David Stephen has referred his Decision Notice to the Upper Tribunal where he will present his case. Any findings in his Decision Notice are therefore provisional and reflect the FCA's belief as to what occurred and how it considers his behaviour is to be characterised.

Kulvir Virk has not referred the FCA's decision to the Upper Tribunal. Demetrios Hadjigeorgiou referred the FCA's decision to the Upper Tribunal but, upon the parties agreeing to resolve the matter, withdrew his reference. Neither Kulvir Virk's Final Notice nor Demetrios Hadjigeorgiou's Final Notice have been the subject of any judicial finding. To the extent that either Kulvir Virk's or Demetrios Hadjigeorgiou's Final Notice contain criticisms of David Stephen, David Stephen has received a Decision Notice which sets these out. He disputes many of the facts and any characterisation of his actions in Kulvir Virk's or Demetrios Hadjigeorgiou's Final Notice and has referred his Decision Notice to the Upper Tribunal for determination. The Tribunal's decision in respect of his reference will be made public on its website.

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FINAL NOTICE

To: Demetrios Christos Hadjigeorgiou

Reference Number: DCH01144

Date: 17 August 2026

1. ACTION

1.1. For the reasons given in this Final Notice, the Authority hereby:

(1) imposes on Demetrios Christos Hadjigeorgiou a financial penalty of £56,400[1] pursuant to section 66 of the Act; and

(2) makes an order prohibiting Mr Hadjigeorgiou from performing 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 pursuant to section 56 of the Act.

1.2. Mr Hadjigeorgiou agreed to resolve this matter under the Authority's executive settlement procedures.

2. SUMMARY OF REASONS

2.1. On the basis of the facts and matters described below, the Authority considers that between 3 January 2018 and 2 August 2019 (the "Relevant Period"), Mr Hadjigeorgiou breached Statement of Principle 6 (Due skill, care and diligence) of the Authority's Statements of Principle and Code of Practice for Approved Persons Chapters of the Authority's Handbook ("APER") by failing to exercise due skill, care and diligence in managing the business of SVS Securities Plc ("SVS").

2.2. During the Relevant Period, Mr Hadjigeorgiou held the controlled functions of CF1 (Director) and CF3 (Chief Executive) at SVS. SVS operated a discretionary fund management business that managed investments held on behalf of retail pension customers within a self-invested personal pension ("SIPP"). The pension funds within the SIPPs were then invested into one of four portfolios of assets created and managed by SVS (the "Model Portfolios"). The Model Portfolios were called Income / Mixed / Growth / Aggressive Growth and SVS's marketing material described them as being *'high risk portfolios designed to give you maximum growth opportunities'.*

[1] The published Decision Notice given to Mr Hadjigeorgiou dated 25 April 2024 records that the Authority had decided to impose a financial penalty of £84,600. Whilst there has been no change to the factual findings for which Mr Hadjigeorgiou is penalised, after further consideration, the Authority decided to accept that in the circumstances of this case Mr Hadjigeorgiou's misconduct in relation SVS's decision to introduce a 10% mark-down to the valuation of fixed income for disinvesting retail customers should be categorised as a breach of Statement of Principle 6 rather than a breach Statement of Principle 1. This has resulted in a lower penalty of £56,400.

2.3. Discretionary fund managers act as agents for their customers, making investment decisions in financial markets on their behalf. Confidence that discretionary fund managers will conduct themselves properly when acting on behalf of customers is central to the relationship of trust between the industry and its customers. When making investment decisions for customers, discretionary fund managers should act in the best interests of their customers and should not let conflicts of interest interfere with their obligations to customers. The Authority has stressed the importance of discretionary fund managers managing conflicts of interest effectively.

2.4. A business model was set up at SVS that was intended to maximise the flow of retail customer funds into the Model Portfolios for onward investment into high-risk illiquid bonds operated by connected persons and business associates of SVS. This model operated throughout the Relevant Period and was driven by the financial benefit that SVS derived from commissions of up to 12% of the customer's investment, paid to SVS by the bond operators out of the principal which SVS customers invested in the bonds.

2.5. SVS entered into a series of commission-driven commercial arrangements with these bond operators that committed SVS to channel customer funds into the high-risk fixed income bonds. The model relied upon incentivising unauthorised introducers through marketing agreements by which SVS paid these introducers commission of 7-9% of the introduced customer's funds that were invested into SVS's Model Portfolios. A total of 879 customers invested £69.1 million into the Model Portfolios. Over half of these customers were advised to invest in SVS by a financial adviser firm that was wholly or partly controlled by the owners of one of the introducers to whom SVS was secretly paying incentive commission.

2.6. SVS took retail pension customers' funds and channelled them into investments which benefitted its directors and close business associates. Mr Hadjigeorgiou failed to take reasonable steps to ensure that SVS identified and managed conflicts of interest appropriately:

1) Mr Hadjigeorgiou was aware that a conflict of interest had arisen in relation to an SVS director and his dual role as a director of both SVS and of a company whose fixed income products SVS included in its Model Portfolios. Mr Hadjigeorgiou failed to take reasonable care to ensure that this conflict of interest was managed appropriately.

2) Mr Hadjigeorgiou agreed to an arrangement for SVS to take £750,000 in commission from another fixed income product provider, Innovation Capital Finance Limited ("ICFL"), up front before any due diligence had been carried out. He arranged for the commission to be accounted for as a loan but failed to consider the conflict of interest this raised. He failed to escalate this with SVS's Compliance department, meaning that the conflict was not managed.

2.7. Mr Hadjigeorgiou was central to SVS's decision to invest in a bond issued by ICFL under its £100 million secured note programme, launched on 17 January 2019 (the "ICFL Bond"), and to the due diligence carried out on it by SVS. He was aware of the Authority's concerns about the due diligence performed on a similar product, bonds issued by CFBL (the "CFBL Bonds"), but he failed to take heed of these concerns when carrying out the due diligence on the ICFL Bond. SVS lacked the data needed to assess and monitor the ICFL Bond, and to comply with PROD 3.3.3R of the Product Intervention and Product Governance Sourcebook section of the Authority's Handbook ("PROD"), which came into force on 3 January 2018: this states that any investment product must be distributed in accordance with the needs, characteristics and objectives of its target market.

2.8. SVS provided support to Ingard Limited ("Ingard") for the listing of Ingard Property Bond 2 Designated Activity Company ("Ingard Property Bond 2") on the Cypriot Stock Exchange. Mr Hadjigeorgiou was central to the decision to invest in the bond and in the due diligence carried out by SVS. However, the close relationship between SVS and Ingard meant that any due diligence on Ingard Property Bond 2 was in essence a formality because SVS had, in substance, already decided to invest.

2.9. Mr Hadjigeorgiou was aware that the Authority had raised concerns in January 2018 that the Model Portfolios were overly exposed to one bond provider, CFBL, and that this posed a concentration risk. Although SVS gave an assurance to the Authority that it would reduce this concentration, Mr Hadjigeorgiou failed to take action to stop SVS from making further investments in the CFBL Bonds.

2.10. Mr Hadjigeorgiou failed to take reasonable care to ensure that SVS complied with the Authority's rules in relation to inducements. SVS received large commission payments from fixed income product providers in return for including their investments in the Model Portfolios, which represented a level of inducement which put at risk SVS's independence and compromised its ability to act in the best interests of its customers. COBS 2.3A.15R, which came into force on 3

January 2018, states that a firm must not accept any commission from any third party in provision of a relevant service to retail clients. As a CF1 Director and CF3 Chief Executive Mr Hadjigeorgiou should have ensured that SVS did not accept such payments after 3 January 2018.

2.11. At a time when SVS had concerns about its financial position, and in order to generate more income, SVS decided to apply a 10% mark-down on the fixed income investments in the Model Portfolios at the expense of retail pension customers. This change was never fully disclosed to customers or their financial advisers. Mr Hadjigeorgiou was SVS's Chief Executive at the time. He did not consider the mark-down to be the fairest method by which to charge customers disinvesting from the Model Portfolios, and he was aware of concerns raised by the Model Portfolio Team that the process was not fair to customers. Despite this, Mr Hadjigeorgiou failed to push back sufficiently against others who proposed the disinvestment markdown and instead assented to the decision. As a result, SVS earned £359,800 in income at the expense of its customers.

