This decision notice has been referred to the Upper Tribunal to determine, in the case of the decision to impose a disciplinary sanction: what (if any) the appropriate action is for the Authority to take, and remit the matter to the Authority with such directions as the Tribunal considers appropriate; and in relation to the prohibition order: whether to dismiss the reference or remit it to the Authority with a direction to reconsider and reach a decision in accordance with the findings of the Tribunal.

FINANCIAL CONDUCT AUTHORITY

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DECISION NOTICE

To: **Neil Woodford**

Reference number: **NRW01047**

Date: **1 July 2025**

1. ACTION

1.1. For the reasons given in this Decision Notice, the Authority has decided to:

(a) impose on Mr Woodford a financial penalty of £5,888,800 pursuant to section 66 of the Financial Services and Markets Act 2000 ("the Act"); and

(b) make an order, pursuant to section 56 of the Act, prohibiting Mr Woodford from performing:

(i) any function in relation to the regulated activity of managing investments in respect of a UK UCITS or any authorised fund which is sold, promoted or otherwise made available to retail clients; and

(ii) any senior management function and any significant influence function in relation to any regulated activities carried on by any authorised or exempt person or exempt professional firm.

2. SUMMARY OF REASONS

2.1. The Authority considers that, between 31 July 2018 and 3 June 2019 ("the Relevant Period"), Mr Woodford failed to act with due skill, care and diligence in carrying out his controlled functions as director and investment manager of Woodford Investment Management Limited ("WIM") in respect of the LF Woodford Equity Income Fund ("the WEIF") and thereby breached Statements of Principle 2 and 6 as set out in chapter 2 of APER, part of the Authority's Handbook of rules and guidance ("the Handbook").

2.2. The WEIF was an open-ended undertaking for collective investment in transferable securities ("UCITS") fund, authorised by the Authority and opened in May 2014. WIM was the investment manager of the WEIF from September 2016, when it took over the role from WIM LLP which had been the investment manager from the inception of the fund, and Link Fund Solutions Ltd ("Link") was the WEIF's Authorised Corporate Director ("ACD"). As a UCITS fund, the WEIF was subject to a detailed regulatory framework designed to offer protection to unitholders. Investors should be able to have confidence that UCITS funds they invest in will be managed in accordance with the regulatory framework. That is particularly important where funds are marketed at a range of investors, including consumers who are investing for themselves and are often heavily reliant upon those funds being managed in an appropriate way.

2.3. The WEIF attracted a range of investors including consumers as well as professional investors. It held substantial investments and its Net Asset Value reached a peak value of just over £10.1 billion in May 2017. The previous month, in April 2017, following the UK's vote in June 2016 to leave the European Union, Mr Woodford refocused his investment strategy for the WEIF away from large global companies towards UK companies which were frequently smaller and less well capitalised. Mr Woodford made his investment decisions for the fund in accordance with this strategy, which led to a change in the balance of the WEIF's holdings away from highly liquid stocks to those which were less liquid. As a result of Mr Woodford's management of the WEIF, many of the assets that it held could not be liquidated within the short timeframe required to meet redemptions under the regulatory framework and the fund's terms and conditions. This gave rise to liquidity risk – the risk that, while a fund may hold assets of sufficient value to cover its liabilities (including redemption requests), it has insufficient liquid funds to meet these liabilities in the required timeframes.

2.4. Following a persistent trend of poor performance, investor redemptions and deteriorating liquidity as detailed below, the WEIF's value had fallen to around £3.6 billion by the time of the fund's suspension on 3 June 2019 (a decline of over £6.5 billion). The WEIF was subsequently put into liquidation without reopening, meaning that investors' holdings in the fund could not be redeemed at will in accordance with the applicable redemption policy and the requirements of the regulatory framework.

2.5. The ability of the WEIF's investors to redeem the value of their investments at short notice was of fundamental importance under the regulatory framework and the fund's own terms and conditions. These provided that investors were entitled to redeem their investment and be repaid within 4 business days.

2.6. Throughout the Relevant Period, WIM's stated risk appetite for liquidity risk (including for the WEIF) was *"medium"*, which was said to reflect *"a moderate amount of liquidity risk"* while recognising the need to *"ensure that there is sufficient liquidity to meet investor redemptions at all times"*. In fact, during the Relevant Period, the WEIF carried a significantly higher level of liquidity risk and was an outlier among Comparator Funds, being less liquid than the least liquid of such Comparator Funds in a number of respects. By way of example, the proportion of the WEIF's securities able to be sold within 7 days was lower than all other Comparator Funds throughout the Relevant Period and deteriorated from 18% in July 2018 to 8% on 3 June 2019, which was significantly lower than the bottom ranked Comparator Fund.

2.7. As well as being the majority owner of WIM and founding it as his own investment management firm bearing his name, Mr Woodford performed a number of important roles within WIM which carried responsibility for managing the liquidity risks associated with the WEIF. In particular, as further set out below, he was:

(a) WIM's Head of Investment and the lead fund manager for the WEIF from its inception;

(b) the designated "risk owner" for liquidity risks associated with WIM's funds from July 2017 onwards, with primary responsibility for liquidity risk management;

(c) a member of WIM's Investment Oversight Committee ("IOC") (until it was replaced in August 2018), Management Team and Management Board.

2.8. Further, throughout the Relevant Period, Mr Woodford held:

(a) the CF1 (Director) controlled function, which was an accountable significant influence function within the meaning of APER;

(b) the CF30 (Customer) controlled function, which applied to his activity as investment manager and functions connected with this.

2.9. In performing his responsibilities in respect of liquidity risk, Mr Woodford should have:

(a) paid due regard when making investment decisions to the need for the WEIF to maintain a reasonable and appropriate liquidity profile in accordance with the Authority's rules applicable to UCITS schemes and WIM's "*medium*" risk appetite, including as to which assets to buy and sell in the face of ongoing net redemptions;

(b) taken reasonable steps to satisfy himself that the liquidity risk framework applied to the WEIF (including the applicable liquidity metrics, triggers and limits, and stress testing) was appropriate; and

(c) exercised appropriate oversight to the extent that certain administrative tasks associated with his responsibilities in respect of liquidity risk management had been delegated to others.

2.10. Mr Woodford failed to do any of these things. Instead:

(a) Mr Woodford held a defective and unreasonably narrow understanding of his responsibilities in respect of liquidity risk. In particular:

(i) Mr Woodford treated his role in managing and monitoring liquidity risk as definitively circumscribed by the triggers and limits set out in the applicable liquidity framework. He saw his responsibility as to manage the fund within the bounds of the prescribed metrics, triggers and limits but not to take reasonable steps to ensure that those metrics, triggers and limits were appropriate including challenging the appropriateness with WIM's Risk and Compliance teams.

(ii) As he explained in interview with the Authority, Mr Woodford took the view that he was entitled to assume that WIM's Risk and Compliance teams (and/or Link as ACD) had set or agreed appropriate metrics, triggers and limits and he did not accept that he had any responsibility for overseeing the work of these teams in this regard.

(iii) Mr Woodford further took the view that it was for WIM's Risk and Compliance functions to ascertain what information it was necessary for him to see. As a result, Mr Woodford's understanding was that he was not required to make enquiries in respect of matters relating to WEIF's liquidity management framework that were not specifically drawn to his attention by these control functions.

(iv) However, in practice, Mr Woodford was willing to (and from time to time did) question and challenge the liquidity framework used by Link and adopted by WIM with respect to the WEIF. However, he only did so in circumstances where he considered that it restricted him from pursuing his preferred investment strategy.

(b) Mr Woodford failed to pay due regard to the need to ensure a reasonable and appropriate liquidity profile for the WEIF when making investment decisions in the face of ongoing redemptions and net outflows from the fund. The liquidity of the WEIF was principally affected by the investment decisions as to which assets to buy, sell or hold. In the Relevant Period, the total amount of shares sold from the WEIF was approximately £2.2 billion and the total amount of shares purchased was approximately £0.9 billion, resulting in a total net outflow of approximately £1.3 billion. Mr Woodford's stated approach to selecting which assets to sell was primarily based on the positions in which he had the least conviction (as distinct from considerations of liquidity). An analysis of Mr Woodford's investment activity during the Relevant Period shows that he did not adopt a balanced approach to its buying and selling activity as he sold a much greater amount and proportion of more liquid assets than he bought, and bought a greater amount and proportion of more illiquid assets than he sold. This resulted in an increase in the amount of less liquid assets being held by the fund relative to its more liquid assets and a significant deterioration in the fund's liquidity profile. In addition, urgent steps to rebalance the portfolio should have been undertaken to ensure fairness to all investors, not just those seeking to redeem. By 3 June 2019 only 8%

of the WEIF was able to be sold within 7 days, which was neither prudent nor reflective of a "*medium*" risk appetite, in circumstances where investors were entitled to redeem their investment and be repaid within 4 business days.

(c) Further, between January 2018 and February 2019, the listing of certain previously unquoted securities on the International Stock Exchange, a stock exchange headquartered in Guernsey ("TISE"), enabled WIM and Mr Woodford to increase the WEIF's holdings in those securities. This was despite the fact that the securities: (1) were classified as amongst the most illiquid securities held by the WEIF, and even after listing would remain as such; and (2) had the same characteristics in liquidity terms as unquoted securities (which were subject to a regulatory limit of 10% of the property of the WEIF). Moreover, the liquidity of the WEIF was deteriorating and continued to do so until the end of the Relevant Period. In making further investments in these securities during the Relevant Period in these circumstances, Mr Woodford failed to pay due regard to the need to ensure an appropriate liquidity profile for the WEIF.

(d) Further, Mr Woodford failed to take adequate steps to satisfy himself that the WEIF's liquidity framework was appropriate. He assumed that the existing triggers, limits and metrics, along with the stress testing, would provide sufficient protection against liquidity risk by virtue of the fact they had been adopted and approved by others, including the WEIF's ACD. He did not consider it to be necessary to look at wider assessments of liquidity beyond triggers, limits and metrics. To the extent that Mr Woodford personally sought to challenge the liquidity framework, it was only ever in circumstances where the WEIF was crossing the existing triggers and/or in breach of the existing limits as a result of a persistent and evident trend of deteriorating liquidity. Instead of appropriately addressing this deterioration in the WEIF's liquidity, Mr Woodford raised issues about the existing liquidity framework which resulted in certain alterations to it. Although these alterations created an impression of greater liquidity in the fund, they did not affect the fund's fundamental composition or improve its liquidity profile in reality. This was not a reasonable approach.

(e) Mr Woodford did not exercise adequate oversight in respect of certain administrative tasks associated with his responsibilities for liquidity risk management that had been delegated (including administrative tasks associated with the completion of monthly risk returns for liquidity risks and annual risk appetite reviews of liquidity risks). These administrative tasks were delegated to a nominated administrator. Mr Woodford did not provide any oversight of the administrator's performance of such tasks and he considered that (according to his unreasonably narrow conception of his responsibilities) he was not required to do so. This was not a reasonable approach.

(f) Further, Mr Woodford ought, through his management and monitoring of liquidity risks (including appropriate questioning and challenge where necessary), to have ascertained (to the extent he was not already aware) from WIM's Risk and Compliance teams the nature of the concerns conveyed to WIM at various times during the Relevant Period by Link, the WEIF's ACD, regarding the fund's liquidity. If, as Mr Woodford should have done, he had appreciated and understood the messages and warnings that Link was sending, he should have acted appropriately on them. In fact, he failed to provide proper oversight of WIM's interactions with Link and therefore failed to respond reasonably to Link's concerns or take adequate action in response to them, in order to substantially rebalance the liquidity profile of the fund. As a result, when Link repeatedly raised liquidity concerns with WIM during the Relevant Period, WIM did not respond reasonably to those concerns.

2.11. The Authority considers that Mr Woodford's investment decisions and other failings outlined in this Notice resulted in the WEIF's liquidity profile becoming unreasonable and inappropriate. They materially increased the risk that: (a) the liquidity framework applicable to the WEIF would be inappropriate; and (b) the suspension of the fund would be required, and thereby place those investors who did not redeem prior to the point of suspension at a disadvantage. The WEIF was ultimately suspended by Link on 3 June 2019 due to liquidity issues. This followed a request from Kent County Council, which at the time was the largest single investor in the WEIF, to redeem its holding in full. Since being suspended, the value of many of the assets held within the WEIF has reduced significantly, meaning that investors have received, or are entitled to receive, significantly less than the value of their investments at the point of suspension.

2.12. The Authority's operational objectives include securing an appropriate degree of protection for consumers and protecting and enhancing the integrity of the UK financial system. Mr Woodford's failings threatened these objectives and resulted in a significant adverse impact on confidence in the UK fund management sector. The Authority therefore has decided to impose a financial penalty on Mr Woodford in the amount of £5,888,800 pursuant to section 66 of the Act for breaches of:

(a) Statement of Principle 2 (due skill care and diligence in carrying out accountable functions) in respect of his CF30 (customer) controlled function, namely his activity as WIM's Head of Investment and the WEIF's lead fund manager and functions connected with this;

(b) Statement of Principle 6 (due skill care and diligence in managing the business of the firm) in respect of his CF1 (director) controlled function.

2.13. The Authority considers that, as a result of the facts and matters set out in this Notice, Mr Woodford is not a fit and proper person to perform regulated activities associated with managing open-ended funds and any senior management or significant influence function on the basis of his lack of competence, capability and reputation. The Authority hereby also has decided to make a prohibition order in respect of Mr Woodford, pursuant to section 56 of the Act, prohibiting him from performing:

(a) any function in relation to the regulated activity of managing investments in respect of a UK UCITS or any authorised fund sold, promoted or otherwise made available to retail clients; and

(b) any senior management function and any significant influence function in relation to any regulated activities carried on by any authorised or exempt person or exempt professional firm.

3. DEFINITIONS

3.1. The definitions below are used in this Decision Notice:

"ACD" means an Authorised Corporate Director of a fund;

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

"ADTV" means the Average Daily Traded Volume of a security, which is the average number of shares traded per day on an exchange over a certain period of time;

"AFM" means Authorised Fund Manager;

“APER” means the Statements of Principle and Code of Practice for Approved Persons;

“ALR” means WIM’s Action Learning Review process, which was a forum introduced in the first quarter of 2018 for the purpose of ensuring that its business operated within an agreed control framework, policies and procedures;

“AUM” means assets under management, which is a total value of a fund’s assets;

“the Authority” means the Financial Conduct Authority;

“Benevolent” means Benevolent AI Limited;

“COLL” means the Collective Investment Schemes sourcebook, part of the Handbook;

“Comparator Funds” means 221 funds identified by the Authority with comparable characteristics to the WEIF in terms of the size and nature of the funds, their geographical market and the time period in which they operated;

“Corrected Four Bucket Model” means a liquidity model used by the Authority applying an alternative set of assumptions to those used in the Revised Four Bucket Model;

“DEPP” means the Decision Procedures and Penalties Manual, part of the Handbook;

“ENFG” means the Authority’s Enforcement Guide;

“FIT” means the Fit and Proper Test for Approved Persons and specified significant-harm functions section of the Authority’s Handbook;

“Four Bucket Model” means the Initial Four Bucket Model and Revised Four Bucket Model used by WIM and Link as described in this Notice;

“Full Allocation Approach” means a liquidity risk monitoring approach in which a security was assigned to a liquidity bucket based upon the number of days it was expected to take to dispose of all shares held by the fund in that security;

“FVP” means Fair Value Pricing, a means of estimating the value of an asset where no market value is readily ascertainable;

“Handbook” means the collection of regulatory rules, manuals and guidance issued by the Authority as in force during the Relevant Period;

“IMA” means the Investment Management Agreement between Capita Financial Managers Limited (which became Link on 6 November 2017) and WIM LLP (subsequently transferred to WIM on 19 September 2016) dated 30 May 2014;

“Industrial Heat” means Industrial Heat, LLC;

“Initial Four Bucket Model” means the liquidity model used by Link from January until October 2018 and monitored by WIM from May until October 2018, as described at Section B2 below;

“IOC” means WIM’s Investment Oversight Committee;

“IOSCO” means the International Organization of Securities Commissions, an association of national securities and financial regulators from over 100 countries;

“KCC” means Kent County Council;

“KIID” means Key Investor Information Document;

“Linear Allocation Approach” means a liquidity risk monitoring approach in which a security was assigned to numerous liquidity buckets based upon the number of shares in the security that were expected to be disposed of each day;

“Link” means Link Fund Solutions Limited, known until 6 November 2017 as Capita Financial Managers Limited (FRN 119197);

“NAV” means Net Asset Value, the value of a fund’s assets minus its liabilities;

“NEX” means the NEX Exchange Growth Market (which has since been renamed as Acquis Stock Exchange), a stock exchange headquartered in England;

“Ombu” means Ombu Group;

“Participation Rate” means an estimate of the percentage of ADTV of a security that the WEIF was able to sell without having a significant impact on the price of that security;

“RCR” means the Redemption Coverage Ratio, a ratio based on WIM’s liquidity metrics which measured the ability of the WEIF to meet redemption requests;

“RDC” means the Regulatory Decisions Committee of the Authority (see further under Procedural Matters below);

“Relevant Factors” means the factors affecting a fund’s liquidity as identified by the Authority in **Annex A**;

“Revised Four Bucket Model” means the liquidity model used by WIM and Link from October 2018 until the WEIF’s suspension on 3 June 2019, as described at Section B3 below;

“the Relevant Period” means the period from 31 July 2018 to 3 June 2019;

“Sabina” means Sabina Estates Limited;

“the Statistical Model” means the statistical model used by the Authority to assess the liquidity of the WEIF, as described in **Annex A** below;

“SYSC” means the part of the Handbook entitled Senior Management Arrangements, Systems and Controls;

“TISE” means the International Stock Exchange, a stock exchange headquartered in Guernsey;

“the TISE companies” mean Benevolent, Industrial Heat, Ombu and Sabina;

“the TISE securities” mean securities in the TISE companies;

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

“UCITS” means an undertaking for collective investment in transferable securities, as defined in section 236A of the Act;

“Unquoted Securities” means transferrable securities which are not listed and traded on an eligible market;

“the Warning Notice” means the Warning Notice dated 19 February 2024 given to Mr Woodford”;

"the WEIF" or "the fund" means the LF Woodford Equity Income Fund (called the CF Woodford Equity Income Fund between May 2014 and November 2017, the LF Woodford Equity Income Fund between November 2017 and October 2019, and thereafter the LF Equity Income Fund) (FRN 635902);

"WIM" means Woodford Investment Management Limited (FRN 745433); and

"WIM LLP" means Woodford Investment Management LLP, which acted as the investment manager of the WEIF from its inception in May 2014 until September 2016 when the IMA was transferred from WIM LLP to WIM.

4. FACTS AND MATTERS

SECTION A: BACKGROUND

A1: Relevant parties

4.1. The WEIF is a sub-fund of the LF Woodford Investment Fund, an open-ended UCITS fund authorised by the Authority and incorporated in May 2014. After its NAV reached a peak value of just over £10.1 billion in May 2017, the WEIF was the subject of a persistent pattern of poor performance, redemptions and deteriorating liquidity and was ultimately suspended by Link on 3 June 2019, as described further at paragraph 4.37 below.

4.2. WIM LLP was the initial corporate vehicle founded by Mr Woodford for the purpose of conducting his investment management business and acted as the investment manager of the WEIF from its inception in May 2014 until September 2016. The launch of WIM LLP was contemporaneously described in the press as a "*landmark moment in British fund management"* owing to Mr Woodford's status as a "*star of the fund management world"* based on the results and experience he had accumulated over 25 years in his previous role as a fund manager at Invesco Perpetual. Mr Woodford was one of only two members of WIM LLP. In September 2016, WIM LLP's management of the WEIF was transferred to WIM, which was a private limited company founded by Mr Woodford and another person in April 2016. Mr Woodford was the majority owner of WIM.

4.3. Having founded WIM as his new investment management firm bearing his own name, Mr Woodford held a number of relevant roles within WIM. In particular, he was:

(a) the Head of Investment at WIM and lead fund manager for the WEIF;

(b) the designated "risk owner" for all investment risks associated with WIM's funds, and specifically in relation to liquidity risk as further defined below, from July 2017 onwards following a recommendation made in a WIM internal audit report dated 31 March 2017;

(c) a member of the IOC until it was replaced in August 2018. Mr Woodford was one of only two members of the IOC whose presence was specifically required in order for the committee to be quorate;

(d) a member of WIM's Management Team. Mr Woodford was described by a senior staff member of WIM in interview with the Authority as a "*star player"* in Management Team meetings due to his role in determining the investment strategy; and

(e) a member of WIM's Management Board (and one of only two members of WIM's Management Team who sat on this Board).

4.4. Further, from 30 September 2016 and throughout the Relevant Period, Mr Woodford held:

(a) the CF1 (director) controlled function, which was an accountable significant influence function within the meaning of APER;

(b) the CF30 (customer) controlled function, which applied to his activity as investment manager and functions connected with this.

4.5. Link was the ACD of the WEIF from the fund's inception. The ACD's role was to manage and administer the WEIF in accordance with the functions set out in COLL 6.6.3R. Broadly, an ACD maintains regulatory documentation (including the fund's Prospectus and the KIID), maintains operational relationships with key stakeholders (including shareholders and the Authority), values and ensures accurate pricing of the fund's assets, and monitors relevant activities of the investment manager (WIM). Link monitored and oversaw the WEIF and was required to ensure that it acted in the interests of all investors. However, Link did not involve itself in deciding which particular investments were bought, held or sold. WIM was responsible for making (and, through Mr Woodford, did in fact make) those decisions.

<u>A2: WIM and Mr Woodford's responsibilities in respect of liquidity risk</u>

4.6. The ability of the WEIF's investors to redeem the value of their investments at short notice was of fundamental importance. This was reflected by the regulatory framework and the fund's terms and conditions, which provided that investors were entitled to redeem their investments and be repaid within 4 business days. However, as a result of Mr Woodford's investment strategy and his management of liquidity in the WEIF (and as further particularised below) a significant proportion of the assets held by the WEIF could not be liquidated in such a short timeframe or could only be liquidated at significantly reduced prices. This gave rise to liquidity risk – the risk that, while a fund may hold assets of sufficient value to cover its liabilities (including redemption requests), it has insufficient liquid funds to meet these liabilities in the required timeframes, to the detriment of investors.

4.7. This section addresses in turn:

(a) WIM's responsibilities in respect of the WEIF's liquidity risk as set out in the IMA.

(b) WIM's risk management framework and associated risk appetite for liquidity risks.

(c) Mr Woodford's responsibilities in respect of liquidity risk in his roles as the lead fund manager and designated risk owner and as a member of the IOC, Management Team and Management Board.

(d) The responsibilities of WIM's Risk and Compliance functions in respect of liquidity risk.

<u>WIM's responsibilities for liquidity risk in respect of the WEIF</u>

4.8. WIM's specific obligations in respect of the WEIF were set out in the IMA. Under the terms of the IMA:

(a) WIM acknowledged and agreed that it would be responsible for ensuring that the fund was managed at all times in accordance with the Prospectus and the provisions of Chapter 5 of COLL (Clause 2.1);

(b) WIM was required to exercise its investment discretion compatibly with the provisions of Chapter 5 of COLL and with the standard of care that could reasonably be expected of a professional discretionary investment manager acting in good faith and with reasonable care and skill (Clause 2.2.1);

(c) WIM was further required to "*manage the liquidity of the* [WEIF's] *portfolio in a manner that* [it] *reasonably regards as being appropriate to the Fund. In particular,* [WIM] *shall consider, on an ongoing basis, the liquidity profile of the current and any proposed Assets of the Fund in relation to the Fund's overall liquidity requirements (and requirements in different market conditions)*" (Clause 2.2.3);

(d) WIM was required to *"regularly review the Fund's portfolio to ensure that the Fund is being managed in accordance with Clause 2.2"* (Clause 4.2.6*)*;

(e) in performing its duties under the IMA, WIM was required, at all times, to *"follow a risk management process consistent with the FCA Rules and shall ensure that the Fund's investments are managed in a manner which shall enable each of the Fund and [Link] to comply at all times with the requirements of the Regulations, the Prospectus and the Instrument in relation to the redemption of Shares.*" WIM was required to *"provide [Link] with details of its risk management process" and to "notify [Link] promptly if it proposes to change any aspect of such process"* (Clause 2.2.6).

4.9. These provisions of the IMA imposed on WIM extensive obligations in relation to liquidity management. Accordingly, in managing the WEIF's liquidity risks, WIM was obliged to ensure that the fund complied with the Authority's rules as set out in Chapter 5 of COLL. These include (among other things) rules requiring that the UCITS scheme aims to provide a prudent spread of risk (including liquidity risk) and that the liquidity profile is appropriate to the fund's redemption policy.

WIM's risk management framework and risk appetite, including for liquidity risk

4.10. As part of its risk management framework, WIM prepared risk appetite statements for different categories of risk, including liquidity risk. These statements articulated WIM's risk tolerance for each of these risks and identified mitigating controls to ensure that the business did not exceed its stated risk tolerance. The statements were reviewed on a six-monthly basis (up to April 2018) and were supposed to be reviewed on an annual basis thereafter.

4.11. WIM's tolerance for not acting in accordance with its risk appetite was described internally as follows: *"While we have accepted that taking on risk is required in order to meet our strategic objectives, the firm has a low tolerance for adverse outcomes. We ensure that all possible controls and processes are in place to actively mitigate against these outcomes."*

4.12. Liquidity risk was defined in WIM's policies as the risk of "*Insufficient liquidity to meet investor redemptions or likely to cause investor detriment. In COLL, this is the risk that a position cannot be sold, liquidated or closed out at limited costs in an adequately short timeframe and that the ability of the fund to comply with COLL 6.2.16 R (Sale and Redemption) is thereby compromised".*

4.13. WIM's stated risk appetite for liquidity risk (including for the WEIF) was *"medium"*, including throughout the Relevant Period. This was described in WIM's policies as reflecting *"a moderate amount of liquidity risk to meet our investment objectives and style"*, as well as the need to *"ensure that there is sufficient liquidity to meet investor redemptions at all times and have sufficient systems and controls to monitor liquidity levels"*.

4.14. The mitigating controls used by WIM to ensure a *"moderate amount of liquidity risk"* for the WEIF included the liquidity methodologies and the triggers and limits contained in WIM's liquidity risk framework set out at Section B below. It also included ad hoc, daily, monthly and annual monitoring and risk review processes, as well as the preparation of liquidity contingency planning documents in the event that any applicable triggers or limits were crossed or breached.

Mr Woodford's responsibilities in respect of liquidity risk

4.15. As the lead fund manager for the WEIF and as the designated "risk owner" for liquidity risk (as well as other investment risks associated with WIM's funds), Mr Woodford was responsible, including during the Relevant Period, for:

(a) investment risk management (including having primary responsibility for liquidity risk management);

(b) monitoring and managing liquidity risk on a day-to-day basis;

(c) constructing the WEIF's portfolio and deciding what assets to buy, sell or hold;

(d) performing a monthly review, or risk return, in respect of liquidity risk, in order to evaluate the risk environment and assess the effectiveness of mitigating controls;

(e) carrying out an annual review and assessment of the risk appetite statement, triggers and limits in respect of liquidity risk; and

(f) participating in an escalation process (known as the **Event & Huddle** procedure) within WIM for addressing *"any situation that would, could or has resulted in an undesirable outcome",* including (for example) by:

(i) reviewing the details of reported events to determine if a huddle was required;

(ii) facilitating discussion and collaboration to determine immediate next steps; and

(iii) providing continual oversight of the process (and the tasks which it identified) through to completion.

4.16. As further set out in paragraph 4.23 below, the performance of administrative tasks associated with a number of these responsibilities was delegated to a member of WIM's Management Team. Mr Woodford, however, retained responsibility for liquidity risk as the risk owner and needed to exercise appropriate oversight over the delegated performance of these tasks by others, as set out in paragraph 4.20(c) below.

4.17. As to the role and operation of the IOC (and the responsibilities of Mr Woodford as one of its key members until it was replaced in August 2018):

(a) The IOC met quarterly and its purpose was to oversee investment risk across all of WIM's funds and mandates by providing:

(i) oversight of the daily investment risk monitoring process;

(ii) independent questioning of the investment approach and decisions taken by the investment team in the previous quarter; and

(iii) a review of the investment team's strategy for the following quarter.

(b) IOC meetings therefore served to discuss "*investment risk, performance and strategy*" including (for example) the following:

(i) construction and characteristics of the portfolio;

(ii) liquidity of individual securities (quoted and unquoted);

(iii) liquidity profile of the portfolio; and

(iv) stress testing.

(c) Mr Woodford as investment manager was required to attend the IOC and give the explanations and answers that were necessary for the IOC to discharge its functions, including (for example) by answering questions specifically in relation to liquidity risk as follows:

(i) "*Is the liquidity profile of the fund concerning?*"

(ii) "*Is liquidity decreasing or increasing from the previous period?*"

(iii) "*Are there specific examples where illiquid positions have been liquidated much quicker than analysis suggests? What were the reasons for this?*"

(iv) "*Are the stress test results on liquidity concerning? What actions could be taken if a stress event was occurring and we wanted to improve liquidity?*"

4.18. As to the role and operation of the Management Team (and the responsibilities of Mr Woodford as one of its most senior members):

(a) The Team met monthly and its purpose was to "*develop and deliver against business strategy, projects, medium-term plans and budgets"*.

(b) Its members (including Mr Woodford) each had the following specific accountabilities (among others):

(i) *"ensuring there is an effective management structure and organisation within the company which is consistent with the effective delivery of the company business plan"*;

(ii) *"ensuring the company maintains an effective internal control framework which is designed to: enable the company to respond* *appropriately to significant business, operational, financial, compliance and other risks to achieving the company strategic objectives"*; and

(iii) *"maintaining an oversight of the activities of the Action Learning Review"* which was a successor committee to the IOC established in the first quarter of 2018 (as further described in paragraph 4.26 below).

4.19. As to the role and operation of the Management Board (and the responsibilities of Mr Woodford as one of its members and one of only two executive directors on the Board):

(a) The Board met quarterly. It had a mandate to do the following (among other things):

(i) determine the appropriate risk appetite and tolerances for WIM (including in respect of liquidity risk);

(ii) provide support, guidance and insight regarding WIM's strategy; and

(iii) provide forward-looking consideration of all relevant factors which could affect WIM's strategy including (for example) industry trends and competitor activity.

(b) The responsibilities of the members of the Management Board (including Mr Woodford) relevantly included:

(i) setting WIM's risk appetite (including in respect of liquidity risk); and

(ii) annually reviewing and approving any proposed changes to WIM's risk appetite statements.

4.20. In carrying out the roles and responsibilities set out in paragraphs 4.15 to 4.19 above, the Authority considers that Mr Woodford should have:

(a) taken reasonable steps to satisfy himself that the liquidity risk framework applied to the WEIF (including the applicable liquidity metrics, triggers and limits and stress testing) was appropriate;

(b) paid due regard when making investment decisions to the need for the WEIF to maintain a reasonable and appropriate liquidity profile in accordance with the Authority's rules applicable to UCITS schemes and WIM's "*medium*" risk appetite, including as to which assets to buy and sell in circumstances of ongoing net redemptions; and

(c) exercised appropriate oversight over the delegated performance by others of administrative tasks associated with his responsibilities in respect of liquidity risk (as further addressed in paragraph 4.23 below).

4.21. During the Relevant Period, Mr Woodford did not discharge his responsibilities with due skill, care and diligence for all of the reasons set out below. A root cause of this failure on Mr Woodford's part is that he had a defective and unreasonably narrow understanding of his responsibilities in respect of liquidity risk. In particular:

(a) Mr Woodford treated his role in managing and monitoring liquidity risk as definitively circumscribed by the triggers and limits set out in the applicable liquidity framework. When assessing the appropriate liquidity profile of the WEIF, he did not take into account wider factors, in addition to the applicable triggers and limits, including the net flow of subscriptions and redemptions for the fund; the WEIF's performance relative to a relevant benchmark; and the structure and characteristics of the WEIF. He saw his responsibility as to manage the fund within the bounds of the prescribed metrics, triggers and limits but not to take reasonable steps to ensure that those metrics, triggers and limits were appropriate including challenging the appropriateness with WIM's Risk and Compliance teams.

(b) As he explained in interview with the Authority, Mr Woodford took the view that he was entitled to assume that WIM's Risk and Compliance teams (and/or Link as ACD) had set or agreed appropriate metrics, triggers and limits and he did not accept that he had any responsibility for overseeing the work of these teams in this regard.

(c) Mr Woodford further took the view that it was for WIM's Risk and Compliance functions to ascertain what information it was necessary for him to be aware of, with the apparent consequence that (on his understanding) he was not required to make enquiries in respect of matters that were not specifically drawn to his attention by these control functions.

