

The published version of this notice has been redacted to avoid identifying third parties who have not had an opportunity to make representations about matters in the notice that are prejudicial to them.

On 1 July 2021, all the requirements in paragraph 1.1 except 1.1(9) were cancelled following the appointment of Special Administrators over Dolfin Financial (UK) Limited.

FIRST SUPERVISORY NOTICE

To: Dolfin Financial (UK) Limited

**Address: 77 Coleman Street
London
EC2R 5BT
UNITED KINGDOM**

FRN: 552894

Date: 12 March 2021

1. ACTION

1.1 For the reasons given in this First Supervisory Notice, and pursuant to section 55L(3)(a) of the Financial Services and Markets Act 2000 ("the Act"), the Authority has decided to impose the requirements set out at paragraphs 1.1(1) to 1.1(14) below ("the Requirements") on Dolfin Financial (UK) Limited ("Dolfin" or the "Firm") with immediate effect.

Restrictions on activities

- 1) Dolfin (whether directly or through its agents) must not, without the prior written consent of the Authority, carry on any regulated activities for which it has a Part 4A permission, except as set out in sub-paragraph (2).

- 2) Dolfin may continue to hold client money and safeguard and administer custody assets held as at the date of these Requirements, or which Dolfin has accepted or segregated in accordance with sub-paragraph (3).
- 3) Sub-paragraph (1) does not apply to the receipt of new client money or custody assets from, or on behalf of, existing clients by Dolfin as a result of or in relation to the following:
 - a) Receipt of dividends or coupons.
 - b) Rights issues.
 - c) Corporate actions including maturing bonds.
 - d) Settlement of trades instructed but not settled as at the date of these Requirements.
- 4) Save as set out in sub-paragraph (3), Dolfin must not accept any new client money or custody assets, whether from existing or new clients in any of its business areas.
- 5) Dolfin must not, without the prior written consent of the Authority, recommence any regulated activities.

Assets requirement

- 6) Save as set out in sub-paragraph (3)(d), Dolfin must not, without the Authority's prior written consent, take any action which has, or may have, the effect of disposing of, withdrawing, transferring, dealing with or diminishing the value of any of its own assets, or assets held for or on behalf of others, including client money or custody assets.
- 7) Dolfin may continue dealing with or disposing of any of its own assets (whether in the UK or elsewhere) in the ordinary and proper course of business provided that the sum or value of such dealings or disposals does not exceed £900,000 per month. Dolfin may also spend, from its own assets, a reasonable amount on reasonable legal expenses. For the avoidance of doubt, the following would not be in the ordinary and proper course of business for these purposes:
 - a) The disposal, transfer or sale in whole or in part of Dolfin's client base.
 - b) The making of any distribution to shareholders whether by way of capital distribution or dividends.
 - c) The payment of unusual or significant amounts to Dolfin's shareholders, directors, officers, employees or any connected persons.
 - d) The making of any gift or loan by Dolfin to any party.
 - e) The entry into any financial reconstruction or reorganisation.

- 8) Sub-paragraphs (6) and (7) are assets requirements within the meaning of section 55P(4)(a) of the Act.

Retention and notification requirements

- 9) Dolfin must secure all books and records and preserve all information and systems in relation to regulated activities carried on by it, and must retain these in a form and at a location within the UK, to be notified to the Authority in writing by 19 March 2021, such that they (or, so as not to hinder Dolfin's performance of its business activities, true copies of them) can be provided to the Authority, or to a person named by the Authority, promptly on its request.

- 10) By close of business on 19 March 2021, Dolfin must notify in writing:

- a) All its clients;
- b) All financial advisers which it knows or believes act as agents for its clients;
- c) All platforms which Dolfin uses to manage or trade assets;
- d) The custodians of all assets managed by Dolfin; and
- e) The banks and custodians of all client money and custody assets held by Dolfin

of the terms and effects of these Requirements. This must be in a form to be agreed in advance with the Authority.

- 11) By close of business on 16 March 2021, Dolfin must publish in a prominent place on its website www.dolfin.com, in a form to be agreed in advance with the Authority, a notice setting out the terms and effects of these Requirements.

- 12) Once the notifications referred to in sub-paragraph (10) have been made, on 22 March 2021 Dolfin must provide to the Authority:

- a) Copies of the template notifications sent to all recipients referred to in sub-paragraph (10).
- b) A list of all parties to whom notifications have been sent pursuant to sub-paragraph (10).
- c) Confirmation that, to the best of its knowledge, Dolfin has sent notifications pursuant to sub-paragraph (10) to all relevant parties.

- 13) A person approved to perform a senior management function ("SMF") at Dolfin must send to the Authority by email by 12 noon every Friday, until such time as it is notified otherwise in writing by the Authority, written confirmation that Dolfin is in compliance with these Requirements.

- 14) A person approved to perform a SMF at Dolfin must send to the Authority by email, until such time as it is notified otherwise in writing by the

Authority:

- a) By 12 noon every Friday (or the next business day should the Friday fall on a Bank Holiday), copies of up to date statements of all accounts held by Dolfin with financial institutions, whether in the UK or elsewhere, and whether in respect of its own assets, client assets or both, showing at least all transactions in the previous week and the balances of the accounts.
 - b) By 12 noon every Friday (or the next business day should the Friday fall on a Bank Holiday), the client money reconciliations performed for close of business the previous working day.
 - c) By 12 noon on the first Friday (or the next business day should the Friday fall on a Bank Holiday) of each calendar month, the custody assets reconciliations.
- 1.2 These Requirements replace all other requirements imposed on Dolfin pursuant to section 55L(5)(a) of the Act.
 - 1.3 These Requirements take immediate effect and remain in force unless and until varied or cancelled by the Authority (either on the application of Dolfin or of the Authority's own volition).

2. REASONS FOR ACTION

- 2.1 The Authority has concluded, on the basis of the facts and matters described below that it is necessary to exercise its power under section 55L(3)(a) of the Act to impose the Requirements on Dolfin because it is failing, or is likely to fail, to satisfy the Suitability Threshold Condition (paragraph 2E of Schedule 6 to the Act), the Effective Supervision Threshold Condition (paragraph 2C of Schedule 6 to the Act) and the Appropriate Resources Threshold Condition (paragraph 2D of Schedule 6 to the Act) and/or it is desirable in order to advance the Authority's operational objective of protecting and enhancing the integrity of the UK financial system (section 1D of the Act).
- 2.2 The Authority has identified serious concerns relating to Dolfin in that it appears to have:
 - 1) Operated a scheme designed to enable its clients to obtain a Tier 1 investor visa in breach of the Immigration Rules and therefore unlawfully. In the course of this business, it appears that Dolfin has dishonestly or recklessly made false or misleading representations to the Home Office that its clients who were applicants for a Tier 1 investor visa met the requirements under the Immigration Rules to invest a minimum of £2 million in UK businesses.
 - 2) Breached Principles 1 (Integrity) and 11 (Relations with regulators) of the Authority's Principles for Businesses:
 - a) Dolfin provided incomplete and misleading information to the Authority about its Tier 1 investor visa business, both when it was first contacted by Supervision about this business in November/December 2019 and when providing its initial response to

an information requirement sent for the purposes of an Enforcement investigation in July 2020.

- b) Dolfin also sought to mislead the Authority in February and April 2020 as to the purported legitimacy of its Tier 1 investor visa business by sharing with the Authority legal advice which Dolfin had obtained from a firm of solicitors on the basis of incomplete information and which was therefore misleading.
 - c) When asked in April 2020 about its connections with an ultra-high-net-worth individual client ("the HNW Client"), in the light of reports that he had been made subject to an Unexplained Wealth Order, Dolfin dishonestly or recklessly provided misleading information to the Authority by stating that the HNW Client had not undertaken any transactions on his account for twelve months. The Authority has since discovered that while that may have been the case, it did not reveal the true nature of Dolfin's significant and ongoing connections with the HNW Client, his family and his broader business interests. Moreover, Dolfin was specifically aware that its association with the HNW Client could have a significant adverse impact on its reputation, but it did not inform the Authority of that concern.
- 3) An inadequate financial crime control framework. A recent section 166 skilled person review ("section 166 review") has found material deficiencies in relation to Dolfin's onboarding and financial crime controls which led the skilled person to make a significant number of recommendations to be addressed as a high priority.
 - 4) A business model which involves a high level of money laundering risk as a result of its high-risk client base and a prevalence of red flag transactions. This has resulted in two banks terminating their banking relationships with Dolfin.
 - 5) Inadequate non-financial resources on the basis that Dolfin has been unable to successfully identify, recruit and retain suitable individuals in key roles. In particular, in December 2020 Dolfin's replacement Chief Executive Officer ("CEO") resigned at short notice and Dolfin dismissed its newly appointed Money Laundering Reporting Officer ("MLRO") such that, at the present time, it does not have a permanent CEO or MLRO in place. Furthermore, there has been additional staff turnover in Dolfin's compliance department. The section 166 review also raised concerns as to the ability of Dolfin's compliance resource to ensure that the Firm is compliant with its obligations.
- 2.3 The Authority considers that imposition of the Requirements should take immediate effect, in particular, because the matters which are the subject of this First Supervisory Notice demonstrate that Dolfin presents an immediate and ongoing risk on the basis that:
- 1) Through its Tier 1 investor visa business, Dolfin has knowingly or recklessly promoted and facilitated unlawful activity.
 - 2) It appears that Dolfin has deliberately submitted false information in an attempt to mislead both the Home Office and the Authority, raising serious

concerns about its suitability to conduct regulated activities.