2.12. Mr Hadjigeorgiou failed to take reasonable steps to ensure that SVS properly communicated the decision described in paragraph 2.11 to introduce a 10% mark-down to the valuation of fixed income disinvestments to customers or their financial advisers. Customers therefore took disinvestment decisions without understanding the financial implications of disinvesting their funds and lost pension savings as a result.

2.13. The Authority has concluded that in respect of the matters described in paragraphs 2.6 to 2.12, Mr Hadjigeorgiou failed to exercise due skill, care and diligence in managing the business of SVS, in breach of Statement of Principle 6.

2.14. In addition, as a result of his conduct, the Authority considers that Mr Hadjigeorgiou is not a fit and proper person, and he poses a risk to consumers and to the integrity of the financial system. The nature and seriousness of the breaches outlined above warrant the imposition of an order prohibiting him from performing any senior management function and any significant influence function in relation to any regulated activities carried on by an authorised or exempt person or exempt professional firm.

2.15. Further, the Authority considers it appropriate to impose a financial penalty of £56,400 on Mr Hadjigeorgiou for his breach of Statement of Principle 6 during the Relevant Period.

2.16. The Authority hereby:

1) imposes on Demetrios Christos Hadjigeorgiou a financial penalty of £56,400 pursuant to section 66 of the Act; and

2) makes an order prohibiting Mr Hadjigeorgiou from performing 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 pursuant to section 56 of the Act.

3. DEFINITIONS

3.1. The definitions below are used in this Notice:

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

"Mr Anderson" means Stuart James Anderson.

"Angelfish" means Angelfish Investments Plc.

"the Angelfish Conflict" means the conflict of interest in relation to Mr Flitcroft's role as director of both Angelfish and SVS.

"APER" means the Statements of Principle and Code of Practice for Approved Persons.

"the Authority" means the Financial Conduct Authority.

"CFBL" means Corporate Finance Bonds Limited.

"CFBL Bonds" means various series of bonds issued by CFBL under its £500m secured note programme, launched on 21 June 2016.

"COBS" means the part of the Authority's Handbook entitled "Conduct of Business Sourcebook".

"CoI Register" means SVS's Conflicts of Interest Register.

"DEPP" means the Decision Procedure and Penalties Manual part of the Handbook.

"Mr Ewing" means David Norman Ewing.

"ENFG" means the Authority's Enforcement Guide set out in the Authority's Handbook.

"FIT" means the Fit and Proper Test for Approved Persons and specified significant-harm functions section of the Authority's Handbook.

"Mr Flitcroft" means Andrew John Alec Flitcroft.

"the FSCS" means the Financial Services Compensation Scheme.

"Mr Hadjigeorgiou" means Demetrios Christos Hadjigeorgiou.

"the Handbook" means the Authority's Handbook of rules and guidance.

"ICFL" means Innovation Capital Finance Limited.

"ICFL Bond" means the bond issued by ICFL under its £100m secured note programme, launched on 17 January 2019, in respect of which SVS made an investment of £10m.

"IFA" means Independent Financial Adviser.

"Ingard" means Ingard Limited.

"Ingard Alternative Funding" means Ingard Alternative Funding Limited.

"Ingard Financial" means Ingard Financial Limited.

"Ingard Property Bond 1" means the bond issued by Ingard Property Bond Designated Activity Company.

"Ingard Property Bond 2" means the bond issued by Ingard Property Bond 2 Designated Activity Company.

"Ingard Property Bonds" means Ingard Property Bond 1 and Ingard Property Bond 2.

"Investment Committee" means the SVS committee that provided oversight on discretionary and advisory services offered, handled the products in the Model Portfolios and monitored investment performance.

"Mark-down" means the difference, if any, between:

(i) the price at which the firm takes a principal position in the relevant investment in order to fulfil a customer order; and

(ii) the price at which the firm executes the transaction with its customer.

“MiFID II” means the Markets in Financial Instruments Directive (2014/65/EU).

“Model Portfolios” means the discretionary fund-managed model portfolios managed by SVS.

"Model Portfolio Employee” means the Head of the Model Portfolio Team.

“Model Portfolio Team” means the SVS staff responsible for the Model Portfolios.

“OC Finance” means OC Finance S.A.

“OC Finance Bonds” means bonds issued by OC Finance.

“PROD” means the part of the Authority’s Handbook entitled *“Product Intervention and Product Governance Sourcebook”.*

“Prohibition Order” means the order to be made pursuant to section 56 of the Act prohibiting Mr Hadjigeorgiou from performing any senior management function and any significant influence function in relation to any regulated activity carried on by any authorised person, exempt person or exempt professional firm.

“Queros” means Queros Capital Partners PLC.

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

“the Relevant Period” means the period between 3 January 2018 and 2 August 2019.

“SIPP” means a self-invested personal pension. A SIPP is the name given to the type of UK government-approved personal pension scheme, which allows individuals to make their own investment decisions from the full range of investments approved by His Majesty’s Revenue and Customs.

“SIPP Trustee” means the trustee and administrator of the SIPPs used to invest in the Model Portfolios.

“Specialist Advisors” means Specialist Advisors Limited.

“the Statements of Principle” means the Statements of Principle as set out in APER.

“Mr Stephen” means David John Alexander Stephen.

"SVS" or "the firm" means SVS Securities Plc.

"SYSC" means the part of the Authority's Handbook entitled *"Senior Management Arrangements, Systems and Controls".*

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

"UCITS" means Undertakings for Collective Investment in Transferable Securities.

"Mr Virk" means Kulvir Virk.

"the Warning Notice" means the Warning Notice dated 17 February 2023 given to Mr Hadjigeorgiou.

4. FACTS AND MATTERS

Background

4.1. SVS was regulated by the Authority from 9 April 2003 to 31 August 2023. It had permission under Part 4A of the Act to carry out a range of regulated advisory and transactional activities. Its principal business activities included: advising on investments, dealing in investments as agent, dealing in investments as principal, managing investments, arranging safeguarding and administration of assets, and safeguarding and administration of assets.

4.2. SVS's four main services, or business areas, were:

1) Advisory - traditional stockbroking services (private client broking) on an advisory basis to both retail and Institutional clients. This also included taking part in AIM listings and secondary placings on a principal basis;

2) Discretionary - investments into the Model Portfolios by one of the SVS discretionary team;

3) Execution only - online equity, ISA, SIPP trading on an execution only basis; and

4) Foreign exchange trading - Retail online execution only foreign exchange business that operated under the trading name of SVSFX.

4.3. Mr Hadjigeorgiou was approved by the Authority to perform the CF1 (Director) function at SVS from 4 January 2017 to 31 August 2023. Mr Hadjigeorgiou was also approved by the Authority from 1 May 2018 to 31 August 2023 to perform the CF3 (Chief Executive) function.

4.4. The Authority received a number of complaints from customers about the Model Portfolios in early 2019. On 13 May 2019, the Authority requested that SVS provide information about the due diligence that it had conducted on the investments within its Model Portfolios. On 2 July 2019, the Authority conducted a site-visit at SVS's offices.

4.5. The information gathered by the Authority from SVS raised serious concerns and on 26 July 2019, at the request of the Authority, SVS applied for requirements to be imposed on it. Accordingly, requirements were imposed on the firm on the same date. Under the voluntary requirements SVS agreed to cease all regulated activities in relation to its Discretionary Fund Management business and not to accept any new clients into any of its other business areas.

4.6. On 2 August 2019, the Authority imposed further requirements on SVS requiring it to cease all regulated activities, safeguard assets and notify affected third parties.

4.7. On 5 August 2019, SVS was placed into Special Administration. The Special Administration ended on 30 March 2023 and SVS was dissolved on 10 August 2023.

4.8. The FSCS started considering claims from Model Portfolio customers on 10 August 2020.

The Model Portfolios and Underlying Investments

Creation and Structure of the Model Portfolios

4.9. During the Relevant Period, 879 retail customers invested £69.6 million in the Model Portfolios. The vast majority of the customers who invested in the Model Portfolios were retail customers transferring their pensions from existing pension plans, including customers who had transferred from defined benefit pension schemes.

4.10. The Model Portfolios were created by SVS as part of its discretionary fund management business. The Model Portfolios were broken down into four separate portfolios: Income, Mixed, Growth and Aggressive Growth. They purported to invest in a mixture of equities, fixed income and collective funds which could be tailored to meet different customer objectives. Of the total £69.6 million invested in the Model Portfolios, around 63% of the invested monies were allocated to the fixed income products.

