FINANCIAL CONDUCT AUTHORITY

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FINAL NOTICE

To: **Goldman Sachs International**

Reference Number: **142888**

Address: **25 Shoe Lane, London, EC4A 4AU**

Date: **21 October 2020**

1. ACTION

1.1. For the reasons given in this Final Notice, the Authority hereby imposes on Goldman Sachs International ("GSI") a financial penalty of £48,308,400 (equivalent to US$63,000,000), pursuant to section 206 of the Act.

1.2. GSI agreed to resolve this matter and qualified for a 30% (Stage 1) discount under the Authority's executive settlement procedures. Were it not for the discount, the Authority would have imposed a financial penalty of £69,012,000 (equivalent to US$90,000,000) on GSI.

2. SUMMARY OF REASONS

2.1. GSI is a global investment banking, securities and investment management firm headquartered in London. The breaches of Principles 2 and 3 arose from GSI's involvement in three bond transactions for 1MDB that took place in 2012 and 2013.

2.2. The Deal Team for these three bond transactions was principally based in Asia. Individuals from various Goldman Sachs entities, including GSI, were involved in the review and approval of the 1MDB Transactions. GSI, Goldman Sachs' primary booking entity for bond transactions underwritten and purchased by Goldman Sachs outside of the USA, was the arranger, initial purchaser and underwriter of the 1MDB Transactions. In total, these transactions raised approximately US$6.5 billion for 1MDB in an 11-month period. The profit initially booked into GSI from these transactions was considerable, totalling US$547million, of which approximately US$91 million was ultimately attributed to GSI. Goldman Sachs as a whole booked profit of US$567 million from the 1MDB Transactions.

2.3. The 1MDB Transactions carried significant risk for GSI. They were high value, complex deals, executed in compressed timescales over an 11-month period. Further, they generated very significant revenue for GSI and involved clients and counterparties in jurisdictions that GSI had identified as representing enhanced legal, compliance and reputational risk. GSI was also aware of the risk that a third party it had previously turned down as a client may be involved in the transactions. As such, GSI's management of the risks arising from these transactions, including the potential involvement of a high-risk individual, needed to operate at an appropriate standard given the high-risk profile of the transactions.

2.4. Furthermore, after the 1MDB Transactions had closed, GSI senior personnel (and a control function in the case of the information received in late 2015) received information in mid-2013 about possible bribery related to one of the 1MDB Transactions and in late 2015 regarding possible 1MDB-related misconduct.

a. The information obtained in mid-2013 related to possible bribery between two non-Goldman Sachs parties in connection with the joint venture which 1MDB was funding using the proceeds of the third bond transaction, Project Catalyze. Goldman Sachs received similar information at a similar time alleging that one of the third parties had also delayed an earlier 1MDB transaction in order to secure a bribe.
b. The information received in late 2015 suggested that misconduct may have been committed by a senior member of the Goldman Sachs Deal Team, referred to below as "Senior Banker A", in relation to 1MDB.

2.5. The information received in mid-2013 and late 2015 could have been relevant to GSI's assessment of legal, compliance and reputational risks, including the risks

arising out of historic, current and future dealings or transactions involving the entities and individuals in question. It was therefore important that this information was escalated to control functions to ensure that the credibility and significance could be properly assessed, and appropriate action taken by GSI, including so that relevant authorities could be informed if necessary.

2.6. In relation to these matters GSI breached Principles 2 and 3 of the Authority's Principles for Businesses:

a. Principle 2 requires a firm to conduct its business with due skill, care and diligence.
b. Principle 3 requires a firm to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

Breach of Principle 2

2.7. GSI's breach of Principle 2 fell into three broad categories of failings.

2.8. First, GSI did not assess and manage the risk arising from the involvement of a particular third party individual (referred to below as Third Party A) in the 1MDB Transactions with due skill, care and diligence. Prior to the 1MDB Transactions, this individual had previously been rejected by Goldman Sachs as a client, including due to concerns about their unverified source of wealth. However, insufficient care was taken in relation to assessing and managing the risk of this individual's involvement in the 1MDB Transactions. Instead, overreliance was placed on statements of the Deal Team that this individual had no role, despite inconsistent accounts being provided by a senior member of the Deal Team about the extent of the individual's involvement in the first 1MDB bond transaction. The risk of this individual's involvement was not raised in the documentation that went before the committees assessing the 1MDB Transactions.

2.9. Second, GSI failed to act with due skill, care and diligence when considering the risk factors arising in each of the 1MDB Transactions. It was crucial that sufficient consideration was given to all relevant risk factors both individually and holistically and that the committees were presented with all relevant information to enable such consideration. The manner in which some of the risks were presented to the committees did not enable them to assess the risks fully, including the reputational and financial crime risks arising from each of the 1MDB Transactions, holistically.

2.10. Third, GSI failed to deal with allegations of bribery and misconduct with due skill, care and diligence. GSI failed to escalate the information received in mid-2013 about possible bribery by a third party in accordance with GSI internal policies, which would have allowed GSI control functions to assess the information and take appropriate action. Further, in respect of the allegation received in late 2015 that a senior member of the Goldman Sachs Deal Team may have been involved in and benefitted from 1MDB-related misconduct, GSI failed to record further escalation of this information or how the control functions at GSI and Goldman Sachs assessed this information. Timely action was not taken in response to the allegation.

Breach of Principle 3

2.11. Adequate record keeping is necessary to enable a firm to identify and manage risks associated with its business. It is also required for the proper discharge of the Authority's supervisory responsibilities, including the monitoring of a firm's compliance with the requirements under the regulatory system.

2.12. GSI breached Principle 3 because it failed to take reasonable care to organise and control its affairs responsibly and effectively in relation to appropriate record keeping of how risks arising from these transactions had been assessed and managed. In particular, the transaction committees who were responsible for reviewing the risks associated with the 1MDB Transactions prior to approval did not maintain adequate records to show how they had considered and dealt with the risks holistically.

2.13. A failure to keep such records meant that it could not be fully demonstrated how GSI's governance and oversight arrangements fulfilled their obligations to assess, challenge and approve the transactions. Neither could those arrangements be scrutinised adequately when issues of possible financial crime arose.

2.14. The Authority views these failings as serious. Indicators of potential financial crime and other risks were not properly challenged and assessed by governance functions, escalated to control functions or actions recorded by the firm, or notified to the Authority where appropriate. As set out in paragraph 2.11 above, adequate record keeping and escalation is necessary to enable a firm to identify and manage risks associated with its business. Failures in this regard can hide misconduct, make misconduct harder to detect or indicate wider cultural tolerance of such issues. GSI's record keeping and escalation failings significantly undermined the ability of

the firm to mitigate those risks, particularly where some of the failures involved individuals holding senior positions.

