
FINAL NOTICE

To: **Paivi Katriina Grigg**

Date of Birth: **10 April 1956**

Individual
Reference
Number: **PKG00002 (inactive)**

Date: **11 December 2015**

1. ACTION

1.1. For the reasons given in this notice, the Authority hereby imposes on Ms Paivi Grigg a financial penalty of £14,807 pursuant to section 66 of the Act.

2. SUMMARY OF REASONS

2.1. On the basis of the facts and matters described below, the Authority has concluded that Ms Grigg failed to comply with Statement of Principle 6 while performing the significant influence function of CF1 (Director) at both Financial and Investments during the Relevant Period.

2.2. As an advisory network business, the Firms were responsible for the fair treatment of underlying customers by their ARs and RIs, including that advice

- 2.3. given to underlying customers by their ARs and RIs is suitable. There was an inherent risk in such a business that underlying customers would receive unsuitable advice from the Firms' ARs and RIs. This risk was increased by the Firms' business model which gave a high degree of freedom and flexibility to the Firms' ARs and RIs in their dealings with the underlying customers.
- 2.4. During the Relevant Period, Ms Grigg was the Firms' Risk Management Director, and was responsible for risk management, internal audit, liaison with the Authority and various operational matters. Her principal responsibilities in respect of risk management were to:
- (1) plan, design and implement an overall risk management structure for the organisation;
 - (2) ensure the business identified and documented all "quantitative and qualitative" risks affecting the business, as well as its risk appetite;
 - (3) through chairing the Risk Committee, ensure that all risks were considered and controls were identified to mitigate the risks, where appropriate;
 - (4) ensure that management consider and document all inherent risks in business proposals;
 - (5) ensure the Board received sufficient management information ("MI") from all business areas to understand and manage significant risks; and
 - (6) manage insurances taken out to mitigate risks.
- 2.5. Despite being aware that the Firms' business model, which focused on serving the Firms' ARs and RIs and allowed them to be afforded a high level of flexibility and freedom as to how they could operate within the adviser network, posed increased risks to underlying customers, Ms Grigg did not properly understand her responsibilities as Risk Management Director and failed adequately to identify, manage or control the material risks arising out of the Firms' business model. Ms Grigg was aware that the Authority had concerns with the Firms, for example the concerns regarding systems and controls which led to the Firms' CEO, Mr Charles Palmer, being given a Final Notice in February 2010 and to Financial carrying out a PBR in relation to pension switching; this should have made her particularly aware of the need to ensure that the increased risks to

underlying customers arising out of the Firms' business model were adequately addressed. Ms Grigg failed to carry out a number of her specific responsibilities as Risk Management Director, and as a significant influence function holder, with sufficient skill, care and diligence; this failure meant that the Firms' risk management framework was inadequate to mitigate risks that were particular to the nature, scale and complexity of the Firms' advisory network business. In particular, Ms Grigg's lack of due skill, care and diligence is demonstrated by the following:

- (1) Although Ms Grigg did conduct an initial review of the Firms' existing risk management framework upon appointment as Risk Management Director, this review was inadequate in that it failed to identify a number of deficiencies in the risk management framework. In addition, she failed to scrutinise appropriately the existing risk management arrangements (particularly in relation to risks in respect of underlying customers);
- (2) Ms Grigg failed to implement an adequate risk management framework to enable the Group Board to identify, measure, manage and control the risks to which the Firms' business was, or might be, exposed in that she failed to ensure:
 - (a) the Firms' main tool for identifying and documenting risk, being the Risk Register, adequately identified all material risks to the Firms' business (particularly risks in respect of underlying customers) and measured risks accurately;
 - (b) the scope and quality of MI presented to the Group Board was sufficient, relevant and reliable to enable the Group Board to identify and monitor material risks, and the systems and controls in place in relation to them, effectively (particularly risks in respect of underlying customers), including by failing to test the validity of the MI produced by her fellow directors; and
 - (c) the members of the Group Board understood fully the Firms' risk exposure by monitoring risk on a proactive and ongoing basis.
- (3) Ms Grigg took the view that the risks to underlying customers, and the effective management of those risks, were entirely the responsibility of the Compliance Director and failed to recognise that they fell within her own responsibility as Risk Management Director. Despite being aware that the

freedom and flexibility afforded by the Firms' business model to ARs and RIs gave rise to increased risks to underlying customers, she failed to appreciate the need to ensure that the risk management framework operated by the Firms dealt adequately with these key risks affecting the Firms.

(4) As Risk Management Director, Ms Grigg had responsibilities for internal audit at the Firms. During the Relevant Period, however, Ms Grigg failed to take any steps to put in place processes to assess objectively the effectiveness of the Firms' systems and controls for identifying and managing risk: there were no internal audits or other objective evaluation of any of the Firms' systems and controls, which meant that there could be no effective reporting to the Group Board on these issues. She further failed to discharge her responsibilities in this regard with due skill, care and diligence, because:

(a) at the Group Board meeting on 23 November 2011, she failed to challenge the Group Board's approval of the Firms' 2011 ICAAP, which stated that in respect of the Firms' Risk Register, evidence was sought by the "internal audit department" to ensure correct steps had been taken to control risks, and that the Firms' standard operating procedures (which mitigated operational risk) were regularly reviewed by internal audit. Ms Grigg knew this information was incorrect in that there was no internal audit department and no such arrangements were in place, and had previously raised this point with the Group Finance Director; and

(b) she failed to assess the effectiveness of the internal review procedures on which, according to the document Ms Grigg prepared for the Firms' 2012 Risk Assessment visit by the Authority, the Firms relied, instead of an internal audit function, to ensure the integrity of operational functions.

2.6. During the Relevant Period, approximately 26,750 underlying customers faced the risk of poor outcomes, including the risk of receiving unsuitable advice from ARs and RIs (including in respect of high-risk products such as UCIS). The Authority considers Ms Grigg's failings to be particularly serious because they resulted in the Firms operating under a flawed risk management framework throughout the Relevant Period. This meant that the risks to underlying

customers were not adequately identified or managed, which resulted in consumer detriment.

- 2.7. The Authority has required Financial to conduct PBRs relating to the Firms' pension switching advice. In addition, Financial has been conducting an internal review of the Firms' sales and promotions of UCIS. The PBRs and the internal review, all of which cover activities during the Relevant Period, are ongoing. Although actual loss to individual consumers has not yet been quantified fully, Financial has identified a high instance of potential unsuitability in respect of the PBRs and the internal review. As at 15 July 2015, the Firms had paid redress of £391,000 in respect of pension switching cases relating to the period 2006 to 2012 and redress of £732,761 in respect of UCIS, and estimated that they would make further payments of over £1.7 million in respect of UCIS.
- 2.8. As a consequence of Ms Grigg's failings outlined above, the Authority considers that Ms Grigg failed to act with due skill, care and diligence in breach of Statement of Principle 6. The Authority therefore imposes a financial penalty on Ms Grigg in the amount of £14,807.
- 2.9. This action supports the Authority's consumer protection objective and is consistent with the importance placed by the Authority on the accountability of senior management in the operation of their business.

3. DEFINITIONS

- 3.1. The definitions below are used in this Final Notice:

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

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

"AR" means appointed representative;

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

"CEO" means Chief Executive Officer;

"DEPP" means the Authority's Decision Procedure and Penalties Manual;

"DIM" means discretionary investment management;

"EG" means the Authority's Enforcement Guide;

"EMT" means the Firms' Executive Management Team which comprised the Firms' executive directors;

"Financial" means Financial Limited (In liquidation);

"the Firms" means Financial Limited (In liquidation) and Investments Limited (In liquidation);

"Group" means Standard Financial Group Ltd (In liquidation);

"Group Board" means the Group's board of executive and non-executive directors;

"Handbook" means the Authority's Handbook of Rules and Guidance;

"ICAAP" means Internal Capital Adequacy Assessment Process;

"Investments" means Investments Limited (In liquidation);

"MI" means management information;

"PBR" means past business review;

"Principle 3" means Principle 3 of the Authority's Principles for Businesses;

"Relevant Period" means 1 February 2011 to 27 November 2012;

"RI" means registered individual, a natural person employed by an AR and approved by the Authority under section 59 of the Act as a CF30 of Investments in relation to investment business;

"Risk Register" has the meaning set out in paragraph 4.34 of this Notice;

"Skilled Person's Report" means the report, dated 11 September 2013, referred to at paragraphs 4.12 to 4.14 of this Notice;

"Statement of Principle" means one of the Authority's Statements of Principle for Approved Persons; "the Tribunal" means the Upper Tribunal (Tax and Chancery Chamber);

"UCIS" means unregulated collective investment scheme (as defined in Part XVII, Chapter I and Chapter II of the Act); and

"underlying customers" means the customers of the Firms' ARs and RIs.

