

November 27 2015

CYSEC Board Decision

Announcement date:	27.11.2015	Board decision date:	21.09.2015
Regarding:	WGM Services Ltd		
Legislation:	The Investment Services and Activities and Regulated Markets Laws, The Prevention and Suppression of Money Laundering and Terrorist Financing Law, Directive DI 144-2007-01 of 2012, Directive DI 144-2007-02 of 2012, Directive DI 144-2007-08 of 2012		
Subject:	Fine €340.000		
Judicial Review:	Click here	Judicial Review Ruling:	Click here

The Board of the Cyprus Securities and Exchange Commission (the 'CySEC') wishes to inform investors that, at its meeting held on September 21, 2015, decided to impose a total administrative fine of **€340.000** on the **CIF WGM Services Ltd** (the 'Company') for non-compliance with the following,:

1. the Investment Services and Activities and Regulated Markets Law of 2007, as amended from time to time ('L.144(I)/2007'),
2. the Prevention and Suppression of Money Laundering and Terrorist Financing Law of 2007, as amended from time to time ('L.188(I)/2007'),
3. the Directive DI 144-2007-01 of 2012 of the Securities and Exchange Commission for the Authorisation and Operating Conditions of CIFs ('Directive 1'),
4. the Directive DI 144-2007-02 of 2012 of the Securities and Exchange Commission for the professional competence of Investment Firms and the natural persons employed by them ('Directive 2'),
5. the Directive DI 144-2007-08 of 2012 of the Securities and Exchange Commission for the Prevention of Money Laundering and Terrorist Financing ('Directive 8').

The administrative fine imposed on the Company is broken down as follows:

- A. €100.000** for non-compliance with Section 6(8) of L.144(I)/2007 as it provided the investment service of portfolio management without an authorisation to provide the said service.
- B. €5.000** for non-compliance with Section 28(1) of L.144(I)/2007 as it failed to comply at all times with the authorization and operating conditions, as laid down in Section 16 of L.144(I)/2007 since, while its headquarters were in Cyprus, the Company's operations were not in fact exercised from Cyprus, namely:
 - The management of the www.eztrader.com platform and the conclusion of transactions in binary options, which constitutes the largest part of the Company's operations, were carried out from Israel, and
 - a number of persons managing the www.eztrader.com platform were established in Israel.

- C. **€10.000** for non-compliance with Section 28(1) of L.144(I)/2007 as it failed to comply at all times with the authorization and operating conditions, as laid down in Section 18(2)(a) of L.144(I)/2007 and paragraphs 4(1)(f), 5, 9, 13 and 14 of Directive 1, since it failed to establish adequate policies and procedures relating to the minimisation of risks, the handling of complaints, the implementation of the internal operation manual, in order to ensure its compliance with its obligations under L.144(I)/2007 and Directive 1.
- D. **€20.000** for non-compliance with Section 28(1) of L.144(I)/2007 as it failed to comply at all times with the authorization and operating conditions, as laid down in Section 18(2)(d) of L.144(I)/2007 and paragraph 16(3) of Directive 1, since it failed to adequately supervise the marketing activities outsourced to the company 'WGM Israel' and to associates 'affiliates/introducing brokers' of the Company and the sales outsourced to 'WGM Israel', nor did it have sufficient access to the records of the said activities.
- E. **€15.000** for non-compliance with Section 28(1) of L.144(I)/2007 as it failed to comply at all times with the authorization and operating conditions, as laid down in Section 18(2)(j) of L.144(I)/2007 and paragraphs 18(1)(c) and 20(1) of Directive 1, since it failed to take all necessary measures to protect the interests of its clients, thus safeguarding their rights in relation to the funds belonging to them.
- F. **€2.500** for non-compliance with Section 34 of L.144(I)/2007, as detailed in the First Schedule to Directive DI 144-2007-12 of 2012, as it failed to notify the CySEC of a material change in its organisational structure.
- G. **€40.000** for non-compliance with Section 36(1) as it failed to act fairly, honestly and professionally in accordance with the best interests of its clients in granting a trading bonus and in relation to the practices applied in this context.
- H. **€40.000** for non-compliance with Section 36(1)(a) of L.144(I)/2007 and paragraph 6 of Directive 2, as the information contained in its website, the information provided through the online account of the clients and the information in the samples of advertising announcements that have been reviewed, were not fair, clear and non-misleading, as defined in Section 36(1)(a) of L.144(I)/2007 and the Company failed to ensure that these comply with the terms of paragraph 6, sub-paragraphs (2) and (8) of Directive 2.
- I. **€40.000** for non-compliance with Section 36(1)(b) of L.144(I)/2007 as the information provided to clients is not appropriate so that they are reasonably able to understand the nature and risks of the specific type of the proposed financial instrument. More specifically, the Company did not provide its potential clients appropriate and comprehensive information at the time of entering into the business relationship.
- J. **€40.000** for non-compliance with Section 36(1)(d) of L.144(I)/2007 and paragraphs 15 and 16 of Directive 2 as it fails to ask clients or potential clients to provide the necessary information regarding their knowledge and experience in the investment field relevant