4.22. Despite holding the above views, Mr Woodford did challenge the liquidity framework on occasions when he felt that it restricted him from pursuing his preferred investment strategy. On these occasions, Mr Woodford made clear to WIM's Risk and Compliance functions his strong concerns about certain of the metrics used to measure liquidity. These concerns were duly considered by those functions and then taken up by WIM with Link (as ACD). However, Mr Woodford's concerns were focused only on metrics which indicated less liquidity in the WEIF than he considered to be the case, based on his experience as the lead fund manager of the WEIF. His concerns did not address whether the WEIF's liquidity profile was reasonably regarded as being appropriate, having regard to its overall liquidity requirements.

Responsibilities of WIM's control functions for liquidity risk

4.23. Under the terms of WIM's policies and procedures, the "*administration*" of liquidity risk was delegated by Mr Woodford as risk owner to a member of WIM's Management Team. The delegated administrative tasks included in particular:

(a) completion of monthly risk returns and annual risk appetite reviews (albeit that these tasks necessarily involved consultation with Mr Woodford as risk owner to provide appropriate oversight and input); and

(b) designing contingency plans (albeit that again this necessarily involved input from Mr Woodford as risk owner and from WIM's Risk team).

4.24. WIM's Compliance function was also responsible for (among other things):

(a) developing, initiating, maintaining and revising policies and procedures to ensure compliance with all legal and regulatory requirements;

(b) developing and maintaining an appropriate monitoring programme to ensure compliance with all policies and procedures; and

(c) providing an independent review and evaluation to ensure that compliance issues within WIM were being appropriately evaluated, investigated and resolved.

4.25. Separately, WIM's Risk function was responsible for (among other things):

(a) providing an "*independent review*" of investment risks;

(b) developing, managing and embedding WIM's risk management framework; and

(c) managing the complete, accurate and informative reporting and presentation of risk to relevant committees, boards, the ACD and oversight functions.

4.26. Further, members of the Compliance and Risk functions participated in the Action Learning Review, being a forum introduced in the first quarter of 2018 the purpose of which was to "*ensure the business is operating within the agreed control framework, policies and procedures*". Mr Woodford was not a member of the ALR and did not participate in it as a matter of course.

A3: WIM's investment strategy and the WEIF's performance

4.27. From its establishment in May 2014 to the end of June 2014, the total NAV of the WEIF reached nearly £1.7 billion. Substantial numbers of investors reportedly requested to move their investments to Mr Woodford's new fund, following his announcement that he was leaving Invesco Perpetual.

4.28. From June 2014 to May 2017, the WEIF continued to attract investors and the fund's NAV grew to a peak of just over £10.1 billion by May 2017. Between 2 June 2014 and 31 May 2017, the WEIF generally outperformed the FTSE All-Share Index. As at 31 May 2017, the WEIF was heavily weighted towards: (i) Healthcare (including holding AstraZeneca (8.87%)); (ii) Consumer Goods (including holding Imperial Brands (6.52%) and British American Tobacco (3.73%)); and (iii) Financials (including holding Legal & General (5.63%) and Provident Financial (5.51%)).

4.29. In April 2017, Mr Woodford decided to refocus the WEIF's investments from large global companies to UK-focused companies, which were frequently smaller, less well capitalised companies. The significance of this change in strategy on the WEIF's liquidity was two-fold:

(a) First, due to the nature of the companies targeted by Mr Woodford's revised strategy, the fund became invested in less liquid stocks:

(i) shortly before the announcement of his revised strategy, Mr Woodford himself described his investment approach in the press as a "*very extreme minority sport*" which involved "*investing in early stage, illiquid businesses*";

(ii) WIM recognised in its liquidity contingency planning that the result of the "*change in investment strategy and the switch into UK securities that have a lower market cap*" was that there had been "*a change in the liquidity profile of the fund and the fund has moved towards the* [liquidity] *limits originally set out […]*".

(iii) contemporaneous press commentary following the adoption of Mr Woodford's revised strategy in 2017 (and continuing through to 2019) noted that:

(1) "*(f)or funds such as Mr Woodford's, large investor redemptions can pose liquidity challenges because he holds significant positions in a relatively small number of companies*";

(2) the WEIF "*now has a substantial exposure to small, illiquid companies*";

(3) "*investors worry about the fund's high concentration in smaller, more volatile stocks, including private unlisted companies*" and "*(t)he fund is heavily positioned in smaller companies, including Aim* [Alternative Investment Market] *stocks, which are typically illiquid*".

(b) Secondly, following the adoption of this strategy, the fund significantly underperformed the FTSE All-Share Index, which led to consistent outflows in the form of redemptions, as further set out below. The result of this sustained period of underperformance and redemptions was that WIM faced liquidity challenges that were unlikely to be resolved in the near to medium term, and WIM (and Mr Woodford) needed to recognise the likelihood of ongoing redemptions when managing the liquidity risks presented by the fund, especially in light of the change in Mr Woodford's investment strategy described above.

4.30. As contemporaneously explained by WIM to its investors, Mr Woodford's change in strategy was based on the fact that he was "*more bullish than consensus"* on the prospects of the UK economy following the UK's vote in June 2016 to leave the European Union:

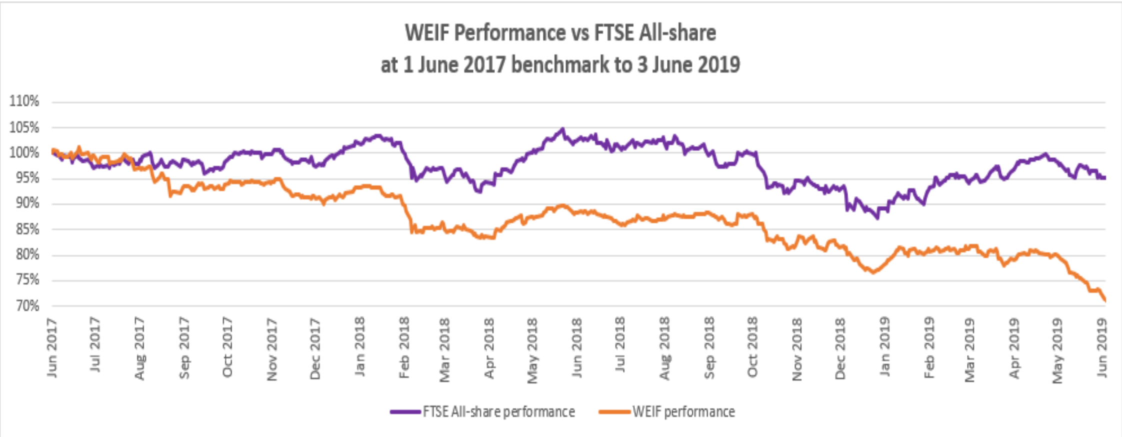
(a) As described by WIM to one of the fund's largest investors, KCC: "*In a nutshell, [Mr Woodford] is becoming more bullish than consensus on the UK economy. He thinks that people are too cautious post Brexit*".

(b) As set out in the blog that WIM published in May 2017 to explain its new UK-focused investment strategy: "*Neil has been keen to take advantage of what he sees as a compelling, contrarian opportunity in domestic stocks, which have become too cheap to ignore in the wake of the Brexit vote last year".*

(c) External commentators similarly recognised that Mr Woodford "*has been an outlier among UK equity investors since the referendum vote in 2016*" and "*has taken the opportunity to buy shares of companies that have fallen in value as a result of the market's fears about possible Brexit consequences*".

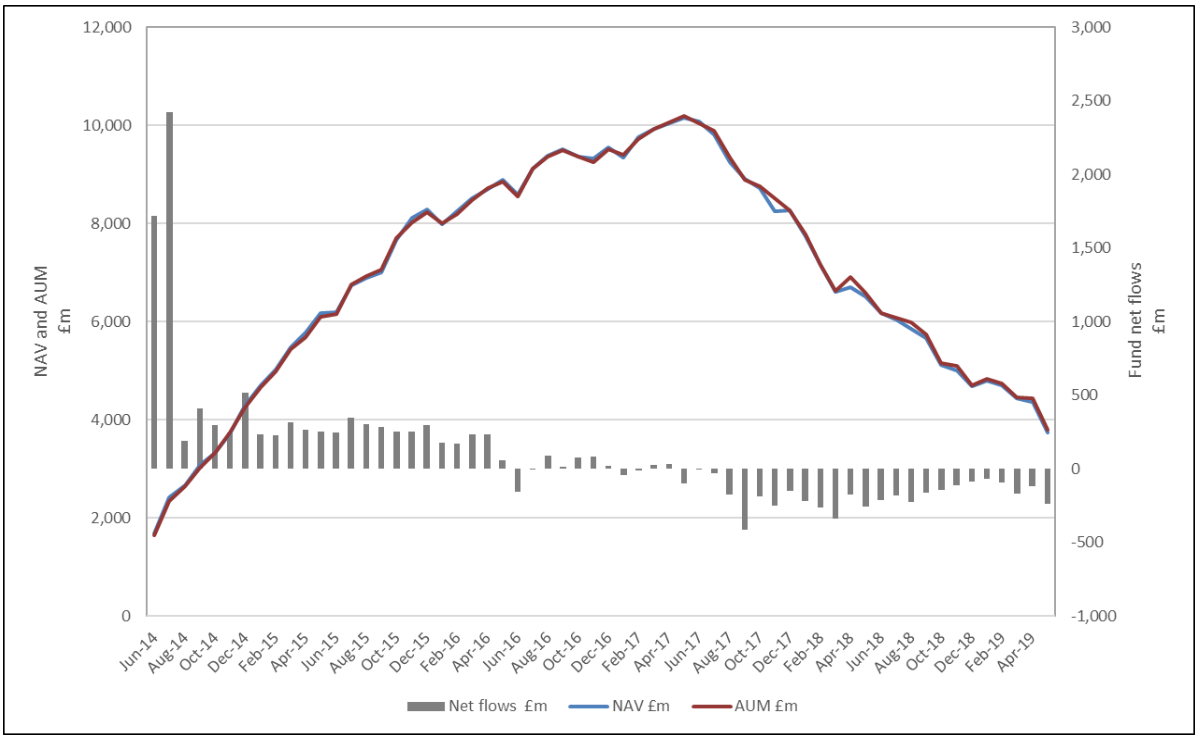
4.31. Following Mr Woodford's adoption of this UK-focused strategy, from June 2017 onwards, the WEIF generally underperformed against FTSE All-Share index:

Figure 1: WEIF Performance vs FTSE All-Share



4.32. Owing to poor investment performance and persistent investor withdrawals, the WEIF's NAV dropped from just over £10.1 billion in May 2017 to around £6 billion in July 2018 to around £3.6 billion by the time of its suspension on 3 June 2019, an overall decline of over £6.5 billion:

Figure 2: AUM, NAV and fund in/outflows of the WEIF from launch until its suspension



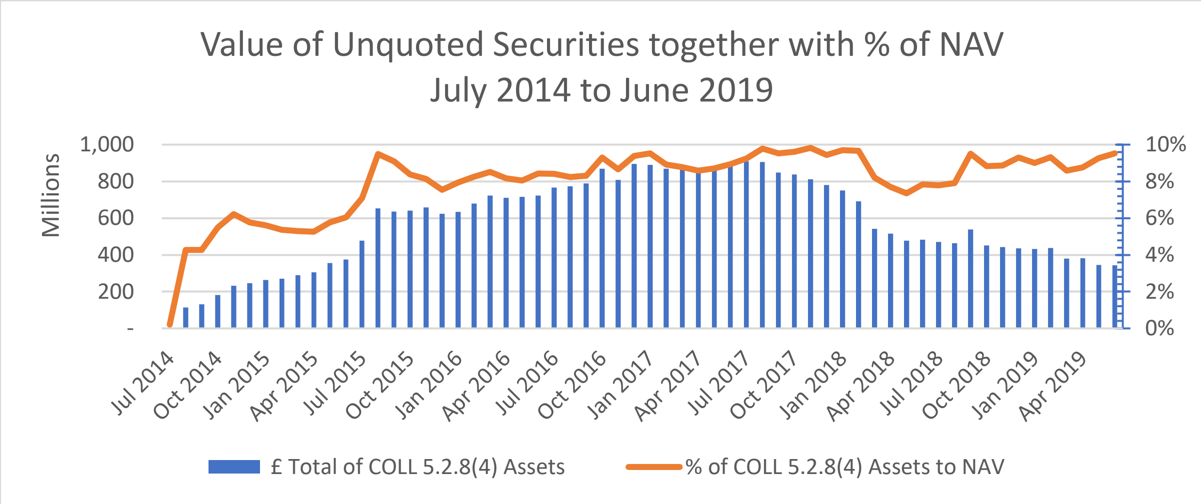
<u>A4: WIM's investment in Unquoted Securities</u>

4.33. The principal document that set out the WEIF's investment objective and remit was the Prospectus, accompanied by the KIID. Both the Prospectus and the KIID stated that the WEIF might invest in unlisted companies and overseas entities.

4.34. The WEIF made its first investment in Unquoted Securities in July 2014. The WEIF held investments in the Unquoted Securities of 64 different issuers during the lifetime of the fund. The maximum value of Unquoted Securities that is permitted in a UCITS fund is 10% of its NAV, as set out in COLL which WIM was required to comply with through its contractual arrangements with Link. Some of the Unquoted Securities subsequently became listed, meaning that they were no longer classed as within the 10% unquoted limit by Link or WIM. These included the companies that became listed on TISE (see Section E below).

4.35. The chart below illustrates the proportion of the WEIF's NAV which comprised Unquoted Securities over its lifetime.

Chart 1



A5: Redemption by KCC and suspension of the WEIF

4.36. There was a wide range of types of investors in the WEIF, including very significant levels of retail investors, investing directly or more generally via platforms or being invested indirectly via pension funds. Whilst there were other investors with significant holdings in the WEIF, KCC was one of the largest investors in the WEIF during the period from June 2017 onwards. Its holding was valued at between £325 million (3.2% of NAV) in June 2017 and £237 million (6.5% of NAV) at the end of May 2019.

4.37. On 31 May 2019, KCC instructed WIM to redeem its entire position. Following this instruction being relayed to Link (as ACD), Link made the decision to suspend the WEIF from 3 June 2019, meaning that all remaining investors at that time (which included KCC) were unable to redeem their units at will in accordance with the applicable redemption policy and the requirements of the regulatory framework.

4.38. On 15 October 2019, Link wrote to investors in the WEIF that, having considered the future of the fund, it had decided not to re-open the fund and to wind it up as soon as practicable. It explained that this was with a view to returning cash to investors at the earliest opportunity. As at the date of this Notice, approximately £2.56 billion has been returned to investors by the WEIF's liquidators.

SECTION B: THE LIQUIDITY FRAMEWORK USED FOR THE WEIF

4.39. The framework used to monitor the WEIF's liquidity changed over time. In summary:

(a) From the fund's inception to September 2018, WIM applied "**T+ Metrics"** (in particular the Initial T+20 Metric): see Section B1 below.

(b) Further, from May 2018 to October 2018, WIM also monitored the "**Initial Four Bucket Model"** (alongside the Initial T+20 Metric until September 2018): see Section B2 below.

(c) From October 2018 to the suspension of the WEIF on 3 June 2019, WIM applied the "**Revised Four Bucket Model**": see Section B3 below.

(d) WIM also applied a number of additional liquidity metrics, including the "**Redemption Coverage Ratio**" (or "**RCR**") which applied from October 2018 onwards: see Section B4 below.

4.40. The time taken to liquidate a security without having a significant impact on its price was typically termed "T+" the relevant time period. For example, an asset that was expected to be able to be sold within one day would be categorised as "T+1".

4.41. One of the primary methods by which WIM and Link assessed the liquidity of the WEIF was by categorising assets by reference to the amount of time it was anticipated it would take to sell them. These categories were sometimes referred to as "liquidity buckets" and ranged from highly liquid (where the security could be sold relatively easily and quickly) to illiquid, frequently unlisted securities (where it would take a relatively long time to sell the security). The liquidity bucket in which a security was allocated was determined by the number of shares in that security which could be liquidated in one day. This was calculated as a product of:

(a) the ADTV of the security, which was the average number of shares traded per day on an exchange over a certain period of time; and

(b) the Participation Rate of the security, which reflected an estimate of the number of shares of that security that the WEIF could liquidate in one day, without having a significant impact on the price of that security.

4.42. The precise model used by WIM for the purposes of categorising securities for liquidity purposes (or liquidity bucketing) changed at different points. T+ Metrics (used by WIM from the inception of the fund until September 2018) formed the basis of the first such model.

B1: T+ Metrics

4.43. The T+ Metrics (also known as a *"Time to Liquidate"* or TTL Model) analysed the WEIF's portfolio by reference to the percentage of NAV which could be liquidated within a certain time period, such as 1, 5, 20, 100, 250 days. WIM's particular focus was on the percentage of the WEIF's portfolio that could be liquidated within 20 days, expressed as a percentage of NAV (the "**Initial T+20 Metric**").

4.44. The Initial T+20 Metric was calculated on a daily basis, assumed a 20% Participation Rate and used a Linear Allocation Approach. Originally the primary exchange data for ADTV was used, however at some point prior to September 2018 WIM extended this to include other trading venues. The ADTV was calculated using the preceding 6 months trading data.

4.45. WIM set an internal trigger on the Initial T+20 Metric (where the amount that could be liquidated in the 20 day period fell below 25% of NAV) and a limit (where the amount that could be liquidated fell below 20% of NAV). In the event of a trigger crossing, WIM was required to flag the crossing as an issue to the investment team; and in the event of a limit breach, to raise it as an issue to the IOC. After the IOC was replaced in around August 2018, a trigger crossing or limit breach would be escalated as part of the Event & Huddle process.

4.46. WIM applied stress testing assessing the potential impact on the WEIF's liquidity of scenarios involving redemptions of 5%, 10%, 15%, 20%, 30% or 40%, and selling the most liquid assets first to meet those redemptions. Mr Woodford was aware that WIM applied stress testing but did not acquaint himself with the detail of the tests or enquire as to what scenarios were tested.

4.47. In September 2018, a few weeks before the adoption of the Revised Four Bucket Model in October 2018 (see below), WIM discontinued the Initial T+20 Metric. In particular, it ceased to apply any trigger or limit in respect of the Initial T+20 Metric, and removed it from Mr Woodford's daily update emails (which were sent to Mr Woodford by a risk analyst at the start of each working day). However, the metric continued to be calculated and displayed on WIM's electronic risk "*dashboards*". The Initial T+20 Metric (which continued to be calculated and displayed in the dashboard after September 2018) was not the same metric as the T+20 metric used by WIM for the purposes of stress testing after October 2018, which was based on different assumptions (e.g. a different Participation Rate and ADTV period) as described below.

4.48. From October 2018 onwards, WIM and Link used the T+1, T+5 and T+20 Metrics, which were introduced as a "*control mechanism*" to supplement the existing redemption monitoring procedures. These T+ Metrics used data from all exchanges, ADTV calculated as a 12-month rolling average, a 25% Participation Rate and a Linear Allocation Approach, which assigned a security to a T+ time period based on the amount that could be sold during that time period. This meant that the same security might appear in different T+ portions of the portfolio. The Redemption Coverage Ratios (see below) were produced using these outputs, and had specific triggers and limits associated with them. These metrics looked at the liquidity which was immediately available in the WEIF.

B2: the Initial Four Bucket Model

4.49. From May 2018 until October 2018 WIM monitored the Initial Four Bucket Model, concurrently with the TTL Model until it ceased to employ the latter in September 2018. The Initial Four Bucket Model was a "*bespoke control mechanism*" developed by Link which had previously used a similar model with 5 buckets for both the WEIF and the other funds (unrelated to WIM) for which Link was the ACD. The Initial Four Bucket Model was used in relation to the WEIF only, was applied by Link to the WEIF from January 2018, and was intended to ensure that the WEIF's liquidity profile did not deteriorate further. The Initial Four Bucket Model allocated securities as follows:

(a) Bucket 1: T+1 – T+7 (i.e. positions that could be liquidated in 7 days or fewer).

(b) Bucket 2: T+8 – T+30.

(c) Bucket 3: T+31 – T+180.

(d) Bucket 4: T+181 – T+365.

4.50. As to the assumptions underpinning the Initial Four Bucket Model:

(a) The assumed Participation Rate was 100%, the model considered ADTV data from the primary exchange on which the security was traded and used a Full Allocation Approach, as Mr Woodford knew. Link adopted these assumptions in the belief that the Full Allocation Approach and the 100% Participation Rate offset each other. However, in the Authority's view, the Full Allocation Approach did not fully offset the 100% Participation Rate and instead the combination of these two assumptions created an unjustifiably positive impression of the WEIF's liquidity.

(b) This model also used the lower of the 5-day and 20-day average trading volume as at March 2017.

4.51. WIM monitored the Initial Four Bucket Model primarily by reference to a limit of 70% of NAV in Buckets 3 and 4 combined (although there was a disagreement between Link and WIM in May 2018 as to the significance of this limit, as further addressed in paragraph 4.76 below). In practice, WIM's monitoring was based upon Buckets 1 and 2 combined remaining above 30%, since this would mean that Buckets 3 and 4 were below 70%.

B3: the Revised Four Bucket Model

4.52. As further set out in paragraphs 4.86 to 4.87 below, WIM pressed for changes to the liquidity framework, prompted by Mr Woodford's concerns that the existing liquidity limits unduly constrained his investment strategy. On or around 15 October 2018, the Revised Four Bucket Model was adopted by WIM and Link as their primary method of monitoring the WEIF's liquidity.

4.53. The Revised Four Bucket Model's bucket composition and allocation remained the same as the Initial Four Bucket Model and included the 100% Participation Rate and Full Allocation Approach. It made two new adjustments:

(a) The ADTV period changed from the lower of 5 and 20-day ADTV at March 2017 to a 12-month rolling average.

(b) Under the revised methodology, ADTV was intended to capture trades from all trading venues where a security was traded, as opposed to the

Initial Four Bucket Model which only captured trades from the primary exchange.

4.54. The Revised Four Bucket Model applied further triggers and limits on the percentage of the WEIF's holdings in each bucket. In particular:

(a) The triggers applied if Bucket 4 increased above 30%, Buckets 3 and 4 combined increased above 65%, or Bucket 1 decreased below 8% of NAV. In the event of a trigger crossing, WIM was required to: (i) raise and address the crossing pursuant to the Event & Huddle procedure (described in paragraph 4.15(f) above); (ii) conduct a root cause analysis; and (iii) prepare or update its contingency plans as necessary.

(b) The limits applied if Bucket 4 increased above 35%, Bucket 3 and 4 combined increased above 70% (with these two limits having already been introduced under the Initial Four Bucket Model, as noted above), or if Bucket 1 decreased below 5% of NAV. WIM was required to address any breach of limit under its Event & Huddle procedure by invoking any applicable contingency plan and prioritising the steps needed for its execution.

4.55. For stress testing, WIM and Link tested the impact on the WEIF's liquidity of sudden 10%, 15% and 20% redemptions of the portfolio and selling the most liquid assets to meet those redemptions. As noted above, Mr Woodford was aware that WIM applied stress testing but did not acquaint himself with the detail of the tests or enquire as to what scenarios were tested.

B4: Additional liquidity metrics applied to the WEIF

4.56. Before October 2018, WIM set an internal trigger and limit to monitor redemptions. The trigger would be crossed if 5 day or (from April 2018 onwards) daily redemptions exceeded 1% of NAV and the limit breached if they exceeded 2% of NAV, in both cases prompting a flag to the investment team.

4.57. From October 2018 until the end of the Relevant Period, WIM and Link both applied a Redemption Coverage Ratio (or **RCR**) – see paragraph 4.48 above.

4.58. The RCR served to measure the ability of the WEIF to meet redemption requests. It considered the proportion of the WEIF that could be liquidated in 1, 5 and 20 days, and was calculated by dividing the amount that could be liquidated in the period in question by the average daily redemptions based on the previous 10-day rolling average. For example, if £18 million could be liquidated in 1 day and the average daily redemptions over the previous 10 days was £2 million then the 1 Day RCR would be 9. The RCR assumed a 25% Participation Rate, an ADTV of 12 months and captured trades from all exchanges.

4.59. WIM and Link set several additional triggers and limits based on the RCR. As noted above, if a trigger was crossed, an event was required to be launched and a huddle convened under the Event & Huddle procedure to investigate the cause and update contingency plans; and if a limit was breached, the liquidity contingency plan was required to be executed. The RCRs had the following limits and triggers:

(a) 1 Day RCR had a trigger of 8 and a limit of 5;

(b) 5 Day RCR had a trigger of 30 and a limit of 25; and

(c) 20 Day RCR had a trigger of 150 and a limit of 120.

4.60. The RCR was stress tested by WIM and Link in the same way as the T+ metrics, by assessing the percentage of the WEIF's portfolio realisable in 1 day, 5 days and 20 days after modelling redemptions of 10%, 15% and 20%, assuming sales of the most liquid assets in order to meet those redemptions. Mr Woodford has stated in interview with the Authority that he was only *"peripherally aware"* of the stress testing being conducted during this period.

B5: Unquoted Securities Limits

4.61. WIM and Link also monitored the level of Unquoted Securities in the WEIF. WIM's analysis was contemporaneously reported in its Unquoted Securities Reports. There were two limits associated with this monitoring. The first limit was at 8.5%. Once this level was reached, no further investments in new Unquoted Securities were permitted. The second limit was at 9.5%. At this level, no further investments in Unquoted Securities were permitted.

SECTION C: MR WOODFORD'S INVESTMENT DECISIONS

C1: Overview

4.62. The liquidity of the WEIF was principally affected by the investment decisions as to which assets to buy, sell or hold. During the Relevant Period, the total amount of shares sold from the WEIF was approximately £2.2 billion and the total amount of shares purchased was approximately £0.9 billion, resulting in a total net outflow of approximately £1.3 billion. As set out in paragraph 4.15 above, Mr Woodford as lead fund manager of the WEIF was responsible for (among other things) these decisions, including deciding which assets to sell in order to meet redemptions and which assets to buy in the context of consistent and prolonged net outflows from the fund.

4.63. Liquidity risk will tend to be greater if a fund holds a significant proportion of less liquid assets – that is, those assets which take longer to liquidate – and may increase in the event of higher than expected or prolonged periods of net redemptions, where redemptions (outflows) exceed investments (inflows). Accordingly, all else being equal, meeting redemption requests by selling more liquid assets without replacing them with assets of similar liquidity or buying more illiquid assets will generally lead to a deterioration in the liquidity profile of a fund (since this results in it holding a higher proportion of less liquid assets). This approach may lead to a position where the fund cannot meet redemption requests or can only do so by liquidating assets at significantly reduced values. This risks significant prejudice to those investors continuing to hold investments in the fund, since they may be unable to access their funds at will and/or the value of their investments may reduce significantly.

4.64. During the Relevant Period, Mr Woodford and WIM could have adopted (but did not adopt) a balanced approach to their buying and selling activity, such that liquid and illiquid assets were bought and sold in amounts proportionate to the need to maintain a reasonable and appropriate liquidity profile for the WEIF. This would have prevented a disproportionate increase in the amount of illiquid assets held by the fund. Had Mr Woodford and WIM adopted a more balanced approach, the WEIF's liquidity would not have deteriorated in the manner in which it did.

4.65. Instead, as further set out below:

(a) Mr Woodford sold a much greater amount and proportion of more liquid assets than he bought, and bought a greater amount and proportion of more illiquid assets than he sold. This meant that the net outflows from Buckets 1 and 2 were far larger than the net outflows from Buckets 3 and 4, resulting in a deteriorating liquidity profile for the WEIF.

(b) In the circumstances, the investment decisions by Mr Woodford failed to pay due regard to the need to maintain a reasonable and appropriate liquidity profile for the WEIF, and the approach that he adopted was unreasonable. It resulted in the WEIF carrying a significantly higher level of liquidity risk and becoming an outlier among Comparator Funds. During the Relevant Period, the WEIF was less liquid than the least liquid of such Comparator Funds in a number of respects. By way of example, the proportion of the WEIF's securities that were able to be liquidated within 7 days (i.e. the proportion in Bucket 1) was lower than all other Comparator Funds throughout the Relevant Period and deteriorated from 16% in July 2018 to 8% on 3 June 2019, which was significantly lower than the bottom ranked Comparator Fund.

<u>C2: Mr Woodford's decisions as to which assets to buy and sell</u>

4.66. As contemporaneously recorded during the Relevant Period:

(a) During the 12 months ending on 31 July 2018, securities in Buckets 1 and 2 represented 87% of the assets sold, whereas securities in Buckets 3 and 4 represented only 13%.

(b) Mr Woodford's approach to selecting which assets to sell to meet redemptions was primarily based on the positions in which he had the least conviction in, rather than being based upon, or taking into account, the need to maintain an appropriate liquidity profile for the WEIF:

"Although the fund has had to sell to meet redemptions, the fund manager has chosen to liquidate those positions that he has the least conviction in"; and

"… the fund manager manages outflows as he does inflows, with decisions made from the perspective of investment conviction, not liquidity."

(c) In an investor meeting on 8 October 2018, Mr Woodford further described his approach. A note of that meeting prepared by the investor records:

"He looks through the portfolio and identifies what he loves the least […] he really likes everything in the portfolios, but will look to sell things with the least upside to fair value. He'll typically sell what he loves the least in totality before moving on in the same vein, but not always. The Equity Income fund has become more concentrated as a result of this and the positions remaining are bigger and more important."

4.67. Further, as set out in **Annex A**, the Authority has analysed the investment decisions made by Mr Woodford over the period from May 2017 to May 2019 and their impact on the composition of the fund. The analysis has been conducted by reference to the Revised Four Bucket Model as well as an alternative set of assumptions providing what the Authority considers to be a more accurate picture of the WEIF's liquidity (the Corrected Four Bucket Model). By reference to the Corrected Four Bucket Model, the analysis shows that during the Relevant Period:

(a) Mr Woodford sold a much greater proportion of securities in Buckets 1 and 2 than he bought, resulting in a net reduction of £0.9 billion in the value of Buckets 1 and 2 over this period.

(b) Mr Woodford's buying and selling of securities in Buckets 3 and 4 was more balanced, resulting in a smaller net reduction of £0.4 billion in the value of Buckets 3 and 4.

(c) These investment decisions by Mr Woodford had the effect of significantly increasing the proportion of illiquid shares held by the WEIF. Over this period (by reference to the fund's NAV with percentages rounded):

(i) The proportion of securities in Bucket 1 fell by 8% (from 16% to 8%);

(ii) The combined proportion of securities in Buckets 1 and 2 fell by 9% (from 37% to 28%);

(iii) The proportion of securities in Bucket 4 increased by 8% (from 33% to 41%);

(iv) The combined proportion of securities in Buckets 3 and 4 increased by 11% (from 63% to 74%).

(d) These changes in the fund's composition were primarily driven by Mr Woodford's investment decisions and not by other factors (such as relative performance of the shares in each bucket or the movement of securities between buckets due to changing circumstances).

4.68. Still further, as set out in Section D below, Mr Woodford adopted this approach notwithstanding the clear and repeated warning signs that he received regarding the deteriorating liquidity of the WEIF. His investment decisions served to exacerbate the deteriorating situation, and he continued to make investment decisions primarily based on the investment strategy that he had adopted in April 2017 (as addressed in paragraphs 4.29 to 4.30 above) without paying due regard to considerations of liquidity. As late as March 2019 (just over two months before the WEIF was suspended), Mr Woodford remained wedded to his investment strategy and is recorded in WIM Board minutes as stating that *"I have never been more right* [about] *a strategy in my career".*

SECTION D: WIM AND MR WOODFORD'S RESPONSE TO THE WEIF'S DETERIORATING LIQUIDITY

4.69. During the Relevant Period, Mr Woodford (and WIM) were aware that the WEIF's liquidity was deteriorating but failed to take appropriate action. This section addresses in turn:

(a) WIM and Mr Woodford's early awareness of and response to liquidity problems (May 2017-April 2018) (Section D1);

(b) the changes to the liquidity framework made in May 2018 (Section D2);

(c) the ongoing deterioration in liquidity between May and September 2018 (Section D3);

(d) the changes to the liquidity framework made in September / October 2018 (Section D4); and

(e) WIM and Mr Woodford's later awareness of and response to liquidity problems (October 2018-June 2019) (Section D5).

4.70. Further, as set out in Section E below, the WEIF held a high percentage of Unquoted Securities during this timeframe, often close to the 10% limit permitted for such securities. This issue was partially addressed by means of certain companies, in which the WEIF held Unquoted Securities, obtaining listings on TISE at WIM's suggestion. These listings did not, however, improve the liquidity of the securities in question (which were not subject to any arms' length trading, despite the listings). As particularised in Section E below, Mr Woodford: (a) was aware that the listing of the TISE companies did nothing to improve their liquidity; and (b) nonetheless chose to make further investments in the TISE securities during the Relevant Period which contributed to the overall deterioration of the WEIF's liquidity.