Governance of the Model Portfolios

4.11. The SVS Board of Directors was responsible for *'oversight and overview'* of the Model Portfolios.

4.12. Separate from the Board of Directors, there were a number of committees with formal governance responsibilities for the Model Portfolios. These included a Model Portfolio Strategic Investment Committee (the "Investment Committee"), a Fixed Income Investment Committee, a FTSE Investment Committee, a Small Cap Investment Committee and a Funds / Yield Investment Committee. Mr Hadjigeorgiou was a member of all of these committees. He was also responsible for providing specific guidance and a reporting line for the SVS Model Portfolio Manager on all operational matters.

4.13. The Model Portfolio Team had overall responsibility for the Model Portfolios, convening Investment Committee meetings, producing management information, devising and implementing operational strategy, ensuring that introducer and financial advisers were *'properly serviced',* dealing with disinvestments, and onboarding new clients.

Features of the Model Portfolios

4.14. The Model Portfolios were discretionary managed portfolios which aimed to deliver a strategy of capital growth and income through asset allocation.

4.15. By July 2019, the fixed income asset class comprised the following high risk, corporate bonds and preference shares:

1) CFBL Bonds;
2) Ingard Property Bonds;
3) ICFL Bond;
4) Angelfish preference shares; and
5) Queros.

CFBL Bonds

4.16. At the start of the Relevant Period, SVS had already invested Model Portfolio funds into the OC Finance Bonds, which were fixed income products. In 2016, Mr Anderson established CFBL as a new vehicle to attract fixed income investment. CFBL issued a £500 million secured note programme which launched on 21 June 2016. The stated aim of the programme was to provide UK companies with development capital to grow their business - through accelerated growth plans, acquisitions or realisation of new opportunities. It purported to achieve this by issuing bonds and then using the capital to lend to such businesses on a secured basis.

4.17. The CFBL £500 million secured note programme was approved by the Irish Stock Exchange on 21 June 2016. Each series of the CFBL Bonds was listed on the Global Exchange Market of Euronext Dublin. The OC Finance Bonds, into which SVS had already invested Model Portfolio funds, were rolled into the CFBL Bond programme as Series 1 and Series 2. There were eight different series of the CFBL Bonds. The bonds were issued with a fixed rate of interest (either 5.95% or 6.25%) for a fixed term of 4.5 or 5 years. The CFBL Bonds had maturity dates between 7 July 2021 and 24 April 2022.

4.18. Between 16 February 2016 and 1 July 2019, SVS invested into six series of the CFBL Bonds. As at 1 July 2019, a total of £23,912,255 of SVS customer funds was invested in the CFBL Bonds via the Model Portfolios. This represented 29% of all funds in the Model Portfolios. Over half of the fixed income investments in the Model Portfolios were invested in CFBL Bonds.

4.19. In return for investing SVS customer funds into the CFBL Bonds, CFBL paid SVS commission of 10-12% of the funds invested. The CFBL Bonds were delisted on 6 November 2019 due to the economic environment and to save costs.

4.20. By 29 April 2020, the CFBL Bonds had defaulted on coupon payments. With effect from 18 May 2020, Heritage Corporate Finance Ltd replaced CFBL as the issuer of the bonds. Customers are only expected to recover between 20-35% of the value of their investments in the CFBL Bonds.

Ingard Property Bonds

4.21. SVS included Ingard Property Bond 1 and Ingard Property Bond 2 in the Model Portfolios. The purpose of both bonds was to provide bridging loans to the UK property market. Both bonds were listed on the Cyprus Stock Exchange.

4.22. Both bonds were issued with a fixed rate of interest (either 5.75% or 7%) for a fixed term of 7 years. Ingard Property Bond 1 was due to mature on 31 December 2023 and Ingard Property Bond 2 was due to mature on 31 December 2025. In January 2017 SVS invested Model Portfolio customer funds into Ingard Property Bond 1 and in December 2018, SVS invested Model Portfolio customer funds into Ingard Property Bond 2, in each case in return for commission of 10% of the customer funds invested. As at 1 July 2019, SVS had invested £5.7 million into the Ingard Property Bonds. This represented 7% of the total funds in the Model Portfolios.

ICFL Bond

4.23. ICFL issued a £100 million secured note programme which launched on 17 January 2019. The stated aim of the programme was to facilitate secured lending, primarily in the innovation and technology sector. The purpose of the ICFL Bond was to connect investors seeking high, fixed income yields with capital security, and borrowers seeking capital injections at competitive rates to grow their business.

4.24. As at 1 July 2019, SVS had invested £10 million in the ICFL Bond in the Model Portfolios, in return for commission of 10% of customer funds invested. The bond was issued for a fixed term until 30 January 2024 with a fixed 6.25% coupon. As at 1 July 2019, there were £9,802,834 of Model Portfolio customer funds invested in the ICFL Bond, which represented 12.3% of the total funds in the Model Portfolios. ICFL Bonds comprised 23.09% of all the fixed income investments in the Model Portfolios.

Angelfish Preference Shares

4.25. SVS invested just over £3 million in Angelfish preference shares within the Model Portfolios. Angelfish's investment strategy was focused on businesses and companies in the technology sectors, and the stated purpose of the preference share issue was to progress development activities and provide capital for further investment opportunities as they arose. The preference shares were listed on the NEX Exchange Growth Market in the UK. As at 11 May 2016, SVS invested into the Angelfish preference shares. Subsequently SVS purchased a further tranche of preference shares in October 2018. A commission was paid to SVS of 9-10% on the October 2018 Model Portfolios' take up of preference shares issued by Angelfish. There was no historic trading activity in the Angelfish preference shares before SVS invested. As at 1 July 2019, SVS had £3,065,447 of Model Portfolio customer funds invested into the Angelfish Preference Shares, which represented 3.65% of the total funds in the Model Portfolios.

4.26. The Angelfish preference shares offered dividends at 7.1% per annum. Angelfish has defaulted on dividend payments and no payment has been received by customers since 30 June 2019. The Angelfish preference shares were converted to ordinary shares in September 2020.

The Customer Journey

4.27. SVS operated a business model that relied upon financial incentives to market its discretionary managed Model Portfolios to retail customers. SVS then used those customer funds for its own benefit by exercising its discretion to prefer fixed income investments which paid SVS itself substantial commission, calculated as a percentage of the customer funds that SVS steered into those investments.

Unauthorised Introducers

4.28. SVS entered into marketing agreements with unauthorised introducer firms and individuals. The role of the introducer was to "generate certain customer lead types … with a view to generating income" for SVS. SVS incentivised its introducers to attract customers funds into the Model Portfolios by paying them commission calculated as a percentage of the net sum invested with SVS. This incentive commission varied between 7% and 9% of customer funds invested, depending on the introducer.

Financial Advisers

4.29. The introducer firms did not introduce customers directly to SVS; they introduced prospective customers to financial advisers on the premise that they would recommend the Model Portfolios to customers where it was suitable to do so.

4.30. The unauthorised introducers introduced customers to financial advisers employed by various regulated financial advice firms; prospective customers were introduced for a pension review.

4.31. SVS had written Introducing Broker Partnership Agreements with the financial advice firms. The terms of the Introducing Broker Partnership Agreements included that the financial advisers would only introduce customers to SVS for whom the services could reasonably be expected to be suitable.

SIPP Trustees

4.32. For those customers that were advised to invest in the Model Portfolios, SIPP Trustees would enter into an arrangement with the customer to maintain a SIPP and to hold its assets. The SIPP Trustees were clients of SVS and established, operated and administered the SIPPs.

4.33. The financial advisers were responsible for contacting the SIPP Trustees on behalf of the customer.

SVS (Discretionary Fund Manager)

4.34. SVS categorised the Model Portfolio customers as retail customers. SVS made discretionary decisions on which assets to include in the Model Portfolios. Each of the Model Portfolios held the same assets but in different proportions. Customers were not asked for permission before investing, but they and their financial advisers would receive statements on a periodic basis detailing the investments.

