
FINAL NOTICE

To: GE Money Home Lending Limited
Of: Building 4
Hatters Lane
Croxley Green Business Park
Watford
WD18 8FY

22 September 2008

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.

1. THE PENALTY

- 1.1. The FSA gave GE Money Home Lending Limited (“GEMHL”/“the Firm”) a Decision Notice on 19 September 2008 pursuant to section 206 of the Financial Services and Markets Act 2000 (“the Act”), which notified GEMHL that the FSA had decided to impose a financial penalty of £1,120,000 on GEMHL. This penalty is in respect of breaches by GEMHL of Principles 3 (Management and control) and 2 (Skill, care and diligence) of the FSA Principles for Businesses (“Principles”) during the period from 31 October 2004 to 26 November 2006 (“the Relevant Period”).
- 1.2. GEMHL confirmed on 15 September 2008 that it will not be referring the matter to the Financial Services and Markets Tribunal.

- 1.3. Accordingly, for the reasons set out below and having agreed with GEMHL the facts and matters relied on, the FSA imposes a financial penalty on the Firm in the amount of £1,120,000.
- 1.4. GEMHL agreed to settle this matter at an early stage of the proceedings. It therefore received a 30% (Stage 1) reduction in penalty pursuant to the FSA's executive settlement procedures. Were it not for this discount the FSA would have sought to impose a financial penalty of £1.6 million on the Firm.

2. REASONS FOR THE ACTION

Summary

- 2.1. The FSA decided to impose a financial penalty on GEMHL for breaches of Principles 3 and 2. These breaches, which are described in more detail at section 5 below, relate to failings by the Firm in relation to customers with a regulated mortgage contract ("RMC") subject to a retention clause ("Retention Borrowers").
- 2.2. The Firm breached Principle 3 during the Relevant Period in that it failed to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems, in relation to RMCs subject to a retention clause.
- 2.3. In particular GEMHL:
 - (1) failed to establish and maintain adequate systems and procedures for charging Retention Borrowers interest. At the end of the first six months of a mortgage any retention monies, together with interest accumulated, should either have been paid to the customer or applied to the outstanding loan. However, GEMHL had no effective processes to ensure that this happened. Consequently, GEMHL did not always treat all retention monies in accordance with the terms and conditions of the RMCs, with the result that some Retention Borrowers were charged more interest than they should have been and GEMHL neither paid them the retention monies plus accumulated interest nor applied them to the outstanding loan;

- (2) failed to establish and maintain adequate systems and procedures for calculating the correct repayment amount for Retention Borrowers when they redeemed their mortgages. When a mortgage with an outstanding retention was redeemed, the retention monies, together with any interest accumulated, should have been deducted from the outstanding mortgage loan. However, GEMHL had no effective processes to ensure that this happened. Consequently it did not always apply all retention monies to the outstanding loan amount, with the result that some Retention Borrowers overpaid GEMHL when redeeming their mortgages; and
- (3) failed to establish and maintain appropriate procedures for monitoring retention monies held by the panel of solicitors retained by GEMHL to carry out conveyancing work and hold retention balances, including monitoring the age of the retention monies held by each panel solicitor.
- 2.4. As a result of the above failings, the Firm's ability to monitor, control and properly calculate interest and repayment amounts on RMCs subject to a retention clause was undermined.
- 2.5. The Firm breached Principle 2 in that during the Relevant Period it failed to conduct its business with due skill, care and diligence. In particular, despite internal warnings, the Firm did not properly resolve systems and controls failings relating to RMCs subject to a retention clause which had already been identified by the Firm by 31 October 2004, did not improve the transparency of the charging of interest on retention amounts for all relevant RMCs and did not promptly remediate all Retention Borrowers once issues had been identified.
- 2.6. Proper monitoring of the escalating amount of retention monies held by its panel solicitors should have alerted GEMHL to its failure to deal with all retention monies properly and its resulting failure to treat all of its customers fairly. It would also have enabled the Firm promptly to remediate all Retention Borrowers overcharged as a result of the Firm's failings.
- 2.7. As a result of the Firm's failings, some customers were not treated fairly in that the effect of the retention clause may not always have been transparent to them, retention

monies together with accumulated interest were not always properly paid to them or applied to the outstanding mortgage loan and they were sometimes overcharged interest on the retention monies. Remediation was not promptly provided to all customers and consequently, prior to redress being provided by GEMHL, 684 Retention Borrowers suffered financial loss in excess of £2.3 million.