D1: WIM and Mr Woodford's early awareness of and response to liquidity problems (May 2017 – April 2018)

4.71. During the period from May 2017 to April 2018, as Mr Woodford was aware from the daily reports that he received:

(a) the WEIF was subject to sustained redemptions which resulted in a net asset outflow of over £2.3 billion; and

(b) the WEIF's NAV fell by over £3.5 billion.

4.72. This sustained pattern of redemptions gave rise to a heightened level of liquidity risk (i.e. the risk that the WEIF might have insufficient liquidity to meet investor redemptions within the required timeframe), as is reflected in concerns regarding liquidity raised by Link with WIM during this period. For example:

(a) in late November 2017, Link shared a note with WIM which concluded that the liquidity profile of the WEIF had deteriorated and required *"action to be taken"*, including identifying the *"time it would take to bring the overall liquidity of the Fund to a more balanced position"*; and

(b) in early February 2018, a Link liquidity analysis reiterated concerns around the WEIF's deteriorating liquidity profile, noting that the position still required *"action to be taken"* and needed to be further discussed with WIM. This was raised by Link in a meeting with WIM the next day (which Mr Woodford did not attend).

4.73. The liquidity concerns raised by Link were directly relevant to Mr Woodford's responsibilities as the designated "risk owner" for liquidity risk (a role that he had held from July 2017 onwards as set out in paragraph 4.3(b) above). As noted above, certain administrative tasks associated with Mr Woodford's responsibilities were delegated to an administrator (a role which, during the period from May 2017 to April 2018, was performed by WIM's Head of Investment Communications). When the Head of Investment Communications was informed of liquidity concerns raised by Link in October 2017, he expressed confusion as to what role he was supposed to play. After it was explained to him that "*For Investment Risk, the [Investment Risk Management Policy] states that the risk owner is Neil but the administrator responsible for completing risk returns and assessing identified risks is you"*, he stated "*I have no background to this at all - no means of owning it*". Such was the limited and administrative nature of his delegated function.

4.74. The contributions of Mr Woodford and others in front of WIM's Oversight Board during this period made clear that WIM, including its Risk and Compliance functions, prioritised Mr Woodford's investment strategy despite the liquidity issues faced by the fund and the market environment. In particular, on 19 April 2018, the WIM Oversight Board held a meeting which was attended by Mr Woodford and others. At this meeting, Mr Woodford explained that he considered that *"markets have become detached from reality"*. It was noted that "[a] *lot of work has been done on limits and concentration - everyone has worked hard to provide an environment where NW can maintain his investment strategy"*. This prioritisation of Mr Woodford's investment strategy, over the importance of the WEIF's deteriorating liquidity profile, persisted throughout the Relevant Period (see further paragraphs 4.87(d), 4.94 and 4.96 below).

D2: Changes to the liquidity framework in May 2018

4.75. On or shortly after **17 May 2018**, Link raised the question with WIM as to whether it was necessary to impose new liquidity limits.

4.76. On **30 May 2018**, it appears that Link and WIM held a call on which they discussed Link's reporting to the Authority on the WEIF and changes to the Initial Four Bucket Model for the WEIF. Link's view of the call was that it and WIM had agreed a limit of 35% of NAV on Bucket 4 and a limit of 70% on Buckets 3 and 4 combined. However, Link and WIM appear to have had different understandings of what had been agreed. In particular, WIM understood that Link was reporting the limits to the Authority in the context of its own monitoring but did not accept that it had agreed to the limits; rather, it had understood that any breaches of limits would only lead to a discussion. In any event, it was by this point clear to WIM that Link had serious concerns about the liquidity profile of the WEIF.

4.77. Despite being the designated risk owner for liquidity risk, Mr Woodford was not directly involved in these discussions and did not see it as his responsibility to engage in them or oversee what had been discussed or agreed by WIM.

D3: Ongoing deterioration in liquidity between May and September 2018

4.78. To Mr Woodford's knowledge, the WEIF continued to experience a persistent pattern of redemptions, net outflows and deteriorating liquidity between May and September 2018. In particular:

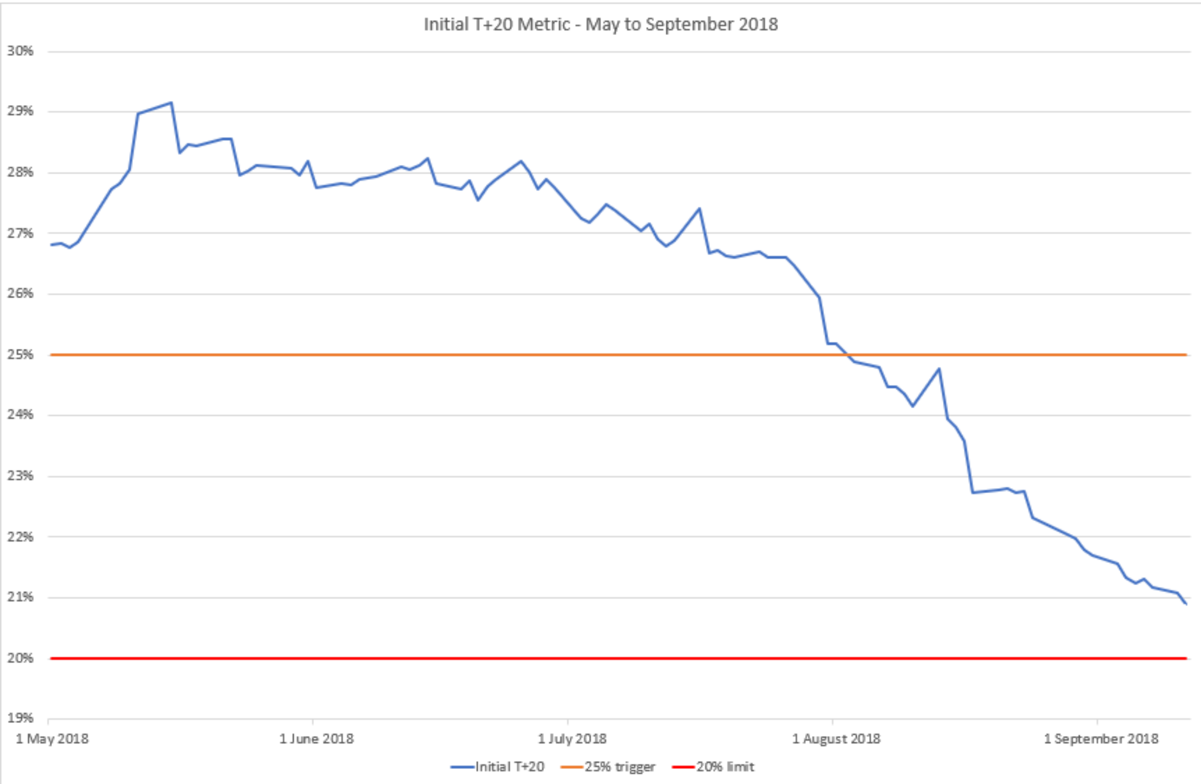
(a) During this period, as Mr Woodford was aware from the daily reports provided to him:

(i) the WEIF was subject to sustained redemptions which resulted in a net asset outflow of over £1 billion;

(ii) the WEIF's NAV fell by £888 million.

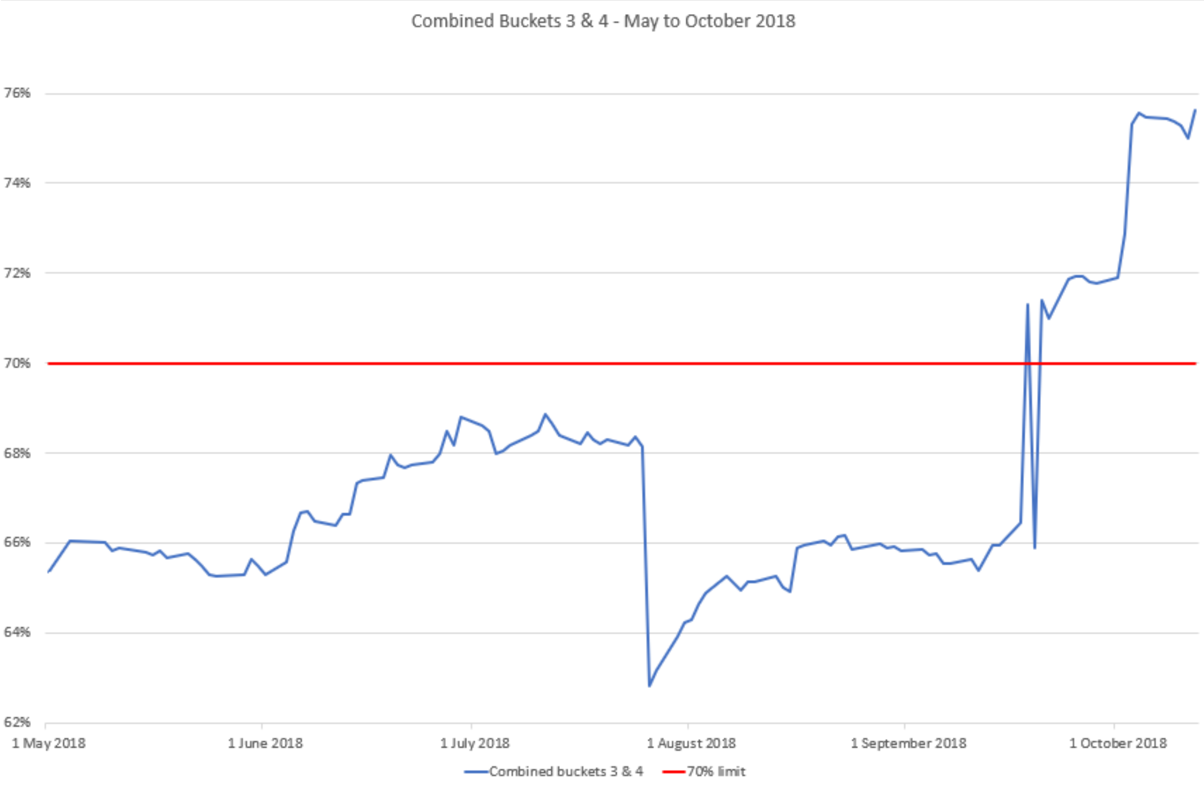
(b) Further, as reported to Mr Woodford in his daily update email, WIM's Initial T+20 Metric showed persistent deterioration in the WEIF's liquidity from early May 2018 onwards, such that from August 2018 onwards WIM's trigger of 25% was continuously crossed, and the WEIF was less than one percent away from breaching the limit of 20%, when WIM decided to discontinue this metric in mid-September 2018 (as described in paragraph 4.87 below). This can be illustrated graphically as follows:

Figure 3: Initial T+20 Metric- May to September 2018



(c) Still further, applying the Initial Four Bucket Model, the combined figure for Buckets 3 and 4 (as reported in Mr Woodford's daily update email by reference to Buckets 1 and 2) increased by so much that it continuously breached the 70% limit from mid-September 2018 until WIM ceased to monitor the Initial Four Bucket Model in mid-October 2018. This can be illustrated graphically as follows:

Figure 4: Combined Buckets 3 & 4 – May to October 2018



4.79. Despite the clear deterioration in the WEIF's liquidity that was evident to Mr Woodford from the metrics that were contemporaneously reported to him on a daily basis:

(a) By reference to the Revised Four Bucket Model, between May 2018 and September 2018:

(i) Mr Woodford was selling proportionately more of the fund's most liquid assets, resulting in a net reduction of over £0.8 billion in Buckets 1 and 2, with a smaller net reduction of £0.26 billion in Buckets 3 and 4;

(ii) the greatest proportion of the shares sold on average each month by Mr Woodford (by reference to their total value) was from Bucket 1 (55.2%) and the smallest proportion was from Bucket 4 (7.1%);

(iii) the proportion of shares bought were, relatively speaking, more weighted towards less liquid stocks, with Bucket 1 representing 46.3% and Bucket 4 13.2%;

(iv) as there was a net asset outflow of over £1.0 billion in this period, the liquidity of the fund was significantly more impacted by the selling decisions rather than the buying decisions;

(v) this selling and buying activity had the effect of reducing the liquidity of the fund.

(b) Mr Woodford acted throughout the Relevant Period on the basis of his defective and unreasonably narrow understanding of his responsibilities (see paragraph 4.21 above) and failed on an ongoing basis:

(i) to take into account wider factors when assessing the appropriate liquidity profile of the WEIF, beyond the applicable liquidity metrics, triggers and limits;

(ii) to take reasonable steps to satisfy himself that the liquidity framework applied to the WEIF (including the applicable liquidity metrics, triggers and limits) continued to be appropriate (see paragraph 4.20(b) above) in the circumstances of persistent net outflows and a deteriorating liquidity profile;

(iii) to carry out appropriate questioning and challenge of WIM's Risk and Compliance teams to the extent they were involved in designing, implementing, monitoring or amending that framework (see paragraph 4.20(b) above) in circumstances where Link had previously raised liquidity concerns and proposed changes to the liquidity framework in May 2018, and WIM had decided to cease actively monitoring the Initial T+20 Metric from mid-September 2018 onwards (see paragraphs 4.71 to 4.74 above and paragraph 4.84 below); and

(iv) to exercise appropriate oversight over the delegated performance by others of administrative tasks associated with his responsibilities in respect of liquidity risk (see paragraph 4.23 above).

(c) Further, Mr Woodford expressed reluctance to take mitigating action to improve the liquidity position (see paragraph 4.82 below) and instead pressed for the liquidity framework to be altered in a manner which presented a more positive picture of liquidity when only assessed against the revised triggers and limits without altering the underlying reality of the fund's composition (see paragraphs 4.85 to 4.90 below).

4.80. On **16 July 2018**, the liquidity of the WEIF was raised at a meeting involving Link and WIM. WIM questioned Link about the rationale for the limits in the Initial Four Bucket Model, and sought clarity from it as to when the limits applied and what was required if the WEIF approached these limits.

4.81. On **3 August 2018**, the WEIF's liquidity fell below the trigger of 25% for the Initial T+20 Metric. The crossing of this threshold was reported to Mr Woodford by means of the daily update email as well as on the investment risk dashboard. On the same day, an employee from WIM's Risk department notified Mr Woodford that the proportion of assets that could be liquidated within 20 days had fallen below 25%, and asked for his *"planned mitigating actions to prevent a worsening of the position"*.

4.82. Mr Woodford responded on **6 August 2018**, stating that he was "*reluctant to take any mitigating action at the moment"*, but would do so if told by WIM's Risk function that he was required to. This response was discussed amongst a number of WIM employees, with one individual in WIM's Risk department noting that in the absence of any remedial actions WIM could be at risk of breaching its COLL obligations: *"while there's no requirement to get back above 25%, I would rather not see a worsening liquidity profile as viewed by this metric with no remedial actions in place. Would be hard to argue we're meeting our COLL liquidity obligations in that case. We should try to get back above 25% but certainly not drop below 20% without liquidity becoming the main consideration in investment decisions"*.

4.83. On **14 August 2018**, a member of WIM's Risk function informed the individual acting as administrator for liquidity risks on behalf of Mr Woodford that he proposed changing the risk rating for liquidity risk from *"probable"* (meaning the risk may occur, with a range of probability at 0.11-0.49) to *"likely"* (meaning the risk is expected to occur, with a range of probability at 0.5-0.9). This change was proposed in the context of the monthly risk return process. Despite Mr Woodford's responsibilities for this process (see paragraph 4.15(d) above), he did not engage in it or perform oversight of it and has stated in interview with the Authority that he was unaware of this proposed change.

4.84. As set out in paragraph 4.78 above, the liquidity position continued to deteriorate thereafter:

(a) The Initial T+20 Metric continued to show a deterioration in the WEIF's liquidity as described at paragraph 4.78(b) above.

(b) Further, under the Initial Four Bucket Model, the combined figure for Buckets 3 and 4 (as reported in Mr Woodford's personal daily email) continued to show a deterioration in the WEIF's liquidity:

(i) the combined figure for Buckets 3 and 4 increased to the point that it was close to the 70% limit from late June 2018 onwards, and an employee from WIM's Risk department confirmed that the limit would have been reached at this stage, had it not been for the change in bucket classification of one particular stock held by the WEIF;

(ii) the figure continued to increase thereafter and continuously breached the 70% limit from mid-September 2018 until WIM ceased to monitor the Initial Four Bucket Model in mid-October 2018.

D4: Changes to the liquidity framework in September 2018

4.85. Despite being aware of the clear deterioration in the fund's liquidity (as set out in paragraph 4.78 above), rather than reduce liquidity risk, Mr Woodford sought to challenge the liquidity framework on the basis that it was unduly constraining the pursuit of his long-term investment strategy.

4.86. On **6 September 2018**, it was noted in Slack messages (an instant messaging system used within WIM) that Mr Woodford *"believes that some of the investment decisions he is being forced to make currently are not in the best long-term interests of investors in the fund"* due to the applicable liquidity limits. A member of WIM's Risk function considered that Mr Woodford's concerns were *"worthy of a huddle especially as WEIF's 20-day liquidity approaches the 20% mark"*. As a result of this huddle (which Mr Woodford did not attend), it was decided: (a) to remove the Initial T+20-day Metric from Mr Woodford's daily update emails, notwithstanding that one month earlier WIM's Risk function had taken the view that non-compliance with the limits imposed on this metric could make it *"hard to argue we're meeting our COLL liquidity obligations",* as set out in paragraph 4.82 above; and (b) to raise with Link Mr Woodford's view that he was unduly constrained by the liquidity limits.

4.87. Accordingly, prompted by Mr Woodford's concerns that the liquidity limits unduly constrained his investment strategy, WIM discontinued the Initial T+20 Metric (by ceasing to apply a trigger and limit to this metric) and began to press for changes to be made to the liquidity framework, having previously questioned whether Link's use of only the primary trading venue was appropriate for volume data. After challenge from WIM, Link accepted that such changes should be made:

(a) On **11 September 2018**, WIM approached Link with a proposal to adjust the liquidity management framework, in light of Mr Woodford's concerns. Link responded that the proposal *"is one that we are not mindful to grant on a risk approach to the maintenance of an appropriate level of liquidity within the Fund"*. A member of WIM's Risk function responded, stating that Link had *"completely misunderstood* [his] *e-mail"* and emphasising that Mr Woodford had identified a *"course of action would result in a more favourable performance outcome for investors over the medium-to-long term, but it is a course of action that cannot be pursued currently due to liquidity considerations"*.

(b) On **19 September 2018**, Link emailed WIM about a breach of the 35% limit on Bucket 4. WIM responded, disputing that there had been such a breach, and putting a series of questions to Link.

(c) On **20 September 2018**, Link held a call with WIM. There was an immediate dispute between Link and WIM as to whether it was agreed on this call that the WEIF's liquidity needed improving. Link's position, as set out in an email to WIM, was that there was a *"need to improve the overall liquidity profile of the fund"* and for the fund to be *"re-balanced to a considerably more liquid profile"*. WIM, however, objected: *"we have not agreed a need to improve the liquidity profile of the fund, just that we acknowledge that we need to manage it to the agreed limits, which we have been doing…'once the fund has been re-balanced to a considerably more liquid profile' is not something we have agreed"*.

(d) On **24 September 2018**, Link accepted that it was *"useful to consider alternative calculations and measures for liquidity management",* but stated that the current monitoring framework should remain in place for now, and *"continue[d] to press the need for a long term rebalancing of the portfolio to a more liquid overall profile as well as a reassessment and reformulation of an effective liquidity monitoring framework"*.

(e) On **25 September 2018** (at the latest), Link changed its position and agreed to change the monitoring framework to the Revised Four Bucket Model, as described in paragraphs 4.53 to 4.54 above.

(f) On **26 September 2018**, Link recorded the change in an email and stated that WIM and Link needed to *"work together to formulate a proposal for a more refined liquidity management framework"* and *"acknowledge the need to rebalance the portfolio in the longer term (6m +) to a more balanced liquidity profile appropriate for a daily dealing UCITS fund".*

(g) On **27 September 2018**, WIM acknowledged the change in framework and accepted that there were limits that could not be breached. However, WIM also stated that it did not *"believe there is a need to rebalance the* [WEIF's] *profile to a more liquid one over the longer term"*.

4.88. WIM accordingly maintained throughout **September 2018** that it (WIM) did not need to improve the liquidity in the WEIF, notwithstanding Link's clear position that it did need to do so and the concerns expressed internally within WIM as to the possible consequences of being in breach of the Initial T+20 Metric. This was not a reasonable approach and, in reality, the liquidity in the fund had undergone a serious deterioration by this point, as set out in paragraph 4.79 above and further particularised in **Annex A** below. Mr Woodford was not directly involved in the correspondence addressed in paragraph 4.87 above. He did not inform himself of the position that WIM adopted in this correspondence, and nor did he appropriately question and challenge whether the approach that WIM had adopted was reasonable. This was despite the fact that:

(a) This correspondence was prompted by the concerns that Mr Woodford had expressed as described in paragraph 4.86 above.

(b) The position adopted by WIM in this correspondence was reflective of Mr Woodford's concerns. In particular, WIM was proposing revisions that would better allow Mr Woodford to pursue his investment strategy, and WIM's Risk function specifically referred to the concerns that Mr Woodford had expressed in this regard, emphasising that Mr Woodford had identified a *"course of action would result in a more favourable performance outcome for investors over the medium-to-long term, but* *it is a course of action that cannot be pursued currently due to liquidity considerations"*.

(c) In any event, the approach adopted by WIM in this correspondence, whereby WIM's Risk and Compliance functions sought to persuade Link to make alterations to the liquidity framework, in order to allow Mr Woodford to continue to pursue his investment strategy, is indicative of its prioritisation of that strategy over addressing the underlying liquidity issues faced by the WEIF.

4.89. On **11 October 2018**, Mr Woodford was updated by WIM's Risk and Compliance functions on the Revised Four Bucket Model that had been agreed with Link.

4.90. On **15 October 2018**, the Revised Four Bucket Model was implemented by WIM in place of the Initial Four Bucket Model. Its immediate impact was that the proportion of assets in combined Buckets 1 and 2 went from 24.36% to 34.36%, meaning combined Buckets 3 and 4 reduced from 75.64% to 65.64%. This enabled the WEIF to go from a breach of the 70% limit (as had been the case since 20 September 2018) to compliance with the limit despite there being no change in the underlying assets held by the fund.

D5: Ongoing deterioration in liquidity (October 2018 – May 2019)

4.91. The WEIF continued to experience a persistent pattern of redemptions, net outflows and deteriorating liquidity between October 2018 and May 2019. In particular:

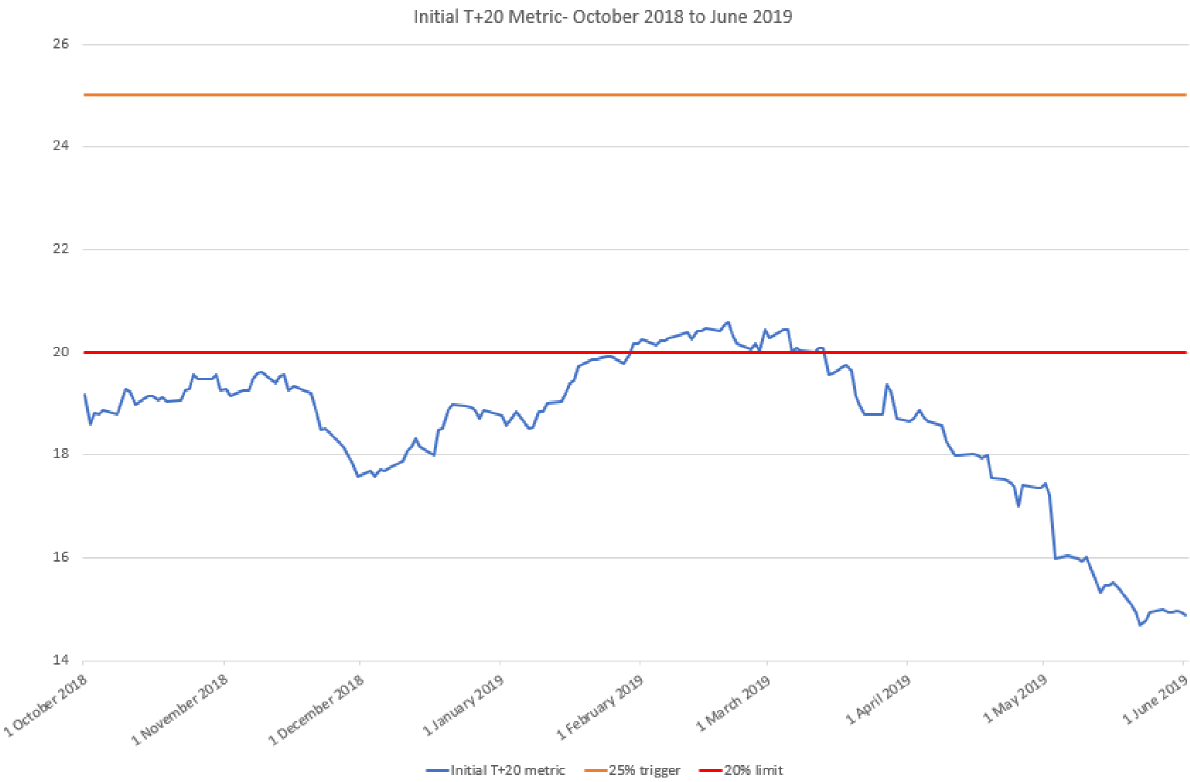
(a) During this period, as Mr Woodford was aware from the daily reports provided to him:

(i) the WEIF was subject to sustained redemptions which resulted in a net asset outflow of almost £1 billion;

(ii) the WEIF's NAV fell by over £1.935 billion.

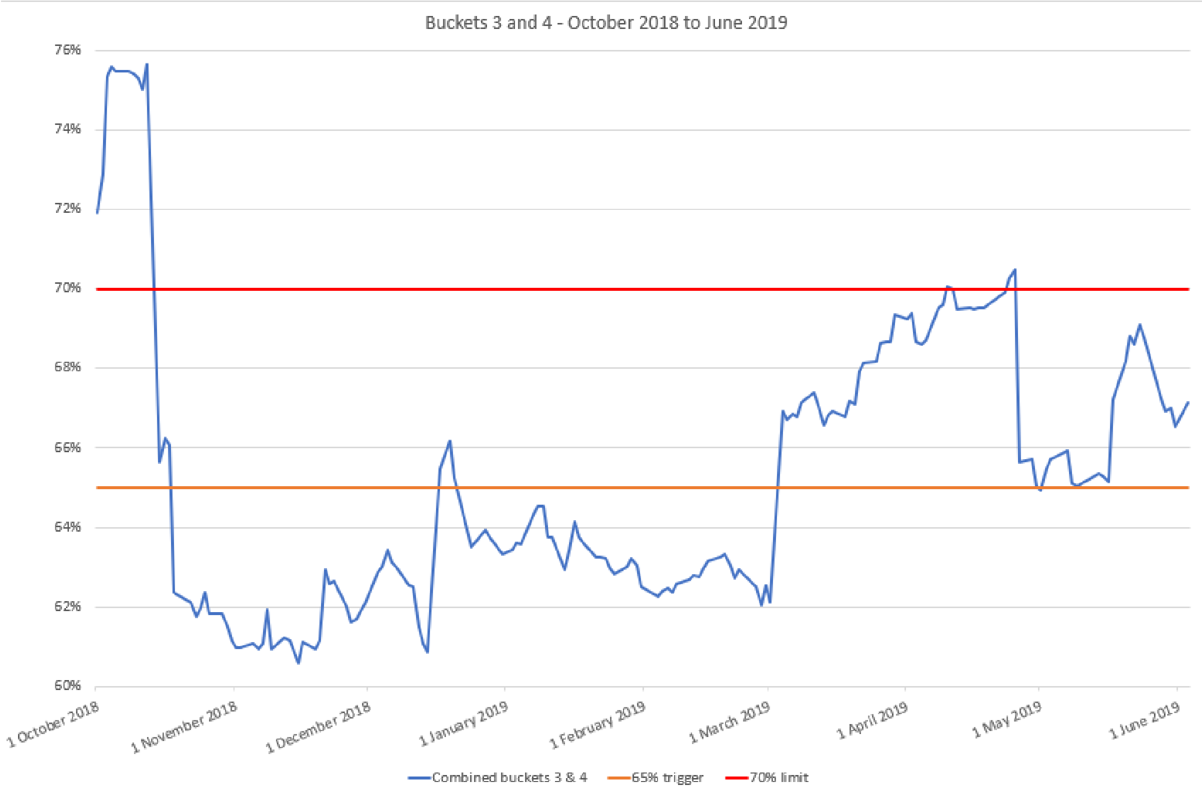
(b) Further, WIM's Initial T+20 Metric (which despite having been discontinued in mid-September 2018, continued to be displayed on the dashboards which were available to Mr Woodford) deteriorated significantly and was almost constantly in breach of the 20% limit that WIM had applied up to September 2018. This can be illustrated graphically as follows:

Figure 5: Initial T+20 Metric – October 2018 to June 2019



(c) Still further, as Mr Woodford was aware from the daily reports that he received, the liquidity position continued to deteriorate under the Revised Four Bucket Model, with the WEIF crossing the 65% trigger for combined Buckets 3 and 4 almost constantly from March 2019 onwards. This can be illustrated graphically as follows:

Figure 6: Buckets 3 and 4 – October 2018 to June 2019



4.92. The clear deterioration in the WEIF's liquidity was evident to Mr Woodford from the metrics that were contemporaneously reported to him on a daily basis. These made plain the critical nature of this 8-month period (i.e. October 2018 to May 2019) for the fund's liquidity. However, despite this:

(a) Mr Woodford did not take adequate steps to rebalance the fund and instead made investment decisions which exacerbated the liquidity difficulties faced by the fund, as fully set out in **Annex A**. This was not a reasonable approach and did not pay due regard to the need to maintain an appropriate liquidity profile for the fund (see paragraphs 4.20(a) and 4.62 to 4.68 above). For example, by reference to the Revised Four Bucket Model, between October 2018 and May 2019:

(i) Mr Woodford continued to sell proportionately more liquid securities in Buckets 1 and 2, resulting in a net reduction of £0.63 billion in Buckets 1 and 2 and a smaller reduction of £0.31 billion for Buckets 3 and 4;

(ii) the greatest proportion of shares sold on average each month by Mr Woodford was for Bucket 1 (36.8%) and the smallest proportion was for Bucket 4 (9.7%);

(iii) the greatest proportion of shares bought on average each month by WIM (by reference to their total value) was for Bucket 2 (36.4%) and the smallest proportion was for Bucket 3 (16.5%);

(iv) as there was a net outflow of almost £1.0 billion in this period, the liquidity of the fund was significantly more impacted by the selling decisions than the buying decisions; and

(v) this selling and buying activity had the effect of reducing the liquidity of the fund.

(b) Further, Mr Woodford continued to act on the basis of his defective and unreasonably narrow understanding of his responsibilities (see paragraph 4.21 above) and failed on an ongoing basis:

(i) to take reasonable steps to satisfy himself that the liquidity framework applied to the WEIF (including the applicable liquidity metrics, triggers and limits) was appropriate (see paragraph 4.20(b) above) in the light of persistent net outflows and a deteriorating liquidity profile;

(ii) to carry out appropriate questioning and challenge of WIM's Risk and Compliance teams to the extent they were involved in designing, implementing, monitoring or amending that framework (see paragraph 4.20(c) above) in circumstances where Link continued to raise concerns about the WEIF's liquidity (e.g. paragraph 4.93) and further changes to the liquidity risk framework were being considered in late March and early April 2019 (see paragraphs 4.98 and 4.104 below);

(iii) to exercise appropriate oversight over the delegated performance by others of administrative tasks associated with his responsibilities in respect of liquidity risk (see paragraph 4.23 above); and

(iv) to ensure that the Joint Oversight and Management Board also carried out the annual risk appetite review, which had last taken place in April 2018 and did not take place again at any point thereafter. This review process should have directly involved Mr Woodford as the designated risk owner for liquidity risk (see paragraph 4.15(e) above).

(c) Still further, Mr Woodford (and WIM) once again failed to take appropriate action in response, and instead advocated for yet further amendments to the liquidity framework which (had they been adopted) would (once again) have painted a more positive picture without altering the underlying reality of the fund's composition. These matters are addressed immediately below.

4.93. Between October 2018 and March 2019, as the liquidity position deteriorated yet further, Link continued to raise concerns with WIM regarding liquidity and requested that prompt action be taken to address these concerns. For example, Link informed WIM on 10 December 2018 that *"[Link's] position is that we expect WIM to be undertaking prompt action to address both the valuation and liquidity concerns with the ultimate goal of bringing the hard to value assets down from 19% to less than 10% and for the portfolio to return to a more balanced position between the four liquidity buckets".* Mr Woodford was not a direct recipient of these communications and did not take steps to apprise himself of Link's concerns or WIM's responses to them.

