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FINAL NOTICE

To:	Charles Schwab UK Limited
Reference Number:	225116
Address:	33 Ludgate Hill, London, EC4M 7JN
Date:	21 December 2020

1. ACTION

1.1. For the reasons given in this Final Notice, the Authority hereby imposes on Charles Schwab UK Limited ("CSUK") a financial penalty of £8,963,200 pursuant to section 206 of the Act.

1.2 CSUK agreed to resolve this matter and qualified for a 30% (stage 1) discount under the Authority's executive settlement procedures. Were it not for this discount, the Authority would have imposed a financial penalty of £12,804,600 on CSUK.

2. SUMMARY OF REASONS

2.1 Between 1 August 2017 and 22 April 2019 (the "Principle 10 Relevant Period") CSUK breached Principle 10 of the Authority's Principles for Businesses ("the Principles") and associated rules in the Authority's Client Assets Sourcebook ("CASS"). Further, between 1 August 2017 and 22 March 2018 (the "Section 20

Relevant Period") CSUK breached section 20 of the Financial Services and Markets Act 2000 ("FSMA"). In addition, on 12 January 2018, CSUK breached Principle 11.

Breach of Principle 10 and CASS Rules

2.2. During the Principle 10 Relevant Period CSUK breached Principle 10 by failing to arrange adequate protection for client money and safe custody assets (together, "client assets") for which it was responsible. CSUK also breached a number of rules in the Client Assets Sourcebook ("CASS"). In particular, CSUK failed to:

a. keep the necessary records and accounts to enable to it distinguish its customers' client assets from assets and money belonging to other clients, its affiliate, Charles Schwab & Co., Inc. ("CS&C") or itself in breach of CASS 6.6.2R;

b. undertake internal or external reconciliations for its customers' client assets in breach of CASS 6.6.34R, 7.15.12R and 7.15.20R;

c. implement adequate organisational arrangements to safeguard its customers' client assets in breach of CASS 6.2.2R and 7.12.2R; and

d. prior to July 2018, maintain, and ensure it was in a position to retrieve, a CASS resolution pack so that, in the event of its insolvency, an insolvency practitioner could achieve a timely return of client money and safe custody assets held by the firm to that firm's clients in breach of CASS 10.1.3R.

2.3 The Authority requires firms to ensure that client assets are adequately protected at all times. In the event of insolvency, adequate client asset records are designed to ensure that client assets can be returned to customers in as orderly a manner as possible. Where records are inadequate or do not exist, insolvency practitioners may face significant and unnecessary delay in determining the appropriate treatment of a firm's client assets. In certain circumstances, insolvency practitioners may need to pursue court proceedings. This risk is increased if a firm outsources the safeguarding of client assets and where client assets are held outside of the UK.

2.4 A firm cannot outsource its responsibility for compliance with CASS: it is responsible at all times for such compliance with the rules and the protection of its customer's client assets.

2.5 A firm's failure to arrange adequate protection for client assets may directly affect its customers. In this case, CSUK's failure to arrange adequate protection exposed its customers to risks in the event of insolvency. These were a risk of:

a. delay in returning its customers' client assets;

b. increased costs associated with the return of its customers' client assets, potentially resulting in a diminution of their assets; and

c. its customers being unable to access and deal in their safe custody assets and client money during the resolution process, which could lead to additional losses.

2.6 In addition, CSUK's failure to undertake internal or external reconciliations for its customers' client assets exposed CSUK's customers to the risk of unknown shortfalls not being identified and remedied quickly.

2.7 A firm has ultimate responsibility and control for the arrangements it puts in place to protect its customers' client assets. Firms' compliance with Principle 10 and CASS Rules is essential to ensuring an appropriate degree of protection for consumers and protecting and enhancing the integrity of the UK financial system. Therefore, the Authority takes failure to comply with Principle 10 and CASS Rules particularly seriously.

2.8 CSUK relied on the systems and controls operated by CS&C under US rules to ensure the safety of its customers' client money and assets. As CSUK was aware, CS&C's compliance with those rules was regularly audited. However, this reliance was insufficient as CASS requirements were not the same as US rules and in some respects provided a higher standard of protection than US rules for CSUK customers. CSUK was responsible for holding client money and assets in accordance with Principle 10 and the rules in CASS, rather than the different requirements of the US system.

Breach of Section 20 FSMA

2.9 Throughout the Section 20 Relevant Period, CSUK breached section 20 by undertaking the regulated activity of safeguarding and the administration of assets. Although CSUK had permission to arrange the safeguarding and administration of assets it did not have the required permission to safeguard and administer assets itself.

2.10 The Authority considers this breach to be serious. Whilst CSUK did not conceal that it was custodying client assets, it also did not pro-actively notify the Authority, when applying for the correct permission, that it was carrying out the regulated activity without permission.

2.11 The Authority expects firms to be candid and open in their dealings with it, making timely notifications of identified breaches and discussing with the Authority whether there are appropriate remedial options whilst the firm does not have the correct permission. The permissions regime for financial services is fundamental to consumer protection and the integrity of the UK financial system, which is undermined when firms undertake regulatory activity without the required permission.

Breach of Principle 11

2.12 On 12 January 2018 CSUK breached Principle 11 by informing the Authority that its auditors had confirmed that it had adequate systems and controls in place to manage client money and client asset transactions. This statement was false. CSUK made this statement in error, believing that its auditors had provided it with such an assurance. It did not, however, make adequate enquiries to confirm whether they had in fact done so.

2.13 The Authority had asked CSUK about its systems and controls for managing client assets because it was considering CSUK's application to vary its regulatory permission (the "2017 Application"). CSUK made this application on 19 September 2017 to remedy its breach of section 20 of FSMA.