to the specific type of financial instrument offered, to assess whether the investment service or financial instrument envisaged is appropriate for the client. Moreover, the manner in which the Company assesses such appropriateness in practice results in all products being assessed as appropriate for all clients without giving the required warning that a product is not appropriate.

- K. **€2.500** for non-compliance with Section 52 of L.144(I)/2007 as it employed persons who provided the investment service of portfolio management on behalf of the Company without being registered in the Public Register for certified persons under Section 53 of L.144(I)/2007 and without having been granted by the CySEC a deadline for registration thereto as provided in Section 52(2) of L.144(I)/2007.
- L. **€5.000** for non-compliance with Section 76(2) of L.144(I)/2007 as, while providing investment services from Israel through the www.ezinvest.com platform, through persons established there for the management of the said platform, it failed to notify the Commission in writing of its intention to establish a branch there, as required.
- M. **€5.000** for non-compliance with Section 139(2) of L.144(I)/2007 as, while the management of the platform for the execution of orders in binary options was carried out from Israel, it failed to state this during the review of its application for the granting of a CIF authorisation, in order to ensure that it fulfills the relevant requirements and therefore obtain the said authorisation.
- N. **€10.000** for non-compliance with Section 58(a) of L.188(I)/2007, as it does not apply adequate and appropriate systems and procedures in relation to customer identification and customer due diligence, in accordance with the provisions of Section 62 of L.188(I)/2007.
- O. **€3.000** for non-compliance with paragraph 9(1)(d) of Directive 8, as its compliance officer did not monitor and assess, properly and efficiently, the Company's policy in relation to internal practice, measures, procedures and controls regarding the prevention of money laundering and the financing of terrorism.
- P. **€2.000** for violation of paragraph 5(d) of Directive 8, as its Board of Directors did not ensure the implementation of all the requirements of L.188(I)/2007 and of Directive 8 and there were no indications that it made sure that appropriate, efficient and sufficient systems and controls for achieving compliance were introduced.

In reaching its decision, the CySEC has taken into consideration the following:

- the amount of the administrative sanctions provided in the relevant legislation,
- the importance attributed to the need to ensure that the persons subject to the supervision of the CySEC comply fully with the provisions of the Law and the relevant Directives,
- the adoption of corrective measures/actions on behalf of the Company, such as *inter alia* the following:



- it reached a compromise and compensated a number of clients to whom it provided the investment service of portfolio management without authorisation in 2014,
- it took measures to transfer the management of the www.eztrader.com platform to Cyprus,
- it replaced several of its associates (affiliates/introducing brokers) and enacted new policies for their efficient supervision,
- it took corrective measures for the immediate refund of client funds upon relevant request on their behalf,
- it removed from their positions employees who were not included in its organisational chart,
- it amended the terms and conditions related to the granting of trading bonus.