4.94. On **4 March 2019**, WIM identified that the combined size of Buckets 3 and 4 had risen to 66.9%, as against a trigger threshold of 65%. On or around **8 March 2019**, WIM spoke with Link and agreed to update its liquidity contingency plans accordingly. WIM then discussed the possible options with Mr Woodford before updating its contingency plans and discussing them with Link, as set out in paragraph 4.98 below.

4.95. In a meeting with a large investor on **19 March 2019**, Mr Woodford stated that he could access liquidity more quickly than the liquidity risk framework (i.e. the Revised Four Bucket Model) suggested. The report of the meeting prepared by the large investor records Mr Woodford as stating that *"market liquidity is generally appalling at the moment but he does not run the portfolio based on liquidity"* and that *"the [liquidity] limits have been stretched"*.

4.96. At a Joint Oversight and Management Board meeting on **21 March 2019**, the minutes of the meeting recorded a Board member (not Mr Woodford) stating that *"From an oversight perspective from the strategy point of view is that we are working exceptionally hard to allow* [Mr Woodford] *to continue to maintain that* *strategy, because that strategy pushes us close to all of our limits, so to the extent that we can we accept the reality of that, it would be easy to capitulate and say you have got to get you liquidity levels up, you have exit this, sell some of that etc. At the moment we are at a point where we need to maintain what we believe in, which means we are going to be close to all of our limits. The governance and this oversight of this is our primary focus… We use every leaver* [sic] *and control mechanism we have to allow* [Mr Woodford] *to execute his strategy and its important that we get out and say that to clients rather than they believe that we are out of control, which couldn't be further than the truth. We have document contingency plans which have been well thought out and in train for over 2 years."* Mr Woodford stated at the meeting that he had *"never been more right* [in] *a strategy in my career"*. There was no minuted discussion of the fact that the WEIF was now above the trigger of 65% for combined Buckets 3 and 4. This approach was not compatible with WIM's *"medium"* risk appetite for liquidity risks and its low tolerance for adverse outcomes against its risks. The statements made at this meeting are indicative of WIM's prioritisation of Mr Woodford's ability to pursue his investment strategy over addressing the underlying liquidity issues faced by the WEIF.

4.97. The Joint Oversight and Management Board also failed to carry out the annual risk appetite review, a process that should have directly involved Mr Woodford as the designated risk owner for liquidity risk (see paragraph 4.92(b)(iv) above). The purpose of the risk appetite review was to *"ensure that both the quantitative and qualitative* [risk appetite] *statements are still appropriate for each risk category"*, involving the risk owner (i.e. Mr Woodford) reviewing *"the risk appetite* [for liquidity risk] *as well as the triggers and limits relating to each risk appetite measure, taking into consideration current risks facing the firm"*. This review should have been performed in or around March/April 2019, and had it taken place then, it should have identified that the WEIF had exceeded WIM's *"medium"* risk appetite for liquidity risk and that the triggers and limits being applied to the WEIF were not appropriate, taking into consideration the significant deterioration in the WEIF's liquidity profile over time and the level of ongoing net redemptions. This should have prompted immediate action to bring the WEIF back within its risk appetite and adjustments to the applicable triggers and limits to reflect the need to meet likely future net redemptions.

4.98. On or around **25 March 2019**, a call was held between WIM and Link to explain the updated liquidity contingency plans (which, as noted in paragraph 4.94 above, had been discussed with Mr Woodford). On **28 March 2019**, Link wrote to WIM, making it clear that, having read the latest liquidity contingency plan, it was not satisfied with WIM's proposed actions to improve the WEIF's liquidity. It required WIM to identify *"concrete actions that have been or will be taken to improve the combined buckets 3 and 4 metric, particularly if the 70% limit is breached",* and noted that Link *"continues strongly to urge WIM to bring the liquidity profile out of the trigger by month end"*. Mr Woodford did not take steps to apprise himself of the concerns raised by Link in response to the contingency plans that WIM's control functions had discussed with him or provide any oversight in respect of these communications.

4.99. WIM responded the next day, resisting the need to restore the WEIF's position to below the trigger, and arguing that the liquidity buckets did not reflect the WEIF's true liquidity (notwithstanding the fact it had agreed with Link to adopt the applicable metrics in September 2018). WIM also noted that such a request was not in accordance with the limit framework plan that Link had approved, namely that, when a trigger was crossed, WIM should prepare contingency plans which would then be enacted if the limit was breached. WIM's response further stated that "*(o)ur view is that we will achieve a better price on sales in a post-Brexit outcome and there will be more liquidity. Immediate actions are not in the best interests of investors unless we cross red limits and deem it necessary*". In this way WIM was, once again, prioritising Mr Woodford's ability to pursue his investment strategy at the expense of promptly taking appropriate action to address the liquidity concerns raised by Link.

4.100. On **29 March 2019**, Mr Woodford emailed WIM's Risk and Compliance functions expressing his dissatisfaction with the Revised Four Bucket Model applied to the WEIF (notwithstanding the fact that WIM had itself proposed and agreed the revisions to this model in September 2018 as set out above). As at the date of his email, to Mr Woodford's knowledge, the combined figure for Buckets 3 and 4 stood at 69.33% and was therefore well over the trigger of 65% and less than one percent away from breaching the limit of 70%. Further, this was part of a consistent pattern of deterioration and breach over this period as set out in paragraphs 4.91 and 4.92 above. It was in this context that Mr Woodford challenged the existing framework:

(a) Mr Woodford began his email by noting that he had a "*big problem"* with the existing framework:

"*Gentleman, You know I have a big problem with the methodology used in the liquidity bucket calculation. Equally, I understand now is not the time to challenge that methodology with Link or NT. Having said that I* *am still completely bamboozled by the categorisation of stocks and the measurement of daily liquidity*".

(b) Mr Woodford then gave a number of examples which he regarded as unsatisfactory classifications of securities produced by the Revised Four Bucket Method and said the following:

"We are in danger of bumping into limits, Link and regulatory concerns, which has and will affect my investment behaviour and our clients' outcomes based on data that just doesn't stand up to any scrutiny. I appreciate you are calculating these liquidity numbers to a methodology but it appears to me to be profoundly flawed."

(c) Mr Woodford concluded his email as follows:

"I know of course that we are where we are because of my actions but I am very eager to avoid doing the wrong thing here (which of course I know we all are).

Can you help me understand why we can't challenge this madness."

(d) As Mr Woodford knew:

(i) The feature of the liquidity framework that he now sought to challenge (i.e. the use of the Full Allocation Approach) had been part of the liquidity framework since WIM had started monitoring the Initial Four Bucket Model in May 2018 (see paragraph 4.51 above), was part of the Revised Four Bucket Model adopted by WIM in October 2018 (as addressed in paragraph 4.54 above) and was used in conjunction with an assumed Participation Rate of 100%.

(ii) Further, the Revised Four Bucket Model had itself been adopted following challenge from WIM (as addressed in paragraph 4.87 above). Mr Woodford's challenge to it in late March 2019 arose in circumstances where he wished to adjust the liquidity framework to allow him to continue to pursue his investment strategy at a time when the fund was well over the trigger of 65% and less than one percent away from breaching the limit of 70%.

(e) For Mr Woodford to press for such change in such circumstances was not reasonable and was inconsistent with WIM's "*medium*" risk appetite towards liquidity risk. His email was indicative of (and contributed to) WIM's inappropriate prioritisation of his ability to pursue his investment strategy over addressing the underlying deteriorating liquidity issues faced by the WEIF.

4.101. A member of WIM's Risk function replied the same day (i.e. **29 March 2019**) noting (among other things) that: (i) the current approach had been set with WIM's involvement and took into account best practice guidance from the Authority and IOSCO; and (ii) the "*challenge*" from Mr Woodford as fund manager could potentially be brought to bear, but it would be preferable to do so in different circumstances (i.e. when WIM was in compliance with the existing limits). They summarised the position as follows:

> *"In summary, there are no detailed regulatory prescriptions, but there are regulatory best practice guidelines and recommendations we're expected to follow, with the oversight of our ACD. This does not mean we cannot challenge the assumptions based on your daily experience, although it would be better to do so when we are in compliance with the limits."*

4.102. Mr Woodford replied on **30 March 2019** saying as follows:

> *"There are so many nuances that* [a member of WIM's investment team] *and I experience every day it makes it very hard to see the real world validity of Link's methodology. Nevertheless we are where we are and I will do my utmost to steer us away from the limits."*

4.103. In the event, despite Mr Woodford's stated intention to *"steer* [the WEIF] *away from the limits"*, WIM breached the limit of 70% for the combined Buckets 3 and 4 figure three times in April 2019 and remained above the trigger of 65% almost continuously up to the point of the WEIF's suspension on 3 June 2019.

4.104. On **3 April 2019**, WIM breached one of its limits in respect of the Redemption Coverage Ratio (being one of the further liquidity metrics applied to the WEIF in addition to the Revised Four Bucket Model, as described in paragraphs 4.57 to 4.60 above). Later the same day a member of WIM's Risk team suggested in an internal WIM Slack that "*we should use this event* [i.e. the breach of the limit] *as an opportunity to recast the limits across the board in order to take into account market conditions*" and "*the actual experience of the fund manager"* (i.e. Mr Woodford). They outlined the proposed changes to the liquidity framework, which served to address the feature in respect of which Mr Woodford had been "*particularly critical"*: namely, the allocation of securities to buckets based on the time taken to sell the entire holding (see paragraph 4.100 above). The effect of these and other proposed changes, if implemented, would have been to improve the assessment of liquidity in the fund by transferring proportions of securities held in Buckets 3 and 4 to Buckets 1 and 2, without altering the fund's composition (as further set out in paragraph 4.110 below). That WIM should use this breach as an opportunity to seek to recast the limits in this fashion is indicative of WIM's persistent inappropriate prioritisation of Mr Woodford's ability to pursue his investment strategy over addressing the underlying liquidity issues faced by the WEIF.

4.105. On **4 April 2019**, Link told WIM that the WEIF should be brought out of the trigger condition *"as soon as practicable"*, and that the Buckets 3 and 4 metric was *"concerning"*.

4.106. On **5 April 2019**, WIM responded to queries about its liquidity management from a large investor, stating that: "*The portfolio continues to represent what Neil* [Woodford] *believes are the greatest valuation opportunities. As long as the portfolio continues to operate within the liquidity constraints set, we are comfortable and are not actively seeking to improve liquidity".*

4.107. On **8 April 2019**, a member of WIM's Compliance function prepared a draft message to Link to raise WIM's proposed revisions to the liquidity framework in light of Mr Woodford's invitation to "*challenge this madness*" as addressed in paragraphs 4.100 and 4.101 above. The draft noted that "*(w)e are aware your initial response may be that this has come up because we have crossed a threshold*".

4.108. On **9 April 2019**, a member of the Risk function emailed Link proposing to review the applicable liquidity metrics and relaying the strong views that Mr Woodford had personally expressed in this regard. The email explained that:

(a) Mr Woodford (along with a member of the investment team) *"frequently express[es] strong views against a liquidity metric that provides the wrong incentives"*.

(b) WIM regarded one of the essential premises of the Four Bucket Model as a "*fundamental flaw*": namely, allocation of securities to particular buckets based on the time that would be taken to liquidate the entire holding in the security in question.

(c) Mr Woodford was "*categorical that being forced to manage money under such a non-sensical metric is not in the best interest of investors"*.

(d) Other proposed changes included using a 25% Participation Rate and *"more intuitive buckets"* based around the amount of value that could be generated per day, as opposed to a TTL model.

4.109. On **10 April 2019**, further to the discussions between Mr Woodford and WIM's Risk function as addressed in paragraphs 4.100 to 4.102 above, a member of WIM's Risk team sent details of proposed revised liquidity bucket definitions to Link.

4.110. On **11 April 2019** Link responded to the proposed revisions, declining to replace the existing framework and agreeing only to run the new proposed framework in parallel with the existing model for a limited period as a test. Link emphasised that it was "*important that we continue with the current measures, and keep within the current boundaries"* and that it would not be appropriate "*to present a report* [to the Authority] *which could appear to 'soften' the limits"*. In the event, WIM's new proposed methodology never replaced the existing model: instead the two continued to run in parallel up until the suspension of the fund on 3 June 2019 (as addressed further below). This test period made clear that WIM's proposed revisions (had they been adopted) would have presented a significantly more positive picture of the WEIF's liquidity position up to and including the point of the fund's suspension.

4.111. On **26 April 2019**, Link identified a breach of the combined Buckets 3 and 4 limit, measuring those buckets as amounting to 70.01% of NAV, compared to the 70% limit. Link noted, in correspondence with WIM, that WIM had notified them of the upcoming expected breach of the limit and was already taking action to bring the metric back below the limit. A member of WIM's Risk function responded by setting out certain actions taken and admonishing Link for using the word *"breach"* on the basis that the limits were not *"regulatory limits"*.

4.112. On **1 May 2019**, it was noted in the WIM Slack that there was a "*strong correlation*" between the risk of holding Unquoted Securities and liquidity risk.

4.113. On **22 May 2019**, Link told WIM on a call that it was very concerned about the WEIF's liquidity profile. On **28 May 2019**, the WEIF's liquidity was again discussed at a meeting involving Link and WIM.

4.114. On **31 May 2019**, KCC made a request to redeem in full its holding in the WEIF. In the days following this request, Link liaised with WIM concerning options to meet the redemption, which was valued at £237 million (6.5% of NAV) at that time. After considering a number of options, on **3 June 2019**, Link concluded that immediate suspension was the appropriate response in order to protect the interests of investors in the WEIF.

SECTION E: UNQUOTED SECURITIES AND LISTINGS ON THE INTERNATIONAL STOCK EXCHANGE

4.115. Mr Woodford invested in a number of Unquoted Securities whose shares were not listed and traded on an exchange.

4.116. Between October 2014 and December 2015, via the WEIF, Mr Woodford invested in Benevolent, Industrial Heat, Ombu and Sabina (the "TISE companies" or the "TISE securities"), which were all, when the investments were first made, Unquoted Securities:

	Initial investment Date
Benevolent	17 October 2014
Industrial Heat	13 May 2015
Ombu	28 October 2015
Sabina	17 December 2015

4.117. As a part of Mr Woodford's investment into the TISE companies, WIM made commitments to provide further funding to the TISE companies via future share subscriptions.

4.118. In August 2017, WIM entered into a voluntary moratorium on any further investments in Unquoted Securities, as the WEIF was approaching the 10% maximum permitted, which remained in place until the WEIF was suspended on 3 June 2019. By the end of November 2017, the percentage of Unquoted Securities held by the WEIF stood at 9.82%.

4.119. WIM notified each of the TISE companies in the first instance about the issues arising from the funding moratorium as well as the WEIF nearing the 10% limit on investments in Unquoted Securities. WIM was unable to provide further funding to the TISE companies unless the securities held by the WEIF became listed, meaning that they would no longer be covered by the 10% Unquoted Securities limit. Subsequently, each of these four companies listed shares in their companies on TISE, the listings occurring as set out below:

Company	Date of listing	Stock exchange
Sabina	28 December 2017	TISE
Ombu	15 June 2018	TISE
Industrial Heat	5 October 2018	TISE
Benevolent	21 March 2019	TISE

4.120. Notwithstanding their listing, prior to the suspension of the WEIF on 3 June 2019, there were no arm's length market dealings in any of the TISE securities, and only one trade recorded for any of the TISE securities, that being a trade involving Sabina shares with the WEIF acquiring shares from the Woodford Patient Capital Trust (another fund managed by WIM). In the absence of any market dealings in respect of the securities in the TISE companies, and as Mr Woodford was aware, Link used FVP to value them at all stages (both before and after their listing).

4.121. The listing of these securities did nothing to improve the liquidity profile of the WEIF in circumstances where, as Mr Woodford knew: (a) they would remain categorised as Bucket 4 securities even after listing; (b) they were likely to be, at most, thinly traded, if traded at all; and (c) other than in respect of Ombu, the only shares listed were those held by the WEIF.

4.122. Whilst, in the short term, the TISE listings had no adverse effect on the liquidity profile of the WEIF, on a longer-term basis the TISE listings enabled Mr Woodford to: (a) reduce pressure on the 10% Unquoted Securities limit; (b) increase the size of the securities which were either unquoted or otherwise subject to FVP; and (c) hold further securities which, in terms of liquidity, had the same characteristics as the Unquoted Securities. As a result, the listings contributed to the deteriorating liquidity profile of the WEIF.

4.123. The WEIF also held shares in a further Unquoted Security, Proton Partners (that subsequently became Rutherford Health), initially purchased in January 2015. Subsequent to this, Proton Partners issued shares to the WEIF which were listed on the NEX exchange in February 2019. The issue of shares, and the subsequent listing, meant that the shares were removed from the WEIF's Unquoted Securities total. Although listed, there was no market for pricing purposes, and only one trade was ever made. Proton Partners continued to be valued using FVP after it was listed on NEX.

4.124. As well as enabling the WEIF to continue to hold the Unquoted Securities noted above, the listings also enabled Mr Woodford to make further investment of the WEIF's funds into them during a period of time when the WEIF's liquidity was continuing to deteriorate:

(a) The WEIF made further investments into the following securities, totalling £82.99m:

(i) Ombu in June 2018 (£10.38m) and September 2018 (£10.38m);

(ii) Sabina in January 2018 (£8.94m), June 2018 (£8.82m) and November 2018 (£26.47m); and

(iii) Proton Partners in February 2019 (£18.00m).

(b) The proportion of the WEIF's portfolio that comprised securities that were valued using FVP (including all but 2 of the Unquoted Securities) increased significantly from 8.8% in May 2017 to 13.1% in July 2018 and up to 21.5% in May 2019. This contributed to the deterioration in the WEIF's overall liquidity.

5. FAILINGS

5.1. The statutory and regulatory provisions relevant to this Notice are referred to in **Annex B**.

5.2. As a result of the facts and matters set out above and for the reasons set out below, during the Relevant Period, Mr Woodford breached:

(a) Statement of Principle 2 (due skill care and diligence in carrying out accountable functions) in respect of his CF30 (Customer) controlled function, namely his activity as an investment manager and functions connected with this; and

(b) Statement of Principle 6 (due skill care and diligence in managing the business of the firm) in respect of his CF1 (Director) controlled function, which was an accountable significant influence function within the meaning of APER.

Mr Woodford's defective and unreasonably narrow understanding of his responsibilities

5.3. Mr Woodford's conduct during the Relevant Period (as particularised above) reflected a defective and unreasonably narrow understanding of his responsibilities in respect of liquidity risk. In particular:

(a) Mr Woodford treated his role in managing and monitoring liquidity risk as definitively circumscribed by the triggers and limits set out in the applicable liquidity framework rather than considering wider assessments of liquidity beyond these. He has stated to the Authority in interview that he saw his responsibility as to manage the fund within the bounds of the prescribed metrics, triggers and limits but not to take reasonable steps to ensure that those metrics, triggers and limits were appropriate including challenging the appropriateness with WIM's Risk and Compliance teams.

(b) When interviewed by the Authority, Mr Woodford took the view that he was entitled to expect that WIM's Risk and Compliance teams (and/or Link as ACD) had set appropriate metrics, triggers and limits and he did not accept that he had any responsibility for overseeing the work of these teams in this regard.

(c) Mr Woodford further took the view that it was for WIM's Risk and Compliance functions to ascertain what information it was necessary for him to be aware of, with the apparent consequence that (on his understanding) he was not required to make enquiries in respect of matters that were not specifically drawn to his attention by these control functions.

(d) However, in practice, Mr Woodford was willing to (and from time to time did) question and challenge both Link and WIM's liquidity framework. However, he only did so in circumstances where he considered that it unduly constrained the pursuit of his investment strategy.

Mr Woodford's failure to pay due regard to the need to ensure a reasonable and appropriate liquidity profile for the WEIF when making decisions as to which assets to buy and sell

5.4. Mr Woodford failed to pay due regard to the need to ensure a reasonable and appropriate liquidity profile for the WEIF when making decisions as to which assets to sell to meet redemptions and, when purchasing, which to buy (as addressed in paragraphs 4.62 to 4.65 above).

5.5. As contemporaneously recorded during the Relevant Period, Mr Woodford's approach to selecting which assets to sell to meet redemptions was primarily based on which positions he had the most conviction in: *"Although the fund has had to sell to meet redemptions, the fund manager has chosen to liquidate those positions that he has the least conviction in."*

5.6. As set out in **Annex A**, the Authority has analysed the investment decisions made by Mr Woodford and their impact on the composition of the fund. By reference to the Corrected Four Bucket Model, the analysis shows that during the Relevant Period:

(a) Mr Woodford sold a much greater proportion of securities in Buckets 1 and 2 than he bought, resulting in a net reduction of £0.9 billion in the value of Buckets 1 and 2 over this period.

(b) Mr Woodford's buying and selling of securities in Buckets 3 and 4 was more balanced, resulting in a smaller reduction of £0.4 billion in the value of Buckets 3 and 4.

(c) These investment decisions by Mr Woodford had the effect of increasing the proportion of less liquid shares held by the WEIF. Over this period (by reference to the fund's NAV with percentages rounded):

(i) The proportion of securities in Bucket 1 fell by 8% (from 16% to 8%);

(ii) The combined proportion of securities in Buckets 1 and 2 fell by 9% (from 37% to 28%);

(iii) The proportion of securities in Bucket 4 increased by 8% (from 33% to 41%);

(iv) The combined proportion of securities in Buckets 3 and 4 increased by 11% (from 63% to 74%).

(d) These changes in the fund's composition were primarily driven by Mr Woodford's investment decisions and not by other factors (such as relative performance of the shares in each bucket or the movement of securities between buckets due to changing circumstances).

5.7. In these circumstances, during the Relevant Period:

(a) Mr Woodford's investment decisions were not balanced from a liquidity perspective. He sold disproportionately more securities from Buckets 1 and 2 than he bought, in contrast to his more balanced approach to buying and selling for Buckets 3 and 4. This had a significant and direct impact on the liquidity of the fund, causing its liquidity to deteriorate.

(b) The investment decisions by Mr Woodford failed to pay due regard to the need to ensure a reasonable and appropriate liquidity profile for the WEIF and the approach that he adopted was unreasonable. They resulted in the WEIF becoming an outlier in terms of liquidity among Comparator Funds with, for example, only 8% of its securities able to be sold within 7 days by 3 June 2019 (which was significantly lower than the bottom ranked Comparator Fund).

5.8. The listing of the TISE companies (addressed in Section E above) enabled WIM and Mr Woodford to take further steps which contributed to the deteriorating liquidity of the WEIF. In particular, Mr Woodford not only continued to hold the TISE securities once they had ceased to count towards the 10% regulatory limit on Unquoted Securities, but also increased the WEIF's holdings in certain of the TISE securities above the amount originally held. This was despite the fact that the TISE securities (1) were classified as amongst the most illiquid securities held by the WEIF, and even after listing would remain as such; and (ii) had the same characteristics in liquidity terms as Unquoted Securities. This resulted in the WEIF holding an increased proportion of assets which had the same characteristics in liquidity terms as Unquoted Securities. The TISE securities were among the Bucket 4 securities even after their listing (i.e. they remained in the least liquid bucket). As set out above, Mr Woodford's investment decisions during the Relevant Period, including his approach to the TISE securities, failed to pay due regard to the need to ensure a reasonable and appropriate liquidity profile for the WEIF and unreasonably sought to prioritise his investment strategy without appropriately addressing the WEIF's deteriorating liquidity.

<u>Mr Woodford's failures to: (i) take reasonable steps to assess wider measures of liquidity than simply the liquidity framework; (ii) take reasonable steps to satisfy himself that the liquidity framework used for the WEIF was appropriate; and (iii) exercise appropriate oversight in respect of the delegated performance of certain administrative tasks associated with his responsibilities</u>

5.9. In carrying out his roles and responsibilities in respect of liquidity risk (as set out in paragraphs 4.15 to 4.19 above), which included having primary responsibility for liquidity risk management, Mr Woodford should have:

(a) Taken reasonable steps to assess wider measures of liquidity than simply the liquidity framework.

(b) Taken reasonable steps to satisfy himself that the liquidity framework applied to the WEIF (including the applicable liquidity metrics, triggers and limits, as well as stress testing) was appropriate.

(c) Exercised appropriate oversight to the extent that certain administrative tasks associated with his responsibilities in respect of liquidity risk management had been delegated to others. In particular, as addressed in paragraph 4.23 above, the completion of monthly risk returns and annual risk appetite reviews was delegated to members of WIM's Management Team. Whilst such delegation was not in itself improper, it should have been accompanied by proper oversight, but Mr Woodford failed adequately to oversee the individuals to whom the tasks had been delegated to ensure that the relevant tasks were being completed appropriately.

5.10. Mr Woodford failed in these respects during the Relevant Period:

(a) When assessing the appropriate liquidity profile for the WEIF, Mr Woodford did not take into account wider factors, including the net flow of subscriptions and redemptions for the WEIF; the WEIF's performance relative to a relevant benchmark; or the structure and characteristics of the WEIF.

(b) Mr Woodford did not take adequate steps to satisfy himself that the WEIF's liquidity framework was appropriate. He assumed that the existing triggers, limits and metrics, along with the stress testing, must provide sufficient protection against liquidity risk by virtue of the fact they had been adopted and approved by others, including the WEIF's ACD. He did not consider it to be necessary to look at wider assessments of liquidity beyond solely triggers, limits and metrics. To the extent that he personally sought to challenge the liquidity framework, it was only ever in circumstances where the WEIF had crossed existing triggers and/or breached existing limits as a result of a persistent and evident trend of deteriorating liquidity. Instead of appropriately addressing this deterioration in the WEIF's liquidity, Mr Woodford raised concerns about the existing liquidity framework which resulted in certain alterations to it. Although these alterations created an impression of greater liquidity in the fund, they did not affect the fund's fundamental composition or improve its liquidity profile in reality (see paragraphs 4.85 to 4.87 and 4.100 and 4.104 above). This was not a reasonable approach.

(c) Mr Woodford also failed to engage with his responsibilities with regard to stress testing. Whilst he could not reasonably be expected to conduct the testing himself or be cognisant of all of its details, stress testing was a critical part of WIM's liquidity risk framework and especially important in circumstances of significant ongoing net outflows from the WEIF. As a highly experienced fund manager with over 25 years in the industry and designated risk owner for liquidity risks, he should have at least sought to understand the stress testing being conducted and satisfy himself to a reasonable extent that the WEIF would be able to withstand extreme but plausible scenarios potentially facing the fund. This would have been consistent with his role at the IOC (when it was operative), at which he was expected to answer questions around stress testing (see paragraph 4.17(c) above). Had he done so, it should have been apparent to him that WIM's stress testing did not take account of increased levels of redemptions that could reasonably have been expected in response to a large investor (such as KCC) redeeming their investment.

(d) Mr Woodford did not exercise adequate oversight in respect of the completion of the monthly risk returns or annual risk appetite reviews:

(i) Mr Woodford stated to the Authority in interview that he did not provide any oversight of the administrator's performance of such returns and that (on his conception of his responsibilities) he was not required to do so. This was not a reasonable approach.

(ii) Further, as set out above, there ought to have been an annual risk appetite review in or around March/April 2019, in which Mr Woodford was required to be directly involved under WIM's policies and procedures, including specifically reviewing the triggers and limits (see paragraph 4.15(e) above). But in fact there was no risk appetite review in March/April 2019 or at any other time after April 2018 (see paragraph 4.97 above).

5.11. Mr Woodford's failings in these respects fall to be assessed in light of his knowledge that:

(a) the WEIF was the subject of a persistent pattern of poor performance, redemptions and significant net outflows from May 2017 until its suspension on 3 June 2019. In particular, over this period (as set out in paragraphs 4.67, 4.71, 4.78 and 4.91 above):

(i) the net outflows from the fund totalled over £4.4 billion; and

(ii) the WEIF's NAV dropped from just over £10.1 billion to around £3.6 billion, a decline of over £6.5 billion;

(b) further, as reported to Mr Woodford in his personal daily update email, WIM's Initial T+20 metric consistently deteriorated from early May 2018 onwards, such that it continuously crossed WIM's trigger of 25% from August 2018 onwards, and was less than one percent away from breaching the limit of 20%, when WIM decided to discontinue this metric in mid-September 2018 (see paragraphs 4.78(b) and 4.87 above);

(c) still further, applying the Initial Four Bucket Model, the combined figure for Buckets 1 and 2 (as reported in Mr Woodford's personal daily update email) deteriorated so far that it continuously breached the 70% limit from mid-September 2018 until WIM discontinued the Initial Four Bucket Model in mid-October 2018 (see paragraph 4.78(c) above);

(d) the Initial T+20 Metric and the Initial Four Bucket Model were replaced in mid-October 2018 with the Revised Four Bucket Model which painted a more positive picture of the WEIF's liquidity without altering the underlying composition of the fund;

(e) between October 2018 and June 2019, WIM's Initial T+20 Metric (which continued to be displayed on the dashboards which were available to Mr

Woodford) deteriorated significantly and was in near-constant breach of the 20% limit that WIM had applied up to September 2018 (see paragraph 4.91(b) above);

(f) even applying the Revised Four Bucket Model the liquidity position continued to deteriorate, as Mr Woodford was aware from the daily reports that he received. The WEIF was almost constantly crossing the 65% trigger for Buckets 3 and 4 from March 2019 onwards (see paragraph 4.91(c) above); and

(g) WIM assumed a Participation Rate of 100% for the purposes of the Initial Four Bucket Model and the Revised Four Bucket Model (see paragraph 4.50(a) above).

<u>Mr Woodford's failure to appreciate and/or act on warnings from Link</u>

5.12. When Link repeatedly raised liquidity concerns with WIM during the Relevant Period, WIM did not respond reasonably to those concerns. In particular:

(a) Link recognised and clearly communicated to WIM by its email of 20 September 2018 *"the need to improve the overall liquidity profile of the fund"* and for the *"fund to be rebalanced to a considerably more liquid profile"* (see paragraph 4.87(c) above). WIM unreasonably responded that it did not agree with and had not agreed with this conclusion.

(b) Link said on 24 September 2018 that it continued *"to press the need for a long term rebalancing of the portfolio to a more liquid overall profile as well as a reassessment and reformulation of an effective liquidity monitoring framework for* [the WEIF]*"* (see paragraph 4.87(d) above).

(c) Link again informed WIM, on 26 September 2018, that WIM and Link needed to *"work together to formulate a proposal for a more refined liquidity management framework"* and *"acknowledge the need to rebalance the portfolio in the longer term (6m +) to a more balanced liquidity profile appropriate for a daily dealing UCITS fund",* and required WIM to *"advise* [Link] *of their plan to achieve this"* (see paragraph 4.87(f) above). WIM unreasonably responded that it did not *"believe that there is a need to rebalance the portfolio to a more liquid one over the longer term"* (see paragraph 4.87(g) above).

(d) Link informed WIM on 10 December 2018 that "[Link's] *position is that we expect WIM to be undertaking prompt action to address both the valuation and liquidity concerns with the ultimate goal of bringing the hard to value assets down from 19% to less than 10% and for the portfolio to return to a more balanced position between the four liquidity buckets"* (see paragraph 4.93 above).

(e) Further, on 28 and 29 March 2019 and 4 April 2019, Link again required WIM to identify *"concrete actions that have been or will be taken to improve the combined buckets 3 and 4 metric, particularly if the 70% limit is breached"* (see paragraph 4.98 above). WIM unreasonably responded it did not agree with and had not agreed with this conclusion.

(f) In the circumstances, WIM failed to pay due regard to (and effectively ignored) the warnings received from Link regarding the fund's liquidity profile and the impending breaches of the existing rules and parameters set by the liquidity framework. This was an unreasonable approach.

5.13. Mr Woodford had primary responsibility for liquidity risk management and so ought, through his management and monitoring of liquidity risks, to have ascertained from WIM's Risk and Compliance teams the nature of the concerns over liquidity that were being expressed by Link throughout the Relevant Period as particularised above. If, as Mr Woodford should have done, he had appreciated and understood the messages and warnings that Link was giving, then he should have acted robustly on them. In fact, he failed to inform himself of and/or appropriately question and challenge the position that WIM adopted in its communications with Link and failed to respond reasonably to Link's concerns or take adequate action in response to them, in order to substantially rebalance the liquidity profile of the fund.

5.14. To the extent that Mr Woodford did not appreciate or understand the messages and warnings that Link was giving, this was because of:

(a) his defective and unreasonably narrow understanding of his responsibilities (see paragraph 5.3 above);

(b) his failure to take reasonable steps to satisfy himself that the liquidity framework was appropriate and to exercise appropriate oversight (see paragraph 5.11 above). Had Mr Woodford exercised proper management and monitoring of liquidity risks, he ought to have ascertained and challenged the unreasonable approach that WIM had adopted in response to the concerns raised by Link as ACD.

