
SECOND SUPERVISORY NOTICE

To: **London Stone Securities**

Reference Number: **479827**

Address: **1 Royal Exchange
London
EC3V 3DG
United Kingdom**

Date: **29 July 2024**

1 ACTION

- 1.1 For the reasons given in this Second Supervisory Notice, and pursuant to section 55L(3)(a) of the Financial Services and Markets Act 2000 ("the Act"), the Financial Conduct Authority ("the Authority") has decided to maintain the following requirements ("the Requirements") that were imposed on London Stone Securities ("Firm") by a First Supervisory Notice issued on 9 April 2023.

No regulated activity

- (1) The Firm must immediately cease carrying on all regulated activities for which it has a Part 4A permission, other than where it has the express written consent of the Authority, given subsequent to the issuance of the First Supervisory Notice, to carry on a regulated activity (or activities);
- (2) The Firm must not on-board any new customers;

No further fees to be taken from clients

- (3) With immediate effect, the Firm must not charge its clients any further fees (including, but not limited to, annual management fees, inactivity fees and

commission payments), other than where it has the express written consent of the Authority;

Financial promotions requirement

- (4) The Firm must withdraw all active financial promotions (including, but not limited to, its website, any social media content, banner adverts and Google Adverts) by 5pm on 11 April 2024 and notify the Authority of such;
- (5) The Firm must complete the Table of Withdrawn Financial Promotions (Appendix 3) listing the total number of promotions withdrawn, broken down by media type, and submit this to the Authority by 5pm on 16 April 2024
- (6) The Firm must remove all content from its website (www.londonstonesecurities.co.uk) by 5pm on 16 April 2024 and notify the Authority of such, save for the notification referred to at sub-paragraph (12) below;

Assets requirement

- (7) Save as set out in sub-paragraphs (8) and (9) below, the Firm must not, without the prior written consent of the Authority, in any way dispose of, withdraw, transfer, deal with or diminish the value of any of its own assets, and any funds it holds for, or to the order of, its customers or investors (whether in the United Kingdom or elsewhere), whether held by the Firm as at the date of the imposition of the Requirements or acquired thereafter;
- (8) The Firm may continue dealing with or disposing of any of its own assets in the ordinary and proper course of business provided that the sum or value of such dealings or disposals, whether as a single transaction or a combination of related transactions, does not exceed £1,000 (or £3,000 in the case of legal expenses);
- (9) For the avoidance of doubt, for the purposes of sub-paragraph (8) above, the following would be in the ordinary and proper course of business:
 - a. Any fees incurred or paid in exchange for professional advisory services provided to the Firm; or
 - b. Any salaries of the Firm's staff, including to its directors, contractors or any other employees, where such salaries have been agreed prior to the imposition of the Requirements;
- (10) For the avoidance of doubt, for the purposes of sub-paragraph (8) above, the following would not be in the ordinary and proper course of business:
 - a. The making of any distribution to the Firm's shareholders whether by way of capital distribution or dividends;
 - b. Subject to sub-paragraph (9)(b) above, any payment to the Firm's shareholders, directors, officers, employees, any connected entities or persons;
 - c. The making of any gift or loan by the Firm to any party; or
 - d. The entry into any financial reconstruction, sale of any part of the Firm (whether share or asset based) or reorganisation.

- (11) Sub-paragraphs (7) to (10) constitute an assets requirement within the meaning of section 55P(4)(a) of the Act.

Notification requirements

- (12) By 5pm on 16 April 2024, the Firm must publish in a prominent place on every website in its name (or that it operates) a notice setting out the terms and effects of the Requirements and the actions its clients can take to access their funds. The wording of this notice must be agreed by 5pm on 15 April 2024 with the Authority.
- (13) The Firm must, by 5pm on 16 April 2024, notify any investor, potential investor, or other relevant person directly affected by the Requirements of the terms and effect of the Requirements. The wording of this communication and the method of delivery must be agreed by 5pm on 15 April 2024 with the Authority.
- (14) Once the notifications referred to in sub-paragraphs (12) and (13) above have been made, within 24 hours, the Firm must supply to the Authority:
- a. Copies of the template notifications sent to all recipients;
 - b. A list of all parties to whom notifications have been sent; and
 - c. Confirmation that, to the best of its knowledge, the Firm has sent the specified notifications to all relevant parties.
- (15) The Firm must provide to the Authority, by no later than 12 noon each Friday until such time as is notified otherwise in writing by the Authority (starting from the first Friday after the imposition of the Requirements), account statements for all of the Firm's bank accounts, e-money accounts and cryptoasset accounts showing all transactions for those accounts for the preceding seven days.

Records Retention

- (16) The Firm must secure and preserve all records and/or information (physical or electronic) relating to its business, including payment, electronic money and digital services in their original form, or in a copy, provided it is identical to the source material. These must be retained in a form and at a location within the United Kingdom, to be notified to the Authority in writing by 5pm on 16 April 2024, such that they can be provided to the Authority, or a person named by the Authority, promptly on its request.
- (17) The Firm must provide written confirmation to the Authority that it is in compliance with the Requirements by 5pm on 16 April 2024.
- 1.2 The Requirements took immediate effect upon imposition of the First Supervisory Notice on 9 April 2024 and shall remain in force unless and until varied or cancelled by the Authority (either on the application of the Firm or of the Authority's own volition).

2 REASONS FOR ACTION

Summary

- 2.1 The Authority has concluded, on the basis of the facts and matters described below that, in respect of the Firm, it is necessary to exercise its power under section 55L(3)(a) of the Act to impose the Requirements on the Firm because it is failing,

or is likely to fail, to satisfy the Threshold Conditions and it is desirable in order to advance one or more of the Authority's operational objectives, which includes securing an appropriate degree of protection for consumers.

2.2 The Authority has identified serious concerns relating to:

- i. the Firm's use of financial promotions and marketing material, which the Authority considers may be in breach of various of the applicable regulatory requirements, and which appear to target elderly, disabled and vulnerable customers to open accounts with the Firm;
- ii. the Firm not clearly communicating to clients the services that it is providing on their behalf or the fee and charging structure each client agreed to;
- iii. the Firm charging its clients excessively high fees on their accounts, regardless of their portfolio size, and not providing clients with fair value in breach of Consumer Duty and other applicable regulatory requirements;
- iv. the Firm not being open with the Authority in its responses to questions around the Firm's fee and charge structure; and
- v. the Firm moving significant sums of money away from its own bank accounts into non-regulated entities following engagement by the Authority, which the Authority is concerned may have been in anticipation of action by the Authority.

2.3 The Authority considers it was necessary that imposition of the Requirements took immediate effect on 9 April 2024 because the facts and matters described below demonstrate that:

- i. the Firm's conduct has been causing harm to consumers and action was needed protect their interests;
- ii. the Firm has submitted to the Authority inaccurate or misleading information and the Authority is seriously concerned about the Firm's ability to meet its regulatory obligations; and
- iii. there is a serious problem within the Firm that calls into question its ability to continue to meet the Threshold Conditions.

2.4 On the basis of the facts and matters described in this Second Supervisory Notice, and having considered the Representations made by the Firm in respect of the First Supervisory Notice, the Authority considers that the imposition of the Requirements continues to be necessary and appropriate. The Firm's Representations, and the Authority's response to them, are set out in Annex 2 to this Second Supervisory Notice.

3 DEFINITIONS

3.1 The definitions below are used in this First Supervisory Notice:

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

"the Authority" means the Financial Conduct Authority;

"Bank A" means the bank responsible for providing banking services to the Firm;

"Business Sales Advisor A" means the business sales advisor who distributed the sales document entitled "London Stone Securities Limited Information Memorandum" on 24 January 2024;

“Consumer Duty” means Principle 12 of the Authority’s Principles for Business which came into force on 31 July 2023;

“Clients A – L” mean a sample of the Firm’s clients;

“Custodians A and B” mean the firms acting as custodians for the Firm;

“the Firm” means London Stone Securities;

“the Firm’s Director” means the Firm’s sole director and senior management function holder;

“Handbook” means the Authority’s online handbook of rules and guidance (as in force from time to time);

“Partnership A” means the partnership incorporated by the Firm’s Director on 13 November 2023;

“Representations” means the written representations the Firm submitted to the Authority on 21 and 26 June 2024 in response to the imposition of the First Supervisory Notice;

“Requirements” means the terms imposed on the Firm by the First Supervisory Notice and maintained by this Second Supervisory Notice as outlined in section 1 above;

“Second Supervisory Notice” means this statutory notice upholding the Requirements imposed on the Firm by the First Supervisory Notice;

“SMF” means senior management function holder;

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

“the website” means <https://www.londonstonesecurities.co.uk/>.

