
FINAL NOTICE

To: Savoy Investment Management Limited

FSA Reference Number: 145877

Address: 3rd Floor, 60 Queen Victoria Street, London EC4N 4TR

Date: 12 November 2012

1. ACTION

- 1.1. For the reasons given in this notice, the FSA hereby imposes on Savoy Investment Management Limited (“Savoy”, “the firm”) a financial penalty of £412,000 in respect of breaches of Principle 3 (Management and Control), Principle 9 (Customers: Relationships of Trust) of the FSA’s Principles for Businesses (“the Principles”) and breaches of rules in the part of the FSA’s Handbook relating to the Conduct of Business Sourcebook (“COBS”).
- 1.2. Savoy agreed to settle at an early stage of the FSA’s investigation and therefore qualified for a 30% (stage 1) discount under the FSA’s executive settlement procedures. Were it not for this discount, the FSA would have imposed a financial penalty of £590,000 on Savoy.

2. SUMMARY OF REASONS

- 2.1. On the basis of the facts and matters described below, the FSA considers that between 1 April 2010 to 31 January 2012 (“the Relevant Period”) Savoy failed to comply with Principles 3 and 9 and the rules set out in COBS 9.2.1R, COBS 9.2.2R and COBS 9.2.3R.
- 2.2. The FSA found that Savoy failed to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems, in breach of Principle 3.

2.3. In particular, Savoy had limited front office controls over the provision of investment advice and portfolio management services and Savoy failed to take reasonable care to ensure the suitability of its advice and portfolio management in that:

- (1) there were deficiencies in the documentation in client files;
- (2) whilst the firm put in place programmes to refresh its Know Your Customer (“KYC”) information, these programmes were not completed on a timely basis;
- (3) the firm’s compliance monitoring for suitability was inadequate in terms of the number of files reviewed and the frequency of review, particularly given the serious deficiencies it was identifying from the reviews it did complete; and
- (4) where deficiencies were found in client files, Savoy’s senior managers failed to implement the remedial action required on a timely basis.

2.4. Further, the FSA found that Savoy failed to take reasonable care to ensure the suitability of portfolios for discretionary clients and the suitability of its advice to managed advisory clients, in breach of Principle 9 and the relevant COBS rules. When a review of a sample of 52 client files was undertaken, 23 (44%) did not contain sufficient information to determine the suitability of the transactions. When further information was obtained, 12 (23%) of these files were found to be at a high risk of unsuitability. In particular, it was identified that:

- (1) poor KYC information was obtained about clients and key information was missing;
- (2) there was out-of-date and inadequate fact-find information and failures to update this information annually as required by the firm’s own procedures;
- (3) some investment managers used a risk categorisation methodology that inappropriately conflicted with the firm’s own client risk profiling documentation;
- (4) investment allocations were made that did not accord with the client’s expectations and / or match the client’s attitude to risk (“ATR”);
- (5) there was no clear rationale recorded for investment allocations on discretionary management client files; and
- (6) there was no evidence on discretionary and managed advisory client files to explain lack of diversification within the portfolios.

2.5. The FSA regards these failings as significant due to the high potential for unsuitability found on client files and the potential impact this could have on clients.

2.6. Savoy’s failings are aggravated by the fact that:

- (1) the failings in records in Savoy’s client files were not resolved on a timely basis and persisted for a significant period, being first identified in 2009;

- (2) the systems and compliance failings identified by the review of 52 files revealed significant weaknesses across the firm's systems and controls, including the firm's front office controls, compliance monitoring and record-keeping functions; and
- (3) there was, during the course of the Relevant Period, a growing level of awareness in the wealth management sector of the importance of ensuring suitable outcomes for clients given the FSA's thematic review of the sector in 2010 and 2011 and the letter sent by the FSA to chief executive officers of wealth management firms on 14 June 2011.