2.15. The Authority hereby imposes a financial penalty on GSI of £48,308,400 (equivalent to US$63,000,000) pursuant to section 206 of the Act for breaches of Principles for Businesses 2 and 3.

2.16. GSI agreed to resolve this matter and qualified for a 30% (Stage 1) discount under the Authority's executive settlement procedures. Were it not for this discount the Authority would have imposed a financial penalty of £69,012,000 (equivalent to US$90,000,000) in respect of these breaches.

3. DEFINITIONS

The definitions below are used in this Notice:

"1MDB" means 1Malaysia Development Berhad, a strategic investment and development company wholly-owned by the Malaysian government through its Ministry of Finance;

"1MDB Transactions" means Project Magnolia, Project Maximus and Project Catalyze;

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

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

"BIG" means the Business Intelligence Group;

"Compliance" means the Compliance Division of Goldman Sachs;

"Conflicts" means the Business Selection and Conflicts Resolutions Group of Goldman Sachs;

"Deal Memos" means the memoranda prepared and submitted by the Deal Team to committees in advance of the committees' consideration of the 1MDB Transactions;

"Deal Team" means the principally Asia-based team of Goldman Sachs bankers who originated the 1MDB Transactions and undertook the day-to-day work on executing the 1MDB Transactions;

"FWCC" means the Firmwide Capital Committee of Goldman Sachs;

"FWSC" means the Firmwide Suitability Committee of Goldman Sachs;

"Goldman Sachs" means the Goldman Sachs group of companies;

"GSI" means Goldman Sachs International;

"Legal" means the Legal department of Goldman Sachs;

"the March 2012 Meeting" means the meeting in March 2012 relating to Project Magnolia between Senior Banker A and a high-ranking official of Sovereign Wealth Fund A;

"Project Catalyze" means the third 1MDB bond transaction;

"Project Magnolia" means the first 1MDB bond transaction;

"Project Maximus" means the second 1MDB bond transaction;

"Relevant Period" means the period from 1 February 2012 to 3 February 2016;

"Senior Banker A" means a senior Asia-based member of the Deal Team;

"Sovereign Wealth Fund A" means an investment fund that was wholly owned and controlled by a foreign government;

"Sovereign Wealth Fund A Subsidiary" means a subsidiary of Sovereign Wealth Fund A;

"Third Party A" means an individual who had connections to high-ranking officials of 1MDB, Sovereign Wealth Fund A and Sovereign Wealth Fund A Subsidiary; and

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

4. FACTS AND MATTERS

4.1. The following facts and matters are set out below:

BACKGROUND FACTS AND MATTERS

RELEVANT PARTICIPANTS INVOLVED IN THE 1MDB TRANSACTIONS

Goldman Sachs

4.2. Goldman Sachs is a global investment banking, securities and investment management group headquartered in New York.

GSI

4.3. GSI is an investment banking, securities and investment management firm headquartered in London. GSI is an indirect, wholly owned subsidiary of The Goldman Sachs Group, Inc. GSI acts as the main booking entity for bond transactions underwritten and purchased by Goldman Sachs outside the USA.

4.4. GSI operates and has representation within a group framework of firmwide, regional, divisional and legal entity management, governance and oversight structures. As a result, the governance and oversight of GSI is aligned with the governance principles and risk management systems and controls operated by Goldman Sachs.

1MDB

4.5. 1MDB was a strategic investment and development company wholly-owned by the Malaysian government through its Ministry of Finance. 1MDB performed a government function on behalf of Malaysia, with the mandate to pursue long-term

investment and development projects for the economic benefit of Malaysia and its people.

Sovereign Wealth Fund A

4.6. Sovereign Wealth Fund A was an investment fund wholly-owned and controlled by a foreign government and performed a government function. Goldman Sachs had entered into a number of transactions with or for Sovereign Wealth Fund A prior to the 1MDB Transactions.

Sovereign Wealth Fund A Subsidiary

4.7. Sovereign Wealth Fund A Subsidiary was an investment company. Goldman Sachs had entered into a number of transactions with or for Sovereign Wealth Fund A Subsidiary prior to the 1MDB Transactions.

Third Party A

4.8. Third Party A is an individual who had some involvement in certain proposed or actual transactions involving Goldman Sachs between 2009 and 2013. Third Party A had connections to high-ranking officials of 1MDB, Sovereign Wealth Fund A and Sovereign Wealth Fund A Subsidiary.

THE 1MDB TRANSACTIONS

4.9. In 2012 and 2013, GSI was the arranger, initial purchaser and underwriter of the 1MDB Transactions for subsidiaries of 1MDB. A total of US$6.5 billion was raised from the 1MDB Transactions in an 11-month period.

a. the first transaction was a US$1.75bn bond issuance, known internally within Goldman Sachs as Project Magnolia. Work on the transaction commenced in February 2012 and closed in May 2012. Approximately half of the proceeds of the bond issuance was to be used to partially fund the acquisition of a power plant and the remainder was to be used for general corporate purposes, including potential future acquisitions. The bonds were jointly guaranteed by 1MDB and Sovereign Wealth Fund A, in return for which Sovereign Wealth Fund A Subsidiary was granted an option to acquire up to 49% of the subsidiary of 1MDB acquiring the power plant. The foreign government which owned Sovereign Wealth Fund A and Malaysia had a history of cooperation and the transaction was expected to cement their strategic partnership. The bond transaction was also seen as the first of a number of future business

opportunities with 1MDB, which was seen as a key client for Goldman Sachs in the Asia region;

b. the second transaction was a US$1.75bn bond issuance, known internally within Goldman Sachs as Project Maximus. Work on the transaction commenced in July 2012 and closed in October 2012. Approximately half of the proceeds of the bond issuance were to be used to purchase certain power assets, with the remainder to be used to fund transaction costs and interest payments and for general corporate purposes, including potential acquisitions. The bonds were deposited into a special purpose vehicle which issued collateralised linked loans ("CLLs") and collateralised linked notes ("CLNs") and which were sold to investors. The CLLs and CLNs benefitted from a guarantee by Sovereign Wealth Fund A, in return for which Sovereign Wealth Fund A Subsidiary was granted an option to acquire a 49% interest in the subsidiary of 1MDB acquiring the power assets; and

c. the third transaction was a US$3bn bond issuance, known internally within Goldman Sachs as Project Catalyze. Work on the transaction commenced in January 2013 and closed in March 2013. The proceeds were to be used by 1MDB to fund its contribution to a US$6bn strategic government to government backed joint venture between 1MDB and Sovereign Wealth Fund A Subsidiary. The bonds benefitted from a letter of support from the government of Malaysia.

