
FINAL NOTICE

To: **J.P. Morgan International Bank Limited**

Firm

Reference

Number: **190750**

Address: **1 Knightsbridge, London, S1X 7LX**

Date: **10 May 2013**

1. ACTION

- 1.1. For the reasons given in this notice, the FCA hereby imposes on J.P. Morgan International Bank Limited ("JPMIB" or "the Firm") a financial penalty of £3,076,200.
- 1.2. JPMIB agreed to settle at an early stage of the FCA's investigation. It therefore qualified for a 30% (Stage 1) discount under the FCA's executive settlement procedures. Were it not for this discount, the FCA would have imposed a financial penalty of £4,394,695 on JPMIB.

2. SUMMARY OF REASONS

- 2.1. Between 1 January 2010 and 17 February 2012 (the "Relevant Period") JPMIB failed to comply with Principle 3 and SYSC 9.1.1R. During the Relevant Period JPMIB failed to take reasonable care to organise and control its affairs relating to its provision of retail investment advice and portfolio investment services responsibly and effectively, with adequate risk management systems.
- 2.2. JPMIB's processes and training relevant to the assessment of suitability were insufficient and did not ensure that its front office staff obtained and properly recorded sufficient KYC and suitability information from clients in accordance with its procedures. In particular:

- (1) Client files often did not record, or keep up to date, important client suitability information such as a client's objectives, capacity for loss, and investment experience. As a result JPMIB could not always evidence that it had received or considered this information as part of the suitability assessment. JPMIB also failed to record whether the vast majority of transactions which were not conducted on a discretionary basis had been conducted on an advised or execution-only basis;
 - (2) Information concerned with on-going account management, such as client communications and the rationale for both investment selections and client risk profiles, was sometimes incomplete or inaccurate, or not retained on the appropriate system;
 - (3) Suitability reports (when required) failed adequately to contain a statement of the client's demands and needs, explain why the investment was suitable to meet those needs or indicate any disadvantages of the investment; and
 - (4) JPMIB did not ensure that communications to confirm client suitability profiles were always sent to clients (as required by its own policy).
- 2.3. JPMIB's risk and compliance monitoring failed to identify and escalate a number of issues relating to suitability procedures including some of the serious deficiencies in the documentation held on client files. Although JPMIB's risk and compliance monitoring did identify some of the issues relating to poor documentation controls and the failings in Argus, these issues were not adequately addressed until after the Relevant Period.
- 2.4. Senior management also had insufficient information and oversight tools to identify and proactively address the deficiencies in JPMIB's processes relevant to the assessment of suitability.
- 2.5. The FCA regards these failings, including the failure to record and maintain fundamental client information, as significant since they exposed customers to the risk of incorrect advice and unsuitable or inappropriate investments. Poor record keeping gives rise to other risks such as a firm being unable to respond adequately or fairly to a client complaint. Further, it hinders the monitoring of a firm's compliance with the requirements of the regulatory system.
- 2.6. The failings persisted for over two years and were not identified by JPMIB. The Firm's failings were discovered in the course of a FCA thematic review of wealth management firms and it appears that, but for this, they would have continued for a longer period. Subsequently in mitigation:
- (1) JPMIB has taken prompt and considerable steps to resolve the issues and improve its systems, including carrying out recommendations made by a Skilled Person. It has also proactively undertaken a significant overhaul of its suitability processes;
 - (2) JPMIB has agreed to, and is in the process of conducting, with the assistance of an independent third party, an extensive past business review of all of its client accounts to assess the suitability of their investments and compensate appropriately any clients in the event that they have suffered any detriment as a result of any failings on its part; and

- (3) JPMIB has displayed a very high level of cooperation with the FCA during the investigation.
- 2.7. Moreover, having reviewed 1,416 client relationships to date, the past business review has identified only one case in which there was an unsuitable investment (which is being addressed by JPMIB with the relevant client). This result appears to be in part a reflection of the sophisticated nature of JPMIB's clients (for example, who may themselves have been working in the financial services industry and/or have had their own separate financial adviser) and of the typically frequent and detailed communications between the Firm and its clients. The Skilled Person found that despite the deficiencies in the Firm's record keeping and suitability process, its advisers were able to demonstrate a good understanding of customers' objectives and did in practice conduct accurate risk profiling of clients, whose accounts were then generally managed in accordance with those profiles.
- 2.8. This action supports the FCA's regulatory objective of the protection of consumers.