2.7. However, Savoy's failings are mitigated by that fact that the firm:

- (1) has taken considerable steps in response to the FSA's concerns, including agreeing to recommendations by the skilled persons and taking further steps on its own initiative, including increasing its compliance resources, changing its management structure and introducing a new client relationship management systems;
- (2) established a working group on suitability in April 2011 to identify weaknesses in the investment management suitability and risk profiling process, develop a suitability framework for KYC information and client risk assessment and change the firm's systems and controls around the suitability of the firm's investment advice and discretionary decisions for its clients. As a result of the work of the working group on suitability, Savoy redesigned its client KYC process and procedures and is currently refreshing its existing client KYC information in line with these;
- (3) has volunteered to provide redress to those clients identified as having suffered loss in the suitability review of 52 client files; and
- (4) has pro-actively instigated a past business review of investment advice. This will, where necessary, include contact with clients who may have been adversely affected by Savoy's failings. This review is being overseen by an independent third party. Savoy has volunteered to compensate all clients who have suffered a loss as a result of any failings on its part.

2.8. This action supports the FSA's regulatory objective of the protection of consumers.

3. DEFINITIONS

3.1. The definitions below are used in this Final Notice.

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

"ATR" means attitude to risk.

"COBS rules" means the rules set out in the Conduct of Business Sourcebook within the FSA Handbook.

“Compliance Manual” means the in-house compliance manual used by Savoy’s investment managers and compliance staff during the Relevant Period.

“Discretionary client” means a client who has delegated full responsibility for investment choice and management of their assets to Savoy.

“The FSA” means the Financial Services Authority.

“FSA Handbook” means the FSA Handbook of Rules and Guidance.

“KYC” means Know Your Customer.

“Managed advisory client” means a client with greater involvement and responsibility over the selection of investments within their portfolios than a discretionary client, whose express consent is required prior to the undertaking of any investment activity.

“Relevant Period” means 1 April 2010 to 31 January 2012.

“Savoy / the firm” means Savoy Investment Management Limited.

“The Tribunal” means the Upper Tribunal (Tax and Chancery Chamber).

4. FACTS AND MATTERS

- 4.1. Savoy is a wealth management firm which specialises in the provision of portfolio investment management services on both a discretionary and a managed advisory basis, as well as providing execution only services. Clients are predominantly high net worth individuals, charities, pensions and trusts that the firm usually classifies as “retail clients”.
- 4.2. During the Relevant Period, Savoy had approximately 4,000 clients allocated across eight investment directors and 13 investment managers. As at 30 September 2011, Savoy reported total funds under management of £889 million.
- 4.3. Savoy is a wholly-owned subsidiary of Ashcourt Rowan Plc, which is listed on AIM in London with a market capitalisation of approximately £40 million.

Background

- 4.4. Up to and during the Relevant Period, Savoy received several external reports highlighting concerns relating to advice given to its clients and to the quality of compliance controls.
- 4.5. On 13 May 2009 Savoy was required by the FSA to appoint a skilled person (“Skilled Person A”) under Section 166 of the Act, to review the adequacy, effectiveness and appropriateness of senior management arrangements, governance, oversight arrangements and systems and controls, including compliance oversight and monitoring.
- 4.6. Skilled Person A issued its final report on 17 July 2009. The report identified weaknesses in Savoy’s controls relating to the obtaining and updating of KYC information.