4 FACTS AND MATTERS

Background

- 4.1 The Firm was incorporated on 7 January 2008 as a private limited company, under Company Number 0646964.
- 4.2 Data provided by the Firm in December 2023 indicates that it manages 171 client portfolios across two different custodians. From a sample of 102 clients that the Authority has also analysed, the Firm’s client base appears to be predominantly retail clients, although it also caters for a small number of business clients.
- 4.3 The Firm has a sole Director (“the Firm’s Director”), who is also the sole person registered with Companies House as having significant control of the Firm. The Firm’s Director is the Firm’s only SMF, holding the following roles: SMF3 – Executive Director; SMF16 – Compliance Oversight; and SMF17 – Money Laundering Reporting Officer (MLRO).
- 4.4 The Firm was authorised by the Authority on 13 October 2008 with the following Part 4A permissions (FRN: 479827):

- i. Advising on investments (except Pension Transfers and Pension Opt Outs);
 - ii. Advising on P2P agreements;
 - iii. Arranging (bringing about) deals in investments;
 - iv. Dealing in investments as an agent;
 - v. Making arrangements with a view to transactions in investments;
 - vi. Making investments; and
 - vii. Agreeing to carry on a regulated activity.
- 4.5 The Firm does not have permissions to hold client money. Instead, client money is held by two custodians – Custodian A and Custodian B. The Firm charges fees to clients by making requests directly with the relevant custodian, which then transfers the fee from the client’s portfolio to the Firm on a monthly basis.
- 4.6 In December 2023, the Authority issued an information requirement under section 165 of the Act to various firms in the wealth management and stockbroking sector, including the Firm (the “2023 Wealth Survey”). In its response to the 2023 Wealth Survey, the Firm described its primary business model as “Portfolio Management and related services”, with a secondary business model of “Retail stockbroking and related services”. On its website, it advertises a comprehensive portfolio management service and execution-only services. In contrast, elsewhere on its website, the Firm states that it only offers ‘one type of service’, described as a ‘fully managed, portfolio management service’. The Authority is therefore unclear on the extent of portfolio management services offered by the Firm.
- 4.7 In its “Full Accounts made up to 31 March 2023” on Companies House, the Firm declared a turnover of £1,023,871, an operating profit of £598,013, and a net profit (after tax) of £481,995.

Failings and risks identified

The Firm’s Financial Promotions and Marketing

- 4.8 The Firm operates a website: <https://www.londonstonesecurities.co.uk/> (“the website”). The Firm also appears to advertise its services across a variety of social media platforms. In the period 1 January 2023 to 7 February 2024, the Authority’s analysis of the Firm’s bank statements suggests that the Firm spent £1,085.69 on Google Advertising Services.
- 4.9 Throughout several sections of its website, the Firm refers to its regulated status in a promotional manner or as part of what the Authority considers may be misleading statements:
- i. On the website homepage, the Firm states that as part of their “*Portfolio Review*”, “*one of our FCA approved investment managers will explain how you can improve your portfolio*”, and that “*the firm is fully approved and regulated by the UK’s financial regulator, the Financial Conduct Authority*”.
 - ii. In a section of the website entitled “Are you 75 or older”, the Firm states that it has a “*Specialised Team of Experts*” who are “*highly qualified, and in many cases, FCA regulated, teams of specialists in each of these areas*”. Given that the Firm lists just four employees in its response to the 2023 Wealth Survey, with just one individual responsible for “managing portfolios of investments”, it is unclear to the Authority based on the information provided by the Firm the extent to which it has what can reasonably be described as a “Specialised Team of Experts”.

- iii. In a section of the website entitled "*Safety of Assets*", the Firm refers to its "*Full Authorization*" status with the FCA, claims that it has had "*ZERO regulatory issues with the FCA*", and that "*We use FCA-regulated custodians which means that we don't hold your assets. If anything happens to us, you are 100% protected*".
- 4.10 The Firm appears to be using its regulated status to promote its services and provide reassurance to current and prospective clients.
- 4.11 Information regarding fees differs across different sections of the Firm's website, with some sections referring to a 1% transaction fee on all trades, whereas other sections of the website refer to a 1% fee on each of the "buy" and "sell" sides of a transaction (resulting in a 2% fee overall unless converting to/from cash). However, the Firm has separately confirmed to the Authority that it charges a 1% "buy" fee and a 1% "sell" fee on all trades. The Authority therefore considers that this means the actual transaction fee is 2% (unless the transaction is to move to/from cash), such that the references on the Firm's website to a transaction fee of 1% are likely to be misleading.
- 4.12 As at 21 March 2024, being the date at which the Authority reviewed the Firm's website, the Firm was promoting a "Time to Give Back" offer under the headline "*Are you 75 or over? Bonanza give-away*". The offer purports to remove commissions and minimum account sizes for those over 80 (those between 75-79 can only benefit from the offer if they sign up to the "*standard 3 year (5%) Investment Management Plan (IMP) and in three years time (or when you turn 80, whichever comes first), you will automatically qualify for the TGB deal*"). As part of this offer, the Firm advertises "*Life Changing Extras (LCE) worth £20k/annum*" via their network of other advisers, despite having confirmed to the Authority on 8 December 2023 that it has yet to make any such referrals. It also claims that it will offer "*free advice on how to make your portfolio tax efficient*" and "*free advice on HMRC matters and queries*", and that the Firm has "*developed numerous tax saving strategies that have helped our clients saved [sic] thousands of pounds*". The Firm does not appear to state alongside this information that these activities are not regulated by the Authority and does not provide the requisite disclosure relating to tax advice.
- 4.13 In the Firm's "Time to Give Back" offer brochure, it also appears to advertise services that are not within the scope of its permissions. For example, it states that "*if you don't know how to buy gold or Bitcoin but you want to build this as part of your portfolio, we'll show you how to do that*", and offers "*Free Help on helping you to recover money that you believe you may have been scammed on*". The provision of regulated cryptoasset activities and the provision of claims management services each require specific regulatory permissions, neither of which the Firm has. Given the Firm's repeated reference to its "fully regulated" status elsewhere on the website, the Authority is concerned that this could lead consumers to being misled into assuming that the Firm has the necessary permission to conduct regulated cryptoasset activities and claims management services.
- 4.14 Furthermore, the Firm advertises "no lock in period" for the "Time to Give Back" offer, and states in the brochure that "*you can leave whenever you want with no exit penalties or charges*". The Firm has separately informed the Authority that it charges a 1% fee for any client who wishes to leave its services without the prior instruction to sell the portfolio down to cash, and that it charges a 1% "advisory sale fee" to transfer any portfolio to another provider without selling down to cash. These charges are not referred to or explained in the "Time to Give Back" brochure, and the Authority is therefore concerned that the statement in it that a customer

may “leave whenever [they] want with no exit penalties or charges” is potentially misleading.

4.15 The Firm also advertises another investment opportunity on its website under the headline “*The BEST investment today gives... 5% return – 0% tax....and with zero risk*”. Although there is a generic risk warning to investors at the bottom of the page, this is in much smaller font and there is a risk, accordingly, that it is not sufficiently prominent to ensure it is seen by a prospective customer. On this section of the website, the Firm provides a list of claims, none of which appear to be substantiated, including:

- i. *“Most analysts expect a property and stock market crash and a full-blown economic recession in the next 12 months”;*
- ii. *“95% of banks are technically insolvent” and “several banks have already had bailouts which have not been reported in the mainstream media. – That’s because the Government doesn’t want you to panic.”;*
- iii. *“A lot of people (particularly investment managers) blamed Covid, and you, the client, unfortunately bought their tale. – But Covid was just an excuse.”;*
- iv. *“Really. Be honest. Don’t make any excuses, don’t hide behind the market, poor conditions, or any of the bull*hit your advisor is telling you.”; and*
- v. *“It may seem safe now, but your bank can disappear tomorrow. So you’re potentially risking 100% to make 5%.”.*

4.16 The Authority is concerned that, by making these statements, suggesting other forms of investment are inherently high risk in the context of promoting an investment opportunity with the Firm that the Firm claims is “zero risk”, the Firm is communicating with customers in a way that is not clear, fair and not misleading, and doing so to encourage prospective customers to invest with the Firm. This risk is exacerbated by the lack of prominence given to the risk warning on this area of the Firm’s website.

