
FINAL NOTICE

To: **Steven Harbinder Singh Sahota**

Reference
Number: **HSS01026**

Date: **26 July 2024**

1. ACTION

1.1. For the reasons given in this Final Notice, the Financial Conduct Authority (“the Authority”) hereby:

- (1) imposes on Mr Sahota a financial penalty of £1,782,343, pursuant to section 66 of the Financial Services and Markets Act 2000 (“the Act”); and
- (2) makes an order prohibiting Mr Sahota from performing any function in relation to any regulated activity carried on by an authorised person, exempt person or exempt professional firm, pursuant to section 56 of the Act.

1.2. However, the Authority has agreed not to enforce the financial penalty provided that Mr Sahota pays £10,000 to the Financial Services Compensation Scheme (“the FSCS”). The £10,000 that Mr Sahota has agreed to pay to the FSCS represents substantially all of his available assets to meet a penalty or judgment.

2. REASONS

Background

- 2.1. Pensions are a traditional way of saving and investing money in a tax-efficient way for retirement. The value of an individual's pension can have a significant impact on their quality of life during retirement and, in some circumstances, may affect whether they can afford to retire at all. It is of paramount importance that consumers of financial services can have confidence that persons exerting significant influence at authorised firms are accountable to the regulator and have been approved as fit and proper.
- 2.2. Beaufort Securities Limited ("BSL") was a small to medium retail advisory stockbroker that was authorised by the Authority to conduct regulated activities. In March 2014, BSL launched a white-label self-invested personal pension ("SIPP"), named the Beaufort SIPP ("Beaufort SIPP"). On 28 January 2015, BSL was granted permission by the Authority to conduct the regulated activity of 'managing investments'. From that date, BSL's business model changed significantly with a new focus on carrying out discretionary fund management for pension trustees whose underlying pension holders were retail clients.
- 2.3. Mr Sahota had worked for many years in financial services, including in roles regulated by the Authority before joining BSL in June 2014. During the period from 16 January 2015 to 12 April 2016 ("the Relevant Period"), Mr Sahota held the controlled function of CF30 (Customer).
- 2.4. From January 2015 Mr Sahota was the discretionary fund manager for the London office. As part of a team Mr Sahota established and grew a discretionary fund management service ("DFM Service"), whereby he was responsible for constructing and managing portfolios of investments whilst mainly engaging directly with independent financial advisers ("IFAs") who advised pension holders on the suitability of transferring or switching their existing pensions to the Beaufort SIPP.
- 2.5. Mr Sahota's team was responsible for ensuring that pension holders' funds were invested suitably and in line with their attitude to risk, needs and objectives. The Strategic Income Portfolio ("Strategic Income Portfolio") was one of these portfolios. During the Relevant Period, there was little oversight of the DFM Service by BSL senior management or by BSL's discretionary fund management

committee, whose purpose was to monitor and supervise the activities of the discretionary fund managers across BSL.

- 2.6. The Strategic Income portfolio was designed to ensure that investors would have their risk spread over at least 10 corporate bonds (which would reduce the risk of concentration).
- 2.7. According to BSL marketing materials, it was anticipated that the Strategic Income Portfolio would expose investors to a risk range of 5-6. The risk ratings were defined by a numerical system by BSL on an increasing scale of 1-10, with 1 being the lowest risk.
- 2.8. By October 2016, the pension funds of at least 1,063 pension holders, worth a total value of over £53 million, had been invested in the Strategic Income Portfolio. Of this, over £35 million was invested in investments of limited liquidity (mostly corporate bonds) with risk ratings over 6.

The Scheme

- 2.9. During the Relevant Period, Mr Sahota participated in a scheme involving a number of firms and individuals (the "Scheme"). Other participants in the Scheme included an unregulated individual (the "Unregulated Individual") who oversaw the Scheme, certain introducers ("Introducers") and certain IFAs, including Anthony Cuming and Kyle Jones at Grosvenor Butterworth (Financial Services) Limited ("GBFS").
- 2.10. The Scheme involved certain participants (principally the Unregulated Individual and his firms) identifying companies (the "Investment Companies") which were seeking to raise capital and contacting them with the promise of receiving significant capital through BSL's DFM Service. The Investment Companies issued bonds or shares which were nearly all high-risk investment products of limited liquidity.
- 2.11. In return, the Investment Companies were to make substantial payments by way of marketing fees, marketing allowances, introducer fees, commission or other fees ("Marketing Fees"), which would be distributed between the participants in the Scheme. The investment products issued by the Investment Companies that agreed to pay the Marketing Fees ("the Underlying Investments") were included in the Strategic Income Portfolio.

