

**FINAL NOTICE ISSUED UNDER SECTION 251 OF
THE FINANCIAL SERVICES AND MARKETS REGULATIONS 2015**

To: **Sovereign Corporate Services ME Limited**
3529, 35th floor
Al Maqam Tower, Regus
Abu Dhabi Global Market Square
Al Maryah Island
Abu Dhabi
United Arab Emirates

Date: 2 August 2024

1. DECISION

- 1.1. For the reasons given in this Notice, the Financial Services Regulatory Authority (the “Regulator”) has decided to impose on Sovereign Corporate Services ME Limited (“SCS”) a financial penalty of US\$32,000 under section 232 of the *Financial Services and Markets Regulations 2015* (the “Regulations”).
- 1.2. SCS agreed to settle this matter at an early stage of the Regulator’s enquiry and action. The Regulator has therefore exercised its discretion to apply a 20% discount to the financial penalty under the Regulator’s policies for early settlement. Were it not for this discount, the Regulator would have imposed a financial penalty of US\$40,000 on SCS.
- 1.3. The Regulator acknowledges that:
 - a. SCS and its senior management have cooperated fully with the Regulator’s enquiry and action.
 - b. SCS has taken substantial steps to remediate the issues and deficiencies referenced in this Notice and to otherwise strengthen its systems and controls relevant to anti-money laundering compliance.
 - c. The issues and deficiencies referred to in this Notice only relate to SCS, and no other entities in the Sovereign Group.

2. DEFINED TERMS

- 2.1. Defined terms are identified in the Notice in parentheses, using the capitalisation of the initial letter of a word or of each word in a phrase, and are either defined in a Rulebook, Glossary, or in the body of this Notice at the first instance the term is used. Unless the context otherwise requires, where capitalisation of the initial word is not used, an expression has its natural meaning.

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2.2. Annexure A sets out extracts from the regulations, rules and guidance relevant to this Notice.

3. SUMMARY OF REASONS FOR THE DECISION

3.1. The Regulator has decided to take the action set out in this Notice because it considers that, over the period from around October 2018 to around December 2022 (the “Relevant Period”), SCS failed to take sufficient steps to:

- a. adequately verify the Source of Wealth (“SOW”), as part of the Enhanced Customer Due Diligence (“EDD”) it performed on customers it had assigned a high-risk rating; and
- b. obtain the approval of Senior Management to establish business relationships with customers it had assigned a high-risk rating,

and in so doing, SCS contravened a number of specific requirements set out in the Anti-Money Laundering and Sanctions Rules and Guidance (“AML”), as set out in this Notice.

4. FACTS AND MATTERS RELIED ON

Background

- 4.1. On 16 October 2017, SCS was incorporated and registered with the Abu Dhabi Global Market (“ADGM”) Registration Authority as a private company limited by shares. SCS holds a commercial licence to carry on non-financial business activities of “*accounting, bookkeeping*”, “*management consultancy*” and “*Company Service Provider*” (“CSP”).
- 4.2. By carrying on the business of a CSP, SCS is classified as a Designated Non-Financial Business or Profession (“DNFBP”) as defined in the Regulations. As a CSP, the Regulator would expect SCS to be fully aware of the obligations applicable to it as a DNFBP, including the AML Rules.

Regulator Review

- 4.3. On 5 December 2022, the Regulator conducted a review (the “Review”) of SCS’s activities and operations which was focused on assessing SCS’s compliance with commercial legislation and, in particular, compliance with CSP-specific conditions of its licence as well as Economic Substance Regulations.
- 4.4. The Review involved a detailed review of SCS’s anti-money laundering, counter-financing of terrorism and sanctions related systems and controls (AML Systems and Controls), policies and procedures, which included discussions with senior management and staff, and detailed review of a sample of customer files.
- 4.5. On the same day a meeting was held between the Regulator and SCS at which the Regulator’s preliminary findings of the Review were discussed.
- 4.6. On 14 March 2023, the Regulator sent its ‘Principal Findings Record’¹ (the “Report”) to SCS confirming its findings and requesting SCS’s response by 28 March 2023. The Report set out

¹ 20230314

findings from the Review, including findings of breaches of AML systems and controls, Customer Due Diligence (“CDD”), and EDD requirements.

- 4.7. On 27 March 2023, SCS responded to the Regulator² with its comments on the Report (the “Response”).
- 4.8. The Regulator’s findings concerned SCS’s failures to comply with AML systems and controls to ensure AML compliance with all applicable requirements of the Regulator’s AML Rules as set out in paragraphs 4.9 to 4.20 below.