4.17 Similar statements appear elsewhere on their social media platforms, including in the descriptions of the Firm’s YouTube videos (published under the account name “London Stone Investments” and featuring videos of the Firm’s Director speaking directly to the camera).

4.18 The broad array of concerns regarding the Firm’s financial promotions is particularly concerning in the context of a previous feedback letter sent by the Authority to the Firm in June 2019 noting the Authority’s concerns that some of its financial promotions were non-compliant.

The Firm’s clients

4.19 Data provided by the Firm in December 2023 indicates that it manages 171 client portfolios across two custodians. According to the data, the average age of the Firm’s clients is approximately 70 years (excluding joint account holders), with the majority of clients aged 60 years or older. Most clients are rated between “Low” and “Medium” risk. The total assets under management as of 8 December 2023 was £12,568,897.80, with the average client portfolio worth £75,262.86. Approximately one quarter of accounts hold less than £10,000 in their accounts, and approximately one quarter of accounts hold more than £100,000.

4.20 Analysis of a reduced dataset obtained from one of the Firm’s two custodians (comprising complete data on 102 of 171 total clients) indicates an average client

age of 72 and an average portfolio size of £78,000, with the majority of clients rated between "Low" and "Medium" risk. This dataset also indicates that approximately 20% of client accounts conducted no trades in 2023.

4.21 Both of these datasets indicate a notable contrast with the information displayed on the Firm's website and provided to the Authority on other occasions. For example:

- i. The Firm's website states that the minimum portfolio size is £100,000. Similarly, in the Wealth Survey 2023, the Firm stated that the minimum deposit amount is £100,000 (or £10,000 for Stocks and Shares ISAs). The dataset provided by the Firm on 8 December 2023 indicates that just 23% of accounts exceed the minimum account size of £100,000. Even considering the impact of the "Time to Give Back" offer (which removes minimum account sizes for over 75s), approximately one-third of accounts in the data provided by the Firm are held by individuals under 70 years old and who hold less than £100,000. The Firm has subsequently claimed to the Authority that it has raised its minimum account size to £200,000, in response to the implementation of the Consumer Duty.
- ii. 20% of its clients are aged 30-49 years, 50% are aged between 50-69, and 30% are aged over 70. This contrasts with the Firm's own data, which indicates that 53% of accounts (excluding joint accounts) are held by those over 70.

4.22 The Firm also indicated in its response to the 2023 Wealth Survey that it considered itself to hold relationships with 5 vulnerable clients. The Firm's vulnerable clients policy states that it considers any clients "*> 80 years of age, <£30k liquid assets, poor physical health, poor mental health issue*" to be vulnerable, and that "*The firm's policy is not to open an account for an individual that is deemed to be vulnerable*" and is to "*cease trading on the account immediately*" for any client that becomes vulnerable once onboarded. Despite this, the Authority's analysis shows that just under 20% of the Firm's clients are over 80, and 42% of portfolios held with the Firm are worth less than £30,000. The Authority therefore has serious concerns that the information provided to it by the Firm in relation to the number of vulnerable clients (provided on more than one occasion) is inaccurate and understates the number of vulnerable clients the Firm has. Furthermore, the Firm's active pursuit of clients over the age of 75 and with small portfolio values via its "Time to Give Back" offer appears to constitute a strategy which seeks to identify clients that its policy would define as "vulnerable", despite the fact that this policy also states that the Firm will not open an account for an individual identified as vulnerable and will "cease trading on the account immediately" if an existing client becomes "vulnerable". The Authority is therefore concerned that the Firm is knowingly encouraging vulnerable clients to open an account with it, and that the policy documentation is not being adhered to or reflective of the Firm's actual approach.

Onboarding and Client Information

4.23 On 9 January 2024, the Authority wrote to the Firm to request 'customer files, including but not limited to, Suitability Reports, Attitude to Risk Questionnaires, AML documentation, and review documentation' for eight customers. These documents were provided by the Firm on 12 January 2024.

4.24 The Authority's analysis of these eight client files showed that:

- i. Documents relating to the level of service (e.g., discretionary fund management, an advisory service, or an execution-only service) a client had agreed with the Firm were unclear. The service level agreed to was, on some occasions, not present in any documents in the client files.
- ii. Documents relating to the disclosure of the service the Firm would be providing and the associated fees were unclear. The only signed documents provided across the files were Private Client Profiles ("PCPs"), which were fact finds about the client rather than signed client agreements including service level and fees. One client had no PCP on file, and as such, there was no signed documentation relating to the account at all.
- iii. Information regarding trading commissions was inconsistent across clients, with different clients being offered apparently different levels of trading commission across both advisory and execution-only trades.
- iv. There was no annual review documentation in any of the client files, with the Firm stating that it *"does not review client files annually. It reviews them **continually throughout the year**"* [Firm's emphasis]. While the Firm provides a list of characteristics that it keeps under review, it did not provide any documentation to demonstrate this.

4.25 The Firm's own website states that it only offers *"one type of service"*, which is a *"fully managed, portfolio management service"*. However, in response to the Authority on 30 January 2024, the Firm stated *"Clients often make their OWN decisions when trading... across all of the clients of the firm, you will find some very active investors and some very passive investors"*. The lack of information regarding the type of service selected by the clients and the fees they can expect to pay as a result, is particularly concerning in view of the apparently different approach clients may take.

4.26 Furthermore, on 31 January 2024, following questions by the Authority, the Firm informed the Authority a particular client had been conducting execution only trades. However, this client's PCP indicates that they had requested a discretionary fund management service. The Firm did not provide any documentation to the Authority to indicate that the services offered to this client have been changed and appropriately recorded, nor any explanation for this apparent inconsistency.

The Firm's communications with the Authority

Representations to the Authority about the Firm's fee and charging structure

4.27 The Firm has been unclear and inconsistent in responding to requests for information by the Authority relating to the fees it charges and the related services it provides. Between 19 September 2023 and 20 February 2024, the Firm has made numerous statements to the Authority about what its fee structure is.

4.28 On 8 December 2023, for example, in response to an information requirement sent by the Authority, the Firm stated:

"A new fee structure was introduced a few months ago which was 5% for 3 years. There are certain benefits to people signing up for 3 years, including a fixed rate for a longer period of time which means that if the firm's annual fee goes up next year or the year after, the client is not affected. It also gives stability for the client to plan ahead for 3 years in terms of their goals and not be distracted by the possibility of moving their portfolio within a year or two.

The reason for the discrepancy is because of the firm's wish to always act in the client's best interest, and particularly in light of the Consumer Duty regulations, the

firm now offers BOTH fee structures. It allows clients to choose between the original fee structure (2% for year 1, and 1% for each subsequent year) and the new structure of 5%.

The firm has found that clients prefer to have a choice and opt for what most closely satisfies their requirements. The evidence to date shows that clients have different views on what is best for them and so the two options have been overall very beneficial for our clients."

- 4.29 On 30 January 2024, the Firm completed the Authority's 2023 Wealth Survey which had been issued to the Firm pursuant to the Authority's information requirement powers under section 165 of the Act. In that survey, the Firm stated that the highest actual total fees and charges it had imposed on a client in the previous 12 months (as of 30 September 2023) was 5%. However, from a data set of 102 of the Firm's clients, 80 of those clients were charged more than 5% in fees and charges in 2023. Consequently, this representation in response to an information requirement was both false and, in the Authority's view, intended to mislead the Authority. The Authority considers that there is no reasonable excuse for the Firm's provision of such false and misleading information. The Authority considers that the statement was made to present the façade of a lower fee structure to suggest the Firm was mindful of its regulatory obligations to provide fair value to its clients.
- 4.30 Following the Firm's return of the 2023 Wealth Survey, the Authority engaged in further correspondence with the Firm about its fee structure. On 31 January 2024, the Authority emailed the Firm requesting: *'[...] the total in annual management charges, inactivity fees and trade fees for all clients on both platforms as opposed to just the trading commission.'* The Firm responded on the same date stating that it would request the information from the custodians, and on 1 February 2024 did provide the Authority with the requested data from the custodians.
- 4.31 After conducting a review of the charging data, the Authority has identified that the vast majority of clients had been charged a minimum £1,000 annual management fee regardless of portfolio size. On 7 February 2024, the Authority therefore followed up with the Firm to confirm if the data received was correct, noting that the question was being asked as, *"[...]the vast majority of the annual fees taken appear to be a flat £1000, which seems like an error.'*
- 4.32 The Firm responded on the same day:
- "Yes, the numbers are straight from the custodian and so they will be correct. The annual fee is 1% of the portfolio size (minimum 1%). However the first year is charged at 2% and the second and subsequent years 1%.*
- But as explained we look at each client on a case by case basis and will often make adjustments/discounts etc accordingly. So you might see a variation in the numbers.*
- Also another update, [the Firm] mentioned in [its] last email that we are currently reviewing the commission structure. It looks like we will be moving to a zero commission with a performance fee. There will be no inactivity fee but will retain the annual fee. We feel that this will give a better customer outcome."*
- 4.33 In its correspondence with the Authority since September 2023, at no stage did the Firm state that it imposed a minimum annual fee of £1,000 on its clients. This is also not set out anywhere on its website or in any client communications obtained by the Authority. The fact the Firm appears to impose a minimum fee of £1,000

regardless of portfolio value directly contradicts numerous representations made to the Authority by the Firm about its fee structures. Further, the Firm has not, to date, set out the basis on which it makes 'adjustments/discounts etc' to its clients' fees. Neither has the Firm's approach been articulated in any paperwork or client communications that the Authority has reviewed.