3. DEFINITIONS

The definitions below are used in this Final Notice:

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

"the FCA" means the body corporate renamed on 1 April 2013 as the Financial Conduct Authority and previously known as the Financial Services Authority;

"the FCA Handbook" means the FCA Handbook of Rules and Guidance;

"JPMIB" or "the Firm" means J.P. Morgan International Bank Limited;

"KYC" means Know Your Client;

"Per se professional" means a per se professional client as defined pursuant to paragraph 3.5.2 of the FCA's Conduct of Business Sourcebook;

"the Principles" means the FCA's Principles for Businesses as set out in the FCA Handbook;

"the Relevant Period" means 1 January 2010 to 17 February 2012;

"Skilled Person" means the person appointed under section 166 of the Act to review and report on the relevant systems and controls at the Firm;

"SYSC" means the rules set out in the Senior Management Arrangements, Systems and Controls section of the FCA Handbook; and

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

4. FACTS AND MATTERS

The Firm

- 4.1. JPMIB is a wealth management firm which offers loans, mortgages and portfolio investment services to high net worth clients. Its portfolio investment services include discretionary portfolios and self-directed accounts, as well as providing execution-only services. JPMIB's client base includes high and ultra-high net

worth individuals, sophisticated investors, family offices, charities and investment trusts. In the Relevant Period the target client base was those with USD\$25 million or more in investable assets.

- 4.2. During the Relevant Period, JPMIB had approximately 3,000 clients, a significant number of whom worked in the financial services industry. JPMIB elected to treat all of its clients as retail clients regardless of their expertise unless a client opted otherwise or was (in certain cases) deemed to be a *per se* professional client. Accordingly, over 90% of its clients were categorised by the Firm as retail clients, with the remainder being classified as professional clients. Retail clients receive greater protection under the FCA's rules as they are generally less experienced and knowledgeable than professional clients.
- 4.3. As at 17 February 2012, JPMIB had total funds under management of approximately USD\$29 billion.
- 4.4. JPMIB is a wholly owned subsidiary of J.P. Morgan Chase International Holdings Limited.

Background

- 4.5. During the Relevant Period, JPMIB offered two types of investment portfolio accounts to clients:
 - (1) discretionary portfolios whereby JPMIB had full discretion to manage the portfolio of investments in the account and act as the client's agent; and
 - (2) 'self-directed' accounts whereby JPMIB provided investment advice to clients, undertaking recommended investments when instructed to do so, and/or undertook investments on an 'execution-only' basis (i.e. investments which did not arise from a JPMIB recommendation) pursuant to clients' instructions.
- 4.6. JPMIB's services to their clients are provided by an integrated team rather than one specific individual. Within investment teams there were two types of team members who acted as the primary advisers to the clients:
 - (1) 'Bankers', who were primarily responsible for the overall relationship with the client and co-ordinated all activities between the client and JPMIB; and
 - (2) 'Investors', who advised clients in relation to investments and where applicable executed investments.

The Argus system

- 4.7. During the Relevant Period, KYC and client information relating to suitability was stored on a computer information system known as Argus. This system was used for compiling client suitability profiles, amongst other things. Client suitability profiles set out important information such as the client's financial circumstances. For discretionary portfolios, the client suitability profile would also set out the parameters for making discretionary investments on behalf of the client.
- 4.8. Client interview forms were completed with information gathered during the first discussions with a new client of JPMIB (this initial fact finding process was known by the Firm as 'on-boarding'). The relevant client interview forms were then scanned into Argus. Additional suitability information was obtained from other data sources including due diligence reports, call memoranda, correspondence

and meeting notes. This additional information and documentation was held on separate systems from Argus.

