



Jersey Financial Services Commission

Standard Bank Jersey Limited (the “Custodian”), and Standard Bank Fund Administration Jersey Limited (the “Administrator”) (together, the “Functionaries”)

Financial Services (Jersey) Law 1998, as amended (the “FS Law”) Collective Investment Funds (Jersey) Law 1988, as amended (the “CIF Law”)

The Jersey Financial Services Commission (the “**Commission**”) issues this public statement pursuant to Article 25 of the FS Law and Article 17 of the CIF Law.

1 Introduction

- 1.1 The Functionaries are authorised by the Commission to conduct Fund Services Business as defined in the FS Law. Such business includes, or has included, the provision of services to the following collective investment funds:

Belgravia European Property Funds Limited
Belgravia Funds PCC
Belgravia IFN Funds PCC
Belgravia Property Funds Limited
(collectively, the “**Belgravia Funds**”)

- 1.2 The Belgravia Funds were established as open-ended unclassified collective investment funds in accordance with the provisions of the Jersey Expert Fund Guide issued by the Commission. The content of this public statement is limited to the Functionaries’ provision of Fund Services Business to the Belgravia Funds from inception to November 2008.
- 1.3 Following concerns over the Functionaries’ compliance with applicable laws, Codes of Practice for Fund Services Businesses (the “**Codes**”) and constitutive documents, the Commission conducted a review (the “**Review**”) which encompassed the issuance of a notice to the Functionaries on 28 November 2008, requiring them, under Article 32(1) and (4) of the FS Law and Article 9(2) of the CIF Law, to provide the Commission with a report by an accountant. The report together with the Functionaries’ response was received by the Commission on 4 May 2010. The report included, in its scope, all Belgravia Funds save for Belgravia IFN Funds PCC in respect of which a separate report was compiled and provided to the Commission.
- 1.4 The Review is separate from the Commission’s ongoing investigation into Belgravia Asset Management Limited, which is currently in liquidation.
- 1.5 The Functionaries have co-operated with the Commission and are undertaking a remediation plan to address the findings of the Review.



2 Summary of findings

- 2.1 In respect of the Belgravia Funds, the Functionaries failed to conduct Fund Services Business in compliance with the Codes. In certain instances there were breaches of the constitutive documents attributable to the conduct of the Functionaries.
- 2.2 Key failings:
- 2.2.1 There was a failure to adequately understand the complexity of the structures underlying the Belgravia Funds. As a result, the Functionaries failed to identify all risks and implement an appropriate risk management process.
 - 2.2.2 Corporate governance was deficient and included a risk system that placed over-reliance on individual reporting. There was a failure to institute adequate independent checks to ensure procedures and controls were followed.
 - 2.2.3 There was a failure to engage sufficient resources and employees were not appropriately qualified or experienced for the roles undertaken.
 - 2.2.4 Staff appointed as directors of the Belgravia Funds and underlying corporate vehicles lacked appropriate experience and understanding of their legal and fiduciary responsibilities.
 - 2.2.5 Deficiencies in internal controls and procedures resulted in an unclear division of responsibilities, failure to manage conflicts of interest, a lack of control over certain payments in respect of the Belgravia Funds, and insufficient monitoring of investment restrictions.
 - 2.2.6 There was a failure to maintain appropriate accounting records. Too much reliance was placed on third party administrators outside Jersey to provide accurate information in a timely manner.
 - 2.2.7 Fund valuations were undertaken by staff lacking requisite skills and experience of complex property funds with numerous underlying special purpose vehicles (“SPVs”) in multiple jurisdictions. The lack of appropriate accounting information resulted in dealing valuations being prepared on the basis of estimates.
 - 2.2.8 Some land sites were included in valuations when legal title had not been confirmed.
 - 2.2.9 More emphasis was placed on the wishes and instructions of the managers and investment advisors of the Belgravia Funds than the interests of unitholders.
 - 2.2.10 In respect of one unitholder, owning a significant percentage of a Fund, there was a failure to obtain adequate Know Your Customer or Customer Due Diligence information as soon as reasonably practicable. In the Commission’s opinion this constituted a breach of the Money Laundering (Jersey) Order 1999, as amended.



3 Breaches of the Codes

3.1 The Codes were issued by the Commission on 14 November 2007, for the purpose of establishing sound principles for the conduct of Fund Services Business. The Codes establish seven core principles, those breached in respect of the Belgravia Funds include:

3.2 Principle 2: A registered person must have due regard for the interests of the Fund.

3.2.1 There was a failure to recognise the client was the Fund and its unitholders. More emphasis was placed on the wishes and instructions of the Fund managers and investment advisers than the interests of unitholders.