4.10. The 1MDB Transactions were originated by a team of bankers based in Asia (the "Deal Team") who handled the day-to-day work on the 1MDB Transactions. Individuals from various Goldman Sachs entities, including Authority-registered and/or UK-based GSI employees, were involved in the review, approval and aspects of the execution of the 1MDB Transactions, including as part of the firmwide transaction committee review process.

4.11. Other than US$250 million of the Project Catalyze issuance (which was purchased by another Goldman Sachs entity), GSI effectively purchased the entirety of the issuance of the 1MDB bonds at a discount to par, this discount amounting to US$558.25 million, to reflect, amongst other factors, the market and other risks assumed by Goldman Sachs in purchasing the entirety of the bonds as a principal.

4.12. Goldman Sachs then managed the risk of holding the bonds (e.g. through hedging and funding arrangements) whilst they were sold to investors. Goldman Sachs' profits from the 1MDB Transactions were driven by the difference between the price at which the bonds were initially purchased and the price at which they or the related

CLLs and CLNs were sold to investors (less hedging/funding costs and adding any interest earned on the bonds whilst held). Including the interest it earned whilst holding the 1MDB bonds (but excluding funding/hedging costs), GSI sold the bonds or notes for US$644 million more than it paid for the bonds. After including funding and hedging costs, Goldman Sachs as a whole earned profits of approximately US$567million from the 1MDB Transactions. The profit initially booked into GSI was US$547million, of which approximately US$91 million was ultimately attributed to GSI, with the remainder allocated to other Goldman Sachs entities in accordance with the firm's transfer pricing methodologies.

HOW GSI MANAGED TRANSACTION RISK

4.13. The 1MDB Transactions were reviewed and approved using Goldman Sachs' global transaction review framework, which utilised a combination of GSI and broader Goldman Sachs resources and personnel.

4.14. In particular, the 1MDB Transactions were subject to:

a. due diligence by business and control functions; and
b. review and approval by the relevant transaction committees.

Due diligence by the business and control functions

4.15. GSI considered that both Malaysia and the jurisdiction in which Sovereign Wealth Fund A and Sovereign Wealth Fund A Subsidiary were based were at the higher end of risk in relation to jurisdictions in which GSI undertook business, given their higher level of legal, compliance and other reputational risks. In addition, the use of third parties and intermediaries was widely known within GSI to be common practice in these jurisdictions. Transactions with parties in such jurisdictions were therefore required to undergo a commensurately higher level of due diligence.

4.16. The due diligence review of the 1MDB Transactions involved various business and control functions, including the Deal Team, Conflicts, Legal (including BIG, a sub-function within Legal which conducted research and due diligence on legal, regulatory and reputational risk matters) and Compliance. The process included: financial and management due diligence; auditor due diligence; due diligence in relation to underlying acquisitions; identification and management of potential conflicts of interest; and review of legal and compliance issues and reputational risks.

Transaction committee review and approval process

4.17. The 1MDB Transactions were also subject to a regional and firmwide transaction committee review and approval process. Due to the 1MDB Transactions' size and nature, they were each reviewed and approved by the FWCC and FWSC:

a. the FWCC was responsible for providing global approval and oversight of certain debt-related transactions; and
b. the FWSC was responsible for overseeing standards and policies for client, product and transaction suitability.

4.18. For the 1MDB Transactions to proceed, they had to be approved by both the FWCC and FWSC.

4.19. In advance of a committee meeting, the Deal Team typically provided a memorandum (or a supplement to an earlier memorandum) to the committee members to facilitate their review of the proposed transaction (known as "Deal Memos"). The Deal Memos generally included key factual information (including a background to and overview of the transaction, including principal transaction terms), a summary of the due diligence undertaken and key discussion points or transaction concerns (i.e. risks) arising, including the work done to address or mitigate the concerns identified. At each meeting, the committee was expected to discuss the proposed transaction and ask questions of the Deal Team where relevant or appropriate, after which the committee could reject or approve the transaction or require "follow ups" to be completed, either prior to further committee review or as part of a conditional approval.

4.20. The FWCC and FWSC minutes were maintained in standardised form as mandated in their respective Charters. The FWCC minutes identified at a high level the outcome of the committee's consideration, including any agreed action items or follow ups, which were required to be completed before the transaction could proceed. The FWSC minutes briefly identified the areas of focus and inquiry and the outcome of the committee's consideration, including any agreed action items or follow ups, which again were required to be completed before the transaction could proceed.

FACTS AND MATTERS GIVING RISE TO BREACHES

RISK RELATING TO THIRD PARTY A

4.21. The identification and assessment of risks posed by third parties involved in transactions was an important area of legal and compliance risk for GSI, particularly where transactions involved parties in jurisdictions that posed higher levels of legal, compliance and other reputational risks to GSI.

4.22. As detailed further below, GSI:

a. was aware that Third Party A's application to open a private wealth account with Goldman Sachs had been declined due to concerns over the source of their wealth;
b. had knowledge of Third Party A's pre-existing relationships with 1MDB, Sovereign Wealth Fund A and Sovereign Wealth Fund A Subsidiary; and
c. was on notice of Third Party A's role in relation to the March 2012 Meeting and thereby the possibility of their broader involvement at least in Project Magnolia.

GSI's knowledge of Third Party A prior to the 1MDB Transactions

4.23. Prior to GSI's involvement in the 1MDB Transactions, it was known within GSI that Third Party A had links to the institutions that were central to the 1MDB Transactions. Furthermore, GSI had concerns about the unverified source of Third Party A's wealth and was aware of media reports of opposition political party calls for an anti-corruption investigation into Third Party A due to concerns about their source of wealth and connections to senior Malaysian government officials.

4.24. As detailed further below, this knowledge arose from previous projects and Goldman Sachs' two previous refusals to onboard Third Party A as a client.

Knowledge arising from prior on-boarding attempts

4.25. Between 2009 and 2011, two Asia-based Goldman Sachs bankers, one of whom would later lead the Deal Team on the 1MDB Transactions ("Senior Banker A"), made two unsuccessful attempts to refer Third Party A for a Goldman Sachs private wealth account and proposed to have Goldman Sachs act for Third Party A in relation to an acquisition. These attempts were unsuccessful because BIG and Compliance had concerns about (i) an inability to verify the sources of Third Party A's wealth and (ii) media reports of opposition political party calls for an anti-corruption investigation

into Third Party A due to concerns about their source of wealth and connections to senior Malaysian government officials. In 2011, Compliance stated that it had "*… pretty much zero appetite for a relationship with this individual*", a view that was supported by BIG which stated that "*… this* [Third Party A] *is a name to be avoided*".