4. FACTS AND MATTERS

The Firms

- 4.1. The Firms are subsidiaries of the Group, a holding company which was not authorised and did not actively trade. Together, the Firms formed an adviser network operating nationally. At its peak in March 2011, the Firms' network comprised 397 ARs and 516 RIs. On 13 February 2015 the Group was acquired

by Tavistock Investments plc. Investments was authorised by the Authority until 10 September 2015 and Financial was authorised by the Authority until 15 October 2015. The Firms are now in liquidation.

- 4.2. The permissions of each of the Firms allowed their ARs and RIs to advise underlying customers on pensions, investments (including UCIS), mortgages and general insurance/protection products. Investments' permission was broader than Financial's as it also included the regulated activity of dealing in investments, enabling Investments and its RIs to provide DIM services to underlying customers.
- 4.3. Historically, the ARs and RIs were split across three of the Group's subsidiaries but, following a Group restructuring in February 2010, the majority of ARs and RIs were transferred to Financial, with the exception of those RIs who wanted to be able to offer DIM services, who remained as RIs of Investments.
- 4.4. During the Relevant Period, the systems and controls (including the risk management framework) operated across both the Firms rather than separately for each, so that the advisory standards that ARs and RIs were required to meet, and the operating procedures they had to follow, were identical for both Financial and Investments.
- 4.5. During the Relevant Period, the ARs and RIs of the Firms collectively provided advice to approximately 26,750 underlying customers.

Final Notice given to Mr Palmer in 2010

- 4.6. On 24 February 2010, the Authority published a Final Notice in relation to Mr Charles Palmer. The Authority found that, between 6 April 2006 and 19 August 2008, Mr Palmer had, while performing the significant influence functions of CF1 (Director) and CF8 (Apportionment and oversight) at Financial, failed to:
 - (1) establish and maintain clear and appropriate reporting structures to ensure that Financial's senior managers understood and carried out their specific responsibilities to oversee and monitor Financial's ARs and RIs so that Financial could be controlled effectively, in breach of Statement of Principle 5;

- (2) take reasonable steps to ensure that the business of Financial was organised so that, during a period of rapid expansion of Financial's network of advisers (under the business model that he developed and maintained), it could be controlled effectively as it expanded, in breach of Statement of Principle 5; and
- (3) take reasonable steps to ensure that Financial complied with the relevant requirements and standards in respect of advising on pension switching, in breach of Statement of Principle 7.

4.7. Mr Palmer was responsible for overseeing the establishment and maintenance of systems and controls at Financial. As Mr Palmer was found to be the controlling mind behind the establishment and subsequent expansion of the Group, a financial penalty of £49,000 was imposed on him rather than Financial.

The Firms' compliance history

PBRs of pension switching advice

- 4.8. In August 2008, the Firms were visited by the Authority as part of the Authority's thematic review of pension switching advice. The Authority identified that there was a significant risk of consumer detriment as a result of weaknesses in the Firms' systems and controls. Financial subsequently undertook a PBR in relation to pension switching advice provided by the Firms' ARs and RIs between 6 April 2006 and 19 August 2008. This PBR was validated by a skilled person's report, commissioned in October 2010. The skilled person identified potential customer detriment in ten out of the 34 cases concluded. The ten customers concerned have since received redress totalling £103,668.
- 4.9. In April 2012, as a follow-up to the Authority's 2008 visit, the Authority reviewed a random sample of the Firms' pension switching recommendations. The Authority found that the Firms' ARs and RIs continued to pose a risk of providing unsuitable advice to retail customers and had specific concerns about the way in which the customer's attitude to risk was assessed. As a result, on 5 September 2012, the Authority required Financial to conduct a further PBR related to pension switching advice provided by the Firms' ARs and RIs between 2008 and 2012. This PBR is ongoing, being undertaken currently by Tavistock Financial Limited following Tavistock Investments plc's acquisition of the Firms and the winding up of the Firms' business. Although actual loss to individual

customers has not been fully quantified, Financial has identified a high instance of potential unsuitability.

- 4.10. As at 15 July 2015, the Firms had paid redress of £391,000 in respect of pension switching cases relating to the period 2006 to 2012.

2012 Risk Assessment

- 4.11. The Authority carried out a further risk assessment of the Firms in May 2012, identifying a number of significant issues, including significant weaknesses in adviser controls and the effectiveness of the Firms' risk management framework.

2012 UCIS sales internal review

- 4.12. In June 2012, the Authority visited the Firms in connection with its thematic review of firms' practices in respect of the promotion and sale of UCIS. The Authority identified unacceptable levels of unsuitable advice, as well as weaknesses in the Firms' systems and controls. As a result, Financial voluntarily conducted an internal PBR of the Firms' past sales and promotions of UCIS funds (comprising 346 transactions to 274 customers) under the supervision of the Authority's Supervision division. As at 16 July 2015, 94% of UCIS fund transactions that had been fully assessed by Financial had been found to be potentially unsuitable (296 of 314). This internal PBR is ongoing and is currently being undertaken by Tavistock Financial Limited following Tavistock Investments plc's acquisition of the Firms and the winding up of the Firms' business.

The Firms' Principle 3 breaches

- 4.13. As a result of the serious concerns raised by the April, May and June 2012 assessments outlined at paragraphs 4.9 to 4.11 above, on 11 February 2013 the Authority required the Firms to commission a skilled person's report under section 166 of the Act to review the effectiveness of the Firms' systems and controls and risk management framework.
- 4.14. The Skilled Person's Report was issued on 11 September 2013 and identified:
- (1) material deficiencies with both the design of the Firms' systems and controls (particularly in relation to oversight of ARs and RIs) and the application of appropriate standards; and

- (2) that the Firms had not implemented a robust risk management framework that enabled the Firms' senior management to identify and manage risk proactively.
- 4.15. The Skilled Person's Report attributed these failings to the high degree of flexibility afforded to the Firms' ARs and RIs by the Firms' business model, and to the cultural focus at the Firms which resulted in the ARs being treated as the Firms' customers, rather than the underlying customers who received the advice.
- 4.16. The Authority considered that the Firms posed a high risk of consumer detriment as a result of the weaknesses identified, namely that the Firms' ARs and RIs would make recommendations to underlying customers which were not suitable.
- 4.17. On 23 July 2014, the Authority issued Final Notices against the Firms finding that, between 20 August 2008 and 30 April 2013, the Firms breached Principle 3 because:
- (1) the Firms failed to establish and operate effective systems and controls sufficient to ensure that the Firms' ARs and RIs met applicable requirements and standards under the regulatory system; namely:
- (a) recruitment processes which assessed prospective ARs' business models and business practices to determine whether they were suitable to act for the Firms;
 - (b) effective training and suitability assessments which would have determined the competence of RIs before they began advising underlying customers;
 - (c) effective supervisory processes which would have ensured that the Firms' ARs and RIs were appropriately and effectively supervised at all times; and
 - (d) adequate compliance and file checking arrangements appropriate to the size and types of business conducted by the Firms.

- (2) the Firms failed to implement effective processes to enable senior management to identify, measure, manage and control the risks to which the Firms were, or might be, exposed in that:
- (a) the scope and quality of MI provided to the Group Board and its sub-committees was not sufficient to enable the Firms' senior management to identify and monitor risk effectively;
 - (b) the Group Board and the Firms' senior management team focused on dealing with incidents and issues that had already materialised, rather than proactively identifying and monitoring on-going risks; and
 - (c) the absence of an internal audit function meant that there was no robust mechanism for assessing the effectiveness of the Firms' internal systems and controls.
- 4.18. The Authority found that the Firms' failings were directly attributable to the Firms' cultural focus which viewed the ARs and RIs, rather than underlying customers, as their customers. This culture created an environment which allowed poor standards of business to continue for a significant period of time.
- 4.19. For breaching Principle 3, the Authority publicly censured the Firms and imposed restrictions preventing the Firms from appointing any ARs or RIs for a period of 126 days commencing on 23 July 2014 and ending on 25 November 2014. Were it not for the Firms' financial positions, the Authority would have imposed penalties of £12,589,134 on Financial and £621,583 on Investments respectively.

The Firms' governance structure and relevant senior management

- 4.20. The Firms' governance structure operated at Group level. While the Firms each had their own boards, these did not hold separate board meetings from the Group Board meetings. From the commencement of the Relevant Period until about October 2012, the subcommittees of the Group Board were the Audit Committee, the Corporate Governance Committee and the Nominations and Remuneration Committee. There was also an EMT that was responsible for the day-to-day management of the Group and reported directly to the Group Board. The EMT incorporated three subcommittees – the Risk Committee, the Compliance and Regulatory Committee and the Investment Committee.

