Financial Services Authority

FINAL NOTICE

To: Sindicatum Holdings Limited

Of: 33 Duke Street
London
W1U 1JY

Date: 29 October 2008

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

1. THE PENALTY

1.1. The FSA gave Sindicatum Holdings Limited (formerly known as Sindicatum Limited) ("SHL"/"the Firm") a Decision Notice on 20 October 2008 which notified SHL that pursuant to section 206 of the Financial Services and Markets Act 2000 ("the Act"), the FSA had decided to impose a financial penalty of £49,000 on SHL in respect of breaches of Principle 3 of the FSA's Principles for Businesses ("Principle 3") and the requirements of chapter 3 of the section of the FSA's Handbook entitled "Senior Management Arrangements, Systems and Controls" ("SYSC") with regard to the implementation of

effective systems in relation to verifying the identity of its clients so as to counter any risk that a firm might be used to further financial crime.

1.2. SHL agreed to settle at an early stage of the FSA's investigation. It therefore qualified for a 30% (stage 1) discount under the FSA's executive settlement procedures. Were it not for this discount the FSA would have imposed a financial penalty of £70,000 on SHL.

1.3. SHL confirmed on 10 October 2008 that it will not be referring the matter to the Financial Services and Markets Tribunal.

1.4. Accordingly, for the reasons set out below and having agreed with SHL the facts and matters relied on, the FSA imposes a financial penalty on SHL in the amount of £49,000.

2. REASONS FOR THE ACTION

2.1. SHL breached Principle 3 by failing to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. In particular, in breach of SYSC 3.2.6 R, SHL has not taken reasonable care to establish, operate and maintain effective systems and controls for countering the risk that the Firm might be used to further financial crime. These breaches occurred in the period October 2003 to September 2007 (the "Relevant Period").

2.2. Specifically, SHL:

(1) failed to implement adequate procedures for verifying the identity of its clients;

(2) failed to verify adequately the identity of a significant number of its clients; and

(3) failed to keep adequate records with regard to the verification of the identity of its clients.

These failures occurred against a background of heightened public awareness of the need for firms to maintain adequate systems and controls for verifying client identity.

2.3. From 1990 the Joint Money Laundering Steering Group – a body made up of the leading

UK trade associations in the financial services industry whose aim is to promulgate good practice in countering money laundering and to give practical assistance in interpreting the UK money laundering regulations - provided advice on anti-money laundering controls by issuing Guidance for the Financial Sector ("the JMLSG Guidance"). Subsequent editions of the JMLSG Guidance took account of relevant legal changes and evolving practice within the financial services industry.

2.4. The FSA has repeatedly stressed the importance of effective anti-money laundering controls and has on seven previous occasions taken disciplinary action against regulated firms for failing to meet the FSA's anti-money laundering requirements.

2.5. It is fundamental to the health of the United Kingdom's financial services industry that firms establish and maintain effective systems and controls for countering the risk that their products and services might be used to facilitate money laundering or for other purposes connected with financial crime.

2.6. Against that backdrop, the nature, extent and potential implications of SHL's failures merit the imposition of the financial penalty set out in paragraphs 1.1 and 1.2 above.

3. RELEVANT STATUTORY AND REGULATORY PROVISIONS AND GUIDANCE

3.1. Under section 206(1) of the Act, if the FSA considers that an authorised person has contravened a requirement imposed by or under the Act, it may impose on him a financial penalty, in respect of the contravention, of such amount as it considers appropriate.

3.2. Under section 2(2) of the Act the reduction of financial crime is a regulatory objective of the FSA, and includes reducing the extent to which it is possible for a regulated person to be used for a purpose connected with financial crime.

3.3. The FSA's Principles for Businesses constitute requirements imposed on authorised persons under the Act.

3.4. Principle 3 of the FSA's Principles for Businesses states that:

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

3.5. The FSA's rules in relation to compliance, financial crime and money laundering are set out in SYSC 3.2 and SYSC 6.3. The specific SYSC rules relied upon are set out in the Appendix to this notice.

3.6. The FSA has had regard to the relevant provisions in its Decision Procedure and Penalties Manual (DEPP). In particular, the FSA has had regard to:

(1) its policy on imposing financial penalties on authorised persons, contained in DEPP 6; and

(2) the JMLSG Guidance (see paragraph 4.14 below). Pursuant to DEPP 6.2.3G, the FSA will have regard to whether a firm has followed the relevant provisions of that guidance when considering whether to take action against it for a financial penalty or censure in respect of a breach of the rules set out in SYSC 3.2 and 6.3.