Knowledge arising from previous transactions

4.26. Prior to the 1MDB Transactions, between 2009 and 2012, certain Goldman Sachs and GSI personnel had contact with Third Party A in relation to certain proposed or actual transactions. In these transactions, Third Party A was not Goldman Sachs' or GSI's client or otherwise advised by Goldman Sachs or GSI, but had some other involvement (e.g. acting as an adviser for clients of Goldman Sachs or GSI or to other parties involved).

4.27. Through this, it was known within Goldman Sachs and GSI that Third Party A had connections to high-ranking officials of 1MDB, Sovereign Wealth Fund A and Sovereign Wealth Fund A Subsidiary.

<u>Notice of involvement of Third Party A in Project Magnolia</u>

4.28. At the outset of Project Magnolia, Conflicts instructed the Deal Team to disclose to Conflicts any intermediary working on the deal. The Deal Team did not indicate that any intermediary was involved.

The March 2012 Meeting

4.29. Prior to the first regional transaction review committee meeting for Project Magnolia, BIG asked Senior Banker A whether Third Party A was involved in Project Magnolia. Senior Banker A said that Third Party A was not. On 29 March 2012, BIG repeated its question to Senior Banker A at the first regional transaction review committee meeting for Project Magnolia. Senior Banker A again responded that Third Party A had no involvement.

4.30. Prior to the first FWCC meeting, BIG learned that Third Party A (whom BIG knew had connections to 1MDB and to Sovereign Wealth Fund A) had attended a meeting earlier in March between Senior Banker A and a high-ranking official of Sovereign Wealth Fund A ("the March 2012 Meeting"). In response, BIG took a number of steps:

a. BIG conducted some due diligence into the issue, including media searches (which did not identify evidence of Third Party A's involvement) and asking questions of other Deal Team members who confirmed that they had no

knowledge of Third Party A having any role. BIG discussed the matter again with Senior Banker A and reported that Senior Banker A had told BIG that Third Party A was present at the March 2012 Meeting, but was not involved at all in Project Magnolia.

b. On 4 April 2012, during the first FWCC meeting to discuss Project Magnolia, BIG raised that Third Party A had attended the March 2012 Meeting. Senior Banker A told the committee that Third Party A had arranged the March 2012 Meeting, but stated that Third Party A had not attended it.

c. After the 4 April 2012 FWCC meeting, BIG emailed Senior Banker A. BIG noted that its earlier understanding that Third Party A had attended the March 2012 Meeting was incorrect, but went on to note that Third Party A had clearly had a role in arranging the March 2012 Meeting at which a letter from a high-ranking official of 1MDB was delivered. After noting that GSI personnel had historically been unable to secure such a meeting with the high-ranking official of Sovereign Wealth Fund A, BIG stated to Senior Banker A that "[it is] *important we have no role on our side for* [Third Party A] …" and "*… we should ask that any payments from any of participants to any intermediaries are declared and transparent*". Senior Banker A said that they agreed.

d. BIG required and Goldman Sachs received written representations from both 1MDB and Sovereign Wealth Fund A that no intermediary was involved in the transaction.

e. After Project Magnolia closed, BIG instructed Compliance to conduct email surveillance of the Deal Team, including to identify any potential indications of bribery or favours in connection with obtaining the Project Magnolia business. No issues of concern were identified.

<u>Project Maximus and Project Catalyze</u>

4.31. Goldman Sachs took the following steps during Project Maximus and Project Catalyze:

a. Conflicts again instructed the Deal Team to inform Conflicts and BIG if any party became involved in the transactions who could be deemed an intermediary or consultant. The Deal Team did not indicate that any intermediary was involved.

b. BIG required and Goldman Sachs received representations from 1MDB, Sovereign Wealth Fund A and the Malaysian government that no intermediary was involved in the transactions.

c. BIG and, in the case of Project Maximus, Legal asked the Deal Team whether any finders or intermediaries were involved in the transactions. In relation to both transactions, the Deal Team responded that there were none. In respect of Project Maximus, BIG also asked the Deal Team specifically whether Third Party A was involved The Deal Team responded that Third Party A was not involved.

d. BIG conducted further background checks and assessed relevant media reports during Project Maximus.

e. Whilst Project Maximus was ongoing, as part of routine deal-compliance surveillance, Compliance reviewed the emails of Senior Banker A and another senior member of the Deal Team, including looking for any reference to 1MDB or an intermediary. No issues of concern were identified.

Insufficient steps taken in relation to Third Party A

4.32. Given Third Party A's involvement in prior transactions involving 1MDB, Sovereign Wealth Fund A and/or Sovereign Wealth Fund A Subsidiary; their connections to high-ranking officials in Malaysia and the foreign government of Sovereign Wealth Fund A; and the concerns Goldman Sachs had previously had regarding Third Party A's unverified source of wealth, it was important that the risk of Third Party A's involvement in the 1MDB Transactions was thoroughly scrutinised and considered by the transaction review committees.

4.33. Although, as noted above, steps were taken by BIG, Legal, Compliance and others to scrutinise the issue, further steps should have been taken to assess and mitigate the risk of Third Party A's involvement, in particular by ensuring that the committees carefully scrutinised and assessed the risk.

4.34. There was also an overreliance placed on the representations of Senior Banker A and the rest of the Deal Team. Senior Banker A was not challenged about (i) why they had said initially to BIG and the regional transaction review committee that Third Party A had no role in Project Magnolia when it became clear that Third Party A had arranged the March 2012 Meeting, and (ii) why Third Party A was involved in arranging the March 2012 Meeting at which Senior Banker A delivered a letter from a high-ranking official of 1MDB to a high-ranking official of Sovereign Wealth Fund A and what Third Party A stood to benefit from doing so.

4.35. Whilst GSI required that the executed agreements for each of the 1MDB Transactions contained representations from 1MDB, Sovereign Wealth Fund A and the Malaysian

government that no intermediary was involved in the 1MDB Transactions (which were provided), more specific questions should have been asked of 1MDB, Sovereign Wealth Fund A and the Malaysian government during the due diligence process as to whether Third Party A was involved in the 1MDB Transactions and, if so, in what capacity.

