
FIRST SUPERVISORY NOTICE

To: Pritchard Stockbrokers Limited

**Of: Roddis House
Old Christchurch Road
Bournemouth
Dorset
BH1 1LG**

**FSA Reference
Number: 124257**

Dated: 10 February 2012

ACTION

1. For the reasons listed below and pursuant to section 45 of the Financial Services and Markets Act 2000 (the “Act”), the FSA has decided to vary the permission granted to Pritchard Stockbrokers Limited (“Pritchard”) pursuant to Part IV of the Act (“Pritchard’s Part IV permission”), by:
 - (i) imposing a requirement that, with effect from 10 February 2012, Pritchard may not carry on any of the regulated activities in Pritchard’s Part IV permission, except to close out transactions which have already been commenced; and
 - (ii) imposing a requirement, pursuant to section 43 of the Act, such that Pritchard’s assets (or any assets belonging to Pritchard’s customers but held by the firm to its order) held by any institution may not, so long as the requirement is in force, be released, without written authority from the FSA.

2. The FSA has further decided to vary Pritchard's Part IV permission by imposing the following requirements, pursuant to section 43 of the Act, namely that Pritchard must:
 - (a) within 7 days notify in writing all clients for its regulated activities that it may not carry out any of the regulated activities in its permission, except to close out transactions which have already been commenced; and
 - (b) within 7 days provide the FSA with a copy of the written notification sent to all clients for its regulated activities pursuant to (a) above, together with a list of all clients to whom such notification has been sent.

REASONS FOR ACTION

3. The FSA has serious concerns, on the basis of the facts and matters described below, that:
 - (1) Pritchard has failed to arrange adequate protection for clients' assets when it was responsible for them;
 - (2) Pritchard has allowed client money to be used on Pritchard's own account and not that of clients; and
 - (3) this demonstrates that Pritchard is failing, and will continue to fail, to satisfy the threshold conditions set out in Schedule 6 to the Act ("the Threshold Conditions") in that the FSA is not satisfied that Pritchard is a fit and proper person having regard to all the circumstances (Threshold Condition 5 – Suitability).
4. The FSA also considers, on the basis of those facts and matters, that it is necessary, in order to protect the interests of consumers, for the action specified above to take immediate effect.

FACTS AND MATTERS RELIED ON

5. Pritchard has been authorised by the FSA since 1 December 2001 to carry on designated investment business.
6. Pritchard has used client money to meet its own expenses, thereby putting client money at risk.

FAILINGS

7. The regulatory provisions relevant to this First Supervisory Notice are set out in the Annex.
8. From the facts and matters described above the FSA, having regard to its regulatory objectives, has reached the following conclusions:
 - by using client money for its own account, Pritchard has breached FSA Rule CASS 7.3.1R in the Clients Assets sourcebook ("CASS"), which is part of the FSA Handbook of Rules and Guidance, thereby putting client money at risk and

failing to arrange adequate protection for clients' assets when it was responsible for them in breach of Principle 10;

- by failing to ensure client money was held appropriately, Pritchard has failed to comply with the proper standards and failed to act with integrity, and has breached Threshold Condition 5;
- the risk of loss or other adverse effect on consumers by Pritchard's failing, which is a material breach of a requirement imposed on it by the FSA's rules, causes the FSA to have very serious concerns about Pritchard such that the exercise of the FSA's own-initiative power to vary Pritchard's Part IV permission with immediate effect is an appropriate and reasonable response to those concerns;
- it is desirable to exercise the FSA's own initiative power to vary Pritchard's Part IV permission with immediate effect to meet its regulatory objectives, and specifically in relation to Pritchard, the objective of the protection of consumers; and
- specifically, the variation of Pritchard's Part IV permission should take immediate effect to address the FSA's very serious concern that Pritchard may otherwise continue to use client money for its own account.

PROCEDURAL MATTERS

Decision Maker

9. The decision which gave rise to the obligation to give this First Supervisory Notice was made by the Acting Chairman of the Regulatory Decisions Committee.
10. This First Supervisory Notice is given to Pritchard under section 53(4) and in accordance with section 53(5) of the Act, and is being served on Pritchard at its place of business as last notified to the FSA. The following statutory rights are important.

