48. Having undertaken due diligence, the final email indicating SVS was prepared to invest in Ingard Property Bond 2 was sent on 2 August 2018; until that time, the tone of correspondence sent by SVS to Ingard indicated SVS's potential, and not unconditional, investment. This August 2018 email stated *"having completed our internal work, I am now in a position to advise that SVS are happy in principle to invest up to £4.25M into this company".* The wording makes it clear that investment was still subject to pre-conditions. Mr Hadjigeorgiou was not the key decision-maker on this decision to invest in Ingard Property Bond 2. This was the Model Portfolio Employee who also undertook the due diligence and provided it to Compliance for review. SVS's Compliance team then approved the investment.

49. Following further discussions between Ingard and SVS, in November 2018, SVS proposed to invest £2,200,000 but Ingard stated that it needed a minimum investment of £3,000,000 otherwise it would move to another investor which had offered funds. Agreement was reached for SVS to make an initial investment of £3,075,000, considerably less than the maximum amount that it had considered investing.

50. The due diligence and the investment were not just formalities because of the alleged close relationship between SVS and Ingard. This was a commercially negotiated arm's length transaction.

51. Mr Hadjigeorgiou did not fail to conduct due diligence in respect of the investment into Ingard Property Bond 2, nor was SVS's investment in the bond a foregone conclusion which rendered this due diligence a formality.

52. **Mr Ewing resigned from SVS on 30 April 2018**. **On 2 August 2018, (following a review by Mr Virk, Mr Stephen and the Model Portfolio Employee), Mr Hadjigeorgiou emailed Mr Ewing. The email stated as follows:**

"I refer to our recent meeting and discussions regarding Ingard Property Bond 2 DAC ("IPB2")

"Having completed our internal work, I am now in a position to advise that SVS are happy in principle to invest up to £4.25m into this company. We will formally undertake under separate cover to make this investment subject to the following conditions and commitments on your part:

• IPB2 is unconditionally admitted onto the CSE Corporate Bonds Market;

• IBP2 is granted a Indicative/provisional ARC rating of at least BBB- (based on Arc's Structured Finance Rating Methodology) or equivalent. We will also accept an equivalent rating from an alternative rating agency;

• IBP2 undertakes to obtain a full ARC rating (equivalent to that specified above) as and when this is possible, but in all events within 12 months of the grant of a provisional/indictive rating being issued;

• You commit to assisting us in providing liquidity to our Model Portfolios to the extent practical and possible;

• You agree to provide relevant MI and meet with us if necessary on a regular/quarterly basis.

The undertaking referred to above will stay in place until 30th September 2018.'

I trust that this is satisfactory for your present purposes but please do not hesitate to contact me if you wish to discuss any aspect of this".

53. **Mr Stephen subsequently stated, on 13 September 2018, that the bond rating was only necessary to comply with the requirement of a particular SIPP trustee.**

54. **This email makes it clear that the only conditions on SVS providing this funding were conditions relating to admission to a particular market; the provision of a rating; a commitment to providing liquidity; and agreement to providing management information. Although the exact amount of the investment was still under consideration on 2 August 2018, it cannot be said that this was merely a "potential investment". Notwithstanding Mr Hadjigeorgiou's assertion that he and the Model Portfolio Employee carried out due diligence in July 2018, there is no evidence to suggest that due diligence on the investment was conducted prior to the email of 2 August 2018. Accordingly, because the due diligence carried out on the Ingard**

Property Bond was in essence a formality, as SVS had already decided to invest, Mr Hadjigeorgiou failed to take reasonable steps to ensure that proper due diligence was carried out.

Concentration Risk

55. The Authority has asserted that Mr Hadjigeorgiou failed to take action to stop SVS from continuing to invest in CFBL Bonds, after SVS had provided an assurance to seek to reduce the concentration of the CFBL Bonds within the Model Portfolios. SVS responded on 1 February 2018 to emails from the Authority in November 2017 and January 2018 (these had outlined a series of concerns in relation to the CFBL Bonds including concentration risk arising from SVS's investment of Model Portfolio monies into the CFBL Bonds). The email response stated "*We accept that the SVS model portfolios have issuer concentration risk to CFBL. Notwithstanding our further comments we will look to reduce the concentration risk of this issuer within the Model Portfolios".*

56. The Authority has not provided evidence of Mr Hadjigeorgiou's role in approving further investments in CFBL or overseeing the reduction in its concentration.