- 3) Dolfin's inadequate financial crime framework coupled with its inherently high-risk business model gives rise to an unacceptable risk of the Firm being used for the purposes of financial crime.
- 4) For the reasons set out in this First Supervisory Notice, there are serious concerns in relation to the propriety of [REDACTED] that call into question the Firm's ability to continue to meet the Threshold Conditions.

3. DEFINITIONS

3.1 The definitions below are used in this First Supervisory Notice:

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

"AML" means anti-money laundering;

"the Authority" means the Financial Conduct Authority;

"the Bank A investigation report" means the report provided by Bank A to the Authority on the outcome of its investigation into transactions carried out on Dolfin's account;

"CASS" means client money and custody assets;

"CEO" means Chief Executive Officer;

"CTF" means counter terrorist financing;

"Conflicted securities" means bonds which were issued by companies that Dolfin or its directors had an interest in;

"Dolfin" or the "Firm" means Dolfin Financial (UK) Limited;

[REDACTED];

"Dolfin Group" means the global group of companies [REDACTED];

"EDD" means enhanced due diligence;

"Enforcement" means the Authority's Enforcement and Market Oversight Division;

"Handbook" means the Authority's online handbook of rules and guidance (as in force from time to time);

"HNW Client" means the ultra-high-net-worth individual client who was subject to an Unexplained Wealth Order;

"KYB" means know your business;

"KYC" means know your customer

"MLRO" means Money Laundering Reporting Officer;

"the NCA" means the National Crime Agency;

"RDC" means the Regulatory Decisions Committee of the Authority (see further under Procedural Matters below);

"Requirements" means the terms imposed on the Firm by this First Supervisory Notice as outlined in section 1 above;

"section 166 final report" means the report delivered by the skilled person in October 2020;

"section 166 review" means the review by the skilled person appointed under section 166 of the Act;

"SMF" means senior management function;

"SoF" means source of funds;

"SoW" means source of wealth;

"SPV" means special purpose vehicle;

"Supervision" means the Authority's Supervision Division;

"SYSC" means the Senior Management Arrangements, Systems and Controls part of the Handbook;

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

"UBO" means ultimate beneficial owner;

"UWO" means Unexplained Wealth Order;

"Visa loan business" means the complex funding scheme involving loans to Tier 1 investor visa clients via Dolfin connected companies registered in offshore jurisdictions;

"VREQ" means voluntary requirements imposed on the Firm following an application by the Firm under section 55L(5)(a) of the Act.

4. FACTS AND MATTERS

Background

- 4.1 Dolfin is part of a global group of companies [REDACTED]. Dolfin is the only UK authorised person within the Group; it was incorporated on 5 November 2010 and has been authorised since 25 October 2011. [REDACTED]

[REDACTED]

4.2 Dolfin is a financial services firm that provides custody, brokerage and asset management services to private clients, financial advisers and institutional investors in respect of a range of investment securities such as bonds, commodities, currencies, derivatives, funds and shares. Dolfin also provides a Tier 1 investor visa service. This involves assisting clients with Home Office requirements to obtain a Tier 1 investor visa, which requires at least £2 million to be invested by the client into active and trading UK companies. Dolfin's clients are based in the UK and overseas locations, including China, the Middle East and Russia.

4.3 Approximately 80% of Dolfin's clients are retail investors with the remainder being professional investors. Dolfin's retail investors are predominately high net worth individuals.

4.4 Dolfin currently has no permanent CEO or MLRO in place following the resignation of its SMF1 Chief Executive/SMF3 Executive Director designate on 8 December 2020 after eight months in those roles and the dismissal of its SMF17 MLRO designate after two months in this role on 11 December 2020.

4.5

[REDACTED]

4.6 Despite having no formal position on the executive board, it is apparent that [REDACTED] has the ability to exercise a significant influence over Dolfin's activities, as follows:

[REDACTED]

2) A Liechtenstein foundation, of which [REDACTED] is the founder and his children are the beneficiaries, is known to have had a 62.8% shareholding in [REDACTED].

3) A letter from Dolfin to Supervision on 23 July 2020 described [REDACTED] as "the holder of the majority economic interest".

[REDACTED]

[REDACTED]

6) Dolfin is reliant on ongoing financial support from [REDACTED] to meet its regulatory capital obligations. In this regard, on 14 September 2020 Dolfin entered into an

agreement with [REDACTED] for the subscription of up to £6 million of capital in the form of convertible non-voting shares, of which £2 million was subscribed for in September 2020.

Dolfin's regulatory history

Conflicts of interest

- 4.7 Supervision first identified significant concerns with Dolfin following supervisory work in November 2019 that reviewed its Tier 1 investor visa business and management of conflicts of interest. The crux of Supervision's concerns related to the fact that Dolfin had distributed a large number of conflicted securities predominately to its Tier 1 investor visa clients on an execution only basis.
- 4.8 In light of these concerns, Supervision invited Dolfin to apply for a VREQ. Dolfin and Supervision negotiated the terms of that VREQ, ultimately agreeing that it should require Dolfin to: not accept new Tier 1 investor visa clients, except on a discretionary basis, and to cease distributing conflicted securities. Dolfin agreed and applied for the VREQ on 19 December 2019, and its application was granted that day.
- 4.9 An Enforcement investigation was subsequently opened into Dolfin [REDACTED]. The initial scope of the investigation into Dolfin focused on whether it had failed to take appropriate steps to properly identify and manage conflicts of interest in relation to the conflicted securities in which Dolfin [REDACTED] had an interest, and in which clients invested as part of the Tier 1 investor visa scheme. It also included investigating whether the Tier 1 investor visa business model had been recklessly or intentionally set up for Dolfin's benefit without regard to the risks to its clients as a result of the conflicts of interest. At the outset, the core concern was that Dolfin may have been "mis-selling" the conflicted securities to its Tier 1 investor visa clients.
- 4.10 As explained below, the Enforcement investigation has since discovered, over and above the conflicts of interest concerns, that Dolfin appears to have operated a scheme designed to enable its clients to obtain a Tier 1 investor visa whilst circumventing the financial thresholds in the Immigration Rules. In fact, the sale of the conflicted securities was a part of this scheme whereby Dolfin arranged for its clients to obtain Tier 1 investor visas, typically at a cost of £400,000, without having to invest the full £2 million as stipulated in the Immigration Rules.

CASS review

- 4.11 Separately in November 2019, Supervision conducted a supervisory visit to Dolfin to review its CASS arrangements. The visit did not identify a shortfall in any client money or custody assets but found a number of weaknesses and long-standing errors in Dolfin's CASS controls.
- 4.12 Supervision informed Dolfin that it would be required to commission a section 166 review of its CASS controls.

Financial crime controls

4.13 Supervision undertook further supervisory work in March and April 2020 to review the financial crime checks Dolfin completed when onboarding clients. As a result, Supervision wrote to Dolfin on 16 April 2020 setting out its concerns about Dolfin’s financial crime systems and controls. The letter from Supervision also referred to Dolfin’s apparent failure to notify the Authority of certain material matters. In light of the concerns raised, Supervision invited Dolfin to apply for a further VREQ to cease all regulated activities and to restrict its assets on the basis that it was considered to be failing to satisfy the Suitability Threshold Condition.

4.14 Dolfin responded to Supervision by letter dated 30 April 2020, in which it declined to apply for the VREQ. Dolfin argued that its financial crime controls were adequate and that it had not failed to notify the Authority of material issues. However, to address Supervision’s concerns, Dolfin explained that it was undertaking a major change to its management and ownership structure

[REDACTED]

4.15 On 2 June 2020, Supervision confirmed that it did not intend to seek to impose a requirement on Dolfin to cease all regulated activities in light of the information the Firm had provided, the remedial work it had undertaken and its proposed restructuring. However, to provide independent assurance that Dolfin had fully identified any weaknesses and effectively addressed them, Supervision required Dolfin to commission a wide-ranging section 166 review to cover Dolfin’s CASS arrangements, conflicts of interest controls, financial crime control framework, governance and oversight and wind-down planning. Supervision explained that it would use the findings of the section 166 review and Enforcement investigation to determine on an ongoing basis whether to revisit the case for seeking further restrictions on Dolfin’s activities.