- 4.21. By 31 October 2012, the committee structure had changed so that there were three committees reporting directly to the Group Board – the Audit Committee, the Nominations and Remuneration Committee and the Risk Committee, with the Compliance and Regulatory Operational Committee and Fund Management Committee sitting beneath the Risk Committee. All of the committees considered matters relevant to both of the Firms, with MI from these committees being provided to the Group Board.
- 4.22. Throughout the Relevant Period:
- (1) the Risk Committee was the primary committee that was responsible to the Group Board for monitoring and reporting risk;
 - (2) the Audit Committee was responsible to the Group Board for reviewing the effectiveness of the Group’s internal control policies and procedures for the identification, assessment and reporting of risks; and
 - (3) the Risk Committee and the Audit Committee were scheduled to meet on a biannual basis and run consecutively on the same day as the Group Board meeting.

Ms Grigg’s roles and responsibilities

- 4.23. Ms Grigg’s employment at the Group commenced on 9 March 2009. Between 29 June 2009 to 14 February 2014, she held (at various times) a number of significant influence functions at the Firms including CF1 (Director) at Investments and Financial (from 29 June 2009 to 14 February 2014). Throughout her employment, Ms Grigg reported to the Group’s Board and the CEO.
- 4.24. Ms Grigg’s role changed a number of times during her employment with the Group. From March 2009 to June 2009 Ms Grigg held the role of Head of Operations for the Group. In June 2009 Ms Grigg was appointed Commercial Director for the Group. As Head of Operations and Commercial Director, Ms Grigg was responsible for implementing and overseeing internal audit functions at the Firms and for monitoring particular aspects of risk management. In February 2010 Ms Grigg was appointed Managing Director – Asset Management for Investments. She did not have any specific responsibilities for risk management or internal audit as part of this role. In February 2011 Ms Grigg

was appointed Risk Management Director for the Group and held this role until 1 December 2012. She resigned and left the Group in July 2014.

4.25. During her employment with the Group, Ms Grigg was a member of the Group Board, the Firms' boards of executive and non-executive directors, the EMT, the Audit Committee and the Risk Committee. As part of her Risk Management Director role, she was specifically responsible for chairing the Risk Committee.

4.26. As Risk Management Director from February 2011, Ms Grigg held a number of responsibilities for risk management and internal audit at the Firms. According to her job description, which she drafted together with the Group's CEO, these responsibilities included, but were not limited to:

Risk management

- (1) planning, designing and implementing an overall risk management structure for the organisation;
- (2) ensuring the business identified and documented all "quantitative and qualitative" risks affecting the business, as well as its risk appetite;
- (3) through chairing the Risk Committee, ensuring that all risks were considered and controls were identified to mitigate the risks, where appropriate;
- (4) ensuring that management considered and documented all inherent risks in business proposals;
- (5) ensuring the Group Board received sufficient MI from all business areas to understand and manage significant risks; and
- (6) managing insurances taken out to mitigate risks;

Internal audit

- (1) managing internal audit activities and ensuring that the audit programme was designed to focus on areas of greatest risk; and

(2) ensuring there was regular and effective reporting direct to the Group Board on internal audits.

4.27. Ms Grigg was also responsible for liaising with the Authority and for company secretarial duties during the period she was Risk Management Director. In practice, she was also required by the CEO to carry out certain operational responsibilities.

Risk management at the Firms

4.28. During the Relevant Period, the Firms did not have a documented risk management framework. An overview of the Firms' approach to risk management was contained in their annual ICAAP document, which focused on risks to the Firms' capital position.

4.29. The Skilled Person's Report identified a number of deficiencies in the Firms' risk management framework which meant that it did not operate effectively to mitigate the significant risk to underlying customers of receiving unsuitable advice from ARs and RIs. These failings fell within Ms Grigg's areas of responsibility as CF1 (Director) at the Firms, particularly in her role as Risk Management Director as set out in her job description. These failings were a direct result of Ms Grigg's failure to carry out a number of her specific responsibilities as Risk Management Director with due skill, care and diligence. Accordingly, the Authority considers that Ms Grigg was personally culpable for these failures.

4.30. The Authority expects an approved person with risk management responsibility, when exercising their significant influence functions, to carry out their responsibilities with due skill, care and diligence so as to ensure that the firm's principal tools for risk management can identify and measure the risks that the firm's business might be exposed to, in order to enable these risks to be controlled effectively. For the reasons below, the Authority considers Ms Grigg's conduct, in her capacity as Risk Management Director, has fallen below the standard expected. The fact that Ms Grigg was aware that the Authority had concerns with the Firms, for example the matters which led to Mr Palmer being given a Final Notice in February 2010 (see paragraphs 4.6 to 4.7 above) and the matters which led to the first pension switching PBR (see paragraph 4.8 above), exacerbates her failings as this should have made her particularly aware that the Firms' business model increased the risks to underlying customers. As set

out further below, Ms Grigg did not take sufficient account of these risks in discharging her responsibilities for risk management and internal audit.

Initial review of the Firms' risk management framework

- 4.31. Upon her appointment as Risk Management Director in February 2011, Ms Grigg (as reflected in her job description) became responsible for planning, designing and implementing the Firms' overall risk management framework. The existing risk management framework (as articulated in the ICAAP) was originally developed during late 2008 and 2009. In performing her roles as Head of Operations and Commercial Director in 2009, Ms Grigg was involved in designing and implementing the Firms' risk management framework, particularly the Risk Register and the Firms' internal audit programme.
- 4.32. During 2011 Ms Grigg conducted a review, comparing the existing risk management framework to a general risk management model that she had learnt about during the course of obtaining corporate treasury qualifications. Although Ms Grigg did not document her review, she told the Authority during interview that it did not result in any significant changes to the risk management framework. Ms Grigg also told the Authority that she considered the Firms' risk management framework adequate because the Group Board, of which she was a member, had already put the risk management framework in place.
- 4.33. Ms Grigg's initial review was inadequate because, despite her awareness of the increased risks arising out of the Firms' business model, it failed to identify (and therefore to address) serious deficiencies in the risk management framework in relation to:
- (1) the lack of a documented approach to risk management – the Firms' risk management framework was not contained in any standalone policy and procedures document. The Firms' overall approach to risk management was only articulated in their annual ICAAP document, and this focused on capital risks to the Firms' business;
 - (2) the Risk Register, which did not:

- (a) identify adequately important risks in respect of underlying customers (see paragraph 4.35 below);
 - (b) contain any details of risks in respect of underlying customers specific to DIM activity (see paragraph 4.36 below); or
 - (c) include a reliable assessment of how well a risk was being controlled (see paragraphs 4.37 to 4.41 below);
- (3) MI, which was not sufficient, relevant and reliable to enable the Group Board to identify and assess the management of material risks (see paragraph 4.45 below);
- (4) its ability to enable the Firms' senior management to identify and monitor proactively material risks to the Firms' business (see paragraphs 4.47 to 4.50 below); and
- (5) the lack of objective assessment of the Firms' systems and controls to evaluate their effectiveness in mitigating risks (see paragraphs 4.51 to 4.57 below).

4.34. As Ms Grigg was responsible for the Firms' overall risk management framework, she was accountable for any deficiencies in its design and implementation. In order for Ms Grigg to have carried out her CF1 (Director) controlled function with the requisite level of due skill, care and diligence, the Authority would have expected Ms Grigg to conduct a more comprehensive initial review of the Firms' risk management framework to understand the most important risks faced by the business (in particular, the risk of underlying customers not being treated fairly) and to scrutinise the existing risk management framework arrangements in order to satisfy herself that the Firms' risk management framework was adequate given the nature, scale and complexity of the Firms' business and was adequately documented. Ms Grigg failed to give adequate consideration and scrutiny to the existing risk management framework to ensure risks that were particular to the nature of the Firms' business, and the business model under which they operated, were mitigated.

Risk Register

4.35. According to her job description, as Risk Management Director Ms Grigg was responsible for ensuring the Firms identified and documented all 'quantitative

and qualitative' risks affecting their respective business, including risk appetite. The Authority would have expected Ms Grigg, in carrying out her CF1 (Director) controlled function, to exercise due skill, care and diligence in ensuring the Firms' risk management tools enabled senior management to identify material risks and measure the potential impacts on the Firms so that these risks could be controlled effectively.

- 4.36. However, the Skilled Person concluded that the Firms' Risk Register, which was the Firms' main tool for documenting and identifying risk, was inadequate because it did not identify all material risks to the Firms' business and contained a number of deficiencies. Ms Grigg's failure to recognise and rectify deficiencies in the Risk Register meant the Firms' senior management were unable to understand the potential impact of particular risks and control those risks effectively.

Inadequacies in risk identification

- 4.37. Ms Grigg did not ensure the Risk Register adequately identified material risks in respect of underlying customers that were particular to the Firms' business in respect of:

- (1) ARs and RIs not adding new business to, or recording inaccurate information in, the relevant New Business Register on Phossil, which was the Firms' primary operating system that supported adviser controls. The failure of an AR or RI to input accurate information into Phossil was a material risk because it affected the integrity of the file checking process and the accuracy of certain MI data; and
- (2) complaints not being handled by ARs fairly or in line with complaints handling procedures.