- 4.34 Despite being given numerous opportunities, the Firm has failed to clearly articulate its fee structure to the Authority. The Firm's statements about what fee structure it has in place also appears to be contradicted by data obtained from the Firm's custodians.

Failing to tell the Authority that its clients were being offboarded by Custodian A

- 4.35 The Firm had failed to disclose to the Authority that one of its custodians, Custodian A, was due to offboard the Firm's clients on 27 March 2024.
- 4.36 On 27 September 2023, Custodian A emailed the Firm's Director to inform the Firm that it was terminating its agreement with the Firm due to concerns "over the high level of charges being incurred by some of your managed clients". The Firm was given notice that the service termination date would be 27 March 2024.
- 4.37 The decision to offboard the Firm was reversed by Custodian A on 15 February 2024 after the Firm proposed to amend its fee structure (the Authority's analysis of the Firm's new fee structure for its Custodian A clients is dealt with in detail at paragraphs 4.54 to 4.59 below). Nevertheless, the Authority is seriously concerned that between 27 September 2023 and 15 February 2024, a period of almost five months, the Firm failed to inform the Authority via a SUP 15 disclosure or through any other means that it was due to be offboarded by Custodian A and the reason behind that decision was Custodian A's concerns about the Firm's high fees. Instead, the Authority has had to rely on disclosures directly from Custodian A.
- 4.38 Of further concern to the Authority is that in the communications between the Firm and Custodian A in which the Firm was seeking to persuade Custodian A to reverse its decision to offboard the Firm, the Firm appears to have overstated the extent of the Authority's involvement in approving the Firm's new fee structure. On 5 February 2024, in an email to Custodian A proposing potential new fee structures, the Firm stated: "*whatever approach we adopt would also be discussed and agreed by the FCA. we are currently speaking to the FCA about this.*"
- 4.39 Despite the Firm's claims to Custodian A, the Firm did not "discuss" the new fee structure with Authority, and it was not "agreed" by the Authority. The first time the Authority became aware of the new fee structure was the Firm's email of 20 February 2024.

Fees charged by the Firm

- 4.40 The Authority is concerned that the Firm has been charging its clients excessively high fees in the form of annual management fees, inactivity fees and commission that do not represent fair value as required by the Consumer Duty and other applicable regulatory requirements. The Authority expects a firm to ensure that its services do not exploit a customer's lack of knowledge or behavioural biases to enable unfair prices to be charged, and to ensure that there remains a reasonable relationship between the price customers pay and the benefits of the service provided. In addition, charges must not discourage customers from leaving products or services that are no longer right for them or accessing better deals.

Fees charged in 2023

4.41 In response to requests by the Authority, between 14 and 21 February 2024, one of the Firm's custodians, Custodian B, provided data relating to the Firm's clients. The Authority analysed 102 of the Firm's clients. All clients analysed by the Authority for these purposes were clients of the Firm throughout the period of 1 January 2023 to 31 December 2023.

4.42 For these clients, the Authority's analysis shows:

- i. the average portfolio size across the 102 clients was £78,000, and 73 clients had portfolios under £100,000;
- ii. 80 clients were charged more than 5% in fees and charges in 2023 - despite the Firm's statement in the 2023 Wealth Data Survey that the maximum fees and charges it had imposed on a client in the past 12 months (from 30 September 2023) was 5%;
- iii. the average total charge (combining annual management charges, commission, and inactivity fees) for each client was 14.59%;
- iv. 95 clients were charged an annual fee of £1,000 or more, four clients were charged an annual management fee of £500, three clients were charged no annual management fee (although two of these were executor accounts);
- v. for 60 clients the annual management fee alone exceeded 2% of their portfolio value;
- vi. 46 clients had been charged some form of inactivity fee of at least £250 during 2023 (including one executor account); and
- vii. 21 clients conducted no trades at all during 2023, but still incurred annual management and inactivity fees on their account, with an average of 16.3% being deducted from these clients' accounts.

4.43 The following examples represent some of the most egregious instances in which the Firm's charging practices:

- i. Client A's account had a "theoretical highest end of year value" (being the client's cash holdings and stock valuation combined at 31 December 2023 plus any withdrawals made throughout the year) was £460.62. The Firm charged them an annual management fee of £500 and an inactivity fee of £250. Thus, their total charges for the year amounted to £751.09, which significantly exceeded the value of their portfolio (which equate to a 163.06% charge).
- ii. Client B's account's "theoretical highest end of year value" was £1,687.35. The Firm charged them an annual management fee of £1,000, £100 in commission and inactivity fees of £500. Thus, their total charges for the year amounted to £1,600.59 (which equate to a 94.86% charge).
- iii. Client C's account's "theoretical highest end of year value" was £2,381.75. The Firm charged them an annual management fee of £1,000, £100 in commission and inactivity fees of £500. Thus, their total charges for the year amounted to £1,600.42 (67.20% charge).
- iv. Client D's account's "theoretical highest end of year value" was £5,936.18. The Firm charged them an annual management fee of £1,000 and inactivity fees of £1,000. Thus, their total charges for the year amounted to £2,100.17 (33.69% charge).

- 4.44 These fees and charges vastly exceed those that had been reported to the Authority by the Firm. It does not appear that the Firm has imposed a minimum portfolio value on its clients (the lowest portfolio value was £460.62) and therefore clients with smaller portfolio values appear to have been charged fees that are completely disproportionate to their theoretical highest end of year value. Despite the Firm informing the Authority that it looks "at each client on a case by case basis and will often make adjustments/discounts etc accordingly", the data suggests that all clients, apart from a very small proportion, are charged a minimum £1,000 annual management fee and charged quarterly £250 inactivity fees regardless of their portfolio size. The Authority does not consider that the inactivity fees, or the minimum £1,000 annual management charge for lower value portfolios charged by the Firm provide customers with fair value.
- 4.45 The Firm has repeatedly stated to the Authority that it was introducing the "Time to Give Back" offer which aimed to help clients who were over 80 or disabled access the Firm's services and grant them numerous benefits including removing the minimum account size, not charging commission on trades, removing inactivity fees, and charging an annual management fee of 1%. However, it does not appear from the data that the Firm has treated customers over the age of 75 fairly or provided them with fair value, at least in 2023. The average age of the 102 clients sampled was 72, and 23 of its living clients were aged 80 or older. Of the 23 living clients aged 80 or over, 17 of these were charged fees and charges of over 5% of their portfolio value in 2023.
- 4.46 The following clients highlight some of the Firm's most egregious overall charging practices of clients over the age of 75:
- i. Client E is a client with a stated low risk appetite, aged 85. Their account's "theoretical highest end of year value" was £11,378.12. The Firm charged them an annual management fee of £1,000 and £2,695.03 in commission for 27 trades. Thus, their total charges for the year amounted to £3,695.03 (32.47% charge).
 - ii. Client F is a client with a stated low-medium risk appetite, aged 78. Their account's "theoretical highest end of year value" was £5,774.26. The Firm charged them an annual management fee of £1,000, £100 in commission and inactivity fees of £1,000. Thus, their total charges for the year amounted to £2,100.17 (36.37% charge).
- 4.47 Further, the Authority is concerned about the number of trades executed on some client accounts was not proportionate to a client's risk level and profile, and the level of commission charged was excessive. The following sample of clients highlight the Authority's concerns around the Firm's trading practices and commission:
- i. Client G, a client with a stated low risk appetite, aged 93, was charged £4,534.31 in commission for 45 trades. The value of Client G's account (excluding cash holdings) on 1 January 2023 was £42,015.46 and this decreased to £34,846.94 by 31 December 2023.
 - ii. Client H, a client with a stated low-medium risk appetite, aged 78, was charged £7,424.68 for 75 trades. The value of Client H's account (excluding cash holdings) on 1 January 2023 was £61,044.85 and this decreased to £49,349.72 by 31 December 2023.
 - iii. Client I, a client with a stated low risk appetite, aged 85, was charged

£11,436.54 for 114 trades. The value of Client I's account (excluding cash holdings) on 1 January 2023 was £57,357.42 and this increased to £58,448.16 by 31 December 2023.