57. "*Looking to reduce*" is not the same as affirming that there will be a reduction in the concentration of this issuer in the Model Portfolios. In any event, SVS did reduce the concentration of CFBL Bonds held in the Model Portfolios from 39.3% on 31 March 2018 to 29% on 1 July 2019. This assurance also did not make any reference to SVS not making further investments in CFBL Bonds. The assurance related to the concentration (i.e. proportion) of CFBL Bonds in the Model Portfolios and did not relate to other issuers. By explaining that SVS would *"look to reduce"*, SVS did not set out a timeframe for reducing the concentration, or even undertake that the concentration would be reduced (although SVS did in fact reduce the concentration).

58. The Authority's concerns, raised in its correspondence of November 2017 and January 2018, specifically related to concentration risk in CFBL, and it required SVS to consider the particular risks posed by that investment. That correspondence did not, for example, impose a requirement to reduce concentration in fixed income investments more generally or preclude the ability to invest in other fixed income products.

59. In the period of Mr Hadjigeorgiou's role as Finance Director, he did not have responsibility to take reasonable steps to stop SVS from continuing to invest in CFBL Bonds, either in fact or by nature of his job description. After Mr Hadjigeorgiou became Chief Executive, in any event, the concentration of the CFBL Bonds fell by more than 10%.

60. **Following earlier email correspondence, the Authority emailed SVS on 4 January 2018 (copying all the directors including Mr Hadjigeorgiou) with its concerns regarding SVS's approach to CFBL stating, amongst other things, that: "*we are concerned that you do not appear to recognise the concentration risk posed by only investing with one bond provider where clients may be invested in several bond issuances. We would have expected a higher level of due diligence in order to give you the necessary comfort to invest such a large proportion of the model portfolio's* [sic] *with one bond***

provider…. We are concerned that you do not appear to be aware of the underlying investments in the CFBL bonds pre-investment".

61. **The Authority repeated its concerns on 23 January 2018 stating: *"given the fact you are not aware of the underlying investments in the CFBL bonds pre-investment, there is a risk that by investing a significant proportion of the model portfolios in this investment without this information it may pose a risk for the rest of the portfolio"* and *"The underlying investments on the bonds are diversified…. does not prevent a systemic failure at the management of CFBL providing the loans to the various underlying companies…."*.**

62. **Significant investments were made into CFBL including on 31 January 2018, after and notwithstanding the Authority's clear and recent expressions of concern. As referred to in paragraph 4.53 of this Notice, a further £5,106,150 was invested by the Model Portfolios in CFBL Bond Series 9 between 31 January 2018 and 11 May 2018, including £2,000,000 on 20 March 2018. Accordingly, in the period immediately after the assurance, very significant sums were invested. In addition, Mr Hadjigeorgiou was integral to SVS's subsequent investment in the ICFL Bond, a very similar investment product to the CFBL Bonds, and where the bond issuer was also connected to Mr Anderson.**

63. **Mr Hadjigeorgiou took no action to ensure compliance with the assurance given by SVS to the Authority; he received emails showing the significant investments into CFBL and did nothing to prevent or query further investments. In noting that the reduction in concentration in CFBL between 31 March 2018 and 1 July 2019 appears to meet SVS's assurance to the Authority on 1 February 2018, Mr Hadjigeorgiou fails to take into account the significant £2,000,000 investment made on 20 March 2018, in the weeks immediately after the assurance was made, and the further significant investments totalling over £3,000,000, in the months shortly afterwards. The concerns set out in the Authority's correspondence were not limited to the CFBL Bonds, but also related to the fact that SVS was exposing its clients to the risk of a systemic failure at the management of CFBL.**

64. **Mr Anderson had introduced and advised ICFL on the ICFL Bond, and Mr Hadjigeorgiou was aware of this. It is not credible to suggest that Mr Hadjigeorgiou and SVS were appropriately addressing the Authority's concerns, as set out in the email correspondence, by amongst other things building up new concentrations in ICFL, i.e. by increasing the concentration in another bond provider whose product was very similar to that of CFBL and with which Mr Anderson was connected.**

65. **Mr Hadjigeorgiou was a member of the Investment Committee, which was mandated to make investment decisions, and was a member of the Board, and the Chair at the Board Meeting on 14 March 2018, which explicitly authorised additional investments into CFBL, after the assurance to the Authority was made. The board minute from the Board Meeting on 14 March 2018 stated the following: *"it was acknowledged that this [40% of the MP assets are held in Corporate Finance Bonds] needs to be diluted following our***

recent interaction with the FCA….IT WAS RESOLVED as an interim measure that 50% of available fixed income cash may still be invested in the CFB products, subject to these investment decisions being properly documented".

