COMPLIANCE UPDATER

Regulatory and compliance news in brief | Issue: July 2021

Finra fines Robinhood record amount.

The US Financial Industry Regulatory Authority (Finra) ordered fintech retail trading platform Robinhood to pay a $57m fine and a further $12.6m plus interest in restitution – a record amount. The fine was for causing "widespread and significant" harm to customers. Amongst the failures that led to the fine were inappropriately allowing thousands of customers to trade risky derivatives, providing false or misleading information about customer account balances, and failing to notify Finra of thousands of customer complaints.

Deutsche slip up on staffing means no HK IPO sponsor role.

Deutsche Bank's plan to rebuild its equity franchise in Hong Kong has taken a hit after it failed to replace two staff members on time. The Hong Kong regulator (the Securities and Futures Commission) requires two regulated principals to be able sponsor IPOs and Deutsche's permission will lapse in July due to its failure to replace its two principals that left in mid-June. Deutsche cited a "timing mismatch" as the cause.

FCA proposes reforms to UK listing rules.

The UK's Financial Conduct Authority (FCA) set out its proposals to reform the listing requirements for companies to access its prestigious primary listing. The proposals will allow dual class shares for the first time, with founders and directors permitted to hold shares with up to twenty votes per share to prevent their own removal and unwanted takeovers. These could be held for up to five years. The minimum amount of shares in public hands will be cut from twenty-five per-cent to just ten per-cent, and the minimum market capitalisation will increase substantially from £700,000 to £50 million.

EU plans Anti-Money Laundering Authority to fight dirty money in the single market.

The EU announced plans to set up a new Anti-Money Laundering Authority (AMLA) which will, from 2026, directly supervise some cross border companies and have powers to impose large fines for rule breaches. The plans reveal that AMLA will directly supervise the "riskiest" financial sector companies with operations in a number of EU member states. It will have the ability to levy fines with penalties up to the higher of ten per-cent of annual turnover or €10m.

Lloyds Banking Group fined £90m for misleading letters.

The UK's FCA fined Lloyds Banking Group £90m for almost nine-million messages it sent to customers of its home insurance division that were misleading. The letters claimed the customers were being offered "competitive" prices. Lloyds also falsely promised loyalty discounts to about five hundred thousand customers.

DFSA fines former CFO of collapsed PE firm Abraaj $1.7m.

The Dubai Financial Services Authority (DFSA) fined the former Chief Financial Officer of the collapsed private equity firm Abraaj $1.7m for "actions that directly or indirectly misled and deceived" investors. Ashish Dave worked for KPMG, the auditor of Abraaj, in between two stints at the PE firm. Abraaj collapsed in 2018 in the face of liquidity issues and Dave was aware that $425m had been inappropriately transferred between funds and played a "central and significant" role in deceiving investors according to the regulator. Disciplinary penalties are expected against other former Abraaj senior employees too.

FCA allows Provident Financial compensation plan despite "serious concerns".

Subprime lender Provident Financial's plan to deal with a backlog of complaints related to its doorstep-lending division will not be blocked by its regulator, the UK's FCA, despite its concerns. Provident Financial has presented a planned scheme of arrangement which will cap compensation at £50m and shut down the doorstep-lending unit. The FCA feels that the plan is "inconsistent" with its rules and objectives, and the £50m cap is a "potentially arbitrary figure" but despite these serious concerns it will not argue against it.

Widening investigation into Deutsche Bank's Spanish forex deals.

After Europe's largest wine exporter J. Garcia-Carrion of Spain was paid more than €10m by Deutsche Bank to settle mis-sold forex derivatives, the internal investigation at Deutsche is widening. Upwards of fifty Spanish companies could have been similarly affected.

Founder of Autonomy's extradition can go ahead.

A UK judge has ruled that Mike Lynch, the billionaire founder of Autonomy, can be extradited to the US to face charges. Hewlett-Packard paid a total of $11bn to buy Autonomy in 2011 and Mr Lynch is accused of manipulating Autonomy's accounts leading to an overpayment by Hewlett-Packard of around $5bn. Mr Lynch denies any wrongdoing.

Credit Suisse settles with departed wealth manager over spying scandal.

Credit Suisse reached an out of court settlement over its use of a private detective agency to spy on departed wealth manager Iqbal Khan who left to join rival UBS. The settlement amount was not disclosed, and the matter is still subject to investigation by Swiss financial regulator, Finma.

FCA probing Rio Tinto over disclosures.

The UK's FCA is assessing whether listed company Rio Tinto breached its obligations under the listing rules by delaying disclosure of the trouble it was facing on its project to extract copper from an underground mine in Mongolia's Gobi Desert.

Ex-Glencore trader admits to bribery.

A former oil trader at Glencore pleaded guilty in the US to bribing Nigerian government officials in return for lucrative oil contracts. The UK citizen admitted to violating the Foreign Corrupt Practices Act and money laundering regulations. It appears that the trader and seven unnamed co-conspirators used "inflated and fraudulent invoices" to "disguise the nature and purpose of bribe payments made to government officials".

Legal case against HSBC currency traders alleges front running and fraud.

A legal case in London brought by investment manager ECU Group alleges that currency traders at HSBC would routinely front run client orders as part of a "blatant fraud". The currency trades were made more than fifteen years ago, and the case accuses HSBC of misusing confidential information for its own profit.

Suspended sentence for money laundering for former chair of the Association of UK Payment Institutions.

Dominic Thorncroft, former chair of the Association of UK Payment Institutions, was sentenced to an eighteen-month suspended prison sentence and ordered to do two-hundred and fifty hours of unpaid work after being convicted for money laundering offences. Thorncroft was a shareholder, director and the nominated officer for money laundering issues at VS1, a payment processor. VS1 channelled almost £850,000 to China from an investment fraud on around sixty investors. Thorncroft's failure to report suspicions was "characterised by incompetence, not deliberation" according to his barrister.

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