- 4.48 The Authority is concerned that the commission being charged by the Firm is not providing these clients with fair value. Despite the large number of trades, some accounts have decreased in value; yet clients have still been charged high levels of commission, thus compounding the client's loss. Further, in instances where portfolio values have increased, the high levels of commission charged by the Firm have significantly decreased the gain the client would otherwise have received had more reasonable commission fees been charged.

Fees charged in 2024 on the Custodian B platform

- 4.49 In response to requests by the Authority on 27 March 2024, Custodian B provided data relating to the Firm's clients. The Authority analysed 136 of the Firm's client accounts. Some of the Authority's findings relating to the fees and charges the Firm imposed on the 136 client accounts on the Custodian B platform between 1 January 2024 to 26 March 2024 are:

- i. 122 of the client accounts have suffered a net loss in total value;
- ii. 53 client accounts were charged 5% or more of their portfolio value already in 2024;
- iii. the average total charge (combining annual management charges, commission, and inactivity fees) for each client account was 10% of the portfolio value;
- iv. 21 client accounts appear to have held no securities at all – these client accounts were still charged an average of 23% in fees and charges; of these 21 client accounts, 12 were charged annual management fees ranging from 1% to 100% of the cash account balance; the remaining 9 client accounts have either not been charged yet or the value of their portfolios has been reduced to £0 due to additional fees imposed;
- v. 54 client accounts have had no trades conducted whatsoever in 2024; of these 54, 38 have paid annual management fees and inactivity fees averaging 16% of their portfolio value;
- vi. 105 client accounts have already been charged an annual management fee, and 96 of those were charged £1,000 or more; and
- vii. 45 client accounts have been charged inactivity fees of £250 or more.

- 4.50 Three of the same clients analysed in relation to 2023 (in paragraph 4.43 above) again highlight some of the Firm's most egregious charging practices on its clients on the Custodian B platform between 1 January 2024 to 26 March 2024:

- i. Client A's portfolio value on 1 January 2024 was £460.62. The Firm has charged them an annual management fee of £500, an inactivity fee of £250 and commission of £100 for one trade. Thus, their total charges for 2024 so far total £850, which significantly exceed the value of their portfolio (equating to a 185% charge).
- ii. Client B's portfolio value on 1 January 2024 was £1,687.35. The Firm has charged them an annual management fee of £1,000 and £100 in commission for one trade. Thus, their total charges for 2024 so far total £1,100 (equating to a 65% charge).
- iii. Client C's portfolio value on 1 January 2024 was £2,381.75. The Firm charged them an annual management fee of £500, £100 in commission

for one trade and a £250 inactivity fee. Thus, their charges for 2024 so far total £850 (equating to a 36% charge).

4.51 The Authority also has serious concerns that 15% of the Firm's clients have held no securities at all so far in 2024 and these clients have been charged an average of 23% in charges and fees. The following clients highlight some of the Firm's most egregious charging practices in relation to clients who have held no securities in 2024:

- i. Client J has held no securities in 2024. Their cash balance on 1 January 2024 was £2,055.41; this decreased to £805.41 by 26 March 2024. To date, they have paid an annual management fee of £1,000 and an inactivity fee of £250. This represents a total charge of £1,250 (equating to 61% of their portfolio as of 1 January 2024).
- ii. Client K has held no securities in 2024. Their cash balance on 1 January 2024 was £1,469.09; this decreased to £219.09 by 26 March 2024. They paid an annual management fee of £1,000 and inactivity fees of £250. This represents a total charge of £1,250 (equating to 85% of their portfolio as of 1 January 2024).

4.52 The Authority is also aware of examples of the Firm charging its clients multiple annual management fees – some of which relate to fees for 2025. For example. Client L, aged 83, holds two accounts with the Firm. Having already received an annual management fee for 2024 from Client L, on 8 March 2024, the Firm emailed Custodian B to request a fee of £4,312 from the first of Client L's accounts with the narrative "Annual Fee 2025" and a further £2,000 fee from Client L' account with the narrative "Annual Fee 2025". Further, on 13 March 2024, the Firm again requested fees of £4,312 from the first of Client L's account with the narrative "Annual Fee 2025", which appears to be a duplicate of the fee of 8 March 2024. The Authority is concerned as to the reason why the Firm is charging its clients fees relating to the next calendar year. Given the Firm's unclear fee structure, the Authority is concerned that the Firm is seeking to front load its fees in order to increase its profits as quickly as possible, and potentially before any sale of the Firm is finalised, without providing fair value to clients for such fees.

4.53 Consequently, based on the fee data relating to 2023 and 2024, the Authority is seriously concerned that the Firm has failed to act in good faith towards its customers, particularly in relation to its application of evidently disproportionate fees to existing customers. Moreover, these charges may have discouraged customers from leaving products or services that were no longer right for them, or accessing better deals. The Authority is concerned that the Firm may not have conducted its business in a way characterised by fair and open dealing with its customers.

Firm's new fee structure on Custodian A platform

4.54 Following correspondence between the Firm and Custodian A regarding the Firm's impending offboarding, the Firm proposed a new charging structure on Custodian A's platform, which Custodian A accepted. On 15 February 2024, Custodian A reversed its decision to offboard the Firm (see paragraphs 4.37 to 4.39 above for further detail). The Firm stated the new charging structure would be implemented from 1 March. In summary that new charging structure is an annual management fee of 1% (minimum £1,000), custodial fees of 0.25% of the fund value (pro-rotta monthly) and a quarterly performance related fee of 20% of any growth in the client's fund value; the Firm also stated that it would charge no commission on trades, no inactivity fees and no exit penalties.

- 4.55 As noted at paragraph 4.38 above, the Authority considers that the Firm overemphasised the extent of the Authority's involvement in agreeing to this fee structure. Regardless of the means by which the Firm persuaded Custodian A to agree to the new fee structure, however, the Authority still considers it an unsuitable structure for the reasons set out in paragraphs 4.57 to 4.58 below.
- 4.56 Based on data obtained from Custodian A for the period between 1 January 2024 to 28 March 2024, the Firm has a total of 24 clients on Custodian A's platform (once duplicate accounts were combined). Some of the Authority's findings relating to the fees and charges the Firm imposed on those 24 clients are:
- i. 8 clients were charged in excess of 5% of their portfolio value already in 2024;
 - ii. 18 clients have been charged an annual management fee in 2024; the range of the annual management for those 18 clients is between 0.53% to 11.91%;
 - iii. 16 clients have a portfolio value less than £100,000; and
 - iv. 22 clients have already paid fees and charges in excess of the 1% annual management fee the Firm stated it would implement on 4 March 2024.
- 4.57 Despite the Firm's proposed new fee structure for its Custodian A clients (summarised at paragraph 4.54) the Authority remains seriously concerned that the Firm's clients will not receive fair value for the following reasons:
- i. The Firm has already imposed substantial fees on its clients before it agreed to implement the new fee structure (22 of the Firm's Custodian A clients have already been charged more than 1% in 2024);
 - ii. In light of the Firm's charging practices over the past 15 months as outlined above, particularly in relation to its Custodian B clients, the Authority is concerned that the Firm's business model will effectively remain focused on bolstering its own profits without giving due consideration to clients' needs or whether they receive fair value;
 - iii. Given the majority of the Firm's client base is "Low", "Medium-low" and "Medium" risk, the Firm's 80-20 performance charging model clients could incentivise higher levels of risk taking on the Firm's part in relation to the securities it buys and potential overtrading; and
 - iv. Even on the Firm's proposed charging model of a 1% (minimum £1,000) annual management fee, that would result in numerous clients still being charged excessive annual management fees vastly in excess of 1%.
- 4.58 Further, although the new fee structure has not been implemented in respect of its Custodian B clients to date, the Authority is concerned that the same, or a similar, fee structure would also be unsuitable for these clients too. The concerns outlined in paragraph 4.57 above would also apply to the Firm's Custodian B clients. In addition, 122 of the Firm's Custodian B client accounts have made a net loss in 2024. Therefore, if this trend continues, the Firm may be forced to make riskier trades in an attempt to overturn the losses, overtrade, or simply focus efforts on a few high performing accounts to the neglect of the rest of its clients.
- 4.59 Therefore, the Authority does not consider the Firm's new charging structure offers fair value to its clients.