2.14 It is of fundamental importance that the Authority grants permission to the right firms to perform the right activities. The Authority can do this only if firms

provide it with accurate information. If a firm fails to ensure that it has provided all relevant information to the Authority, the Authority is hampered in its ability to reach the correct decisions about regulatory applications. The Authority therefore treats seriously any failure by a firm to answer accurately questions that the Authority asks of it.

2.15 The Authority notes that:

a. the customers affected by these breaches were all retail customers and therefore required the greatest level of protection;

b. although customers' client assets were potentially at risk there was no actual loss of safe custody assets or client money;

c. although failing to meet the standards required by Principle 10 and the CASS Rules, CSUK entered into arrangements with CS&C that gave CSUK's customers' assets the protection provided by US rules;

d. CSUK reported the breaches of Principles 10 and 11 and CASS Rules to the Authority; and

e. CSUK implemented an extensive remediation project and took significant steps to ensure that client money and assets were protected while this project was undertaken.

2.16 This action supports the Authority's operational objective of securing an appropriate degree of protection for consumers and maintaining confidence in, and protecting and enhancing the integrity of, the UK financial system.

2.17 The Authority therefore proposes to impose on CSUK a financial penalty of £8,963,200.

2.18 For the sake of clarity, this notice makes no criticism of any person, including any body corporate, other than CSUK. In particular, no criticism is made of CS&C.

2.19 The Authority hereby imposes a financial penalty on Charles Schwab UK Limited ("CSUK") of £8,963,200 pursuant to section 206 of the Act.

3. DEFINITIONS

3.1 The definitions below are used in this Notice:

"the 2017 Application" means the application for Variation of Permission submitted by CSUK to the Authority on 19 September 2017

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

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

"CASS" means the Authority's Client Assets Sourcebook

"CASS Rules" means the rules contained in CASS

"Client assets" means, together, safe custody assets and client money

"CS&C" means Charles Schwab & Co., Inc.

"CSUK" means Charles Schwab UK Limited

"DEPP" means the Authority's Decision Procedure & Penalties Manual

the "Principle 10 Relevant Period" is the period between 1 August 2017 and 22 April 2019 inclusive

"Principles" means the Authority's Principles for Business

"Project EU 2.0" means the project that CSUK started in 2014 to enable it to provide passported services to clients in the European Union without the need for separate regulatory approval in each country in which it operated

the "Section 20 Relevant Period" is the period between 1 August 2017 and 22 March 2018 inclusive

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

4. FACTS AND MATTERS

4.1 CSUK is a wholly-owned subsidiary of Schwab International Holdings, Inc. Schwab International Holdings, Inc. is a subsidiary of CS&C, which is a securities broker-dealer with branch offices in the USA and affiliates in the UK and Hong Kong. The holding company for CS&C is The Charles Schwab Corporation, which has its headquarters in the USA.

4.2 CSUK has been authorised by the Authority since 2003 to provide several regulated activities, including the safeguarding and administration of assets and arranging the safeguarding and administration of assets. CSUK began holding client money and safeguarding and administering custody assets from August 2017.

4.3 CSUK was originally established to refer UK- and Swiss-based clients to CS&C, with CS&C establishing direct brokerage relationships with customers that CSUK referred to it. CS&C paid fees to CSUK for referral of these clients. As explained in more detail below, CSUK's relationship with CS&C changed in 2017. From August 2017, CSUK expanded its business activities through providing brokerage and custody services directly to its clients. CSUK's services included advice to clients and management of their assets. CSUK specialised in dealing on behalf of clients in US securities and other financial instruments.

4.4 Following the changes to its business model in 2017, CSUK received client securities. CSUK made arrangements with CS&C for these securities to be held in a segregated client securities account at one or more banks or depositories on behalf of CS&C. CSUK also received money from its clients. Pursuant to its arrangement with CS&C, this client money was swept across from CSUK to CS&C (that is, from the UK to the US) on a daily basis; CS&C deposited this money in a general pool, which contained both firm and client money and which was held for both UK and non-UK clients. This general pool provided the

protection of US rules and the net balance due to clients was then moved to one or more special reserve bank accounts for the exclusive benefit of customers.

4.5 The client securities received on behalf of CSUK's clients and held on behalf of CS&C with third-party sub-custodians were safe custody assets. The money received by CSUK was client money. Therefore, the assets and money received by CSUK were subject to the relevant requirements and standards set out in the Authority's Principles and CASS Rules.

Project EU 2.0

4.6 Prior to August 2017, CSUK introduced people who were based in the UK and Switzerland and who were seeking brokerage services to CS&C. CS&C dealt directly with these customers and paid a referral fee to CSUK. Under this arrangement, client assets held by CS&C were not subject to CASS requirements.

4.7 In 2014 CSUK initiated a project, Project EU 2.0, to enable it to provide passported services to EU clients without the need for separate approval in each country. The intention of this project was that CS&C would continue to provide custody services but on an outsourced basis for CSUK, rather than directly for clients.

4.8 In 2016, as part of Project EU 2.0, CSUK conducted a gap analysis of CS&C's processes against UK regulatory requirements to identify any changes to processes that would be needed as a consequence of implementation of this project. CSUK identified only one required change relating to CASS as a result of this analysis: this was the opening of a UK bank account for the deposit of cheques. In 2017, CSUK also instructed external counsel to draft a revised client agreement. CSUK therefore believed that its revised arrangements were compliant with the requirements of CASS and Principle 10. However, CSUK's gap analysis failed to consider Principle 10, which required firms to arrange adequate protection for clients' assets when it is responsible for them.

4.9 CSUK's new arrangements, including its new customer agreement, came into force in August 2017. In anticipation of these new arrangements, in July 2017 CSUK entered into an outsourcing arrangement with CS&C, whereby CS&C

would provide clearing, execution, custody and safekeeping services to CSUK and also maintain CSUK's books and records.