Conflicts of Interest

4.35. In accordance with SYSC, a firm must take reasonable steps to identify whether a conflict of interest exists between itself (including its managers and employees) on the one hand and clients of the firm on the other (SYSC 10.1.3R). When considering if a conflict of interest exists, firms should take into account whether the firm (or its managers and employees) is likely to make a financial gain or avoid a financial loss, at the expense of the client, and/or the firm (or its managers and employees) has an interest in the outcome of a service provided to a client or a transaction carried out on behalf of the client which is distinct from the client's interest in that outcome. The firm must keep and regularly update a record where conflicts have arisen or may arise (SYSC 10.1.6R). Where a conflict of interest is identified, a firm must have effective arrangements so that reasonable steps can be taken to prevent conflicts of interest adversely affecting the interests of its client (SYSC 10.1.7R). Where a firm cannot ensure that the interests of a client will not be damaged as a result of a conflict, the firm must disclose the nature or sources of the conflict and the steps taken to mitigate those risks before undertaking business for the client (SYSC 10.1.8R).

4.36. The SVS Board of Directors had high-level responsibilities to ensure that there was an operational framework in place to ensure conflicts of interest were identified and managed. Mr Hadjigeorgiou joined SVS as Finance Director in January 2017 and became the Chief Executive from 1 May 2018. As Chief Executive, it was the responsibility of Mr Hadjigeorgiou to lead the SVS Board of Directors in ensuring it met its regulatory obligations, which included identifying and managing conflicts of interest appropriately. Mr Hadjigeorgiou was also a member of the Investment Committee.

4.37. The firm's Conflicts of Interest policy document emphasised the importance of identifying and managing conflicts and set out what the policy should include. The policy set out high level *'Principles'* that were to act as guidelines for the creation of specific procedures in each of the firm's business areas. In practice there were no detailed procedures put in place for the management of potential conflicts of interest between the firm's directors, the firm itself, and its customers. However, it was evident from the high-level principles that employees were required to disclose any potential or actual conflicts of interest and that the firm relied on the *"integrity of colleagues in making them aware of actual or potential conflicts"*. All employees of the firm were also provided annual and ad-hoc training on conflicts of interest.

4.38. SVS took retail pension customers' funds and channelled them into investments which benefitted its directors and close business associates. SVS also benefitted from lucrative commission arrangements with the companies from which conflicts of interest arose. Mr Hadjigeorgiou failed to escalate these conflicts of interest to Compliance which meant that the conflicts of interest were not managed appropriately.

Failure to identify and manage conflicts of interest

4.39. The Authority identified the following actual and potential conflicts of interest which Mr Hadjigeorgiou failed to properly identify and/or manage:

1) Mr Hadjigeorgiou was aware that Mr Flitcroft, a non-executive director of SVS, was also a director of Angelfish but failed to take reasonable care to ensure the conflict was adequately managed, see paragraphs 4.40 to 4.45; and

2) commission paid to SVS upfront by ICFL, a bond provider, in November 2018. Mr Hadjigeorgiou arranged for this commission to be accounted for as a loan, however he failed to recognise that this could be a conflict of interest and failed to escalate it to SVS's Compliance department, see paragraphs 4.46 to 4.47.

Conflicts of interest with Angelfish

4.40. During the Relevant Period, SVS included two tranches of the Angelfish preference shares in the Model Portfolios. The first tranche of the Angelfish preference shares was included at the outset of the Model Portfolios.

4.41. When the first investment into the Angelfish preferences shares was made (see paragraph 4.25), Mr Flitcroft was a director of both Angelfish and SVS (the "Angelfish Conflict"). Mr Hadjigeorgiou was aware of the Angelfish Conflict since at least May 2017.

4.42. In October 2018, Mr Flitcroft resigned as a director of Angelfish on the same date that SVS invested in the second tranche of Angelfish preference shares in order to avoid a conflict of interest. However, he continued to work for Angelfish as an adviser, and engaged with SVS in relation to a proposed conversion of preference shares to a bond (the proposed conversion did not take place).

4.43. Throughout 2018, a SIPP Trustee had raised concerns about SVS's investments in related parties, which included SVS's investments in the Angelfish preference shares and the Ingard Property Bonds. The SIPP Trustee raised further concerns in October 2018, and SVS made the investment in the Angelfish preference shares two days after the concerns were raised. Mr Hadjigeorgiou later informed the SIPP Trustee that the Angelfish Conflict was no longer present as Mr Flitcroft had resigned from Angelfish.

4.44. The Authority considers that the Angelfish Conflict was not managed appropriately as Mr Flitcroft, whilst being the sole CF2 (Non-executive director function) at SVS, approached SVS to invest in the second tranche of Angelfish preference shares, directly engaged with Mr Hadjigeorgiou on behalf of Angelfish, and was still a director of both firms when SVS management took the decision to invest. Furthermore, Mr Hadjigeorgiou later described Mr Flitcroft's resignation as *'window dressing'* and the Authority considers that the purpose of it was to give the impression that he was no longer involved with both firms.

4.45. However, Mr Flitcroft's resignation as an Angelfish director and re-engagement as an adviser to Angelfish, did not resolve the conflict of interest as he continued to work for and be remunerated by both SVS and Angelfish. On behalf of Angelfish, Mr Flitcroft continued to engage directly with Mr Hadjigeorgiou into 2019, including writing to Mr Hadjigeorgiou from his Angelfish email account in June 2019 regarding assistance that SVS was providing to Angelfish to launch the proposed Angelfish listed bond, which was to replace the Angelfish preference shares, in which SVS had invested Model Portfolio customer funds. The correspondence indicates that SVS had agreed to prepare the bond memorandum and admission document. The Angelfish listed bond was never launched and the Angelfish preference shares defaulted on dividend payments at the end of that month. The Authority has not seen evidence that Mr Hadjigeorgiou took any or sufficient action to escalate, mitigate or otherwise manage the ongoing conflict indicated by this engagement.

Conflicts of interest with ICFL

4.46. As stated in paragraph 4.24, SVS invested £10 million in the ICFL Bond in return for commission of 10%. SVS took £750,000 of the £1 million commission up front due to liquidity and cashflow issues and accounted for it as a loan in case it had to be paid back.

4.47. This created a situation in which SVS had received a loan from a bond provider. The Authority considers that this amounted to a conflict of interest which should have been raised with Compliance so it could be managed appropriately. Mr Hadjigeorgiou was aware of the arrangement with ICFL and recognised that it was a conflict of interest. He was instrumental in deciding to treat the funds received by SVS from ICFL as a loan for accounting purposes. Despite this, Mr Hadjigeorgiou did not escalate the arrangement to Compliance and the conflict of interest was not managed.

Decisions to invest in fixed income assets

4.48. Section 3.3.1R of PROD, which came into force on 3 January 2018, states that a distributor must: understand the financial instruments it distributes to clients; assess the compatibility of the financial instruments with the needs of the clients to whom it distributes investment services, taking into account the manufacturer's identified target market of end clients; and ensure that financial instruments are distributed only when this is in the best interests of the client. SVS was a distributor for purposes of the PROD rules.

Decisions to invest in the CFBL Bonds

4.49. As stated in paragraph 4.18, SVS held six series of the CFBL Bonds in the Model Portfolios. SVS senior management identified CFBL Bonds as investments to include in the Model Portfolios and made the decision for SVS to invest in the bonds. Separate decisions were not made for each series, rather once each series was fully subscribed, SVS moved on to invest in the next series.

4.50. The due diligence carried out by SVS on CFBL was insufficient. The Authority raised concerns to SVS about the due diligence carried out on the CFBL Bonds on 24 November 2017, 4 January 2018 and 23 January 2018. In addition, SVS only gathered certain due diligence material from CFBL in November 2017 because the Authority had required SVS to provide a copy of it.

4.51. On 23 January 2018, the Authority wrote to SVS outlining a series of concerns in relation to the CFBL Bonds, specifically in relation to due diligence performed by SVS, the concentration risk, the liquidity risk and SVS's analysis of the CFBL Bonds. The Authority had concerns about SVS's knowledge of the bonds as it placed too much reliance on the fact that the bonds were listed on a recognised exchange and had not assessed the credit quality, duration and gross redemption yield compared to the other offerings in the market. SVS had not provided the Authority with a sufficient level of analysis of the bonds and the various tranches. The Authority was also concerned that SVS did not know the details of the underlying loan recipients of the CFBL Bonds. Following the concerns raised by the Authority regarding the due diligence on CFBL, the Authority has not seen any evidence that SVS took steps to ensure that adequate due diligence was carried out in respect of subsequent investments in CFBL Bonds.

