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**FINAL NOTICE**

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To: **Roberto Chiarion Casoni**

Date of birth: 9 June 1964

Date: 20<sup>th</sup> March 2007

**TAKE NOTICE: The Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS ("the FSA") gives you final notice about a requirement to pay a financial penalty**

**THE PENALTY**

The FSA gave you, Mr Roberto Chiarion Casoni ("Mr Casoni"), a Decision Notice on 20<sup>th</sup> March 2007 which notified Mr. Casoni that, pursuant to section 66 of the Financial Services and Markets Act 2000 ("the Act"), the FSA had decided to impose a financial penalty of £52,500 on Mr Casoni, for breaches of Principle 3 of the FSA's Statements of Principle for Approved Persons.

Mr Casoni has confirmed that he will not be referring the matter to the Financial Services and Markets Tribunal.

Accordingly, for the reasons set out below and having agreed with Mr Casoni the facts and matters relied on, the FSA imposes a financial penalty on Mr. Casoni in the amount of £52,500.

## REASONS FOR THE ACTION

### Summary

1. At the material time, Mr Casoni was a research analyst based in London at Citigroup's Global Equity Research ("Citigroup"). He was a managing director who headed the European small/mid-cap equity research team and specialised in Italian stocks.
2. At 17:40 on 23 January 2006, Citigroup initiated coverage on Banca Italease ("BI"), an Italian leasing and factoring bank, by publishing a research report prepared by Mr Casoni.
3. The report contained a buy recommendation; with a medium risk and a target price of €9 per share (BI's price at the time was €5.70). Citigroup's Stock Steering Committee ("SSC") had cleared the research on the morning of Friday 20 January 2006.
4. Between the time that Mr Casoni commenced Citigroup's internal procedures for initiating coverage on BI (9 January 2006) and before Citigroup initiated coverage, Mr Casoni disclosed his views on BI and his proposed valuation method to certain clients of the firm.
5. As a result of those discussions and for the reasons detailed further below, the FSA has decided that Mr Casoni has breached Principle 3 of the FSA's Statements of Principle for Approved Persons. In all of the circumstances, the FSA has decided it is appropriate to impose a financial penalty of £75,000 in this case. Mr Casoni has agreed to settle at an early stage and therefore qualified for a 30% (stage 1) discount under the FSA's executive settlement procedures. The financial penalty was therefore reduced from £75,000 to £52,500.

### Relevant law and guidance

6. Section 66 of the Act states:
  - “(1) The Authority may take action against a person under this section if –
    - (a) it appears to the Authority that he is guilty of misconduct; and
    - (b) the Authority is satisfied that it is appropriate in all the circumstances to take action against him.
  - (2) A person is guilty of misconduct if, while an approved person –
    - (a) he has failed to comply with a statement of principle issued under section 64...
  - ...
  - (3) If the Authority is entitled to take action under this section against a person, it may –

(a) *impose a penalty on him of such amount as it considers appropriate;...*

...

(b) *'Approved person' has the same meaning as in section 64...*

7. Statements of Principle issued under section 64 of the Act are set out in the FSA's Code of Practice of Approved Persons (APER).
8. The Statement of Principle 3 is set out in APER 2.1.2P, which provides:

*“An approved person must observe proper standards of market conduct in carrying out his controlled function.”*
9. Guidance relating to a breach of Principle 3 is set out in APER 4.3. APER 4.3.2G states that in many cases the required standard will be set out in the Code of Market Conduct (MAR 1). APER 4.3.3E provides that a factor to be taken into account in determining whether or not an approved person's conduct complies with this Statement of Principle (APER 2.1.2 P) is whether he, or his firm, has complied with MAR 3 (Inter-Professional Conduct) or the Code of Market Conduct (MAR 1) or relevant market codes and exchange rules. Compliance with MAR 1 will *“tend to show”* compliance with Principle 3 (APER 4.3.4E).
10. The FSA does not allege that Mr Casoni has failed to comply with MAR 1.
11. When exercising its powers, the FSA seeks to act in a way it considers most appropriate for the purposes of meeting its regulatory objectives, which are set out in section 2 (2) of the Act. The FSA considers that imposing a financial penalty upon Mr Casoni meets the regulatory objective of market confidence, namely maintaining confidence in the financial system.
12. In deciding to take this action, the FSA has had regard to the guidance set out in sections 1.3, 11.4 and 11.5 of the FSA's Enforcement Manual (“ENF”).
13. In particular, ENF1.3.1(2)G states that the FSA will seek to exercise its enforcement powers in a manner that is transparent, proportionate and consistent with its publicly stated policies. The criteria for determining whether to take disciplinary action are set out in ENF 11.4.1G and ENF 11.5G. ENF 11.4.1G states that the FSA will consider the full circumstances of each case and that the criteria listed are not exhaustive; not all of them may be relevant and there may be other factors that are relevant. ENF 11.5.3G states that the FSA will only take disciplinary action against an approved person where there is evidence of personal culpability on his part, which arises where his behaviour was deliberate or fell below that which would be reasonable in all the circumstances.
14. Having regard to the matters summarised in paragraphs 1 to 4 above, to the guidance set out in ENF and to the FSA's statutory objective of market confidence, the FSA considers it proportionate and appropriate in all the circumstances to impose this financial penalty on Mr Casoni.

## **FSA Rules on the dissemination of investment research**

15. Dissemination of investment research is included within the Conduct of Business (“COB”) rules and guidance. Although COB applies to firms, rather than directly to approved persons, the following COB rules are relevant in assessing Mr Casoni's conduct:
- (1) COB 7.3 and COB 7.16 address conflicts of interest between the firm and its clients relating to investment research. Their effect is that a firm should develop a policy in order to manage conflicts of interest.
  - (2) the guidance at 7.16.13G (which deals with impartial investment research<sup>1</sup>) makes it clear that it is:  
  
*"Inappropriate for an employee (whether or not an investment analyst) to communicate the substance of any investment research, except as set out in the policy."*
16. In this case, the FSA is satisfied that Citigroup had policies in place in accordance with the COB rules and guidance which are relevant to the assessment of Mr Casoni's conduct made below.

## **Facts and matters relied on**

17. Mr Casoni has been employed as an analyst since 1990. In July 1998 he joined Schroders, who merged with Citigroup in 2000 and remained with Citigroup up until February 2006. Mr Casoni became a managing director in 2002 and he was head of the Italian small/mid-cap team. Mr Casoni had considerable expertise in the small/mid-cap market and was consistently rated as a top analyst. At the material time he was an FSA approved person (Controlled Function 21: Investment Advisor) and employed with Citigroup in Global Equity Research and based in London.

## Initiation of coverage

18. Mr Casoni's role as a research analyst at Citigroup involved him studying companies within the Italian small/mid-cap sector. Mr Casoni visited around 40 to 60 companies every year, with a view to developing his understanding of individual companies and their businesses. He described this process as developing his “*learning curve*” in relation to his research ideas. He explained that his learning curve on a company may lead to a decision to initiate coverage if he believed that he “*could add to a story or if there were issues worth spending time on, such as, for example, a feeling he might have that there was an issue that the market was not approaching the right way*”. Mr Casoni confirmed that the analyst's role of providing comments to clients on any of the companies that have captured the analyst's interest changes at the moment the analyst intends to publish research on a particular company.

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<sup>1</sup> See also COB 7.16.5 and COB 7.16.6G.

When he had selected a particular company he would prepare a detailed report, which would conclude with a buy, sell or hold recommendation and a target price. The first occasion upon which a report is published relating to a particular company is referred to by Citigroup as an initiation of coverage. Reports and recommendations are made available to the market at large. (Citigroup's practice is to make reports available on its website and through various email alerts to clients.)