4.10 CSUK also put in place procedures that underpinned these outsourcing arrangements. Significant amongst these was CSUK's Client Assets Policy, first effective from June 2017. This stated that 'CSUK's Client Assets framework is aligned to the specific requirements of… CASS… which are most relevant to it.' It identified these as Chapters 6, 7, 8 and 10 of CASS. It also recorded that custody rules (i.e. Chapter 6) applied to CSUK and recorded how it complied with the client money rules (i.e. Chapter 7). CSUK further recorded that Chapter 10 of CASS 'details what CSUK must hold in the event that it ceases business due to insolvency and the information an insolvency practitioner would require.'

4.11 CSUK put in place arrangements to monitor the performance of its outsourced functions; these were detailed in the 'Charles Schwab, UK Limited Procedures' document. There should also have been, from the commencement of outsourcing, a Service Level Agreement, specifying the level of performance to be provided by CS&C. However, the Service Level Agreement was not produced until June 2019.

Records and accounts failings

4.12 CASS 6.6.2R requires a firm to keep the necessary records and accounts to enable it to distinguish the safe custody assets held for a client from other clients' safe custody assets and the firm's own assets. CASS 7.15.2R requires a firm also to keep the necessary records and accounts to enable it to distinguish client money held for one client from other clients' money and from the firm's own money.

4.13 The rules in CASS 6.6.2R and CASS 7.15.2R apply specifically to records and accounts that are held by the firm: it is not sufficient for a firm to rely upon records and accounts that it may receive from third parties with which it has deposited its customers' client assets.

4.14 Under the arrangements that CSUK entered into with CS&C, CS&C acted as the custodian for CSUK's clients and CS&C was mandated to maintain CSUK's books and records on behalf of CSUK. This meant that CSUK's books and records and

CS&C's books and records were one and the same; CSUK therefore did not itself maintain the necessary records and accounts.

4.15 Had CSUK kept the necessary records and accounts to distinguish clients' safe custody assets and client money, in the event of insolvency it would have been able to provide a record against which an insolvency practitioner could compare other information held by CSUK and CS&C. This would have reduced the risks associated with the return of client assets and client money to customers, identified above.

4.16 CSUK's failure to keep the necessary records and accounts also meant that it did not carry out client asset and money reconciliations or custody record checks, as described below.

Client asset and client money reconciliations

4.17 CASS 6.6.34R requires a firm to conduct, on a regular basis, reconciliations between its internal records and accounts of safe custody assets held by the firm for clients and those of any third parties by whom those safe custody assets are held (an external custody reconciliation).

4.18 CASS 7.15.12R requires a firm to carry out a reconciliation of its internal records and accounts for the amount of client money that the firm holds for each client with its internal records and accounts of the client money the firm should hold in client bank accounts or has placed in client transaction accounts (an internal client money reconciliation).

4.19 In addition, CASS 7.15.20R requires a firm to conduct, on a regular basis, reconciliations between its internal records and accounts and those of any third parties that hold client money (an external client money reconciliation).

4.20 As described above, under the arrangements that CSUK and CS&C entered into, CS&C held client assets and client money on behalf of CSUK. However, because CS&C maintained CSUK's books and records, CSUK's books and records were one and the same as CS&C's books and records. As a result, CSUK was unable to conduct reconciliations between client money held by CS&C on behalf of CSUK using its own records, as CSUK did not hold its own records.

Internal custody record checks

4.21 CASS 6.6.11R requires a firm to perform an internal custody record check. CASS 6.6.10G explains that this is a check as to whether the firm's records and accounts of the safe custody assets held by the firm (including those deposited with third parties) correspond with the firm's obligations to its clients to hold those safe custody assets.

4.22 CASS provides two methods by which a firm can conduct the internal custody record check; both methods require a firm to evaluate its own records and accounts for safe custody assets. In addition, in accordance with CASS 6.6.16G, CASS 6.6.14R requires that a firm does not base its internal custody record checks on records obtained from third parties.

4.23 As described above, CSUK did not hold its own custody asset books and records and, instead, relied upon CS&C to maintain its CSUK's books and records. CSUK was therefore unable to conduct an internal custody record check that complied with either of the methods mandated by the FCA Handbook.

Organisational requirements

4.24 CASS 6.2.2R requires a firm to have adequate organisational arrangements to minimise the risk of loss or diminution of clients' safe custody assets, or the rights in connection with those safe custody assets, as a result of the misuse of the safe custody assets, fraud, poor administration, inadequate record-keeping or negligence. CASS 7.12.2R requires firms to introduce adequate organisational arrangements that address the same risks in relation to client money.

4.25 CSUK did not have adequate organisational arrangements in respect of custody assets or client money during the Principle 10 Relevant Period, in that:

a. CSUK failed to ensure that CSUK client money was held, at all times, in segregated client accounts. Client money paid to CSUK was initially paid into CSUK client money accounts. However, it was then swept across to CS&C daily and deposited in a general pool in the US, which contained both CS&C firm and client money that was held for both UK and non-UK clients. This general pool provided the protection of US rules, and the net

balance due to clients was then moved to one or more special reserve bank accounts for the exclusive benefit of customers;

b. CSUK did not have a committee that dealt specifically with CASS issues between August 2017 and July 2018;

c. CSUK did not have suitable monitoring and oversight of CS&C's outsourced activities between August 2017 and May 2018 and, between May 2018 and December 2018, it was still working to put in place suitable arrangements; and

d. CSUK did not have a documented CASS risk assessment between August 2017 and December 2018.