66. **The Authority considers that Mr Hadjigeorgiou had responsibility, during his role as Finance Director (as well as subsequently as Chief Executive), for taking reasonable steps to reduce the concentration in CFBL Bonds. This responsibility followed from his membership of both the Investment Committee and the Board which took the decision at its meeting on 14 March 2018 (which he chaired), to continue to invest in CFBL after the assurance was given to the Authority.**

67. **The Authority was entitled to expect Mr Hadjigeorgiou and SVS to comply with the assurance in its email to the Authority of 1 February 2018. Mr Hadjigeorgiou did not take reasonable steps to ensure that SVS complied with that assurance.**

Commissions/ inducements

68. As Finance Director it was not within the scope of Mr Hadjigeorgiou's responsibilities to ensure that SVS as a firm was compliant with the Authority's rules with respect to commissions paid to fixed income providers. His role was strategic rather than operational, and he reasonably relied on others who had direct responsibility for oversight of client money and assets at SVS. Ensuring that SVS remained compliant with the regulatory changes occasioned by the introduction of the MiFID II[7] [8] rules in January 2018 was a responsibility that fell to Mr Stephen, particularly as the Model Portfolios had already invested in a number of fixed income investments by the time Mr Hadjigeorgiou joined SVS.

69. Mr Hadjigeorgiou does not recall these regulatory changes being notified to the Board. It is not reasonable for Mr Hadjigeorgiou to be expected to have undertaken his own investigations as to whether SVS complied with the Authority's rules on inducements, when he was entitled to rely on SVS's Compliance function.

70. As Chief Executive, Mr Hadjigeorgiou accepts that he had responsibility for the firm's compliance with the Authority's rules on inducements, but in light of Mr Stephen's involvement in the day-to-day issues of regulatory compliance, it was reasonable for Mr Hadjigeorgiou to rely on Mr Stephen's assessment of any change in the Authority's rules that would impact SVS's operations. The Board were not notified of any change in its requirements in relation to inducements after MiFID II came into force on 3 January 2018, and Mr Hadjigeorgiou had no reason to revisit or challenge Mr Stephen's conclusions and consideration of the requirements after he became Chief Executive in May 2018.

71. Mr Stephen was aware of the amount of commission received by SVS from fixed income providers and raised no concerns. Mr Hadjigeorgiou was not advised by Mr Stephen that such a commission was not permissible and, had he been so advised, he would not have allowed SVS to proceed.

[7] Markets in Financial Instruments Directive II.
[8] https://www.handbook.fca.org.uk/handbook/COBS/2/3A.html?date=04-01-2018&timeline=True

72. During his period as Finance Director, Mr Hadjigeorgiou did not have responsibility to ensure SVS's compliance with the Authority's rules on inducements. During his period as Chief Executive, he reasonably relied on the expertise of Mr Stephen to inform his assessment that SVS remained compliant with the Authority's rules on commissions and inducements.

73. **COBS 2.3A.15R[9] came into force on 3 January 2018 and provided that discretionary managers must not accept fees or commissions from any third party in relation to the provision of the relevant service to the client. Mr Hadjigeorgiou knew that commissions continued to be paid in this way after the introduction of this rule. The level of commissions received by SVS was not minor, nor were the commissions non-monetary or paid for third-party research. The regulatory change post-dated the Authority's feedback to SVS in September 2017.**

74. **The prohibition of commissions was a critical rule change for a firm in SVS's position, i.e. a discretionary fund manager. The Authority is entitled to expect that directors brief themselves on such critical regulatory changes directly impacting their business. The lack of any consideration apparently given to such significant regulatory changes indicates that the directors (including Mr Hadjigeorgiou) were not acting with due skill, care and diligence in managing their business.**