19. Before Citigroup initiates coverage on a stock, the analyst's report has to be cleared by the SSC. The analyst sends his draft report to the SSC and indicates to the SSC the date he or she wishes to publish. The SSC then invites the analyst to a meeting in order for the analyst to present the draft report and state why he or she is initiating. The SSC's role is to ascertain whether the analyst's conclusions are justified and well argued. The SSC does not consider a report until it is in its final, or near final, form. If the SSC is satisfied it will approve the report for publication.

#### Mr Casoni's report on BI

20. BI offers lease financing and is listed on the Italian equities market, the Borsa Italiana. Mr Casoni first became aware of BI in August 2005 and his interest in the company had heightened by November 2005. By early January 2006 he was considering that it may be more appropriate to value BI using the embedded valuation methodology, a methodology generally only used to value insurance companies. Its proposed use by Mr Casoni in valuing BI represented, in his view, a ground-breaking departure to the valuation methodologies used by the rest of the market when valuing companies in the Italian leasing sector.
21. On 9 January 2006, Mr Casoni began to make arrangements for the SSC to meet to consider his initiation of coverage in relation to BI. His email for these purposes states that he was aiming to publish around 20 January 2006. A draft report (showing a target price of €35 per share) and model was circulated to the SSC on the 18 January 2006. Mr Casoni has explained that at that stage he was still awaiting information from BI, and that his valuation methodology at this time involved a mixed price earnings/embedded valuation as opposed to an embedded valuation only. However, the report was described by the Chair of the SSC as a thorough piece of research and 99% complete and the FSA accepts this to be the case. The SSC met at 10.00am on Friday 20 January 2006 and cleared the research report. At 17:40 on Monday 23 January 2006, Citigroup initiated coverage on BI. The report contained a buy recommendation; with a medium risk and a target price of €39 per share (BI's price at the time was €25.70).

#### Communications with clients

22. On 13 January 2006, Mr Casoni sent the following email to a fund manager client at Firm A:  
  
*"Placement Italease...6% at 2% discount seller BPU placed by Deutsche...[name] not interested, I am positive instead, so be careful ..."*
23. On the morning of 23 January 2006, Mr Casoni sent an email to the same client at Firm A which contained the following statement at the end:

*"Banca Italease is still a strong buy, I initiate tomorrow with a +50 pc upside."*

24. On 12 January 2006, Mr Casoni emailed a fund manager at Firm B and stated *"Itaplease: a bomb!"* Mr Casoni explained to the FSA that *"Itaplease"* was a joke between them because that client's fund held a significant amount of stock in BI and he was obviously pleased with the stock's success. The email correspondence between them continued and on 16 January 2006, Mr Casoni invited the fund manager to consider his model for BI and discuss his valuation methodology. The next day Mr Casoni emailed him and, referring to BI stated, *"it is hot stuff"*. On 20 January 2006, and five minutes before the SSC met, Mr Casoni made arrangements to meet the fund manager at Firm B later that afternoon. At that meeting, the fund manager at Firm B states that he was shown a copy of the report containing the target price on the cover of the report, and that the report appeared to be a full draft. The fund manager also states that he was told it would be published in the next few days.

25. In addition, on 13 January 2006, Mr Casoni emailed a draft spreadsheet setting out his model for BI to a fund manager at Firm C. The particular fund manager is knowledgeable about BI and so sent his model to Mr Casoni. The fund manager replied to Mr Casoni's email on 13 January 2006 at 14:10, as follows:

*"It looks much better than my model..."*

Mr Casoni replied:

*"Come on, don't get so down on yourself, you are also good, deep down..."*

26. On 16 January 2006, Mr Casoni sent his draft spreadsheet on BI to a fund manager at Firm D. This spreadsheet contained a valuation and the evaluation methodology used by Mr Casoni. The fund manager considered the spreadsheet and made further enquiries of Mr Casoni as to how he reached some of his figures.
27. It is evident that both clients at Firm C and D read Mr Casoni's model and responded to him.
28. None of the above recipients dealt in BI shares as a result of the information they received at the material time from Mr Casoni.
29. In interview, Mr Casoni's explanation to the FSA for his communications with these selected clients was that:
- (1) he wanted them to assist him with his embedded valuation approach; and/or
  - (2) he was having a general discussion with them about BI.