Resolution pack

4.26 CASS 10.1.3R requires a firm to maintain – and be able to retrieve – a CASS resolution pack; CASS 10.1.4G makes clear that the requirement to maintain a CASS resolution pack applied to CSUK at all times during the Principle 10 Relevant Period. The key purpose of a CASS resolution pack is to ensure that a firm maintains and is able to retrieve information that would assist an insolvency practitioner, in the event of the firm's insolvency, in achieving a timely return to its customers of the client assets held by the firm.

4.27 CSUK did not have a CASS resolution pack during part of the Principle 10 Relevant Period. It did not introduce any CASS resolution pack to its business until July 2018.

CSUK's variation of permission applications

4.28 As a result of the changes introduced by Project EU 2.0, from 1 August 2017 CSUK required permission to undertake the activity of safeguarding and administration of assets.

4.29 CSUK submitted an application to the Authority on 5 August 2016 to amend its permission. The application comprised an application form and a business plan and was submitted via the Authority's Connect system. The Connect system is the system that firms use to submit regulatory applications and notifications to

the Authority. CSUK selected a number of new permissions from the list in the application form, including permission to undertake the regulated activity of arranging the safeguarding and administration of assets. (CSUK also sought permission to hold and control client money.) However, CSUK mistakenly failed to select in the application form the permission to safeguard and administer assets (without arranging). The latter permission was required because CSUK would be providing custody services directly to its clients as a result of the changes introduced by Project EU 2.0.

4.30 The business plan attached to CSUK's application form explained that the changes to CSUK's business plan meant that it would provide client custody services and appoint CS&C as its sub-custodian, and that it required permission to carry out the additional regulated activity of *"safeguarding and custody"*. It went on to state that *"Custody and Safeguarding of Assets"* was to be outsourced to CS&C, albeit that CSUK would retain responsibility for those functions. However, the application form submitted by CSUK did not in fact apply for the permission required by CSUK.

4.31 Consistent with the application form submitted to the Authority, the Authority varied CSUK's permission, with effect from 1 March 2017, to include the regulated activity of arranging the safeguarding and administration of assets.

4.32 Following unrelated work in the period between late July and early August 2017, CSUK identified that its permission was limited to arranging the safeguarding and administration of assets. CSUK therefore made a further application to the FCA (the 2017 Application) to vary its permission to include the safeguarding and administration of assets. CSUK's application was submitted to the Authority on 19 September 2017 and was approved with effect from 23 March 2018.

4.33 CSUK took over responsibility for custody of its clients' assets with effect from 1 August 2017. Although CSUK submitted the 2017 Application, it did not notify the Authority that it was already safeguarding and administering client assets and it did not cease its performance of the regulated activity pending approval of that application. It also did not engage with the Authority on whether there were any further steps that could have been taken to bring itself into compliance with its FCA authorisation and address any risks to client assets whilst the matter was unresolved.

CSUK's statement to the Authority about its systems and controls

4.34 During the course of the 2017 Application, the Authority sent CSUK an email containing nine numbered requests for information. One of the questions in the email, dated 24 November 2017, asked CSUK to: '*Confirm you have written confirmation from your auditor that adequate systems and controls are in place to manage both client money and client asset transactions*.' This question was material to the Authority's decision whether to approve the 2017 Application: its purpose was to obtain assurance that CSUK was able to meet the Authority's Threshold Conditions.

4.35 Following internal discussion in December 2017 and January 2018, CSUK responded to this question on 12 January 2018. CSUK's reply stated that its auditors had '*confirmed we have adequate systems and controls in place to manage client money and client asset transactions*'. However, this statement was incorrect as CSUK's auditors had provided no such confirmation to CSUK.

4.36 Several personnel from CSUK were responsible for reviewing and drafting the reply to the Authority. They assumed that there was a written record of the auditor's confirmation and corresponded about locating it. However, they failed to make appropriate enquiries and therefore did not realise that no such record existed. Consequently, CSUK provided a false response because of an erroneous and unverified assumption on the part of those responsible for preparing it that CSUK had received a letter from its CASS auditors that would substantiate the sentence.

4.37 CSUK's positive response to the Authority's question was relied on by the Authority in its decision to approve the 2017 Application. Had CSUK failed to answer the question positively, it is unlikely that the Authority would have granted the 2017 Application without further investigation. In that case, had CSUK remained unable to provide satisfactory mitigations to any concerns that the Authority had – which may have been likely, given CSUK's significant breaches of CASS at that time – then the Authority is not likely to have approved the 2017 Application.

4.38 The Authority considers that Principle 11 does not apply only in cases where a firm chooses not to disclose information to the Authority. Principle 11 also applies where, in providing information to the Authority, a firm fails to ensure

that all information it provides to the FCA is factually accurate. CSUK breached Principle 11 because it failed to take reasonable steps to ensure that the information it provided to the Authority was accurate. CSUK should have made enquiries from its auditors before making representations to the Authority. By failing to do so, CSUK took the risk that its response was not accurate. Consequently, the Authority considers that CSUK recklessly provided inaccurate information to the Authority and thus failed to meet its obligations under Principle 11.

Remediation of issues

4.39 The Authority requires a firm's auditor to provide a client assets report to the Authority on an annual basis. The Authority's rules mandate the content of the report.

4.40 CSUK's auditors' first client assets report covered the period from 1 August 2017 to 31 December 2017. On 25 May 2018 CSUK advised the Authority, in accordance with its obligation under Principle 11, that this client asset report was close to finalisation and was likely to record a number of breaches relating to CSUK's arrangements for holding and controlling client money and safeguarding assets. The final report confirmed the existence of these breaches.

4.41 CSUK's letter of 25 May 2018 also advised the Authority that the auditors' first client assets report was the first time that the auditors had considered CSUK's client asset systems and controls. It therefore implicitly recognised that the statement CSUK had provided in January 2018 – advising of confirmation from its auditors that it had adequate client money and client asset systems and controls – was incorrect.

