



Report of Penalty for Breach of Financial Sanctions

Regulations (section 149(2) PACA 2017 report)

Imposition of Monetary Penalty – Integral Concierge Services Limited

SUMMARY

1. On 29 August 2024 the Office of Financial Sanctions Implementation (OFSI), part of HM Treasury, imposed a monetary penalty of £15,000 in accordance with section 146 of the Policing and Crime Act 2017 (“PACA”) against a UK-registered company, Integral Concierge Services Limited (“ICSL”), for contravention of regulations 11(1) and 13(1) of the Russia (Sanctions) (EU Exit) Regulations 2019 (“the Russia Regulations”).
2. The penalty related to 26 payments made or received by ICSL in 2022 and 2023 in connection with property management services it provided to a person designated as the target of an asset freeze under the Russia Regulations (“the Designated Person”). The Designated Person owns a residential property in the UK (“the Property”), and ICSL continued to provide management services in respect of the Property after the person was designated. The cumulative value of these payments was £15,487.30.
3. Additionally, ICSL breached reporting requirements of OFSI Gas and Electricity General Licence INT/2022/2300292 and Water Company Payments General Licence INT/2023/3179120 because it failed to fulfil reporting requirements in respect of six payments to water and utilities companies. These six payments were not themselves breaches of the Russia Regulations. However, OFSI considers ICSL’s failure to comply with the reporting conditions a breach of regulation 67(2) of the Russia Regulations. OFSI has not imposed a monetary penalty in respect of these breaches, however it considers them to be an aggravating factor in ICSL’s conduct in this case.
4. ICSL did not make a voluntary disclosure in this case, and therefore a penalty reduction discount was not applied.
5. Under the provisions of PACA applicable prior to 15 June 2022, OFSI imposed a monetary penalty in respect of 10 of the breaches because it was satisfied, on the balance of probabilities, that ICSL breached prohibitions imposed by financial sanctions legislation and either knew or had reasonable cause to suspect that it was in breach of those prohibitions.

6. Under the provisions of PACA applicable on or after 15 June 2022, OFSI imposed a monetary penalty in respect of the remaining breaches because it was satisfied, on the balance of probabilities, that ICSL breached prohibitions imposed by financial sanctions legislation.
7. Having been informed of OFSI's intention to impose a monetary penalty and invited to make representations, ICSL chose to make no representations and did not seek an administrative review of OFSI's decision.

DETAIL

8. On 31 December 2020, the UK's autonomous financial sanctions regime in relation to Russia came into force, ensuring that certain sanctions relating to Russia continued to operate effectively following the UK's exit from the European Union. The UK imposed new measures and designations in response to Russia's invasion of Ukraine in February 2022. The sanctions regime is aimed at encouraging Russia to cease actions destabilising Ukraine or undermining or threatening the territorial integrity, sovereignty or independence of Ukraine.
9. During 2022, OFSI became aware by proactive means of potential breaches in relation to a property owned by the Designated Person. The individual was designated in early 2022 by the Foreign, Commonwealth and Development Office in relation to actions that undermine or threaten the territorial integrity, sovereignty or independence of Ukraine. Following initial enquiries, OFSI identified the Property and began its investigation into ICSL. In May 2023 OFSI initiated contact with ICSL to further investigate the suspected breaches and complete the investigation.
10. ICSL is a small, UK-registered property management and concierge company, providing services primarily to Russian and Ukrainian nationals. ICSL had provided services to the Designated Person, one of its clients, in respect of the Property since 2015; this included the collection of rent from tenants, as well as organising and paying for routine maintenance, repairs and insurance.
11. Between the date of designation and 4 May 2023, ICSL continued to provide services and facilitate payments on behalf of the Designated Person with respect to the Property. This included the collection of rent from tenants, paying for upkeep and maintenance of the Property and collecting its own management fees from the Designated Person's client account with the firm. Using a combination of the Designated Person's client account, its own business account and a personal savings account, ICSL also made several transfers between accounts which dealt with the Designated Person's funds. All of the payments were made without a specific licence having been granted by OFSI.