- 2.12. Incentivised by Marketing Fees, the IFAs involved in the Scheme would advise pension holders, who had been contacted by Introducers involved in the Scheme, to transfer or switch their existing pensions to the Beaufort SIPP.
- 2.13. Certain Introducers would seek to: (a) influence the advice of the IFAs and Mr Sahota's investment management decisions, (b) direct Mr Sahota in relation to the investment of pension holders' funds into specific investments (including the Underlying Investments) and (c) direct the IFAs to act as their agent.
- 2.14. Mr Sahota would regularly send the Unregulated Individual a list of all the pension holders' funds allocations in the Strategic Income Portfolio with the amount of Marketing Fees owed to the firms and individuals involved in the Scheme.
- 2.15. Pension holders' funds were placed in the Strategic Income Portfolio and thereby invested in the Underlying Investments, regardless of whether they were suitable for those pension holders, so that those involved in the Scheme would receive a share of the Marketing Fees. Mr Sahota's team was responsible for these investment decisions, which were effected by an assistant (who was not involved in the Scheme). Mr Sahota failed to ensure that pension holders were placed in suitable investments as he was driven by the desire for personal gain (rather than by the needs of the pension holders) and exposed the pension holders to a significant risk of detriment and, in many cases, actual loss.
- 2.16. In total, approximately £5.9 million in Marketing Fees was paid to the various participants in the Scheme, of which Mr Sahota received over £1.25 million.
- 2.17. These Marketing Fees were separate from the fees charged by the DFM Service and the IFAs advising the pension holders, which were payable by the pension holders in the usual way. For example, in the period from January 2015 to October 2016, the total contractual fees paid to BSL by pension holders whose pension funds were managed by Mr Sahota amounted to approximately £1.2 million.
- 2.18. The payment of these Marketing Fees was not disclosed to the pension holders and was to the ultimate detriment of the pension holders whose funds were invested in the Underlying Investments. In some cases, the payment of Marketing Fees directly resulted in certain Investment Companies facing significant financial difficulty and in turn substantially impaired the value of the Underlying Investments. These payments often comprised a significant proportion of the monies raised. Indeed, in one telephone conversation between Mr Sahota and Mr Jones at GBFS during the Relevant Period, Mr Sahota referred to one Investment

Company which needed to raise capital and which subsequently paid one of the Introducers a 30% Marketing Fee.

- 2.19. The communications between Mr Sahota, the Unregulated Individual and other participants in the Scheme support the Authority's conclusion that Mr Sahota was engaging in dishonest conduct. For example:
- (1) When questioned by BSL in June 2016, Mr Sahota denied receiving any commissions from an investment company. Similarly, when this issue was investigated by BSL's Compliance department in July 2016, Mr Sahota denied receiving any fees and confirmed he was aware of the existing conflict of interest policy at BSL.
 - (2) In a telephone call between Mr Sahota (via his BSL telephone) and the Unregulated Individual, the latter mentioned that he was "*writing a little email to your Hotmail account*" (referring to Mr Sahota's personal email account), to confirm the payment structure of the Marketing Fees.
- 2.20. The Marketing Fees appear to have ultimately been financed from the pension holders' funds, especially given that the Investment Companies needed to borrow or raise capital by means of the bond or share issues in the first place, and there is evidence of at least two cases of them being directly financed from pension holders' funds.
- 2.21. On 13 October 2016, following intervention by the Authority, BSL agreed to a voluntary requirement which was imposed by the Authority following an application by BSL under section 55L(5) of the Act and had the effect of preventing it from accepting new monies from new and/or existing pension holders into the DFM Service. On 20 December 2016, at the Authority's request, BSL agreed to a voluntary variation by the Authority of its Part 4A permission to carry on regulated activities, following an application by BSL under section 55H(2) of the Act to cease all regulated activities in relation to the DFM Service.
- 2.22. On 1 March 2018, BSL and its related firm Beaufort Asset Clearing Services Limited entered administration and special administration respectively. On the same day, the Authority imposed requirements on both firms, with immediate effect, requiring them to cease all regulatory activities and not to dispose of any firm or client assets without the Authority's consent.