The Tribunal

11. Pritchard has the right to refer the matter to which this First Supervisory Notice relates to the Upper Tribunal (the "Tribunal"). The Tax and Chancery Chamber is the part of the Tribunal which, amongst other things, hears references arising from decisions of the FSA. Under paragraph 2(2) of Schedule 3 of the Tribunal Procedure (Upper Tribunal) Rules 2008, Pritchard has 28 days from the date on which this First Supervisory Notice is given to Pritchard to refer the matter to the Tribunal.
12. A reference to the Tribunal can be made by way of a reference notice (Form FTC3) signed by Pritchard and filed with a copy of this First Supervisory Notice. The Tribunal's contact details are:

The Upper Tribunal, Tax and Chancery Chamber, 45 Bedford Square, London WC1B 3DN (telephone: 020 7612 9700; email: financeandtaxappeals@tribunals.gsi.gov.uk).

13. Further details are contained in “Making a Reference to the UPPER TRIBUNAL (Tax and Chancery Chamber)” which is available from the Tribunal website:

<http://www.tribunals.gov.uk/financeandtax/FormsGuidance.htm>

14. Pritchard should note that a copy of the reference notice (Form FTC3) must also be sent to the FSA at the same time as filing a reference with the Tribunal. A copy of the reference notice should be sent to Kathryn Willis at the FSA, 25 The North Colonnade, Canary Wharf, London E14 5HS.

Representations

15. Pritchard has the right to make written and oral representations to the FSA (whether or not it refers this matter to the Tribunal). If Pritchard wishes to make written representations it must do so by 15 March 2012 or such later date as may be permitted by the FSA. Written representations should be made to the Regulatory Decisions Committee and sent to Michelle Broadhurst, Regulatory Decisions Committee Professional Support Services. The Regulatory Decisions Committee Professional Support Services' address is: 25 The North Colonnade, Canary Wharf, London E14 5HS. If Pritchard wishes to make oral representations, it should inform the FSA of its intention to do so by 22 February 2012. If Pritchard does not notify the FSA by 22 February 2012, it will not, other than in exceptional circumstances, be able to make oral representations.

Publicity

16. Pritchard should note that section 391 of the Act requires the FSA when the First Supervisory Notice takes effect (and this First Supervisory Notice takes immediate effect), to publish such information about the matter as it considers appropriate.

Andrew Long

Acting Chairman, Regulatory Decisions Committee

ANNEX TO THE FIRST SUPERVISORY NOTICE ISSUED BY THE FINANCIAL SERVICES AUTHORITY TO PRITCHARD STOCKBROKERS LIMITED ON 10 FEBRUARY 2012

RELEVANT STATUTORY PROVISIONS

1. The FSA's regulatory objectives established in section 2(2) of the Act include the protection of consumers and the preservation of market confidence.
2. The FSA is authorised by section 45 of the Act to exercise the following powers:
 - to vary an authorised person's permission where it appears to the FSA that such person is failing to satisfy the Threshold Conditions;
 - to vary an authorised person's permission where it is desirable to do so to meet any of its regulatory objectives; and
 - to include any provision in the permission as varied that could be included if a fresh permission were being given in response to an application under section 40 of the Act, including the imposition pursuant to section 43 of the Act of such requirements as the FSA considers appropriate.
3. By section 48(1)(b) of the Act, the FSA can vary an authorised person's Part IV permission so as to alter an assets requirement imposed on him or impose such a requirement on him.
4. Section 48(3) states that an "Assets requirement" means a requirement under section 43 of the Act:
 - (1) prohibiting the disposal of, or other dealing with, any of a party's assets (whether in the United Kingdom or elsewhere) or restricting such disposals or dealings; or
 - (2) that all or any of a party's assets, or all or any assets belonging to consumers but held a party or to his order, must be transferred to and held by a trustee approved by the Authority.
5. Section 53(3) of the Act allows such a variation to take effect immediately if the FSA reasonably considers that it is necessary for the variation to take effect immediately.
6. Paragraph 5 of Schedule 6 to the Act sets out Threshold Condition 5 which states that:

"The person concerned must satisfy the Authority that he is a fit and proper person having regard to all the circumstances, including-

[...]

(c) the need to ensure that his affairs are conducted soundly and prudently."