4.16 The section 166 final report delivered in October 2020 provided further details of [REDACTED]. The report stated that Dolfin’s current share capital consisted of 15,390,001 ordinary shares. Post-merger, Dolfin would have a share capital divided into three share classes:

[REDACTED]

[REDACTED]

[REDACTED]

4.17 Under the proposed new ownership and control structure:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Failings and risks identified

Tier 1 investor visa business

- 4.20 The Immigration Rules¹ require a Tier 1 investor visa applicant to:
- 1) Invest not less than £2 million of their own money, under their control, in UK Government bonds, or in the share capital or loan capital of active and trading UK registered companies; and
 - 2) Maintain that investment for the whole of the period of their leave to remain in the UK.
- 4.21 Dolfin appears to have facilitated an arrangement for its Tier 1 investor visa clients to obtain a visa with only £400,000 of their own funds, instead of £2 million. Dolfin provided the remaining £1.6 million to its Tier 1 investor visa clients through a complex funding scheme involving loans via Dolfin connected companies registered in offshore jurisdictions. The Tier 1 investor visa clients would then purchase £2 million in conflicted securities from Dolfin connected companies, however, in reality, this was not in the manner of a genuine

¹ Immigration Rules, Part 6A (paragraphs 245E to 245EF) and Appendix A (paragraphs 54-65 and Table 8A)

investment. Nonetheless, it enabled Dolfin to make false or misleading representations to the Home Office that its Tier 1 investor visa clients had invested £2 million in qualifying investments and were compliant with the Immigration Rules, when this was not in fact the case.

- 4.22 As part of the Enforcement investigation, Dolfin was asked to give a presentation on its Tier 1 investor visa offering and, by an information requirement dated 28 May 2020, to provide a narrative of its Tier 1 investor visa business model with copies of contemporaneous supporting documentation. In its various representations at this time, Dolfin made no reference to the visa loan business which enabled its Tier 1 investor visa clients to obtain a visa by paying only £400,000 of their own funds, and it did not provide any of the transactional documents implementing this arrangement. On 27 January 2021, some eight months later, Dolfin provided supplemental information which detailed these financing arrangements and further stated that the majority of its execution-only Tier 1 investor visa clients had used them. However, this supplemental response did not comment on the legality of the arrangements or provide any underlying documentation.
- 4.23 Dolfin also sought and obtained retrospective legal advice on its Tier 1 investor visa business purportedly to demonstrate compliance with the Immigration Rules. However, the legal advice that Dolfin obtained was based on incomplete information in that it made no reference to the visa loan business. This led to a material misunderstanding on the part of Dolfin's lawyers who do not appear to have been sighted on the true nature of the arrangements.

Promotion and set-up of the Tier 1 investor visa business

- 4.24 Dolfin began offering a range of wealth management services to high-net-worth individuals and institutional investors in 2013. Dolfin's view was that investment services based on a Tier 1 investor visa offering would provide an attractive route into the Chinese market.
- 4.25 Draft promotional materials for the visa loan business which were circulated between [REDACTED] and another Dolfin employee in November 2016 presented two options for a prospective Tier 1 investor visa client, as follows:
- 1) Option 1 stated "*You invest £2 million, we give you back £1.6 million ... This way you get your invested funds back at your disposal (minus our £400,000 service fee).*" In effect, the client would open a personal execution-only account with Dolfin and through it purchase £2 million in conflicted securities from a Dolfin connected company. This would result in the client's personal account with Dolfin reflecting a £2 million investment. A Dolfin connected company would then transfer £1.6 million to an account held by the client's offshore SPV with Dolfin.
 - 2) Option 2 stated "*You only invest £400,000.00 ... Your investment of £400,000.00 is non-refundable and is held by us as a commission for our services.*" In effect, the client would open a personal execution-only account with Dolfin and transfer £400,000 into it. Dolfin would then "*help you fund your account up to £2 million*" and invest this in conflicted securities. Once again, this would result in the client's personal account with Dolfin reflecting a £2 million investment.

Transactional structure of the visa loan business

4.26 The methods by which Dolfin helped its Tier 1 investor visa clients to appear to invest £2 million of their own funds took on different iterations. In its supplemental response of 27 January 2021, Dolfin set out five options whereby it had helped clients to finance their Tier 1 visa "investment", all designed to enable the Tier 1 investor visa client to make a net contribution (of varying amounts) significantly below that required to be invested under the Immigration Rules:

- 1) The "Gold" service involves the client contributing £400,000 and being financed with the remaining £1.6 million.
- 2) The "Jade" service involves the client paying £2 million into their account with £1.6 million of that contribution being returned within a short period (about a week).
- 3) The "Silver" service involves the client contributing £1 million and being financed with the remaining £1 million with £950,000 being returned to the client after five years.
- 4) The "Platinum" service involves the client contributing £2 million and being financed with £3 million with £1.9 million being returned to the client after three years.
- 5) The "Palladium" service involves the client contributing £3 million and being financed with £7 million with £2.85 million being returned to the client after three years.

4.27 The supplemental response described the "Gold" service as having the following features:

- 1) An SPV is set up, typically in the BVI. A relative of the Tier 1 investor visa client is appointed as the sole director and SPV ultimate beneficial owner.
- 2) The SPV borrows £1.6 million of bonds issued by a Dolfin connected company under a promissory note.
- 3) The SPV sells the £1.6 million of bonds to another Dolfin connected company for £1.6 million in cash.
- 4) The SPV UBO, in their capacity as the sole director, declares a dividend of £1.6 million and this is paid to the SPV UBO.
- 5) The SPV UBO transfers the £1.6 million received as a dividend to the Tier 1 investor visa client under a deed of gift. This amount is credited to the account of the Tier 1 investor visa client with Dolfin.
- 6) The Tier 1 investor visa client contributes £400,000 of their own funds to their account with Dolfin.
- 7) The Tier 1 investor visa client gives Dolfin instructions to use the £2 million in their account to purchase conflicted securities from a Dolfin connected company.

- 4.28 The "Jade" service is described as having the following features in the supplemental response:
- 1) The Tier 1 investor visa client contributes £2 million into their account with Dolfin and purchases conflicted securities from a Dolfin connected company, as per step 7 of the "Gold" service.
 - 2) An SPV is set up and the same process as in steps 1 to 4 of the "Gold" service is followed so that the SPV UBO will hold £1.6 million in cash. The SPV UBO then makes a gift of the £1.6 million to the Tier 1 investor visa client's personal bank account. In this way, £1.6 million of the £2 million contributed is returned to the client within a short period.
- 4.29 The description of the "Gold" service corresponds with "Option 2" in the promotional materials and the description of the "Jade" service corresponds with "Option 1".
- 4.30 According to Dolfin's supplemental response dated 27 January 2021, there were 97 clients who used its visa loan business to obtain a Tier 1 investor visa. The letter stated that 77 clients used the "Gold" service or entered into transactions which resembled those of the "Gold" service, seven clients used the "Silver" service, two clients used the "Platinum" service, two clients used the "Palladium" service and nine clients used the "Jade" service.

Fund flow analysis

- 4.31 The Enforcement investigation has found that the issuers of the conflicted securities did not receive the vast majority of the proceeds from the sale of their bonds (most of which were recycled through Dolfin connected companies to new Tier 1 investor visa clients). The issuers appear to have simply been a component in the visa loan business in order to give the impression that £2 million had been invested. In reality, in the most common scenario and as per the Gold and Jade services, the Tier 1 investor visa clients paid a £400,000 fee to Dolfin and there was no genuine investment in UK trading companies.

Legal advice obtained by Dolfin

- 4.32 In response to Supervision's concerns, Dolfin sought legal advice about its Tier 1 investor visa business from a firm of immigration lawyers. [REDACTED] played a key role in formulating the information supplied to Dolfin's immigration lawyers.
- 4.33 The legal advice provided on 21 February 2020, which Dolfin shared with the Authority on a limited waiver of privilege basis, related to the purported compliance of the Tier 1 investor visa business with certain aspects of the Immigration Rules. However, in being tasked with providing this focused advice, it does not appear that Dolfin's lawyers were informed about the true nature of Dolfin's Tier 1 investor visa business. In particular, the legal advice appears to have been formulated without consideration of the visa loan business and it makes no reference to this aspect of Dolfin's Tier 1 investor visa business which was clearly of central importance to whether Dolfin was compliant with the Immigration Rules. Likewise, subsequent legal advice produced on 3 April 2020 and shared with the Authority on the same basis made no reference to the visa

loan business and, in addition, was based upon a misapprehension that the consideration for the conflicted securities payable to the issuers of the conflicted securities had been duly paid. However, analysis undertaken during the Enforcement investigation shows that this was not the case.