4.42 During the second half of 2018, CSUK undertook a review of its existing CASS controls against the requirements in Chapters 6, 7 and 10 of CASS. The findings of this review were collected in a document called '*CASS Controls Process*'. The findings contained in this included the following:

a. Under the heading '*Safeguarding Client Ownership Rights*', a next step action was recorded to review and update the outsourcing arrangement with CS&C '*for UK CASS considerations*';

b. Under the heading '*Asset Reconciliation & Registration Verification*' is recorded a comment that '*current reconciliations are not sufficient*', with significant new procedures at CS&C and CSUK;

c. Under the heading '*Failure*' a next step is recorded: '*Update CSUK [CS&C outsourcing agreement] as required to ensure it defines what happens if CSUK fails*';

d. Under the heading '*Outsourcing Supervision*' the following next steps are recorded:

    a. '*to document as to why (business case) CSUK chose the 3 custodians*';

    b. requirement to incorporate due diligence for CS&C and 2 custodian banks and justify "*why these are the suitable places where to hold money*";

    c. need to develop selection documentation for custodian selection;

e. in order for CSUK to be compliant with CASS rules, it required 2 new cash reconciliation procedures and a prudent segregation procedure to be introduced;

f. A new client bank account procedure was to be introduced '*to comply with UK CASS provisions of safekeeping client money held in custodian accounts*'. Notes to this activity record that CSUK needed '*to have an agreement that states the cash doesn't belong with CS&Co, but rather, it is the money related to client accounts*.'

g. A new process was to be introduced to provide for an annual review of CSUK's CASS Policy and Procedure; and

h. A new process was to be introduced to provide for ad hoc updates to, and an annual review of, CSUK's CASS Policy and Procedure, including annual scrutiny by CSUK's CASS Committee.

4.43 The issues identified by the first client assets report and in the CASS Controls Process document should have been identified by CSUK during Project EU 2.0 - and the recommended steps should have been taken prior to CSUK's introduction of changes to their business.

4.44 Since the identification of the breaches by its auditors, CSUK has taken steps to resolve these issues. The steps it has taken include the following:

a. CSUK engaged professional advisors and specialist contractors to provide it with CASS expertise and support;

b. CSUK introduced a CASS Risk Assessment from December 2018;

c. from March 2019 CSUK began holding funds equal to the ongoing amount of CSUK customer client money in a CSUK client money account; this was in addition to the pre-existing arrangements for client money, as described elsewhere in this Notice;

d. the agreement between CSUK and CS&C was amended with effect from April 2019 to include requirements on CS&C:

    a. to maintain books and records to enable daily reconciliations to be carried out;

    b. to carry out daily reconciliations; and

    c. to provide the results of these reconciliations to CSUK;

e. since April 2019 CSUK has maintained a separate record of individual client balances, which has allowed it to implement internal and external reconciliations;

f. CSUK established a CASS Committee, which dealt specifically with CASS issues; and

g. CSUK produced and maintained a CASS resolution pack.

4.45 CSUK stopped holding client assets and client money from 1 January 2020 and has applied to remove, *inter alia*, its permission to safeguard and administer assets.

5. FAILINGS

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

5.2 Based on the facts and matters described above, the Authority has concluded that CSUK has breached Principle 10, associated rules in CASS, Principle 11 and section 20 of FSMA. The regulatory provisions relevant to this Notice are referred to in Annex A.

5.3 Principle 10 requires a firm to arrange adequate protection for clients' assets for which it is responsible. CASS sets out detailed requirements placed on firms to assist in ensuring that such adequate protection is in place for custody assets. The Authority has concluded that CSUK failed to arrange adequate protection for the custody assets for which it was responsible.

5.4 In particular CSUK failed to:

a. keep the necessary records and accounts to enable it to distinguish safe custody assets and client money held for a client from other clients' and the firm's own safe custody assets and client money;

b. undertake:

    a. external custody reconciliations;

    b. internal custody record checks;

    c. external client money reconciliations; and

d. internal client money reconciliations;

c. implement adequate organisational arrangements for safeguarding client assets, in that it did not:

a. ensure that CSUK client money was held in segregated client accounts;

b. have a committee that dealt specifically with CASS matters;

c. undertake suitable monitoring and oversight of CS&C's outsourced activities;

d. hold a documented assessment of risks to its compliance with CASS requirements;

e. prior to July 2018, maintain, or ensure it was in a position to retrieve, a CASS resolution pack.

5.5 As a consequence of these failures the Authority has concluded that CSUK breached Principle 10 by failing to arrange adequate protection for the client assets for which it was responsible, as required by the CASS Rules.

5.6 Section 20 of FSMA requires firms to carry on regulated activities only in accordance with permission given to that person by the Authority. The Authority considers that CSUK breached section 20 because it carried on the regulated activity of safeguarding and administering client assets between August 2017 and March 2018 without the Authority having given it permission to do so.

5.7 Principle 11 requires firms to deal with its regulators in an open and cooperative way and to disclose to the Authority appropriately anything relating to the firm of which the regulator would reasonably expect notice. The Authority considers that CSUK breached Principle 11 because it provided an incorrect response to a question put to it by the Authority while the Authority was considering the 2017 application. CSUK incorrectly told the Authority that its auditors had confirmed that CSUK had in place adequate systems and controls to manage client money and client asset transactions. CSUK should have informed the Authority that it had not received any such confirmation from its auditors.

5.8 Having regard to the failings above, the Authority considers it is appropriate and proportionate in all the circumstances to take disciplinary action against CSUK for its breaches of Principle 10, associated CASS Rules, section 20 of FSMA and Principle 11.

6. SANCTION

Financial penalty

6.1 The Authority'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 Authority 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 In all the circumstances, the Authority considers that it is appropriate to impose separate financial penalties for the client asset, section 20 and Principle 11 breaches.