- 4.7. This report was produced in the context of a decision by Savoy's Board in March 2009 to commence a project to ensure that clients' KYC information was correct and up to date.
- 4.8. The firm provided a progress update on the KYC refresh project and the steps recommended by Skilled Person A to the FSA by way of a letter dated 30 November 2009, in which the FSA was informed that "*all executives have issued update KYC to clients and will continue to update as and when necessary*". The letter also indicated that Savoy had been recommended to "*place increased critical focus on the KYC element of future ongoing suitability assessments*" and that this was agreed and implemented. The KYC project was discussed at the Savoy Board meeting held on 15 December 2009, where it was noted that there had been a 40% response from clients.
- 4.9. Skilled Person A issued a follow up report in June 2010, which found that:
- "the KYC programme is still ongoing twelve months after it started. [Skilled Person A] understands that this exercise is only approximately 51% complete...and it would have been expected that greater progress would have been made in this area."*
- Skilled Person A also stated that:
- "the initial letters did not provide sufficient emphasis on the importance of updating information and reliance on a default position was not felt to be appropriate...where clients decline to provide information a further letter is sent explaining the importance of up to date information in providing suitable recommendations. However, [Skilled Person A]...would suggest that this letter also request the information again after explaining the reasons why the details are important."*
- The firm advised the FSA that the KYC update project was closed on 30 June 2011.
- 4.10. During 2010 and 2011, Savoy was reviewed as part of further thematic work on wealth management firms and suitability of advice, which resulted in the issue of a "Dear CEO" letter to wealth management firms on 14 June 2011. This letter set out several areas of concern arising from the wealth management thematic review, including firms' inability to demonstrate suitability due to KYC failings and lack of information on clients' financial situation, experience and objectives and the risk of unsuitability in client portfolios due to inconsistencies between investments and clients' ATR and investment objectives.
- 4.11. On 4 November 2011 the FSA required Savoy to appoint a skilled person pursuant to Section 166 of the Act ("Skilled Person B"). The scope of the review included:
- (1) the adequacy and effectiveness of the firm's systems and controls relating to the suitability of investment decisions and the retention of appropriate documents; and
 - (2) the suitability of investment portfolios for an appropriate sample of clients.
- 4.12. Skilled Person B, as part of its analysis on suitability, reviewed a sample of 52 client files between November 2011 and January 2012 and issued its final report on 11 June 2012.

Savoy's control framework

Investment managers

- 4.13. Private client wealth management firms such as Savoy should have controls in place to monitor their investment managers' portfolio management activities, including:
- (1) investment committees;
 - (2) house models for asset allocation and / or stock selection;
 - (3) an approved security list;
 - (4) guidelines on what are suitable investments within the risk appetites chosen by the client;
 - (5) computer systems which monitor adherence to clients' investment restrictions, and, where applicable, investment objectives and risk appetites;
 - (6) periodic sample peer reviews of clients' portfolios by senior management and / or other investment managers; and
 - (7) exception reporting of client portfolios and stock / asset allocations outside certain tolerances reviewed within the fund management teams and Compliance.
- 4.14. Although prior to the Relevant Period Savoy had performed, for a short period, some peer reviews, these had ceased by March 2010. 15 reviews were conducted between December 2009 and March 2010. Savoy had not implemented the other controls by the end of the Relevant Period.
- 4.15. Accordingly, there were limited front office controls over investment and / or stock allocation and a lack of formal management oversight of the portfolios, with managers retaining a significant level of autonomy. As a result, Savoy was heavily reliant on its individual investment managers to ensure that clients' portfolios were suitable and invested in accordance with clients' investment objectives and investment restrictions.
- 4.16. Skilled Person B found that Savoy's lack of front office controls and investment manager autonomy over clients' portfolio investment strategy and asset / stock allocation allowed significant variances between otherwise comparable client portfolios according to the individual investment manager's personal expertise, understanding of client requirements and attitude to prevailing economic and market conditions.
- 4.17. In the absence of front office controls and in the light of the firm's reliance on individual investment managers to ensure suitability of advice, it was necessary for investment managers to record clearly and adequately the basis of investment decisions made on clients' files and the investment advice given. As set out at paragraphs 4.20 to 4.26 below, compliance reviews showed that throughout the Relevant Period investment managers did not record the basis of investment advice given or investment decisions made on the client file, but relied heavily on their

personal knowledge and familiarity with their clients to support portfolio decisions and recommendations.

- 4.18. Even where the firm did have documented procedures, there were instances of investment managers failing to comply with these basic requirements, such as the investment risk categorisations in Savoy's standard client agreement form. In one case, the investment manager adopted an investment risk categorisation methodology based on that used at his previous firm, rather than that of Savoy.