Proposed sale of the Firm

- 4.60 It has come to the Authority's attention that the Firm is, or has recently been, up for sale. Although the Authority is unaware of the exact date the Firm went up for

sale, it is aware that the Firm was for sale as recently as January 2024. In response to an information requirement sent under section 165 of the Act on 27 March 2024, Custodian B provided the Authority with a sales document entitled "London Stone Securities Limited Information Memorandum". Custodian B had received this memorandum from Business Sales Advisor A on 24 January 2024. The memorandum amounts to a sales and marketing document advertising that the Firm is for sale. This is the first time the Authority had been made aware that the Firm has been up for sale. The Authority is therefore seriously concerned that the Firm has not been open and honest with the Authority about the fact that it is up for sale. The Authority would expect to be made aware of this under SUP 15 or Principle 11. The Authority is also concerned that the proposed sale of the Firm may be driving the Firm to charge excessive fees and charges to generate as much profit as possible before the Firm is sold without providing its clients fair value for those fees.

Movement of money from Firm's account

- 4.61 Following a request by the Authority under section 175 of the Act, the Firm's banking provider, Bank A, supplied the Authority with details of the Firm's accounts and accompanying statements for period between March 2022 and 7 February 2024.
- 4.62 On 24 January 2024, contrary to what appears to be the Firm's ordinary pattern of moving money between its two business accounts, the Firm transferred £1,300,000 from one of its accounts with Bank A to an account held in the name of Partnership A. Partnership A was incorporated on 13 November 2023, by the Firm's Director. The Authority notes that this entity was incorporated approximately two months after the Authority held a meeting with the Firm and sent an email regarding the Firm's fee structure and policies regarding vulnerable customers on 19 September 2023.
- 4.63 The Authority also notes that the transfer of £1,300,000 to Partnership A followed shortly after the Authority's letter of 9 January 2024 requesting eight of the Firm's client files and details of the Firm's fees and charges, and the Firm's response on 12 January 2024.
- 4.64 The Authority is concerned that the Firm is moving money away from the Firm's accounts such that there may not be sufficient funds available should it be necessary for the Firm to reimburse customers that have been overcharged or who otherwise may be entitled to redress from the Firm.

5 CONCLUSION

- 5.1 The regulatory provisions relevant to this Second Supervisory Notice are set out in Annex 1.

Analysis of failings and risks

Financial promotions and marketing

- 5.2 The Authority has serious concerns that the Firm's online presence and marketing involves a significant degree of non-compliance with several provisions of Rules and Guidance in COBS and GEN. Specifically, the Authority is concerned that the Firm may be in breach of the following rules:

- i. COBS 4.2.1 (Rule), because the Firm's financial promotions and

communications relating to fees and charges may not be fair, clear and not misleading;

- ii. COBS 4.5.7 (Rule), because the Firm claims to offer “tax efficiency” services without the appropriate disclaimer that the tax treatment depends on the individual circumstances of each client and may be subject to change in future;
- iii. COBS 4.5.8 (Rule), because the information regarding fees (e.g., transaction fees) and terms and conditions (e.g., “lock in period”) are conflicting across different sections of the website and conflict with the information provided to the Authority regarding actual charges, as well as the data provided to the Authority by Custodian B;
- iv. GEN 1.2.1 (Rule), because the Firm repeatedly refers to its FCA-regulated status in promotional material in a way that is not fair, clear and not misleading; and
- v. GEN 5.1.10 (Rule), because the Firm uses the Authority’s logo and branding in its promotional material.

5.3 Further, the Authority is concerned that the Firm may not be complying with the following guidance:

- i. COBS 4.2.4 (4) (Guidance), because the Firm does not adequately distinguish between the services it is authorised to provide (e.g., investment management) and those which it is not (e.g., cryptoasset services and claims management);
- ii. COBS 4.2.5 (Guidance), because the Firm claims to offer a product with a “guaranteed” return without offering further information to substantiate or clarify this; and
- iii. COBS 4.5.5 (Guidance), because of the Firm’s failure to accurately disclose the fees associated with the services on offer, e.g. not specifying that a 1% fee applies to both “buy” and “sell” orders constitutes a material omission of relevant information resulting in a misleading statement of fees.

5.4 In discharging its general functions the Authority must, so far as is reasonably possible, act in a way which advances one or more of its operational objectives. The Authority’s operational objectives includes securing an appropriate degree of protection for consumers (Section 1C of the Act). The Authority has serious concerns that the Firm has failed to comply with certain of the Authority’s rules relating to financial promotions, such that it represents a serious and ongoing risk of causing harm to consumers if it is able to continue to issue financial promotions without the imposition of the Requirements. On the basis of financial promotions published by the Firm, there is a serious risk that consumers may be misled and are therefore unable to make fully informed decisions and understand the risks inherent with the services being promoted.

Communications with clients

5.5 The Authority has serious concerns that the Firm is not providing its clients with an accurate and full description of the services it is providing, and it is not sharing clear information with its clients about its fee and charging structure. Specifically, the Authority is concerned that the Firm may not be complying with:

- i. COBS 8.1.4 (Rule), because, as demonstrated by the eight client files shared with the Authority, the Firm has not provided its clients with a description of the services, and where relevant the nature and extent of the investment advice, to be provided;
- ii. Principle 7 (PRIN 2.1.1) Communications with Clients, because the Firm

- has not disclosed its fee and charging structure to clients in a way which is clear, fair and not misleading; and
- iii. Principle 12 (PRIN 2.1.1) Consumer Duty (applicable since 31 July 2023), because the Firm has not supported its customers by disclosing and adequately explaining its service terms or the associated fees, which is a risk exacerbated by the Firm's client base including many customers that have characteristics of vulnerability.

5.6 The Authority considers that the Firm therefore represents a serious and ongoing risk of causing harm to consumers and considers it desirable to impose the Requirements to advance the Authority's consumer protection objective.

Lack of openness with the Authority

5.7 The Authority has serious concerns that the Firm is not dealing with the Authority in an open and cooperative way and has provided the Authority with false and misleading information:

- i. The Firm has not been appropriately open with Authority about the nature of the fees and charges it imposes on its clients, having provided conflicting and inconsistent responses to the Authority's questions regarding its fee structure, which then appears to be materially different to the evidence of charges actually imposed on the Firm's customers evidenced by data obtained from the Firm's custodian.
- ii. The Firm failed to inform the Authority that one of its custodians, Custodian A, was offboarding the Firm's clients (despite being obliged to disclose appropriately information in respect of which the Authority would expect notice under SUP 15 and/or Principle 11).

5.8 The Authority therefore has serious concerns that the Firm is failing to meet:

- i. the Effective Supervision Threshold Condition (COND 2.3); and
- ii. the Suitability Threshold Condition (COND 2.3).

5.9 The Threshold Conditions are minimum standards that firms need to meet in order to be authorised and to continue carrying on regulated activities. Section 55L of the Act permits the Authority to impose requirements on the Firm because the Firm is failing, or is likely to fail, to satisfy the Suitability Threshold Condition pursuant to Section 2E of Schedule 6 of the Act.

Fees charged to clients

5.10 The Authority considers that the Firm represents a serious and ongoing risk of harming consumers because the Firm is charging its clients excessively high fees for products and services that do not offer fair value to those clients – including a minimum £1,000 annual management fee and a minimum quarterly £250 inactivity fee, both applied regardless of portfolio value to the significant majority of customers identified by the Authority's sampling of the Firm's data. Specifically, the Authority is concerned that the Firm may not be complying with:

- i. Principle 6 (PRIN 2.1.1) Customers' Interests, because the Firm has not paid due regard to the interests of its customers and treated them fairly by imposing unreasonably high fees; and
- ii. Principle 12 (PRIN 2.1.1) Consumer Duty (applicable since 31 July 2023), because the Firm has charged fees that are unjustifiably or unreasonably high compared to the benefits of the service offered, which is a risk exacerbated by the Firm's client base including many customers that

have characteristics of vulnerability. These charges may also have acted as a potential barrier to clients exiting the Firm or from accessing better deals.