4.36. In addition, the name of "Third Party A" was not used in the email searches that GSI's control functions conducted after Project Magnolia and during Project Maximus (although it is unclear whether such searches would have raised additional issues of concern beyond Third Party A's role in arranging the March 2012 Meeting).

4.37. Further, GSI failed to ensure that the committees carefully scrutinised and assessed the risk of Third Party A's involvement in the 1MDB Transactions. Although (i) the issue of whether Third Party A was involved in Project Magnolia was raised orally by BIG at the first regional transaction review committee meeting on 29 March 2012 and the first FWCC meeting on 4 April 2012; and (ii) the Deal Team noted in the Project Maximus Deal Memos that representations as to the absence of intermediaries had been or would be provided, the risk of Third Party A's involvement was not highlighted by the Deal Team as a compliance issue, concern or risk indicator in any of the Deal Memos for the 1MDB Transactions. In respect of Project Magnolia, the minutes of the FWCC meeting on 4 April 2012 did not record the basis on which the committee was comfortable that the risk of Third Party A's possible involvement had been appropriately mitigated. Similarly, there is no record of how the committees considered the specific risk of Third Party A's involvement in the Project Maximus and Project Catalyze transactions.

Involvement of Third Party A between and post the 1MDB Transactions

4.38. Between and after the completion of the 1MDB Transactions, Third Party A and/or connected entities were involved in various other circumstances pertaining to GSI and/or Goldman Sachs, including acting as an adviser and co-investor in a transaction in which Goldman Sachs was advising another investor.

ASSESSMENT AND MANAGEMENT OF RISKS

4.39. The transaction committees were responsible for the assessment of legal, regulatory and capital risks and the management of reputational risks referred to them as part of the approval of transactions.

4.40. The Deal Memos were prepared by the Deal Team with input from a range of control functions, including BIG, Legal, Compliance and the Debt Underwriting Group. The Debt Underwriting Group had a quality control function, whose responsibilities included ensuring that FWCC memoranda conformed with the process requirements and met certain standards, minuting meetings, liaising between deal teams and the FWCC and tracking follow-up items. The Deal Memos were required to highlight any key risks (referred to in the Deal Memos as key discussion points and areas of concern) which a committee might be interested in discussing.

4.41. The Deal Memos set out a number of key risks relevant to proper consideration of the reputational, suitability and financial crime risks arising in the 1MDB Transactions and mitigants in relation to these risks. The identified risks included:

a. Negative media coverage of 1MDB and the 1MDB Transactions which questioned the purpose, commerciality and overall appropriateness of the deals. In addition, 1MDB had received public criticism from political and business leaders within Malaysia, including allegations of corruption.
b. The choice of transaction structure as private placements using GSI as sole arranger and underwriter and the reasons why 1MDB had a preference in each of the transactions for a principal financing (each time the quickest and most expensive option but with more confidentiality) in preference to other lower-cost financing alternatives.
c. The planned use of proceeds for Project Catalyze, given the absence of a stated investment plan and specific asset purchases for the joint venture.
d. The reasons for 1MDB wishing to raise the amount of funds proposed in Project Maximus when some of the funds raised through Project Magnolia remained unused. The Deal Memo for Project Catalyze also summarised the earlier Project Magnolia and Project Maximus transactions, the fact that US$1.6billion of the proceeds had not yet been used and indicated the planned investment activities to which those unused funds were to be used.
e. The financing structures chosen by 1MDB for Catalyze would result in “negative carry” (i.e., that 1MDB would be paying interest on the funds raised through the transaction whilst they were unused).
f. The Committees considered the amount of overall profits Goldman Sachs could potentially earn from the transactions, and required presentations to be made to 1MDB and Sovereign Wealth Fund A on the potential profits or losses it might earn or incur, depending on how long it took to sell the bonds to third parties, at what price, and what market exposures and associated hedging/funding

costs it would incur whilst doing so. The Deal Memos did not, however, contain clear reasoning as to why the size of potential profits were considered suitable.

g. Whether, in light of approvals by senior executives of Sovereign Wealth Fund A, and other factors, there was sufficient evidence that the guarantees given by Sovereign Wealth Fund A for Project Magnolia and Project Maximus had been duly authorised, notwithstanding the absence of a board resolution authorising the guarantees (as had originally been requested in Project Magnolia).

h. The timing of Project Catalyze in relation to the Malaysian 2013 general election.

4.42. The Deal Memos set out a number of mitigants that had been taken in relation to several of these risks. The minutes of the committee meetings also highlighted several follow up actions relevant to these risks, which the committees required the Deal Team and control functions to take before the transactions would be approved.

4.43. However, as noted at paragraph 4.37 above, and unlike the risks set out at paragraphs 4.41.a. – h., the Deal Memos for the 1MDB Transactions did not highlight the risk of Third Party A's involvement.

4.44. Further:

a. given the heightened financial crime and reputational risks associated with the 1MDB Transactions and that not all of the risks (e.g. reputational risks arising out of negative media/political coverage) were capable of being fully mitigated, it was crucial that sufficient consideration was given to all relevant risk factors both individually and holistically and that the committees were presented with all relevant information to enable such consideration; and

b. in relation to the risks which were highlighted in the Deal Memos, the manner in which some of these risks and the steps taken to address them were presented and conveyed to the committees meant that the committees did not have adequate information to enable them to assess the risks fully, including the reputational and financial crime risks arising from each of the 1MDB Transactions, holistically.

Record keeping

4.45. The minutes of the FWCC and FWSC meetings were maintained in a standardised format, whereby the minutes only recorded briefly the key decisions made, including any follow up actions which the committee required to be completed. The minutes did not contain details of how the committees had considered risks, the rationale for the action points identified or the rationale for the committees' decision to approve the transactions.

4.46. As a result, insufficient records were retained to show how the committees had assessed the risks arising out of the 1MDB Transactions, or the reasons the committees were comfortable approving, or conditionally approving the transactions. Given the size and risk profile of the 1MDB Transactions, the failure to document the committees' consideration of these matters more fully is significant.

ALLEGATIONS OF BRIBERY AND MISCONDUCT IN 2013 AND 2015

2013 information about potential bribery

4.47. In mid-2013, shortly after Project Catalyze closed, GSI senior personnel were provided with information about possible bribery relating to the joint venture the Catalyze bonds were issued to finance. The information indicated that an official at Sovereign Wealth Fund A may have been delaying funding the Sovereign Wealth Fund A Subsidiary/1MDB joint venture in order to attempt to secure a bribe (from a non-Goldman Sachs party) and also that this Sovereign Wealth Fund A official had connections to Third Party A.