BSL Complaints

- 2.23. By 22 December 2017, BSL had received a total of 720 customer complaints in connection with the DFM Service managed by Mr Sahota, of which 715 related to unsuitable investments.

Complaints to the Financial Ombudsman Service

- 2.24. By 16 February 2018, the Financial Ombudsman Service had received a total of 578 customer complaints against BSL. Many of these complaints related to the investment management decisions of the DFM Service. As a result of BSL entering into administration, complaints were referred to the FSCS.

FSCS claims

- 2.25. As at 18 March 2024, the FSCS had paid compensation of approximately £9 million in respect of claims brought against BSL and various IFAs. These claims were made by pension holders that switched/transferred their pensions to the Beaufort SIPP and, as a result, were invested in one or more investments included in the Strategic Income Portfolio.

Mr Sahota's lack of integrity

- 2.26. The Authority considers that throughout the Relevant Period Mr Sahota demonstrated a lack of integrity and is not a fit and proper person because, while approved by the Authority to perform the CF30 (Customer) controlled function, he acted dishonestly in that he:

- (1) worked closely with other participants in the Scheme to ensure that pension funds were invested by the DFM Service in the Underlying Investments included in the Strategic Income Portfolio, which were nearly all high-risk and of limited liquidity and therefore unlikely to be suitable for many of the pension holders, to generate significant Marketing Fees for himself personally and for other participants in the Scheme. Mr Sahota knew that his receipt of Marketing Fees gave rise to an obvious conflict of interest and was improper, but did not take steps to ensure that the payment of Marketing Fees was disclosed to the pension holders whose funds had been invested in the Underlying Investments from which he ultimately derived this financial benefit; and

(2) deliberately concealed his involvement in the Scheme, in particular by ensuring that Marketing Fees were paid into his personal bank account and by, at times, using his personal mobile and personal email address to communicate with other participants in the Scheme.

2.27. Further, the Authority considers that Mr Sahota demonstrated a lack of integrity and is not a fit and proper person, in that while approved by the Authority to perform the CF30 (Customer) controlled function, he failed to ensure that pension holders were placed in suitable investments, recklessly disregarding the personal interests and financial circumstances of those pension holders, thereby exposing them to a significant risk of detriment and, in many cases, actual loss. Instead, he allowed his discretionary investment decisions to be driven by the significant financial benefit that he (and other participants in the Scheme) would gain personally in return. By October 2016, the pension funds of at least 1,063 pension holders, with a total value of over £53 million, had been invested in the Strategic Income Portfolio. Of this, around £37 million was invested in the Underlying Investments.

2.28. Accordingly, the Authority hereby:

- (1) imposes a financial penalty on Mr Sahota in the amount of £1,782,343 (including interest) for his breach of Statement of Principle 1; and
- (2) makes an order prohibiting Mr Sahota from performing any function in relation to any regulated activity carried on by an authorised person, exempt person or exempt professional firm.

2.29. However, Mr Sahota has agreed to pay £10,000 to the FSCS, to contribute towards the redress paid and payable to customers of BSL who have been disadvantaged. The £10,000 that Mr Sahota has agreed to pay to the FSCS represents substantially all of his assets available to meet a penalty or judgment. Provided Mr Sahota makes the agreed payment to the FSCS, the Authority will not seek to enforce the financial penalty against him.

2.30. This action will advance the Authority's operational objectives of securing an appropriate degree of protection for consumers and protecting and enhancing the integrity of the UK financial system.

3. FAILINGS

3.1. The regulatory provisions relevant to this Notice are referred to in the Annex.

Statement of Principle 1

3.2. Statement of Principle 1 required Mr Sahota to act with integrity in carrying out his CF30 (Customer) controlled function. A person will lack integrity where they act dishonestly or recklessly. The Authority considers that during the Relevant Period, Mr Sahota failed to act with integrity in carrying out his controlled function at BSL in breach of Statement of Principle 1. This is evidenced by Mr Sahota's conduct as set out at paragraphs 2.26 and 2.27, noting:

- (1) his actions were integral to the Scheme as he managed the Strategic Income Portfolio and was responsible for the discretionary investment decisions which facilitated the investment of pension funds in the Investment Companies that paid the Marketing Fees; his investment decisions were driven by the significant Marketing Fees he received in relation to the Underlying Investments; and
- (2) his awareness that the Underlying Investments were nearly all high-risk and of limited liquidity, and that there was a risk that they would not be suitable for pension holders.

