
FIRST SUPERVISORY NOTICE

To: **Devereux Klein Financial Management Limited**

Of: **2nd Floor
Wesley Court
Priory Road
High Wycombe
Buckinghamshire
HP13 6SE**

FSA
Reference
Number: **460599**

Dated: **30 July 2009**

TAKE NOTICE: The Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS (the "FSA") has taken the following action

1. ACTION

1.1 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 Devereux Klein Financial Management Limited ("DKFM"), pursuant to Part IV of the Act ("DKFM's Part IV permission"), by removing all regulated activities with immediate effect. Accordingly, DKFM's Part IV permission no longer includes the following regulated activities:

- (a) advising on investments (except on pension transfers and pension opt outs);
- (b) agreeing to carry on a regulated activity;
- (c) arranging (bringing about) deals in investments;
- (d) making arrangements with a view to transactions in investments;
- (e) advising on regulated mortgage contracts;
- (f) arranging (bringing about) regulated mortgage contracts, and

- (g) making arrangements with a view to regulated mortgage contracts.
- 1.2 The FSA has further decided to vary DKFM's Part IV permission by including the following requirements, namely that within 14 days DKFM must:
- (i) notify in writing all clients for DKFM's regulated activities that DKFM does not have Professional Indemnity Insurance ("PII") in place and that it is no longer permitted by the FSA to carry on regulated activities, and
 - (ii) provide the FSA with a copy of the written notification sent to all clients for DKFM's regulated activities pursuant to (i) above, together with a list of all clients to whom such notification has been sent.

2. REASONS FOR ACTION

Summary

- 2.1 The FSA has concluded, on the basis of the facts and matters described below, that DKFM is failing to satisfy the Threshold Conditions set out in Schedule 6 to the Act (the "Threshold Conditions") in that, in the opinion of the FSA, DKFM's resources are not adequate in relation to the regulated activities DKFM has permission to carry on.
- 2.2 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.

Relevant Statutory Provisions

- 2.3 The FSA's regulatory objectives established in section 2(2) of the Act include the protection of consumers.
- 2.4 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 such a permission by removing a regulated activity from those for which the permission is given, 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.
- 2.5 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.
- 2.6 Paragraph 4(1) of Schedule 6 to the Act sets out Threshold Condition 4, which states that:

"The resources of the person concerned must, in the opinion of the Authority, be adequate in relation to the regulated activities that he seeks to carry on, or carries on."

Relevant Handbook Provisions

- 2.7 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 relevant main considerations in relation to the action specified above are set out below.

Relevant Principle

- 2.8 Principle 4 (Financial prudence) requires a firm to maintain adequate financial resources as laid out in the Principles for Businesses in the Handbook.

Relevant Rules

- 2.9 MIPRU 3.2.1R requires that:

"A *firm* must take out and maintain professional indemnity insurance that is at least equal to the requirements of this section [MIPRU 3.2]"

- 2.10 IPRU(INV) 13.1.4R in the Interim Prudential sourcebook for Investment Businesses in the Handbook, requires that:

"A *firm* must take out and maintain at all times professional indemnity insurance that is at least equal to the requirements of [IPRU(INV)] 13.1.4(2) to 13.1.4(15)..."

Guidance concerning the relevant threshold condition

- 2.11 Guidance on Threshold Condition 4 is set out in Chapter 2.4 of the part of the FSA Handbook entitled Threshold Conditions ("COND").

Guidance concerning - Threshold Condition 4: Adequate resources (paragraph 4, Schedule 6 to the Act)

- 2.12 COND 2.4.1UK(1) reproduces the relevant statutory provision in the Act that the resources of the person concerned must, in the opinion of the FSA, be adequate in relation to the regulated activities that he seeks to carry on, or carries on.
- 2.13 COND 2.4.1UK(2), permits the FSA, when forming its opinion as to whether the resources of an authorised person are adequate in relation to the regulated activities that he carries on, to have regard to the provision he makes in respect of liabilities (including contingent and future liabilities).

- 2.14 COND 2.4.4G(3), states that the FSA only takes into account relevant matters which are material in relation to the regulated activities for which the authorised person has permission.