The FSA considers that irrespective of the reason, it was improper of Mr Casoni to discuss BI with a client given his expectation of the initiation of coverage.

### The firm's internal policies

30. In accordance with COB, Citigroup have written policies dealing with the distribution of investment research. In summary, these made it clear that draft research was not to be disseminated outside of the Research Department.
31. In interview with the FSA, Mr Casoni accepted he had completed all the requisite training at the firm and had signed Citigroup's compliance log. Mr Casoni acknowledged that it was unacceptable to discuss the stock's target price and/or recommendation with anyone other than the Equity Research managers and the SSC.

### **BREACHES**

32. For the reasons detailed below, the FSA has decided that the communications between Mr Casoni and Firms A, B, C and D as detailed above in this Notice constituted a failure to observe proper standards of market conduct contrary to Principle 3 of the FSA's Statements of Principle for Approved Persons, and occurred in the course of Mr Casoni carrying out his controlled function; namely the provision of investment advice.

### Significance of decision to initiate coverage

33. The FSA considers that it is improper market conduct for an analyst to selectively disseminate valuations (including drafts), recommendations or target prices to clients ahead of publication of that research. It is also improper market conduct for an analyst to forward his working model to clients when there is an impending initiation of coverage. This is particularly so when the client is sophisticated and therefore may be in a position to derive benefit from the model.
34. By the time Mr Casoni made his first contact with the SSC on 9 January 2006, the FSA considers that he had already formed an opinion about BI and had initiated Citigroup's internal procedures for the publication of his investment research. Mr Casoni's decision to commence the initiation process started (no later than) 9 January 2006. It is clear that, from this date onwards, publication of the research was in contemplation and there was a significant likelihood that it would be published in the near future. This likelihood increased over time and as Mr Casoni's research progressed, culminated in the SSC approving the initiation of coverage on 23 January 2006.
35. On all of the facts and circumstances of this case, the FSA considers that Mr Casoni should not have passed information to any clients about his research into BI after 9 January 2006, until that research was published. It may be that Mr Casoni had formed a view on BI before contacting the SSC; however it is not necessary to determine that for the purposes of this case.

Selective dissemination prior to publication

36. The rules relating to the fair distribution of research are fundamental to maintaining orderly markets. It is imperative that analysts are fully aware of the restrictions and act in accordance with them. Where an analyst is also approved by the FSA to provide investment advice, these rules are of particular importance when he is exercising that controlled function.
37. On all of the facts and circumstances of this case, the FSA considers that Mr Casoni's communications with Firms C and D were improper for the following reasons:
- (1) the embedded valuation methodology underpinning his research was revealed to the recipients;
  - (2) the disclosure of his draft models conveyed an intention to initiate coverage and publish a report. In the FSA's view, discussing or sending a draft model to a client is likely to alert that client to the fact that the analyst is intending to initiate; and
  - (3) at the time of making these disclosures he had already commenced the firm's internal processes for an initiation of coverage.
38. On all of the facts and circumstances of this case, the FSA considers that Mr Casoni's communications with Firms A and B were more serious in nature for the same reasons as in 37 above, and for the following additional reasons:
- (1) that by the time of these disclosures Mr Casoni had submitted his draft report to the SSC (on 18 January), and the initiation of coverage was almost certain and the report itself was very close to the final form for publication;
  - (2) on 20 January 2006 he showed Firm B the draft report that the SSC had considered earlier that same day; and
  - (3) he expressly told Firm A on 23 January 2006 when the report would be published and also expressed his view on BI to both Firms A and B.
39. The FSA considers Mr Casoni's conduct in making these communications on BI to selected clients over a two week period whilst carrying out his controlled function, and disclosing his valuation (or drafts), recommendation or target price when he had an intention to initiate coverage on that company, constitutes market misconduct under Principle 3.
40. The FSA considers that, by selectively disseminating such information to clients ahead of publication, Mr Casoni allowed those clients the opportunity to pre-empt the conclusions of the published research and thereby potentially influence their investment decisions ahead of the rest of the market.