3.7. The FSA has also had regard to the relevant guidance set out in the Enforcement (ENF) and Decision Making (DEC) Manuals (which preceded DEPP and were in force until 28 August 2007), as some of the Firm's breaches occurred prior to 28 August 2007.

4. FACTS AND MATTERS RELIED ON

Background

4.1. SHL is a corporate advisory firm with, since inception, a total of approximately 35 clients for whom it has periodically advised and arranged dealing in investments. It is not currently engaged in regulated activity for clients. Its clients are predominantly small and medium corporates based overseas. During the Relevant Period, SHL provided 26 of these clients with services which constituted the carrying on of regulated activities for the purposes of section 22 of the Act and were thus subject to the requirements of the FSA's

Anti-Money Laundering regime.

4.2. SHL's Anti-Money Laundering and client identification procedures are contained in its AML Handbooks dated 2004 and 2006 (the "Handbooks"). The Handbooks were produced by external consultants, who also provided associated training and undertook quarterly reviews of the operation of SHL's procedures. The Handbooks specify the steps to be taken and the evidence to be obtained by the Firm in order to identify its clients, including a formal written risk assessment for each client and the subsequent collection of identification documentation. The procedures included a checklist for each client which the Firm's money laundering reporting officer ("MLRO") was required to review and sign off to ensure that the Firm's procedures had been followed. However, there was no adequate process to ensure this procedure was followed nor were there adequate controls around follow-up from the quarterly reviews.

4.3. The FSA's review of SHL's client files revealed that SHL did not fully implement the client identification and verification procedures set out in its Handbooks. As a result of this failure and the lack of any adequate alternative process, SHL did not take reasonable steps to obtain sufficient evidence to verify the identity of some of its clients or to make or retain an adequate record of that evidence.

4.4. The FSA has determined that during the Relevant Period SHL should have followed its client identification procedures in relation to 26 of its clients. Of those, 13 may be classified as low risk by reason of the entities being publicly listed, regulated by the FSA or an equivalent regulator, or otherwise. The Firm's identification of these clients was appropriate.

4.5. In relation to the remaining 13 clients (who were not low risk), SHL undertook some customer due diligence ("CDD"), but either did not obtain sufficient evidence to verify their identity or did not make and retain a record of that evidence. These clients are incorporated in countries including Lithuania, Slovenia, Russia, Hungary, Czech Republic and UK. Some of these clients may be higher risk as a result of being incorporated in less transparent jurisdictions. Details of the Firm's failings in respect of

these clients are set out in paragraphs 4.6 to 4.13 below.

Further particulars of the Firm's breaches of relevant regulatory requirements

Identification of clients not completed at the time of client take-on

4.6. In the case of 3 clients, identification evidence was not obtained at the time of client take-on. In one case, evidence of an individual's address was not obtained by the Firm until 4 years after client take-on. In another case, the relevant individuals' passports were not certified until 3 years after client take-on.

Information obtained from clients

4.7. The Firm accepted information concerning the directors, beneficial owners or controllers of 5 clients from them, rather than obtaining evidence of those matters from independent sources.

4.8. With respect to a further a further 6 corporate clients, no evidence was obtained to verify that particular individuals were in fact the directors, beneficial owners or controllers of the client.

Documents in foreign languages

4.9. In the case of 5 clients, company and personal records obtained by SHL were in foreign languages, including Lithuanian, Hungarian, Russian and Czech. While some staff at SHL or its subsidiaries could understand these languages (and many of these speak them fluently), there is inadequate evidence to demonstrate these documents or translations of them had been adequately reviewed by the Firm's MLRO in order to confirm their contents.

Copies not adequately certified

4.10. In the case of 2 clients, photocopies of identification documentation were accepted as

evidence of identity, with no evidence that the originals had been sighted or that the copies were true copies.

Lost/missing identity documentation

4.11. In the case of 2 clients, the Firm's records suggested that identification had been verified but the relevant documentation was missing from the Firm's client files. The Firm explained that these documents had been lost or mislaid. In one case, the lost documentation included copy passports of the client's beneficial owners.