Client asset breaches

Step 1: disgorgement

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

6.4 The Authority has not identified any financial benefit that CSUK 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 Authority determines a figure that reflects the seriousness of the breach. Although DEPP 6.5A.2G indicates that in many cases the amount of revenue generated by a firm from a particular business area is indicative of the harm that the breach may cause (DEPP 6.5A.2 (1)G), it also recognises that revenue may not be an appropriate indicator of the harm the breach may cause, explained in DEPP 6.5.A.2(13)G. In those cases, the Authority will use an appropriate alternative.

6.7 The Authority considers that the revenue generated by CSUK is not an appropriate indicator of the harm or potential harm caused by its breaches in this case. This is because its revenue is not related directly to the value of the custody assets it holds (and therefore the associated risks to consumers of the failure to adequately protect client money).

6.8 The Authority usually considers that the appropriate indicator in a client asset case is the average value of client assets and/or client money held over the relevant period. The Authority has therefore used CSUK's average total balance for client assets and client money over the Principle 10 Relevant Period to determine the figure at step 2.

6.9 In deciding on the percentage of the client asset value that forms the basis of the step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 0.8%. This range is divided into 5 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 5 levels:

- Level 1 – 0%
- Level 2 – 0.2%
- Level 3 – 0.4%
- Level 4 – 0.6%
- Level 5 – 0.8%

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

a. Risk of loss to consumers: during the Principle 10 Relevant Period CSUK's customers were at risk of suffering losses in the event of insolvency because of:

    a. delay in returning their client assets;

    b. increased costs associated with the return of their client assets; and

    c. being unable to access their client assets during the resolution process;

b. Systemic weaknesses in the firm's procedures, management systems and/or internal controls: CSUK's failings demonstrate that there were inadequate systems and controls for the management of client assets and the identification of breaches of Principle 10 and CASS Rules throughout the Principle 10 Relevant Period; and

c. The breach was committed deliberately or recklessly: the Authority does not consider the breach to have been committed deliberately or recklessly.

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

a. The Authority considers that the breach was committed negligently or inadvertently; and

b. Little, or no, profits were made or losses avoided as a result of the breach, either directly or indirectly.

6.12 Taking all of these factors into account, the Authority considers the seriousness of the breach to be level 4 and so the Step 2 figure is 0.6% of £1,545,033,887.

6.13 Step 2 is therefore £9,270,203.

Step 3: mitigating and aggravating factors

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

6.15 The Authority considers that the following factor aggravates the breach:

a. The Authority has frequently publicised the importance of arranging adequate protection for clients' custody assets, including through previous enforcement action for breaches of the CASS Rules, which have drawn firms' attention to the need for increased focus on this area (and, specifically, the importance of protecting client money and custody assets).

6.16 The Authority considers that the following factors mitigate the breach:

a. CSUK brought the breach to the Authority's attention as soon as CSUK became aware of it;

b. On its own initiative CSUK implemented an extensive remediation project, which included the engagement of professional advisors and specialist contractors to provide it with CASS expertise and support and, from March 2019, the holding of funds equal to the ongoing amount of CSUK customer client money in a CSUK client money account;

c. CSUK has been an authorised firm since 2003 and has not been the subject of any previous investigations by the Authority; and

d. CSUK has fully cooperated with the Authority's investigation.

6.17 Having taken into account these aggravating and mitigating factors, the Authority considers that the Step 2 figure should be increased by 10%.

6.18 Step 3 is therefore £10,197,223.

Step 4: adjustment for deterrence

6.19 Pursuant to DEPP 6.5A.4G, if the Authority 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 Authority may increase the penalty.

6.20 The Authority considers that the Step 3 figure of £10,197,223 represents a sufficient deterrent to CSUK and others, and so has not increased the penalty at Step 4.

6.21 Step 4 is therefore £10,197,223.

Step 5: settlement discount

6.22 Pursuant to DEPP 6.5A.5G, if the Authority 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 Authority and the firm reached agreement. The settlement discount does not apply to the disgorgement of any benefit calculated at Step 1.

6.23 The Authority and CSUK reached agreement at Stage 1 and so a 30% discount applies to the Step 4 figure.

6.24 Step 5 is therefore £7,138,000.

Section 20 FSMA breach

Step 1: disgorgement

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

6.26 The Authority has not identified any financial benefit that CSUK derived directly from its breach.

6.27 Step 1 is therefore £0.

Step 2: the seriousness of the breach

6.28 Pursuant to DEPP 6.5A.2G, at Step 2, where the Authority considers that revenue is an appropriate indicator of the harm or potential harm that a firm's breach may cause, the Authority will determine a figure which will be based on a percentage of the firm's relevant revenue. In addition, where the breach lasted less than 12 months, or was a one-off event, the relevant revenue will be that derived by the firm in the 12 months preceding the end of the breach.

6.29 The Authority considers that CSUK's total revenue, other than net interest revenue less margin balance interest (which equates to interest earned on client money balances, for which CSUK had the correct permission), is indicative of the harm or potential harm caused by CSUK's breach of section 20. The Section 20 Relevant Period is the period between 1 August 2017 and 22 March 2018 inclusive. The Authority has therefore used CSUK's total revenue between April 2017 and March 2018, other than net interest revenue less margin balance interest, to determine the figure at Step 2. The Authority has determined CSUK's relevant revenue for this period to be £2,253,558.

6.30 In deciding on the percentage of the relevant revenue that forms the basis of the step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 20%. This range is divided into 5 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%

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

a. Although CSUK initially committed the breach inadvertently, it was aware that it did not hold the required permission by the time it submitted its second application to vary its permission. From this point onwards the breach was committed recklessly; and

b. Risk of loss to consumers: during the Section 20 Relevant Period CSUK's customers continued to be at risk of suffering losses in the event of insolvency.