- 4.9. A client's suitability profile on Argus would be prepared by the relevant Banker or Investor. Once a suitability profile had been prepared on Argus, it could only be amended by either a Banker or an Investor as only they had access rights to amend suitability profiles (for example, where a client's circumstances or documented risk profile had changed). More junior members of the investment team generally only had 'read only' access to Argus.
- 4.10. Once the initial suitability profile was prepared, a suitability confirmation letter was sent to clients with self-directed accounts, and designated investment parameters were sent to clients with discretionary portfolios. These set out the client's risk profile as determined by the Firm's 'on-boarding' process together, in the case of discretionary portfolios, with a request for signed confirmation that they were correct.

The FCA's thematic review

- 4.11. During 2010 and 2011 JPMIB was reviewed as part of an FCA thematic project on wealth management firms and suitability of advice, which led (or should have led) to a heightened awareness in the wealth management sector of the importance of ensuring suitable outcomes for clients and resulted in the issue of a 'Dear CEO' letter to wealth management firms on 14 June 2011. This letter sets out several areas of concern, in particular the inability of wealth management firms to demonstrate suitability. It was noted that this problem was due to suitability KYC failings and a lack of information on clients' financial circumstances, experience and objectives. Further, the letter noted that the FCA had found that there was a risk of unsuitability due to inconsistencies between portfolios and the clients' attitude to risk and investment objectives.
- 4.12. As a result of the thematic review, the FCA identified a number of issues with JPMIB's processes and its inability to demonstrate client suitability on the face of its client files. These findings were then fed back to the Firm.

Skilled Person report

- 4.13. On 15 September 2011 the FCA required JPMIB to appoint a Skilled Person under section 166 of the Act. Amongst other matters, the Skilled Person was appointed to conduct an assessment of the adequacy and effectiveness of the Firm's systems and controls relating to the suitability of investment decisions and the retention of appropriate records. In its report dated 17 February 2012, the Skilled Person identified a number of weaknesses within the Firm's systems and controls relating to the processes relevant to the assessment of suitability and the documentation of and/or retention of appropriate records to enable the Firm to demonstrate the suitability of client outcomes on the face of those records alone. These weaknesses are set out in more detail in the Findings section below.
- 4.14. As part of its work, the Skilled Person conducted an assessment of 25 client relationships and 74 associated accounts. The initial findings were that, on the basis of documentation held on client files alone, JPMIB was unable to demonstrate suitability in 19 of the 25 client relationships reviewed and a further 3 client relationships had a high risk of unsuitability. However, following interviews with the Bankers and Investors responsible for the clients, and additional contextual information being provided by them through meeting notes and call memoranda not retained on the files, the Skilled Person was satisfied that

all of the investments made in the 25 client relationships were consistent with the clients' actual risk profile.

- 4.15. The Skilled Person also found that despite the deficiencies in the Firm's suitability and record keeping process, its advisers displayed a good understanding of customers' objectives and did in practice conduct accurate risk profiling of clients, whose accounts were then generally managed in accordance with those profiles.

Past business review overseen by independent third party

- 4.16. The FCA also required JPMIB to engage an independent third party to undertake a past business review of the 25 client relationships that were the subject of the Skilled Person's report to further investigate if there had been any unsuitable investments and if any clients had suffered any detriment. JPMIB then agreed to extend this review to all of its client relationships. To date, having reviewed 1,416 client relationships, the past business review has identified only one case in which there was an unsuitable investment. This appears to be in part a reflection of the sophisticated nature of JPMIB's clients (who may themselves have been working in the financial services industry and/or had their own separate financial adviser) and of the typically frequent and detailed communications between the Firm and its clients.

Findings

Inadequate client suitability information and suitability assessment process

- 4.17. During the Relevant Period JPMIB failed to establish and maintain an adequate process for obtaining, documenting and updating suitability information and carrying out suitability assessments.
- 4.18. The Skilled Person found that that in 22 of the 25 relationships it reviewed there were significant gaps in suitability information. The information missing included:
- (1) the financial circumstances of clients and/or of the beneficial owners of an account;
 - (2) the investment knowledge and experience of clients and/or of the beneficial owners of an account;
 - (3) an indication of how the risk/return profile for clients had been assessed; and
 - (4) an assessment of the client's ability to bear loss.
- 4.19. The reasons for these failings include an inconsistent approach and no adequate methodology for client risk profile classification, including a lack of guidance on the minimum information to be captured in client interview forms, Argus suitability profiles and suitability confirmation letters.
- 4.20. In addition to not properly recording client information relating to suitability, JPMIB did not ensure that its recorded suitability assessments for clients were kept up to date. An internal audit by JPMIB identified that as at 30 June 2011, of 100 relationships reviewed seven had not been updated for over three years and a further seven had not been updated for over six years.
- 4.21. The failure properly to update client suitability information also created an inconsistency between some of the information recorded in due diligence reports,