2.8. The FSA considers GEMHL's failings to be serious because:

- (1) a large number of borrowers, including some with impaired or non-standard credit profiles, were put at the risk of financial loss;
- (2) the failings persisted over a significant period of time, despite the Firm identifying them in 2004.

2.9. GEMHL's failings are mitigated by the following facts:

- (1) The Firm reported the issue to the FSA;
- (2) The fact that the Firm conducted a remediation programme to ensure that customers who suffered financial loss as a result of the retentions failings were properly compensated;
- (3) The Firm commissioned an external review of the issue and shared the report with the FSA;
- (4) The Firm has stopped using the retentions mechanism.

3. RELEVANT STATUTORY PROVISIONS AND GUIDANCE

Provisions of the Act

3.1. Section 206 of the Act provides that:

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

- 3.2. GEMHL is an authorised person for the purposes of section 206 of the Act. A requirement imposed on a firm includes the Principles and Rules made under section 138 of the Act. The relevant Principles are as follows:

Principle 2 provides that:

A firm must conduct its business with due skill, care and diligence.

Principle 3 provides that:

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

4. FACTS AND MATTERS RELIED ON

Background to retentions

- 4.1. GEMHL is a mortgage lender and, amongst other things, conducts first charge regulated mortgage business. The Firm's mortgage business is generated from the 'non-conforming' market, which includes borrowers with an impaired or non-standard credit profile.
- 4.2. During the Relevant Period, GEMHL offered products through intermediaries which were sold under the igroup and First National brands, as well as products sold directly to borrowers and branded GE Money Home Lending.
- 4.3. GEMHL would sometimes impose a retention as a condition of a mortgage loan. This meant that GEMHL would not advance the Retention Borrower the full mortgage loan, retaining the retention amount, until certain conditions had been satisfied by the Retention Borrower ("Retention Conditions"). These Retention Conditions were typically the undertaking of repairs to the relevant property. Once these conditions had been fulfilled, the retention would be released to the Retention Borrower.
- 4.4. GEMHL imposed retentions on both regulated and non-regulated mortgage contracts. During the Relevant Period the amount of the retention varied between borrowers, and ranged between £100 and £40,000. The average retention amount GEMHL imposed on RMCs was £3,513. GEMHL ceased making retentions a condition of its

mortgages on 26 November 2006. GEMHL's last mortgage contract subject to a retention was entered into as late as 21 March 2007, and the retention was released shortly thereafter.

- 4.5. Between 31 October 2004 and 26 November 2006 GEMHL entered into 684 RMCs subject to a retention, with approximately £2.3 million retained from a total gross loan value of approximately £67.7 million (the retained amount being 3.3% of the total gross loan value).
- 4.6. In total, including non-regulated mortgage contracts entered into before 31 October 2004, GEMHL paid 5,245 customers redress of £7.04 million in relation to their mortgage retentions.

Terms and conditions relating to retentions

- 4.7. When borrowers entered into a GEMHL mortgage contract subject to a retention, they received for their acceptance and signature:
 - (1) a mortgage offer letter and a mortgage terms and conditions document that together set out the terms and conditions of the mortgage loan ("the Terms and Conditions"), including the amount of any retention imposed by the Firm; and
 - (2) a retention letter identifying the amount of the retention, the work required to be undertaken to the property and the timeframe within which the work should be undertaken.
- 4.8. The Terms and Conditions provided that:
 - (1) at the commencement of a mortgage loan subject to a retention, the borrower would receive an advance of funds equal to the agreed mortgage loan less the amount of the retention;
 - (2) the retention monies would be paid by GEMHL to GEMHL panel solicitors to be held in a separate interest paying client account;
 - (3) from the commencement of the mortgage loan, GEMHL would charge interest on the full amount of the loan including any retention monies;