4.48. The information was received amidst media and political criticism about the 1MDB Transactions and the fees Goldman Sachs received for them, and at a time when, as set out at paragraphs 4.21 to 4.38, GSI was on notice of the risk of Third Party A's involvement in the 1MDB Transactions. As such, the information could have been relevant to GSI's assessment of ongoing legal, compliance or ethical risks, particularly the risks arising out of historic, current and future dealings or transactions involving 1MDB, Sovereign Wealth Fund A, Sovereign Wealth Fund A Subsidiary and the Sovereign Wealth Fund A official.

4.49. This information presented an issue that might raise legal, compliance and ethical concerns requiring immediate escalation to control functions in accordance with GSI internal policies. Irrespective of how the information was viewed by the individuals

who received it, it was important that the control functions were given the opportunity to assess the credibility and significance of this information, and, if deemed necessary, act on this information. However, GSI senior personnel did not escalate the information to GSI's control functions for assessment and, if appropriate, action. This was particularly important as Goldman Sachs separately received similar information at a similar time alleging that the same Sovereign Wealth Fund A official had delayed an earlier 1MDB transaction in order to secure a bribe from a non-Goldman Sachs party.

2015 1MDB misconduct allegation

4.50. Prior to late 2015, there were a number of known risk indicators within GSI concerning 1MDB and the 1MDB Transactions, including:

a. GSI was aware of criticisms reported in the media of 1MDB's transaction history, including the 1MDB Transactions, and also Third Party A's connections to high-ranking officials of 1MDB; and
b. GSI was aware of Senior Banker A's relationship with Third Party A, both before, during and after the 1MDB Transactions.

4.51. In late 2015, GSI senior personnel and a control function received information about a third party's suspicion that Senior Banker A had been involved in, and potentially benefitted from, misconduct relating to 1MDB. The information suggested that Third Party A may also have been involved.

4.52. There are no records of further escalation of this information or of how control functions at GSI and Goldman Sachs assessed this information. Furthermore, no action was taken in response to this information in the weeks that followed.

4.53. A few weeks after control functions learned from GSI of this allegation concerning Senior Banker A, a separate concern arose unrelated to the 1MDB Transactions involving Senior Banker A. Whilst investigating that matter, Goldman Sachs' control functions discovered in January 2016 that Senior Banker A may have been involved in additional misconduct by providing an unauthorised reference for Third Party A. Whilst GSI informed the Authority about the unauthorised reference matter in early February 2016, it did not inform the Authority about the information it had received suggesting possible misconduct by Senior Banker A related to 1MDB.

SUBSEQUENT CRIMINAL AND REGULATORY ACTION

4.54. Since 2015, Goldman Sachs entities (including GSI), Third Party A, Senior Banker A, other current and former employees of Goldman Sachs (including GSI) and individuals at 1MDB, Sovereign Wealth Fund A and Sovereign Wealth Fund A Subsidiary have been the subject of criminal and/or regulatory investigations and actions in various jurisdictions relating to political corruption, bribery and international money laundering in connection with the 1MDB bond transactions.

4.55. In particular, the U.S. Department of Justice has alleged that between 2009 and 2014 billions of dollars were misappropriated and fraudulently diverted from 1MDB to individuals complicit in the scheme. It is alleged that members of the conspiracy included officials at 1MDB, their relatives and other associates, including Third Party A. The diverted funds allegedly included approximately US$2.7 billion of the US$6.5 billion in capital raised through the 1MDB Transactions.

5. FAILINGS

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

5.2. As described in further detail below, GSI breached Principles 2 and 3 of the Authority's Principles for Businesses.

PRINCIPLE 2 FAILINGS

5.3. Principle 2 requires a firm to conduct its business with due skill, care and diligence. In breach of Principle 2, GSI failed with due skill, care and diligence to:

a. assess and manage sufficiently the risks surrounding the involvement of Third Party A in the 1MDB Transactions;
b. ensure that the transaction committees had adequate information to assess the risks associated with the 1MDB Transactions holistically; and
c. manage allegations of bribery and misconduct relating to individuals and/or entities involved in or associated with the 1MDB Transactions.

Risk relating to Third Party A

5.4. As set out in more detail below, insufficient steps were taken to scrutinise the risk of Third Party A's involvement in the 1MDB Transactions.

5.5. Given (i) Third Party A's involvement in prior transactions involving Senior Banker A, 1MDB, Sovereign Wealth Fund A and/or Sovereign Wealth Fund A Subsidiary; (ii) Third Party A's connections to high-ranking officials in Malaysia and the foreign government of Sovereign Wealth Fund A; and (iii) the concerns Goldman Sachs previously had regarding Third Party A's unverified source of wealth and media reports of opposition political party calls for an anti-corruption investigation into Third Party A and their links to the Malaysian government, it was important that the risk of Third Party A's involvement in the 1MDB Transactions was thoroughly scrutinised and considered by GSI's control and support functions.

5.6. However, GSI failed to take sufficient steps to ensure that the committees scrutinised and assessed fully the risk of Third Party A being involved in the 1MDB Transactions. Although steps were taken by BIG, Legal, Compliance and others to scrutinise the issue, the Deal Memos for the 1MDB Transactions did not highlight the risk of Third Party A's involvement. Whilst there is evidence of the Deal Team reporting on the fact that representations as to the absence of intermediaries had been or would be provided, there is no record of the committees considering the specific risk of Third Party A's involvement in the 1MDB Transactions subsequent to the FWCC meeting on 4 April 2012. Further, the minutes of the FWCC meeting on 4 April 2012 did not record the basis upon which the committee was comfortable that the risk of Third Party A's involvement had been subject to appropriate due diligence and mitigation.

5.7. Furthermore, overreliance was placed on the representations of the Deal Team and the transaction parties during the due diligence process to assess the possible involvement of Third Party A in the 1MDB Transactions. The inconsistent accounts given by Senior Banker A regarding the possible involvement of Third Party A in Project Magnolia should have led to further investigation of the situation. Notwithstanding the breadth of the contractual 'no-intermediary' representations received from 1MDB, Sovereign Wealth Fund A and the Malaysian government, more specific questions should have been asked of 1MDB, Sovereign Wealth Fund A and the Malaysian government during the due diligence process for the 1MDB Transactions about the possible involvement of Third Party A. In addition, the name of "Third Party A" was not used in the email searches that GSI's control functions conducted after Project Magnolia and during Project Maximus.