6.32 DEPP 6.5A.2G(12) lists factors likely to be considered 'level 1, 2 or 3 factors'. The Authority considers the following factors to be relevant:

a. CSUK did not make any profits or avoid any losses as a result of the breach; and

b. CSUK consumers did not suffer any actual loss as a result of the breach.

6.33 The Authority also considers that the following factor is relevant:

a. Nature of the offence: firms undertaking regulated activities only in accordance with their permission is fundamental to consumer protection and the integrity of the UK financial system.

6.34 Taking all of these factors into account, the Authority considers the seriousness of the breach to be level 4 and so the Step 2 figure is 15% of £2,253,558.

6.35 Step 2 is therefore £338,033.

Step 3: mitigating and aggravating factors

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

6.37 The Authority considers that the following factor aggravates the breach:

a. CSUK did not proactively inform the Authority of the breach at the time when it made the 2017 Application.

6.38 The Authority considers that the following factors mitigate the breach:

a. CSUK identified the breach itself and applied to the Authority to vary its permission shortly after identifying the breach;

b. CSUK has been an authorised firm since 2003 and has not been the subject of any previous investigations by the Authority; and

c. CSUK has fully cooperated with the Authority's investigation.

6.39 Having taken into account these aggravating and mitigating factors, the Authority considers that the Step 2 figure should not be increased or decreased.

6.40 Step 3 is therefore £338,033.

Step 4: adjustment for deterrence

6.41 Pursuant to DEPP 6.5A.4G, if the Authority 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 Authority may increase the penalty.

6.42 The Authority considers that the Step 3 figure of £338,033 does not represent a sufficient deterrent to CSUK and others and so has increased the penalty at Step 4. This is because the Authority considers the absolute value of the penalty too small in relation to the breach to meet its objective of credible deterrence (DEPP 6.5B.4G(a)). The Authority has therefore increased the Step 3 figure by a multiple of 3.

6.43 Step 4 is therefore £1,014,099.

Step 5: settlement discount

6.44 Pursuant to DEPP 6.5A.5G, if the Authority 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 Authority and the firm reached agreement. The settlement discount does not apply to the disgorgement of any benefit calculated at Step 1.

6.45 The Authority and CSUK reached agreement at Stage 1 and so a 30% discount applies to the Step 4 figure.

6.46 Step 5 is therefore £709,800.

Principle 11 breach

Step 1: disgorgement

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

6.48 The Authority has not identified any financial benefit that CSUK derived directly from its breach.

6.49 Step 1 is therefore £0.

Step 2: the seriousness of the breach

6.50 Pursuant to DEPP 6.5A.2G, at Step 2, where the Authority considers that revenue is an appropriate indicator of harm or potential harm that a firm's breach may cause, the Authority will determine a figure which will be based on a percentage of the firm's relevant revenue. In addition, where the breach lasted less than 12 months, or was a one-off event, the relevant revenue will be that derived by the firm in the 12 months preceding the end of the breach.

6.51 The Authority considers that CSUK's total revenue is indicative of the harm or potential harm caused by CSUK's breach of Principle 11. CSUK breached Principle 11 on 12 January 2018. The Authority has therefore used CSUK's total revenue between January 2017 and December 2017 to determine the figure at Step 2. The Authority has determined CSUK's relevant revenue for this period to be £2,655,812.

6.52 In deciding on the percentage of the relevant revenue that forms the basis of the Step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 20%. This range is divided into 5 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%

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

a. Risk of loss to consumers: by failing to provide accurate information to the Authority, the Authority approved the 2017 Application in circumstances where it was otherwise not likely to have approved it, either at all or without further enquiries having been made of CSUK. Further enquiries or rejection of the 2017 Application would have increased the likelihood of identification of the breach of Principle 10 and associated rules in the Authority's Client Assets Sourcebook. Instead, during the period of the Principle 10 Relevant Period after the date of CSUK's breach of Principle 11, CSUK's customers remained at risk of suffering losses in the event of insolvency; and

b. The Authority considers that the breach was committed recklessly.

6.54 DEPP 6.5A.2G(12) lists factors likely to be considered 'level 1, 2 or 3 factors'. The Authority considers the following factors to be relevant:

a. No profits were made or losses avoided as a result of the breach; and

b. This was a one-off error and there is no evidence that the breach indicates a widespread problem or weakness at the firm.

6.55 Taking all of these factors into account, the Authority considers the seriousness of the breach to be level 4 and so the Step 2 figure is 15% of £2,655,812.

6.56 Step 2 is therefore £398,371.

Step 3: mitigating and aggravating factors

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

6.58 The Authority does not consider that there are any factors that aggravate this breach.

6.59 The Authority considers that the following mitigating factors apply:

a. CSUK has been an authorised firm since 2003 and has not been the subject of any previous investigations by the Authority; and

b. CSUK has fully cooperated with the Authority's investigation.

6.60 Having taken into account these mitigating factors, the Authority considers that the Step 2 figure should not be increased or decreased.

6.61 Step 3 is therefore £398,371.

Step 4: adjustment for deterrence

6.62 Pursuant to DEPP 6.5A.4G, if the Authority 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 Authority may increase the penalty.

6.63 The Authority considers that the Step 3 figure of £398,371 does not represent a sufficient deterrent to CSUK and others and so has increased the penalty at Step 4. This is because the Authority considers the absolute value of the penalty too small in relation to the breach to meet its objective of credible deterrence (DEPP 6.58.4G(a)). The Authority has therefore increased the Step 3 figure by a multiple of 4.

6.64 Step 4 is therefore £1,593,484.

Step 5: settlement discount

6.65 Pursuant to DEPP 6.5A.5G, if the Authority 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 Authority and the firm reached agreement. The settlement discount does not apply to the disgorgement of any benefit calculated at Step 1.