- 4.38. The Risk Register did not contain any details of risks in respect of underlying customers specific to DIM activity.

Risk assessment and control

- 4.39. The Risk Register included a "net risk score" for each risk to reflect how well that risk was being controlled. The net risk score was a subjective assessment by the Risk Committee of the effectiveness of the Firms' systems and controls

for identifying and managing risk. In the performance of her role as Risk Management Director, however, Ms Grigg failed to ensure that the relevant systems and controls were subject to an objective assessment of their quality and effectiveness, as she failed to ensure the members of the Risk Committee had the information they needed to make this assessment. The lack of such an objective assessment resulted in deficiencies in those systems and controls not being recognised. Consequently, the basis on which the net risk score in the Risk Register was calculated was flawed and increased the risk of the net risk score being set too low and therefore not being given the appropriate degree of attention by the Firms' senior management. The Skilled Person's Report stated that the net risk score was unreliable and gave a misleading impression about the control environment in place at the Firms.

- 4.40. The Firms' systems and controls were crucial to mitigating identified risks and informing the risk assessment process. The Authority would have expected Ms Grigg, as the Risk Management Director responsible for overseeing the Firms' risk management framework, to ensure there were robust mechanisms in place to assess objectively and challenge the adequacy of the Firms' systems and controls in order to inform the Firms' Risk Register and management of risk generally.
- 4.41. The Risk Register did identify against each risk a risk owner, who was responsible for monitoring that risk and reporting any changes in the net risk score to the Risk Committee and Group Board. However, there were no procedures in place to ensure risk owners were monitoring adequately the risks that were assigned to them in the Risk Register and Ms Grigg did not ensure data used by risk owners to assess risks was fit for purpose and did not challenge the risk owners to ensure the adequacy of risk information provided to the Group Board in the Risk Register.
- 4.42. The Risk Register did not make clear how the systems and controls linked to certain risks in the Risk Register were capable of controlling that risk. The Authority would have expected Ms Grigg to ensure the adequacy of risk information so that the systems and controls identified in the Risk Register were in fact capable of controlling the risk to which they were linked. Ms Grigg did not assess and challenge the adequacy of systems and controls linked to mitigating particular risks, and did not test the validity of the information in the Risk Register. By way of example, the risk of ARs issuing non-compliant financial promotions was dealt with only under the general risk description: "*Clients of*

ARs are not provided with clear information or are not kept informed before, during or after the point of sale” and the controls were described only as “Financial promotions controls”, with no indication of the nature of the controls or how they might operate.

- 4.43. As Risk Management Director, the Authority would not expect Ms Grigg to be an expert in all aspects of the Firms’ systems and controls. However, the Authority would have expected Ms Grigg to test the validity of the information in the Risk Register about the systems and controls because they were crucial to mitigating identified risks to the Firms’ business and informing the Firms’ risk assessment process through the calculation of the net risk score. Ms Grigg did not ensure systems and controls identified as mitigating particular risks did in fact do so.

The consequences of Ms Grigg’s failures in respect of the risk management framework

- 4.44. Ms Grigg’s failure to carry out an adequate initial review of the Firms’ risk management framework and to ensure the Firms identified and documented all ‘qualitative and quantitative’ risks to the Firms’ business, including their risk appetite, meant that the Firms operated under a flawed risk management framework throughout the period she was Risk Management Director, which ultimately put underlying customers at risk. The Authority considers her failures in this regard demonstrate a lack of due skill, care and diligence.

Information for management about risks in respect of underlying customers

- 4.45. During the Relevant Period, MI relating to risk, and the systems and controls in place in relation to it, was considered at various levels of the Firms’ management including at meetings of the EMT, the Risk Committee, the Audit Committee, the Compliance and Regulatory Committee and the Group Board. Ms Grigg was a member of the EMT, the Risk Committee, the Audit Committee and the Group Board.
- 4.46. Ms Grigg was responsible for ensuring the Group Board received MI from all business areas which was sufficient, relevant and reliable to enable the Group Board to understand and manage material risks and the systems and controls in place in relation to them. Through chairing the Risk Committee, Ms Grigg was also responsible for ensuring the Risk Committee considered all risks to the

Firms' business and, where appropriate, identified controls to mitigate these risks.

4.47. Ms Grigg did not properly understand her responsibilities as Risk Management Director and failed to carry out those responsibilities with due skill, care and diligence because MI provided to the Group Board was not sufficient, relevant and reliable to enable the Group Board to identify and monitor material risks, and the systems and controls in place in relation to them, effectively, in particular including risks in respect of underlying customers. Further, while the MI considered at committee level included some MI relevant to risks in respect of underlying customers, the MI which was escalated to the Group Board was inadequate because it did not include that MI (i.e. the MI considered at committee level which was relevant to risks in respect of underlying customers) and did not consider risks in respect of underlying customers. In particular:

- (1) Ms Grigg reported to the Group Board on the outcomes of the Risk Committee meetings and provided the Risk Committee pack to the Group Board. However, because the MI prepared for the Risk Committee by Ms Grigg did not contain information which was sufficient, relevant and reliable to enable it to consider risks, and the systems and controls in place in relation to them, in respect of underlying customers directly, the Group Board did not receive information about risks in respect of underlying customers from that source of MI which was sufficient, relevant and reliable to enable it to identify and monitor these risks (and their control and mitigation) effectively;
- (2) the Risk Director report, prepared by Ms Grigg for each Group Board meeting during the Relevant Period, focused on what she regarded as commercial risks to the Firms' business. These did not include risks to underlying customers as she did not regard these as commercial risks to the business, and therefore the report did not give adequate emphasis to risks to underlying customers;
- (3) the Firms' Compliance Director and the Group Finance Director also reported to the Group Board on risk issues relating to their areas of oversight. Ms Grigg told the Authority she contributed to MI prepared by the Firms' Compliance Director and the Group Finance Director through the EMT, which met on a fortnightly basis. However, she was unable to provide the Authority with any specific examples of her contribution at those

meetings to the scope and quality of MI relating to risk prepared by other areas of the Firms' business. At board level, Ms Grigg did not test the validity of the MI prepared by other directors relating to risk, or the systems and controls in place in relation to it;

- (4) until August 2012, key analytical information provided to the Group Board which focused on the main areas of risks in respect of underlying customers was contained in a TCF & Compliance Management Report, which was prepared by the Firms' Compliance Director. Despite her responsibility to oversee the risk management framework of the Firms in relation to all aspects of risk at Group level, including risks in respect of underlying customers, Ms Grigg did not test the validity of the contents of this report;
- (5) from August 2012, acting on advice from an external consultant, the Firms' Compliance Director split the TCF & Compliance Management Report into a Consumer Outcomes Report and a Systems and Controls Report. Both reports went to the Compliance Management team and the EMT but were not escalated to the Group Board. Following this change to MI reporting, Ms Grigg, as Risk Management Director, did not test the validity of the contents of these reports in order to ensure the Group Board (and in particular, the non-executive directors) continued to receive adequate information about risks, and the systems and controls in place in relation to them, in respect of underlying customers; and
- (6) from August 2012, the main source of information relating to risks in respect of underlying customers in the Group Board pack was a "Critical Success Factors" report. Ms Grigg was responsible for compiling the report from information she received from all areas of the Firms' business. In relation to risks in respect of underlying customers, the contents were limited to high-level information on complaints, file check scores and adviser risk categories. The Skilled Person's Report identified that the information in the Critical Success Factors report was too high-level to provide the Group Board with sufficient insight into the root causes of the issues identified.

4.48. The Authority accepts that it is not reasonable to expect Ms Grigg, in performing a Group-wide risk management role, to be an expert in all of the MI produced by the different business areas of the Firm in relation to risk. However, in her

Group-wide role, she was ultimately responsible for ensuring the Group Board received sufficient MI from all business areas in order to understand and manage material risks, and the systems and controls in place in relation to them. The Authority would therefore have expected Ms Grigg to ensure that information relating to risk provided to the Group Board was fit for purpose. As a significant influence function holder, and as the member of the Group Board responsible for risk management, the Authority would have expected Ms Grigg to discharge her responsibilities by providing some challenge to other directors in respect of the MI relating to risk that their business areas provided to ensure that the MI was adequate. However, Ms Grigg wrongly considered that such matters fell outside her responsibility and so failed to provide such challenge and, for the reasons stated above, the MI provided to the Group Board did not contain adequate information about risks in respect of underlying customers, and the systems and controls in place in relation to them, to enable the Group Board to identify and monitor risks that were significant to the Firms given the nature, scale and complexity of the Firms' business.

- 4.49. Ms Grigg's failure to ensure the Group Board received adequate information about risks in respect of underlying customers, and the systems and controls in place in relation to them, accordingly demonstrates a lack of due skill, care and diligence.