75. **Mr Hadjigeorgiou has also sought to place responsibility with respect to introducers and the acceptance of commissions onto Mr Stephen, and he asserts that reliance on Mr Stephen is sufficient to constitute reasonable steps to satisfy the regulatory rule. The Authority disagrees. The regulatory change in January 2018 was a very significant matter for SVS, and Mr Hadjigeorgiou, as a CF1 director (and subsequently as Chief Executive), ought to have been aware of such a key regulatory change that affected SVS's business model. This was a "key issue" as anticipated in *Burns v Financial Conduct Authority*[10] when considering directors' responsibility (see paragraph 6 above).**

76. **The Authority therefore considers that Mr Hadjigeorgiou failed to take reasonable steps to ensure that SVS complied with the Authority's rules on inducements.**

Fairness and disclosure

77. Mr Hadjigeorgiou considers that an adequate and robust disclosure exercise has not been carried out by the Authority. This has created a situation whereby crucial evidence relating to key events, is missing. This lack of access and lack of adequate disclosure, including at the appropriate time and manner, has resulted in Mr

[9] COBS 2.3A.15R(1) This rule applies where a firm provides a retail client in the United Kingdom with… (c) portfolio management services.
(2) The firm must not accept any fees, commission, monetary or non-monetary benefits which are paid or provided by … any third party … in relation to the provision of the relevant service to the client. …
(3) Paragraph (2) does not apply to:
(a) acceptable minor non-monetary benefits (see COBS 2.3A.19R); (b) third party research received in accordance with COBS 2.3B (see COBS 2.3B.3R).

[10] Burns v Financial Conduct Authority [2018] UKUT 0246 (TCC) at paragraph 285.

Hadjigeorgiou being hampered in his ability to properly defend himself. Mr Hadjigeorgiou is also concerned that the Authority failed to carry out a rigorous investigation and interview key witnesses.

78. Mr Hadjigeorgiou has significant concerns about the robustness of the Authority's investigation and its compliance with its statutory disclosure obligations. Mr Hadjigeorgiou points to a number of disclosure failures during the investigation, including late disclosure of relevant interviews transcripts and relevant material shortly before his oral representations meeting. The Tribunal has recently expressed concerns about the Authority's disclosure and investigation failures in *Seiler and others v Financial Conduct Authority*[11] and found that it could not be satisfied there were no other relevant documents that should have been disclosed. The same issues arise in Mr Hadjigeorgiou's case and have resulted in unfairness towards him.

79. **The Authority through the relevant team in the Enforcement and Market Oversight Division has responded to all the concerns related to disclosure which have been raised by Mr Hadjigeorgiou. The Authority's disclosure obligations, which apply to the giving of the Warning Notice and this Notice to Mr Hadjigeorgiou, are set out in section 394 of the Act. This requires the Authority to allow the recipient of a specified statutory notice access to: (1) the material on which the Authority relied in taking the decision which gave rise to the obligation to give the notice; and (2) any secondary material which in the Authority's opinion, might undermine that decision.**

80. **The Authority accepts that there has, on occasion, been late disclosure, but it is satisfied, as at the date of this Notice, that there are no other relevant documents that should have been disclosed and does not consider that any unfairness has resulted to Mr Hadjigeorgiou as a result.**

81. **Any concerns that Mr Hadjigeorgiou has about the Authority's conduct may be pursued by separately referring the matter to the Authority's Complaints Scheme established under the Financial Services Act 2012.**

Sanction

82. Mr Hadjigeorgiou considers there should be no financial penalty imposed on him.

83. However, if a financial penalty is warranted, the Relevant Period (and therefore the period in which to assess his penalty calculation) should relate to his time as Chief Executive of SVS, namely, starting at 1 May 2018. There has been no evidence of any breach of a Statement of Principle during the period in which he was Finance Director.