- (4) when a borrower met the Retention Conditions within a set period (usually the first six months of the RMC) to the satisfaction of GEMHL, and the full loan amount had not become due, the retention monies and any accumulated interest would be released to the borrower; and
 - (5) if a borrower did not meet the Retention Conditions by the end of the six month retention period, or the full loan amount became immediately payable, the retention monies and any accumulated interest would be paid to GEMHL and used to reduce the outstanding mortgage loan.
- 4.9. The effect of these Terms and Conditions was that GEMHL charged borrowers interest on the full mortgage loan, even though it may have withheld a portion of the monies pending completion of repairs to the property. Although this was set out in GEMHL's detailed Terms and Conditions, the Firm did not explain this in the mortgage offer letter or the retentions letter it sent to the borrower.
- 4.10. From February 2005 GEMHL changed the First National mortgage offer letter to include reference to interest being charged on the full mortgage loan and to request the customer to contact his / her financial advisor to arrange a re-inspection of the property upon completion of the works. However, GEMHL did not make this change for igroup mortgages. This was despite GEMHL's internal audit department identifying the failure to include such disclosure in April 2005 as "a definite lack of transparency" and GEMHL management agreeing to change the letter. GEMHL's internal audit issue tracking system recorded the need to revise the igroup mortgage offer letters. GEMHL's internal audit issue tracking system later recorded the igroup issue as being completed, even though GEMHL never actually amended the letters.
- 4.11. Consequently, some GEMHL Retentions may have been Borrowers at risk of not fully understanding the implications of the Terms and Conditions.

Retentions prior to mortgage regulation date

- 4.12. GEMHL knew prior to 31 October 2004 about problems with its treatment of mortgage retentions.

- 4.13. In 2003, GEMHL senior management knew that its panel solicitors held outstanding retention amounts on mortgages that had been redeemed or where the retention had been held for over six months. GEMHL had no formalised arrangements to provide for a regular and/or structured review of the amounts held by its panel solicitors, resulting in amounts due to customers being reviewed and disbursed to customers on an ad hoc basis.
- 4.14. In 2004 GEMHL undertook two internal reviews (one conducted by GEMHL's customer service department and one by GEMHL's internal audit department) which further identified control and process deficiencies for mortgages subject to a retention.

GEMHL's customer service department review

- 4.15. Prior to the review by GEMHL's internal audit department in 2004, customer service department conducted a process mapping exercise which involved documenting the retentions process. This identified that:
- (1) GEMHL did not have in place a system or procedure for identifying and contacting borrowers with a mortgage contract subject to a retention prior to the end of the set retention period to determine whether or not they would meet the conditions of the retention.
 - (2) GEMHL's operating procedure for releasing the retention or reducing the borrower's loan was reactive to borrowers contacting their financial advisors or GEMHL to advise that the works had been completed.
 - (3) GEMHL did not apply its own 'six month rule' and either release the retention to the borrower after six months or reduce the borrower's loan balance (and so reduce the interest payable).
 - (4) The quality and accuracy of the data held on GEMHL's own systems could not always be relied upon in relation to retentions, and GEMHL often used its panel solicitors' records instead.

- (5) GEMHL did not have in place an automated procedure that checked whether it held retention monies at the time a mortgage contract was redeemed. Instead GEMHL quite often learned about such monies from borrowers.
- (6) Manual checks to identify retentions on redeemed accounts were *not undertaken routinely, if at all*". Consequently, GEMHL charged some customers inflated redemption payments which did not take into account the amount of retention monies and accrued interest held by GEMHL.
- 4.16. As a result of this review, in April 2004 GEMHL's customer service department made an internal request to amend GEMHL's information technology systems to allow the identification of retentions before the end of the six month retention period. This request was not actioned at the time. It was renewed and enhanced in January 2006 and allocated to a specific person in the Information Technology department in July 2006, with later changes made to the request in November 2006. GEMHL did not implement the requested changes and GEMHL later stopped imposing retentions on mortgage contracts.
- 4.17. Therefore, although GEMHL was aware of systems and controls failings in relation to its retention process from April 2004, no corrective action was taken by GEMHL in respect of the required information technology systems changes.
- 4.18. As set out in paragraph 4.32, GEMHL did not make any manual process changes until August 2006, and although GEMHL employees had a working knowledge of retentions there was no specific training or awareness to assist their understanding of retentions.

GEMHL's internal audit review

- 4.19. GEMHL's internal audit function conducted the second internal review. This concluded in June 2004. GEMHL's internal audit review considered, among other things, the retention monies advanced to and held by panel solicitors pending application by borrowers for the release of the funds.
- 4.20. GEMHL's internal audit review found that:

- (1) GEMHL's panel solicitors held retentions of £3.3 million on 1,400 loans over six months old and on redeemed loans.
- (2) GEMHL had data integrity issues relating to retentions information held by GEMHL and by the Firm's panel solicitors. The information held did not always accurately reflect what retentions were held and what had been released.
- (3) There were concerns regarding the client account management processes at panel solicitors, including the notification to GEMHL of refundable balances on a timely basis (although these concerns were not raised in the context of retentions).
- (4) Overall, the report concluded that GEMHL's "processes and management controls over retentions were weak".