Compliance Monitoring

- 4.19. Savoy's compliance monitoring was originally carried out by its own compliance function, and then from March 2010 by Ashcourt Rowan's Group Compliance function. Prior to the Relevant Period, Savoy conducted reviews of investment managers' client files, but not for portfolio suitability. These reviews ceased in March 2010 and between 1 May 2010 and 30 June 2011, a third party was engaged to assist with Group Compliance's monitoring activities ("the external compliance provider"). The monitoring was then undertaken by Group Compliance. Since the introduction of the Group Compliance function in March 2010, there has been significant staff turnover, with four senior compliance staff members leaving the firm.
- 4.20. During the Relevant Period, five separate reviews of suitability were completed either by the external compliance provider or Group Compliance, by sampling a number of client files to review. The reports were produced in August and October 2010, April 2011 and (for two reports) November 2011. These reviews covered areas including documentation, file quality, portfolio management, disclosure and suitability, grading each file on a scorecard and, in the case of the final three reviews, providing an overall grade for the review. The results were provided to Savoy's senior management.
- 4.21. In total, these reviews covered, across the Relevant Period, 62 files and 18 advisers. Only 10 of these advisers had more than one file reviewed, with five out of eight compliance reviews planned for 2011 cancelled.
- 4.22. The reports documented that 50% of files reviewed were graded by Group Compliance or the external compliance resource provider as either "unsatisfactory – dangerous breaches" or "seriously deficient – retraining/remedial action needed". Of the later three reports produced by Group Compliance which had an overall grading, two were graded as "significant improvement needed".
- 4.23. These reports did not show a consistent improvement in "pass rates" for Savoy's client files. Rather, the types of issues raised were broadly similar across the reports. They included the following comments:
- (1) *"there was little evidence in the files reviewed of up to date information and this makes demonstration of suitability difficult...The standard company fact find is generally inadequate as although it records some key information, it is often too broad based...When information is contained, it is often accepted at face value without reference to other source information."*

- (2) *“although there were no examples of definite unsuitable advice or management decisions identified there was often insufficient information or rationale to confirm suitability... In most advisory cases there was no evidence of the advice at all and very little rationale for discretionary decisions”*
- (3) *“there were a relatively large number of cases...where the precise nature of the accounts...was unclear due to conflicting documentation or account categorisations”*
- (4) *“there is a distinct lack of factfind information despite assurances from SIM in the past that a KYC exercise was well underway”*
- (5) *“[the reviewer] was advised that SIM was weak in the area of documenting the rationale for advice and discretionary decisions. This admission was borne out in the files with a significant majority of files contain little or no rationale for investment decisions. This lack of information means that suitability cannot be clearly determined...In connection with the lack of rationale, there was no real supporting evidence to justify any rationale that was given”*

4.24. As Group Compliance’s report of April 2011 stated:

“These findings and their extent are similar to those reported in 2010 by [the external compliance provider]. It is understood that the business and compliance are aware of these failings and are currently considering how they should be addressed, for example, through the setting of policy and procedures with the attendant training of these to fund managers. At the time of monitoring there has not been sufficient progress in delivering and establishing these policies with the attendant systems and controls and standards for fund managers.

However, the delay in implementation of these revised policies whilst unwelcome does not negate the fact that a proportion of files currently do not meet regulatory expectations that fund managers as Approved Person should be adhering to.”

- 4.25. Savoy established a Suitability Working Group in April 2011 to identify weaknesses in the investment management suitability and risk profiling process, develop a suitability framework for KYC and client risk assessment and change the firm’s systems and controls around the suitability of the firm’s investment advice and discretionary decisions for its clients. This group issued minimum standards for client file content in August 2011, for immediate introduction, and had undertaken an extensive review and rewrite of the Suitability and Appropriateness Policy, Procedure and Guidance. These steps were in addition to the annual KYC refresh requirement introduced in March 2011, as set out in the firm’s Compliance Manual.
- 4.26. When issues on client files were reported by Group Compliance to senior managers, they were not always progressed on a timely basis. For example, some issues took over eight months to resolve. The Savoy Board was aware of ongoing issues. Skilled Person B also identified instances, in a sample of cases, where such issues had been closed off on the firm’s outstanding actions database, but which did not appear to have been satisfactorily addressed.