Conclusion on Mr Woodford's failings

5.15. By reason of the matters set out in paragraphs 5.3 to 5.14 above, during the Relevant Period Mr Woodford breached:

(a) Statement of Principle 2 (due skill care and diligence in carrying out accountable functions) in respect of his CF30 (customer) controlled function, namely his activity as an investment manager and functions connected with this; and

(b) Statement of Principle 6 (due skill care and diligence in managing the business of the firm) in respect of his CF1 (director) controlled function.

5.16. The Authority considers that Mr Woodford's failings resulted in the WEIF's liquidity profile becoming unreasonable and inappropriate. They materially increased the risk that: (a) the liquidity framework applicable to the WEIF would be inappropriate; and (b) the suspension of the fund would be required, and thereby place those investors who did not redeem prior to the point of suspension at a disadvantage.

6. SANCTION

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 6.5B sets out the details of the five-step framework that applies in respect of financial penalties imposed on individuals in non-market abuse cases.

Step 1: disgorgement

6.2. Pursuant to DEPP 6.5B.1G, at Step 1 the Authority seeks to deprive an individual of the financial benefit derived directly from the breach where it is practicable to quantify this.

6.3. The Authority has not identified any financial benefit that Mr Woodford derived directly from his breaches of Statement of Principle 2 and Statement of Principle 6.

6.4. Step 1 is therefore £0.

Step 2: the seriousness of the breach

6.5. Pursuant to DEPP 6.5B.2G, at Step 2 the Authority determines a figure that reflects the seriousness of the breach. That figure is based on a percentage of the individual's relevant income. The individual's relevant income is the gross amount of all benefits received by the individual from the employment in connection with which the breach occurred, and for the period of the breach.

6.6. The period of Mr Woodford's breach was from 31 July 2018 to 3 June 2019. DEPP 6.5B.2G(2) states that where the breach lasted less than 12 months, the relevant income will be that earned by the individual in the 12 months preceding the end of the breach. The Authority considers Mr Woodford's relevant income for this period to be £9,814,721.

6.7. In deciding on the percentage of the relevant income that forms the basis of the Step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 40%. 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 individuals in non-market abuse cases there are the following five levels:

Level 1 – 0%

Level 2 – 10%

Level 3 – 20%

Level 4 – 30%

Level 5 – 40%

6.8. 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.

Impact of breach

6.9. Mr Woodford's lack of due skill, care and diligence when managing the WEIF's liquidity: (a) caused the liquidity of the fund to deteriorate into an unreasonable position (as particularised above); and (b) materially increased the risk of suspension by Link (which, as set out above, happened on 3 June 2019 as a result of the liquidity issues arising from KCC's redemption request). This resulted in a significant loss or risk of loss to a large number of individual consumers and investors, as well as causing serious, or potentially serious, consequences and distress to those invested in the WEIF at the time of the suspension. Many of the holders of the WEIF, which at the time of its suspension had a NAV of around £3.6 billion, were retail investors.

6.10. The suspension of the WEIF by Link due to liquidity issues and the events leading up to it were the subject of widespread publicity and market commentary. Mr Woodford's breaches in relation to these matters have served to undermine confidence in financial services markets, in particular by damaging consumer confidence in the UK fund management sector.

Nature of breach

6.11. Mr Woodford's breaches concern his lack of due skill, care and diligence when managing a large and high-profile investment fund (i.e. the WEIF). Mr Woodford held a senior role within WIM, was a very experienced industry professional and held a prominent position within the industry. As lead fund manager, risk owner and Head of Investment, Mr Woodford was primarily responsible for the management of liquidity within the fund and associated risks.

Level of seriousness

6.12. DEPP 6.5B.2G(12) lists factors likely to be considered 'level 4 or 5 factors'. Of these, the Authority considers the following factors to be relevant:

(a) Mr Woodford's breaches materially contributed to a significant loss or risk of loss to individual consumers and investors;

(b) Mr Woodford held a prominent position within the industry; and

(c) Mr Woodford's breaches have had an adverse effect on confidence in financial services markets, in particular by damaging consumer confidence in the UK fund management sector.

6.13. DEPP 6.5B.2G(13) lists factors likely to be considered 'level 1, 2 or 3 factors'. Of these, the Authority considers the following factors to be relevant:

(a) little, or no, profits were made or losses avoided as a result of Mr Woodford's breaches, either directly or indirectly; and

(b) Mr Woodford's breaches were committed negligently.

6.14. 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 30% of £9,814,721.

6.15. Step 2 is therefore £2,944,416.

Step 3: mitigating and aggravating factors

6.16. Pursuant to DEPP 6.5B.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.

6.17. The Authority has not identified any such factors. The Step 3 figure is therefore £2,944,416.

Step 4: adjustment for deterrence

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

6.19. The Authority considers that, having regard to the seriousness of breach and its consequences, the Step 3 figure of £2,944,416 does not represent a sufficient deterrent to Mr Woodford and others, and so has increased the penalty at Step 4.

6.20. Mr Woodford's serious failure to manage properly the liquidity of WIM's most significant fund exposed many thousands of investors to the risk of significant detriment. This risk crystallised when the fund was suspended. Mr Woodford's failings contributed to and materially increased the risk of significant investor losses and had an adverse effect on consumer confidence in the UK fund management sector. At the time of its suspension on 3 June 2019, the WEIF was valued at around £3.6 billion. Since then, the value of many of the WEIF's holdings have reduced significantly on realisation, meaning that investors (nearly three quarters of whom were retail investors) have received, or are entitled to receive, significantly less than the value of their investments at the point of suspension. At present there remains a shortfall of some £1 billion, or approximately 30% of the fund, from the WEIF's NAV at suspension. The losses were unfairly and disproportionately borne by those investors who did not redeem early and were left with a fund consisting of less liquid assets. The Authority has calculated the losses arising from the failure to manage the fund in a way that ensured that those who remained in the fund at the time of suspension were not treated unfairly as being up to approximately £298 million.

6.21. The scale of the investor losses increases the importance of deterring others managing big, high-profile funds with large numbers of retail investors, from taking the types of unreasonable liquidity risks that Mr Woodford took when pursuing his investment strategy. He prioritised his investment strategy at the expense of promptly taking appropriate action to address the liquidity concerns raised by Link. The need for credible deterrence in these circumstances is greater than a case where the risk to investors arising from the misconduct is much smaller; or where the investors are not as vulnerable as retail investors.

6.22. The Authority therefore has increased the Step 3 figure by a multiple of 2 at Step 4 for the purposes of credible deterrence.

6.23. Step 4 is therefore £5,888,832.

Step 5: settlement discount

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

6.25. There has been no settlement between the Authority and Mr Woodford and no discount applies to the Step 4 figure.

6.26. Step 5 is therefore £5,888,832.

Penalty

6.27. The Authority therefore has decided to impose a total financial penalty of £5,888,800 (rounded down to the nearest £100) on Mr Woodford for breaching Statement of Principle 2 and Statement of Principle 6.

Prohibition order

6.28. The Authority has the power to prohibit individuals under section 56 of the Act. The Authority has had regard to the guidance in Chapter 9 of EG and Chapter 2 of FIT in considering whether to impose a prohibition order on Mr Woodford. Such an order may relate to a specified regulated activity, any regulated activity falling within a specified description, or all regulated activities.

6.29. The Authority considers that Mr Woodford has demonstrated a lack of competence, capability and reputation to perform regulated activities associated with managing UCITS funds or any authorised fund sold, promoted or otherwise made available to retail clients, and any senior management or significant influence function in relation to any regulated activities.

6.30. In particular, for the reasons set out above, despite numerous warnings, Mr Woodford failed to manage the WEIF in an appropriate and reasonable manner for a significant period of time. His lack of competence was therefore serious and sustained. Even in the face of persistent investor redemptions, Mr Woodford placed greater importance on pursuing his investment strategy rather than properly addressing the WEIF's deteriorating liquidity and regulatory compliance. Such an approach was fundamentally inappropriate for a fund which had to meet investor redemptions within 4 business days and had a very significant number of retail investors. Having regard to Mr Woodford's limited insight into his conduct (see paragraph 6.31 below), the Authority cannot be satisfied that Mr Woodford would manage an open-ended fund and/or a fund sold or promoted to UK retail clients in an appropriate manner in the future.

6.31. In addition, as regards his competence and capability: the Authority has significant concerns that Mr Woodford has failed to reflect properly on the suspension of the WEIF and his failings which contributed to this. Following the WEIF's suspension and during and following the Authority's investigation, Mr Woodford showed limited reflection and insight into his conduct during the Relevant Period, even with the benefit of hindsight. Mr Woodford took the position that he had discharged his duties adequately and was not to blame for the fund's liquidity issues. Further, Mr Woodford has consistently maintained his defective and unreasonably narrow view of his responsibilities in terms of liquidity risk management, including in relation to the oversight of delegated tasks. As a result, the Authority is not satisfied that Mr Woodford would discharge senior management responsibilities appropriately in the future.

6.32. Finally, the Authority considers that Mr Woodford's conduct has resulted in a significant loss of reputation with far-reaching repercussions, such that he is not a fit and proper person to conduct certain regulated activities. In particular, Mr Woodford's conduct has affected not merely his personal reputation but the reputation of the UK fund management industry and the trust and confidence which the public has in that industry. Public confidence in the UK fund management industry has been significantly damaged as a result of Mr Woodford's conduct which significantly contributed to the suspension of the WEIF. This is exacerbated by the lack of understanding that Mr Woodford has shown in relation to his failings and their impact on investors in the WEIF. The Authority considers that any future involvement by Mr Woodford in an investment fund, whether as a senior manager or in relation to an investment fund which is open-ended and/or targeted at retail clients, therefore risks further undermining consumer and market confidence in the UK fund management industry.

6.33. Accordingly, the Authority has also decided to make a prohibition order in respect of Mr Woodford, prohibiting him from performing:

(a) any function in relation to the regulated activity of managing investments in respect of a UK UCITS or any authorised fund which is sold, promoted or otherwise made available to retail clients; and

(b) any senior management function and any significant influence function in relation to any regulated activities carried on by any authorised or exempt person or exempt professional firm.

7. REPRESENTATIONS

7.1 Annex C contains a brief summary of the key representations made by Mr Woodford in response to the Warning Notice and how they have been dealt with. In making the decision which gave rise to the obligation to give this Notice, the Authority has taken account of all of the representations made by Mr Woodford, whether or not set out in Annex C.

8. PROCEDURAL MATTERS

8.1. This Notice is given under sections 57 and 67 of the Act and in accordance with section 388 of the Act.

8.2. The following paragraphs are important.

Decision maker

8.3. The decision which gave rise to the obligation to give this Notice was made by the RDC. The RDC is a committee of the Authority which takes certain decisions on behalf of the Authority. The members of the RDC are separate to the Authority staff involved in conducting investigations and recommending action against firms and individuals. Further information about the RDC can be found on the Authority's website:

https://www.fca.org.uk/about/committee/regulatory-decisions-committee-rdc

The Tribunal

8.4. Mr Woodford has the right to refer the matter to which this Notice relates to the Tribunal. Under paragraph 2(2) of Schedule 3 of the Tribunal Procedure (Upper Tribunal) Rules 2008, Mr Woodford has 28 days from the date on which this Notice is given to him to refer the matter to the Tribunal. A reference to the Tribunal is made by way of a signed reference notice (Form FTC3) filed with a copy of this Notice. The Tribunal's contact details are: Upper Tribunal, Tax and Chancery Chamber, Fifth Floor, Rolls Building, Fetter Lane, London EC4A 1NL (tel: 020 7612 9730; email: fs@hmcts.gov.uk).

8.5. Further information on the Tribunal, including guidance and the relevant forms to complete, can be found on the HM Courts and Tribunal Service website:

http://www.justice.gov.uk/forms/hmcts/tax-and-chancery-upper-tribunal

8.6. A copy of Form FTC3 must also be sent to the Authority at the same time as filing a reference with the Tribunal. A copy should be sent to Bob Beauchamp at the Financial Conduct Authority, 12 Endeavour Square, London E20 1JN.

8.7. Once any such referral is determined by the Tribunal and subject to that determination, or if the matter has not been referred to the Tribunal, the Authority will issue a Final Notice about the implementation of that decision.

Access to evidence

8.8. Section 394 of the Act applies to this Decision Notice.

8.9. The person to whom this Decision Notice is given has the right to access:

(1) the material upon which the Authority has relied in deciding to give this Decision Notice; and

(2) the secondary material which, in the opinion of the Authority, might undermine that decision.

Third party rights

8.10. A copy of this Notice is being given to Link Fund Solutions Limited under section 393(5) of the Act as a third party to whom the Warning Notice was copied. Link Fund Solutions Limited has similar rights to those mentioned in paragraphs 8.4 and 8.9 above in in relation to the matter which identifies it.

Confidentiality and publicity

8.11. This Notice may contain confidential information and should not be disclosed to a third party (except for the purpose of obtaining advice on its contents). In accordance with section 391 of the Act, a person to whom this Notice is given or copied may not publish the Notice or any details concerning it unless the Authority has published the Notice or those details.

8.12. The Authority must publish such information about the matter to which a Decision Notice or Final Notice relates as it considers appropriate. A Decision Notice or Final Notice may contain reference to the facts and matters contained in this Notice.

Authority contacts

8.13. For more information concerning this matter generally, contact Bob Beauchamp at the Authority (direct line: 020 7066 5302/email: Bob.Beauchamp@fca.org.uk).

Edward Sparrow
Deputy Chair, Regulatory Decisions Committee

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ANNEX A – THE IMPACT OF MR WOODFORD'S INVESTMENT DECISIONS ON THE WEIF'S LIQUIDITY PROFILE

1. Overview

1.1. The Authority has assessed the WEIF's liquidity between 1 May 2017 and 3 June 2019 by reference to a statistical model based on the historical trading data for the securities in which the WEIF and peer funds invested (the "Statistical Model"). The Statistical Model uses data relating to the monthly composition of the funds, as well as data on the investments each fund held (the number of shares, their value, and their average daily trading volume).

1.2. The Authority has used the Statistical Model to assess the impact of Mr Woodford's investment decisions on the liquidity profile of the fund by reference to (i) a liquidity model applying the same assumptions used by WIM in the Revised Four Bucket Model; and (ii) an alternative set of assumptions that provide a more accurate picture of the WEIF's liquidity (the "Corrected Four Bucket Model").

1.3. This analysis shows that the deterioration in the WEIF's liquidity profile was predominantly caused by Mr Woodford's investment decisions, both in the period between May 2017 and May 2019 and specifically in the Relevant Period. The same conclusion is reached whether liquidity is analysed using the Revised Four Bucket Model or the Corrected Four Bucket Model.

2. Factors affecting the WEIF's liquidity profile

2.1. A fund's liquidity is affected by the following factors (the "Relevant Factors"):

(1) investment decisions made by the fund manager concerning the buying and selling of securities for the fund;

(2) the share performance of securities held in the fund; and

(3) changes in the ADTV of individual securities.

2.2. A fund manager's investment decisions have a direct impact upon a fund's liquidity as a result of the securities being bought and sold. The liquidity of a fund can typically be maintained through investment decisions if buying and selling activity is balanced. For example, selling a greater proportion of liquid shares (i.e. those that can be sold at best price within a short time period) to illiquid shares (i.e. requiring a longer timeframe to be sold at best price) would over time cause the fund's liquidity to deteriorate, assuming that any buying activity is neutral from a liquidity perspective. Similarly, buying a greater proportion of illiquid securities compared to liquid securities would also have the same effect if selling activity is neutral.

2.3. Further, a fund's liquidity may also be affected by the respective levels of selling and buying activity. Both in the period between May 2017 and May 2019 and in the Relevant Period, the value of shares sold was more than twice as much as the value of shares purchased. Between May 2017 and May 2019, the total amount of shares sold from the WEIF was approximately £7.4 billion and the total amount of shares purchased was approximately £3.6 billion, resulting in a net total outflow of approximately £3.8 billion. In the Relevant Period, the total amount of shares sold from the WEIF was approximately £2.2 billion and the total amount of shares purchased was approximately £0.9 billion, resulting in a total net outflow of approximately £1.3 billion. In these circumstances, unless the selling activity was relatively balanced from a liquidity perspective, the liquidity of the fund would have been significantly more impacted by the selling decisions than by the buying decisions.

2.4. The share performance of securities held by a fund may differ over time. This can lead to changes in the liquidity profile of the fund by reference to the relative value of the securities held compared to the total value of the fund.

2.5. The fund's liquidity may also be affected by changes in ADTV. A security's liquidity is typically assessed by reference to the length of time it would take to sell that security without adversely affecting its price. A critical component of that assessment is the ADTV, which is the average number of shares traded in that security each day. If the ADTV in a security increases, it would typically mean that a greater number of shares can be sold each day without adversely affecting price, allowing the fund's holding in that security to be sold more quickly at best price (i.e. the security would become more liquid). Conversely, a reduction in a security's ADTV would typically mean that the security was less liquid (i.e. would take longer to sell at best price).

2.6. By analysing the changes to a fund's liquidity profile, it is possible to identify the reasons for those changes by reference to one or more of the above factors. The Authority has analysed changes in the WEIF's liquidity profile by reference to (i) the Revised Four Bucket Model used by WIM; and (ii) the Corrected Four Bucket Model.

3. The Revised Four Bucket Model

3.1. By reference to the Revised Four Bucket Model, the WEIF's liquidity profile deteriorated in the period between May 2017 and May 2019. For example, the proportion of securities classified by value as Bucket 1 declined from 35% in May 2017 to 12% by May 2019. Over the same period, the proportion held in Bucket 4 increased from 17% to 31%.

<u>The period from May 2017 to May 2019</u>

3.2. During this period, there was a net total outflow of nearly £3.8 billion. This consisted of a net outflow of £3.5 billion from Buckets 1 and 2, and a net outflow of over £0.2 billion from Buckets 3 and 4.

3.3. The shares sold by the WEIF came predominantly from Buckets 1 and 2 during this period. Between May 2017 and May 2019, 78% of shares sold by the WEIF by value came from Buckets 1 and 2, with 22% being sold from Buckets 3 and 4.

3.4. On average over this period, the WEIF bought shares in a relatively even split between Buckets 1 and 2 and Buckets 3 and 4, amounting to 57% and 43% respectively.

3.5. The net buying and selling activity on a month by month basis for each bucket can be illustrated in the following graphs, showing net selling activity as negative and net buying activity as positive:

Figure 7: Net buying and selling activity for securities classified as Bucket 1

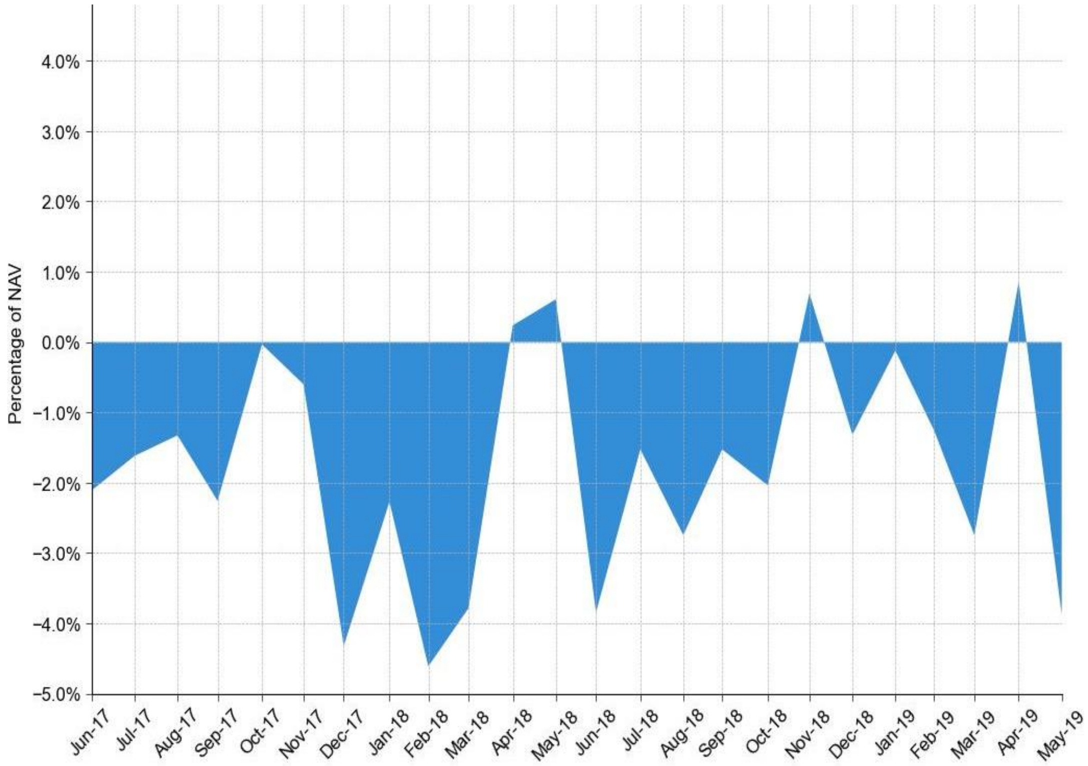


Figure 8: Net buying and selling activity for securities classified as Bucket 2

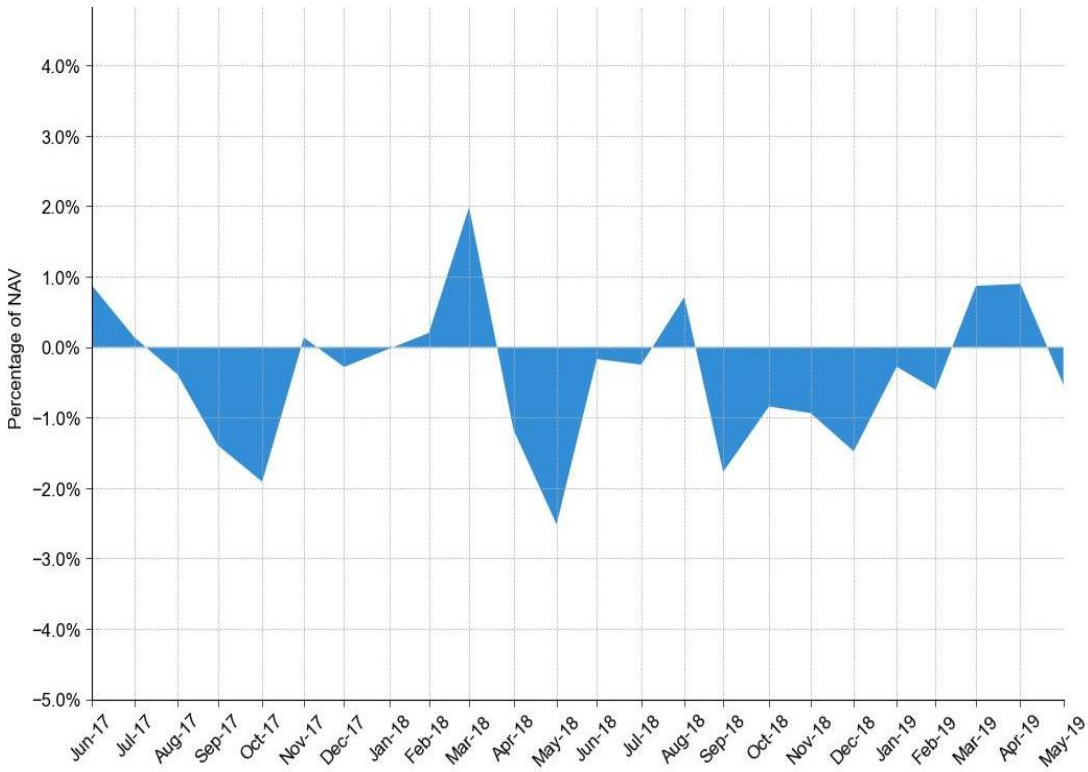


Figure 9: Net buying and selling activity for securities classified as Bucket 3

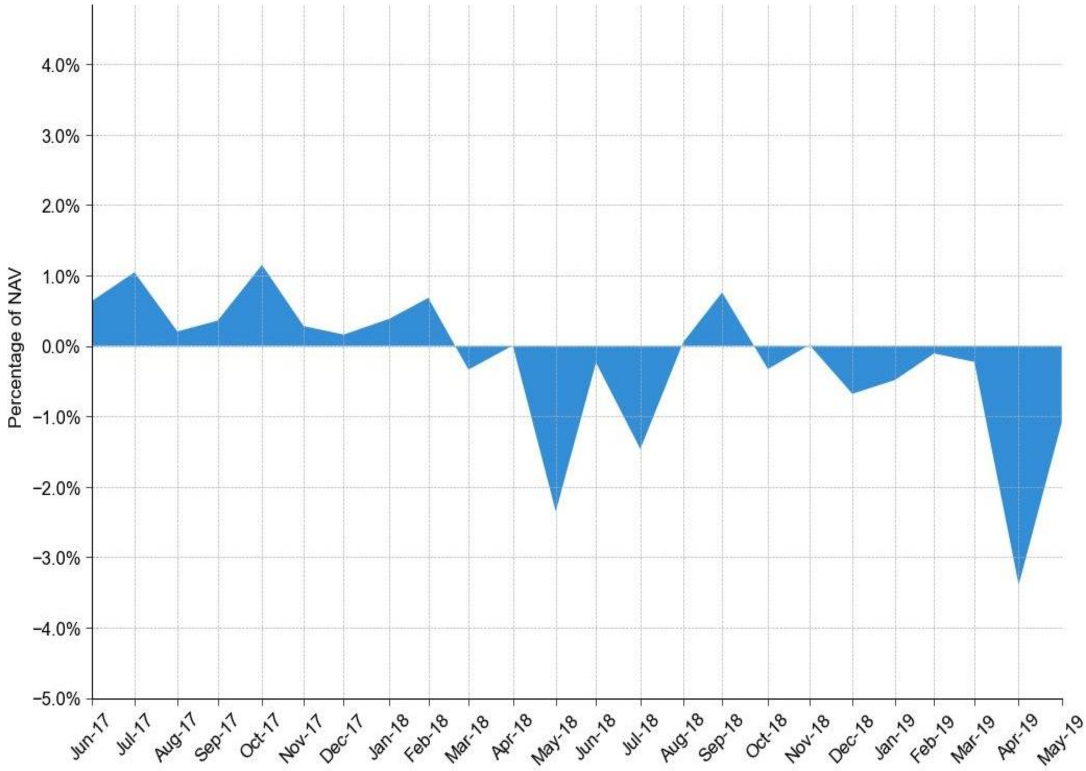
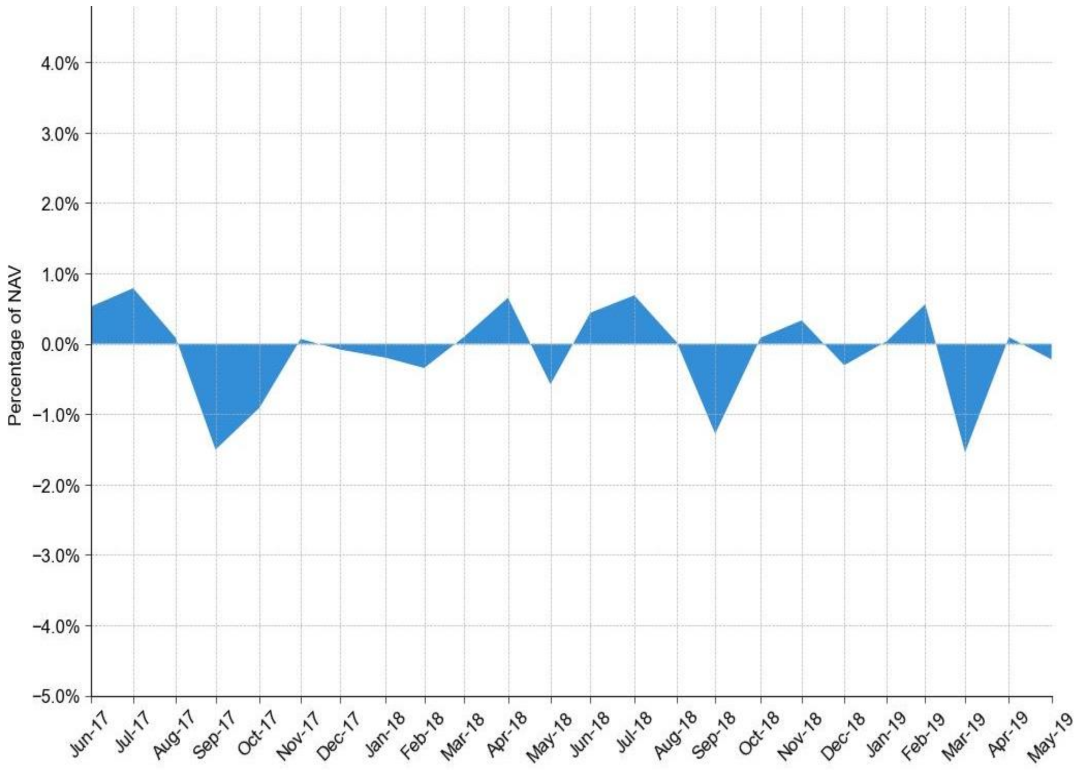


Figure 10: Net buying and selling activity for securities classified as Bucket 4



3.6. The above graphs show that the net buying and selling activity was predominantly:

(1) to sell shares from Buckets 1 and 2;

(2) to buy shares for Bucket 3 for the period to March 2018, and to sell shares thereafter; and

(3) a balance of buying and selling shares for Bucket 4.

3.7. The effect of this buying and selling activity had a negative impact on the WEIF's liquidity profile as a greater proportion of more liquid shares were sold and not replaced, resulting in the value of Buckets 1 and 2 decreasing compared to Buckets 3 and 4.

3.8. The Authority's analysis of the other factors impacting on liquidity (i.e. share price performance and ADTV changes) shows that they tended to have less impact on the WEIF's liquidity profile and exacerbated or failed to fully offset the overall deterioration in liquidity caused by Mr Woodford's investment decisions. This can be seen in the following graphs comparing the relative impact of Mr Woodford's buying and selling activity, share performance and ADTV changes on a cumulative basis. They also show that, where other factors contributed to the decline in liquidity, Mr Woodford did not adjust his buying and selling activity to compensate for this additional pressure on the WEIF's liquidity profile.