12. During OFSI's investigation, ICSL admitted that it did not believe it was necessary to seek guidance about the sanctions regime, despite the fact that its knowledge of sanctions was, by its own admission, extremely limited. As such, ICSL was unaware of its sanctions obligations beyond not making direct payments to the Designated Person and facilitating further rental payments to the Designated Person's client account. It made no attempt to educate itself on its legal obligations, continuing to operate its business otherwise as normal in respect of the Designated Person and the Property.

NOTE ON COMPLIANCE

13. UK financial sanctions apply to all legal entities established under UK law, and all UK firms must ensure they comply with UK financial sanctions that are in force. This case highlights a number of important compliance lessons for industry which apply not only to the property management sector but also to wider stakeholders.

14. In particular, the case highlights that it is essential for firms to understand their exposure to sanctions risks and take appropriate action to address it. ICSL served a client base of primarily Ukrainian and Russian individuals which, given the high profile of Russia sanctions following the invasion of Ukraine in 2022, should have led it to seek out a better understanding of its sanctions responsibilities. Firms serving high risk client bases should fully educate themselves on the risks (including properly engaging with OFSI's published guidance and seeking professional advice on their sanctions obligations if necessary).

16. The case also highlights important points as to how sanctions apply to properties and other assets owned by designated persons (DPs), which are especially important for the property management sector and any firms which provide associated services. In this case, ICSL repeatedly committed breaches by making payments on behalf of the Designated Person for routine holding and maintenance of the Property, without having sought or obtained a licence from OFSI. These payments made funds available to a third party for the benefit of the Designated Person, in breach of regulation 13(1) of the Russia Regulations.

17. This case serves as an important reminder of the factors OFSI considers aggravating and mitigating when assessing a breach of sanctions. With reference to the Case Factors set out in OFSI's Enforcement and Monetary Penalties Guidance, the aggravating factors were:

- a. Although most of the payments were of lower value, the cumulative total and their repeated nature was serious (Case Factors B and I);
- b. The harm or risk of harm to the regime's objective. ICSL's actions reduced the disruption which ought to have been caused to the Designated Person through

the asset freeze, which blunted the intended effect of applying pressure to DPs, encouraging Russia to cease its illegal actions in Ukraine (Case Factor C);

- c. ICSL's knowledge or reasonable cause to suspect that it was in breach of sanctions, for activities it performed after 15th June 2022, as well as its lack of awareness of sanctions risks (Case Factors D and E); and
- d. Under other relevant factors (Case Factor M), OFSI considered aggravating ICSL's failure to meet the reporting requirements of general licences, as well the fact that, during a client due diligence review by its banking provider, it did not disclose that the Designated Person was its client.

18. These factors were weighed against the mitigating factors in the case as follows:

- a. The fact that had ICSL applied for a licence, OFSI may have granted one, noting that OFSI has already issued general licences to allow some payments in respect of properties owned by DPs (considered under Case Factor C); and
- b. That ICSL co-operated with OFSI's investigation by providing information on breaches it had committed of which OFSI was not yet aware. Therefore whilst ICSL was not eligible for a reduction to the penalty amount on the basis of voluntary disclosure, OFSI recognised that its co-operation made enforcing the law simpler, easier, quicker and more effective as a mitigating factor.

19. In the context of these aggravating and mitigating factors, and in accordance with the Enforcement and Monetary Penalties Guidance, OFSI assessed this case overall to be "serious" as opposed to "most serious".

20. Lastly, this case emphasises the importance of entities or persons voluntarily disclosing breaches of the regulations to OFSI. Of the ten monetary penalties OFSI has imposed to date, ISCL inclusive, five of these did not originate from voluntary disclosures. OFSI identifies breaches from a range of sources, including required reporting by "Relevant Firms" under the regulations, as well as through proactive means.

21. OFSI considers voluntary disclosure under Case Factor J as to the enforcement action taken, and if a penalty is imposed, will make up to a 50% reduction in the final monetary penalty amount to a person who gives a prompt and complete voluntary disclosure.

22. Further information and guidance on UK financial sanctions can be found on OFSI's website: <http://www.gov.uk/government/organisations/office-of-financial-sanctions-implementation>