Checklists not completed/reviewed

4.12. Client acceptance checklists recorded various categories of information about the Firm's clients which it should have obtained prior to an account being opened. The Firm's procedures required the checklists to be signed and dated by account executives and the MLRO to confirm that sufficient evidence of identity had been obtained and reviewed. This signing off of checklists is an important control in the take-on of clients.

4.13. In 7 cases, client acceptance checklists were not fully completed by account executives or the MLRO for significant periods of time (up to 3 years) after client take-on and in some cases they were not completed at all.

Guidance issued by the Joint Money Laundering Steering Group

4.14. As noted in paragraph 2.3 above, the Joint Money Laundering Steering Group provides guidance for firms in the financial services sector on the steps they can take to meet their legal and regulatory obligations with regard, inter alia, to the detection and prevention of money laundering, including steps firms can take to verify the identity of corporate clients. Although the detail of the JMLSG Guidance has been amended over time, the following general principles apply:

(1) Satisfactory evidence of the identity of clients should be obtained as soon as practicable after initial contact is made;

(2) For lower risk corporate clients, this may be limited to obtaining documents evidencing the existence of the corporate entity, along with lists of directors and shareholders;

(3) For higher risk corporate clients, further identification evidence should be obtained in relation to shareholders and, if appropriate, directors;

(4) Evidence of identity should be obtained from official, independent sources;

(5) Copies of identification evidence should be adequately certified; and

(6) Records of evidence and the methods used to verify identity must be retained.

4.15. For the reasons set out in paragraphs 4.6 to 4.13 above, the FSA has determined that in relation to the 13 clients who were not 'low risk', SHL did not or did not fully and adequately follow the JMLSG Guidance summarised in paragraph 4.14 above, nor did it operate adequate alternative methods of identifying its clients in respect of many of them.

Conclusions regarding the Firm's conduct

4.16. SHL should have been aware that the conduct set out in paragraphs 4.6 to 4.13 above placed it at risk of being used to further financial crime and that when taken together the combination of failings significantly increased the risk of the Firm being used for a purpose connected to financial crime.

4.17. In consequence of the matters set out in paragraphs 4.2 to 4.16 above and in breach of Principle 3 and SYSC, SHL:

(1) failed to implement adequate procedures for verifying the identity of its clients;

(2) failed to adequately verify the identity of a significant number of its clients; and

(3) failed to keep adequate records with regard to the verification of the identity of its clients.

Analysis of the sanction

4.18. In deciding upon the nature and level of disciplinary sanction, regard has been had to all the relevant circumstances of this case and to the guidance set out in DEPP and ENF referred to in section 3 above. The following are particularly relevant:

Effective deterrence

4.19. The principal purpose for which the FSA imposes sanctions is to promote high standards of regulatory and/or market conduct by deterring persons who have committed breaches from committing further breaches and helping to deter other persons from committing similar breaches, as well as demonstrating generally the benefits of compliant business. The financial penalty set out in paragraphs 1.1 and 1.2 above is required in part to strengthen the message to the market that it is imperative that firms establish and maintain effective systems and controls for countering the risk that they may be used to further financial crime, and that senior management actively engage in ensuring that firms are compliant.

The seriousness of the Firm's breaches

4.20. The FSA has had regard to the seriousness of the breaches, including the nature of the requirements breached, the number and duration of the breaches and the extent to which the breaches reveal serious and systemic weaknesses in the Firm's internal controls.

4.21. The FSA considers that the breaches are serious, relate to a significant number of the Firm's clients, and have occurred over a long period, that is, October 2003 to September 2007. Further, the breaches and the significance of the breaches were identified by the FSA, not by the Firm.

The financial resources and other circumstance of the Firm

4.22. In determining the amount of any penalty, the FSA will have regard to the size, financial

resources and other circumstances of the person on whom the penalty is to be imposed. In this case the FSA had particular regard to the deterioration of the Firm's financial position and its ability to pay a fine.

Conduct following the breach

4.23. SHL has co-operated fully with the investigation by the FSA's Enforcement division and has agreed to settle with the FSA.

4.24. SHL has also overhauled its CDD systems with the assistance of experienced consultants who will monitor compliance on a regular basis. Staff have been suitably retrained.

4.25. SHL does not have a previous disciplinary record.

Previous action taken in relation to similar failings

4.26. In determining the level of the financial penalty, the FSA has taken into account penalties imposed by the FSA on other authorised persons for similar behaviour. This was considered alongside the principal purpose for which the FSA imposes sanctions, as set out in paragraph 4.19 above.