4.21. The report also recommended actions for GEMHL to take, which were later incorporated into the internal audit issues tracking system. These included obtaining data to formulate an action plan for refunding borrowers with a retention, and implementing interim controls to manage the retentions process.

4.22. GEMHL appointed a project leader, with a senior management sponsor, to resolve the process issues. GEMHL commenced work to address the internal audit review's findings. However, as noted below, this remedial work was not completed.

Retentions: 31 October 2004 - May 2006

4.23. On 31 October 2004 FSA assumed responsibility for the regulation of certain activities relating to mortgages.

4.24. By this date GEMHL recognised that it needed to monitor the aged balances of retention monies held by its panel solicitors. GEMHL acknowledged that failure to do so would lead to a further accumulation of retention monies relating to RMCs which passed the six month retention period. It also recognized that it needed to return retention amounts held beyond the six month retention period to borrowers with a retention.

- 4.25. In December 2004 GEMHL closed the retention issues on its internal audit issue tracking system, with commentary that this occurred because “*further deterioration of balances risks are being managed and current balances are being dealt with*”.
- 4.26. However, GEMHL did not implement any measures to correct the retention control failings. It failed to implement any internal systems or process changes, and GEMHL operations staff still received no formal training or procedures about how to deal with retentions.
- 4.27. Furthermore, GEMHL continued to rely upon its panel solicitors’ adherence to Law Society rules in relation to the operation of client accounts, despite concerns raised in the 2004 internal audit report that this arrangement did not provide full visibility of the panel solicitors’ client accounts or the right to audit the accounts.
- 4.28. From November 2004 GEMHL retention monies held by panel solicitors relating to RMCs subject to a retention (those which had passed the six month anniversary date or which had been redeemed without the outstanding loan amount being first reduced by the amount of the outstanding retention) continued to accumulate. GEMHL failed to escalate or otherwise act upon this information and the issue it highlighted about the continuance of the retention control failings. The Firm therefore continued to overcharge some Retention Borrowers on interest and redemption amounts.
- 4.29. Between September 2004 and December 2004 GEMHL panel solicitors transferred retention amounts of approximately £2,359,000 to the Firm’s own “control account”. GEMHL did not inform its borrowers about this transfer, these monies did not accrue interest for borrowers and GEMHL continued to charge mortgage interest on the monies to borrowers. By September 2006 GEMHL had made remedial payments of approximately £701,000 to 166 borrowers from the control account. GEMHL should therefore have been aware that it had not returned all retention monies and accumulated interest due to Retention Borrowers.

Retentions: May 2006 onwards

- 4.30. In May 2006 GEMHL’s compliance area highlighted that the retention control failings identified by GEMHL’s internal audit department in April 2004 had not been

corrected. GEMHL reported these failings to its senior management team in June 2006.

- 4.31. By June 2006 GEMHL identified that GEMHL or its panel solicitors held approximately £3.0 million in total. This amount comprised the retention monies of approximately 1,400 borrowers with regulated or non-regulated mortgage contracts that had passed the six month anniversary date, 350 of whom had redeemed their mortgages. GEMHL commenced work on investigating the issues and identifying the steps required to remediate them and a formal project team was established to oversee the remediation process.
- 4.32. Despite again identifying inadequate controls with regard to retentions, GEMHL only implemented an interim manual process in the Customer Service Department at the end of August 2006. This interim process was implemented to identify borrowers coming up to the end of the six month set retention period and involved a manual review of redeemed mortgages.
- 4.33. The Firm notified the FSA that it had ceased making retentions on 26 November 2006.

5. ANALYSIS OF BREACHES

Principle 3

- 5.1. Principle 3 (Management and Control) provides that:

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

- 5.2. By reason of the facts and matters detailed in paragraphs 5.3 to 5.13 below, the FSA considers that GEMHL breached Principle 3.

Disbursement of retention monies at the end of six month retention period

- 5.3. GEMHL did not establish or maintain appropriate procedures in relation to RMCs that were subject to a retention, such that it could identify and deal appropriately with those approaching or at the end of the six month retention period. This meant that it

did not always properly charge interest on RMCs subject to a retention clause. Some Retention Borrowers were charged interest on retention monies beyond the six month retention period when the retention monies should have either been paid to the customer or applied to the outstanding loan.