4.52. On 1 February 2018, SVS responded to the Authority. In relation to the Authority's concerns regarding concentration risk, SVS gave the following written assurance:

'*We accept that the SVS model portfolios have issuer concentration risk to CFBL. Notwithstanding our further comments we will look to reduce the concentration risk of this issuer within the Model Portfolios*.'

4.53. SVS decided to invest in CFBL Series 9 on 6 November 2017. When the Authority wrote to SVS on 23 January 2018, SVS had invested £1.28 million in CFBL Series 9. On 14 March 2018, approximately 40% of the Model Portfolio assets were held in CFBL Bonds. At the SVS Board Meeting on 14 March 2018, SVS resolved "*as an interim measure that 50% of available fixed income cash may still* *be invested in the CFBL products, subject to these investment decisions being properly documented".* Mr Hadjigeorgiou was Chair of this Board Meeting. Notwithstanding the assurance given to the Authority, SVS continued to invest a further £5,106,150 in CFBL Series 9 between 31 January 2018 and 11 May 2018.

4.54. The concentration of CFBL Bonds within the Model Portfolios reduced from 39.3% on 31 March 2018 to 34.31% on 13 May 2019. However, whilst SVS initially considered reducing its holdings of CFBL Bonds, the concentration risk was only reduced due to SVS diluting the proportion of CFBL Bonds in the Model Portfolios by increasing its investments in other high risk, illiquid, fixed income products including ICFL, Ingard Property Bond 2, and a further tranche of the Angelfish preference shares. In fact, the total value of customer funds invested in the CFBL Bonds had increased. This was not consistent with the written assurance SVS gave to the Authority. The Authority expected SVS to reduce its holdings in the CFBL Bonds, but instead it increased its holdings and increased its investments in other similarly high risk and illiquid products.

Ingard Property Bond 2

4.55. Ingard Property Bond 2 was listed on the Cypriot Stock Exchange on 11 December 2018. SVS provided support for the listing of Ingard Property Bond 2. Ingard stated that *"without evidence of SVS's conditional placing commitment, the process will stall".*

4.56. SVS required Ingard Property Bond 2 to be rated in order for it to be included in the Model Portfolios at the insistence of a SIPP Trustee. SVS provided support to Ingard to allow Ingard Property Bond 2 to be rated and therefore be suitable for inclusion in the Model Portfolios.

4.57. Mr Hadjigeorgiou played a key role in SVS's decision to invest in Ingard Property Bond 2 and in the due diligence carried out by SVS. He informed Mr Ewing that SVS was *"happy to invest up to £4.25m"* in Ingard Property Bond 2; he offered assistance to Ingard in order to help get the bond rated having already committed to investing £4.25 million in the bond; and he subsequently carried out due diligence on the bond.

4.58. SVS had a close relationship with Ingard due to Mr Ewing being a director of both companies and SVS providing assistance in relation to the listing of both Ingard Property Bonds. The Authority considers that the close relationship between SVS and Ingard meant that any due diligence carried out on Ingard Property Bond 2 was in essence a formality because SVS had, in substance, already decided to invest.

Decision to invest in the ICFL Bond

4.59. SVS entered into an agreement with ICFL on 1 November 2018 to invest £10 million of Model Portfolio customer funds into the ICFL Bond. This agreement provided that SVS would be paid commission of £1 million, being 10% of the minimum investment of £10 million. SVS took £750,000 of this commission up front, whilst the firm was experiencing issues with its liquidity and cashflow, and accounted for it as a loan in case it had to be paid back. The agreement was entered into, and the £750,000 commission paid, without due diligence having been undertaken and without the Model Portfolio Team's awareness. SVS took the £750,000 of the commission up front. The Model Portfolio Team subsequently attempted to gather due diligence material from ICFL on 7 February 2019. ICFL considered it to be highly unusual that SVS was undertaking due diligence after it had already paid commission to SVS.

4.60. Mr Hadjigeorgiou played a leading role in performing the due diligence on ICFL and he identified that the product was similar in nature to the CFBL Bonds. Having identified these similarities, Mr Hadjigeorgiou did not take sufficient steps to consider whether the ICFL Bond would raise the same concerns for the Authority as the CFBL Bonds. He stated to the Authority in interview that he queried whether the management of CFBL was behind the ICFL Bond but was assured that they were only acting as advisor to ICFL. Despite this, on 17 February 2019 in an internal email Mr Hadjigeorgiou stated, `*As you probably picked up from emails and text messages from SA* [Mr Anderson] *on Friday, we are now under some pressure to deal with this quickly, in the context of doing an initial £2.0m.'*

4.61. The ICFL Bond had various similarities to the CFBL Bonds:

1) Shared staff between ICFL, CFBL and Specialist Advisors (a firm with common management with CFBL), in particular Mr Anderson, acted as a consultant to ICFL to secure SVS's "cornerstone" investment into the ICFL Bond.

2) Two of the three members of the ICFL Lending Advisory Board were also members of the CFBL Investment Advisory Group. These were the committees who recommended loans to be made by CFBL and ICFL.

3) Both the CFBL Bonds and the ICFL Bond provided loans offering fixed coupons of between 5.95% and 6.25% per annum for a five-year term. They took similar margins: CFBL took a typical margin of 3%, ICFL sought a margin of around 2%.

4) Both CFBL and ICFL were listed on the Global Exchange Market of the Irish Stock Exchange.

5) Both CFBL and ICFL lent to a minimum of 5 borrowers with no more than 20% to each borrower.

6) The *'Lending Criteria'* applied by CFBL and ICFL in seeking to lend to businesses was almost identical.

7) The *'Bond Process'* for approving loan applications set out in the CFBL and ICFL due diligence documents was identical.

8) The *'Bond Series Loan Book Review Process'* for reviewing loans set out in the CFBL and ICFL due diligence documents was identical.

4.62. A vote was held in the Portfolio Management and Asset Allocation meeting on 19 February 2019 as to whether to:

1) increase the allocation to fixed income and high yield bonds by £2 million; and

2) purchase the ICFL Bond.

4.63. During the meeting, the Model Portfolio Team also raised the following concerns about the ICFL Bond:

1) the similarities between the ICFL Bond and the CFBL Bonds;

2) the close relationship between ICFL and CFBL;

3) the lack of liquidity of the bond and the lack of visibility on the underlying investments;

4) the high level of stocks with low liquidity in the Model Portfolios; and

5) the experience of ICFL Bond Management.

4.64. Despite the concerns raised, only one member of the Investment Committee voted against the proposals.

4.65. The vote on 19 February 2019 only related to an investment of £2 million in the ICFL Bond. However, SVS made further investments amounting to £8 million, which were not subject to a vote.

4.66. SVS informed the Authority that when assessing the suitability of a fixed income investment to be included in the Model Portfolio, it relied on it already being listed on an HMRC recognised stock exchange. However, SVS entered into an agreement to invest in the ICFL Bond, and took commission, before the listing took place.

4.67. Following the request by the Authority on 13 May 2019 for SVS to provide information about the due diligence that it had conducted on the investments within its Model Portfolios, SVS requested enhanced due diligence material from ICFL on 26 June 2019, several months after the decision had been made to invest in the ICFL Bond and SVS had received the full commission of £1 million. In addition, ICFL did not provide some of the requested information to SVS.

4.68. The Authority considers that due diligence carried out by SVS was in essence a formality as SVS had already agreed to invest in the ICFL Bond, and received commission, before due diligence was gathered.

4.69. Mr Hadjigeorgiou provided approval for Mr Virk to sign the agreement with ICFL on behalf of SVS. The Authority considers that he was aware that SVS had entered an agreement with ICFL before any due diligence had been carried out.

4.70. Mr Hadjigeorgiou was already aware of the Authority's concerns about the due diligence carried out on the CFBL Bonds from January 2018 but one year later, there were similar failings as the due diligence undertaken by SVS on ICFL was inadequate to assess and monitor the ICFL Bond. SVS lacked adequate information about the underlying loan recipients, their financial standing, their potential to meet high interest rates set by ICFL, their ability to repay the principal sum at the end of the loan term, or the performance of the loans. As stated in paragraph 4.48, this information was needed to assess the bonds and, after 3 January 2018, to comply with the rule in PROD 3.3.3R that any investment product must be distributed in accordance with the needs, characteristics and objectives of its target market.