3.2.2 The Functionaries lacked experience of property funds with complex SPV structures. There was a lack of knowledge of the underlying structures and it was assumed properties were owned by the Belgravia Funds. Book-keeping was undertaken with a lack of expertise, information, and knowledge of accounting policy and guidance. There was a failure to recognise that inadequate information may lead to inaccurate valuations.

3.2.3 Errors in the calculation of dealing valuations, submitted to the Belgravia Funds, resulted in the overpayment of fees, including performance and management fees, and the incorrect pricing of subscriptions and redemptions.

3.2.4 In respect of one Fund, there was a failure to address a significant discrepancy between valuations calculated by the Administrator and the net asset value in the audited financial statements.

3.2.5 No interim accounts were prepared in respect of one Fund; a breach of the Private Placement Memorandum and the Listing Rules.

3.2.6 In one instance dividends were paid absent any evidence of consideration of the financial position of the Fund. The Functionaries failed to take reasonable steps to satisfy themselves that the payment of the dividend had been considered by the Directors of the Fund.

3.2.7 In certain instances the Custodian failed to take reasonable steps to ensure that its actions were in accordance with the duties contained in the constitutive documents.



3.3 Principle 3: A registered person must organise and control its affairs effectively for the proper performance of its business activities and be able to demonstrate the existence of adequate risk management systems.

3.3.1 Corporate Governance (section 3.1)

3.3.1.1 The Functionaries did not ensure that the internal controls and procedures were properly applied and this did not permit appropriate oversight by the board of directors and senior management.

3.3.1.2 Due to reliance on self-reporting, senior management was not made aware of material issues. There was a failure to recognise that incident reports were not being made resulting in issues not being properly addressed.

3.3.1.3 The Administrator permitted employees to be appointed to the boards of SPVs and the Belgravia Funds absent sufficient consideration of the employee's understanding of their duties, knowledge of the jurisdiction and the number of other directorships held. There was a general perception that the provision of directorships was "part of the service". The Functionaries failed to ensure conflicts of interest, arising from employees acting in various capacities, were identified and appropriately managed.

3.3.2 Internal systems and controls (section 3.2)

3.3.2.1 There were deficiencies in internal controls and procedures, which the Compliance and Risk functions failed to identify and address.

3.3.2.2 There was a lack of adequate supervision and insufficient independent checks to ensure monitoring of investment restrictions was being carried out adequately, or at all.

3.3.2.3 In relation to redemption payments on one dealing date, there was a breakdown in controls resulting in the creation of an overdraft in respect of one Fund.

3.3.2.4 The Custodian failed to ensure that there were adequate procedures and processes in relation to "proper instructions".

3.3.2.5 The Custodian did not confirm legal title had been obtained in respect of some of the properties purchased.



3.3.3 Integrity and competence (section 3.3)

3.3.3.1 There was a lack of staff training. Some employees were not appropriately qualified or experienced for the roles undertaken.

3.3.3.2 Inadequate consideration was given to the question of whether advice should be obtained as to the duties of a director of a company incorporated in another jurisdiction.

3.3.4 Compliance Officer, Money Laundering Reporting Officer and Money Laundering Compliance Officer (section 3.5)

3.3.4.1 The Compliance function fell short of best practice in the execution of its functions. Too much reliance was placed on explanations provided by colleagues, without independent scrutiny.

3.3.5 Complaints (section 3.6)

3.3.5.1 Insufficient attention was given to one particular complaint which, if effectively analysed, may have highlighted at an earlier stage some of the key issues raised in this public statement.

3.3.6 Record Keeping (section 3.7)

3.3.6.1 There was a lack of documentation identifying the allocation of responsibilities within the administration function. Employees' roles were not clearly defined.

3.3.6.2 There was a failure to keep adequate transactional records which could be produced in Jersey in a legible form without delay. There was over-reliance on third-party administrators over whom the Functionaries had little or no control.

3.4 **Principle 6: A registered person must deal with the Commission and other authorities in Jersey in an open and co-operative manner.**

3.4.1 The abovementioned failings in corporate governance and internal systems and controls resulted in a failure to report issues to the Commission in a timely manner.

4 **The Functionaries' response**

4.1 The Functionaries take their obligations to clients extremely seriously. The intricate and complex nature of the Belgravia Funds resulted in difficulties arising in the administration of these funds, the extent and nature of which varied between each fund. The Functionaries wish to record that they have cooperated fully with the Commission throughout the Review.



- 4.2 Changes to the senior management team have been made.
- 4.3 The implementation of a detailed remediation plan commenced in February 2009. The plan was presented to the Commission in May 2010 and has been agreed. The Functionaries believe that the completion of the plan will further strengthen the overall business of the Standard Bank Group and place it in a strong position to grow in Jersey.

5 Conclusion

- 5.1 The matters raised in this public statement relate to serious breaches of the Codes. The Commission places great importance on compliance with the Codes and will work with the Functionaries to ensure the remediation plan is implemented to the satisfaction of the Commission.

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