- 5.11 The Authority considers that the Firm therefore represents a serious and ongoing risk of causing harm to consumers and considers it desirable to impose the Requirements pursuant to section 55L(3)(a) to advance the Authority's consumer protection objective.
- 5.12 The Authority has concluded, in light of the matters set out above, that it is necessary to exercise its own-initiative power under section 55L(3)(a) of the Act by imposing the Requirements to stop the Firm conducting regulated activities and prevent any dissipation of assets in order to protect the interests of consumers.
- 5.13 The Authority considers that the Requirements remain a proportionate and appropriate means to address the current and immediate risks, and are desirable in order to advance the Authority's operational objective of consumer protection.

Timing and duration of the Requirements

- 5.14 It was necessary to impose the Requirements immediately given the seriousness of the risks and the need to protect consumers.
- 5.15 The Authority considers that it is necessary for the Requirements to remain in place indefinitely and until such time as the Authority is satisfied that the risks that the Requirements seek to address are appropriately mitigated.

6 PROCEDURAL MATTERS

Decision-maker

- 6.1 The decision which gave rise to the obligation to give this Second Supervisory Notice was made by an Authority staff member under executive procedures according to DEPP 2.3.1, DEPP 2.5.7G and DEPP 4.1.7G.
- 6.2 This Second Supervisory Notice is given under section 55Y(7) and in accordance with section 55Y(9) of the Act.
- 6.3 The following statutory rights are important.

Representations

- 6.4 On 21 and 26 June 2024, the Firm submitted written representations in response to the First Supervisory Notice. The Authority has reviewed and considered all material the Firm provided and concluded that the Requirements remain proportionate and appropriate. A summary of the Firm's written representations and the Authority's response is set out at Annex 2.

The Tribunal

- 6.5 The Firm has the right to refer the matter to which this Second Supervisory Notice relates to the Tribunal. The Tax and Chancery Chamber is part of the Tribunal which, amongst other things, hears references arising from decisions of the Authority. Under paragraph 2(2) of Schedule 3 of the Tribunal Procedure (Upper Tribunal) Rules 2008, the Firm has 28 days from the date on which this Second Supervisory Notice is given to it to refer the matter to the Tribunal.

- 6.6 A reference to the Tribunal can be made by way of a reference notice (Form FTC3) signed by or on behalf of the Firm and filed with a copy of this First Supervisory Notice. The Tribunal's contact details are: The Upper Tribunal, Tax and Chancery Chamber, 5th Floor, Rolls Building, Fetter Lane, London EC4A 1NL (telephone: 020 7612 9730; email: uttc@hmcts.gsi.gov.uk).
- 6.7 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>
- 6.8 The Firm should note that a copy of the reference notice (Form FTC3) must also be sent to the Authority at the same time as a reference is filed with the Tribunal. A copy of the reference notice should be sent to Rob Shaw (Rob.shaw@fca.org.uk) and the Executive Decision Making Secretariat (EDMSecretariatInbox@fca.org.uk).

Confidentiality and publicity

- 6.9 Section 391(5) of the Act requires the Authority, when the First Supervisory Notice takes effect, to publish such information about the matter to which the notice relates as it considers appropriate.
- 6.10 In the Authority's view, publication of this Second Supervisory Notice is not unfair to the Firm or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system as per section 391(6) of the Act.

Authority contacts

- 6.11 For more information concerning this matter generally, contact Rob Shaw (Rob.shaw@fca.org.uk).
- 6.12 Any questions regarding the executive procedures decision-making process should be directed to the Executive Decision Making Secretariat (EDMSecretariatInbox@fca.org.uk).

Lucy Castledine
Decision made under Executive Procedures Director
Consumer Investments

Annex 1

RELEVANT STATUTORY PROVISIONS

1. The Authority's operational objectives established in section 1B of the Act include securing an appropriate degree of protection for consumers, and protecting and enhancing the integrity of the UK financial system.
2. Section 55L of the Act allows the Authority to impose a new requirement on an authorised person if it appears to the Authority that the authorised person is failing, or likely to fail to satisfy the Threshold Conditions (section 55L(2)(a)), or it is desirable to exercise the power in order to advance one or more of the Authority's operational objectives (section 55L(2)(c)).
3. Section 55N of the Act allows a requirement to be imposed under section 55L of the Act so as to require the person concerned to take specified action (section 55N(1)(a)), or to refrain from taking specified action (section 55N(1)(b)).
4. Section 55P of the Act allows a requirement to be imposed under section 55L of the Act prohibiting the disposal of, or other dealing with, any of an authorised person's assets (whether in the UK or elsewhere), or restricting such disposals or dealings.
5. Section 55Y(3) of the Act allows a requirement to take effect immediately (or on a specified date) if the Authority, having regard to the ground on which it is exercising its own-initiative power, reasonably considers that it is necessary for the requirement to take effect immediately (or on that date).
6. Section 55Y(7) provides that if, having considered any representations made by an authorised person, the Authority decides (a) to vary the permission, or impose or vary the requirement, in the way proposed, or (b) if the permission has been varied or the requirement imposed or varied, not to rescind the variation of the permission or the imposition or variation of the requirement, it must give the authorised person written notice.
7. Section 55Y(9) provides that if an authorised person is given written notice under section 55Y(7), the Authority must inform the authorised person of their right to refer the matter to the Tribunal.
8. Section 391 of the Act provides that:
“[...]”
 - (5) When a supervisory notice takes effect, the Authority must publish such information about the matter to which the notice relates as it considers appropriate.
 - (6) But the Authority may not publish information under this section if in its opinion, publication of the information would, be unfair to the person with respect to whom the action was taken or proposed to be taken [or] prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.
 - (7) Information is to be published under this section in such manner as the Authority considers appropriate.”

RELEVANT REGULATORY PROVISIONS

The Enforcement Guide

9. The Authority's approach in relation to its enforcement powers is set out in Chapter 8 of the Enforcement Guide (EG), certain provisions of which are summarised below.
10. EG 8.1.1 reflects the provisions of section 55L of the Act by stating that the Authority may use its own-initiative power to impose requirements on an authorised person where, amongst other factors, the person is failing or is likely to fail to satisfy the threshold conditions for which the Authority is responsible (EG 8.1.1(1)), or it is desirable to exercise the power in order to advance one or more of its operational objectives (EG 8.1.1(3)).
11. EG 8.2.1 states that when the Authority considers how it should deal with a concern about a firm, it will have regard to its statutory objectives and the range of regulatory tools that are available to it. It will also have regard to the principle that a restriction imposed on a firm should be proportionate to the objectives the Authority is seeking to achieve (EG 8.2.1(2)).
12. EG 8.2.3 states that in the course of its supervision and monitoring of a firm or as part of an enforcement action, the Authority may make it clear that it expects the firm to take certain steps to meet regulatory requirements. In the vast majority of cases the Authority will seek to agree with a firm those steps the firm must take to address the Authority's concerns. However, where the Authority considers it appropriate to do so, it will exercise its formal powers under section 55L of the Act to impose a requirement to ensure such requirements are met. This may include where, amongst other factors, the Authority has serious concerns about a firm, or about the way its business is being or has been conducted (EG 8.2.3(1)), or is concerned that the consequences of a firm not taking the desired steps may be serious (EG 8.2.3(2)).
13. EG 8.3.1 states that the Authority may impose a requirement so that it takes effect immediately or on a specified date if it reasonably considers it necessary for the requirement to take effect immediately (or on the date specified), having regard to the ground on which it is exercising its own-initiative powers.
14. EG 8.3.2 states that the Authority will consider exercising its own-initiative power where: 1) the information available to it indicates serious concerns about the firm or its business that need to be addressed immediately; and 2) circumstances indicate that it is appropriate to use statutory powers immediately to require and/or prohibit certain actions by the firm in order to ensure the firm addresses these concerns.
15. EG 8.3.3 states that it is not possible to provide an exhaustive list of the situations that will give rise to such serious concerns, but they are likely to include one or more of four listed characteristics, these include: 1) information indicating significant loss, risk of loss or other adverse effects for consumers, where action is necessary to protect their interests; 2) information indicating that a firm's conduct has put it at risk of being used for the purposes of financial crime, or of being otherwise involved in crime; 3) evidence that the firm has submitted to the Authority inaccurate or misleading information so that the Authority becomes seriously concerned about the firm's ability to meet its regulatory obligations; 4) circumstances suggesting a serious problem within a firm or with a firm's controllers that calls into question the firm's ability to continue to meet the threshold conditions.