Immigration Rules

- 4.34 The requirements for a Tier 1 investor visa applicant are set out in Part 6A and Appendix A of the Immigration Rules.
- 4.35 Dolfin's Tier 1 investor visa business appears to have been in contravention of the Immigration Rules on various bases but primarily because:
- 1) The arrangements did not, in reality, involve an investment of £2 million but rather sought to enable the client to circumvent this obligation by obtaining an investor visa for a fee of £400,000.
 - 2) As a result of the visa loan business, Dolfin's clients did not provide the requisite amount of their own money for investment purposes. [REDACTED]
 - 3) The conflicted securities were not a genuine investment opportunity as is clear from the fact that the issuers of the conflicted securities did not receive the vast majority of the proceeds from the sale of the conflicted securities.
- 4.36 Section 25 of the Immigration Act 1971 provides that a person commits an offence if he:
- 1) Does an act which facilitates the commission of a breach of immigration law by an individual who is not a citizen of the European Union;
 - 2) Knows or has reasonable cause for believing that the act facilitates the commission of a breach or attempted breach of immigration law by the individual; and
 - 3) Knows or has reasonable cause for believing that the individual is not a citizen of the European Union.
- 4.37 In circumstances where it appears that Dolfin's clients have breached immigration law by obtaining a Tier 1 investor visa in a manner which circumvents the minimum financial threshold for investment under the Immigration Rules, Dolfin may have committed the section 25 offence. This is on the basis that the Tier 1 investor visa business was so clearly unlikely to comply with the Tier 1 investor visa requirements that Dolfin would appear to have known, or at the very least had reasonable cause to believe, that it was facilitating the commission of a breach.

Unexplained Wealth Order in relation to a Dolfin client

- 4.38 A Dolfin client who is an ultra-high-net-worth individual was issued with an Unexplained Wealth Order by the NCA in 2019, which was first publicised in early 2020. The HNW Client's wife and various companies associated with him were also clients of Dolfin.

- 4.39 When Supervision asked Dolfin in April 2020 to explain why it had not proactively notified the Authority about its connections to the HNW Client, in light of the UWO, Dolfin explained that it had considered making a notification but thought that it was unnecessary because no transactions had been made on the HNW Client's account in the preceding 12 months, so it had been deemed dormant and closed. Moreover, Dolfin contended that news of the UWO would not have had an adverse impact on Dolfin's reputation in any event.
- 4.40 In fact, there was a significant amount of ongoing activity between Dolfin and the HNW Client, his wife and their business interests, and Dolfin was acutely aware of the risk of reputational damage deriving from the UWO. Dolfin's explanations were therefore misleading.
- 4.41 Upon the publication of the UWO, a journalist had contacted Dolfin, stating that he planned to report on the UWO and offering Dolfin the opportunity to provide any comments. Shortly thereafter, a second journalist sent an email to Dolfin making further enquiries in relation to the UWO and the HNW Client.
- 4.42 [REDACTED] and [REDACTED] were alert to the likely adverse reputational impact on Dolfin should its connections to the HNW Client be publicised by the journalists. As a result, after being contacted by the journalists, Dolfin engaged a crisis management consultancy firm to prevent the publication of Dolfin's business links to the HNW Client. As a follow up action, [REDACTED] also asked [REDACTED] to instruct a Dolfin member of staff to delete any references connecting them to the HNW Client from public registers.

Inadequate financial crime control framework

- 4.43 The section 166 final report in relation to Dolfin was delivered in October 2020. The section 166 review assessed Dolfin's governance and oversight framework, conflicts of interest framework, CASS arrangements and recovery/wind down plan, as well as its client onboarding and financial crime framework. The final report made 103 recommendations for remedial work across the areas reviewed.
- 4.44 The recommendations are graded against a defined RAG status:
- 1) Green: low priority – meaning the recommendation should be addressed but there is not an immediate material issue.
 - 2) Amber: medium priority – meaning the recommendation if not addressed has the potential to develop into a material issue.
 - 3) Red: high priority – meaning the recommendation identifies a material issue which needs to be addressed.
- 4.45 A "material issue" was further defined as an issue that exposes Dolfin to regulatory, reputational and/or operational risk that if not addressed has the potential to expose it to regulatory criticism, financial loss, client complaints and negative publicity.
- 4.46 Of the 103 recommendations, 25 are rated green, 57 as amber and 21 as red. Dolfin's client onboarding and financial crime framework received 34 recommendations, of which one is rated green, 17 as amber and 16 as red. The

section 166 final report indicates that there are material issues with Dolfin's client onboarding and financial crime controls given that they received the majority of the recommendations rated red and thus to be addressed as a high priority, compared to the other areas reviewed.

4.47 As explained in further detail below, Dolfin appears to have a high-risk client base and a prevalence of red flag transactions. For this reason, of the wide-ranging issues identified by the section 166 review, the greatest concern relates to the deficiency of controls designed to identify and mitigate risk in high-risk customers, including the following:

- 1) The ongoing EDD measures in the Firm's AML/CTF Handbook in relation to high-risk and complex clients are not clearly documented and Dolfin applies the same ongoing monitoring approach for clients, regardless of risk rating. This approach means that Dolfin cannot target resources to high-risk clients.
- 2) In a significant proportion of the files reviewed, the Source of Funds / Source of Wealth evidence was not sufficient to truly demonstrate the clients' SoF/SoW and adhere to Dolfin's policies. In this regard, the section 166 final report specifically noted that *"Due to the high-risk nature of the Firm's clients, we would expect the files to contain evidence that clearly demonstrates SoF and SoW to allow the Firm to be comfortable that funds and wealth have been generated through legitimate means. We found deficiencies in eight out of the 20 files (40%), where SoF or SoW has not been sufficiently evidenced, as the file did not clearly evidence how an individual's or company's assets or funds had been obtained."*
- 3) The section 166 final report considered that the SoF and SoW deficiencies found in the client files may be because Dolfin's procedural documentation is not completely clear and inconsistently applied, does not have supporting guidance for staff to follow and does not have a SoF and SoW matrix, which can advise staff on the evidence that can and cannot be accepted. As a result, the section 166 final report recommended, amongst other things, that Dolfin should produce a SoF and SoW matrix outlining the minimum required evidence as a high priority.

4.48 The section 166 review of Dolfin's financial crime framework also included a random sample of 20 client files of varying risk levels to assess its customer due diligence and adherence to money laundering requirements. Each client file was graded against a defined scoring methodology:

- 1) Green: adequate – meaning the file meets the minimum regulatory standard and amounted to good practice.
- 2) Amber: deficient – meaning the file meets the minimum regulatory standard but does not amount to good practice.
- 3) Red: inadequate – meaning the file does not contain sufficient client due diligence.

4.49 The client file review found only 15% (3 files) to be adequate, 45% (9 files) to be deficient and 40% (8 files) to be inadequate. Themes noted from the client files included, but are not limited to, the following:

- 1) Incomplete proof of address documents being obtained for verification purposes.
 - 2) The level of information obtained in respect of the nature and purpose for opening an account with Dolfin varied significantly and impacted its ongoing monitoring.
 - 3) SoF and SoW evidence collated was insufficient to provide comfort on how an individual's wealth or company's assets/funds originated.
 - 4) Where clients were connected, there was no explanatory note on how they were connected so making it difficult to understand their relationship.
- 4.50 The section 166 final report also noted material issues in respect of Dolfin's financial crime framework:
- 1) Dolfin has no documented business wide risk assessment for financial crime. Although financial crime risk is documented in Dolfin's risk register, this is at a very high level and does not breakdown the specific risks which Dolfin is exposed to. Without a business wide financial crime risk assessment, it is difficult for Dolfin to evidence that its policies, procedures and controls are appropriate and in line with the inherent risks arising through the products and services it provides, its clients and the overseas locations in which it operates.
 - 2) Dolfin's three lines of defence are not operating appropriately. Dolfin has not documented how financial crime risk is managed across the three lines and the MLRO is performing first line activities. This inhibits the independence of the second line and results in lack of ownership of risk in the first line. The MLRO also reports to the Head of Compliance instead of the CEO which is an atypical structure.
 - 3) Dolfin's financial crime policies and procedures are not sufficient. These are high level without granular detail that fully describes or outlines the steps to be taken when completing a process to ensure that all requirements are met. This impacts the utility of the policies and would be likely to lead to inconsistent application of procedures.
 - 4) In relation to screening, there was no documentation to explain why potential alerts were discounted or true matches were accepted and when they were approved by the appropriate management and/or committee. There was also limited evidence of research carried out to verify information provided by clients or screening results.
 - 5) Dolfin has no automated transaction monitoring system. All transactions are monitored and approved manually by the MLRO against a number of pre-determined criteria to identify and assess risks and trends. The manual process gives rise to the risk of human error and the potential for Dolfin's policies and parameters to be applied incorrectly.
- 4.51 Dolfin is currently undertaking a file remediation programme. On 8 December 2020, Dolfin shared with Supervision its action plan with assigned owners and completion dates to address all 103 recommendations. This plan indicated that

while most actions would be completed in Q1 2021, the file remediation programme would not be completed until September 2021. In its latest update to the Authority on progress, Dolfin indicated it had not yet completed implementing four "Red" rated and two "Amber" rated actions in respect of its financial crime framework. It indicated that these would be addressed as part of its file review.