Figure 11: The cumulative impact of each of the Relevant Factors in respect of Bucket 1

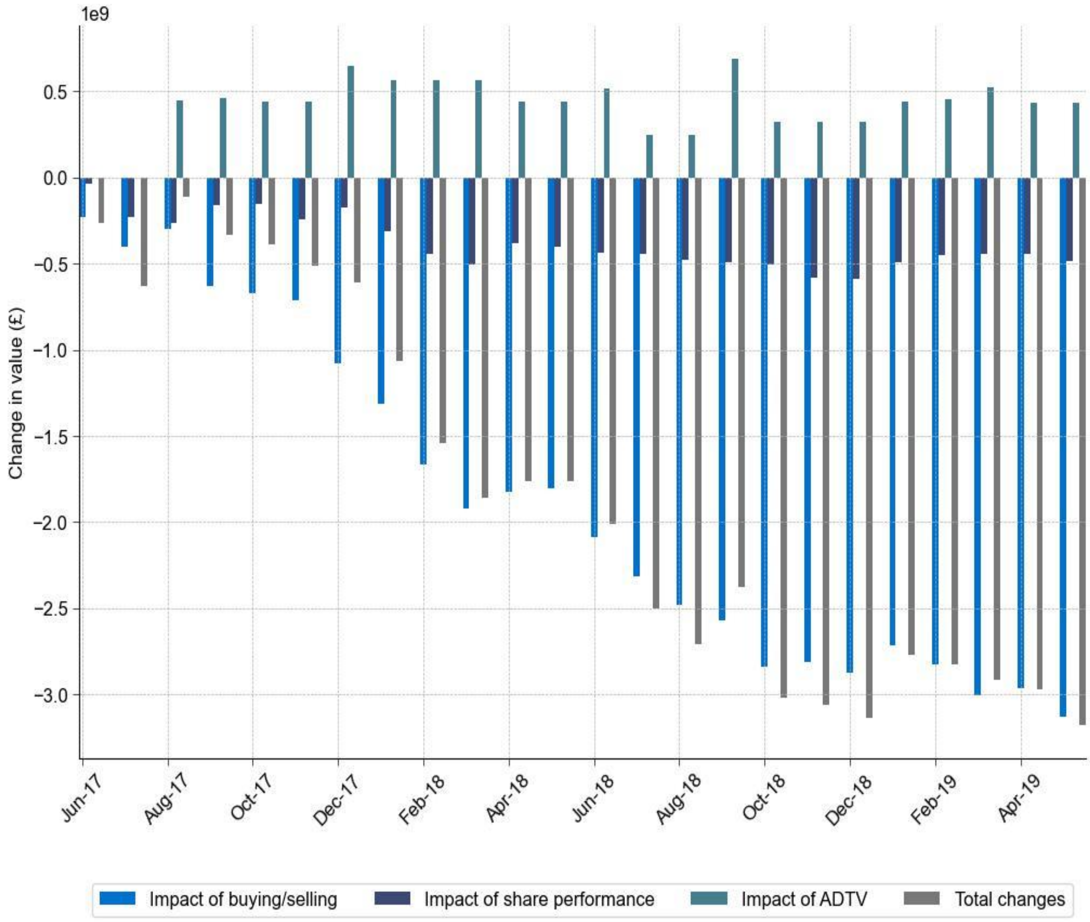


Figure 12: The cumulative impact of each of the Relevant Factors in respect of Bucket 2

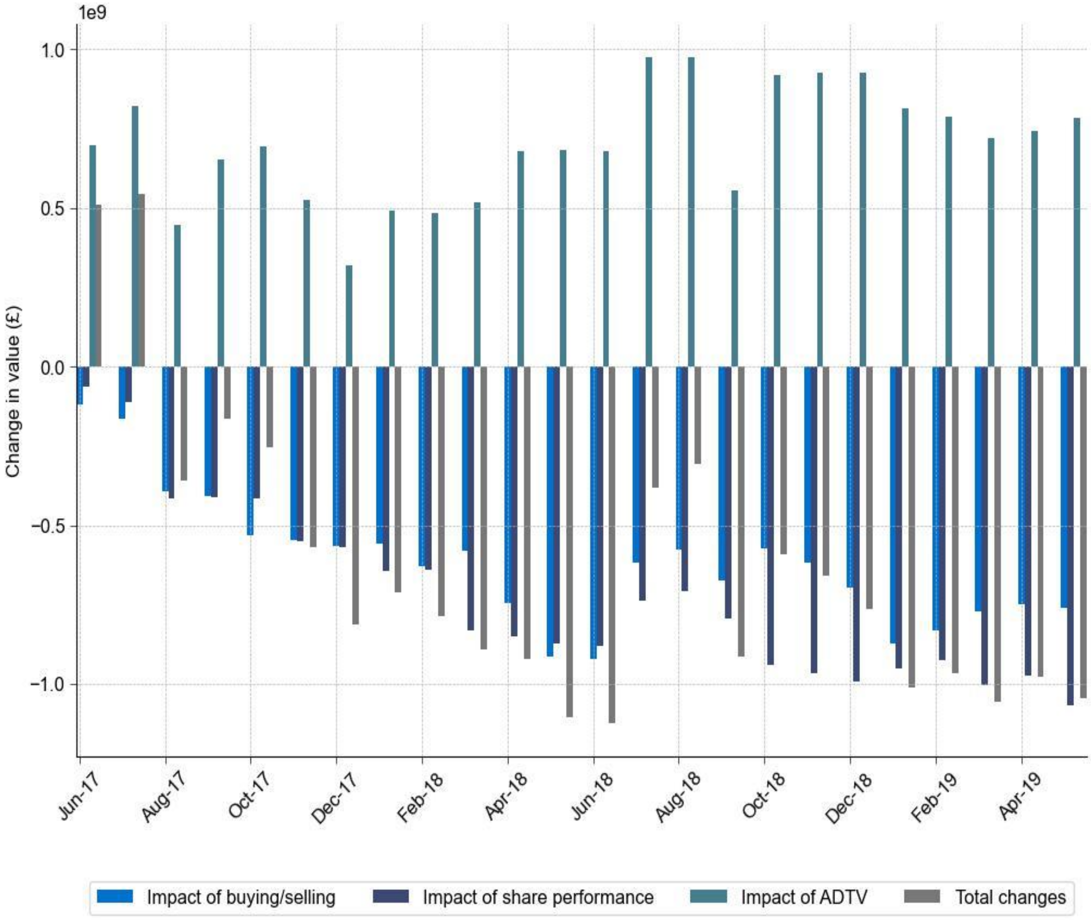


Figure 13: The cumulative impact of each of the Relevant Factors in respect of Bucket 3

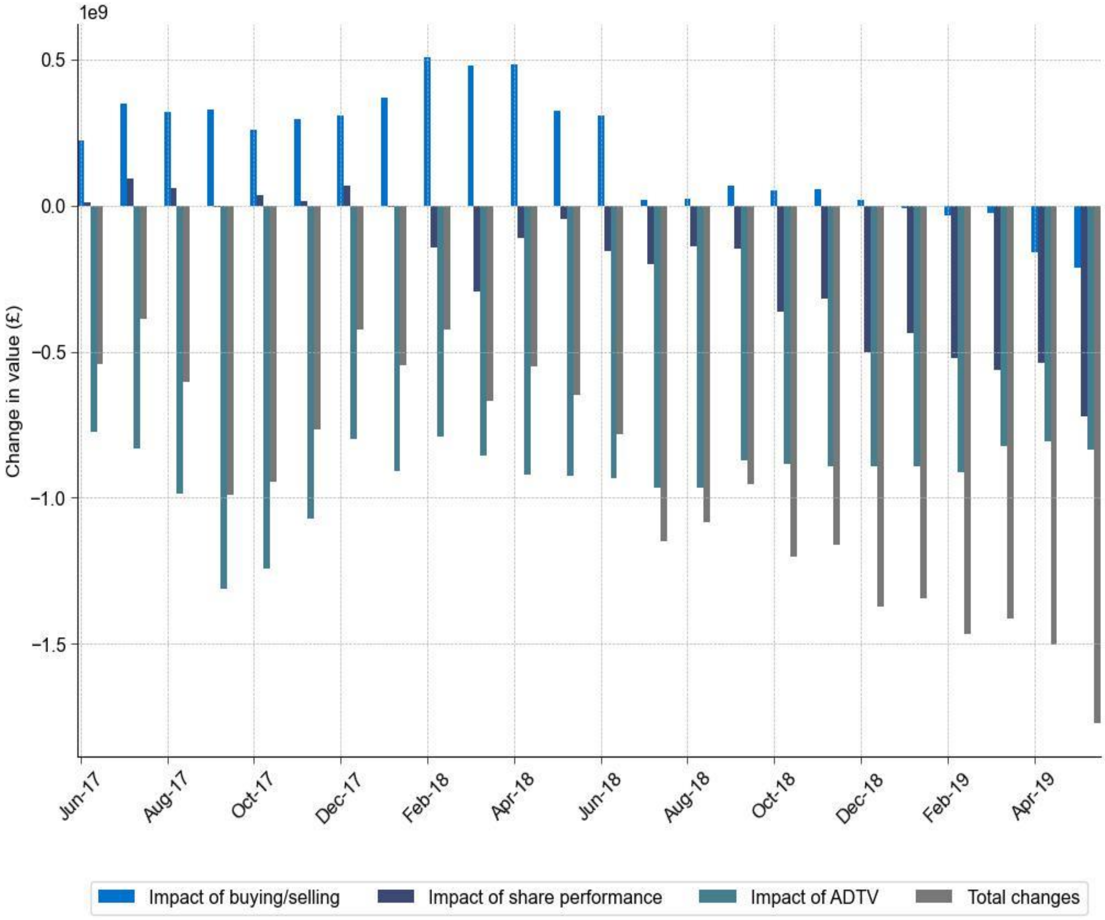
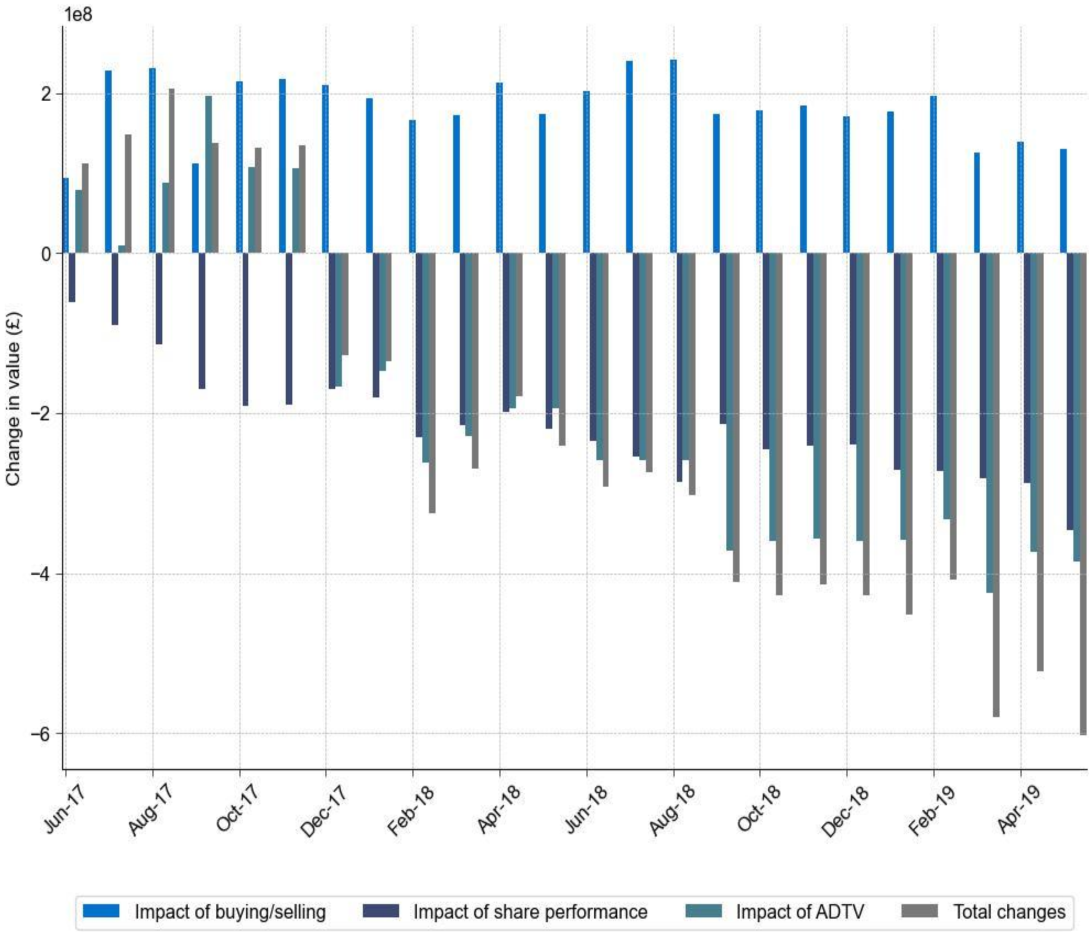


Figure 14: The cumulative impact of each of the Relevant Factors in respect of Bucket 4



<u>The Relevant Period</u>

3.9. The causes of the WEIF's deteriorating liquidity profile are broadly the same during the Relevant Period, in that the primary driver for the decline in the values of Buckets 1 and 2 relative to Buckets 3 and 4 during this shorter period was Mr Woodford's buying and selling activity.

3.10. During the Relevant Period, there was a net total ouflow of £1.3 billion. This consisted of a net outflow of nearly £0.95 billion from Buckets 1 and 2, and a net outflow of just over £0.35 billion from Buckets 3 and 4.

3.11. During the Relevant Period, on average 67% of shares sold each month by the WEIF came from Buckets 1 and 2, and only 54% of shares bought on average each month were allocated to those buckets. By contrast, 33% of shares sold each month came from Buckets 3 and 4, and 46% of shares bought were allocated to these buckets. As a consequence, the WEIF was, on a net basis, selling its most liquid assets.

3.12. Absent other factors (such as share performance or ADTV changes), this meant that Mr Woodford's buying and selling activity would inevitably cause the fund's liquidity profile to deteriorate over this period as Buckets 1 and 2 declined in value relative to Buckets 3 and 4. As can be seen at Figures 11 to 14 above, share performance and ADTV changes associated with Buckets 1 and 2 did not compensate for the deterioration in liquidity caused by Mr Woodford's investment decisions.

4. The Corrected Four Bucket Model

4.1. Unlike the Revised Four Bucket Model, the Corrected Four Bucket Model used by the Authority applies a Participation Rate of 25% and a Linear Allocation Approach. The Authority considers that these assumptions are more realistic than using the 100% Participation Rate and Full Allocation Approach used by WIM and Link in the Revised Four Bucket Model. In particular, the Authority does not consider it realistic to assume that (1) a single entity could access the entire daily liquidity in respect of a particular security without significantly impacting the price of that security (i.e. a 100% Participation Rate); or (2) the timeframe for liquidating a security depends upon when the entirety of the holding can be sold (i.e. the Full Allocation Approach). Further, the Authority does not agree with Link's belief that the two assumptions offset each other, and instead considers that the combined assumptions created an unjustifiably positive impression of the WEIF's liquidity.

4.2. By reference to the Corrected Four Bucket Model, the WEIF's liquidity profile deteriorated in the period between May 2017 and May 2019. For example, the proportion of shares classified as Bucket 1 declined from 24% in May 2017 to 8% by May 2019. Over the same period, the proportion held in Bucket 4 increased from 23% to 41%. These percentages are significantly lower for Bucket 1 and significantly higher for Bucket 4, compared to the Revised Four Bucket Model (see paragraph 3.1 above). This indicates that the Revised Four Bucket Model depicts an improved liquidity position compared to that revealed by the Corrected Four Bucket Model.

The period from May 2017 to May 2019

4.3. Similar to the position under the Revised Four Bucket Model, the shares sold by the WEIF during this period came predominantly from those classified as Buckets 1 and 2 in the Corrected Four Bucket Model. Between May 2017 and May 2019, 69% of shares sold by the WEIF by value came from Buckets 1 and 2, with 31% being sold from Buckets 3 and 4. This means that the WEIF was selling a disproportionate amount of its most liquid assets over this period.

4.4. Over the same time period, the shares bought by the WEIF were more heavily weighted towards those classified as Buckets 3 and 4. For example, on average:

(1) 8% of the monthly shares bought by the WEIF were classified as Bucket 1;

(2) 27% of the monthly shares bought by the WEIF were classified as Bucket 2;

(3) 29% of the monthly shares bought by the WEIF were classified as Bucket 3; and

(4) 36% of the monthly shares bought by the WEIF were classified as Bucket 4.

4.5. The result of Mr Woodford's investment activity was therefore that the WEIF was selling more of its more liquid shares and buying less liquid shares. This can be seen on a month by month basis in the following graphs for each bucket.

Figure 15: Net buying and selling activity for securities classified as Bucket 1

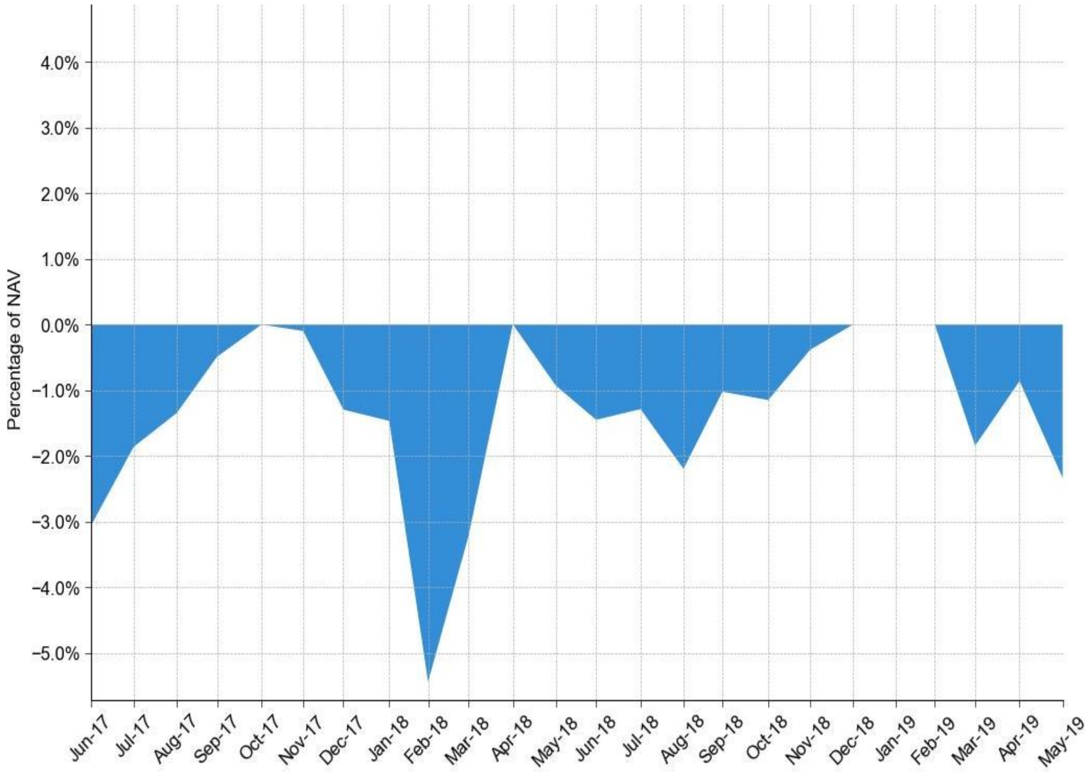


Figure 16: Net buying and selling activity for securities classified as Bucket 2

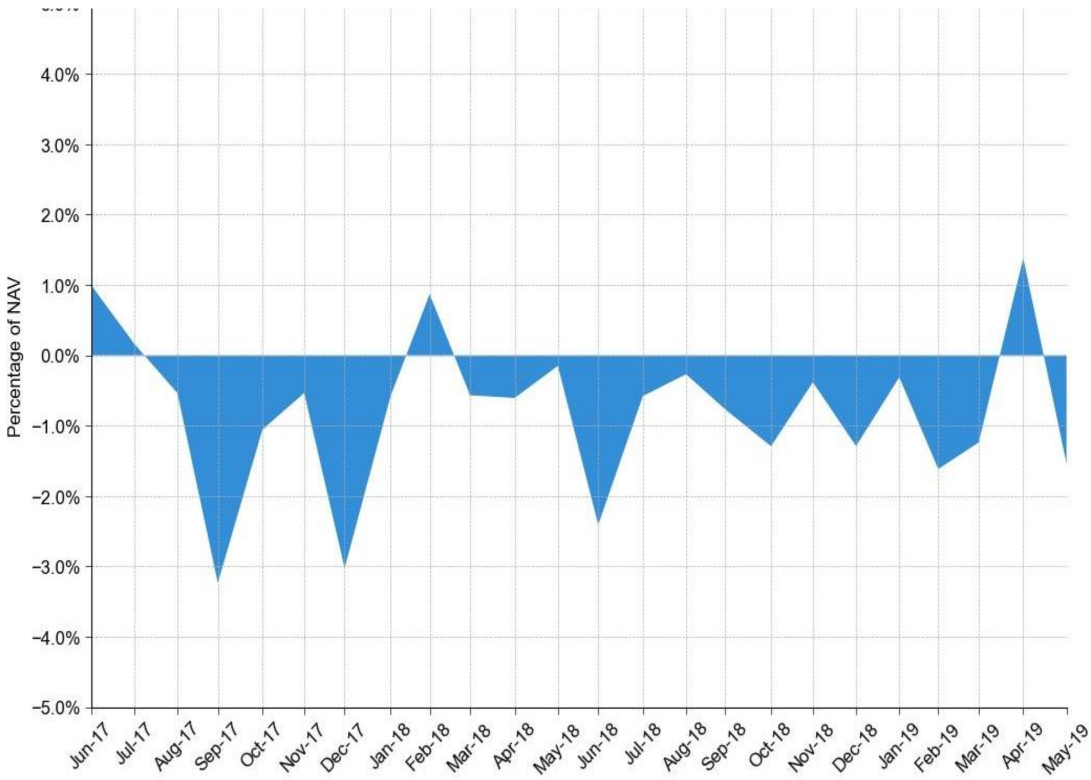


Figure 17: Net buying and selling activity for securities classified as Bucket 3

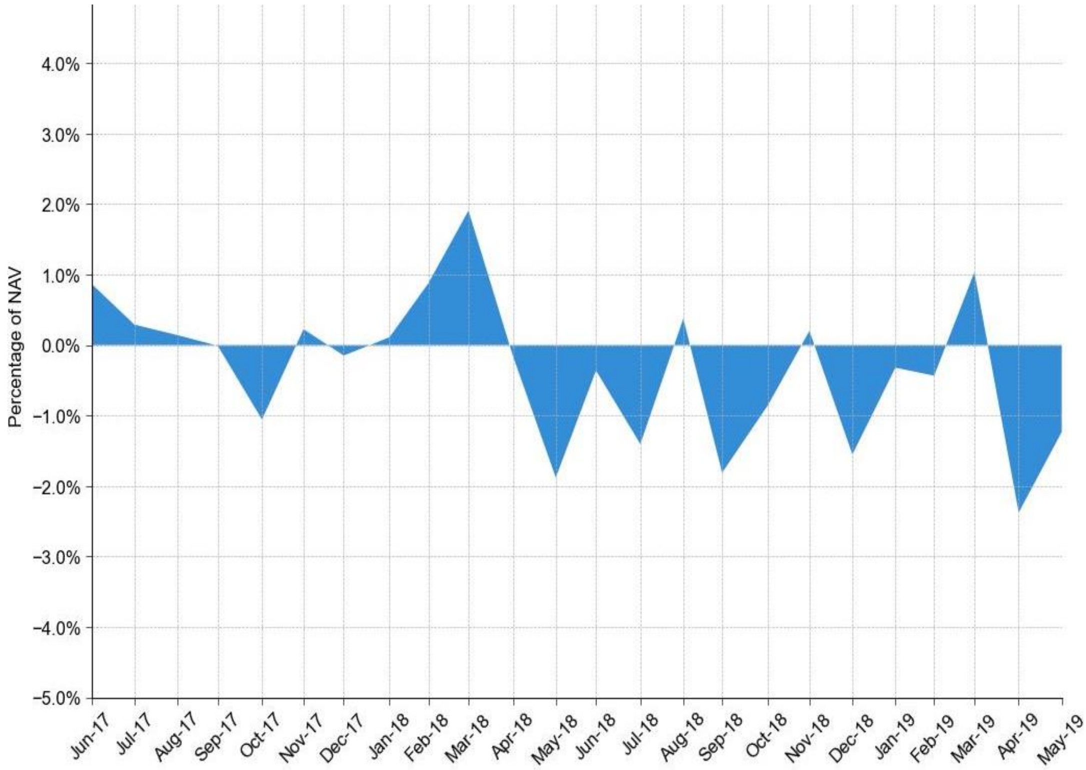
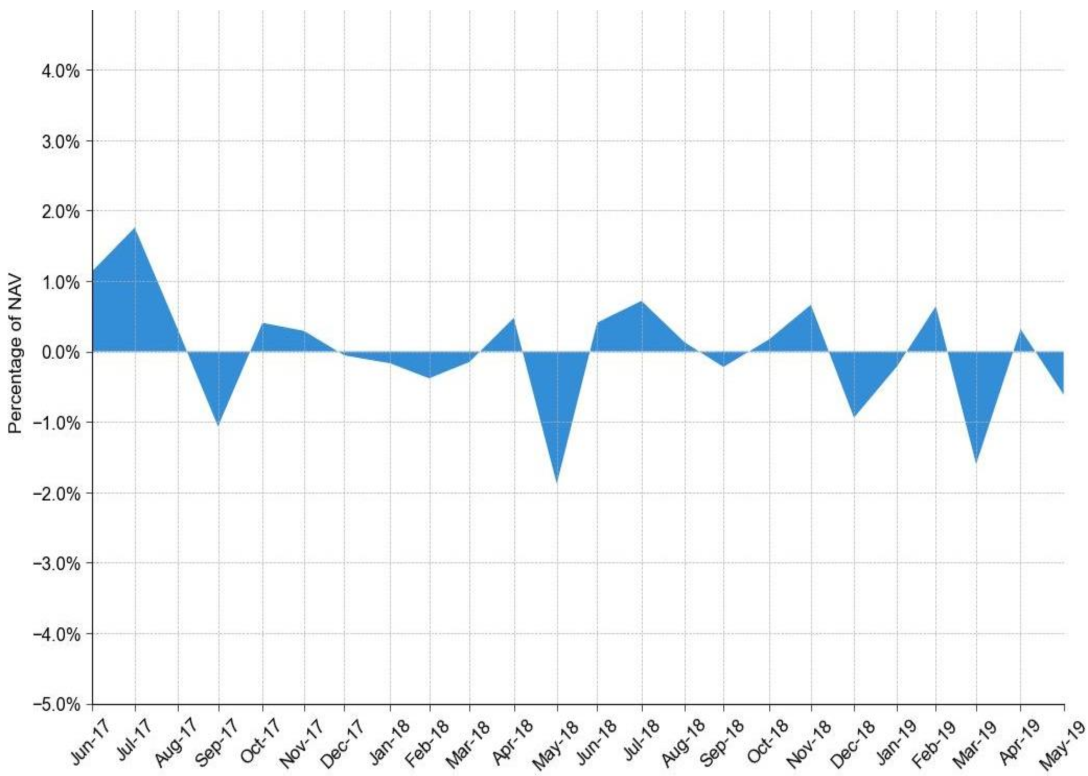


Figure 18: Net buying and selling activity for securities classified as Bucket 4



4.6. The above graphs show that Mr Woodford was selling shares from Buckets 1 and 2, buying shares for Bucket 3 up to April 2018 and predominantly selling shares thereafter, and more evenly buying and selling shares for Bucket 4. The net effect of this buying and selling activity was to reduce the liquidity of the WEIF as its more liquid shares were sold without being replaced proportionately through buying activity.

4.7. The graphs set out below illustrate that, by reference to the Corrected Four Bucket Model, Mr Woodford's buying and selling activity was the main factor behind the WEIF's deteriorating liquidity profile between May 2017 and May 2019, with the other factors (share performance and ADTV changes) generally having a less significant impact on liquidity. Where those other factors contributed to the decline in liquidity, Mr Woodford did not adjust his buying and selling to compensate for this deterioration.

Figure 19: The cumulative impact of each of the Relevant Factors in respect of Bucket 1

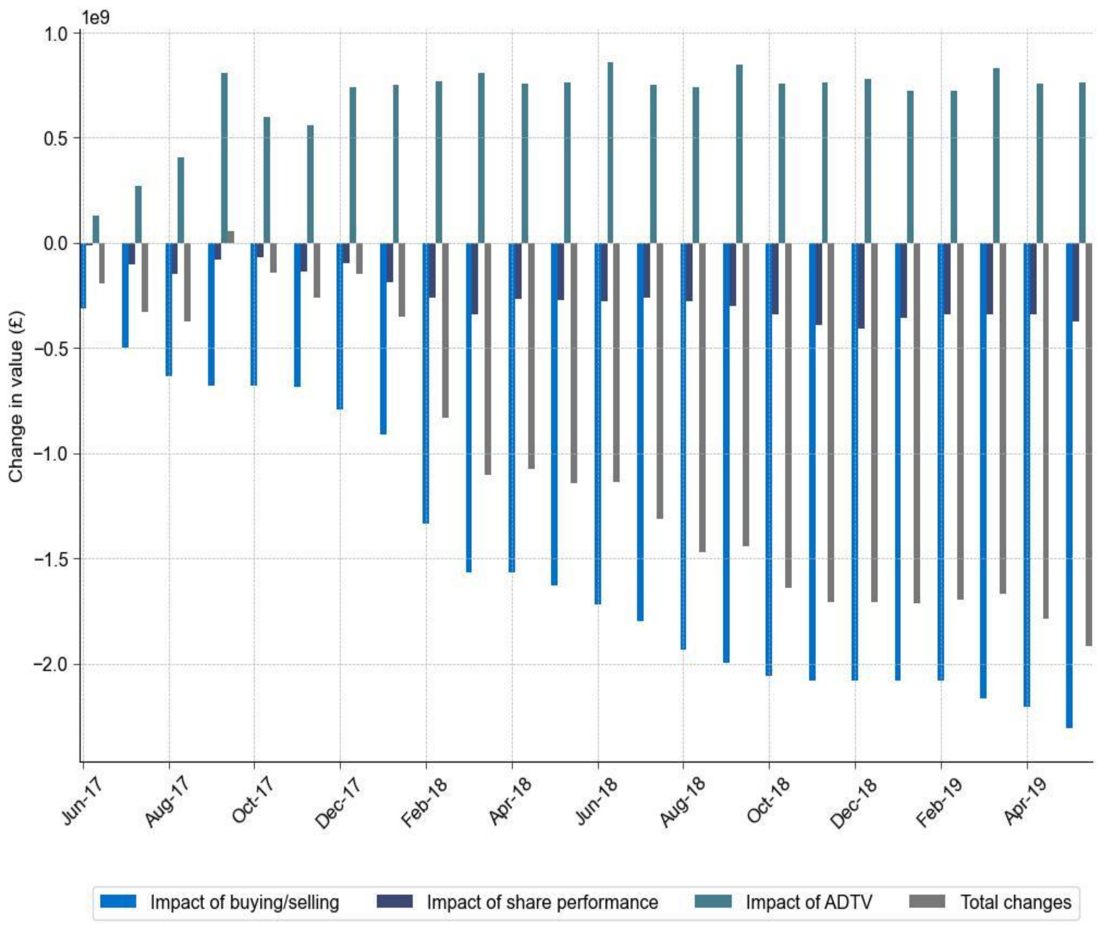


Figure 20: The cumulative impact of each of the Relevant Factors in respect of Bucket 2

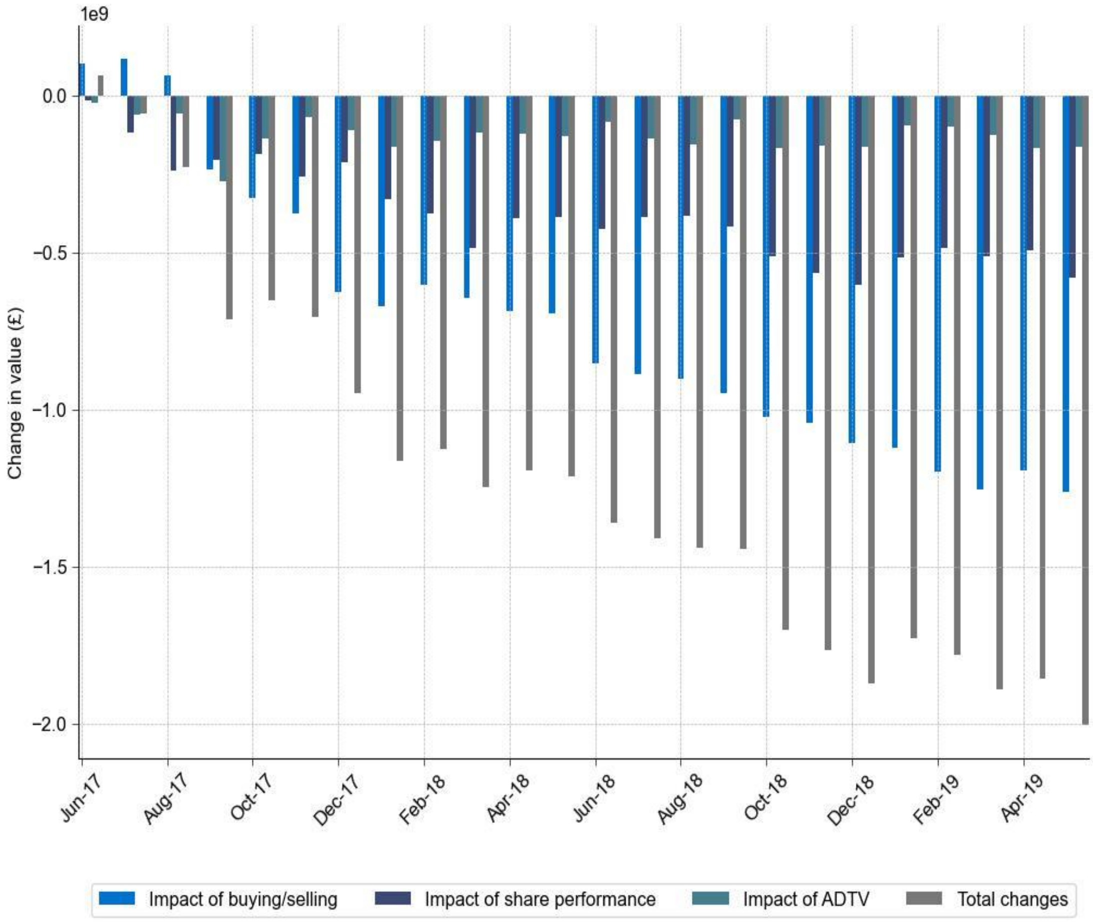


Figure 21: The cumulative impact of each of the Relevant Factors in respect of Bucket 3