Board and senior management focus

- 4.50. The Skilled Person's Report concluded that the Firms' senior management, including the Group Board and subcommittees, were focused on dealing with risks that had already materialised, rather than proactively identifying and monitoring risks. The manner in which Ms Grigg discharged her responsibilities as Risk Management Director influenced the focus of the Group Board and senior management, and the direction taken by the Group Board to deal with those risks.
- 4.51. Ms Grigg's understanding of key risks, and her focus on those risks, was reflected in the scope and quality of MI she prepared for senior management at the Firms, including the scope and quality of the Risk Register.
- 4.52. Ms Grigg considered the key risks to the Firms to be regulatory action and the Firms' professional indemnity insurance not being renewed. Ms Grigg considered the risks in respect of underlying customers (such as the risk of unsuitable

advice) to be less significant because she thought they could be mitigated through having systems and controls in place. Ms Grigg's influence, through the MI she prepared, including the Risk Register which she was responsible for maintaining, resulted in the Risk Committee and Group Board failing to focus on proactively identifying and monitoring risks, including risks in respect of underlying customers. This meant that the Firms did not understand fully their risk exposure.

- 4.53. The Authority would have expected Ms Grigg, as the significant influence function holder at the Firms responsible for the Firms' overall risk management framework, to be able to identify and understand the materiality of existing and emerging risks to the Firms' business so that the Firms could manage adequately their risk exposure. Ms Grigg's failure to do so demonstrates a lack of due skill, care and diligence and therefore her conduct fell below the standard expected. Further, the Authority would have expected Ms Grigg to ensure that the controls that were in place were designed to prevent failings (such as poor advice to underlying customers) occurring, not merely to detect them when they had occurred.

Internal audit

- 4.54. As mentioned in her job description, Ms Grigg had specific responsibility for internal audit at the Firms. The Authority would have expected Ms Grigg, in carrying out her CF1 (Director) controlled function, to discharge her responsibilities as Risk Management Director by ensuring that the internal audit activities, which she was responsible for managing, tested independently the adequacy and effectiveness of the Firms' systems and controls.
- 4.55. Prior to Ms Grigg's appointment as Risk Management Director, the Firms engaged external contractors to perform issue-specific audits (September 2008-August 2009 and July 2010). In July 2011 the Group Board decided that the Firms should not appoint an individual to hold the CF15 (internal audit) controlled function (in fact, by this date CF15 no longer existed). However, this did not mitigate Ms Grigg's responsibility, as Risk Management Director, for assessing the effectiveness of the Firms' systems and controls for identifying and managing risk. During the Relevant Period, Ms Grigg failed to take any steps to put in place processes to assess the effectiveness of the Firms' systems and controls for identifying and managing risks and no internal audits of any of the Firms' systems and controls were undertaken.

- 4.56. Ms Grigg was aware that she was required to manage internal audit activities. In October 2011 she indicated in an email to the Group Finance Director that the Firms did not have an internal audit department, and even though she was supposed to carry out some internal audit activities, she was unsure how she would do this due to time constraints.
- 4.57. The Firms' 2011 ICAAP incorrectly stated that in respect of the Firms' Risk Register, evidence was sought by the "internal audit department" to ensure correct steps had been taken to control risks, and that the Firms' standard operating procedures (which mitigated operational risk) were regularly reviewed by "internal audit". Ms Grigg had seen a draft of this document and pointed out that it was incorrect to refer to the "internal audit function" as the Firms did "not really have one". Ms Grigg failed to follow this up to ensure that it was properly addressed in subsequent drafts, despite being specifically invited to review the revised wording of the relevant section, and was in attendance at the Group Board meeting on 23 November 2011 at which the ICAAP was considered, but did not challenge its approval. The Authority would have expected Ms Grigg, in carrying out her responsibilities as Risk Management Director, to ensure that the information in the ICAAP about the Firms' risk management framework was accurate.
- 4.58. In preparation for the Firms' 2012 Risk Assessment visit, in March 2012 Ms Grigg prepared a document to be provided to the Authority which stated that the Firms did not have an internal audit function because the directors did not believe that the Group was of sufficient size or complexity to justify it. The document stated that instead of an internal audit function, the Firms relied on internal review procedures to ensure the integrity of operational functions. However, Ms Grigg failed to assess the effectiveness of these internal review procedures.
- 4.59. The Authority would have expected Ms Grigg to have assessed the effectiveness of these internal review procedures (including their objectivity) given the Firms relied on these procedures instead of an internal audit function. It would have expected her to have recognised the difference between internal testing of controls by the departments concerned and objective independent audit.
- 4.60. Ms Grigg's failure to manage effectively internal audit activities (despite knowing it was her responsibility to do so) meant there was no robust mechanism for

assessing the effectiveness of the Firms' internal systems and controls for identifying and managing risks. While Ms Grigg considered particular risks (such as the risks to underlying customers of receiving unsuitable advice) were mitigated by the existence of systems and controls, without an objective mechanism in place she could not be reasonably certain that the systems and controls did in fact mitigate particular risks. Contrary to Ms Grigg's understanding, the Skilled Person's Report found there were numerous deficiencies in the Firms' systems and controls which meant the risk of poor outcomes for underlying customers (including underlying customers receiving unsuitable advice from the Firms' ARs and RIs) was in fact high.

- 4.61. For the reasons set out above, the Authority considers Ms Grigg failed to carry out her responsibilities with the required degree of due skill, care and diligence.

5. FAILINGS

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

- 5.2. Despite being aware that the Firms' business model, which focused on serving the Firms' ARs and RIs and allowed them to be afforded a high level of flexibility and freedom as to how they could operate within the adviser network, posed increased risks to underlying customers, Ms Grigg did not properly understand her responsibilities as Risk Management Director and failed adequately to identify, manage or control the increased risks arising out of the Firms' business model. Ms Grigg was aware that the Authority had concerns with the Firms, for example the concerns regarding systems and controls which led to the Group CEO, Mr Charles Palmer, being given a Final Notice in February 2010 and to Financial carrying out a PBR in relation to pension switching; this should have made her particularly aware of the need to ensure that the increased risks to underlying customers arising out of that the Firms' business model, were adequately addressed. Ms Grigg failed to carry out a number of her specific responsibilities as Risk Management Director, and as a significant influence function holder, with sufficient skill, care and diligence to ensure the Firms' risk management framework was adequate to mitigate risks that were particular to the nature, scale and complexity of their advisory network business. In particular, Ms Grigg's lack of due skill, care and diligence is demonstrated by the following:

- (1) Although Ms Grigg did conduct an initial review of the Firms' existing risk management framework upon appointment as Risk Management Director, this review was inadequate in that it failed to identify a number of deficiencies in the risk management framework. In addition, she failed to scrutinise appropriately the existing risk management arrangements (particularly in relation to risks in respect of underlying customers);
- (2) Ms Grigg failed to implement an adequate risk management framework to enable the Group Board to identify, measure, manage and control the risks to which the Firms' business was, or might be, exposed in that she failed to ensure:
 - (a) the Firms' main tool for identifying and documenting risk, being the Risk Register, adequately identified all material risks to the Firms' business (particularly risks in respect of underlying customers) and measured risks accurately;
 - (b) the scope and quality of MI presented to the Group Board was sufficient, relevant and reliable to enable the Group Board to identify and monitor significant risks, and the systems and controls in place in relation to them, effectively (particularly risks in respect of underlying customers), including by failing to test the validity of the MI produced by her fellow directors; and
 - (c) the members of the Group Board understood fully the Firms' risk exposure by monitoring risk on a proactive and ongoing basis;
- (3) Ms Grigg took the view that the risks to underlying customers, and the effective management of those risks, were entirely the responsibility of the Compliance Director and failed to recognise that they fell within her own responsibility as Risk Management Director. Despite being aware that the freedom and flexibility afforded by the Firms' business model to ARs and RIs gave rise to an increased risks to underlying customers, she failed to appreciate the need to ensure that the risk management framework operated by the Firms dealt adequately with those risks, as a key part of the risks affecting the Firms.
- (4) In relation to her responsibility for internal audit within the Firms, Ms Grigg failed to take any steps to put in place processes to assess objectively the effectiveness of the Firms' systems and controls for identifying and

managing risk, and there were no internal audits or other objective evaluation of any of the Firms' systems and controls, which meant that there could be no effective reporting to the Board on these issues. She further failed to discharge her responsibilities in this regard with due skill, care and diligence, because:

- (a) at the Group Board meeting on 23 November 2011, she failed to challenge the Board's approval of the Firms' 2011 ICAAP, which stated that in respect of the Firms' Risk Register, evidence was sought by the "internal audit department" to ensure correct steps had been taken to control risks, and that the Firms' standard operating procedures (which mitigated operational risk) were regularly reviewed by internal audit. Ms Grigg knew this information was incorrect in that there was no internal audit department and no such arrangements were in place, and had previously raised this point with the Group Finance Director; and
- (b) she failed to assess the effectiveness of the internal review procedures on which, according to the document Ms Grigg prepared for the Firms' 2012 Risk Assessment visit by the Authority, the Firms relied instead of an internal audit function to ensure the integrity of operational functions.