## **PENALTY**

41. The FSA is of the view that, having regard to the guidance set out in ENF 12.3.3G, Mr Casoni's misconduct is sufficiently serious to warrant a financial penalty. In all the circumstances, and taking into account action taken by the FSA in other cases, the FSA considers it appropriate and proportionate to propose to impose a financial penalty on Mr Casoni of £75,000, reduced by 30% (as per ENF 13.7) to £52,500 as a result of his agreement to settle this matter at "stage 1" .
42. The FSA's policy on the imposition of financial penalties is set out in Chapter 13 of ENF. The principal purpose of the imposition of a financial penalty is to promote high standards of regulatory conduct by deterring approved persons who have breached regulatory requirements from committing further contraventions, helping to deter other approved persons from committing contraventions and demonstrating generally to approved persons the benefits of compliant behaviour.
43. ENF 13.3.3G sets out factors relevant to determining the appropriate level of financial penalty and ENF 13.3.4G states that the criteria listed in ENF 13.3.3G are not exhaustive and all relevant communications of the case will be taken into consideration.
44. Accordingly, in determining whether a financial penalty is appropriate and its level, the FSA is required to consider all the relevant circumstances of the case. The FSA considers the following factors to be particularly relevant in this case.
45. The FSA notes that the individual communications which constituted this misconduct were deliberate acts by Mr Casoni and at the time of each communication he knew that Citigroup's process for initiation of coverage had already commenced. However, the FSA does not allege that when doing so he deliberately intended to manipulate BI's share price, and does not allege that he intended to make, or in fact did make, any gain from his actions.
46. An aggravating feature in this particular case is that the communications relate to four separate clients and span a two week period. None of these communications were appropriate for an approved person in the circumstances. During his interview he frankly accepted that at least one of these communications (email to Firm A on 23 January 2006 at paragraph 23 above) was indeed improper and a breach of Principle 3 of the Statements of Principle for Approved Persons. Mr Casoni accepted this breach because he sent that email after the report was finalised and he knew the exact date of publication.

## **MITIGATION**

47. The FSA considers that his misconduct is mitigated by there being no suggestion that he spoke to these clients about his research in order to manipulate BI's share price or to make any gain. Mr Casoni did not obtain any financial gain by his improper market conduct.

He co-operated fully with the FSA's investigation and the FSA acknowledges that, when presented in interview with his 23 January 2006 email to Firm A, he immediately admitted that he should not have sent it and that it was a breach of Principle 3. In addition, Mr Casoni has agreed to settle this matter at an early stage of the investigation. Mr Casoni has not previously been the subject of any FSA disciplinary action.

## **DECISION MAKER**

The decision which gave rise to the obligation to give this Final Notice was made by the Executive Decision Makers on behalf of the FSA.

## **IMPORTANT**

This Final Notice is given to Mr. Casoni in accordance with section 390 of the Act.

### **Manner of and time for Payment**

The financial penalty must be paid in full by Mr. Casoni to the FSA no later than 3 April 2007, 14 days from the date of the Final Notice.

### **If the financial penalty is not paid**

If all or any of the financial penalty is outstanding on 4<sup>th</sup> April 2007, the FSA may recover the outstanding amount as a debt owed by Mr. Casoni and due to the FSA

### **Publicity**

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

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

### **FSA contacts**

For more information concerning this matter generally, you should contact Ken O'Donnell at the FSA (direct line: 020 7066 1374) or Dianne Bell at the FSA (direct line: 020 7066 0586).

**Jamie Symington**

**Head of Wholesale  
FSA Enforcement Division**