4.71. The ICFL Bond was a similar product to the CFBL Bonds, in which the Authority expected SVS to reduce its concentration. It was similar to the CFBL Bonds as it had a similar structure and processes, had low liquidity and shared staff with CFBL and Specialist Advisors. The Authority considers that SVS increased its exposure to high risk, illiquid bonds when it lacked the information to assess properly the risk of these investments.

4.72. SVS committed to invest in the ICFL Bond in November 2018. Due diligence later carried out on the ICFL Bond identified that the 10% commission paid to SVS was to be made up by adding it to the loans of ICFL's underlying borrowers. In a conference call in February 2019 attended by Mr Hadjigeorgiou and ICFL, together with Mr Anderson (on behalf of Specialist Advisors, advising ICFL), it was explained that *"the 10% commission which is paid to attract funding to the bond is ultimately added to borrower loans. A potential borrower wishing to drawdown net funds of £875,000 will actually be taking out a loan for £1,000,000 capital value for repayment at the period end"*.

4.73. Mr Hadjigeorgiou was central to the decision to invest in the ICFL Bond and took responsibility for the due diligence performed. He was aware of the Authority's concerns about the due diligence performed on the CFBL Bonds but failed to take heed of these concerns when carrying out due diligence on the ICFL Bond. As noted in paragraph 2.11, COBS 2.3A.15R, which was in force from 3 January 2018, states that a firm must not accept any commission from any third party in provision of a relevant service to retail clients. Furthermore, receiving the commission as an advance, due to SVS's financial position, created a significant conflict of interest as Mr Hadjigeorgiou unduly prioritised the financial benefit to SVS over the best interests of customers.

Decision to introduce a mark-down on fixed income disinvestments

4.74. The Authority requires firms to pay due regard to the interests of their customers and treat them fairly. This obligation was acknowledged in SVS's Order Execution Policy.

Decision to introduce a 10% mark-down

4.75. In November 2018, the Board of Directors decided to introduce a 10% mark-down on the valuation of the fixed income assets when a customer disinvested from the Model Portfolios. The rationale provided in contemporaneous internal documentation for taking a 10% mark-down was to earn additional income for SVS.

4.76. The decision to change the policy was made by the SVS Board of Directors, including Mr Hadjigeorgiou. At the time that this decision was taken, Mr Hadjigeorgiou as Chief Executive was aware that SVS had financial concerns and needed new income streams.

4.77. The Authority considers that in approving this change, Mr Hadjigeorgiou prioritised the financial benefit of the 10% mark-down to SVS over the best interests of customers at a time when the firm had financial concerns. Further, Mr Hadjigeorgiou failed to take steps to ensure that customers would be informed about the change and the adverse impact it would have on their assets in the event of disinvestment from the Model Portfolios. This meant that customers did not have the opportunity to consider the financial impact of the mark-down when deciding whether to disinvest. If customers knew about this charge, they may have decided to disinvest before it came into effect or not to disinvest after it had, both of which would have meant less income for SVS.

Failure to communicate the 10% mark-down to customers

4.78. Prior to November 2018, SVS did not charge customers when they disinvested from the Model Portfolios.

4.79. From November 2018, SVS applied a 10% mark-down on all fixed income disinvestments. This mark-down was applied to all customers who disinvested regardless of the length of time they had held their investment. This was contrary to the statement in the Model Portfolio brochure provided to customers, that exit charges to customers who disinvested would differ based on the length of time a customer had been invested.

4.80. In breach of COBS 11.2A.31R, SVS did not communicate the 10% mark-down to customers in a clear manner and did not disclose it in writing to customers, their SIPP Trustees or financial advisers for a further six months, namely on 30 May 2019. The written disclosure that was eventually made only referred to "the wider spread"; it did not include reference to the rate of the 10% mark-down.

Internal concerns regarding the introduction of the 10% mark-down

4.81. Staff within SVS raised concerns that, amongst other things, the decision to introduce a 10% mark-down was not fair to customers and would lead to complaints. Despite these concerns being raised with the SVS Board of Directors and the Head of Risk and Compliance, Mr Stephen, a number of times, they were unreasonably disregarded and SVS continued to introduce the 10% mark-down and treated its customers unfairly.

4.82. Concerns were raised to Mr Hadjigeorgiou, other directors and Compliance in relation to the decision to introduce the 10% mark-down, and/or the operation of the process behind the 10% mark-down, on the following occasions:

1) 2 November 2018 – concerns were raised about SVS profiting unduly from a disinvestment mark-down which was higher than the proposed exit charge;

2) 19 November 2018 - concerns were raised about not having a *"fully formed procedure"*;

3) 22 November 2018 - concerns were raised that the disinvestment process was not *"a workable solution"*;

4) 26 November 2018 - staff within SVS questioned the justification for applying a 10% mark-down;

5) 11 December 2018 - concerns were raised that SVS was double counting costs charged to customers;

6) 14 December 2018 – concerns were raised that the 10% mark-down "*looks like a fee coming straight out of the models*";

7) 17 December 2018 – concerns were raised that the situation was unworkable and SVS was unable to provide an explanation to customers that could be defended;

8) 4 February 2019 – concerns were raised that the disinvestment process was not fair on customers; and

9) 13 February 2019 – concerns were raised that the new disinvestment policy was *"not an efficient way to carry out the disinvestments when compared to the application of exit charges as a percentage that reduces with each year of participation."*

4.83. Mr Hadjigeorgiou did not respond to the concerns raised about the change in the disinvestments policy but considered that the concerns had been handled appropriately. He had some sympathy with the concerns as he thought it would be fairer overall for the disinvestment charge to take account of the overall time that the clients had been invested. However, as Chief Executive he declined to make a substantive decision about fairness to SVS's clients, deferring to Compliance's unreasonable assurance that the disinvestments policy was correct.

Financial consequences to customers due to the introduction of the 10% mark-down

4.84. SVS prioritised its profits at the expense of customers by introducing a 10% mark-down on the value of fixed income disinvestments. After the decision was made to introduce the 10% mark-down, customers disinvested £5,784,000 between October 2018 and August 2019. From these disinvestments, SVS earned £359,800 in income as customers were charged a higher amount than the cost to SVS. This income would have increased had SVS not entered administration on 5 August 2019.

4.85. The table below sets out the consequences of the introduction of the 10% mark-down in relation to three customers:

	Customer 94008	Customer 84848	Customer 124128
Amount invested	£92,890.92	£266,204.76	£20,296.10
Date of investment	16 June 2017	1 November 2016	20 February 2019
Date disinvestment actioned	4 February 2019	4 February 2019	13 March 2019
Value of investments at date of disinvestment **(A)**	£75,575.54	£223,575.15	£19,880.64
Amount returned to customer **(B)**	£71,132.62	£210,431.09	£18,645.93
Amount returned to customer (%) **(B / A)**	94%	94%	94%
Value of fixed income assets disinvested **(C)**	£35,904.41	£106,214.79	£7,029.93
Amount of fixed income assets returned to customer **(D)**	£32,314.01	£95,593.33	£6,326.97
Fixed income disinvestment mark-down **(C – D)**	£3,590.40	£10,621.46	£702.96
Fixed income disinvestment mark-down (%) **(D / C)**	10%	10%	10%
Fixed income disinvestment as % of total investment **(C-D / A)**	5%	5%	4%

4.86. Customer 94008 was 60 years old when they invested, was a carer to their elderly parent, owned a property worth £70,000, had an annual income of £4,700, and had other investments of £7,000. The Authority considers that the fixed income disinvestment mark-down of £3,590.40 taken by SVS was a significant amount to the customer.

4.87. Customer 84848 planned to retire in 10 years, was a personal assistant earning around £31,000 a year, owned a property worth £185,000, and had other savings and investments of £2,100. The Authority considers that the fixed income disinvestment mark-down of £10,621.46 taken by SVS was a significant amount to the customer. Customer 84848 submitted a complaint to SVS due to the performance of the Model Portfolios, the customer statements being unclear, and unsatisfactory service received from SVS. In the complaint, Customer 84848 also explicitly asked whether exit charges were applied, to understand why the value of the customer's investment had decreased. The response to the complaint claimed that the Firm did not apply exit charges and instead the reduction in value was due to the "*wider spread*" on fixed income products when sold "*into the market*". This misrepresented the situation to the customer as a flat 10% had been applied to the disinvestment, which operated as a charge. In reviewing the complaint, SVS considered that compensation may be appropriate for the unsatisfactory service provided but it does not appear that the firm considered the amount that the customer lost due to the disinvestment mark-down applied.