Approach to risk assessment

5.8. The 1MDB Transactions gave rise to a series of risks, several of which were inter-related. Save for the risk of the involvement of Third Party A, information about the

risks and the mitigants taken or being taken were presented to the FWCC and FWSC for consideration. However, GSI failed to take sufficient steps to ensure that the risks identified in relation to the 1MDB Transactions were presented and conveyed to the committees in a manner which provided the committees with adequate information to enable them to assess the risks fully, including the reputational and financial crime risks arising from each transaction holistically.

5.9. The absence of information in relation to the risk of the involvement of Third Party A in the 1MDB Transactions undermined the ability of the committees to assess this risk in the round with the other attendant risks.

5.10. The above failures were particularly serious given the size of the 1MDB Transactions and the heightened financial crime risks associated with the jurisdictions in which the parties involved in the 1MDB Transactions were based.

Bribery and misconduct allegations

5.11. GSI failed to escalate in accordance with GSI internal policies or otherwise adequately deal with information received regarding possible bribery in mid-2013, after the 1MDB Transactions had closed. The information received was sufficiently important that it should have been escalated to control functions, assessed and any required action taken. The failure to undertake this assessment was particularly acute because (i) there were concerns about the 1MDB Transactions reported in the media; (ii) GSI was on notice of the risk of Third Party A's possible involvement in the 1MDB Transactions; (iii) Goldman Sachs separately received similar information at a similar time alleging that the Sovereign Wealth Fund A official had delayed an earlier 1MDB transaction to secure a bribe from a non-Goldman Sachs party; and (iv) the information could have been relevant to GSI's assessment of the risks arising out of historic, current and future dealings or transactions involving the entities and individuals in question.

5.12. GSI also failed to adequately respond in a timely manner to an allegation of misconduct on the part of Senior Banker A in 2015. While GSI escalated this information to a control function, there is no record of how the control functions at GSI and Goldman Sachs assessed this information, or of further escalation of the information. No action was taken in response to the allegation in the weeks that followed. It was several weeks before Senior Banker A was placed under heightened surveillance following the discovery of other misconduct. When GSI later notified the Authority of Senior Banker A's non-1MDB related misconduct in February 2016, the

allegation GSI had received of 1MDB-related misconduct by Senior Banker A was not notified to the Authority.

PRINCIPLE 3 FAILINGS

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

5.14. GSI failed to retain sufficient records to show how the committees had assessed the risks arising out of the 1MDB Transactions, or the reasons the committees were comfortable approving or conditionally approving the 1MDB Transactions. The minutes of the FWCC and FWSC meetings were in a standardised format which only recorded briefly the key decisions made, including any follow up actions which the committee required to be completed. The minutes did not contain details of how the committees had considered the risks, the rationale for the action points identified or the rationale for the committee's decision to approve the 1MDB Transactions.

5.15. The deficiencies in record keeping by the committees was a serious breach because it meant the risk approach to the transactions could not be properly reviewed at the time of the transactions, nor could it be adequately scrutinised post the transactions when issues of possible financial crime arose. The maintenance of accurate and sufficiently detailed records of a firm's business and internal organisation, particularly in respect of its senior decision-making committees, is necessary for the proper discharge of the Authority's supervisory responsibilities. Deficiencies in record keeping hinder both the Authority's and the firm's ability to identify and manage risks associated with the firm's business prudently. The lack of detailed minutes of committees' scrutiny and approval to execute the 1MDB Transactions does not meet the standard required of firms, particularly given the higher risk profile of these transactions.

6. SANCTION

6.1. The Authority considers that a financial penalty is the appropriate sanction in the circumstances of this case.

6.2. The Authority's policy on the imposition of financial penalties is set out in Chapter 6 of the Authority's Decision Procedure & Penalties Manual ("DEPP"). In respect of conduct occurring on or after 6 March 2010, the Authority applies a five-step

framework to determine the appropriate level of financial penalty. DEPP 6.5A sets out the details of the five-step framework that applies in respect of financial penalties imposed on firms.

Step 1: Disgorgement

6.3. Pursuant to DEPP 6.5A.1G, at Step 1 the Authority seeks to deprive a firm of the financial benefit derived directly from the breach where it is practicable to quantify this.

6.4. The Authority notes that, in relation to Goldman Sachs' role in the 1MDB Transactions, GSI's ultimate parent company, The Goldman Sachs Group, Inc., has paid US$2.5 billion to the government of Malaysia and guaranteed the recovery of at least US$1.4 billion in asset proceeds. As such, the Authority considers that it does not need to separately address the question of disgorgement.

6.5. The Step 1 figure is therefore £0.

Step 2: the seriousness of the breach

6.6. Pursuant to DEPP 6.5A.2G, at Step 2 the Authority determines a figure that reflects the seriousness of the breach. Where the amount of revenue generated by a firm from a particular product line or business area is indicative of the harm or potential harm that its breach may cause, that figure will be based on a percentage of the firm's revenue from the relevant products or business area.

6.7. The Authority considers that the annual revenue generated by GSI in total or from a relevant business area would not be an appropriate indicator of the harm or the potential harm caused by its breaches. Given the nature of GSI's breaches and their potential impact on the 1MDB Transactions and those involved in them, the Authority has determined that the appropriate metric which reflects the harm or potential harm GSI's breaches may have caused is the difference between the price at which GSI purchased the bonds issued through the 1MBD Transactions and the price at which it sold them (plus interest earned on the bonds whilst they were held by GSI). The relevant indicator of harm is therefore US$643,871,222.

6.8. In deciding on the percentage that forms the basis of the Step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 20%. This range is divided into five fixed levels which represent, on a sliding scale,

the seriousness of the breach; the more serious the breach, the higher the level. For penalties imposed on firms there are the following five levels:

Level 1 – 0%
Level 2 – 5%
Level 3 – 10%
Level 4 – 15%
Level 5 – 20%

6.9. In assessing the seriousness level for the purposes of Step 2, the Authority has taken into account the following factors set out in DEPP:

a. DEPP 6.5A.2G (6-9) which lists factors the Authority will generally take into account in deciding which level of penalty best indicates the seriousness of the breach;
b. DEPP 6.5A.2G (11) which lists factors likely to be considered 'level 4 or 5 factors'; and
c. DEPP 6.5A.2G (12) which lists factors likely to be considered 'level 1, 2, or 3 factors'.