Unsuitable investment advice

4.27. Skilled Person B reviewed a sample of 52 files drawn from Savoy's discretionary and managed advisory clients between November 2011 and January 2012. This was after Savoy's KYC refresh project had been completed and after its Suitability Working Group had been created. Skilled Person B attempted to assess suitability from the client files. From those files, Skilled Person B could not adequately judge whether or not the advice given was suitable for 23 clients (44%) and had to obtain additional information from investment managers and clients. When it did obtain this, Skilled Person B found that 12 (23%) of these files were at high risk of unsuitability, for the following reasons:

- (1) poor quality KYC information obtained from clients, with key information including outgoings and liabilities, ability to withstand loss, details of income and assets missing;
- (2) categorisation of clients' assets or income was vague and open to wide margins of error. There were examples of both gross income and net worth being widely categorised, between £0 and £50,000 and £0 and £500,000 respectively;
- (3) there was out of date fact find information, which was not relevant to the client's current financial circumstances or investment objectives, with failures to update annually this information, as required from March 2011 by the firm's Compliance Manual;
- (4) some investment managers used an risk categorisation methodology that was not recognised by Savoy and inappropriately conflicted with the firm's own client risk profiling documentation;
- (5) investment allocations were made that did not accord with the client's expectations and / or match the client's ATR, with no clear rationale for this recorded on the client's file;
- (6) there was no clear rationale recorded for investment allocations on discretionary management client files; and
- (7) there was a heavy concentration in a small number of securities and / or a lack of diversification within discretionary and managed advisory client portfolios, with no clear rationale recorded on file that this was suitable for the client.

4.28. The above findings of Skilled Person B were broadly consistent with the findings identified by Savoy's Compliance Monitoring reports referred to at paragraph 4.23 above. It was also consistent with the need for Savoy to improve its KYC information, which should have been resolved following the KYC refresh project launched in March 2009 and referred to at paragraph 4.7 above.

4.29. Skilled Person B found that a further 33 files (63%) were at low risk of unsuitability but had some of the documentation failings outlined above, for example, client files that failed to provide clear evidence that valuations had been sent to clients or where there was significant variation in the form and content of valuations sent to clients.

- 4.30. Skilled Person B found that few if any client files complied with Savoy's internal standards on client file content introduced in August 2011.
- 4.31. Skilled Person B then assessed whether redress was due for those clients at high risk of unsuitability. By comparing the performance of these clients' portfolios against a relevant benchmark, Skilled Person B concluded that of the 12 files identified as high risk of unsuitability, four clients should receive redress.

5. FAILINGS

- 5.1. The regulatory provisions relevant to this Final Notice are referred to in Annex A.

Breach of Principle 3

- 5.2. During the Relevant Period, Savoy allowed its investment managers a high degree of discretion in providing recommendations and portfolio management to its managed advisory and discretionary clients. Savoy had limited front office controls over these activities, increasing its reliance on other controls.
- 5.3. However, in the context of these limited front office controls, the firm failed to take reasonable care to ensure the suitability of its advice and portfolio management in that:
 - (1) there were continuing deficiencies identified in the firm's client files, including in the firm's KYC documentation, its records of the basis of Savoy's relationship with its clients (for example, details of the type of service Savoy was engaged to perform) and its rationale for investment decisions, despite such deficiencies being identified in Compliance Monitoring reports and persisting until at least the review by Skilled Person B that took place between November 2011 and January 2012. Such deficiencies undermined the firm's ability to monitor and ensure the suitability of its investment managers' decisions as it could not easily evidence what its clients' needs and requirements were and how its advice was supposed to meet those needs and requirements;
 - (2) where the firm put in place programmes to refresh its KYC information, these programmes were not completed on a timely basis. The programme was launched in March 2009, and the FSA was informed in November 2009 that "*all executives have issued update KYC to clients and will continue to update as and when necessary*", with the firm itself believing that the programme was concluded at the end of June 2011. However, KYC deficiencies were still being identified by Skilled Person B in December 2011;
 - (3) the firm's compliance monitoring for suitability was inadequate in terms of the number of files reviewed and the frequency of review, particularly given the serious deficiencies it was identifying from the reviews it did complete. Savoy's internal file checks ceased in March 2010 and only 62 files were reviewed in the Relevant Period, with 44% of investment managers being subject to only one review. This was despite 50% of files being found to be "seriously deficient" or to have "dangerous breaches"; and

- (4) where deficiencies were found in client files, certain Savoy senior managers failed to implement the remedial action required on a timely basis. Despite being reported to the Savoy Board on a regular basis, these outstanding points remained unresolved.