High-risk client base and prevalence of red flag transactions

4.52 Two banks have raised concerns about transactions on Dolfin's accounts and decided to end their banking relationship as a result. While some of these events are historic, taken together they are reflective of a firm which has a high-risk client base and a prevalence of red flag transactions. This is a matter of particular concern when considered in conjunction with:

- 1) The findings in the section 166 final report dated October 2020 which identified material issues with Dolfin's client onboarding and financial crime controls.
- 2) The departure of two key members of Dolfin's new leadership team in December 2020, the CEO designate and the MLRO designate (see below).
- 3) The Authority's concerns in relation to the integrity of [REDACTED], [REDACTED] a scheme designed to enable its clients to obtain a Tier 1 investor visa in breach of the Immigration Rules.

Termination of relationship with Bank A

4.53 On 13 November 2019, Bank A notified Dolfin that further to an AML review, it had identified a number of concerns and was reviewing the continuation of its banking services to Dolfin. Bank A informed Dolfin that:

- 1) Through monitoring Dolfin's transactions, it had observed transactions which were concerning and required further investigation.
- 2) It was concerned about Dolfin's delayed and lack of response to requests for information in relation to client transactions.
- 3) Dolfin needed to conduct a full KYC review and provide a third-party audit that met Bank A's prescribed standards.

4.54 Bank A subsequently informed Dolfin of its decision to close its accounts on 5 March 2020. Bank A informed the Authority on 9 March 2020 that its reasons for ending its relationship with Dolfin included the following:

- 1) Dolfin's connection with the HNW Client who was, at that time, under NCA investigation and subject to an UWO.
- 2) Dolfin conducting significant business with high risk jurisdictions including Kazakhstan, Russia, China, Turkey and Lebanon.
- 3) Dolfin appearing to act as a correspondent bank rather than as an investment consulting business.

- 4) Dolfin not being forthcoming about its ownership structure.
 - 5) Dolfin's involvement in a large number of transactions involving Singapore-based shell companies.
 - 6) A number of Dolfin's transactions appearing not to have any business or economic rationale.
 - 7) Dolfin's involvement in litigation where allegations had been made that funds obtained by fraudulent activity had passed through its accounts.
- 4.55 Bank A also provided the Authority with the outcome of its investigation into transactions carried out on Dolfin's account.
- 4.56 The Bank A investigation report made reference to a large number of payments to Singapore-based shell companies over an 18-months period from June 2018 to December 2019, as follows: (a) payments totalling USD \$70.4211 million to Singapore Shell Company A; and (b) payments totalling USD \$1.878 million to Singapore Shell Company B. The Enforcement investigation has identified that a Dolfin connected company, owned by [REDACTED], was involved in making payments to the Singapore-based shell companies, as follows:
- 1) It paid USD \$6.975 million to Singapore Shell Company A over the period 21 May to 17 June 2019.
 - 2) It paid USD \$12.86 million to Singapore Shell Company B over the period 21 June to 12 September 2019.
- 4.57 Transaction descriptions indicate that the payments to both these companies were purportedly in furtherance of loan agreements. However, it is apparent that the payments were often made within a few days of the sale of bonds in a similar amount by an entity connected to Dolfin.
- 4.58 The Bank A investigation report also referred to the fact that circa 10% of the overall turnover through Dolfin's accounts with Bank A was with high-risk jurisdictions, in particular, Russia, Kazakhstan and China.
- 4.59 On 6 April 2020, Bank A notified the Authority that Dolfin was transferring all funds from its accounts to accounts at Bank B.
- 4.60 On 13 July 2020, Bank A informed the Authority that it had also ended its banking relationship with a Dolfin connected company in respect of which [REDACTED]

Termination of relationship with Bank B

- 4.61 On 16 December 2020, Bank B informed the Authority that it had taken urgent action to suspend over 20 Dolfin accounts holding circa £100 million. Bank B explained that the decision was made following a KYB review of transactions undertaken by Dolfin between November 2019 and October 2020. The KYB review identified an unusual prevalence of payments involving individuals and entities from high-risk jurisdictions, with many apparently engaged in high-risk

industries and/or making use of complex corporate structures, leading to significant concerns that Dolfin's client accounts contained the proceeds of crime.

4.62 Bank B subsequently provided the Authority with details of four transactions which were illustrative of its concerns, occurring between 7 November 2019 and 30 July 2020, as described below. Bank B stated that the transactions were examples of many others with similar characteristics that it had identified.

4.63 On 20 January 2021, Bank B gave formal notification to Dolfin that further to an EDD review of Dolfin's business, it had decided to withdraw the provision of banking facilities to Dolfin. Bank B explained its reasons for ending their banking relationship as follows:

- 1) The EDD review identified that the risk profile of Dolfin's business had increased significantly since the banking relationship started in 2014 due to the proportion and type of its clients based overseas. Bank B stated that it also had ongoing concerns with the high-risk nature of Dolfin's client base.
- 2) This change in Dolfin's business model resulted in certain, more complex, transactional flows through Bank B.
- 3) Dolfin's business model, which was almost exclusively a UK business, had now shifted to one that was predominantly focused overseas.
- 4) Given its UK focus, Bank B was not best placed to provide the additional and intensive monitoring that Dolfin's ongoing transactional flows required.
- 5) Dolfin's business model and activities were not compatible with Bank B's risk appetite.

4.64 On 20 January 2021, Bank B also wrote to three Dolfin connected companies to inform them that it would be ending its banking relationship with each of them.

[REDACTED]

Suspicious transaction 1: Dolfin Connected Company A and Counterparty A

4.65 On 7 November 2019, a payment of just under \$1.9 million was made from the Dolfin client account of Dolfin Connected Company A to Counterparty A, apparently in respect of an "investment agreement in relation to real estate". Counterparty A was not a Dolfin client and its bank account, which received the payment, was with a Kazakhstan bank.

4.66 Dolfin Connected Company A is registered in the Seychelles and has a client account with Dolfin. It is 100% owned by a foundation of which [REDACTED].

4.67 Counterparty A is a private limited company incorporated in Scotland with a registered address in Edinburgh (32 other companies are also registered at the same address, indicating that this is a mailbox address). Its sole director and owner is an Azerbaijani national with a correspondence address in Azerbaijan. According to Companies House records, its stated business includes "non-specialised wholesale trade", "other transportation support activities" and

"agents involved in the sale of a variety of goods". Counterparty A has to date filed accounts for a dormant company.

- 4.68 The transaction raised red flags because it involved a Seychelles registered company, controlled by [REDACTED], engaging in real estate investment with a dormant Scottish company, that ostensibly carried on wholesale trade, sale of goods and transportation support activities, which operates from a mailbox address with an Azerbaijani owner and a Kazakh bank account.

Suspicious transactions 2 to 4: Dolfin Client A, Counterparty B and Ukrainian Mining Company C

- 4.69 Dolfin Client A was the only Dolfin client involved in suspicious transactions 2 to 4 in the context of which substantial payments were made between Dolfin Client A, Counterparty B and Ukrainian Mining Company C, ostensibly in furtherance of a shipping contract.

- 4.70 Dolfin Client A is a BVI registered company and apparently a shipping consultancy operating in Ukraine. There is some indication from material in the public domain that Dolfin Client A is involved in shipping for Ukrainian Mining Company C.

- 4.71 Ukrainian Mining Company C is a Switzerland incorporated company and part of a Ukrainian mining and metals group. [REDACTED]

- 4.72 On 26 November 2019, Dolfin Client A paid \$3.024 million from its account with Dolfin to Counterparty B's Swiss bank account. On 11 March 2020, Dolfin Client A's account with Dolfin received \$3.089 million from Ukrainian Mining Company C. On 30 July 2020, Dolfin Client A made a final outgoing payment from its account with Dolfin to its Swiss bank account. Dolfin Client A's account at Dolfin was then closed with no further explanation.

- 4.73 Counterparty B is a Scottish limited partnership operating from a rented mailbox address. It has no registered business or partners but the person with significant control is listed as a Moldovan national with a correspondence address in Moldova. Counterparty B's website claims that it has connections with Ukraine and is primarily engaged in marketing, buying and the wholesale of grain.