6.10. Of these, the Authority considers the following factors to be most relevant to the assessment of seriousness:

a. How a firm counters the risk that it might be used to further financial crime is the responsibility of UK financial institutions. This was particularly important in this instance given the enhanced risk profile of the 1MDB Transactions.
b. Failures by GSI relating to its ability to assess and record risks undermined its ability to manage those risks. An essential plank of protection against financial crime is risk assessment and management. Such failings are particularly serious in relation to high value transactions with higher-risk profiles such as the 1MDB Transactions.
c. The Principle 2 breaches that relate directly to the 1MDB Transactions persisted across three transactions executed over the course of 11 months and involved individuals at senior positions within GSI.
d. The further breaches that occurred in 2013 and 2015, when there was a failure to act appropriately after receiving information relating to possible bribery and misconduct in relation to the third 1MDB transaction and 1MDB, directly involved senior GSI personnel.

e. The shortcoming in the firm's internal procedures and controls around record keeping was serious because it related directly to the assessment and management of risk by the firm's transaction approving committees.

f. GSI's breaches were not deliberate or reckless.

6.11. The Authority considers the seriousness of the breach to be level 4 (15%).

6.12. The Step 2 figure is therefore US$96,580,683.

Step 3: mitigating and aggravating factors

6.13. Pursuant to DEPP 6.5A.3G, at Step 3 the Authority may increase or decrease the amount of the financial penalty arrived at after Step 2 to take into account factors which aggravate or mitigate the breach.

6.14. The Authority considers the following factors are relevant:

a. GSI has cooperated during the Authority's investigation.

b. Since 2013, GSI has made changes to its governance and control arrangements, as is to be properly expected of an authorised firm in the circumstances. In particular, GSI has made changes to its compliance and surveillance programmes with the aim of improving the identification of instances of corruption or fraud, and at group level, Goldman Sachs has introduced a "Firmwide Reputational Risk Committee". GSI has also changed its record-keeping arrangements by requiring that more detailed records of transaction committee meetings are maintained.

c. The firm's previous disciplinary history. In September 2010, the FSA imposed a financial penalty on GSI of £17.5 million for breaches of Principles 2, 3 and 11 (including a failure to conduct its business with due skill, care and diligence with respect to its regulatory reporting obligations).

Together the above factors should reduce the Step 2 figure by 5%.

6.15. The Authority considers that the PRA's decision to impose a financial penalty on GSI in respect of misconduct by GSI arising from broadly the same facts and matters is also a relevant factor. This should reduce the Step 2 figure by a further 50%.

6.16. Having taken into account the above factors, the Authority considers that the Step 2 figure should be reduced by 55%.

6.17. The Step 3 figure is therefore US$43,461,307.

Step 4: adjustment for deterrence

6.18. Pursuant to DEPP 6.5A.4G, if the Authority considers the figure arrived at after Step 3 is insufficient to deter the firm who committed the breach, or others, from committing further similar breaches, then the Authority may increase the penalty. In doing so, it has also considered the financial penalty imposed by the PRA in respect of misconduct by GSI arising from broadly the same facts and matters.

6.19. Without an adjustment for deterrence, the financial penalty would be US$43,461,307. The Authority considers that a penalty of this size would not serve as a sufficient deterrent to GSI or other firms from committing similar breaches. Given the size and stature of GSI, and the nature of the misconduct, it is necessary for the Authority to increase the Step 3 figure to achieve such deterrence. Having taken into account the factors outlined at DEPP 6.5A.4G, the Authority considers that the Step 3 figure should be increased to US$90,000,000.

6.20. Step 4 is therefore US$90,000,000 (equivalent to £69,012,000).

Step 5: settlement discount

6.21. Pursuant to DEPP 6.5A.5G, if the Authority and the firm to whom the penalty is to be imposed agree the amount of financial penalty and other terms, DEPP 6.7 provides that the amount of financial penalty which might otherwise have been payable will be reduced to reflect the stage at which the Authority and the firm reached agreement.

6.22. The Authority and GSI reached agreement at Stage 1 and so a 30% discount applies to the Step 4 figure. Step 5 is therefore US$63,000,000 (equivalent to £48,308,400).

Penalty

6.23. The Authority thereby imposes on GSI a financial penalty of £48,308,400 (equivalent to US$63,000,000).

7. PROCEDURAL MATTERS

7.1. This Notice is given to GSI under, and in accordance with, section 390 of the Act. The following statutory rights are important.

Decision maker

7.2. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

Manner and time for payment

7.3. The Financial penalty must be paid in full by GSI to the Authority no later than 4 November 2020.

If the financial penalty is not paid

7.4. If all or any of the financial penalty is outstanding on 5 November 2020, the Authority may recover the outstanding amount as a debt owed by GSI and due to the Authority.

Publicity

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

Authority contacts

7.6. For more information concerning this matter generally, contact Stephen Robinson at the Authority (direct line: 020 7066 1338/ email: stephen.robinson@fca.org.uk), or Eden Legesse at the Authority (direct line: 020 7066 6710/ email: eden.legesse@fca.org.uk).

Mario Theodosiou
Head of Department
Financial Conduct Authority, Enforcement and Market Oversight Division

ANNEX A

RELEVANT STATUTORY AND REGULATORY PROVISIONS AND GUIDANCE

1. RELEVANT STATUTORY PROVISIONS

Financial Services and Markets Act 2000

1.1 The Authority's general duties established in section 1B of the Act include the strategic objective of ensuring that the relevant markets function well and the operational objectives of protecting and enhancing the integrity of the UK financial system and securing an appropriate degree of protection for consumers.

1.2 Section 206 of the Act gives the Authority the power to impose a penalty on an authorised firm if that firm has contravened a requirement imposed on it by or under the Act.

1.3 DEPP, which forms part of the Authority's Handbook, sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act. In particular, DEPP 6.5A sets out the five steps for penalties imposed on firms in respect of conduct taking place on or after 6 March 2010.

2. RELEVANT REGULATORY PROVISIONS AND GUIDANCE

2.1 In exercising its powers to impose a financial penalty, the Authority has had regard to the relevant regulatory provisions published in the Authority's handbook. The main provisions that the Authority considers relevant are set out below.

Principles for Business (PRIN)

2.2 The Principles are general statements of the fundamental obligations of firms under the regulatory system and are set out in the Authority's handbook. They derive their authority from the Authority's statutory objectives.

2.3 Principle 2 provides that a firm must conduct its business with due skill, are and diligence.

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

Decision Procedures and Penalties Manual (DEPP)

2.5 Chapter 6 of DEPP, which forms part of the Authority's handbook, sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act. In particular, DEPP 6.5A sets out the five steps for penalties imposed on firms in respect of conduct taking place on or after 6 March 2010.

The Enforcement Guide (EG)

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

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