Breach of Principle 9

- 5.4. The file review conducted by Skilled Person B identified 23% of client files reviewed to be at high risk of unsuitability and there were failings of varying degrees of severity in relation to a further 63% of the client files reviewed. In particular:
 - (1) poor KYC information obtained from clients, with key information often missing;
 - (2) out-of-date and inadequate fact-find information, with failures to update this information annually, as required by the firm's own procedures;
 - (3) some investment managers used a risk categorisation methodology that inappropriately conflicted with the firm's own client risk profiling documentation;
 - (4) investment allocations were made that did not accord with the client's expectations and / or match the client's ATR, with no clear rationale for these allocations recorded on the client file;
 - (5) no clear rationale recorded for investment allocations made on discretionary client files; and
 - (6) a heavy concentration in a small number of securities and / or a lack of diversification within discretionary and managed advisory client portfolios, with no clear rationale recorded on file that this was suitable for the client.
- 5.5. The high number of potentially unsuitable client files identified by Skilled Person B demonstrates that Savoy failed to take reasonable care to ensure the suitability of its advice and discretionary decisions for clients who were entitled to rely upon its judgment, in breach of Principle 9 and the rules set out in COBS 9.2.1R, COBS 9.2.2R and COBS 9.2.3R.

6. SANCTION

Financial penalty

- 6.1. The FSA's policy for imposing a financial penalty is set out in Chapter 6 of DEPP. In respect of conduct occurring on or after 6 March 2010, the FSA applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5A sets out the details of the five-step framework that applies in respect of financial penalties imposed on firms.

Step 1: disgorgement

- 6.2. Pursuant to DEPP 6.5A.1G, at Step 1 the FSA seeks to deprive a firm of the financial benefit derived directly from the breach where it is practicable to quantify this.

- 6.3. The FSA has not identified any financial benefit that Savoy derived directly from its breaches. Step 1 is therefore £0.

Step 2: the seriousness of the breach

- 6.4. Pursuant to DEPP 6.5A.2G, at Step 2 the FSA determines a figure that reflects the seriousness of the breach. Where the amount of revenue generated by a firm from a particular product line or business area is indicative of the harm or potential harm that its breach may cause, that figure will be based on a percentage of the firm's revenue from the relevant products or business area.
- 6.5. The FSA considers that the total revenue generated by Savoy during the period of the breaches is indicative of the potential harm caused by its breaches. The FSA has therefore determined a figure based on a percentage of Savoy's relevant revenue. The period of Savoy's breaches was from April 2010, when its Group Compliance took over and its previous file review programme ceased, to January 2012, when the last file review by Skilled Person B occurred. The FSA considers Savoy's relevant revenue for this period to be £11.8 million.
- 6.6. In deciding on the percentage of the relevant revenue that forms the basis of the Step 2 figure, the FSA considers the seriousness of the breach and chooses a percentage between 0% and 20%. 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 firms there are the following five levels:

Level 1 – 0%

Level 2 – 5%

Level 3 – 10%

Level 4 – 15%

Level 5 – 20%.

- 6.7. In assessing the seriousness level, the FSA takes into account various factors which reflect the impact and nature of the breach, and whether it was committed deliberately or recklessly.
- 6.8. The FSA considers the following factors to be relevant to the seriousness of the firm's breaches:

Impact of the breach

- (1) there was a risk of unsuitable sales to retail investors as 23% of the client files reviewed were at a high risk of unsuitability;
- (2) however, Skilled Person B's review of the actual financial impact of these potentially unsuitable sale has concluded that four out of the 52 files reviewed (8%) actually required financial redress;

Nature of the breach

- (3) the breaches revealed weaknesses in the firm's procedures and internal controls over part of the firm's business. These weaknesses resulted from inadequate client documentation and monitoring by the firm's Compliance function. These processes were particularly important as Savoy had limited or no front office controls to ensure the suitability of investment advice to clients;

Whether the breach was deliberate and / or reckless

- (4) the firm did not commit the breaches intentionally;
- (5) the firm did not attempt to conceal the breaches; and
- (6) the firm did not act recklessly in failing to prevent the breaches.