Other relevant regulatory provisions

- 2.15 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.
- 2.16 EG 8.1(1) provides that the FSA may use its own initiative power to vary or cancel the permission of an authorised firm under section 45 of the Act, 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

- 2.17 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.
- 2.18 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 about the way its business is being or has been conducted.
- 2.19 EG 8.5 provides that the circumstances in which the FSA will consider exercising its power include where the FSA has serious concerns that the authorised person has breached requirements imposed on it by or under the Act (including Principles and rules) and the breaches are material in number or individual seriousness. EG 8.5(1)(a) specifies that the FSA will consider exercising its own initiative power where a firm's financial resources appear to be inadequate, for example where it has failed to maintain PII.
- 2.20 EG 8.9 includes among the factors which will determine whether the urgent exercise of the FSA's own-initiative power is an appropriate response to serious concerns, the extent of any loss or risk of loss or other adverse effect on consumers and the steps the authorised person has taken or is taking to address the issue.

Facts and matters relied on

- 2.21 DKFM was authorised on 2 January 2007 to carry on designated investment business and general mortgage mediation business.
- 2.22 DKFM has failed to satisfy the FSA that it maintains current PII, despite having had reasonable opportunity to do so.

Conclusions

- 2.23 The facts and matters described above lead the FSA, having regard to its regulatory objectives, which include the protection of consumers, to the following conclusions:

- by failing to satisfy the FSA that DKFM has effected compliant PII or to satisfy the FSA otherwise that it has adequate resources, DKFM is in breach of MIPRU 3.2.1R and IPRU(INV) 13.1.4R and is failing to make adequate provision in respect of its liabilities, including contingent and future liabilities, in breach of Principle 4. That failing is material in relation to the regulated activities for which DKFM has permission and it therefore fails to satisfy Threshold Condition 4 (Adequate Resources);
- the risk of loss or other adverse effect on consumers by DKFM's failing, which is a material breach of a requirement imposed upon DKFM by the FSA's rules, causes the FSA to have very serious concerns about DKFM such that the exercise of the FSA's own-initiative power to vary DKFM's Part IV permission with immediate effect is an appropriate response to those concerns; and
- specifically, the variation of DKFM's Part IV permission should take immediate effect to address the FSA's serious concern that claims for which DKFM is uninsured might arise from new business.

3. DECISION MAKER

- 3.1 The decision which gave rise to the obligation to give this Supervisory Notice was made by the Chairman of the Regulatory Decisions Committee.

4. IMPORTANT

- 4.1 This Supervisory Notice is given to DKFM in accordance with section 53(4) of the Act and is addressed to DKFM at the address provided by it to the FSA for the service of notices. The following statutory rights are important.

The Tribunal

- 4.2 DKFM may refer this matter to the Financial Services and Markets Tribunal (the "Tribunal"). Under section 133 of the Act, DKFM has 28 days from the date it was sent this Supervisory Notice to refer the matter to the Tribunal or such other period as specified in the Tribunal Rules or as the Tribunal may allow. A reference to the Tribunal is made by way of a written notice signed by DKFM and filed with a copy of this Notice. The Tribunal's address is: 15-19 Bedford Avenue, London WC1B 3AS (telephone: 020 7612 9700). The detailed procedures for making a reference to the Tribunal are contained in section 133 of the Act and the Tribunal Rules.
- 4.3 DKFM should note that the Tribunal Rules provide that at the same time as filing a reference notice with the Tribunal, DKFM must send a copy of the notice to the FSA. Any copy notice should be sent to Isabel Barnes at the FSA, Enforcement Division, 25 The North Colonnade, Canary Wharf, London E14 5HS.

Representations

- 4.4 DKFM has the right to make written and oral representations to the FSA (whether or not DKFM refers this matter to the Tribunal). If DKFM wishes to make written representations, it must do so by 2 September 2009 or such later date as may be permitted by the FSA. Written representations should be made to the Regulatory Decisions Committee and sent to Husayn Rahman, 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 DKFM wishes to make oral representations, please inform us in writing of its intention to do so by 10 August 2009. If DKFM does not notify us by 10 August 2009, it will not, other than in exceptional circumstances, be able to make oral representations.

Confidentiality and publicity

- 4.5 DKFM should note that this Supervisory Notice may contain confidential information and should not be disclosed to a third party (except for the purpose of obtaining advice on its contents). DKFM should also note that section 391 of the Act requires the FSA when the Supervisory Notice takes effect, to publish such information about the matter as it considers appropriate.

FSA contacts

- 4.6 If DKFM has any questions regarding the procedures of the Regulatory Decisions Committee, it should contact either Husayn Rahman (direct line: 020 7066 1072/fax: 020 7066 1073), or Jackie Noonan, RDC Professional Support Services (direct line: 020 7066 3074/fax: 020 7066 3075).
- 4.7 For more information concerning this matter generally, DKFM should contact Isabel Barnes at the FSA (direct line: 020 7066 1426 / fax: 020 7066 1427).

Tim Herrington
Chairman, Regulatory Decisions Committee