Conclusion

4.27. Having had regard to the matters set out in paragraphs 4.19 to 4.26 above and the risk SHL's breaches pose to the fulfilment of the FSA's statutory objective of the reduction of financial crime, the FSA imposes a financial penalty of £49,000 on SHL.

5. DECISION MAKER

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

6. IMPORTANT

6.1. This Final Notice is given to SHL in accordance with section 390 of the Act.

Manner of and time for Payment

6.2. The financial penalty must be paid in full by SHL to the FSA by no later than 12 November 2008, 14 days from the date of the Final Notice.

If the financial penalty is not paid

6.3. If all or any of the financial penalty is outstanding on 12 November 2008, the FSA may recover the outstanding amount as a debt owed by SHL and due to the FSA.

Publicity

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

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

FSA contacts

6.6. For more information concerning this matter generally, you should contact Hamish Armstrong at the FSA (direct line: 020 7066 1236 /fax: 020 7066 1327).

William Amos
FGSA Enforcement Division

APPENDIX I

Systems and controls in relation to compliance, financial crime and money laundering

SYSC 3.2.6

A firm must take reasonable care to establish and maintain effective systems and controls for compliance with applicable requirements and standards under the regulatory system and for countering the risk that the firm might be used to further financial crime.

SYSC 3.2.6A

A firm must ensure that these systems and controls:

(1) enable it to identify, assess, monitor and manage money laundering risk; and

(2) are comprehensive and proportionate to the nature, scale and complexity of its activities.

SYSC 3.2.6B

"Money laundering risk" is the risk that a firm may be used to further money laundering. Failure by a firm to manage this risk effectively will increase the risk to society of crime and terrorism.

SYSC 3.2.6C

A firm must carry out regular assessments of the adequacy of these systems and controls to ensure that it continues to comply with SYSC 3.2.6A R.

SYSC 3.2.6D

A firm may also have separate obligations to comply with relevant legal requirements, including the Terrorism Act 2000, the Proceeds of Crime Act 2002 and the Money Laundering Regulations. SYSC 3.2.6 R to SYSC 3.2.6J G are not relevant for the purposes of regulation 3(3) of the Money Laundering Regulations, section 330(8) of the Proceeds of Crime Act 2002 or section 21A(6) of the Terrorism Act 2000.

SYSC 3.2.6E

The FSA, when considering whether a breach of its rules on systems and controls against money laundering has occurred, will have regard to whether a firm has followed relevant provisions in the guidance for the UK financial sector issued by the Joint Money

Laundering Steering Group.

SYSC 3.2.6F

In identifying its money laundering risk and in establishing the nature of these systems and controls, a firm should consider a range of factors, including:

(1) its customer, product and activity profiles;

(2) its distribution channels;

(3) the complexity and volume of its transactions;

(4) its processes and systems; and

(5) its operating environment.

SYSC 3.2.6G

A firm should ensure that the systems and controls include:

(1) appropriate training for its employees in relation to money laundering;

(2) appropriate provision of information to its governing body and senior management, including a report at least annually by that firm's money laundering reporting officer (MLRO) on the operation and effectiveness of those systems and controls;

(3) appropriate documentation of its risk management policies and risk profile in relation to money laundering, including documentation of its application of those policies (see SYSC 3.2.20 R to SYSC 3.2.22 G);

(4) appropriate measures to ensure that money laundering risk is taken into account in its day-to-day operation, including in relation to:

(a) the development of new products;

(b) the taking-on of new customers; and

(c) changes in its business profile; and

(5) appropriate measures to ensure that procedures for identification of new customers do not unreasonably deny access to its services to potential customers who cannot reasonably be expected to produce detailed evidence of identity.

SYSC 3.2.6H

A firm must allocate to a director or senior manager (who may also be the money laundering reporting officer) overall responsibility within the firm for the establishment

and maintenance of effective anti-money laundering systems and controls.

The money laundering reporting officer

SYSC 3.2.6I

A firm must:

(1) appoint an individual as MLRO, with responsibility for oversight of its compliance with the FSA's rules on systems and controls against money laundering; and

(2) ensure that its MLRO has a level of authority and independence within the firm and access to resources and information sufficient to enable him to carry out that responsibility.

SYSC 3.2.6J

The job of the MLRO within a firm is to act as the focal point for all activity within the firm relating to anti-money laundering. The FSA expects that a firm's MLRO will be based in the United Kingdom.