6. SANCTION

Financial penalty

- 6.1. The principal purpose of 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.
- 6.2. In determining whether a financial penalty is appropriate, the Authority is required to consider all the relevant circumstances of a case. A financial penalty is an appropriate sanction in this case, given the nature of the breach and the need to send out a deterrent message.
- 6.3. The Authority's policy for imposing a financial penalty is set out in Chapter 6 of DEPP. In respect of conduct occurring on or after 6 March 2010, the Authority

applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5B sets out the details of the five-step framework that applies in respect of financial penalties imposed on individuals in non-market abuse cases.

Step 1: disgorgement

- 6.4. 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.
- 6.5. The Authority has not identified any financial benefit that Ms Grigg derived directly from the breach.
- 6.6. The Step 1 figure is therefore nil.

Step 2: the seriousness of the breach

- 6.7. 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.
- 6.8. The period of Ms Grigg's breach was from 1 February 2011 to 27 November 2012. The Authority considers Ms Grigg's relevant income for this period to be £148,070.
- 6.9. 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:
 - (1) Level 1 – 0%
 - (2) Level 2 – 10%
 - (3) Level 3 – 20%
 - (4) Level 4 – 30%
 - (5) Level 5 – 40%

6.10. In assessing the seriousness level, the Authority takes into account various factors which reflect the impact and nature of the breach, and whether it was committed deliberately or recklessly.

6.11. The Authority has determined the seriousness of Ms Grigg's breach to be Level 2 for the purposes of Step 2, having taken into account the following:

(1) DEPP 6.5B.2G(8) sets out the factors relating to the impact of a breach. The Authority considers the following factors to be relevant:

(a) the Authority has not identified any direct financial benefit to Ms Grigg as a result of her breach of Statement of Principle 6;

(b) Ms Grigg's failings caused a significant risk of loss to consumers. Her failure to implement an adequate risk management framework at the Firms meant risks to consumers were not identified sufficiently. Therefore these risks (such as the risk of receiving unsuitable investment advice from an AR or RI) were not adequately managed or mitigated by the Firms, putting consumers at risk of loss; and

(c) loss to individual consumers has not been fully identified or quantified at this stage but the Authority has required Financial to conduct PBRs in relation to pension switching recommendations and is supervising the internal review of the Firms' promotion and sale of UCIS. As at 15 July 2015, the Firms had paid redress of £390,000 in respect of pension switching cases relating to the period 2006 to 2012 and redress of £732,761 in respect of UCIS, and estimated that they would make further payments of over £1.7 million in respect of UCIS. The PBRs and internal review are ongoing and currently being undertaken by Tavistock Financial Limited following Tavistock Investments plc's acquisition of the Firms and the winding up of the Firms' business.

(2) DEPP 6.5B.2G(9) sets out the factors relating to the nature of the breach. The Authority considers the following factors to be relevant:

(a) Ms Grigg failed to discharge a number of her specific responsibilities as Risk Management Director, including ensuring the Firms had an adequate risk management framework in place, that the Group Board

received adequate MI to identify and understand risks and for managing internal activities at the Firms;

- (b) Ms Grigg has over 20 years' experience in senior positions at various financial services firms. However, prior to her employment at the Firms, her roles related to managing IT and finance departments;
 - (c) During Ms Grigg's employment with the Firms, her responsibilities were subject to significant and repeated change; and
 - (d) Ms Grigg did not fail to act with integrity or abuse a position of trust.
- (3) DEPP 6.5B.2G(10) and (11) set out factors tending to show the breach was either deliberate or reckless. The Authority has not identified any evidence to suggest Ms Grigg acted deliberately or recklessly in breaching Statement of Principle 6.
- (4) DEPP 6.5B.2G(12) sets out factors likely to be considered 'level 4 factors' or 'level 5 factors'. The Authority considers the following factors to be relevant:
- (a) Ms Grigg's failure to discharge her responsibilities as Risk Management Director at the Firms exposed consumers to a significant risk of loss;
 - (b) no financial crime, or significant risk of financial crime, was facilitated, occasioned or otherwise attributable to Ms Grigg's breach;
 - (c) the Authority has not identified any evidence which suggests Ms Grigg failed to act with integrity or abused a position of trust;
 - (d) Ms Grigg did not hold a prominent position within the industry; and
 - (e) the Authority has not identified any evidence that suggests Ms Grigg acted deliberately or recklessly.
- (5) DEPP 6.5B.2G(13) sets out factors likely to be considered 'level 1 factors', 'level 2 factors', or 'level 3 factors'. The Authority considers the following factors to be relevant:
- (a) the Authority has not identified any direct financial benefit to Ms Grigg as a result of her breach of Statement of Principle 6;

(b) the Authority has not identified any actual or potential effects on the orderliness of, or confidence in, markets as a result of Ms Grigg's misconduct; and

(c) Ms Grigg's breach appears to have been committed negligently.

6.12. Taking all of the above factors into account, the Authority considers the seriousness of the breach to be Level 2 and so the Step 2 figure is 10% of £148,070.

6.13. Step 2 is therefore £14,807.

Step 3: mitigating and aggravating factors

6.14. 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.

6.15. The Authority considers that there are no mitigating or aggravating factors.

6.16. Step 3 is therefore £14,807.

Step 4: adjustment for deterrence

6.17. 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.

6.18. The Authority considers that the Step 3 figure of £14,807 represents a sufficient deterrent to Ms Grigg and others, and so has not increased the penalty at Step 4.

6.19. Step 4 is therefore £14,807.

Step 5: settlement discount

6.20. 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.

- 6.21. No settlement discount applies. The penalty figure after Step 5 is therefore £14,807.

Penalty

- 6.22. The Authority therefore imposes a total financial penalty of £14,807 on Ms Grigg for breaching Statement of Principle 6.

7. REPRESENTATIONS

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

8. PROCEDURAL MATTERS

Decision maker

- 8.1. The decision which gave rise to the obligation to give this Notice was made by the Regulatory Decisions Committee.
- 8.2. This Notice is given under, and in accordance with, section 390 of the Act.

Manner of and time for Payment

- 8.3. The financial penalty must be paid in full by Ms Grigg to the Authority by no later than 1 January 2016, 21 days from the date of the Final Notice.

If the financial penalty is not paid

- 8.4. If all or any of the financial penalty is outstanding on 2 January 2016, the Authority may recover the outstanding amount as a debt owed by Ms Grigg and due to the Authority.

Publicity

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

Authority contacts

- 8.7. For more information concerning this matter generally, contact Paul Howick at the Authority (direct line: 020 7066 7954/email: paul.howick@fca.org.uk).

Bill Sillett

Financial Conduct Authority, Enforcement and Market Oversight Division

ANNEX A

RELEVANT REGULATORY PROVISIONS

1. The Authority's operational objectives, set out in section 1B(3) of the Act, include the consumer protection objective.

Disciplinary Powers

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 64 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.
3. Section 66(3) provides that, if the Authority is entitled to take action against a person under section 66, it may impose a penalty on him of such amount as it considers appropriate.

Statements of Principle and Code of Practice for Approved Persons

4. APER was issued under section 64 of the Act.
5. During the Relevant Period, Statement of Principle 6 stated:

"An approved person performing a significant influence function must exercise due skill, care and diligence in managing the business of the firm for which he is responsible in his controlled function."
6. The Code of Practice for Approved Persons 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 Enforcement Guide

7. EG sets out the Authority's approach to exercising its main enforcement powers under the Act.

8. Chapter 7 of EG sets out the Authority's approach to exercising its power to impose a financial penalty.

DEPP

9. 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.