Failure to Verify Source of Wealth for High-Risk Customers

- 4.9. AML Rule 8.4.1 requires SCS to undertake EDD, in addition to CDD under AML Rule 8.3.1, for all customers it had:
 - a. assessed as being high-risk for money laundering; or
 - b. identified as being a PEP (or its beneficial owner(s) as being a PEP).
- 4.10. For SCS to fulfil its EDD obligations for each of its assessed high-risk customers, it was required to, among other things, identify and verify the SOW of the customer and, where applicable, all beneficial owners.
- 4.11. As part of the Review, the Regulator conducted a detailed review of SCS’s files for three (3) of its nine (9) customers that it assessed as high-risk for money laundering, representing approximately 44 per cent of its assessed high-risk customers (the “Assessed High Risk Customer” files).
- 4.12. The Review found that SCS had failed to verify the SOW of the three (3) client³ files that it had reviewed, where the clients were rated as high risk due to the nationality of the beneficial owners.
- 4.13. SCS stated in its Response to the Regulator that the SOW information was captured in its internal application form. However, this information only identified the SOW of its customers.
- 4.14. SCS’s AML Policies and Procedures⁴ stated:

“When a relationship is deemed to be high risk (e.g. Politically Exposed Person), we have to move away from “plausible verifiability” to “independent verification” e.g. wealth/economic status verified by independent sources such as a reference from a lawyer or an accountant, searches which demonstrate the clients wealth online for example Forbes listing/Media articles/Public literature.”
- 4.15. The Regulator found from the Review that, even though SCS identified the SOW as part of its EDD, there was no evidence to indicate that it verified the information it received from its customers.

² 20230327d

³ 20180712, 20200916, 20210707

⁴ 202104

- 4.16. SCS had failed to verify how its assessed high-risk customers accumulated their wealth, resulting in SCS failing to ensure that its customers were risk assessed appropriately and that necessary measures and controls were taken.
- 4.17. Accordingly, SCS failed to undertake adequate EDD for certain of its customers that it had assigned a high-risk rating. The Regulator therefore considers that SCS has contravened AML Rule 8.4.1(c).

Failure to Obtain Approval of Senior Management to commence business relationship with Assessed High Risk Customers

- 4.18. As a Relevant Person for the purposes of AML, SCS was required under AML Rule 8.4.1(e) to obtain the approval of Senior Management to commence a business relationship with a customer assessed as being high risk for money laundering (and therefore in relation to which EDD was required).
- 4.19. Whilst there were policies and procedures in place⁵ during the Relevant Period to obtain Senior Management approval, the Regulator found that SCS did not obtain Senior Management approval to commence a business relationship in two (2) of the Assessed High Risk Customer files that the Regulator had reviewed. Approximately nine (9) Assessed High Risk Customer relationships were affected by this failing.
- 4.20. The Regulator recognises that during the course of the customer onboarding process for one of SCS's customers, SCS had demonstrated that members of its Senior Management team were involved in the process. However, this did not amount to Senior Management approval for onboarding of the customer relationship. By failing to obtain the approval of Senior Management to commence a business relationship with Assessed High Risk Customers, SCS contravened AML Rule 8.4.1(e).

Remediation undertaken by SCS

- 4.21. During the period following the Review and before the commencement of the Regulator's action in this matter, the FSRA understands from SCS that SCS had taken steps to strengthen its systems and controls relevant to anti-money laundering compliance and subsequent provisions are now implemented to improve its client compliance and document management system, particularly as regards relevant approvals. The FSRA further understands from SCS that all staff must complete periodic AML regulation training directed by the SCS compliance department.
- 4.22. Since becoming aware of the Regulator's concerns identified by the review, SCS has taken steps to address the various issues that had been identified.
- 4.23. The Regulator acknowledges SCS's full co-operation and the steps that SCS has taken to remediate each of the issues and deficiencies to date set out in this Final Notice.

5. CONTRAVENTIONS

- 5.1. The Regulator has found that during the Relevant Period, SCS contravened the following AML Rules:

⁵ 20210503

- a. AML Rule 8.4.1(c) by failing to adequately verify the SOW as part of the EDD it undertook on certain of its Assessed High Risk Customers; and
- b. AML Rule 8.4.1(e) for failing to obtain the approval of Senior Management to commence business relationships with Assessed High Risk Customers.

6. SANCTION

- 6.1. In deciding to impose a financial penalty on SCS, the Regulator has taken into account the factors and considerations set out in sections 8.2 to 8.5 of the Regulator's Guidance & Policies Manual ("GPM").

Decision to impose a financial penalty

- 6.2. With reference to section 8.2 of GPM, the Regulator considers the following factors to be of particular relevance in deciding to impose the financial penalty on SCS:
 - a. 8.2.1(a) - the Regulator's objectives under section 1(3) of the Regulations to:
 - i. foster and maintain confidence in the ADGM;
 - ii. promote and enhance the integrity of the ADGM Financial System;
 - iii. prevent, detect and restrain conduct that causes or may cause damage to the reputation of the ADGM through appropriate means including the imposition of sanctions; and
 - iv. promote public understanding of the regulation of the ADGM.
 - b. 8.2.1(b) - the deterrent effect of the penalty and the importance of deterring other persons from committing similar contraventions.
 - c. 8.2.1(c) – in terms of nature, seriousness, duration and impact of the contravention, SCS's failings exposed its business, and the ADGM, to increased risk of money laundering and financial crime over the Relevant Period.