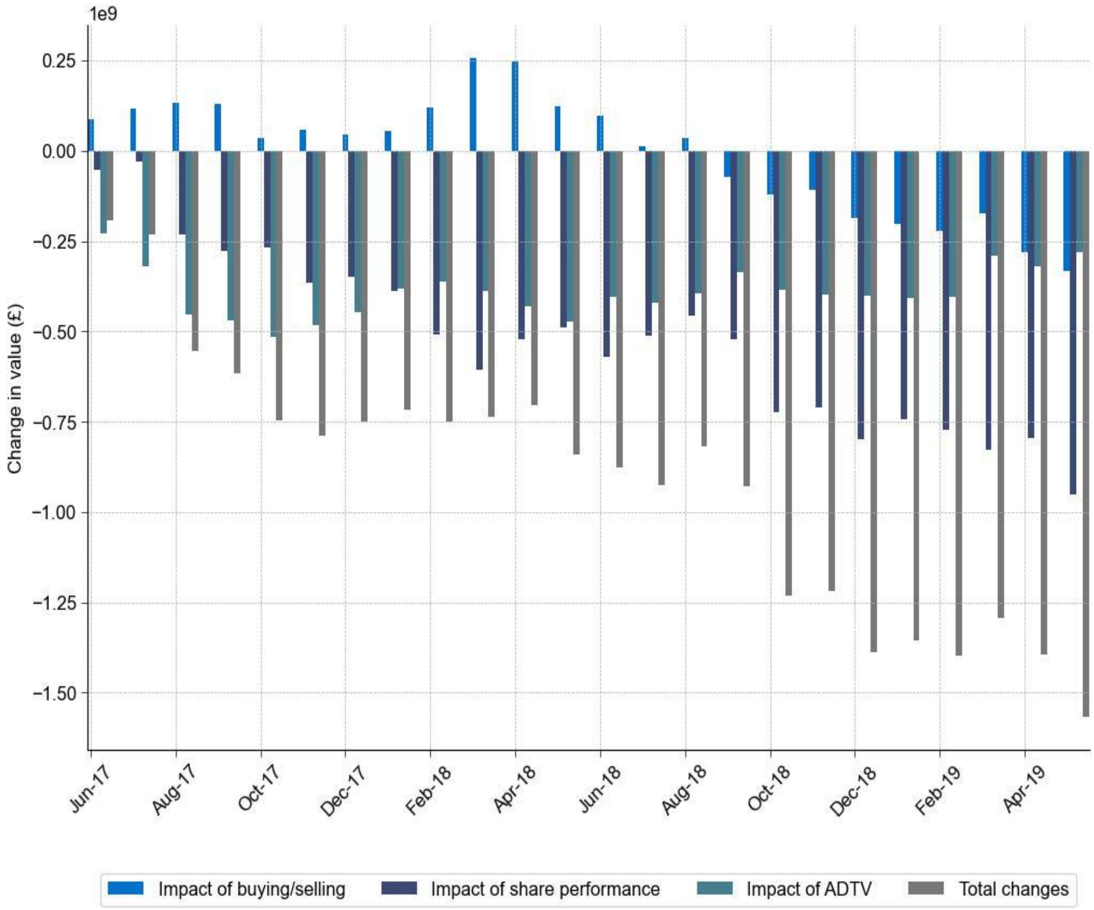
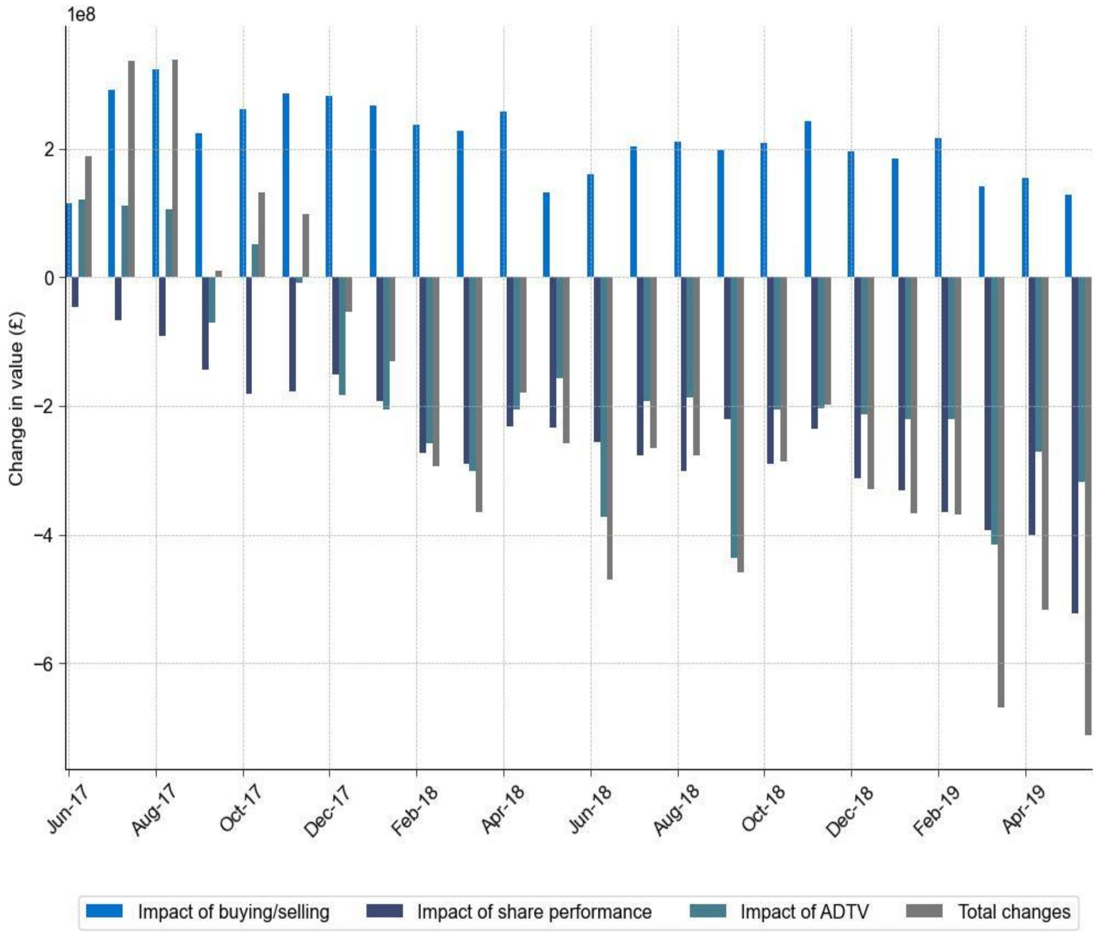


Figure 22: The cumulative impact of each of the Relevant Factors in respect of Bucket 4



<u>The Relevant Period</u>

4.8. The WEIF's liquidity deteriorated during this shorter period for the same reasons as above, namely because of a decline in the values of Buckets 1 and 2 relative to Buckets 3 and 4 largely due to Mr Woodford's buying and selling activity.

4.9. During the Relevant Period, the WEIF's share sales were relatively balanced across the four buckets, with the average monthly value of the shares sold from Buckets 1 and 2 and Buckets 3 and 4 amounting to 52% and 48% respectively.

4.10. Over the same time period, however, the shares bought by the WEIF were predominantly those classified as Buckets 3 and 4, to an even greater extent than was the case in the longer period between May 2017 and May 2019. For example, on average:

(1) 3% of the monthly shares bought by the WEIF were classified as Bucket 1;

(2) 20% of the monthly shares bought by the WEIF were classified as Bucket 2;

(3) 34% of the monthly shares bought by the WEIF were classified as Bucket 3; and

(4) 43% of the monthly shares bought by the WEIF were classified as Bucket 4.

4.11. This imbalance between Mr Woodford's buying and selling therefore caused the WEIF's liquidity to deteriorate during this period by increasing the amount of less liquid shares being held by the fund relative to its more liquid assets. This was the primary driver behind the deterioration in the WEIF's liquidity, with movements in share performance or ADTV changes having a more limited impact.

ANNEX B - RELEVANT STATUTORY AND REGULATORY PROVISIONS

RELEVANT STATUTORY PROVISIONS

1. Pursuant to sections 1B and 1D of the Act, one of the Authority's operational objectives is protecting and enhancing the integrity of the UK financial system.

2. The Authority has the power, pursuant to section 56 of the Act, to make a prohibition order against an individual prohibiting that individual from performing a specified function, any function falling within a specified description, or any function, if it appears to the Authority that the individual is not a fit and proper person to perform functions in relation to a regulated activity carried on by an authorised person, exempt person or exempt professional firm.

3. Section 66 of the Act provides that the Authority may take action against a person if it appears to the Authority that the person is guilty of misconduct and the Authority is satisfied that it is appropriate in all the circumstances to take action against him/her. Misconduct includes failure, while an approved person, to comply with a Statement of Principle issued under section 64 of the Act. The action that may be taken by the Authority pursuant to section 66 of the Act includes the imposition of a penalty on the approved person of such amount as it considers appropriate.

Statements of Principle and Code of Practice for Approval Persons

4. The Authority's Statements of Principle and Code of Practice for Approved Persons ("APER") have been issued under section 64A of the Act.

5. During the Relevant Period, Statement of Principle 2 stated:

   "An approved person must act with due skill, care and diligence in carrying out his accountable functions."

6. During the Relevant Period, Statement of Principle 6 stated:

   "An approved person performing an accountable higher management function must exercise due skill, care and diligence in managing the business of the firm for which they are responsible in their accountable function."

RELEVANT REGULATORY PROVISIONS

7. The Authority's policy for imposing financial penalties

8. In determining the level of financial penalty to be paid in respect of conduct occurring on or after 6 March 2010, the Authority has had regard to the provisions of the Decision Procedure and Penalties Manual ("DEPP"), particularly DEPP 6.5 and 6.5B.

9. In exercising its power to make a prohibition order, the Authority must have regard to guidance published in the Handbook and in Regulatory Guides, such as EG. The relevant main considerations in relation to the action specified above are set out below.

Fit and Proper Test for Approved Persons

10. The Fit and Proper Test for Approved Persons and specified significant-harm functions ("FIT") sets out the criteria for assessing the fitness and propriety of a candidate for a controlled function. FIT is also relevant in assessing the continuing fitness and propriety of an approved person.

11. FIT 1.3.1G provides that the Authority will have regard to a number of factors when assessing the fitness and propriety of a person. The most important considerations will be the person's honesty, integrity and reputation, competence and capability, and financial soundness (FIT 1.3.1BG).

12. FIT 2.1.1G provides that in determining a person's honesty, integrity and reputation, the Authority will have regard to all relevant matters including, but not limited to, those set out in FIT 2.1.3G.

13. FIT 2.2.1G provides that in determining a person's competence and capability, the Authority will have regard to all relevant matters including, but not limited to, relevant training and competence requirements and their suitability based upon their experience and training.

The Enforcement Guide

14. The FCA's policy in relation to exercising its power to issue a prohibition order is set out in the Enforcement Guide ("ENFG").

15. ENFG 5.1 explains the purpose of prohibition orders in relation to the Authority's statutory objectives.

16. ENFG 5.2 sets out the Authority's general policy on making prohibition orders. In particular:

   a. ENFG 5.2.1G states that the Authority will consider all relevant circumstances, including whether enforcement action should be taken or has been taken against that individual by the Authority, or other enforcement agencies or designated professional bodies, in deciding whether to make a prohibition order;

   b. ENFG 5.2.3G states that the Authority has the power to make a range of prohibition orders depending on the circumstances of each case and the range of regulated activities to which the individual's lack of fitness and propriety is relevant; and

   c. ENFG 5.2.4 states that the scope of a prohibition order will depend on the range of functions which the individual concerned performs in relation to regulated activities, the reasons why they are not fit and proper and the level of risk which they pose to consumers or the market generally.

ANNEX C

Neil Woodford's Representations

1. A summary of the key representations made by Mr Woodford, and of the Authority's conclusions in respect of them (in bold type), is set out below.

Responsibilities

2. COLL applied to Link, as the fund's ACD, and in part to the depositary. COLL imposes specific rules and obligations in respect of liquidity on an ACD, including establishing and implementing procedures to enable the ACD to assess a fund's exposure to liquidity risk[1]. Chapter 5 of the COLL rules do not apply to the investment manager of a fund, and therefore did not apply to WIM. It is, therefore, the regulatory responsibility of the ACD to manage the liquidity risk, not the regulatory responsibility of the investment manager.

3. The IMA (which did not in itself impose regulatory responsibilities) applied to WIM, and Mr Woodford states that the Authority's case against him rests upon the application of the IMA, and its contractual terms.

4. Whilst, under the IMA, WIM was contractually required to perform various delegated responsibilities in respect of liquidity management, the terms of the IMA make clear that the exercise of those contractual responsibilities was subject to Link's oversight and monitoring, and could be overridden by Link's instruction. This reflected the regulatory position that Link, as the ACD, retained regulatory responsibility and was responsible for overseeing the conduct of WIM, and was intended to ensure that the investment manager was undertaking activities in a way which did not conflict with COLL. The responsibilities that an ACD has, before any contractual delegation, remain unaffected, and an ACD remains fully responsible for discharging all of its obligations under the regulatory system if it outsources crucial or important operational functions or any relevant services and activities[2]. There is nothing in COLL to suggest that a delegate has an obligation to question and challenge its ACD. Rather, it is the ACD that holds the investment manager to account. Mr Woodford considers that the case of *Arch Financial Products LLP, Robin Farrell and Robert Addison v Financial Conduct Authority*[3] offers no material assistance to the matters being considered in this case, as its facts are materially distinct and can be distinguished.

5. In addition, Link's policies and procedures and its governance framework reflected its understanding of its obligations and powers as an ACD, its relationship with its investment manager and its approach to risk management, in discharge of its COLL obligations, and made it clear that (1) Link did not delegate the related investment management activity of risk management, (2) Link accepted that it was ultimately responsible for the risk management of all of its funds, and (3) it retained overall regulatory responsibility for all the delegated activities of its funds. Link's understanding of the parties' obligations also reflects guidance issued by the Investment Association.

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[1] For example: see COLL 6.12.5R; COLL 6.12.9R and COLL 6.12.11R.
[2] SYSC 8.1.6.
[3] [2015] UKUT 0013 (TCC).

6. Link exercised its ultimate control of (and responsibility for) the matters under COLL in a number of ways, including designing and applying the Four Bucket Models and imposing limits ("the Limits")[4] and triggers, and issuing instructions to WIM to enable Link to oversee and monitor WIM effectively. All the relevant parties understood that the Limits represented the parameters of an acceptable liquidity profile of the fund.

7. Link's involvement in decision-making about activities which had been contractually delegated under the IMA amounted to a withdrawal of delegation. WIM was required to manage the fund within the framework and limits set by Link, but beyond that Link had exercised its authority in imposing the measures and corresponding limits. WIM was not responsible for testing and challenging its ACD (who itself was tasked with overseeing and challenging the activities of WIM).

8. WIM was not merely entitled to, but required to, defer to its ACD on matters which fell within COLL, both under regulation and under contract. Link had itself highlighted that it was its decision, and not one for the fund manager, to adopt a particular approach, or change to a different approach. Link was a professional ACD, with 175 funds under its management during the Relevant Period, and WIM had been encouraged by the Authority to have Link as its ACD when applying to be authorised. WIM did not act unreasonably by adopting and applying the liquidity framework and limits set out by Link, and by complying with the contractual terms of the IMA. Given the relationship between Link and WIM, Mr Woodford should not, as a matter of principle, be liable for any alleged defects of that liquidity framework, and should not be sanctioned for WIM having allegedly failed to challenge and oversee Link in respect of its implementation.

9. Mr Woodford considers that the Authority's position in respect of his responsibilities is based on its erroneous interpretation of WIM's policies and procedures, and on his position as "Risk Owner". Whilst Mr Woodford accepts that he had responsibility for monitoring and managing the liquidity of the WEIF on a day-to-day basis, and in accordance with the investment strategy communicated to investors, he did so by ensuring that it remained within the pre-defined limits of Link's liquidity framework. However, his responsibility did not extend to testing or challenging either the metrics or related limits.

10. Mr Woodford was not a member of three oversight functions, including the Oversight Board, and his exclusion from these bodies represented a deliberate approach by WIM to ensure that the governance structure of the firm imposed a clear delineation between the control functions and the investment manager. Mr Woodford was not invited to be involved in discussions with Link and was not consulted on changes that were made to the liquidity framework. Mr Woodford's understanding of his role was consistent with the contemporaneous views and approach of WIM's control functions (reflecting the understanding of the business), how the individuals were operating during the Relevant Period, and the terms of WIM's own policies and procedures. No-one within WIM thought that its own Chief Investment Officer was responsible for challenging and overseeing its ACD's liquidity risk framework. Mr Woodford's role was to manage the money within the Limits set by the ACD.

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[4] The Limits: (1) Initial Four Bucket Model: above 70% for Buckets 3 and 4 combined; and above 35% for Bucket 4; (2) Revised Four Bucket Model: from May 2018: above 70% for Buckets 3 and 4 combined; above 35% for Bucket 4; and below 5% for Bucket 1.

11. Any responsibility that Mr Woodford had within WIM for the management of the fund's liquidity risk was derived from the contractual obligations that WIM owed to Link under the IMA. Mr Woodford's views were consistent with those of the control functions who did not believe that WIM (or Mr Woodford) had any responsibility to challenge or question Link's liquidity framework or the Limits that it had imposed, given Link's function as the ACD, having ultimate responsibility for the operation of the fund. The Authority's suggestion that Mr Woodford was required to test and challenge the fund's ACD does not take proper account of how WIM's business operated, or the relationship between an ACD and an investment manager, especially in the context of liquidity management, under the regulatory framework. It is also contrary to the accepted practice within the industry and comments made by the Authority both made in public and in internal correspondence.

12. Mr Woodford's understanding of his responsibilities and related conduct was not "defective" but consistent with the expectations of WIM and how the business was operating at the time. Taking into account all the circumstances, Mr Woodford's understanding of his responsibilities was a reasonable one and not a defective one.

13. The Authority has referenced WIM's key responsibilities in respect of liquidity risk, as set out in the IMA, at paragraph 4.8 of the Decision Notice. Taken together, the provisions imposed very broad obligations on WIM in relation to liquidity management, including to: (1) exercise its investment discretion compatibly with the provisions of Chapter 5 of COLL, (2) manage liquidity in a manner that WIM (not Link) reasonably regarded as being appropriate to the WEIF and consider, on an ongoing basis, the liquidity profile of the assets in the WEIF in relation to overall liquidity requirements, (3) maintain risk management processes which ensured that the WEIF was managed in a manner that enabled both the WEIF and Link to comply with regulatory requirements, and (4) regularly review the WEIF's portfolio to ensure that it was being managed in accordance with its contractual requirements in Clause 2.2 of the IMA. WIM had, therefore, under the IMA, been delegated substantial responsibility for the management of liquidity. The IMA had granted WIM the right, subject to certain restrictions, exclusively to buy, sell and deal in the investments forming the WEIF. WIM was the only party with the practical ability to execute the active steps necessary to affect the liquidity profile of the WEIF. Link had no ability itself to deal in the WEIF's assets.

14. Whilst it is accepted by the Authority that the IMA did not impose regulatory responsibilities on WIM itself, the Authority considers that the contract is of fundamental importance in assessing WIM's compliance with the standards set out in Principle 2. The Authority instructed an expert to opine on the duties and responsibilities of a fund manager (the "Fund Management Expert"). The Fund Management Expert stated that "*it would not be reasonable or consistent with industry practice for the fund manager to make investment decisions solely by reference to liquidity triggers and limits*". He added that "*the fund manager was also obliged to ensure appropriate risk management, including the ongoing structure of the fund so that it could continue to meet its liquidity requirements into the future. In order to do so, the fund manager would need to take into account broader liquidity considerations*".

15. **The Authority also considers that the case of *Arch Financial Products LLP, Robin Farrell and Robert Addison v Financial Conduct Authority*[5] supports this expert opinion. The Tribunal stated that *"a reasonable fund manager would take into account the liquidity risk of his chosen investments as an aspect of investment risk*[6]*"* and that the reasons for doing so were *"obvious*[7]*".* The risks deemed obvious by the Tribunal[8] were equally obvious in respect of the WEIF, including it being a very large, open-ended fund and predominantly beneficially owned by retail investors. Accordingly, the Authority considers that the decision in *Arch Financial Products LLP* is a relevant precedent for the requirement for investment managers, operating under a delegated mandate, to exercise due skill, care and diligence.**

16. **The Authority does not consider that Link's involvement in decision-making about activities (including designing and applying the Four Bucket Models and imposing the Limits) which has been contractually delegated to WIM under the IMA, can possibly amount to a withdrawal of delegation, as suggested by Mr Woodford. As a matter of contract, Link's instruction (such as it was) in May 2018 (regarding changes to the liquidity framework as set out in Section D2 of the Decision Notice) did not represent a "withdrawal of delegation" under the IMA or remove or otherwise alter WIM's responsibilities for managing the WEIF's liquidity. Any such proposed withdrawal would require, inter alia, a modification by agreement, specifying that a change to the relationship was being effected and what the consequent responsibilities would be. This did not happen and the contractual position did not change.**

17. **In addition, there is no evidence to suggest that this was either WIM's or Link's understanding of the position at the time. The communication between the parties during this period (shortly before the start of the Relevant Period) is indicative of WIM seeking to use its professional judgement with Link in a way which is not reflective of the suggested removal of WIM's responsibilities. In any event, in the opinion of the Fund Management Expert, there is nothing in the mere adoption of the Limits that would serve to exclude or withdraw WIM's responsibilities when making investment decisions within the Limits.**

18. **The IMA therefore delegated the investment management of the WEIF to WIM and required WIM to meet the relevant regulatory requirements (including COLL) when managing the WEIF's investments. The delegation did not absolve Link of its regulatory responsibilities as the ACD of the fund; but neither did Link's retention of those responsibilities mean that WIM was freed from its own regulatory responsibilities when managing the WEIF pursuant to the IMA. Both Link and WIM were responsible for complying with their own respective regulatory responsibilities. WIM had**

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[5] [2015] UKUT 0013 (TCC). This case also involved the actions of an investment manager operating under an apparently similar delegated mandate.
[6] Paragraph 414.
[7] Paragraph 415.
[8] Paragraph 415: The reason was *"that The UK Funds offered daily redemptions with settlement in cash within four days so a degree of liquidity would be necessary to meet anticipated redemptions. In volatile markets, increased amounts of cash may be held until the markets settle. These requirements were expressed in the various prospectuses for the UK Funds during the Relevant Period".*

its obligations and responsibilities under the IMA, which it had to discharge. WIM had independent responsibilities for liquidity aside from adhering to the Limits, and this is consistent and compatible with what the applicable IMA and policies and procedures state, together with the parties' understanding at the time.

19. Mr Woodford had his own set of personal obligations in respect of liquidity risk. These derived from WIM's policies and procedures under which Mr Woodford was the risk owner for investment risk including liquidity risk, his role as the fund manager of the WEIF and Head of Investment, his regulatory roles and his role as a member of the IOC, the Management Team and the Management Board. Mr Woodford had responsibilities for liquidity which went beyond adhering to the Limits set by others. In addition to Mr Woodford being explicitly and directly responsible for liquidity risk under the relevant policy, responsibility for liquidity risk flowed inevitably from his role as fund manager for the WEIF. Mr Woodford headed the Investment Team and was the person who made the investment decisions which produced the fund's liquidity profile.

20. Mr Woodford was one of two directors of WIM, and by virtue of founding WIM, which relied upon his fund management reputation, he was the dominant director and majority shareholder (even if he left day-to-day operational matters to the other director, WIM's Chief Executive). A senior manager has a duty to inform himself and take proactive steps to manage risks, particularly where the risks relate to a business area of fundamental importance and for which he is responsible. In any event, a responsible professional should not disregard risk because he does not consider it to be part of his role. The Authority does not consider that the asserted understanding of other individuals (referenced at paragraphs 10 and 11 above) is a defence, but in any event, the Authority notes that Mr Woodford's assertion conflicts with comments made by individuals in interview with the Authority.

21. Mr Woodford's narrow formulation of his responsibilities in his representations is inconsistent with his conduct in practice during, and before, the Relevant Period. Mr Woodford did not treat himself as bound to accept the Limits in an unquestioning fashion as has subsequently been suggested, and he sought to challenge those limits where he regarded them as an obstacle to pursuing his chosen investment strategy (examples are referenced within the Decision Notice at paragraphs 4.96, 4.100 and 4.108). The Authority does not accept that its view of a fund manager's responsibilities is contrary to accepted practice within the industry or contrary to comments made by the Authority: the Fund Management Expert opined that it was not reasonably open to Mr Woodford to proceed on the basis that, provided that he remained within the applicable limits, he could disregard all other considerations of liquidity when making investment decisions. Accordingly, Mr Woodford held a defective and unreasonably narrow understanding of his responsibilities in respect of liquidity risk.

The liquidity risk framework

22. The liquidity risk framework had been designed by Link and had set and imposed corresponding limits on the fund's liquidity against those measures, namely, Buckets 3 and 4 securities were not permitted to be larger than 70% of net asset value and there was to be a specific cap on Bucket 4 of 35%. The Authority was informed that WIM had been instructed of these corresponding limits. Link and the Authority were engaged in frequent dialogue during, and after, the imposition of the Four Bucket Model and WIM was kept updated. It was reasonable for WIM and Mr Woodford to assume that the actions taken by the ACD were known and acceptable to the Authority.

23. The Revised Four Bucket Model's changes, namely, (1) changing the ADTV period from the lower of 5 and 20-day ADTV at March 2017 to a 12-month rolling average; and (2) capturing trades from all exchanges rather than the primary exchange only, represented an improvement on the accuracy of the measurement of liquidity. Neither WIM nor Mr Woodford sought to change the framework and nor were they the proximate or direct cause of the changes. The changes to the framework arose following discussions between Link and the control function within WIM to understand the consequences of the fund crossing the Limits.

24. Mr Woodford observes that the Authority considers that the components used to measure the liquidity during the Relevant Period, namely, (1) the application of a 100% Participation Rate and the acceptance of Link's offsetting assumption ("the Offsetting Assumption")[9]; and (2) the use of the 12-month ADTV, were unreasonable. Whilst Mr Woodford accepts that WIM had responsibility in respect of the "day-to-day" management (i.e. measuring the fund against the particular model imposed and reacting to any crossing of the triggers and breach of the Limits) it was not required to test the model produced by its own ACD. The use of the 100% Participation Rate, and its justification by reference to the Offsetting Assumption, was Link's decision. It was not WIM's (let alone Mr Woodford's) decision. Link had applied this feature across all of its 175 funds. Link's approach had been approved by its governance structures and committees, and WIM knew that the Authority and the fund's depository had full visibility of Link's approach and its use of a 100% Participation Rate, justified by the Offsetting Assumption.

25. The Offsetting Assumption was not so patently perverse as to have prompted the Authority to demand that Link either produce evidence to justify the assumption or otherwise stop applying a 100% rate. Both WIM and Mr Woodford were never made aware of any concerns that the Authority may have had with the approach. Link carried on using the 100% Participation Rate until at least the end of 2020/beginning of 2021. The depository, tasked with overseeing the ACD, and which was also subject to the COLL rules, did not question or challenge the approach.

26. The Authority instructed an expert to opine on the reasonableness of the liquidity profile of the WEIF during the Relevant Period ("the Liquidity Risk Expert"). WIM was aware that Link, the Authority and the depository all had far greater visibility of the risk management practices adopted over the industry at large, and WIM

[9] Link's Offsetting Assumption: the use of a 100% Participation Rate with the adoption of the Full Allocation Approach. Link adopted these two assumptions in the belief that the Full Allocation Approach and the 100% Participation Rate offset each other.

would not have been able to have carried out the comparison forensic analysis against other funds as has been undertaken by the Liquidity Risk Expert. In any event, if WIM had challenged Link about its use of a 100% Participation Rate, it is highly likely that Link would have sought to justify the measure in the same way it did to the Authority, by reference to the Offsetting Assumption, and the challenge would have had no effect. Accordingly, it was not unreasonable for WIM to decide to adopt Link's Offsetting Assumption and not to challenge or test it in the way the Authority has alleged.

27. The decision to adopt a 12-month ADTV period was Link's decision, not WIM's. No-one within Link, the Authority or the depository questioned the use of a 12-month period for calculating the ADTV. This approach was not inconsistent with any related regulatory guidance at the time. There has been no analysis by the Authority as to whether the use of a different metric would have affected the measurement of the fund's liquidity.

28. WIM and Mr Woodford did not expect or envisage that anyone would challenge Link's use of a 100% Participation Rate, test the Offsetting Assumption, or challenge the adoption of a 12-month ADTV period. There is no evidence that anyone within WIM raised with Mr Woodford the use of these measures, or that they expected him personally to test or challenge the approach as part of his responsibilities as risk owner. Testing the Offsetting Assumption was technical and complex, and it is inconceivable that Mr Woodford (or any other fund manager) would be expected to have carried out a similar analysis at the time whilst carrying out his day-to-day tasks.

29. Mr Woodford was far removed from the development and implementation of Link's Four Bucket Models. When Link decided to impose the Limits as part of the Four Bucket Model, Mr Woodford was not consulted by Link or anyone else about their imposition, let alone their calibration, and was not included in any communications connected with this decision. No-one at WIM or Link expected Mr Woodford to comment on or review the changes.

30. These models were Link's measures, and the 100% Participation Rate justified by the Offsetting Assumptions, was applied by Link to its funds before the start of the Relevant Period. There was no reason for Mr Woodford to believe that he should be testing or challenging the models that the fund's ACD had developed, applied and communicated to the Authority as the principal measure and which was overseen by the depository. This perspective was entirely consistent with the view of the business and the regulatory framework in which any ACD and investment manager operated, and the express contemporaneous opinion of the fund's ACD in respect of the liquidity framework.

31. The Limits were set by Link, clearly communicated to the Authority and imposed upon WIM. Whilst Link had delegated, under contract, its responsibilities for liquidity risk, it had the right to impose on WIM a set of liquidity metrics and measures. WIM was required to accept instructions from its ACD, who retained regulatory responsibility. WIM was not required to oversee the instructions of the institution whose function was to monitor and oversee it. There was nothing inherently wrong about where the Limits were set. The Limits that had been originally imposed, and which had been communicated to the Authority, continued to apply after aspects of the Four Bucket Model were modified. Those modifications, communicated to the Authority in October 2018, did not fundamentally change the

model or how it operated. The Authority did not raise concerns with these changes at the time.

32. Mr Woodford was further removed from the process and discussions by which Link imposed the Limits on WIM. Whilst Mr Woodford was aware of the liquidity framework, he had no reason to question whether the Limits were inappropriately calibrated. Mr Woodford was not responsible for taking reasonable steps to ensure that the triggers and limits were properly set. Mr Woodford had never played a role in setting or testing the liquidity triggers and limits. His role as risk owner of investment risk did not encompass the testing of limits. Mr Woodford would not have been able to test or calibrate limits. In addition, Mr Woodford considers that it would have been inappropriate for him to have been involved in setting the acceptable parameters of the fund's liquidity, given it would have amounted to him *"marking his homework"*.

33. Everyone within WIM interpreted the Limits as an instruction from their ACD, and adopting the Limits was a reasonable means by which WIM was able to discharge its contractual duties under the IMA. No-one at WIM considered that Mr Woodford was responsible for the Limits, or expected that he would test or review them. WIM's control functions were communicating with Link about the liquidity framework, including the Limits, and Mr Woodford was not involved in these discussions. Whilst WIM's Risk function tested the Limits, Mr Woodford was not involved in that process, or informed about it, or expected to be overseeing it.

34. WIM and Mr Woodford believed that a reasonable and acceptable liquidity profile for the fund was represented by the Limits. It was reasonable to assume that the ACD would not have set Limits that were outside an acceptable liquidity profile. Believing that the Limits represented the parameters of an acceptable liquidity profile, it was reasonable for WIM and Mr Woodford to manage the sustained redemptions in a way that kept the fund within the Limits imposed by Link, and WIM and Mr Woodford worked hard to do so. Mr Woodford considers that any investment decision-making, regarding the selling and buying of securities, should be assumed to be reasonable, unless it resulted in the fund being outside the Limits set by the fund's ACD.

35. The Liquidity Risk Expert provided clear, uncontested expert opinion evidence that the liquidity profile of the WEIF was unreasonable throughout the Relevant Period, and had been allowed to deteriorate significantly. WIM and Mr Woodford have not sought to demonstrate that the liquidity profile *was* reasonable or appropriate.

36. The Authority considers that it was wrong in principle for WIM and Mr Woodford to treat the Limits as the definitive benchmark of whether liquidity in the WEIF was reasonable and appropriate. The Fund Management Expert stated that it would not be reasonable or consistent with industry practice for the fund manager to make investment decisions solely by reference to existing liquidity triggers, limits and metrics. In addition, it was not reasonable for WIM and Mr Woodford to make the assumption that the applicable limits set by Link reflected an acceptable liquidity profile for the WEIF.