Annex B

REPRESENTATIONS

1. Ms Grigg's representations (in italics), and the Authority's conclusions in respect of them, are set out below.

Ms Grigg's role and duties

2. *Ms Grigg's responsibilities as Risk Management Director had been to identify and manage only risks to the financial, regulatory and operational aspects of the Firms' business. Customer risks, such as the risk of ARs and RIs giving unsuitable advice, fell outside the scope of these responsibilities. These were exclusively the responsibility of the Compliance Director. There was a distinction between "internal" risks, which were risks to the functioning of the company itself, for which she was responsible, and "external" risks, which were risks to underlying customers, for which she was not responsible. This distinction was reflected in Ms Grigg's written job profile (agreed by her with the Firms' CEO) which referred explicitly to "risks affecting the business", and more specifically to arranging professional indemnity insurance and liaising with the Authority, and made no reference to customer risk. The new role of Risk Management Director had been specifically designed to cover off "business risks", for which previously there had been no individual Board member responsible, leaving risks to underlying customers exclusively the responsibility of the Compliance Department; this was understood and agreed by the CEO.*
3. *The references in her written job profile to treating customers fairly did not indicate any specific responsibility on Ms Grigg's part. The duty to "ensure that the Group achieves the TCF consumer outcome 1 'Customers can be confident that they are dealing with a firm where the fair treatment of customers is central to the corporate culture'" was common to all directors. It was intended to indicate the corporate culture, not to be a part of the job profile.*
4. *Ms Grigg accepted that the actions of ARs in relation to underlying customers could impact the Firms' business, but her role was not to consider these risks from the customer's perspective; rather, her role was to consider what impact they might have on the commercial and business aspects of the Firms. For example, her focus on arranging professional indemnity insurance was a direct reflection of customer risk viewed within the business risk context.*

5. *Dealing with professional indemnity insurance and liaison with the Authority were major parts of Ms Grigg's job which occupied a significant amount of time. In addition to the risk role as set out in her job description, Ms Grigg also retained company secretarial duties and, on the instructions of the CEO, responsibility for certain operational matters; this continued throughout the Relevant Period.*
6. *Consistent with the Tribunal's judgment in the case of John Pottage v Financial Services Authority (FS/2010/33), and with DEPP 6.1.7, even if regulatory failures were found to have occurred within aspects of the Firms' business which fell within the scope of her responsibilities, Ms Grigg should not be considered to be in breach of Statement of Principle 6 because she was not personally culpable for those failures.*
7. The Authority has concluded that the wording of the job profile does not justify the distinction which Ms Grigg sought to maintain that it made between "internal" and "external" risks. If this distinction had been intended in the written document then the Authority would expect this to have been apparent from its wording; on the contrary, it referred to an "overall risk management structure for the organisation". Further, when discussing the scope of the proposed Risk Management Director role with the CEO in an email of 10 February 2011, Ms Grigg stated that "the Risk Director 'floats' above the day to day running of the company"; this was not consistent with a view that she should be given responsibility for risks relating to only part of the Firms' affairs.
8. References to treating customers fairly in directors' job profiles must have been intended to be read in the context of each; the Authority does not accept that the references to the topic in her job profile were intended to have no particular meaning in the context of her role, and has concluded that she had responsibility for treating customers fairly as stated in the profile.
9. The Authority accepts that, in practice, the Firms' CEO encouraged Ms Grigg to concentrate on certain aspects of her role as Risk Manager, namely professional indemnity insurance and liaison with the Authority, as well as certain operational duties. It has concluded that she interpreted this as meaning that she need not concern herself with matters which were dealt with by the Compliance Director save to the extent that these posed what she characterised as "risks affecting

the business" (that is, risks to the functioning of the company itself), as distinct from "external risks" (that is, risks to underlying customers).

10. However, the Authority has concluded that this distinction was untenable in practice. The business of the Firms was primarily the provision of advice to underlying customers and thus the risk to underlying customers of poor advice inevitably affected the Firms' business. Ms Grigg suggested that effective use of professional indemnity insurance prevented this from being the case, but in the Authority's view (supported by Ms Grigg's job description which referred to "*managing insurances taken out to mitigate risks*") this could only mitigate the risk to the company rather than remove it entirely since, even if customer claims are all covered by insurance, there remains detriment to the company in the form of reputational damage and regulatory liability (as well as from uninsured excesses and a likely increase in insurance premiums). Further, Ms Grigg acknowledged that she had responsibility for "regulatory" risks and she was aware of the regulatory failings that the Authority had found in Mr Palmer's conduct of Financial's business in relation to its underlying customers. The Authority has concluded that responsibility for "regulatory" risks must involve responsibility for the fair treatment of customers. During the course of her oral representations, Ms Grigg was unable to suggest examples of customer risk that would not give rise to "commercial" or business risks to the Firms. She suggested that the risk of a customer not receiving advice might be an example, but indicated that she had never previously given this matter any thought; however, the Authority does not accept that there is no risk to the business of a firm where it has been engaged to give advice but fails to do so, and has concluded that she had not given the distinction careful thought during the Relevant Period, but instead had used it to excuse herself for not concerning herself with matters dealt with by the Compliance Director.
11. The Authority considers that Ms Grigg's analysis fails to distinguish between risk ownership and oversight. It accepts that the Compliance Director was the risk owner for customer risks, with responsibility for identifying, managing and mitigating them, but considers that nevertheless Ms Grigg, as Risk Management Director and as set out in her job description, had overall responsibility for ensuring that the business identified and controlled risks in all areas of the business. Customer risks were of the essence of the Firms' business, so a director with responsibility for oversight of risk ought to have been concerned with those risks. The Authority has therefore concluded that, as Risk Management Director, Ms Grigg should have understood that it was necessary

for her to have concerned herself with these risks and the controls and mitigating measures that were relevant to them if the Firms' risk management framework was to be adequate. The terms of her job description, or the emphasis given by her line manager to certain aspects of her job, and the scope of the role of the Compliance Director provide no excuse for not doing so.

12. It follows that Ms Grigg was personally culpable for failures which the Authority has concluded occurred within her area of responsibility; thus, its conclusions as to her breach of Statement of Principle 6 are consistent with the approach of the Tribunal in the *Pottage* case, and with DEPP 6.2.7.

Review of the risk management framework

13. *Ms Grigg's initial review of the Firms' risk management framework was adequate. In particular, there was no reason for her to believe that the existing framework was inadequate because it had been approved by the Group Board on an annual basis, and there had not been any significant changes between 2009 and 2011 to necessitate any material alterations to the risk management framework.*
14. *While it might have been better to document the risk management framework in a single document, this was not a serious failing because it was recorded, partly in the Firms' 2011 ICAAP document, and partly in adviser controls which were found by the Skilled Person's Report to be part of the framework.*
15. The Authority has concluded that the fact that the existing risk management framework had been approved annually by the Board did not provide any reason to consider it must be adequate (especially as there had not previously been any Board member specifically tasked with overseeing risk management). Particularly in the light of the skilled person's report commissioned in 2010 and the final notice given to Mr Palmer (also in 2010), each of which put Ms Grigg on notice of the Authority's concerns about the Firms, there was every reason for her to question whether the framework was adequate. Further, her initial review cannot have been adequate given the important matters (listed at paragraph 4.32 of this Notice) which it failed to identify.
16. The ICAAP document and any separate documents recording particular controls were not a substitute for a standalone policy and procedures document dealing with all risks to the Firms' business.

Risk Register

17. *The Risk Register was used primarily as a means of identifying and managing commercial risks to the business, and such risks were properly identified in the Register. Customer risks were identified in other documents, produced by the Compliance Director. To the extent that risks to underlying customers were included in the Risk Register, this was because of their potential impact on the commercial position of the Firms.*

18. *However, the Risk Register did in fact identify the following customer risks:*
 - (a) *ARs and RIs not adding new business to, or recording inaccurate information in, the new business register. This was covered by an entry relating to the risk that advisers committed fraud, which gave as a potential mitigation option the possibility of the central collection by the Firms of adviser commissions;*

 - (b) *Complaints not being handled by ARs fairly or in line with complaints handling procedures. There was a section dealing with increase in upheld client complaints; and*

 - (c) *Risks specific to DIM activity. This was covered by a risk relating to the performance of in-house funds.*

In addition, some of these were dealt with in separate documents created by the Compliance Director, and it was not necessary for the Risk Register to duplicate these.

19. *The net risk scores included in the Risk Register, to reflect how well each risk was considered to be controlled, were decided on by consensus, by the Risk Committee, which Ms Grigg chaired. It was for the risk owners to provide information to the Committee in order to enable it to assess the effectiveness of controls. The Compliance Director was the risk owner for customer risks, and so to the extent that the Register covered customer risks, it was his responsibility, not Ms Grigg's, to ensure the accuracy of that information.*

20. *The Authority has concluded that the Risk Register should have identified adequately all material risks to the Firms, including customer risk; as set out at paragraph 9 above, the distinction between customer and commercial risks was*

not a valid one. It was not appropriate to omit risks to underlying customers on the basis that these would be dealt with elsewhere. In fact, the Risk Register did deal with some customer risks and, in some cases, recorded Ms Grigg as the risk owner alongside the Compliance Director. This is inconsistent with Ms Grigg's representation that the Risk Register was not primarily a tool for identifying risks to underlying customers, or that she was not responsible for testing the information recorded in the Risk Register in relation to them.

21. The Risk Register did not in fact identify the risks set out at paragraph 17 above. As to each of these:
 - (a) The reference in the Register to advisers committing fraud was much narrower than the risk of new business not being recorded in the new business register, or recorded incorrectly, albeit the "further mitigation option" mentioned was relevant to that wider risk;
 - (b) The Authority accepts that complaints were mentioned in general terms, but the Register did not deal with the risk of ARs not handling these properly; and
 - (c) The performance of funds related to the DIM business, but not to any risk to underlying customers arising from DIM activity.