Determination of the level of financial penalty

- 6.3. With reference to section 8.4 of GPM, the Regulator has taken into account the factors and considerations set out in the five-step framework in section 8.5 of GPM in determining the level of the financial penalty and it has decided to impose:

Step 1: Disgorgement

- 6.4. This step is not considered to be relevant, as we do not see SCS deriving any financial benefit from the contraventions.

Step 2: The seriousness of the contraventions

- 6.5. The Regulator considers SCS's conduct to be serious because:

- a. SCS's failings exposed its business and the ADGM to increased risk of money laundering and financial crime over the Relevant Period.

6.6. Taking the above factors into account, the Regulator considers that a financial penalty of US\$40,000 appropriately reflects the seriousness of the contraventions.

Step 3: Mitigating and aggravating factors

6.7. The Regulator considers that the following factors have a mitigating effect on the contraventions:

- a. SCS does not have any previous history of non-compliance with the Regulations or Rules; and
- b. SCS had the relevant AML policies and procedures in place even though these were not fully implemented.

6.8. The Regulator considers that there are no aggravating factors on the contraventions.

6.9. Having taken the above factors into account, the Regulator does not consider it necessary to adjust the financial penalty.

6.10. Accordingly, the figure after Step 3 is US\$40,000.

Step 4: Adjustment for deterrence

6.11. Section 8.5.9 of GPM provides that if the Regulator considers the level of the financial penalty which it has arrived at after Step 3 is insufficient to deter the firm that committed the contravention, or others, from committing further or similar contraventions, then the Regulator may increase the financial penalty. Section 8.5.9 of GPM sets out the circumstances in which the Regulator may do this.

6.12. In this instance, the Regulator considers that the figure arrived at after Step 3 is sufficient for the purposes of deterring SCS and others from committing further or similar contraventions. Accordingly, the Regulator does not consider it necessary to adjust the amount of the fine arrived at after Step 3 for the purposes of deterrence.

6.13. Accordingly, the figure after Step 4 is US\$40,000.

Step 5: Adjustment for cooperation/early settlement

6.14. Where the Regulator and the firm on which the financial penalty is to be imposed come to an agreement on the amount of the financial penalty, section 8.5.10 of GPM provides that the amount of the financial penalty which might have otherwise been payable will be reduced to reflect the stage at which the agreement is reached.

6.15. The Regulator and SCS have reached an agreement on the relevant facts and matters relied on, the regulatory action to be taken, and the financial penalty to be imposed. Having regard to the stage at which this agreement has been reached and in recognition of the benefit of this agreement, the Regulator has applied a 20% discount to the level of the financial penalty which it would have otherwise imposed.

6.16. Accordingly, the figure after Step 5 is US\$32,000.

The level of the financial penalty

6.17. Given the fact and matters set out above and all the circumstances, the Regulator has determined that it is proportionate and appropriate to impose on SCS a financial penalty of US\$32,000 for the alleged contraventions.

7. PROCEDURAL MATTERS

Settlement

7.1. The Regulator and SCS have reached an agreement on the relevant facts and matters relied on, the regulatory action to be taken and the financial penalty to be imposed. In agreeing to the action set out in this Final Notice and deciding to settle this matter, SCS has agreed not to refer this matter to the Appeals Panel.

Payment of financial penalty

7.2. The financial penalty imposed by this Final Notice is to be paid by SCS on or before **30 days from the date of this Notice**, unless varied or otherwise agreed by the Regulator.

7.3. Payment of the financial penalty is to be made by electronic funds transfer according to the instructions set out in the table below:

Account Name	[REDACTED]
Account Number	[REDACTED]
IBAN Number	[REDACTED]
Account Type	[REDACTED]
Bank Name	[REDACTED]
Swift Code	[REDACTED]
Reference	[REDACTED]

7.4. In the event that any part of the financial penalty remains outstanding on the date by which it must be paid, then the Regulator may recover the outstanding amount of the financial penalty as a debt owed by SCS and due to the Regulator.

Publicity

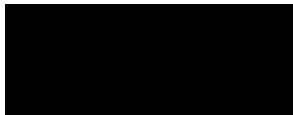
7.5. As this Final Notice has now been given to SCS, pursuant to section 252(3) of the Regulations the Regulator may publish the details about the matter at its discretion. Pursuant to section 252(4) of the Regulations, a person to whom a notice is given may not publish the notice or any details

concerning it unless the Regulator has published the notice or those details in accordance with section 252(3).

7.6. The Regulator will publish on its website:

- a. This Final Notice (not including Annexure A); and
- b. Any other information in accordance with section 252 of the Regulations as the Regulator considers appropriate.

Signed:



Emmanuel Givanakis
Chief Executive Officer
Financial Services Regulatory Authority