4.88. Customer 124128, and their partner, invested all of their pension funds of £20,296 into the Model Portfolio and had no other savings or investments. The customer planned to retire within 10 years, was a road maintenance worker earning £30,000 a year, and jointly owned a property worth £500,000. The customer was only invested in the Model Portfolios for 3 weeks and lost £702.96 due to the disinvestment mark-down, which the Authority considers to be a significant amount to the customer.

Summary

4.89. The decision to introduce a 10% mark-down on all fixed income disinvestments was approved by Mr Hadjigeorgiou and was not made with the best interests of customers in mind. In particular, the decision was made to generate revenue for SVS at a time when the firm had financial concerns, and it improperly prioritised the financial interests of the firm over the interests of the firm's customers.

4.90. Furthermore, SVS did not inform customers in writing of the change until six months after the change had been made, and the disclosure did not specify that SVS was taking a 10% mark-down. Concerns about the process were raised by the Model Portfolio Team, but were not handled appropriately by Mr Hadjigeorgiou who unreasonably dismissed the concerns.

4.91. The Authority considers that Mr Hadjigeorgiou was responsible for the decision which was made to generate income for SVS at the expense of retail pension customers and the failure to ensure that the concerns raised were dealt with in an appropriate manner; further Mr Hadjigeorgiou did not take reasonable steps to ensure that the decision was communicated to customers or their financial advisers in a durable format.

High level of fees and commission received by SVS

4.92. SVS received high levels of commission from the Model Portfolio fixed income product providers. COBS 2.3A.15R came into force on 3 January 2018, in line with MiFID II, and relates to the payment of inducements including commission. It states that a firm must not accept any commission from any third party in provision of a relevant service to retail clients. However, throughout the Relevant Period, SVS was paid commission from product providers calculated as a percentage of the customer funds SVS directed to that product. This incentivised SVS to maximise the investment of customer funds into these products. As a CF1 Director and CF3 Chief Executive Mr Hadjigeorgiou should have ensured that SVS did not accept such payments. These inducements put at risk SVS's independence and compromised its ability to act in the best interests of its customers.

4.93. When SVS placed customer funds into the fixed income investments, it received the following commission:

1) in relation to investments in CFBL, SVS received 10% commission from CFBL and 2% from Specialist Advisors. This investment totalled £23,436,165, or 54.41% of the fixed income investments;

2) in relation to investments in the Ingard Property Bonds, SVS received 10% commission from Ingard Alternative Funding and 2% from Ingard Financial. This investment totalled £5,700,000, or 13.23% of the fixed income investments;

3) in relation to investments in ICFL, SVS received 10% commission. SVS drew down £750,000 of the £1 million commission upfront due to liquidity and cashflow issues. This investment totalled £9,802,834, or 22.76% of the fixed income investments;

4) in relation to an investment in Angelfish preference shares in October 2018, SVS received 9-10% commission. This investment totalled £3,065,447, or 7.12% of the fixed income investments; and

5) in relation to investments in Queros, SVS did not receive any commission. This investment totalled £1,067,093 or 2.48% of the fixed income investments.

4.94. The amounts invested by SVS in the fixed income investments correspond with the amount of commission generated. The largest fixed income investments in the Model Portfolios were the CFBL Bonds, for which SVS received the greatest amount of commission. The smallest fixed income investment in the Model Portfolios was Queros, for which SVS received no commission.

4.95. The additional 2% paid on investments in CFBL and the Ingard Property Bonds was also determined by reference to the amount of customer funds invested by SVS in the relevant product.

4.96. The commission paid to SVS by the fixed income product providers was used to pay the marketing fees to the introducer firms to incentivise them to steer new customers into the Model Portfolios.

4.97. The commission payments expressed as a percentage of the customer funds invested into the product, together with the trigger for payment (channelling investor funds into bond products) that arose after 3 January 2018 were accordingly in breach of COBS 2.3A.15R. The Authority has found no evidence to indicate that the commission payments SVS received were necessary for the services it provided.

4.98. Mr Hadjigeorgiou played a key role in relation to the investments in the Ingard Property Bonds, Angelfish and ICFL and was aware of the commission paid to SVS. As the holder of the firm's CF1 (Director) and CF3 (Chief Executive) functions, the Authority considers that Mr Hadjigeorgiou should have taken reasonable care to ensure that the firm remained compliant with the Authority's rules in relation to inducements.

4.99. SVS charged commission of 1.5% on all transactions, which was reduced to 0.75% in April 2019. Taking into account the IFA advice fee of up to 4% of the customer's investment, this meant that Model Portfolio customers lost up to 5.5% of their investment at the outset. As SVS also took up to 10% of its customer's funds for commission in respect of fixed income products, this increased the risk of product default, so the likelihood that Model Portfolio customers would get back what they paid in was reduced further.

5. FAILINGS

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

5.2. Based on the facts and matters described above, and for the reasons set out below, the Authority considers that during the Relevant Period Mr Hadjigeorgiou breached Statement of Principle 6.

Breach of Statement of Principle 6

5.3. Mr Hadjigeorgiou breached Statement of Principle 6 during the Relevant Period because he failed to exercise due skill, care and diligence in managing the business of SVS. Mr Hadjigeorgiou:

1) failed to take reasonable care to ensure that conflicts of interest were identified and managed appropriately:

    a. Mr Hadjigeorgiou was fully aware of the Angelfish Conflict but failed to take reasonable care to ensure that it was managed appropriately. He was aware that Mr Flitcroft only resigned from Angelfish on the same date that SVS invested in the second tranche of Angelfish preference shares in a move which Mr Hadjigeorgiou described as *'window dressing'*. Mr Hadjigeorgiou continued to engage with Mr Flitcroft in relation to a business opportunity involving SVS and Angelfish and failed to take any or sufficient action to escalate, mitigate or otherwise manage the ongoing conflict indicated by this continuing engagement; and

    b. Mr Hadjigeorgiou made the decision to treat the £750,000 commission income from ICFL as a loan. However, he failed to consider that this could lead to a conflict of interest and to escalate it to SVS's Compliance department, so that the conflict could be managed appropriately;

2) was central to the decision to invest in Ingard Property Bond 2 and to the due diligence carried out on it by SVS. SVS assisted Ingard with getting

Ingard Property Bond 2 listed on the Cypriot Stock Exchange. However, the close relationship between SVS and Ingard meant that the due diligence carried out was in essence a formality;

3) was central to the decision to invest in the ICFL Bond and took responsibility for the due diligence performed. He was aware of the Authority's concerns about the due diligence performed on the CFBL Bonds, but failed to take heed of these concerns when carrying out due diligence on the ICFL Bond. The Authority considers that the due diligence carried out was in essence a formality as SVS had already agreed to invest in the ICFL Bond and received £750,000 in commission before any due diligence was gathered. Furthermore, SVS only undertook more detailed due diligence in June 2019, after SVS had already invested in the ICFL Bond;

4) failed to take action to stop SVS from continuing to invest in CFBL Series 9, even though he was aware of the Authority's concerns about the concentration risk in relation to the CFBL Bonds, and despite SVS providing assurance to the Authority to reduce its concentration in the CFBL Bonds;

5) arranged for SVS to receive large amounts of commission from the fixed income product providers, which after 3 January 2018 should not have been accepted by SVS under COBS 2.3A.15R. These inducements put at risk SVS's independence and compromised its ability to act in the best interests of its customers. Mr Hadjigeorgiou therefore failed to take reasonable care to ensure that the firm remained compliant with the Authority's rules in relation to inducements;

6) was Chief Executive of SVS at a time when it decided to introduce a 10% mark-down to the valuation of fixed income disinvestments, at the expense of retail pension customers. The mark-down was introduced to generate more income for SVS, which was experiencing financial concerns. Mr Hadjigeorgiou did not consider the mark-down to be the fairest method by which to charge customers disinvesting from the Model Portfolios, and he was aware of concerns raised by the Model Portfolio Team that the process was not fair to customers. Despite this, Mr Hadjigeorgiou failed to push back sufficiently against others who proposed the disinvestment markdown and, instead assented to the decision. As a result of the mark-downs, SVS earned £359,800 in income at the expense of its customers; and

7) failed to take reasonable steps to ensure that SVS properly communicated the decision to introduce a 10% mark-down to the valuation of fixed income disinvestments to customers or their financial advisers. Customers therefore took disinvestment decisions without understanding the financial implications of disinvesting their funds and lost pension savings as a result.