the Argus system, client interview forms, call memoranda and file notes. For example, in some cases clients' investment time horizons as recorded on Argus were not consistent with what had been recorded in client communications. In other cases, client risk profiles as recorded in Argus were inconsistent with what appears to have been the clients' actual risk profile (for example, "Moderate" instead of "Aggressive").

- 4.22. These failings were caused by a lack of controls to ensure that Bankers and Investors properly obtained, recorded and updated client suitability information; a lack of clear suitability guidelines and procedures; the technical and functional limitations of the Argus system (as described below at paragraph 4.23); and a lack of sufficient risk and compliance oversight.

Deficiencies in the Argus system

- 4.23. One of the main shortcomings in JPMIB's processes relevant to the assessment of suitability was the deficiencies in the Argus system which led to systemic failings. Argus was the primary resource for Bankers and Investors to use in assessing the suitability of investments for clients. The deficiencies in Argus included:

- (1) The system did not provide sufficient fields and space to capture all relevant client suitability information and rationale. For example, there was not a field for the Investor or Banker to document their rationale for a client's risk return profile and only limited space for them to record a client's capacity for loss;
- (2) the system did not require mandatory explanations and rationale to be provided when changes to key suitability fields were made; and
- (3) there was no audit trail to record changes to key suitability fields such as revisions to a client's risk return profile.

- 4.24. It is also significant that at various times during the Relevant Period some Bankers and Investors did not have any access to Argus, notwithstanding that it was the primary resource for accessing and recording client suitability information. For example, over the four month period from January 2011 to April 2011, 24% of Investors and 19% of Bankers were unable to access Argus.

Missing documents

- 4.25. A recurring failing during the Relevant Period was that documents that the Firm had designated in its procedures as mandatory were missing from client files. Such missing documents included:

- (1) application forms;
- (2) client interview forms;
- (3) due diligence reports;
- (4) suitability confirmation letters (for self-directed accounts);
- (5) investment parameters (for discretionary portfolios);
- (6) letters in which clients confirmed they wished to opt up to professional classification; and

- (7) lists of authorised representatives for an account.
- 4.26. Minutes of JPMIB's Operating Committee Meeting on 25 January 2012 indicate that at that time there were 525 suitability confirmation letters, 20 investment parameters, and 24 other mandatory documents identified as missing from client files.
- 4.27. JPMIB's internal audit report dated 15 November 2011 found that the root causes of these issues were lack of clear guidelines and procedures, inconsistent record keeping practices, ineffective Management Information System reporting, and a lack of coordination between Bankers, Investors and the Firm's Business Risk Management team who oversaw the client on-boarding process.
- 4.28. The large number of missing documents is symptomatic of the weaknesses of the processes relevant to the assessment of suitability and demonstrates a lack of oversight which should have identified and rectified this issue.

Inadequate training

- 4.29. The lack of adequate training in relation to the fundamental importance of obtaining and properly recording client suitability information contributed to the failings set out above.

Inadequate suitability reports

- 4.30. Suitability reports, sent to clients when required by the FCA's rules, failed adequately to contain a statement of the client's demands and needs, explain why the investment was suitable to meet those needs or indicate any disadvantages of the investment.