Lack of fitness and propriety

3.3. The Authority considers that, based on the facts and matters set out in this Notice, Mr Sahota lacks integrity and is not a fit and proper person to perform any function in relation to any regulated activity carried on by an authorised person, exempt person or exempt professional firm.

4. SANCTION

Financial penalty

4.1. The Authority's Handbook of rules and Guidance ("Handbook") entitled Decision Procedure and Penalties Manual ("DEPP") at 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

4.2. Mr Sahota derived direct financial benefit from his breach of Statement of Principle 1 in the form of the bonuses that BSL paid him during the Relevant Period and the

Marketing Fees arising from the Scheme. The Authority has calculated that the amount of the direct financial benefit that Mr Sahota received during that period in bonuses from BSL amounted to £128,654 and in Marketing Fees totalled £1,264,282.

- 4.3. The Authority will ordinarily also charge interest on the benefit derived directly from misconduct. The Authority considers it appropriate to apply simple interest at a rate of 0.25% on Mr Sahota's benefit. Interest calculated on Mr Sahota's benefit from receipt to the date of this Notice therefore amounts to £29,507.
- 4.4. Step 1 is therefore £1,422,443 (the total of £128,654 and £1,264,282 plus interest of £29,507).

Step 2: the seriousness of the breach

- 4.5. The period of Mr Sahota's breach was from 16 January 2015 to 12 April 2016. The Authority considers Mr Sahota's relevant income for this period to be £179,955.
- 4.6. 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%.
- 4.7. In assessing the seriousness level, the Authority takes into account various factors which reflect the nature and impact of the breach, and whether it was committed deliberately or recklessly. The Authority considers that the following factors are relevant.

Impact of the breach

- 4.8. Mr Sahota gained significant financial benefit as a result of his breach. Mr Sahota received £1,264,282 in Marketing Fees and £128,654 in bonuses during the Relevant Period (DEPP 6.5B.2G(8)(a)).
- 4.9. Mr Sahota's breach of Statement of Principle 1 exposed a large number of pension holders who transferred or switched their pensions to the Beaufort SIPP to a significant risk of loss and, in many cases, caused pension holders to suffer actual loss (DEPP 6.5B.2G(8)(b) and (c)).

Nature of the breach

- 4.10. Mr Sahota breached Statement of Principle 1 repeatedly and over an extended period of time (DEPP 6.5B.2G(9)(b)).
- 4.11. Mr Sahota failed to act with integrity because he acted dishonestly and recklessly throughout the Relevant Period (DEPP 6.5B.2G(9)(e)).

Deliberate misconduct

- 4.12. Mr Sahota intentionally and repeatedly breached Statement of Principle 1 so that he could receive significant Marketing Fees (DEPP 6.5B.2G(10)(a), (b) and (h)).
- 4.13. Mr Sahota knew that his conduct was in breach of the conflict of interest policy at the firm (DEPP 6.5B.2G(10)(c)).
- 4.14. Mr Sahota deliberately concealed his involvement in the Scheme, in particular by ensuring that Marketing Fees were paid into his personal bank account and by often using his personal mobile phone and personal email address to correspond with other participants in the Scheme (DEPP 6.5B.2G(10)(e)).

Reckless misconduct

- 4.15. Mr Sahota failed to ensure that pension holders were placed in suitable investments by recklessly disregarding pension holders' personal interests and financial circumstances.

Level of seriousness

- 4.16. 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) Mr Sahota's breach of Statement of Principle 1 exposed a large number of pension holders to a significant risk of loss and, in many cases, caused pension holders to suffer actual loss (DEPP 6.5B.2G(12)(a));
 - (2) Mr Sahota failed to act with integrity and was dishonest (DEPP 6.5B.2G(12)(d)); and
 - (3) Mr Sahota's breach of Statement of Principle 1 was committed deliberately and recklessly (DEPP 6.5B.2G(12)(g)).