- 4.74 Although there appears to be public information to suggest a relationship between Ukrainian Mining Company C and Dolfin Client A, the engagement of Counterparty C by Dolfin Client A to charter a cargo vessel on behalf of a Ukrainian mining and metals group, itself owned by an individual subject to adverse media, raises multiple red flags. This is on the basis that Counterparty C is controlled by a Moldovan national, its business ostensibly involves trading in grain and it operates from a rented mailbox address. The involvement of a Scottish limited partnership in the transaction is also a cause for concern due to reports that this is a common vehicle used to launder money in the UK by nationals from the former Soviet Union.

Further suspicious transactions involving Conflicted Securities Issuer 1

- 4.75 The Enforcement investigation has identified a number of additional transactions involving Conflicted Securities Issuer 1 which appear to be of a suspicious nature.

i) Loan to Counterparty C

- 4.76 Conflicted Securities Issuer 1 issued a proportion of the conflicted securities which were sold to Dolfin's Tier 1 investor visa clients. According to its only set of filed accounts, it was incorporated in 2017 to provide financial data to its clients using financial data distribution technology. One of the two directors and the ultimate beneficial owner of Conflicted Securities Issuer 1 was also the director of one of Dolfin's largest clients and Dolfin Connected Company B, which is controlled by [REDACTED].

- 4.77 On 7 April 2020, Dolfin Connected Company B's account with Dolfin received EUR 5.5 million from its client account held with a Dolfin group company. On the same date, Dolfin Connected Company B paid EUR 5.5 million to Conflicted Securities Issuer 1's account at Dolfin. On 8 April 2020, Conflicted Securities Issuer 1 made an external payment of EUR 5.5 million to Counterparty C, a company registered in Hungary. Emails between the director and ultimate beneficial owner of Conflicted Securities Issuer 1 and the director and sole shareholder of Counterparty C stated that the purpose of the payment was to provide a one-year bridging loan of EUR 5.5 million to Counterparty C.

- 4.78 Counterparty C's Business Plan Overview, which was provided to Conflicted Securities Issuer 1 on 3 April 2020, stated that Counterparty C was involved in vessel crane installation on offshore wind farms. The Business Plan Overview did not provide any specific financial information in relation to either Counterparty C or the project summarised but focused on the offshore wind market in general terms.

- 4.79 A few days after receiving the Business Plan Overview, Conflicted Securities Issuer 1 agreed to provide the bridging loan and, on the same date, a promissory note was issued by Counterparty C which provided that Conflicted Securities Issuer 1 would pay EUR 5.5 million unsecured to Counterparty C on 8 April 2020, to be repaid on 7 April 2021 with an interest rate of 37.8%. On 8 April 2020, the director and ultimate beneficial owner of Conflicted Securities Issuer 1 instructed Dolfin to make the payment from Conflicted Securities Issuer 1 to Counterparty C, which was transferred on that date.

- 4.80 The Enforcement investigation identified this transaction as being of a suspicious nature on the basis that the purported purpose of the bridging loan was for investment in activities related to offshore wind farms, which did not appear to bear any resemblance to Conflicted Securities Issuer 1's area of activity. Moreover, there appeared to have been minimal due diligence undertaken in relation to the transaction, in particular, in relation to the level of credit risk involved and/or the viability of both Counterparty C generally and the specific project summarised in the Business Plan Overview.

ii) Payments to Hong Kong companies

- 4.81 There were also numerous payments totalling USD \$35.376 million in the first half of 2019 from Conflicted Securities Issuer 1's account with Dolfin to Hong

Kong incorporated companies.

- 4.82 Invoices show that these payments were ostensibly for purchasing items such as clothes, textiles, printers, concrete mixers and equipment for mining cryptocurrency. The Hong Kong companies were newly incorporated (over the period 2016 to 2019) and a number have since been dissolved or become dormant. Conflicted Securities Issuer 1 primarily made these payments out of monies received from a BVI company from the sale of bonds in a Dolfin connected company owned by [REDACTED].
- 4.83 The transactions raise a number of red flags as they involved Conflicted Securities Issuer 1 making a significant volume of payments to Hong Kong companies that were newly incorporated and had little to no online presence. Furthermore, invoices show that the payments were for products that do not appear to have any relevance to Conflicted Securities Issuer 1's area of activity.

Lack of appropriate non-financial resources

- 4.84 [REDACTED] in April 2020, Dolfin appointed a new CEO designate alongside a new Chairman designate to its new leadership team. At the mid-management level, Dolfin appointed a new Head of Compliance in November 2019, who was subsequently approved as SMF16 Compliance Oversight on 26 June 2020. Dolfin then appointed a new MLRO designate in December 2019.
- 4.85 The section 166 review noted that staff at Dolfin appeared to have relevant backgrounds, expertise, gravitas and knowledge to conduct their roles except for the MLRO designate. The section 166 review concluded that the MLRO designate lacked the seniority to ensure robust systems and controls were in place and this resulted in some of the actions that were permitted under the previous leadership team.
- 4.86 Dolfin subsequently informed Supervision on 23 September 2020 that the MLRO designate had insufficient experience for the MLRO role and would be replaced, after being in the role for nine months. A new candidate was appointed as the replacement MLRO designate on 21 October 2020.
- 4.87 On 11 December 2020, Dolfin informed Supervision that two members of the new leadership team had departed. It stated that the CEO designate had resigned with immediate effect after eight months in the role on 8 December 2020 due to his lack of knowledge of the wealth management sector. Dolfin stated that the Chairman designate, would take on the role of interim CEO until a new appointment was made. Dolfin also confirmed that the replacement MLRO had been dismissed after two months in role due to her failure to adapt to a firm of Dolfin's size and garner respect from her colleagues. It stated that the Head of Compliance would act as the interim MLRO while Dolfin searched for a permanent replacement.
- 4.88 The section 166 review made 34 recommendations for remedial work in relation to Dolfin's client onboarding and financial crime framework. According to Dolfin's action plan, the majority of the work to be completed in this area was assigned to the MLRO. Dolfin has informed the Authority that the actions will also be taken on by the Head of Compliance and the compliance function. During a call with the Authority on 15 December 2020, Dolfin indicated that two junior

members of staff who had been recruited to bolster the compliance function have also left the Firm.

- 4.89 The Authority is concerned that Dolfin's compliance function is not able to adequately address all of the recommendations from the section 166 review within the timescales set out in the action plan. In this regard, the section 166 review noted that, while recent recruitment had enhanced the skill and experience in the second line compliance and risk functions, compliance resource was stretched and accordingly Dolfin should consider additional recruitment given the number of priority recommendations in the financial crime function in respect of strengthening controls.

5. CONCLUSION

- 5.1 The regulatory provisions relevant to this First Supervisory Notice are set out in the Annex.

Analysis of failings and risks

Tier 1 Investor Visa Business

- 5.2 Based on the facts and matters described above, Dolfin appears to have conducted its Tier 1 investor visa business either dishonestly or recklessly, in breach of Principle 1 (Integrity) of the Authority's Principles for Businesses.

- 5.3 Dolfin appears to have operated a scheme designed to enable its clients to obtain a Tier 1 investor visa in breach of the Immigration Rules and therefore unlawfully. In effect, Dolfin's Tier 1 investor visa business involved a series of artificial transactions which were intended to give the impression that its clients had invested £2 million, as required under the Immigration Rules, when this was not in fact the case. Dolfin then made false or misleading representations to the Home Office to the effect that its clients had satisfied the Immigration Rules by investing the requisite amount in UK businesses.

- 5.4 Dolfin further appears to have breached Principles 1 (Integrity) and 11 (Relations with regulators) of the Authority's Principles for Businesses on the basis that:

- 1) It provided incomplete and misleading information to the Authority about its Tier 1 investor visa business, both when it was first contacted by Supervision about this business in November/December 2019 and when providing its initial response to an information requirement sent for the purposes of an Enforcement investigation.
- 2) It also sought to mislead the Authority as to the purported legitimacy of its Tier 1 investor visa business by sharing with the Authority legal advice which Dolfin had obtained from a firm of solicitors on the basis of incomplete information and which was therefore misleading.

- 5.5 [REDACTED] were instrumental in setting up the Tier 1 investor visa business and [REDACTED]
[REDACTED], also appears to have been involved, albeit to a lesser degree.

████████████████████ also played a key role in formulating the partial information supplied to Dolfin's immigration lawyers in order to obtain the misleading legal advice which was subsequently provided to the Authority.