6.9. Taking all of these factors into account, the FSA considers the seriousness of the breach to be level 2 and so the Step 2 figure is 5% of £11.8 million.

6.10. The figure at Step 2 is therefore £590,000.

Step 3: mitigating and aggravating factors

6.11. Pursuant to DEPP 6.5A.3G, at Step 3 the FSA 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.

6.12. The FSA considers that the following factors aggravate the breach:

- (1) the firm was aware of the breaches and of deficiencies in its client documentation throughout the Relevant Period;
- (2) the breaches persisted for a period of 22 months; and
- (3) extensive guidance was issued by the FSA during the Relevant Period, which emphasised to firms the importance of establishing the risk a customer is willing and able to take and making a suitable recommendation. This material was widely available and had been brought to the attention of all firms within Savoy's sector.

6.13. The FSA considers that the following factors mitigate the breach:

- (1) the firm has co-operated with the FSA during the investigation of the breach;
- (2) the firm has taken a number of steps, both on its own initiative and as recommended by the skilled persons, to implement more robust systems and controls to improve its client files;
- (3) the firm has spent approximately £611,000 in taking significant steps to enhance its systems and controls and compliance around suitability and has spent a further £1.5 million on a client relationship management system to improve its KYC information and client monitoring reporting; and

- (4) the firm has voluntarily decided to implement a comprehensive past business review of investment advice and has already agreed to provide redress in the sum of £65,600 to four clients whose files were considered as part of the suitability review conducted by Skilled Person B.
- 6.14. Having taken into account these aggravating and mitigation factors, the FSA considers that these factors balance each other out and therefore that the Step 2 figure should not be altered.
- 6.15. The figure at Step 3 remains £590,000.

Step 4: adjustment for deterrence

- 6.16. Pursuant to DEPP 6.5A.4G, if the FSA considers the figure arrived at after Step 3 is insufficient to deter the firm who committed the breach, or others, from committing further or similar breaches, then the FSA may increase the penalty.
- 6.17. The FSA considers that the Step 3 figure of £590,000 represents a sufficient deterrent to Savoy and others, and so has not increased the penalty at Step 4.
- 6.18. The figure at Step 4 remains £590,000.

Step 5: settlement discount

- 6.19. Pursuant to DEPP 6.5A.5G, if the FSA and the firm 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 FSA and the firm reached agreement. The settlement discount does not apply to the disgorgement of any benefit calculated at Step 1.
- 6.20. The FSA and Savoy reached agreement at Stage 1 and so a 30% discount applies to the Step 4 figure.
- 6.21. The figure at Step 5 is therefore £412,000.

Penalty

- 6.22. The FSA therefore imposes a total financial penalty of £412,000 on Savoy for breaching Principles 3 and 9 and the relevant COBS rules.

7. PROCEDURAL MATTERS

Decision maker

- 7.1. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.
- 7.2. This Final Notice is given under, and in accordance with, section 390 of the Act.

Manner of and time for payment

- 7.3. The financial penalty of £412,000 must be paid in two equal tranches of £206,00 by Savoy to the FSA, the first tranche by no later than 26 November 2012, 14 days from the date of the Final Notice and the second tranche by no later than 1 April 2013.

If the financial penalty is not paid

- 7.4. If the first tranche of the financial penalty is outstanding on 27 November 2012 and / or the second tranche of the financial penalty is outstanding on 2 April 2013, the FSA may recover the outstanding amount as a debt owed by Savoy and due to the FSA.

Publicity

- 7.5. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the FSA must publish such information about the matter to which this notice relates as the FSA considers appropriate. The information may be published in such manner as the FSA considers appropriate. However, the FSA may not publish information if such publication would, in the opinion of the FSA, be unfair to you or prejudicial to the interests of consumers.

FSA contacts

- 7.6. For more information concerning this matter generally, contact Stephen Robinson at the FSA (direct line: 020 7066 1338 /fax: 020 7066 1339).