RELEVANT HANDBOOK PROVISIONS

7. In exercising its power to vary a Part IV permission, the FSA must have regard to relevant provisions in the FSA Handbook of Rules and Guidance (the "Handbook"). The main provisions relevant to the action specified above are set out below.

Relevant Principle

8. Principle 10 (Clients' assets) requires a firm to arrange adequate protection for clients' assets when it is responsible for them.

Relevant Rule

9. FSA Rule CASS 7.3.1R in Clients Assets sourcebook, which forms part of the Handbook, requires that:

“A *firm* must, when holding *client money*, make adequate arrangements to safeguard the *client's* rights and prevent the use of *client money* for its own account.”

Guidance concerning the relevant Threshold Condition

10. Guidance on the Threshold Conditions is set out in the part of the Handbook entitled Threshold Conditions (“COND”).

COND 2.5 – Threshold Condition 5: Suitability (paragraph 5, Schedule 6 to the Act)

11. COND 2.5.1UK reproduces the relevant statutory provision that the person concerned must satisfy the FSA that he is a fit and proper person having regard to all the circumstances, including amongst other things, the need to ensure that his affairs are conducted soundly and prudently.
12. COND 2.5.4G(2)(a) states that the FSA, when forming its opinion as to whether an authorised person is conducting his affairs soundly and prudently, will have regard to relevant matters, including whether he conducts his business with integrity and in compliance with proper standards.
13. COND 2.5.4G(3) states that the FSA will only take into account relevant matters which are significant in the context of the suitability of the authorised person.
14. COND 2.5.6G states that the FSA, when forming its opinion as to whether an authorised person is conducting his business with integrity and in compliance with proper standards, will have regard to relevant matters, including whether:
 - the person concerned has been open and co-operative in all his dealings with the FSA and is ready, willing and organised to comply with the requirements and standards under the regulatory system (COND 2.5.6G(1));
 - the person concerned has contravened, amongst other things, the requirements of the regulatory system, which include the Threshold Conditions, the Principles and other rules (COND 2.5.6G(4)).

OTHER RELEVANT REGULATORY PROVISIONS

15. The FSA's policy in relation to its enforcement powers is set out in the Enforcement Guide (EG), certain provisions of which are summarised below.
16. EG 8.1(1) reflects the provisions of section 45 of the Act that the FSA may use its own-initiative power to vary or cancel the permission of an authorised firm where a firm is failing or is likely to fail to satisfy the Threshold Conditions.

Varying a firm's Part IV permission on the FSA's own-initiative

17. EG 8.1B provides that the FSA will have regard to its regulatory objectives and the range of regulatory tools that are available to it, when it considers how it should deal with a concern about a firm.
18. EG 8.3 provides that the FSA will exercise its formal powers under section 45 of the Act, where the FSA considers it is appropriate to ensure a firm meets its regulatory requirements. EG 8.3(1) specifies that the FSA may consider it appropriate to exercise its powers where it has serious concerns about a firm or the way its business is being or has been conducted.
19. EG 8.5(2) specifies that the FSA will consider exercising its own-initiative power under section 45(1)(c) of the Act where it appears that the interests of consumers are at risk because the firm appears to have breached any of Principles 6 to 10 of the FSA's Principles to such an extent that it is desirable that limitations, restrictions, or prohibitions are placed on the firm's regulated activity.

Use of the own-initiative power in urgent cases

20. EG 8.6 states that the FSA may impose a variation of permission so that it takes effect immediately or on a specified date if it reasonably considers it necessary for the variation to take effect immediately (or on the date specified), having regard to the ground on which it is exercising its own-initiative power.
21. EG 8.7 provides the circumstances in which the FSA will consider exercising its own initiative power as a matter of urgency, including where the information available to it indicates serious concerns about the firm or its business that need to be addressed immediately (EG 8.7(1)).
22. EG 8.8 provides a list of situations which will give rise to such serious concerns. Specifically, EG 8.8(1) includes where information indicates significant loss, risk of loss or other adverse effects for consumers, where action is necessary to protect their interests.
23. EG 8.9 sets out the factors which will determine whether the urgent exercise of the FSA's own-initiative power is an appropriate response to serious concerns, including the extent of any risk of consumer loss or other adverse effect on consumers (EG 8.9(1)).