- 5.4. GEMHL had no automated system to detect retentions approaching or at the end of the six month retention period. There were some manual processes but the Firm had no documented procedures to guide its operational staff on how to deal with retentions, nor did it conduct any specific training or awareness to assist employees in their understanding of the issues around retentions.
- 5.5. Instead, the Firm primarily relied on contact from the Retention Borrower or relevant panel solicitor to confirm that the six month retention period had elapsed and so initiate the disbursement of the retention monies and accumulated interest. This reliance was inappropriate, particularly as GEMHL had known that since at least 2003 its retention processes were not operating effectively.
- 5.6. In the absence of any request from the Retention Borrower or the panel solicitor to release any retention or to maintain it, GEMHL continued to charge interest on the retention amount after the six month retention period had ended as it had no process in place to ensure that it adhered to its own Terms and Conditions.
- 5.7. As a result, during the Relevant Period some retention monies and accumulated interest were held beyond the six month retention period rather than being disbursed to Retention Borrowers or used to reduce the outstanding mortgage loan in accordance with the Terms and Conditions. Further, GEMHL continued to charge some borrowers interest on retention monies that should have been disbursed, resulting in an overcharging of interest.

Disbursement of retention monies on redemption

- 5.8. GEMHL did not establish and maintain an appropriate procedure to identify RMCs with a retention outstanding at the date of redemption. This meant that it did not always properly calculate the correct repayment amount due from Retention Borrowers.
- 5.9. Instead, GEMHL inappropriately relied on Retention Borrowers or panel solicitors to identify retentions outstanding at the date of redemption.
- 5.10. Again, the Firm had no documented procedures to guide its staff on how to deal with retentions, nor did it conduct any specific training or awareness to assist employees in their understanding of the issues around retentions.
- 5.11. Furthermore, GEMHL's reliance on its panel solicitors to release retention amounts on redeemed mortgages was inappropriate. GEMHL had known since at least 2003 that its own process was not operating effectively, and, from June 2004, that its internal audit function had concerns relating to the panel solicitors' client accounts.
- 5.12. As a result, during the Relevant Period GEMHL did not, at the date of redemption, identify all customers who redeemed a RMC subject to a retention clause. This meant that GEMHL did not use the retention monies and interest accrued to reduce the outstanding mortgage loan of all those borrowers and that some borrowers overpaid GEMHL when redeeming their mortgages.

Retention monies held by panel solicitors

- 5.13. During the relevant period GEMHL failed to establish and maintain adequate procedures for monitoring retention monies held by its panel solicitors. As a result, the Firm did not properly monitor the ageing of the retention monies held by each panel solicitor and/or the customers to whom those monies were due so that panel solicitors accumulated large amounts of retention monies without the Firm properly identifying and resolving this issue on a timely basis.

Principle 2

- 5.14. Principle 2 (Skill, Care and Diligence) provides that:

A firm must conduct its business with due skill, care and diligence.

- 5.15. By reason of the facts and matters detailed in paragraphs 5.16 to 5.21 below, the FSA considers that GEMHL breached Principle 2.
- 5.16. GEMHL identified failings surrounding its systems and controls relating to retentions, and the subsequent impact on borrowers, before the start of mortgage regulation on 31 October 2004. The Firm was aware that it did not have appropriate systems and controls to:
- (1) identify borrowers with a retention when they approached or reached the end of the six month retention period so that retention monies could then be disbursed in accordance with its Terms and Conditions;
 - (2) properly take into account outstanding retentions when calculating the amount due on redemption from borrowers with a retention.
- 5.17. This was despite different operating areas of GEMHL being aware that the retention issues were continuing and that new retention monies continued to be held by panel solicitors.
- 5.18. Despite this awareness, GEMHL failed to escalate the continuing issues to a senior management forum, in part because GEMHL removed these issues from internal audit's issue tracking system. GEMHL also failed either to completely resolve the procedural deficiencies or to halt the imposition of retention clauses until 26 November 2006.
- 5.19. The Firm inappropriately held current and former borrowers' retention monies from 2004. The remediation exercise necessary to return these amounts to all affected borrowers continued until 2007.
- 5.20. The Firm also knew that it needed to improve the transparency of its mortgage offer letters for igroup Retention Borrowers. However, it failed to do so.
- 5.21. The Firm failed to act with due skill, care and diligence in its treatment of RMCs subject to a retention, by not considering adequately or acting appropriately in relation to systems and controls failings initially identified in 2004. In failing to act properly on these warnings the Firm breached Principle 2.