6.66 The Authority and CSUK reached agreement at Stage 1 and so a 30% discount applies to the Step 4 figure.

6.67 Step 5 is therefore £1,115,400.

Final penalty

6.68 The Authority hereby imposes a total financial penalty, after a settlement discount of 30%, of £8,963,200 on CSUK for breaching Principle 10, the CASS Rules, section 20 and Principle 11. It is the Authority's usual practice to round down the final penalty figure to the nearest £100.

7. PROCEDURAL MATTERS

7.1. This Notice is given to CSUK under and in accordance with section 390 of the Act. The following statutory rights are important.

Decision maker

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

Manner and time for payment

7.3. The financial penalty must be paid in full by CSUK to the Authority no later than 4pm on 7 January 2021.

If the financial penalty is not paid

7.4. If all or any of the financial penalty is outstanding on 7 January 2021, the Authority may recover the outstanding amount as a debt owed by CSUK and due to the Authority.

Publicity

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

7.6. The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

Authority contacts

7.7. For more information concerning this matter generally, contact Richard Topham (direct line: 020 7066 1180/email: Richard.Topham@fca.org.uk) at the Authority or James Mack (direct line: 020 7066 0429/email: James.Mack@fca.org.uk).

Anthony Monaghan

Head of Department

Financial Conduct Authority, Enforcement and Market Oversight Division

ANNEX A

RELEVANT STATUTORY AND REGULATORY PROVISIONS

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

1.2. Section 206(1) 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."

RELEVANT REGULATORY PROVISIONS

Principles for Businesses

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

1.4. Principle 10 states that:

"A firm must arrange adequate protection for clients' assets when it is responsible for them."

1.5. Until 31 December 2017 Principle 11 stated that:

"A firm must deal with its regulators in an open and cooperative way, and must disclose to the appropriate regulator appropriately anything relating to the firm of which that regulator would reasonably expect notice."

1.6. From 1 January 2018 Principle 11 states that:
"A firm must deal with its regulators in an open and cooperative way, and must disclose to the FCA appropriately anything relating to the firm of which that regulator would reasonably expect notice."

Client Assets sourcebook

1.7. The CASS rules are the part of the Authority's Handbook that sets out the Authority's requirements in relation to holding client assets and client money.

1.8. CASS 6.2.2R states that:

"A firm must introduce adequate organisational arrangements to minimise the risk of the loss or diminution of clients' safe custody assets, or the rights in connection with those safe custody assets, as a result of the misuse of the safe custody assets, fraud, poor administration, inadequate record-keeping or negligence."

1.9. CASS 6.6.2R states that:

"A firm must keep such records and accounts as necessary to enable it at any time and without delay to distinguish safe custody assets held for one client from safe custody assets held for any other client, and from the firm's own applicable assets."

1.10. CASS 6.6.34R states that:

"A firm must conduct, on a regular basis, reconciliations between its internal records and accounts of safe custody assets held by the firm for clients and those of any third parties by whom those safe custody assets are held."

1.11. CASS 7.12.2R states that:

"A firm must introduce adequate organisational arrangements to minimise the risk of the loss or diminution of client money, or of rights in connection with client money, as a result of misuse of client money, fraud, poor administration, inadequate record-keeping or negligence."

1.12. CASS 7.15.12R states that:
"An internal client money reconciliation requires a firm to carry out a reconciliation of its internal records and accounts of the amount of client money that the firm holds for each client with its internal records and accounts of the client money the firm should hold in client bank accounts or has placed in client transaction accounts."

1.13. CASS 7.15.20R states that:

"A firm must conduct, on a regular basis, reconciliations between its internal records and accounts and those of any third parties which hold client money."

1.14. CASS 10.1.3R states that:

"A firm falling within CASS 10.1.1R must maintain and be able to retrieve, in the manner described in this chapter, a CASS resolution pack."

1.15. CASS 10.1.4G states that:

"A firm is required to maintain a CASS resolution pack at all times when CASS 10.1.1R applies to it."

SUP

1.16. SUP 15.6.1R states that:

"A firm must take reasonable steps to ensure that all information it gives to the FCA in accordance with a rule in any part of the Handbook (including Principle 11) is:

(1) factually accurate or, in the case of estimates and judgements, fairly and properly based after appropriate enquiries have been made by the firm; and

(2) complete, in that it should include anything of which the FCA would reasonably expect notice."

1.17. SUP 15.6.2G states that:
"SUP 15.6.1R applies also in relation to rules outside this chapter, and even if they are not notification rules. Examples of rules and chapters to which SUP 15.6.1R is relevant, are:

(1) Principle 11, and the guidance on Principle 11 in SUP 2 (Information gathering by the FCA and PRA on their own initiative);

(2) SUP 15 (Notifications to the FCA):

(3) SUP 16 (Reporting requirements);

(5) [sic] any notification rule (see Schedule 2 which contains a consolidated summary of such rules);

(6) DISP 1.9 (Complaints record rule); and

(7) DISP 1.10 (Complaints reporting rule)."

FSMA

1.18. The Financial Services and Markets Act is primary legislation that makes provision for the regulation of financial services and markets.

1.19. Section 20(1) of FSMA states:

"If an authorised person other than a PRA-authorised person carries on a regulated activity in the United Kingdom, or purports to do so, otherwise than in accordance with permission-

(a) given to that person under Part 4A, or

(b) resulting from any other provision of this Act,

he is to be taken to have contravened a requirement imposed on him by the FCA under this Act."

The Enforcement Guide

1.20. The Enforcement Guide sets out the Authority's approach to exercising its main enforcement powers under the Act.

1.21. Chapter 7 of the Enforcement Guide sets out the Authority's approach to exercising its power to impose a financial a penalty.

DEPP

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