To the extent these matters were dealt with in separate documents created by the Compliance Director, this did not excuse the failure to deal with them adequately in the Risk Register, which should have covered all material areas of risk.

22. Ms Grigg, as Risk Management Director, should have ensured that the information used by the Risk Committee to assess net risk scores was sufficient for the Committee to make an accurate assessment of the effectiveness of the Firms' systems and controls for identifying and managing risk. To that end, she should have ensured that the information was subject to objective assessment, by challenging the adequacy of the systems and controls which were said to mitigate particular risks, thus ensuring the validity of the information in the Risk Register.

Provision of management information

23. *Ms Grigg's role was limited to reading, and ensuring that the Board had access to, the MI prepared by various departments. She reasonably relied on her fellow directors to produce adequate MI. In particular, she had no reason to believe that the MI being provided to the Group Board by the Compliance Director was unsatisfactory, as he was highly experienced in compliance. She read the MI that he produced, and would have taken issue with any obvious issues apparent on its face, but it was not part of her role to scrutinise its contents in detail.*
24. The Authority has concluded that it does not dispute that the responsibility for preparation of MI in relation to particular departments within the Firms lay with the relevant directors, so that it was for the Compliance Director to prepare MI in relation to risks to underlying customers. However, as Risk Management Director, it was not sufficient for Ms Grigg simply to read for obvious errors, and pass on to the Group Board, the MI produced by him. She should have tested the validity of the MI to ensure it was reliable, relevant and sufficient to enable the Group Board to understand and manage risk.

Internal audit

25. *In July 2011 (as demonstrated by a Group Board minute dated 20 July 2011) the Group Board had decided, for resource reasons, to remove the internal audit function, and to rely instead on secondary controls performed by managers within each department. From that date, since the function no longer existed, Ms Grigg's role was amended and she no longer had responsibility for internal audit.*
26. *Following the Group Board's decision not to have a separate internal audit function, she acted reasonably in the circumstances and did her best to put into action the Board's decision. The secondary controls were an adequate alternative to internal audit because they involved a review within the department concerned by individuals of the work of other staff.*
27. *Ms Grigg's failure to ensure the references to internal audit were corrected in the 2011 ICAAP document (see paragraph 4.54 of this Notice) was no more than a minor oversight.*

28. The Authority has concluded that the terms of the Group Board minute of 20 July 2011 indicate only that the Group Board decided not to appoint an individual to hold the Authority CF15 (Internal Audit) controlled function (although, in fact, as at that date, the Authority had abolished that controlled function), and not that it also decided not to have any internal audit capability. The Authority accepts that, thereafter, the Firms had no separate internal audit department but the terms of Ms Grigg's email to the Finance Director (referred to in paragraph 4.53 of this Notice) are inconsistent with her view that there was no expectation on the part of the Group Board (including Ms Grigg) that internal audit activities would be performed. In it, she commented that the Firms did not "really" have an internal audit function; she stated that she was supposed to do some internal audit work but could not see how she would ever have the time to do it. The Authority has concluded that Ms Grigg's responsibilities still included internal audit (as distinct from secondary departmental controls) and that she was aware of this.
29. In these circumstances, Ms Grigg should have considered how to provide assurance, in respect of the systems and controls on which the Firms relied to manage risk, to the Group Board and the relevant committees within the Group in the absence of any dedicated internal audit function. This might have involved using other staff of the Firms or engaging a contractor to provide some objective assessment or evaluation. Secondary controls performed by members of the department being evaluated were not equivalent to internal audit, or an adequate substitute for it.
30. The failure to correct the ICAAP was, in the circumstances, inadvertent but not a minor oversight. Ms Grigg had been provided with a draft and had pointed out (in the email referred to in paragraph 27 above) that it misleadingly referred to the "internal audit department". As Risk Management Director, she should have ensured that the ICAAP document presented a full and accurate account of the Firms' risk management framework and, having noted that the draft would mislead the Authority in a significant respect by suggesting that the Firms carried out internal audit, should have ensured that this error was corrected. The Authority notes that, after pointing out this error, Ms Grigg was provided with a further draft and invited to review the reference to internal audit (thus being put on notice that there was still such a reference in the document), but that the final version still contained the reference.

The Skilled Person's Report

31. *The findings of the Skilled Person's Report should be rejected. Its approach was flawed, because: it contained a lack of commercial operational appreciation; the skilled person spent only 20 minutes interviewing Ms Grigg; and it contained a number of unsubstantiated opinions.*
32. The Authority has concluded that the findings set out in the Skilled Person's Report on which it relies, as set out in this Notice, are substantiated, and the report does not indicate a lack of understanding of the Firms' business or of Ms Grigg's role. It is, accordingly, appropriate to rely on those findings.

Disclosure of documents by the Authority

33. *Ms Grigg had not been provided with all documents which the Authority's Enforcement team had in its possession relating to the case. Without full access to such documents she was unable to state whether there were any further relevant facts which supported her representations.*
34. The Authority has concluded that, in accordance with section 394 of the Act, the Authority is not required to provide Ms Grigg with access to all material relating to this matter. It is only required to provide Ms Grigg with access to (a) material relied on by it in taking the decision giving rise to the obligation to issue, respectively, the Warning Notice and this Notice; and (b) any material which, in the Authority's opinion, might undermine those decisions. Further, the Authority has concluded that Ms Grigg has been given access to all the material in category (a), and that there is no reason in this case to go further than it is required to do by section 394. The Authority's Enforcement team has confirmed that it has provided access to all material existing in category (b); Ms Grigg has not provided any evidence of a failure to do so and the Authority concludes that it has no reason to consider that any such documents have been withheld.

Time bar

35. *Section 66(4) of the Act required the Authority to issue a warning notice against an individual proposing action under section 66 in respect of misconduct no more than three years after it had information from which the misconduct could reasonably be inferred. In relation to certain of the allegations in these*

proceedings, the Warning Notice, issued on 12 May 2015, was issued after the three year period had expired.

36. *In relation to the allegation that Ms Grigg should have corrected the reference in the 2011 ICAAP document to the internal audit department, the Authority had received the ICAAP document on 20 March 2015. An Authority internal risk assessment document dated 2 April 2012 indicated that the Firms no longer had an internal audit function. Thus there was evidence that the Authority was aware of the relevant facts in relation to this aspect of the case as at 2 April 2012, and so a warning notice should have been issued by 1 April 2015 at the latest in order for the Authority to be able to impose a financial penalty.*
37. *Further, in relation to the allegations about the inadequacy of MI relating to customer risk, it was clear from an Authority internal email of 28 March 2012 that quality of MI was an area of concern as at that date. In relation to this aspect of the case, a warning notice should have been issued by 27 March 2015 at the latest in order for the Authority to be able to impose a financial penalty.*
38. The Authority has concluded that, while by an earlier date it had received the ICAAP document (together with the Group Board minute recording the Board's decision that it was not necessary to fill the CF 15 Internal Audit function) and identified both MI and the lack of an internal audit function as areas for investigation, only on 15 May 2012 (at the earliest) did it acquire any evidence indicating that Ms Grigg might be personally culpable for these matters. The Warning Notice issued on 12 May 2015 was therefore within the three years prescribed by section 66(4) of the Act.

Financial penalty

39. *The Authority had wrongly concluded that the breaches should be classified as "Level 2"; rather, they should have been classified as "Level 1", because 10 of the 14 factors mentioned by the Authority were in her favour, and the Authority had failed to take into account five further relevant factors set out in DEPP 6.5B2G.*
40. The Authority has concluded that the 14 factors referred to by Ms Grigg (set out in paragraph 6.12 of this Notice) are not an exhaustive list. Some relate to the impact and nature of her breach, and some to whether the breach was deliberate or reckless; some are factors likely to be considered "level 4" or "level

5", and others are likely to be considered "level 1", "level 2" or "level 3". In line with the way these factors are set out in DEPP 6.5B2G, the list of 14 factors contains some duplication, and a number were listed to demonstrate why the Authority does not consider the breach to have been deliberate or reckless, or of "level 4" or "level 5" seriousness. Thus, to state that 10 out of 14 factors quoted are in Ms Grigg's favour is not reflective of the Authority's view of the seriousness of her breach and does not support a finding of "level 1" instead of "level 2".

41. Of the five further factors set out in DEPP identified by Ms Grigg, four relate to whether the breach is deliberate or reckless, which the Authority does not consider to be the case; the fifth relates to the impact of the breach. These factors, if Ms Grigg's contention that they apply were correct, might provide further reasons why the breaches are not to be considered deliberate or reckless, and why the breach is not "level 3", "level 4" or "level 5", but the Authority does not consider that they move the level of seriousness of the case from "level 2" to "level 1".