4.17. DEPP 6.5B.2G(13) lists factors likely to be considered 'level 1, 2 or 3 factors'. The Authority considers that none of these factors apply.

4.18. Taking all of these factors into account, the Authority considers the seriousness of the breach to be level 5 and so the Step 2 figure is 40% of £179,955.

4.19. Step 2 is therefore £71,982.

Step 3: mitigating and aggravating factors

4.20. The Authority considers that there are no factors that mitigate or aggravate the breaches.

4.21. Step 3 is therefore £71,982.

Step 4: adjustment for deterrence

4.22. The Authority considers the Step 3 figure of £71,982 and the absolute value of the penalty is too small in relation to the breach to represent a sufficient deterrent to Mr Sahota and others, and so has increased the penalty at Step 4 by a multiple of 5.

4.23. The reasons for applying this multiplier are that Mr Sahota made a very significant personal financial gain from his misconduct, which was not included in the calculation of his relevant income at Step 2, abused the position he held at BSL to play a central role in the Scheme, and exposed many pension holders to the risk of, and actual, significant detriment.

4.24. Step 4 is therefore £359,910.

Step 5: settlement discount

4.25. No settlement discount applies.

4.26. Step 5 is therefore £359,900 (rounded down to the nearest £100 in accordance with the Authority's usual practice).

Penalty

4.27. The Authority therefore imposes a financial penalty of £1,782,343 (namely £359,900 plus the Step 1 figure of £1,422,443 (including interest)) on Mr Sahota

for breaching Statement of Principle 1.

Prohibition order

- 4.28. The Authority has had regard to the guidance in Chapter 9 of the Authority's Handbook entitled Enforcement Guide ("EG") in considering whether to prohibit Mr Sahota.
- 4.29. By virtue of the matters addressed in this Notice, in particular the finding at paragraph 3.3 above, having regard to its statutory objectives, including protecting and enhancing the integrity of the UK financial system and securing an appropriate degree of protection for consumers, the Authority considers that it is appropriate and proportionate in all the circumstances to make a prohibition order in respect of Mr Sahota under section 56 of the Act in those terms.

5. PROCEDURAL MATTERS

- 5.1. This Notice is given to Mr Sahota in accordance with section 390 of the Act.
- 5.2. The following statutory rights are important.

Decision maker

- 5.3. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

Manner and time for payment

- 5.4. The financial penalty is due and payable in full by Mr Sahota to the Authority no later than 12 August 2024.
- 5.5. However, the Authority has agreed not to enforce the financial penalty provided that Mr Sahota pays £10,000 to the Authority, for the purpose of onward payment to the FSCS, on or before 30 June 2025. The £10,000 that Mr Sahota has agreed to pay represents substantially all of his available assets to meet a penalty or judgment.
- 5.6. If Mr Sahota fails to pay the £10,000 on or before the day it is due to be paid (in accordance with paragraph 5.5 above), and it remains outstanding after at least 14 days' notice given by the Authority, then the Authority may immediately

recover the full amount of the financial penalty (less any amounts paid to the Authority) as a debt owed by Mr Sahota and due to the Authority.

Publicity

- 5.7. 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 Authority must publish such information about the matter to which this Notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the Authority, be unfair to Mr Jones or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.
- 5.8. The Authority intends to publish such information about the matter to which this Notice relates as it considers appropriate.

Authority contact

- 5.9. For more information concerning this matter generally, contact Natalie Rivett at the Authority (direct line: 020 7066 4166 / email: Natalie.Rivett@fca.org.uk).

Kerralie Wallbridge

Head of Department

Financial Conduct Authority, Enforcement and Market Oversight Division

ANNEX

1. RELEVANT STATUTORY PROVISIONS

- 1.1. The Authority's statutory objectives, set out in section 1B(3) of the Act, include the operational objectives of securing an appropriate degree of protection for consumers and protecting and enhancing the integrity of the UK financial system.
- 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 64 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 have been issued under section 64 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. '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.
- 2.4. The Code of Practice for Approved Persons sets out descriptions of conduct which, in the opinion of the Authority, does 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

- 2.5. 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.
- 2.6. 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

- 2.7. The Authority's policy in relation to prohibition orders is set out in Chapter 9 of EG.
- 2.8. 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.

DEPP

- 2.9. Chapter 6 of DEPP, which forms part of the Authority's Handbook, sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act.