

## **Chairman's Communication – Dublin, 22 July 2021**

Today, we announced an agreement to sell the Davy Wealth Management, Capital Markets and associated businesses to Bank of Ireland Group. We also announced the sale of the Davy Global Fund Management (DGFM) business to IQ-EQ and of Davy's shareholding in Rize ETF to AssetCo. These agreements follow a highly competitive process and represent the concluding phase of our decision to transition the Davy Group to new, long-term owners. Throughout this process, the Davy Board has sought to represent the best interests of all stakeholders. The sale is intended to help restore trust in Davy and represents a key element of our response to the recent regulatory sanction. The Davy Board re-affirms its deep regret for the shortcomings identified in the regulatory sanction and, again, apologises unreservedly that these failures occurred.

The Davy executive team has sought to re-build trust with all key stakeholders and to re-affirm Davy's evolved culture and values. Davy's work for our clients, more than anything else, defines our brand. Whether institutional, corporate or private, Davy's objective is to provide a world-class service for all clients through 800 exceptional people throughout Davy, whom we recognise, respect and sincerely thank for their contribution in building this business.

We appointed Rothschild & Co. to help manage the sales process alongside Davy Corporate Finance. We also appointed Alvarez & Marsal, a leading global professional services firm, to conduct an independent review of matters arising from the regulatory sanction. Consistent with our commitment to sharing those findings, an overview of the findings and key recommendations is attached. The Davy Board has accepted those recommendations and they will be implemented in full.

The interests of Davy's clients have been at the heart of the sales process. We believe that we have found the best owners for all of our stakeholders. Within Bank of Ireland Group, Davy will retain its brand and structure. We believe that this represents an attractive opportunity for Bank of Ireland, the Davy team and its clients who value opportunity, growth and ambition. An enhanced platform will foster public trust which, in turn, reflects the important role Davy plays in the effective functioning of public markets. Equally, we believe that IQ-EQ and AssetCo are natural and constructive long-term owners of DGFM and Rize ETF. The focus of the Board now is to conclude the sales process and to continue to provide a world-class service as part of an enhanced platform.

John Corrigan  
Chairman

Davy Group

**Commentary by Alvarez & Marsal ('A&M'):**

*"As part of a comprehensive review by Alvarez & Marsal we did not identify any instances of staff dealing that were either similar (in their characteristics) to the Kilmona<sup>1</sup> transaction or otherwise resulted in crystallised harm or detriment to Davy's clients.*

*"We reviewed Davy's controls relative to third party recommendations made in 2015/'16, as well as the adequacy of prevailing controls to meet current and future needs and, although we have recommended enhancements, we were satisfied that the control environment had been considerably strengthened over the review period.*

*"We were not constrained by the Board of J & E Davy in setting our own detailed scope, nor did we see anything during the course of our work that made us want to expand our scope."*

Paul Sharma,

Managing Director and Head of A&M's Financial Services Regulatory practice UK

**Key findings and recommendations**

- A&M did not identify any instances of staff dealing that were either similar (in their characteristics) to the transaction which gave rise to the fine or otherwise resulted in crystallised harm or detriment to J & E Davy clients.
- Over the 7 year review period, A&M identified instances of personal staff dealing in relation to a very small number of high-value transactions that displayed signs of potentially higher conflict of interest risk. In none of these transactions did they identify in their investigation any serious concern as to a conflict of interest or client detriment. However, A&M found that not all of these were subject to adequate (or adequately documented) review at the time.
- A&M also scrutinized instances of staff dealing in certain instruments which they deemed to carry higher risk of conflicts of interest but were subject to Compliance scrutiny at the time. In these cases, the decision to allow the staff dealing was adequately reasoned relative to Davy's staff dealing rules, and A&M did not identify harm or detriment to Davy's clients.

- However, in reviewing staff dealing from October 2014 to December 2020, A&M noted the high levels of staff dealing, with the highest aggregate amounts being generated by a small number of individuals within the Firm. The review also indicated that the total value of trades being executed in staff accounts in future should be significantly less than values up to year end 2020.
- A&M reviewed remedial actions taken in 2015/'16 following third party recommendations arising from the initiation of the regulatory investigation and further Compliance actions taken by the firm. The review concluded that all of the recommended actions were undertaken on a timely basis, with improved controls implemented on conflicts of interest, staff dealing and account opening.
- A&M also reviewed extensive change initiatives currently underway within Davy to further strengthen the control environment and found these to be adequately designed to remediate the identified issues.
- A&M made certain recommendations to the Board, that if implemented could further strengthen the control environment. All of the recommendations have been accepted by the Board and will be implemented in full. The recommendations covered enhancements that include:
  - Further additions to the Conflicts of Interest policy, certain procedural changes and suggestions for specific elements of training;
  - Modification of aspects of the approach to staff dealing that would result in a more prescriptive policy to include;
    - compliance tracking of aggregate trading levels and trading patterns of individual staff members;
    - trigger points prompting more intensive review and/or escalation to the Board;
  - Guidance on new industry practices that can improve whistleblowing effectiveness;
  - Enhancements to trend analysis relating to third party complaints.

## **Background**

- A&M was engaged by the Board of Davy on 16 March 2021 to conduct an independent review following the regulatory fine levied on 2 March 2021.
- The Board of J&E Davy appointed a sub-group comprising Independent Non-Executive Directors (INEDs) to liaise with A&M as the review progressed.

- A&M concluded their review and issued their final report on 21 July 2021.

### **Scope and methodology**

- A final draft scope was agreed between A&M and the INEDs on 27 April 2021. The scope remained draft through the entirety of the review period to allow A&M to make amendments and additions as work progressed. In summary, A&M was engaged to:
  - Define and review any activity by Davy staff (to include personal staff dealing) which may carry an inherently high level of conflict-of-interest risk as between them and the interests of customers, or may have given rise to crystallised harm or detriment to clients. In that regard, A&M sought to review any specific transactions identified by them as having any characteristics similar to the transaction which gave rise to the regulatory fine levied on 2 March 2021.
  - Assess the effectiveness of implementation of:
    - Remedial action relating to the implementation of relevant controls taken in 2015/'16;
    - Current controls relevant to the scope;
    - Current work underway within Davy to strengthen the control environment.
- A&M reviewed Davy's staff dealing policies in place during the review period. In keeping with other financial institutions' policies, Davy's policy combines the principles of client first and conflicts management, with hard limits on the frequency of staff dealing through transaction limits per month and holding periods between purchase and sale. Pre-trade approval is required.
- A&M had full discretion to go back further than 2014 if they found reason to do so during the investigation. A&M was satisfied that their work did not highlight any relevant issue that necessitated this.
- A&M was provided with full cooperation by management and staff. A&M was given access to Davy's trading systems to facilitate scrutiny of staff dealing. The team had access to all email records requested. A significant volume of documentation was sought and provided by Davy staff in relation to policies, procedures and the control environment. The A&M team also interviewed a large number of Davy personnel.

**Note 1:** *The Kilmona transaction is the 2014 transaction that was the focus of the regulatory fine in March 2021.*