Georgina Philippou

Head of Department
FSA Enforcement and Financial Crime Division

Annex 1

RELEVANT STATUTORY PROVISIONS, REGULATORY REQUIREMENTS AND FSA GUIDANCE

1. Statutory Provisions

1.1. The FSA's statutory objectives, set out in section 2(2) of the Act, are market confidence, financial stability, consumer protection and the reduction of financial crime.

1.2. Section 206 of the Act provides:

“If the Authority considers that an authorised person has contravened a requirement imposed on him by or under this Act,... it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate”.

1.3. Savoy is an authorised person for the purposes of section 206 of the Act. The requirements imposed on authorised persons include those set out in the FSA's rules and made under section 138 of the Act.

2. Regulatory Provisions

2.1. In exercising its power to issue a financial penalty, the FSA must have regard to the relevant provisions in the FSA Handbook.

2.2. In deciding on the action, the FSA has also had regard to guidance set out in the Regulatory Guides, in particular the Decision Procedure and Penalties Manual (DEPP).

2.3. The Principles are a general statement of the fundamental obligations of firms under the regulatory system and are set out in the FSA Handbook. They derive their authority from the FSA's rule-making powers as set out in the Act and reflect the FSA's regulatory objectives. The relevant Principles are as follows:

Principle 3 provides:

“A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.”

Principle 9 provides:

“A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.”

2.4. The FSA's Conduct of Business Sourcebook (COBS) applied to authorised firms with effect from 1 November 2007.

2.5. Chapter 9 of COBS sets out the FSA's rules governing suitability (including basic advice).

2.6. COBS 9.2.1R provides:

(1) A firm must take reasonable steps to ensure that a personal recommendation, or a decision to trade, is suitable for its client.

(2) When making the personal recommendation or managing his investments, the firm must obtain the necessary information regarding the client's:

(a) knowledge and experience in the investment field relevant to the specific type of designated investment or service;

(b) financial situation; and

(c) investment objectives;

so as to enable the firm to make the recommendation, or take the decision, which is suitable for him.

2.7. COBS 9.2.2R provides:

(1) A firm must obtain from the client such information as is necessary for the firm to understand the essential facts about him and have a reasonable basis for believing, giving due consideration to the nature and extent of the service provided, that the specific transaction to be recommended, or entered into in the course of managing:

(a) meets his investment objectives;

(b) is such that he is able financially to bear any related investment risks consistent with his investment objectives; and

(c) is such that he has the necessary experience and knowledge in order to understand the risks involved in the transaction or in the management of his portfolio.

(2) The information regarding the investment objectives of a client must include, where relevant, information on the length of time for which he wishes to hold the investment, his preferences regarding risk taking, his risk profile, and the purposes of the investment.

(3) The information regarding the financial situation of a client must include, where relevant, information on the source and extent of his regular income, his assets, including liquid assets, investments and real property, and his regular financial commitments.

2.8. COBS 9.2.3R provides:

The information regarding a client's knowledge and experience in the investment field includes, to the extent appropriate to the nature of the client, the nature and extent of

the service to be provided and the type of product or transaction envisaged, including their complexity and the risks involved, information on:

(1) the types of service, transaction and designated investment with which the client is familiar;

(2) the nature, volume, frequency of the client's transactions in designated investments and the period over which they have been carried out; and

(3) the level of education, profession or relevant former profession of the client.

Decision Procedure and Penalties Manual (DEPP)

- 2.9. Guidance on the imposition and amount of penalties is set out in Chapter 6 of DEPP. Changes to DEPP were introduced on 6 March 2010. Given that the firm's misconduct occurred after that date, the FSA has had regard to the provisions of DEPP in force after that date.

Enforcement Guide (EG)

- 2.10. The FSA's approach to taking disciplinary action is set out in Chapter 2 of EG. The FSA's approach to financial penalties and public censures is set out in Chapter 7 of EG.
- 2.11. EG 7.1 states that the effective and proportionate use of the FSA's powers to enforce the requirements of the Act, the rules and the Statements of Principles for Approved Persons will play an important role in the FSA's pursuit of its regulatory objectives. Imposing financial penalties and public censures shows that the FSA is upholding regulatory standards and helps to maintain market confidence and deter financial crime. An increased public awareness of regulatory standards also contributes to the protection of consumers.