5.4. As a result of the above failings, during the Relevant Period, Mr Hadjigeorgiou failed to exercise due skill, care and diligence in managing the business of SVS, with the result that SVS's customers were adversely impacted whilst SVS benefitted financially.

Fit and Proper test for Approved Persons

5.5. The Authority and consumers rely on senior management function holders to ensure that authorised firms are properly managed and comply with the requirements of the regulatory regime. Mr Hadjigeorgiou's failings were not confined to a single area but occurred across a business for which, as CF1 Director and later CF3 Chief Executive, he was responsible: Mr Hadjigeorgiou took no action to prevent SVS treating customers unfairly with the introduction of the disinvestment mark-down—with the result that customers disinvesting from the Model Portfolio suffered financial detriment; failed to identify and manage conflicts of interest; failed to take reasonable care to ensure that SVS complied with rules governing the payment of inducements; and failed to take reasonable care to ensure that SVS conducted adequate due diligence on investments into the Model Portfolios.

5.6. By reason of the facts and matters described above, the Authority considers that Mr Hadjigeorgiou's conduct demonstrates a serious lack of competence and capability such that he is not a fit and proper person to perform any senior management function or significant influence function in relation to regulated activities carried on at any authorised person, exempt person or exempt professional firm.

6. SANCTION

Financial penalty

6.1. The Authority's policy for imposing a financial penalty is set out in Chapter 6 of DEPP. 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 Hadjigeorgiou derived directly from the breach.

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 Hadjigeorgiou's breaches of Statement of Principle 6 was from 3 January 2018 to 2 August 2019. Mr Hadjigeorgiou has provided the Authority with details of his relevant income from his employment at SVS. The Authority considers Mr Hadjigeorgiou's relevant income for this period to be £282,243.

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.

6.9. 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:

1) the breaches caused a significant loss to individual consumers (DEPP 6.5B.2G (12)(a)).

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

1) Mr Hadjigeorgiou's breaches were committed negligently.

6.11. Taking these factors into account, the Authority considers the seriousness of the breaches to be level 3 and so the Step 2 figure is 20% of £282,243.

6.12. Step 2 is therefore £56,448.

Step 3: mitigating and aggravating factors

6.13. 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.

6.14. The Authority has considered whether any of the mitigating or aggravating factors listed in DEPP 6.5B.3G, or any other such factors, apply in this case and has concluded that none applies to a material extent, such that the penalty ought to be increased or decreased.

6.15. Step 3 is therefore £56,448.

Step 4: adjustment for deterrence

6.16. 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.

6.17. The Authority considers that the Step 3 figure of £56,448 represents a sufficient deterrent to Mr Hadjigeorgiou, and so has not increased the penalty at Step 4.

6.18. Step 4 is therefore £56,448.

Step 5: settlement discount

6.19. 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.

6.20. Pursuant to DEPP 6.7.3G (3), no settlement discount applies. Step 5 is therefore £56,448. In accordance with the Authority's usual practice this is to be rounded down to £56,400.

Penalty

6.21. The Authority hereby imposes a total financial penalty of £56,400 on Mr Hadjigeorgiou for breaching Statement of Principle 6.

Prohibition Order

6.22. The Authority has the power to prohibit individuals under section 56 of the Act. The Authority has had regard to the guidance in Chapter 5 of the Enforcement Guide in considering whether Mr Hadjigeorgiou should be prohibited and the nature of any such prohibition. The relevant provisions of the Enforcement Guide are set out in Annex A to this Notice. In particular, the Authority has been mindful of the following factors:

a. whether the individual is fit and proper to perform functions in related to regulated activities;

b. whether, and to what extent, the approved person has failed to comply with the Statements of Principle issued by the Authority with respect to the conduct of approved persons;

c. the relevance and materiality of any matters indicating unfitness;

d. the particular controlled function the approved person was performing, the nature and activities of the firm concerned and the markets in which he operates; and

e. the level of risk which the individual poses to consumers and to confidence in the financial system.

6.23. Given the nature and seriousness of the failures set out above, Mr Hadjigeorgiou's conduct demonstrated a lack of competence such that he not a fit and proper person to perform 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. The Authority considers that, in the interests of consumer protection, and in order to maintain market confidence, it is appropriate and proportionate in all the circumstances to impose on Mr Hadjigeorgiou the Prohibition Order in the terms set out above.

7. PROCEDURAL MATTERS

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

Decision maker

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

Manner and time for payment

7.3. The financial penalty must be paid in equal instalments of £1,175 to the Authority over 48 months, on the 1st day of each month starting on 1 September 2026.

If the financial penalty is not paid

7.4. If an instalment is not paid by its due date, the whole of the remaining balance of the financial penalty shall become payable immediately unless the parties agree otherwise and the Authority may recover the outstanding amount as a debt owed by Mr Hadjigeorgiou and due to the Authority.

Publicity

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

Authority contacts

7.6. For more information concerning this matter generally, contact Mark Lewis at the Authority (direct line: 020 7066 8442 / email: mark.lewis2@fca.org.uk).

Anthony Williams

Head of Department

Financial Conduct Authority, Enforcement and Market Oversight Division

ANNEX A

RELEVANT STATUTORY AND REGULATORY PROVISIONS

1. RELEVANT STATUTORY PROVISIONS

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

1.2. Section 66 of the Act provides that the Authority may take action against a person if it appears to the Authority that he is guilty of misconduct and the Authority is satisfied that it is appropriate in all the circumstances to take action against him. A person is guilty of misconduct if, while an approved person, he has failed to comply with a statement of principle issued under section 64A of the Act, or has been knowingly concerned in a contravention by a relevant authorised person of a relevant requirement imposed on that authorised person.

1.3. Section 56 of the Act provides that the Authority may make an order prohibiting an individual from performing a specified function, any function falling within a specified description or any function, if it appears to the Authority that that 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 a person to whom , as a result of Part 20, the general prohibition does not apply in relation to that activity. Such an order may relate to a specified regulated activity, any regulated activity falling within a specified description, or all regulated activities.

2. RELEVANT REGULATORY PROVISIONS

Statements of Principle and Code of Practice for Approved Persons

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

2.2. 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."

2.3. ‘Accountable functions’ include controlled functions and any other functions performed by an approved person in relation to the carrying on of a regulated activity by the authorised person to which the approval relates.

2.4. APER sets out descriptions of conduct which, in the opinion of the Authority, do not comply with a Statement of Principle. It also sets out factors which, in the Authority’s opinion, are to be taken into account in determining whether an approved person’s conduct complies with a Statement of Principle.

The Fit and Proper Test for Approved Persons

2.5. The part of the Authority’s Handbook entitled *"The Fit and Proper Test for Approved Persons"* ("FIT") sets out the criteria that the Authority will consider when 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.

2.6. FIT 1.3.1G states 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.

The Authority’s policy for exercising its power to make a prohibition order

2.7. The Authority’s policy in relation to prohibition orders is set out in Chapter 5 of the Enforcement Guide ("ENFG").

2.8. ENFG 5.1.1 G states that the Authority may exercise this power where it considers that, to achieve any of its regulatory objectives, it is appropriate either to prevent an individual from performing any functions in relation to regulated activities or to restrict the functions which he may perform.

Conduct of Business Sourcebook

2.9. The Authority’s rules and guidance for Conduct of Business are set out in COBS. The rules in COBS relevant to this Notice are 2.3A.15 and 11.2A.31R.

Senior Management Arrangements, Systems and Controls Sourcebook

2.10. The Authority's rules and guidance for senior management arrangements, systems and controls are set out in SYSC. The rules in SYSC relevant to this notice are 10.1.3R, 10.1.4R, 10.1.6R, 10.1.7R, 10.1.8R.

Product Intervention and Product Governance Sourcebook

2.11. The Authority's rules and guidance for Product Intervention and Product Governance are set out in PROD. The rules and guidance in PROD relevant to this notice are 3.3.1R and 3.3.3R.

Decision Procedure and Penalties Manual

2.12. Chapter 6 of DEPP sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act.