37. In any event and as a matter of fact, the parties did not treat compliance with the Limits as determinative of an acceptable liquidity profile during

the Relevant Period. The Limits under the Four Bucket Model were considered by the parties at the time as being part of a broader and multi-faceted approach for managing the WEIF's liquidity including responding to periods of stress by taking action before the Limits were breached. They were not *the determinant* of an acceptable liquidity profile in the manner that Mr Woodford suggests. The Authority observes that the Limits were initially proposed in May 2018, following discussion between Link and WIM, as an extraordinary measure to seek to ensure that the WEIF's liquidity did not deteriorate further.

38. WIM and Mr Woodford felt able and empowered to challenge and change the liquidity risk framework when it suited them. They did so in order to loosen the constraints on Mr Woodford, so that he could maintain his preferred investment strategy. WIM sought to revise the Limits, demonstrating that it did not simply accept them passively as has now been suggested. Revision of the Limits was sought by WIM at the very point when those constraints were breached, or close to being breached.

39. The Authority observes that Link and WIM's relationship was clearly fractious during the Relevant Period, as demonstrated by the correspondence between the parties, in part because they disagreed about liquidity management. The Authority considers that WIM's image of itself, as an investment manager dependent on the directions from its ACD, is not borne out by the facts. The Authority notes from the correspondence that whenever Link did attempt to communicate its concerns with WIM directly, it would frequently be met with intransigence or obstinacy.

40. The Authority refers to two particular examples of WIM's behaviour which demonstrate that WIM was not a purely passive recipient of the liquidity risk framework.

41. Firstly, the changes (instigated by WIM) from the Initial Four Bucket Model to the Revised Four Bucket Model in September 2018[10]: the effect of the changes, at a time of the WEIF's worsening liquidity profile and the consequent constraints of the liquidity framework upon Mr Woodford's investment decisions, was to significantly improve the appearance of the liquidity profile without any change in the underlying assets held by the WEIF. The deterioration in the WEIF's liquidity at this point should have put WIM on notice that it needed to address the fund's underlying liquidity. Rather than doing this, WIM preferred to push to make changes to the framework to paint a more favourable *appearance* of liquidity.

42. Secondly, in March/April 2019[11], at the same time as the WEIF was crossing multiple triggers and breaching multiple limits under the liquidity risk framework and Link was pressing WIM to take urgent action to improve the WEIF's liquidity, WIM began to explore further changes to the liquidity risk framework. These were clearly prompted by Mr Woodford's desire to pursue and prioritise his investment strategy unconstrained by any liquidity concerns. WIM's proposed changes (which were not accepted

[10] See paragraph 4.47 of the Decision Notice.
[11] See paragraph 4.104 of the Decision Notice.

by Link) would have once again improved the *appearance* of the WEIF's liquidity profile by moving it away from the Limits under the Revised Four Bucket Model, but without affecting the underlying liquidity of the assets.

43. Despite WIM having independent obligations in respect of liquidity there is no evidence of WIM ever seeking comfort from Link that the metrics being used were sufficiently cautious or prudent. WIM frequently challenged the metrics in order to release constraints; but there is no evidence of WIM ever asking whether the assumptions were sufficiently prudent. Even by reference to the Limits, there was clear cause for concern. The Authority notes the opinion of the Liquidity Risk Expert: "*Link and WIM clearly reported a deteriorating liquidity position…yet many of the thresholds…were not consistently breached until 2019…which is a further indication that their thresholds were not set at appropriate levels*".

44. This was in the context of continual, and increasing, warning signs coming from Link and other parties. These warning signs were repeatedly ignored (see below).

45. Mr Woodford knew that the Limits applied were based on a 100% Participation Rate (an imprudent assumption). This was not a reasonable assumption to make, and is implicitly recognised by the acknowledged need to "*offset*" it with the Full Allocation Approach (a conservative assumption). The Liquidity Risk Expert opined that the 100% Participation Rate assumption was not reasonable, and that the Full Allocation Approach did not appear to be reasonable from a risk management perspective. The Liquidity Risk Expert also opined that, had WIM interrogated whether this offsetting worked, it would have identified that it would not have worked. No explanation has been advanced by Mr Woodford as to why it was appropriate to "*offset*" rather than simply make realistic assumptions in the first place. The unrealistic and imprudent assumption embodied in the 100% Participation Rate ought to have put Mr Woodford on notice that he could not place faith in the Limits that he now asserts he was entitled to believe were reasonable and appropriate. The Authority considers that Mr Woodford knew, or should have known, that the 100% Participation Rate assumption was not reasonable at the time, and considers that realistic assumptions should have been made in the first place. In any event, the Liquidity Risk Expert opined that these assumptions did not (or did not sufficiently) offset each other.

46. The Authority considers that the assessment of the reasonableness of the WEIF's liquidity profile would not have needed the forensic exercise conducted by the Liquidity Risk Expert; WIM held itself out as an expert manager of investments, was headed by Mr Woodford, a highly experienced investment manager, and accepted monies from hundreds of thousands of retail customers on that basis. The Authority had queried the use of a 100% Participation Rate with Link before the Relevant Period but was reassured that the 100% Participation Rate was an initial calculation and that additional liquidity analysis would be used. The Authority is unaware whether WIM was made aware of the concerns that the Authority had conveyed to Link.

47. Accordingly, the Authority considers that the Limits were not determinative of an acceptable liquidity profile for the WEIF. To the extent that Mr Woodford treated them as such (which is not accepted by the Authority), he acted unreasonably and without due skill and care in simply assuming that they were set correctly and failed to satisfy himself in accordance with his responsibilities.

<u>Investment Strategy and its impact</u>

48. The Authority instructed an expert to opine on the factors which caused the deterioration of the fund's liquidity during the Relevant Period ("the Investment Decisions Expert"). Mr Woodford notes that the Investment Decisions Expert's conclusion, namely, that the principal reason for the deterioration was due to the investment decisions of WIM and Mr Woodford (as opposed to, for example, the performance of the securities held by the fund across the buckets), was founded on the Investment Decisions Expert's analysis of the fund's buying and selling activity across the four buckets of securities.

49. In a number of the following categories of supposed "purchases" of securities, the details of the transactions indicate that there had been a significant incorrect inflation by the Investment Decisions Expert of Bucket 3 and Bucket 4 purchases during the Relevant Period: (1) "conversions/corporate actions" (where the acquisition of securities did not involve an actual purchase, but came about through a conversion or a corporate action); (2) securities which were classified as Bucket 1 or 2 when purchased and subsequently became Bucket 3 or 4 securities (hence the Investment Decisions Expert's assessing in error the security as a Bucket 3 or 4 security); (3) cross trades to effect the winding up of another fund (the assets of this fund were absorbed into the WEIF giving rise to an incorrect calculation by the Investment Decisions Expert of Bucket 3 and 4 purchases); and (4) unaccounted inflation of a particular security due to the incorrect date of the assessment of its value. The total inflation for Bucket 3 and 4 purchases during the Relevant Period is around £280 million.

50. As a result of these errors in assessing the quantity of the "purchases"[12], the calculations by the Investment Decisions Expert reflecting the buying and selling activity by the fund are materially inaccurate and unreliable. These are not isolated errors by the Investment Decisions Expert and appear to be a product of a structural problem in the approach taken. As a result of these material inaccuracies, the Investment Decisions Expert's conclusion, that the principal reason for the deterioration of the fund's liquidity was due to the investment decisions, cannot be relied upon. The Authority's finding is therefore unsafe.

51. The Investment Decisions Expert's calculations do not provide any information about the reason for deciding whether to sell or purchase a security. Investment decisions may have been driven by liquidity and/or investor interests. In addition, no evidence has been provided by the Authority as to what "rebalancing" would have been possible, let alone reasonable.

[12] Mr Woodford stated that he had not been able to assess the "sales", and these would have been relevant in connection with assessing how the fund met redemptions.

52. Accordingly, the Investment Decisions Expert's opinion does not assist in determining whether Mr Woodford acted with due, skill and care when making investment decisions in response to redemptions.

53. The fund needed, on average, to meet daily redemptions of over £11 million. The scale of the redemptions was significant, and the outflow relentless. WIM and Mr Woodford had to meet those redemptions by selling assets. It was more difficult to generate cash by selling less liquid stocks, and the stocks categorised as Buckets 3 and 4 could not always be sold within the four-day window within which redemptions needed to be honoured. Evidence that WIM and Mr Woodford sold a higher proportion of liquid stocks does not, in the circumstances of this case, support the Authority's case that there was a failure to act with due skill, care and diligence. In addition, WIM and Mr Woodford needed both to maintain a portfolio that they believed would give investors a return on their investment and to consider the expectation of investors.

54. In any event, WIM and Mr Woodford did take liquidity into account when making investment decisions in the face of redemptions. However, there were many other considerations that Mr Woodford, as fund manager, needed to consider, including the expectations of investors. It is incorrect for the Authority to suggest that Mr Woodford made investment decisions solely by reference to the Limits. He did not operate on the basis that he should address the liquidity profile only once a trigger or limit had been crossed. Mr Woodford did his utmost to steer the WEIF away from the Limits and took proactive steps in anticipation of continued redemptions. His approach was reasonable at the time and should not be assessed with the benefit of hindsight.

55. The fact that there was a deterioration in the fund's liquidity is not in itself indicative that Mr Woodford failed to exercise due skill, care and diligence when making investment decisions.

56. The Investment Decisions Expert considered the three possible factors which impact on liquidity: (1) buying and selling activity, (2) share performance of assets from different buckets, and (3) ADTV. Mr Woodford has raised a number of categories where he submits the Investment Decisions Expert made errors in assessing the quantity of purchases which he asserts made the calculations materially inaccurate and unreliable. As explained below, the Investment Decisions Expert considered these points and remained of the view that, notwithstanding any isolated inaccuracies within the data set provided to it by Link, it is appropriate and proportionate to rely on it.

57. The Investment Decisions Expert considered Mr Woodford's four categories of concern and responded as follows: (1) "conversions/corporate actions": the calculations are based on the net buy/sell position, so if a conversion is mischaracterised it will inflate *both* buying and selling activity and this will have a minor impact on the overall analysis; (2) classification of buckets: Mr Woodford's allegation that certain securities were wrongly placed in buckets arises from a difference in ADTV source data, and the data source used by the Investment Decisions Expert is an unbiased and reliable one, and it was reasonable for this data source to be relied upon; (3) cross trades: that assets were transferred from another WIM fund has no bearing on their impact on the

WEIF's liquidity profile; and (4) unaccounted inflation: the Investment Decisions Expert's approach was consistent with the data set provided to it, and the use of the previous month-end price for its analysis.

58. The Investment Decisions Expert remained of the view that its calculations and conclusions are reliable. The Authority considers that it is appropriate and safe to rely on the opinion of the Investment Decisions Expert, namely, that the principal reason for the deterioration of the fund's liquidity was due to the investment decisions by WIM and Mr Woodford.

59. When considering possible reasons for investment decisions, the Authority has not seen any evidence to suggest that there had been a particular impediment which constrained Mr Woodford's ability to manage the liquidity of the fund in a manner that would otherwise have been appropriate. The management of less liquid assets, particularly in difficult circumstances, requires consideration of their sale well in advance of execution. This is the point of liquidity management. The Authority is conscious that the fund needed to meet significant daily redemptions. Whilst these redemptions may have made the task of managing the fund more challenging generally, the Authority has seen no evidence to suggest that they constricted Mr Woodford's ability to manage the overall liquidity profile of the fund. The sustained and prolonged nature of the redemptions (from over a year before the start of the Relevant Period) provided Mr Woodford with ample opportunity to embark upon, and should have acted as a clear indicator of the importance of, long-term liquidity management.

60. Mr Woodford took the view that he was not required to take into account liquidity when making investment decisions so long as he stayed within the Limits. His stated approach to selecting which assets to sell to meet redemptions was primarily focused on which assets he had the most conviction in. At a time when the fund was needing to meet significant daily redemptions, it was incumbent on WIM and Mr Woodford to effectively manage the WEIF's liquidity by making appropriate investment decisions in response to day-to-day investor redemptions. Mr Woodford was expected to take a pro-active and prudent approach to liquidity risk by appropriately balancing liquidity factors against investment returns when making investment decisions. Mr Woodford continued to implement an investment strategy which pushed WIM *"close to all our limits"*. This was not an approach which was compatible for a daily dealing fund claiming to operate within a medium risk appetite.

61. Mr Woodford's investment strategy trumped liquidity risk management, in that he did not adopt a balanced approach to its buying and selling activity as he sold a much greater amount and proportion of more liquid assets than he bought, and bought a greater amount and proportion of more illiquid assets than he sold. The Authority considers that this was not a reasonable approach and directly contributed to the deterioration in the WEIF's liquidity profile.

62. The deterioration of the fund's liquidity was a predictable outcome of Mr Woodford's investment decisions, and the Authority considers (and it is not making this assessment with the benefit of hindsight) that Mr

Woodford failed to exercise due skill, care and diligence when making investment decisions.

Warning Signs

63. WIM's and Mr Woodford's responses to the asserted "warning signs", namely, (1) the outflows from the fund (i.e. redemptions), (2) the deteriorating liquidity of the fund, and (3) the comments made by Link as to rebalancing the liquidity of the portfolio, demonstrated a transparent, consistent and reasoned position.

64. WIM's responses focused on the primacy and importance of the Limits, in respect of the Revised Four Bucket Model, which had been set by Link. WIM made clear to Link, throughout the Relevant Period, that (1) it acknowledged that it had to manage the WEIF to the agreed limits, and the need to manage to those limits whilst in a period of ongoing redemptions, (2) the right measure was to be used which clearly set out the parameters which WIM could work within, and (3) the measures could not be crossed to ensure WIM could continue to meet redemptions if they were to continue. WIM was relying on the Limits and managing the fund to them. If Link considered that the Limits did not present an appropriate liquidity profile, it had the power to change them, and had a regulatory responsibility to do so.

65. In responding to matters raised by Link, WIM clearly expressed its collective understanding (including Mr Woodford's understanding) of how the liquidity framework applied. WIM stressed to Link throughout the Relevant Period that they had an agreed liquidity framework in place which indicated that (1) when a trigger was crossed, WIM would identify the contingency actions and update them in the contingency plan, and (2) WIM would be ready to take action should a limit be breached. These contingency actions had previously been agreed between Link and WIM.

66. WIM consistently impressed upon Link that it would act within the framework that had been designed by its ACD. As the fund's ACD, and consistent with the terms of the IMA, Link was responsible for overseeing WIM. If Link believed that the Limits (which it had imposed) failed to reflect an acceptable liquidity profile, it should have changed the Limits and instructed WIM accordingly. No such action was taken. The importance of the Limits was repeatedly emphasised by WIM to Link. Assuming that the fund was within the Limits, WIM felt duty bound not to act in a way that harmed investors.

67. The contemporaneous communications and meetings between Link and WIM demonstrated that Link had accepted, and been satisfied with, the steps taken by WIM in response to its comments.

68. WIM responded reasonably to the matters raised by Link.

69. There is no evidence that (1) Link's concerns were passed on to Mr Woodford or that he knew about them and ignored them; or (2) Mr Woodford should have otherwise ascertained the concerns. The Authority's inferences in this regard are speculative, and the allegations were not investigated. The Authority's position is also unclear as to what response from Mr Woodford (had he been informed of the comments made by Link) would have been considered reasonable, considering the

extensive and intense interaction WIM's control functions were already having with Link about the liquidity of the fund. In addition, there is no reason to believe that, had a discussion between the control functions and Mr Woodford taken place, it would have resulted in a different outcome.

70. The independence of WIM's control functions from Mr Woodford is consistent with the approach taken by the control functions throughout the Relevant Period. This is demonstrated by the fact that Mr Woodford was not invited to meetings with Link about liquidity or copied into emails with them, and by the reality as to how the wider business understood Mr Woodford's responsibilities in this area. Accordingly, there is no evidence that Mr Woodford acted without due skill, care and diligence in failing to ascertain the matters raised by Link, which in any event, WIM responded to reasonably.

71. WIM and Mr Woodford were faced with many warning signs that liquidity in the fund was deteriorating and needed to be improved as a matter of urgency. The warning signs reflected the persistent trend during the Relevant Period of: (1) redemptions resulting in net outflows from the WEIF, (2) the deteriorating liquidity of the WEIF by reference to the Limits, and (3) specific communications from Link to WIM during the Relevant Period. This was especially when viewed against the background of concerns about the WEIF's liquidity profile having been raised by Link well before the start of the Relevant Period, and the ongoing deterioration in the WEIF's liquidity after that point.

72. Any actions that WIM and Mr Woodford did take were totally inadequate when seen against the seriousness of the situation the fund was in. Link's concerns should have been taken extremely seriously by WIM and Mr Woodford, but were not. Link repeatedly pressed WIM to act more prudently, and was met at every point with obstruction and refusal. WIM pushed hard against Link's frequent suggestion that liquidity ought to be managed in a manner other than through the Limits alone. Link had wanted liquidity to have a central place in investment decision-making even when within the Limits, whilst WIM wanted to avoid the need to do so.

73. The Authority refers to two particular examples of WIM's behaviour which demonstrate that its actions were a patently inadequate response to such warning signs, and that Link had not been satisfied with these steps.

74. In December 2018[13], Link expected WIM to undertake prompt action to address the liquidity concerns with the ultimate goal, inter alia, for the portfolio to return to a more balanced position between the four liquidity buckets. This communication had followed a breach of the Limits. Whilst WIM took certain short-term actions, the Authority considers that it failed entirely to engage with, or to respond to, Link's clear warning about the need to re-balance the liquidity profile of the fund in the long run.

[13] See paragraph 4.93 of the Decision Notice.

75. In March 2019[14], following Link strongly urging WIM to improve the liquidity profile earlier in the month, Link indicated that it was not satisfied with WIM's proposed actions to improve the WEIF's liquidity. WIM responded strongly, resisting the need to restore the WEIF's position to below the Limits, referring to "*contingency actions*" that had already been taken by WIM which had clearly not been sufficient to address the problem of the deterioration in the WEIF's liquidity. That the liquidity position had worsened during March 2019, despite WIM's actions, was itself a warning sign that those actions had failed to improve matters. WIM needed to address the issue more urgently and substantively. A senior member of Link's team internally commented following WIM's response "*this is just Woodford all over. Give them an inch and they take a mile. They should have acted immediately to take it [illiquid holdings] down we never accepted their initial argument".*

76. The contemporaneous communications and meetings did not, as has been asserted by Mr Woodford, demonstrate that Link was comfortable with WIM's steps in reaction to its comments.

77. The Authority considers that the steps taken referenced above were not reasonable responses to the matters raised by Link.

78. Mr Woodford should have appreciated and understood the warning signs, including Link's messages and warnings, that were given to WIM. Mr Woodford had primary responsibility for liquidity risk management and so ought, through his management and monitoring of liquidity risks, to have ascertained the nature of the concerns over liquidity that were being expressed by Link throughout the Relevant Period. If, as Mr Woodford should have done, he had appreciated and understood Link's messages and warnings, then he should have acted robustly on them. The Authority considers that Mr Woodford failed to inform himself of and/or appropriately question and challenge the position that WIM adopted in its communications with Link, and failed to respond reasonably to Link's concerns or take adequate action in response to them, in order substantially to rebalance the fund's liquidity position.

<u>Sanction: Prohibition and financial penalty</u>

Mr Woodford's Financial Penalty

79. Mr Woodford did not receive a salary or a bonus from WIM. His director's loans had been paid to him by virtue of his employment as a director of Woodford Capital Management and he was required to pay the money back. It is a well-established principle of tax law that, where the advance of monies is not irrecoverable, it is as a matter of fact a loan and not income. Accordingly, payments made through the director's loan account were not benefits which can be considered to fall within the

[14] See paragraph 4.98 of the Decision Notice.

guidance as to relevant income[15] under DEPP. They should not be included within Mr Woodford's relevant income at Step 2.

80. Mr Woodford's relevant income, as set out at paragraph 6.6 of the Decision Notice, includes a corporation tax charge arising on Woodford Capital Management paid by him on 10 November 2020, incurred as a consequence of an overdrawn loan (for the period 1 April 2018 – 31 March 2019). The sum was reimbursed via a reduction to Mr Woodford's loan account. The underlying tax charge was Woodford Capital Management's liability, not Mr Woodford's, and it is equivalent to Mr Woodford reducing his loan balance. It therefore should not be included within Mr Woodford's relevant income at Step 2.

81. The Authority has stated the factors, as set out in DEPP 6.5B.2G(12) and DEPP 6.5B.2G(13), that it considers to be relevant 'level 4 or 5 factors' and 'level 1, 2 or 3 factors' respectively. The Authority appears to be primarily focussed on the losses suffered by investors in support of its view that the seriousness should be level 4. The Authority has not evidenced that the alleged failings contributed to any loss that investors may ultimately have suffered, following the suspension of the fund. The losses were sustained after the fund was wound down in October 2019. Link was responsible for that process and for selling the assets, and WIM and Mr Woodford played no role in that process.

82. It is accepted that Mr Woodford had a prominent role within the industry. Although there may have been an adverse effect on the confidence of financial services markets, and consumer confidence, those events were complex and involved many other persons, and it is unfair for this to be a factor supporting a 'level 4 or 5' category of seriousness.

83. Mr Woodford's alleged conduct was accepted by the Authority not to be deliberate, or lacking integrity, or involving an abuse of trust. It is said by the Authority that his alleged breach is one of negligence. His actions were guided by what he believed was in the best interests of investors. In addition, Mr Woodford has a clean disciplinary record. Mr Woodford considers that the alleged misconduct falls within the lower category of seriousness, and at level 3[16].

84. The Authority's penalty policy states that it believes that the extent of the financial benefit earned by an individual is relevant in terms of the size of the financial penalty necessary to act as a credible deterrent[17]. Absent evidence from the Authority that Mr Woodford's relevant income at Step 2 is insufficiently representative of others in the retail investment management industry it will also be sufficient to deter them from committing similar negligent breaches. No evidence of this nature has been presented by the Authority.

85. In addition, when considering the level of penalty which would act as a credible deterrent, the nature of the misconduct is critical. Lack of integrity, particularly misconduct performed for financial benefit, warrants large penalties to achieve

[15] DEPP 6.5B.2G(1): "Relevant income" will be the gross amount of all benefits received by the individual from the employment in connection with which the breach occurred (the "relevant employment"), and for the period of the breach.

[16] Mr Woodford's representation was made in the event the Authority determined there had been breaches of APER (which was not accepted by Mr Woodford).

[17] DEPP 6.5B.2G(3).

credible deterrence. Mr Woodford's conduct did not involve a lack of integrity. Conduct which amounts to a failure to act with due skill, care and diligence is fundamentally different and how deterrence operates in such circumstances will be different. The alleged failure to act with due skill, care and diligence was committed in the context of retail investments and not for any financial benefit.

86. The Authority has failed to show why the figure at Step 3 would be insufficient to deter Mr Woodford or others from committing similar failings in the future. The nature of the conduct, the size of the penalty at Step 3, and the operation of the penalty framework all suggest that the figure at Step 3 is sufficient to achieve credible deterrence. It seems inherently improbable that such an amount of money at Step 3 would not serve to deter similar failures of negligence within the industry.

87. As outlined in DEPP 6.5B.2G, "*relevant income*" is designed to be a broad category, encompassing "*the gross amount of all benefits received by the individual from the employment in connection with which the breach occurred*". "Employment" is defined similarly broadly in this context: it "*includes, but it is not limited to, employment as an adviser, director, partner or contractor*". This defines the term more widely than generally applies under tax law, so the Authority does not consider the comparison is determinative. "*Relevant income*" is designed to capture, in a fair, proportionate and common-sense way, the extent to which the person in fact benefitted financially from the relevant work during the period in question with a common-sense view of benefit and its purpose in this context.

88. Whether or not a particular loan is properly considered to be a relevant benefit depends on the facts and circumstances of each case. Mr Woodford did not receive a salary. His director's loans were repaid from dividends and he did not pay interest on them. He effectively had a personal choice whether or not to repay them (and has not done so). The reality was that the director's loans were advanced to Mr Woodford, as a result of the work he conducted for WIM, to do with as he wished. The Authority considers that, taking into account the common-sense view of benefit and its purpose, the director's loans should accordingly form part of the "*relevant income*" for the purposes of Step 2.

89. The corporation tax charge represented the tax due on the monies advanced to Mr Woodford by way of director's loans during the applicable period. DEPP 6.5B.2G makes it clear that "*relevant income*" is the "*gross amount of all benefits*" (i.e. before tax). The sum paid by Mr Woodford (on 10 November 2020 and outside the Relevant Period) represented the tax payable on the monies which, by way of director's loans, he had received for his own use during the applicable period. In determining the gross benefit, therefore, the Authority considers that no account of these tax monies should be taken.

90. DEPP 6.5B.2G is silent as to the weight which should be applied to the relevant factors at Step 2 of the penalty calculation. The assessment of seriousness requires a consideration of all relevant factors with such weight paid to any particular factor as is merited by the facts and nature of the particular case. The Authority considers that, of particular significance to the assessment of seriousness in this case, is the extreme

impact of the breach. Mr Woodford's contravening actions materially increased the risk of the suspension of the WEIF, which did in fact transpire. A significant number of retail investors held underlying interests in £3.6 billion of assets in the WEIF at the time of suspension. Each has suffered significant financial losses, together with the serious, or potentially serious, consequences of being deprived access to their funds for a lengthy period. The Authority considers that the extent of the financial loss which it is appropriate to attribute (or which can be attributed) to the liquidity management failings, as opposed to other failings, such as investment performance or (as Mr Woodford has asserted) deficiencies in the liquidation of the WEIF after October 2019, may be difficult to quantify.

91. The widespread and profound impact of the breach has been reflected in extreme levels of public, press and parliamentary concern and has resulted, in the Authority's assessment, in damage to confidence in one of the most important financial markets for the general public, namely, that of retail fund management. The impact has been extremely significant which is a factor in support of the Authority's view that the breach should be assessed as very serious. The Authority accepts that Mr Woodford did not act with a lack of integrity. However, the fact that Mr Woodford held an extremely prominent position in the fund management industry is significant when assessing the seriousness of the breach, as breaches by such persons are more likely to cause widespread and serious harm and a loss of confidence in markets.

92. A subject's regulatory history is not one of the factors which DEPP 6.5B.2G provides should contribute to the seriousness of the breach[18].

93. Accordingly, taking into account: (1) the factors which are likely to be considered 'level 4 factors' or 'level 5 factors'[19], and (2) the factors which are likely to be considered 'level 1 factors', 'level 2 factors' or 'level 3 factors'[20], the Authority considers that the misconduct falls within seriousness level 4.

94. Whilst the extent of the financial benefit earned by an individual is relevant in terms of the size of the financial penalty, it is not determinative to act as the credible deterrent, as DEPP 6.5B.4G explicitly permits the Authority to increase the figure arrived at after Step 3. The basis for the Step 4 uplift is that the Step 3 figure is too small "*in relation to the breach*" to meet the objective of credible deterrence (DEPP 6.5B.4G(1)(a)). It is not sufficient to focus almost exclusively on the fact that the breach relates to a failure to act with due skill, care and diligence (rather than a lack of integrity). The impact of a breach, including investor losses, is relevant to Step 4 because the need for credible deterrence increases commensurately with the risk of harm arising from a breach.

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[18] It is generally taken account of, pursuant to DEPP 6.5B.3G at Step 3 in the penalty calculation (the assessment of aggravating and mitigating factors). The Authority does not consider that Mr Woodford's regulatory history is a mitigating factor at Step 3 in the penalty calculation.

[19] DEPP 6.5B.2G(12).

[20] DEPP 6.5B.2G(13).

95. It is critical that, when managing other people's investments of this magnitude in such a high-profile fund, fund managers ensure that they act prudently and with proper regard for the associated risks, including liquidity risk. The consequences of failing to do so are potentially extremely damaging as reflected in Mr Woodford's case, not only for investors in the WEIF but also for confidence in the UK fund management sector. These matters are highly relevant to credible deterrence, illustrating what is potentially at stake if a fund such as the WEIF is mismanaged, and the importance of ensuring that risks, such as liquidity risks, are appropriately managed.

96. The scale of the investor losses increases the importance of deterring others managing big, high-profile funds with large numbers of retail investors, from taking the types of unreasonable liquidity risks that Mr Woodford took when pursuing his investment strategy. He prioritised his investment strategy at the expense of promptly taking appropriate action to address the liquidity concerns raised by the ACD. The need for credible deterrence in these circumstances is greater than a case where the risk to investors arising from the misconduct is much smaller; or where the investors are not as vulnerable as retail investors. It is in this context that the impact of the breach must be considered in assessing credible deterrence for Mr Woodford.

97. It is not possible to provide the evidence requested by Mr Woodford to show that the financial penalty at Step 3 would be insufficient to deter Mr Woodford or others from committing similar failings in the future, whilst another larger sum would do so. This is not practicable nor necessary for the purposes of assessing the need for an uplift at Step 4. The Authority considers that the figure reached at Step 3 of the penalty calculation is too small to meet its objective of credible deterrence, and it is appropriate and proportionate to apply a deterrence multiplier of x2 to this figure.

Prohibition

98. The starting point is a lack of competence should not result in a prohibition order unless it can be shown that the individual continues to pose a risk to the public and/or wider financial services. This was confirmed by the Tribunal in *Wilkins*[21]: *"A prohibition order is a draconian penalty…. it is plainly not a penalty to be imposed lightly and it is likely to be more appropriate in a case where a lack of integrity is shown than a failure of competence or skill. In the case of lack of competence, a prohibition order would be rare other than in cases where the lack of competence demonstrated was such that the person is likely to represent a risk to the future".*

99. It would not be appropriate to impose a prohibition order on Mr Woodford for pursuing his investment strategy rather than properly addressing the WEIF's deteriorating liquidity. He believed that he was entitled to manage the fund within the Limits set by the ACD. It is not asserted that this belief was reckless.

[21] Andrew Wilkins and another v FCA [2015] UKUT 0408 (TCC).

100. The Authority relies on both Mr Woodford's personal reputation and also the impact on the reputation of the UK fund management industry and the trust and confidence which the public has in that industry (see paragraph 6.31 of the Decision Notice). Justifying a prohibition order on the basis of the impact to the industry's reputation is not consistent with section 56 of the Act. This prescribes the power by reference to whether the person in question cannot perform relevant functions based on their qualities and characteristics, not external factors such as how the industry at large may be impacted. FIT confirms this by referencing "honesty, integrity and reputation; competence and capability; and financial soundness". The reputation relates to the individual, not to industry, and does not present a risk of harm.

101. Mr Woodford has reflected on the events that led up to and followed the winding up of the fund and has questioned whether he could have done anything differently. The fact that Mr Woodford also has chosen to express publicly his challenge to the Authority's position does not add any weight to the factors determining whether it is appropriate for a prohibition order to be imposed. The Authority has not taken into account other relevant factors in determining whether a prohibition order should be imposed, including his very successful career in financial services for over 30 years and the fact that he has had no previous adverse disciplinary record, or competence failings, and does not pose a risk to consumers or the market.

102. The imposition of a prohibition order on Mr Woodford is not within the range of reasonable decisions and is disproportionate.

103. The Authority considers that Mr Woodford demonstrated a significant failure to comply with his regulatory obligations in the management of the liquidity of the WEIF. This was caused, in part, by his defective understanding of his responsibilities and led to a failure on his part to take liquidity management into account when executing his investment strategy. If repeated, similar failures could have similarly significant impacts. Mr Woodford has not sought simply to challenge the proposed findings but has consistently maintained that he did nothing wrong, and that his view that he was required to do no more than remain within the limits imposed upon him by Link was an appropriate one. He has expressed similarly resolute views publicly in recent media interviews. In the view of the Authority, in those circumstances, it is not possible to be confident that, were Mr Woodford to be entrusted in the future to manage investors' monies, he would take an approach different to the one he took in this case. This is another relevant factor when considering whether he is fit and proper to manage the liquidity risks associated with open-ended funds on the basis of lack of competence and capability.

104. Those facts are also relevant to the issue of "*reputation*" and its effect on Mr Woodford's fitness and propriety. "*Reputation*" may extend further than honesty and integrity, for example when a person's reputation may undermine confidence in the UK financial services industry, or a sector of it (if permitted to continue to practice). The failure of the WEIF has been the subject of intense public scrutiny and concern, and Mr Woodford is intrinsically linked to this failure. It forms part of his reputation. In circumstances where Mr Woodford has been determined by the Authority to have been culpable for serious regulatory misconduct in respect of the liquidity management of the WEIF, and continues to declare publicly in the media that he has done nothing wrong, this reputation is of significance.

In the Authority's view, it means that his continued ability to manage retail funds presents significant risks in the investment management industry. The Authority rejects Mr Woodford's view that the reputation of the financial services industry is not a relevant consideration for imposing a prohibition order.

105. The Authority has restricted the scope of the prohibition order to what is necessary to provide appropriate protection to consumers and the reputation of the fund management sector. The imposition of this prohibition order on Mr Woodford is within the range of reasonable decisions and is proportionate.