Inadequate risk and compliance oversight

- 4.31. During the Relevant Period, although the Skilled Person found that JPMIB's risk controls were reasonably well developed, JPMIB failed to ensure that there was adequate compliance monitoring and oversight of its investment advice and portfolio investment services business. In particular, there was insufficiently regular and/or effective risk and compliance monitoring to review (and escalate as appropriate):
- (1) the adequacy of suitability documentation/records maintained (such as regular sampling of client files to check information was present and correct);
 - (2) the suitability of outcomes achieved for clients, including the robustness (or otherwise) of the associated audit trails;
 - (3) the adequacy of the Firm's policies and procedures in relation to suitability; and
 - (4) the adequacy of the design of the suitability framework in order to meet regulatory requirements and its operating effectiveness.
- 4.32. Further, no internal audit reports were completed to assess JPMIB's suitability processes and controls between 20 May 2008 and 15 November 2011.

Insufficient senior management oversight

- 4.33. During the Relevant Period JPMIB's senior management had insufficient information and oversight tools to allow them to identify and proactively address the deficiencies in JPMIB's processes relevant to the assessment of suitability. Senior management should have become aware of the serious failings in relation to record keeping in particular and their failure to identify these issues earlier reflects weaknesses in management information and oversight.

5. FAILINGS

- 5.1. Annex A sets out extracts from statutory and regulatory provisions relevant to this Final Notice.

- 5.2. During the Relevant Period JPMIB breached Principle 3, because in respect of its business dealing with investment advice and portfolio investment services, it failed to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. Specifically, on the basis of the facts and matters set out in paragraphs 4.1 to 4.33 above:

- (1) JPMIB's processes relevant to the assessment of suitability and training were insufficient and did not ensure that its front office staff obtained and properly recorded sufficient KYC and suitability information from clients in accordance with its procedures. In particular:
 - (a) Client files often did not record, or keep up to date, important client suitability information such as a client's objectives, capacity for loss, and investment experience. As a result JPMIB could not always evidence that it had received or considered this information as part of the suitability assessment. JPMIB also failed to record whether the vast majority of self-directed account transactions had been conducted on an advised or execution-only basis;
 - (b) information concerned with on-going account management, such as the rationale for investment selections, the rationale for client risk profiles and client communications, was sometimes incomplete or inaccurate, or not retained on the appropriate system;
 - (c) Suitability reports (when required) failed to contain a statement of the client's demands and needs, explain why the investment was suitable to meet those needs or indicate any disadvantages of the investment; and
 - (d) JPMIB did not ensure that communications to confirm client suitability profiles were always sent to clients (as required by its own policy).
- (2) JPMIB's risk and compliance monitoring failed to identify and escalate a number of issues relating to suitability procedures including some of the serious deficiencies in the documentation held on client files. Although JPMIB's risk and compliance monitoring did identify some of the issues relating to poor documentation controls and the failings in Argus, these issues were not adequately addressed until after the Relevant Period.
- (3) Senior management also had insufficient information and oversight tools to identify and proactively address the deficiencies in JPMIB's processes relevant to the assessment of suitability.

- 5.3. In addition, on the basis of the facts and matters set out in paragraphs 4.18 to 4.34 and summarised at paragraph 5.2(1)(a) above, JPMIB failed to comply with SYSC 9.1.1R because it failed to keep sufficient records to enable the FCA to monitor its compliance with the requirements under the regulatory system, and in particular to ascertain that it had complied with all of its client obligations.
- 5.4. Although having reviewed 1,416 client relationships to date the past business review has identified only one case in which there was an unsuitable investment, the FCA considers that the foregoing failings at JPMIB merit the imposition of a regulatory sanction. The regulatory sanction is set out below.

6. SANCTION

Financial Penalty

- 6.1. The FCA's policy for imposing a financial penalty is set out in Chapter 6 of DEPP. In respect of conduct occurring on or after 6 March 2010, the FCA applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5A sets out the details of the five-step framework that applies in respect of financial penalties imposed on firms.
- 6.2. Although JPMIB's misconduct straddles both the penalty regime prior to 6 March 2010 and the new penalty framework in place after 6 March 2010, the FCA has elected to apply the new penalty framework because the vast majority of the misconduct (23 out of 25 months) fell during the period following 6 March 2010.

Step 1: disgorgement

- 6.3. Pursuant to DEPP 6.5A.1G, at Step 1 the FCA seeks to deprive a firm of the financial benefit derived directly from the breach where it is practicable to quantify this.
- 6.4. The FCA has not identified any financial benefit that JPMIB derived directly from its breach.
- 6.5. Step 1 is therefore £0.