Unexplained Wealth Order in relation to Dolfin Client

- 5.6 Dolfin also appears to have failed to engage with the Authority in an open and cooperative way in breach of Principle 11 (Relations with regulators) of the Authority's Principles for Businesses. This is on the basis that, as is apparent from the facts and matters set out above, Dolfin had significant ongoing connections to the HNW Client, his wife and their business interests. However, in its communications with the Authority, Dolfin misleadingly suggested that it had had no dealings with the HNW Client for over a year. Moreover, ██████████ were specifically aware that Dolfin's association with the HNW Client could have a significant adverse impact on its reputation, but this was not communicated to the Authority.
- 5.7 This action on the part of Dolfin appears to have been deliberate and, as a consequence, it therefore appears that Dolfin has acted dishonestly or recklessly in its dealings with the Authority.

Financial crime controls

- 5.8 In addition, Dolfin appears to have an inadequate financial crime framework in contravention of SYSC 6.1.1R and in breach of Principle 3 (Management and control) of the Authority's Principles for Businesses. In this regard, the recent section 166 review has found material deficiencies in relation to Dolfin's client onboarding and financial crime control processes which led to a significant number of recommendations to be addressed as a high priority.
- 5.9 This is a matter of particular concern given that Dolfin's business model involves a high level of money laundering risk as a result of its high-risk client base and a prevalence of red flag transactions. In this regard, the high-risk nature of Dolfin's business has resulted in two banks terminating their banking relationships with Dolfin. Consequently, Dolfin presents an unacceptable level of risk that it may be used to facilitate financial crime.

Failure to satisfy the Threshold Conditions

Suitability Threshold Condition

- 5.10 Based on the facts and matters described above, the Authority considers that Dolfin is failing, or likely to fail, to satisfy the Suitability Threshold Condition (paragraph 2E of Schedule 6 to the Act) due to:
- 1) The dishonest or reckless way in which it has conducted its Tier 1 investor visa business which does not appear to comply with requirements imposed upon it by the Authority or other agencies.
 - 2) Its failure to provide complete and not misleading information to the Authority in response to information requirements about its Tier 1 investor visa business when it was contacted by Supervision in November/December 2019 and by Enforcement in May 2020, and in sharing with the Authority legal advice that it had obtained from a firm of

solicitors in February and April 2020 based on incomplete information and which was therefore misleading, in what appears to have been a breach of Principles 1 (Integrity) and 11 (Relations with regulators) of the Authority's Principles for Businesses.

- 3) Its provision of misleading explanations to the Authority when asked about its connection to the HNW Client in the light of reports that he had been made subject to an UWO and which it was aware could have a significant impact on its reputation.
- 4) Its ongoing connections with [REDACTED], and its dependence on capital injections by [REDACTED].
- 5) The increased level of financial crime risk it poses given the high-risk nature of its business and the material issues within its client onboarding and financial crime framework, particularly in light of the [REDACTED] influence of [REDACTED] on Dolfin's business.

5.11 The Authority also considers that Dolfin is failing, or likely to fail, to satisfy the Effective Supervision Threshold Condition (paragraph 2C of Schedule 6 to the Act) because it is not capable of being effectively supervised by the Authority due to the fact that:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

5.12 COND 2.3.3 G provides that, in assessing the Effective Supervision Threshold Condition, factors which the Authority will take into consideration include, among other things, whether:

- 1) It is likely that the Authority will receive adequate information from the firm, and those persons with whom the firm has close links, to enable it to

determine whether the firm is complying with the requirements and standards under the regulatory system and to identify and assess the impact on its statutory objectives.

- 2) The structure and geographical spread of the firm, the group to which it belongs and other persons with whom the firm has close links, might hinder the provision of adequate and reliable flows of information to the Authority.

Appropriate Resources Threshold Condition

- 5.13 The Authority also considers that Dolfin is failing, or is likely to fail, to satisfy the Appropriate Resources Threshold Condition (paragraph 2D of Schedule to the Act) because it lacks adequate personnel following the recent departure of its CEO, MLRO and other compliance staff.
- 5.14 In light of Dolfin's recent regulatory history, the fact that it is under Enforcement investigation and the scale of remedial work arising from the section 166 review, having suitably qualified individuals in senior management and compliance-facing roles is particularly important. The absence of senior managers and adequate compliance resources at Dolfin casts serious doubt over its ability to deliver its remedial action plan and within the timescales set. Consequently, the numerous deficiencies identified by the section 166 review, in particular those relating to Dolfin's inadequate financial crime framework, may not be remediated appropriately or within an acceptable timeframe.

The Authority's operational objective of integrity

- 5.15 The Authority's integrity objective requires the Authority to protect and enhance the integrity of the UK financial system. This includes its soundness, stability and resilience and not being used for a purpose connected with financial crime. It appears that Dolfin has been involved in promoting and facilitating unlawful conduct through its Tier 1 investor visa business. There are also very substantial concerns about the inadequacy of Dolfin's financial crime controls which are all the more acute given the high level of money laundering risk inherent to its business model and the lack of integrity with which it has conducted its dealings with the Authority and its Tier 1 investor visa business. In short, the Authority considers that there is an unacceptable level of risk that Dolfin may be used to facilitate financial crime and accordingly imposing the Requirements will further the integrity objective.
- 5.16 The Authority has concluded, in light of the matters set out above, that it is necessary to exercise its own-initiative power under section 55L(3)(a) of the Act by imposing the Requirements to stop the Dolfin conducting regulated activities and prevent any dissipation of assets in order to protect the interests of consumers.
- 5.17 The Authority considers that the Requirements are a proportionate and appropriate means to address the current and immediate risks associated with Dolfin, and are desirable in order to advance the FCA's operational objective of integrity.

Timing and duration of the Requirements

- 5.18 It is necessary to impose the Requirements on an urgent basis given the

seriousness of the risks associated with Dolfin and in accordance with EG 8.3.3 which provides that the Authority may impose a requirement so that it takes effect immediately in situations which include one or more of the following characteristics:

- 1) Information indicating that a firm's conduct has put it at risk of being used for the purposes of financial crime, or of being otherwise involved in crime.
- 2) Evidence that the firm has submitted to the Authority inaccurate or misleading information so that the Authority becomes seriously concerned about the firm's ability to meet its regulatory obligations.
- 3) Circumstances suggesting a serious problem within a firm or with a firm's controllers that calls into question the firm's ability to continue to meet the threshold conditions.

5.19 The Authority considers that it is necessary for the Requirements to remain in place indefinitely.

6. PROCEDURAL MATTERS

6.1 This First Supervisory Notice is given under section 55Y(4) and in accordance with section 55Y(5) of the Act and is being served on Dolfin at its principal place of business as last notified to the Authority.

Decision maker

6.2 The decision which gave rise to the obligation to give this First Supervisory Notice was made by the RDC. The RDC is a committee of the Authority which takes certain decisions on behalf of the Authority. The members of the RDC are separate to the Authority staff involved in conducting investigations and recommending action against firms and individuals. Further information about the RDC can be found on the Authority's website:

<https://www.fca.org.uk/about/committees/regulatory-decisions-committee-rdc>

Representations

6.3 Dolfin has the right to make written and oral representations to the Authority (whether or not it refers this matter to the Tribunal). The deadline for notifying the Authority that Dolfin wishes to make oral representations and for providing written representations is 30 March 2021 or such later date as may be permitted by the Authority. The address for doing so is:

Jack Williams
Decision-Making Committees Secretariat
The Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

The Tribunal

- 6.4 Dolfin has the right to refer the matter to which this First Supervisory Notice relates to the Tribunal. The Tax and Chancery Chamber is the part of the Tribunal which amongst other things, hears references arising from decisions of the Authority. Under paragraph 2(2) of Schedule 3 of the Tribunal Procedure (Upper Tribunal) Rules 2008, Dolfin has 28 days from the date on which this First Supervisory Notice is given to it to refer the matter to the Tribunal.
- 6.5 A reference to the Tribunal can be made by way of a reference notice (Form FTC3) signed by or on behalf of Dolfin and filed with a copy of this First Supervisory Notice. The Tribunal's contact details are: The Upper Tribunal, Tax and Chancery Chamber, Fifth Floor, Rolls Building, Fetter Lane, London, EC4A 1NL (telephone: 020 7612 9730; email: uttc@hmcts.gsi.gov.uk).
- 6.6 Further information on the Tribunal, including guidance and the relevant forms to complete, can be found on the HM Courts and Tribunal Service website:
<http://www.justice.gov.uk/forms/hmcts/tax-and-chancery-upper-tribunal>
- 6.7 Dolfin should note that a copy of the reference notice (Form FTC3) must also be sent to the Authority at the same time as filing a reference with the Tribunal. A copy of the reference notice should be sent to Lynn Duffy at the Financial Conduct Authority, 12 Endeavour Square, London, E20 1JN, London, E14 5HS.

Confidentiality and Publicity

- 6.8 Dolfin should note that this First Supervisory Notice may contain confidential information and should not be disclosed to a third party (except for the purpose of obtaining advice on its contents).
- 6.9 Dolfin should note that section 391 of the Act requires the Authority, when the First Supervisory Notice takes effect, to publish such information about the matter as it considers appropriate.