84. The Authority's relevant income[12] figure is incorrect. He received payment for his initial consultancy work and later for his roles as Finance Director and Chief Executive

[11] Seiler and others v Financial Conduct Authority [2023] UKUT 00133 (TCC). https://www.gov.uk/tax-and-chancery-tribunal-decisions/thomas-seiler-louise-whitestone-and-gustavo-raitzen-v-the-financial-conduct-authority-2023-ukut-00133-tcc
https://www.gov.uk/tax-and-chancery-tribunal-decisions/thomas-seiler-louise-whitestone-and-gustavo-raitzen-v-the-financial-conduct-authority-2023-ukut-00133-tcc
[12] DEPP 6.5B.2G(1).

through a limited liability partnership of which he is not the sole partner, being one of three designated members, each entitled to a share of the partnership's income. It is therefore not the case that he is entitled to all amounts received by this limited liability partnership under invoices to SVS. The aggregated amounts of these invoices should not be used for the purposes of calculating his relevant income. The correct approach would be to use the income he received as gross earnings from his consultancy firm. To take the revenue invoiced from the limited liability partnership would be to include income that was not Mr Hadjigeorgiou's income.

85. Mr Hadjigeorgiou considers that the assessment of his alleged breaches at Step 2 of the penalty calculation as being seriousness level 4 is not appropriate; if Mr Hadjigeorgiou's conduct did fall below the standard expected during his period as Chief Executive, this was due to negligence and/or inadvertence constituting a level 1 or 2 or 3 breach under DEPP 6.5B.2G(13) and not because his actions were reckless or deliberate.

86. Mr Hadjigeorgiou considers a prohibition is neither warranted nor necessary. The imposition of a prohibition order on him would not be within the range of reasonable decisions open to the Authority. Mr Hadjigeorgiou continued to work at SVS until 2020 to assist the administrators, and has worked in a business operated by a regulated firm for a number of years since the end of the Relevant Period. The Authority should have no concerns about Mr Hadjigeorgiou's competence and capability.

87. **In calculating the financial penalty, the Authority has had regard to DEPP 6.5B.2G which states that relevant income will be the gross amount of all benefits received by the individual from the employment in connection with which the breach occurred and for the period of the breach. The Authority will look at the substance rather than the form when seeking to identify relevant income. The Authority considers that the correct interpretation of relevant income for these purposes should be the fee invoices submitted by the limited liability partnership in respect of Mr Hadjigeorgiou's employment as a director of SVS, rather than his profit drawings from the limited liability partnership.**

88. **Mr Hadjigeorgiou's work for SVS was the sole source of income for the three-person limited liability partnership. One of the other partners received no drawings from the limited liability partnership during the Relevant Period, and the other partner was Mr Hadjigeorgiou's wife. The limited liability partnership was not operating during the Relevant Period as a normal commercially trading partnership but appears to have been a family tax mitigation vehicle chosen by Mr Hadjigeorgiou to deal with income from SVS, and it is reasonable for the Authority to treat it as such. Accordingly, the Authority has "looked through" the limited liability partnership, in order to determine Mr Hadjigeorgiou's relevant income during the Relevant Period.**

89. **The Authority has determined that Mr Hadjigeorgiou was reckless, and failed to act with integrity, in the matters set out from paragraphs 5.3 – 5.6 of this Notice; and that he failed to exercise due skill, care and diligence in managing the business of SVS, in the matters set out at paragraph 5.7 of this Notice. The Authority also considers that the Level 4 factors (referenced in DEPP 6.5B.2G(12)) apply for the reasons set out at paragraph 6.9 of this Notice.**

90. **As indicated above, the Authority has determined that Mr Hadjigeorgiou was reckless, and failed to act with integrity; and that he failed to exercise due skill, care and diligence in managing the business of SVS. It therefore considers that the imposition of an order prohibiting Mr Hadjigeorgiou from performing any senior management function and any significant influence function is reasonable and proportionate.**

ANNEX B

Andrew Flitcroft's Representations

1. A summary of the key representations made by Mr Flitcroft and of the Authority's conclusions in respect of them (in bold type) is set out below.

2. Mr Flitcroft objects to the inclusion, within the Notice at paragraph 4.44, of the phrase *"window dressing"* to describe his resignation as a director of Angelfish, as it was not known what Mr Hadjigeorgiou was implying by his use of this phrase.

3. **The Authority considers that it is a natural inference to draw that Mr Hadjigeorgiou thought that the purpose of Mr Flitcroft's resignation from Angelfish was to give the impression that he was no longer involved with both Angelfish and SVS, and accordingly this did not resolve the Angelfish Conflict, as he continued to work for and be remunerated by both SVS and Angelfish.**