Step 2: the seriousness of the breach

- 6.6. Pursuant to DEPP 6.5A.2G, at Step 2 the FCA determines a figure that reflects the seriousness of the breach. Where the amount of revenue generated by a firm from a particular product line or business area is indicative of the harm or potential harm that its breach may cause, that figure will be based on a percentage of the firm's revenue from the relevant products or business area.
- 6.7. The FCA considers that the total revenue generated by JPMIB during the Relevant Period is indicative of the harm or potential harm caused by its breach in this case. The FCA has therefore determined a figure based on a percentage of JPMIB's total revenue. The period of JPMIB's breach was from 1 January 2010 until 17 February 2012. JPMIB's total relevant revenue for this period was £97,659,882.¹
- 6.8. In deciding on the percentage of the relevant revenue that forms the basis of the Step 2 figure, the FCA considers the seriousness of the breach and chooses a

¹ This revenue amount has been converted from the USD revenue figure of USD153,553,273 provided by JPMIB to the FCA at an average conversion rate between GBP and USD during the Relevant Period of 0.636 USD to 1 GBP.

percentage between 0% and 20%. This range is divided into five fixed levels which represent, on a sliding scale, the seriousness of the breach; the more serious the breach, the higher the level. For penalties imposed on firms there are the following five levels:

Level 1 – 0%

Level 2 – 5%

Level 3 – 10%

Level 4 – 15%

Level 5 – 20%.

6.9. In assessing the seriousness level, the FCA takes into account various factors which reflect the impact and nature of the breach, and whether it was committed deliberately or recklessly. DEPP 6.5A.2G(11) lists factors likely to be considered 'level 4 or 5 factors'. Of these, the FCA considers the following factor to be relevant:

(1) the breach revealed systemic weaknesses in the Firm's procedures relevant to the assessment of suitability, and in its compliance and oversight procedures, which failed to identify and proactively address the deficiencies in the processes relevant to the assessment of suitability.

6.10. DEPP 6.5A.2(12) lists factors likely to be considered 'level 1, 2 or 3 factors'. Of these, the FCA considers the following factors to be relevant:

(1) no profits were made or losses avoided as a result of the breach, either directly or indirectly;

(2) in spite of the deficiencies in JPMIB's processes relevant to the assessment of suitability and the missing documentation on its client files, JPMIB's advisers displayed a good understanding of its customers' primary objectives and to date the past business review has only identified one unsuitable investment having been occasioned to any client. Notwithstanding this, the weaknesses in the Firm's processes relevant to the assessment of suitability, and in its compliance and oversight procedures in failing to detect these weaknesses, caused an unacceptable risk of unsuitable investments and loss to JPMIB's clients; and

(3) the breach was committed negligently or inadvertently. There is no evidence that JPMIB's conduct was deliberate or reckless.

6.11. Taking all of these factors into account, the FCA considers the seriousness of the breach to be level 2 and so the Step 2 figure is 5% of £97,659,882.

6.12. The figure at Step 2 is therefore £4,882,994.

Step 3: mitigating and aggravating factors

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

6.14. The FCA considers that the following factors aggravate the breach:

- (1) the Firm's obligations in relation to processes relevant to the assessment of suitability and record keeping should have been clear. During the course of the Relevant Period, there were further communications from the FCA heightening the level of awareness in the wealth management sector of the importance of ensuring suitable outcomes for clients culminating in the FCA's thematic review of the sector in 2010 and 2011 and the letter sent by the FCA to chief executive officers of wealth management Firms on 14 June 2011; and
- (2) the previous disciplinary and compliance history of the J.P. Morgan Chase International Holdings group of which JPMIB is a wholly owned subsidiary. Although it did not relate to the provision of retail investment advice, the FCA notes that J.P. Morgan Securities Ltd was fined £33.32 million on 25 May 2010 for a breach of Principle 10 for failing to protect client money by segregating it appropriately.