Authority contacts

- 6.10 For more information concerning this matter generally, contact Lynn Duffy, Manager, Investment Intermediaries and Scams, Investment, Wholesale and Specialist Supervision at the Authority (direct line: 0131 301 2002 or email: lynn.duffy@fca.org.uk).
- 6.11 Any questions regarding the procedures of the RDC should be directed to Jack Williams in the Decision-Making Committees Secretariat (direct line: 020 7066 1610 or email: Jack.Williams@fca.org.uk).

Tim Parkes
Chair, Regulatory Decisions Committee

ANNEX A

RELEVANT STATUTORY PROVISIONS

1. The Authority's operational objectives established in section 1B of the Act include protecting and enhancing the integrity of the UK financial system (section 1D).
2. Section 55L of the Act allows the Authority to impose a new requirement, or to vary a requirement previously imposed by the Authority under section 55L, on an authorised person if it appears to the Authority that the authorised person is failing, or is likely to fail, to satisfy the Threshold Conditions (section 55L(2)(a)) or it is desirable to exercise the power in order to advance one or more of the Authority's operational objectives (section 55L(2)(c)). This power is referred to as the Authority's own-initiative requirement power.
3. Section 55N of the Act allows a requirement to be imposed under section 55L of the Act so as to require the person concerned to take specified action (section 55N(1)(a)) or to refrain from taking specified action (section 55N(1)(b)). Section 55N(2) provides that a requirement may extend to activities which are not regulated activities.
4. Pursuant to section 55P(4)(a) of the Act, an assets requirement means a requirement prohibiting the disposal of, or other dealing with, any of the subject's assets (whether in the United Kingdom or elsewhere) or restricting such disposals or dealings. If the Authority gives notice of such a requirement to any institution with whom the subject has an account, the notice has the effects, for that institution, set out in section 55P(6) of the Act.
5. Section 55Y of the Act allows a requirement imposed under the own-initiative requirement power to take effect immediately (or on a specified date) only if the Authority, having regard to the ground on which it is exercising its own-initiative requirement power, reasonably considers that it is necessary for the variation or imposition of the requirement to take effect immediately (or on that date). Section 391 of the Act provides that, when a supervisory notice takes effect, the Authority must publish such information about the matter to which the notice relates as it considers appropriate. However, the Authority may not publish information if, in its opinion, publication of the information would be unfair to the person with respect to whom the action was taken or proposed to be taken or prejudicial to the interests of consumers.
6. The Threshold Conditions represent the minimum standards which a firm is required to satisfy, and continue to satisfy, in order to be given and to retain a Part 4A Permission. They are set out in Part 1B of Schedule 6 to the Act.
7. The Effective Supervision Threshold Condition in paragraph 2C of Schedule 6 to the Act provides in relation to a person ("A") that "A must be capable of being effectively supervised by the [Authority] having regard to all the circumstances including ... if A has close links with another person ("CL")":
 - a) the nature of the relationship between A and CL;
 - b) whether those links are or that relationship is likely to prevent the [Authority's] effective supervision of A; and

- c) if CL is subject to the laws, regulations or administrative provisions of a country or territory outside the United Kingdom (“the foreign provisions”), whether those foreign provisions, or any deficiency in their enforcement, would prevent the [Authority’s] effective supervision of A.
8. The Appropriate Resources Threshold Condition in paragraph 2D of Schedule 6 to the Act provides, in relation to a person (“A”) carrying on or seeking to carry on regulated activities which do not consist of or include a PRA-regulated activity, that:
- “The resources of A must be appropriate in relation to the regulated activities that A carries on or seeks to carry on.”
9. The matters which are relevant in determining whether A has appropriate non-financial resources include –
- a) The skills and experience of those who manage A’s affairs; [...]
10. The Suitability Threshold Condition in paragraph 2E of Schedule 6 to the Act states that:
- “A must be a fit and proper person having regard to all the circumstances, including—
- a) A’s connection with any person;
 - b) the nature (including the complexity) of the regulated activities that A carries on or seeks to carry on;
 - c) the need to ensure that A’s affairs are conducted in an appropriate manner, having regard in particular to the interests of consumers and the integrity of the UK financial system;
 - d) whether A has complied and is complying with requirements imposed by [the Authority] in the exercise of its functions, or requests made by [the Authority], relating to the provision of information to [the Authority] and, where A has so complied or is so complying, the manner of that compliance;
 - e) whether those who manage A’s affairs have adequate skills and experience and have acted and may be expected to act with probity;
 - f) whether A’s business is being, or is to be, managed in such a way as to ensure that its affairs will be conducted in a sound and prudent manner;
- [...]”

RELEVANT REGULATORY PROVISIONS

The Principles for Businesses

11. The Principles for Businesses (PRIN) are a general statement of the fundamental obligations of firms under the regulatory system. PRIN 1.1.2R provides that they derive their authority from the Authority’s rule-making powers as set out in the

Act and reflect the statutory objectives. The Principles are set out at PRIN 2.1.1, and those which are of particular relevance to this Notice are:

Principle 1 provides that a firm must conduct its business with integrity.

Principle 3 provides that a firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

Principle 11 provides that a firm must deal with its regulators in an open and cooperative way, and must disclose to the Authority appropriately anything relating to the firm of which that regulator would reasonably expect notice.

Threshold Conditions

12. The section of the Handbook entitled 'Threshold Conditions' (COND) gives guidance on the Threshold Conditions. COND 1.2.3G provides that the Authority may exercise its own-initiative powers under either section 55J or section 55L of the Act if, among other things, a firm is failing to satisfy any of the Threshold Conditions or is likely to do so.
13. COND 2.3.3G states that in assessing the Effective Supervision Threshold Condition, factors which the Authority will take into consideration include, among other things, (1) whether it is likely that the Authority will receive adequate information from the firm and those persons with whom the firm has close links, and (2) whether the structure and geographical spread of the firm, the group to which it belongs and other persons with whom the firm has close links, might hinder the provision of adequate and reliable flows of information to the Authority.
14. COND 2.4.2G(2) provides that, in the context of the Appropriate Resources Threshold Condition, the Authority will interpret the term 'appropriate' as meaning sufficient in terms of quantity, quality and availability and 'resources' as including all financial resources, non-financial resources and means of managing its resources; for example, capital, provisions against liabilities, holdings of or access to cash and other liquid.
15. COND 2.5.2G provides that the Authority will take into consideration anything that could influence a firm's continuing ability to satisfy the Suitability Threshold Condition. COND 2.5.4G provides examples of the kind of general considerations to which the Authority may have regard when assessing whether a firm will satisfy, and continue to satisfy, the Suitability Threshold Condition. These include, but are not limited to, whether the firm conducts its business with integrity and in compliance with proper standards, has a competent and prudent management and can demonstrate that it conducts its affairs with the exercise of due skill, care and diligence.
16. Examples of the kind of particular considerations to which the Authority may have regard when assessing whether a firm will satisfy, and continue to satisfy, the Suitability Threshold Condition are outlined in COND 2.5.6G. These include whether the firm is ready, willing and organised to comply with the requirements and standards under the regulatory system and whether the firm has contravened any provisions of the Act or the regulatory system.

Enforcement Guide

17. The Authority's policy in relation to its own-initiative powers is set out in chapter 8 of the Enforcement Guide (EG), certain provisions of which are summarised below
18. EG 8.2.1 provides that the Authority will have regard to its statutory objectives and the range of regulatory tools that are available to it, when it considers how it should deal with a concern about a firm. It will also have regard to the responsibilities of a firm's management to deal with concerns about the firm or about the way its business is being or has been run and the principle that a restriction imposed on a firm should be proportionate to the objectives the Authority is seeking to achieve.
19. EG 8.2.3 provides that the Authority will exercise its formal powers under section 55J or 55L of the Act, where the Authority considers it is appropriate to ensure a firm meets its regulatory requirements. EG 8.2.3(1) and (2) specifies that the Authority may consider it appropriate to exercise its powers where it has serious concerns about a firm or the way its business is being or has been conducted, where it is concerned that the consequences of a firm not taking the desired steps may be serious or where the imposition of a formal statutory requirement reflects the importance the Authority attaches to the need for the firm to address its concerns.
20. EG 8.3.1 provides that the Authority may impose a requirement so that it takes effect immediately or on a specified date if it reasonably considers it necessary for the requirement to take effect immediately (or on the date specified), having regard to the ground on which it is exercising its own-initiative powers.
21. EG 8.3.2 provides that the Authority will consider exercising its own-initiative power as a matter of urgency where (1) the information available to it indicates serious concerns about the firm or its business that needs to be addressed immediately; and (2) circumstances indicate that it is appropriate to use statutory powers immediately to require and/or prohibit certain actions by the firm in order to ensure the firm addresses these concerns.