6. ANALYSIS OF THE SANCTION

- 6.1. When exercising its powers the FSA seeks to act in a way which it considers most appropriate for the purpose of meeting its regulatory objectives as set out in section 2(2) of the Act. The FSA considers that imposing a financial penalty in respect of the Firm meets the regulatory objectives of market confidence and protection of consumers.
- 6.2. In deciding to take the above action, the FSA has had regard to the guidance published in the FSA Handbook, in particular as set out in Chapter 7 of the Enforcement Guide, and Chapter 6 of the Decision Procedure and Penalties Manual which forms part of the FSA Handbook of Rules and Guidance. The Handbook sets out the factors that may be of particular relevance in determining the appropriate level of financial penalty for a firm or approved person. The criteria are not exhaustive and the full circumstances of each case will be taken into consideration.

Deterrence

- 6.3. The principal purpose of imposing a financial penalty is to promote high standards of regulatory conduct by deterring persons who have committed breaches from committing further breaches, helping to deter other persons from committing similar breaches, and demonstrating generally the benefits of compliant behaviour.

The nature, seriousness and impact of the breach

- 6.4. In determining the appropriate sanction, the FSA has had regard to the seriousness of the contraventions, including the nature of the requirements breached, the number and duration of the breaches, and the number of customers who suffered financial loss.
- 6.5. The FSA considers GEMHL's failings to be serious because:
- (1) as a result of the Firm's failings, some Retention Borrowers were not treated fairly in that the effect of the retention clause may not have been transparent to all of them, retention monies together with accumulated interest were not always properly paid to them or applied to the outstanding mortgage loan, they

were sometimes overcharged interest on the retention monies and remediation was not promptly provided to them;

- (2) a large number of Retention Borrowers, including some with impaired or non standard credit profiles, were put at risk of financial loss;
- (3) the failings persisted over a significant period of time, despite the Firm identifying them in 2004.

The extent to which the breach was deliberate or reckless

- 6.6. The FSA has not determined that GEMHL deliberately or recklessly contravened regulatory requirements.

The size, financial resources and other circumstances of the firm

- 6.7. In determining the level of penalty, the FSA has been mindful of the size and financial situation of the Firm.

The amount of benefit gained or loss avoided as a result of the breaches

- 6.8. The FSA has determined that GEMHL did not deliberately set out to accrue additional profits or avoid a loss through the way in which it operated its systems and controls. Prior to its remediation exercise, the Firm did overcharge certain Retention Borrowers. However, the Firm has undertaken a remediation programme to compensate customers for inconvenience and has incurred a significant cost in relation to the issue.

Conduct following the breaches

- 6.9. In deciding upon the level of disciplinary action, the FSA recognised the following measures taken by GEMHL which mitigate the seriousness of the failings:
 - (1) The Firm reported the issue to the FSA;
 - (2) The fact that the Firm has conducted a remediation programme to ensure that customers who suffered financial loss as a result of the retention failings are properly compensated;

- (3) The Firm commissioned an external review of the issue and shared the report with the FSA;
- (4) The Firm has stopped using the retentions mechanism.

Disciplinary record and compliance history of the Firm

- 6.10. GEMHL has not been the subject of previous disciplinary action.

7. CONCLUSION

- 7.1. Taking into account the seriousness of the breaches and the risks they posed to the FSA's statutory objectives of market confidence and the protection of consumers, the FSA has decided to impose a financial penalty of £1,120,000 on the Firm.

8. DECISION MAKERS

- 8.1. The decision which gave rise to the obligation to give this notice was made by the Settlement Decision Makers on behalf of the FSA.

9. IMPORTANT

- 9.1. This Final Notice is given to GEMHL in accordance with section 390 of the Act.

Manner of and time for Payment

- 10. The financial penalty must be paid in full by GEMHL to the FSA by no later than 6 October 2008, 14 days from the date of the Final Notice.

If the financial penalty is not paid

11. If all or any of the financial penalty is outstanding on 7 October 2008, the FSA may recover the outstanding amount as a debt owed by the Firm and due to the FSA.

Confidentiality and publicity

- 11.1. 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 it considers appropriate. The information may be published in such a manner as the FSA considers appropriate. However, the FSA may not publish information if such information would, in the opinion of the FSA, be unfair to GEMHL or prejudicial to the interests of consumers.
12. The FSA intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

FSA contact

- 12.1. For more information concerning this matter generally, you should contact Stephen Robinson at the FSA (direct line: 020 7066 1338 /fax: 020 7066 1339).

Georgina Philippou

Head of Department

FSA Enforcement Division