16. EG 8.3.4 states that the Authority will consider the full circumstances of each case when it decides whether an imposition of a requirement is appropriate and sets out a non-exhaustive list of factors the Authority may consider, these include:

(1) The extent of any loss, or risk of loss, or other adverse effect on consumers. The more serious the loss or potential loss or other adverse effect, the more likely it is that the Authority's exercise of own-initiative powers will be appropriate, to protect the consumers' interests.

[...]

(3) The nature and extent of any false or inaccurate information provided by the firm. Whether false or inaccurate information warrants the Authority's exercise of its own-initiative powers will depend on matters such as:

(a) the impact of the information on the Authority's view of the firm's compliance with the regulatory requirements to which it is subject, the firm's suitability to conduct regulated activities, or the likelihood that the firm's business may be being used in connection with financial crime;

(b) whether the information appears to have been provided in an attempt knowingly to mislead the Authority, rather than through inadvertence;

(c) whether the matters to which false or inaccurate information relates indicate there is a risk to customer assets or to the other interests of the firm's actual or potential customers.

(4) The seriousness of any suspected breach of the requirements of the legislation or the rules and the steps that need to be taken to correct that breach.

(5) The financial resources of the firm. Serious concerns may arise where it appears the firm may be required to pay significant amounts of compensation to consumers. In those cases, the extent to which the firm has the financial resources to do so will affect the Authority's decision about whether exercise of the Authority's own-initiative powers is appropriate to preserve the firm's assets, in the interests of the consumers. The Authority will take account of any insurance cover held by the firm. It will also consider the likelihood of the firm's assets being dissipated without the Authority's intervention, and whether the exercise of the Authority's power to petition for the winding up of the firm is more appropriate than the use of its own-initiative powers.

[..]

(8) The firm's conduct. The FCA will take into account:

(a) whether the firm identified the issue (and if so whether this was by chance or as a result of the firm's normal controls and monitoring);

(b) whether the firm brought the issue promptly to the Authority's attention;

(c) the firm's past history, management ethos and compliance culture;

(d) steps that the firm has taken or is taking to address the issue.

(9) The impact that use of the Authority's own-initiative powers will have on the firm's business and on its customers. The Authority will take into account the (sometimes significant) impact that a variation of permission may have on a firm's business and on its customers' interests, including the effect of variation on the firm's reputation and on market confidence. The Authority will need to be satisfied that the impact of any use of the own-initiative power is likely to be

proportionate to the concerns being addressed, in the context of the overall aim of achieving its statutory objectives.

17. EG 8.3.4(9) includes the impact that use of the Authority's own-initiative powers will have on the firm's business and on its customers. The Authority will need to be satisfied that the impact of any use of the own-initiative power is likely to be proportionate to the concerns being addressed, in the context of the overall aim of achieving its statutory objectives.

Annex 2

REPRESENTATIONS

1. The Firm's Representations, and the Authority's response, can be summarised as follows:

The Firm's Financial Promotions and Marketing

Firm Representations

2. The Firm has now removed all financial promotions. The Firm accepts that some of its financial promotions failed to reach the standards expected and the tone of its messaging was wrong. However, the Firm claims it was simply trying to give investors information they would find valuable. The Firm also maintains the "Time to Give Back" offer was an attempt to help the elderly.

The Authority's Response

3. The Authority notes the removal of the financial promotions but considers they may have already caused consumer harm. The Authority considers that some of the Firm's financial promotions amounted to an aggressive marketing campaign that had the potential to scaremonger clients into opening accounts with the Firm. The content and tone of the Firm's promotions were such that they were likely to have a greater impact on potentially vulnerable customers and those with little experience of investing and financial markets.

Onboarding and Client Information

Firm Representations

4. The Firm accepts that there has been a lack of consistency in relation to the client onboarding process and the nature of the services offered by the firm. The Firm admits there was a crossover between execution, advisory and discretionary clients. The Firm also accepts that its internal documentation was varied and inconsistent. However, the Firm states it frequently communicates with its clients which allows the Firm to update clients' personal and financial circumstances constantly. The Firm states that all clients were notified about the fees it imposed, and fees were taken only after clients were notified and either gave their express consent or implied consent (by failing to respond to the Firm's communications).

The Authority's Response

5. The Authority considers the Firm has fallen far short of demonstrating that its clients were even notified of the fees they were charged, let alone agreed to them. The Firm's reference to clients providing "implied consent" to fees is a matter of significant concern – not least because the Firm has not produced agreements with clients to evidence that the Firm was permitted to incrementally increase fees without their express consent.

Fees charged by the Firm

Firm Representations

6. The Firm accepts that in some instances the Firm's fee structure could be regarded as unfair for clients - specifically, inactivity fees and minimum annual fees for smaller accounts. The Firm also accepts that the majority of client portfolios have

not performed well under its management, but claims this is not the fault of the Firm. Elsewhere in the Representations, the Firm seeks to justify the fees some clients were charged.

The Authority's Response

7. The Authority considers the Firm has charged its clients grossly excessive fees and is concerned that these fees have not provided clients with fair value and may be in breach of the Firm's obligations under the Consumer Duty. Further, the Authority considers it misconceived for the Firm to claim that poor performance of portfolios under its management was not the fault of the Firm. In many instances the Firm's fees have significantly compounded client losses.

The Firm's openness and honesty

Firm Representations

8. The Firm states that it has not intentionally attempted to mislead the Authority. In respect of the Firm's answer in the 2023 Wealth Data Survey that the highest fee it had imposed was 5% of a client's portfolio value, the Firm states that it provided the best estimate it could based on the limited information it had available. The Firm asserts that it struggled to complete the Wealth Data Survey and contacted the Authority's Supervision Hub team for assistance but claims it did not receive sufficient help. The Firm also claims that it was difficult to extract fee data (specifically commission charges) from its custodians that it needed to complete the Wealth Data Survey.

The Authority's Response

9. The Authority remains seriously concerned that the Firm has not been open and honest, and has deliberately or recklessly sought to mislead the Authority. The Authority considers the question about fees was clear and it is not credible for the Firm to claim that it did not understand it. Further, the Authority maintains that the Firm had access to information that would have made clear the highest fee it imposed in 2023 vastly exceeded 5%. Even based on the Firm's own account of what charging information it had access to at the time of completing the Wealth Data Survey, the highest fee it had imposed was 88.9% of a client's portfolio value (excluding commission).

Movement of money from Firm's account

Firm Representations

10. The Firm states that payments in and out of the business bear no relationship to the Authority's ongoing communications with the Firm. The Firm makes reference to £790,000 that it asserts was withdrawn from the Firm as a director's loan by the Firm's Director in April-May 2023 and returned in December 2023 in order to avoid a large tax liability. The Firm states the funds were withdrawn again in January 2024.

The Authority's Response

11. The Authority remains unclear how the £790,000 "director's loan" relates to the £1,300,000 moved from the Firm's bank accounts to Partnership A or why the Firm considers it was necessary to move that money. The Firm's Representations do not alleviate the Authority's concerns and it does not consider the Firm has put forward an explanation as to why £1,300,000 has been removed from the Firm, particularly

given the potentially large redress liability the Firm faces, and the recent Financial Ombudsman Service complaints upheld against the Firm. The Authority remains concerned that without the security of the assets requirement, further money could be diverted away from the Firm and potential customer redress.

Proposed remediation plan

Firm Representations

12. The Firm submitted a remediation plan to the Authority in which it proposes to:
 - offer only a single fee structure which will be a 2% annual management fee for all clients;
 - cease charging inactivity fees, trading fees and performance fees;
 - not charge an exit fee;
 - only offer a discretionary management service and cease offering execution only or advisory services as standalone services;
 - not publish any further financial promotions save for having a basic website which accurately and fairly describes the service it offers;
 - appoint a new Compliance Officer;
 - implement a new module to its CRM system to help collate and maintain information more efficiently; and
 - offer its clients some financial redress for inactivity fees and annual management fees (but excluding any commission fees).

The Authority's Response

13. The Authority does not consider that it has been presented with evidence to demonstrate the Firm's new business model has been appropriately planned and costed or that a Consumer Duty fair value assessment has been completed. The Firm would need to provide significantly robust financial projections based on its new fee proposals and demonstrate that it has adequate financial and non-financial resources in order to satisfy the Authority that the Firm's new proposals are sustainable. Further, the Authority does not consider the Firm's redress proposal to be sufficient or proportionate to the harm its clients have suffered as a result of the Firm's practices.