6.15. The FCA considers that the following factors mitigate the breach:

- (1) the Firm has displayed a very high level of co-operation with the FCA during the investigation;
- (2) the Firm has taken prompt and considerable steps to resolve the issues and improve its systems, including carrying out recommendations made by a Skilled Person. It has also proactively undertaken a significant overhaul of its suitability processes; and
- (3) the Firm has agreed to, and is in the process of conducting, with the assistance of an independent third party, an extensive past business review of all of its client accounts to assess the suitability of their investments and compensate any clients in the event that they have suffered any detriment as a result of any failings on its part. To date, having reviewed 1,416 client relationships, the past business review has identified only one case in which there was an unsuitable investment.

6.16. Having taken into account these aggravating and mitigating factors, the FCA considers that the Step 2 figure should be reduced by 10% at Step 3.

6.17. The figure at Step 3 is therefore £4,394,695.

Step 4: adjustment and deterrence

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

6.19. The FCA considers that the Step 3 figure of £4,394,695 represents a sufficient deterrent to JPMIB and others, and so has not increased the penalty at Step 4.

6.20. The figure at Step 4 therefore remains £4,394,695.

Step 5: settlement discount

6.21. Pursuant to DEPP 6.5A.5G, if the FCA and the firm on whom a penalty is to be imposed agree the amount of the financial penalty and other terms, DEPP 6.7 provides that the amount of the financial penalty which might otherwise have

been payable will be reduced to reflect the stage at which the FCA and the firm reached agreement. The settlement discount does not apply to the disgorgement of any benefit calculated at Step 1.

- 6.22. The FCA and JPMIB reached agreement at Stage 1 and so a 30% discount applies to the Step 4 figure.
- 6.23. The figure at Step 5 is therefore £3,076,287 which we have rounded down to £3,076,200.

Penalty

- 6.24. The FCA therefore imposes a total financial penalty of £3,076,200 on JPMIB for breaching Principle 3 and not complying with SYSC 9.1.1R.

7. PROCEDURAL MATTERS

Decision maker

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

Manner of and time for payment

- 7.3. The financial penalty must be paid in full by JPMIB to the FCA by no later than 24 May 2013, 14 days from the date of this Final Notice.

If the financial penalty is not paid

- 7.4. If all or any of the financial penalty is outstanding on 25 May 2013, the FCA may recover the outstanding amount as a debt owed by JPMIB and due to the FCA.

Publicity

- 7.5. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this Final Notice relates. Under those provisions, the FCA must publish such information about the matter to which this Final Notice relates as the FCA considers appropriate. The information may be published in such manner as the FCA considers appropriate. However, the FCA may not publish information if such publication would, in the opinion of the FCA, be unfair to JPMIB or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.
- 7.6. The FCA intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

FCA contacts

- 7.7. For more information concerning this matter generally, contact Lance Ellison (direct line: 020 7066 2422) of the Enforcement and Financial Crime Division of the FCA.

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Tom Spender
Financial Conduct Authority, Enforcement and Financial Crime Division

ANNEX A

RELEVANT STATUTORY AND REGULATORY PROVISIONS

1. STATUTORY PROVISIONS

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

1.2. Section 206 of the Act provides:

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

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

2. REGULATORY PROVISIONS

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

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

Principles for Businesses

2.3. The Principles for Businesses are a general statement of the fundamental obligations of firms under the regulatory system and are set out in the FCA Handbook. They derive their authority from the FCA's rule-making powers as set out in the Act and reflect the FCA's regulatory objectives. Principle 3 provides:

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

Senior Management Arrangements, Systems and Controls Sourcebook (SYSC)

2.4. The FCA handbook sets out high level standards relating to senior management arrangements, systems and controls in SYSC. SYSC 9 sets out the FCA's general rules on record-keeping.

2.5. SYSC 9.1.1R provides:

A firm must arrange for orderly records to be kept of its business and internal organisation, including all services and transactions undertaken by it, which must be sufficient to enable the FCA or any other relevant competent authority under MiFID [or the UCITS Directive²] to monitor the firm's compliance with the requirements under the regulatory system, and in particular to ascertain that the firm has complied with all obligations with respect to clients.

² The text in square brackets was inserted on 1 July 2011.