



# BOARD NOTICE 603

## DISCIPLINARY ACTION

18 October 2001

### EPSILON INVESTMENTS LIMITED AND STUART PATTERSON

Disciplinary proceedings brought by SFA against Epsilon Investments Limited (“EIL”) and Mr-Patterson have now been concluded with the following outcome:

- **EIL was found not to be fit and proper to be authorised by SFA and has been expelled from authorisation.**  
**Mr Patterson has been expelled from the Registers of Senior Executive Officers and Executive Directors and has agreed to pay £7,500 towards SFA costs.**

EIL was placed in voluntary liquidation by its members on 5 April 2000. Mr Patterson remains on the SFA Register of Representatives.

EIL was authorised by SFA in April 1997. EIL arranged and dealt in European, US and Canadian equities and bonds. Mr Patterson was the sole director of EIL and shareholder of Epsilon Group Limited (“EGL”), the parent company of EIL. At the material time, the controllers of EIL were Mr Patterson and a US National who was the financier of EIL. The US controller had been a director of EIL between August 1999 and December 1999, however he was not registered with SFA in any capacity.

A review of the activities and financial situation of EIL had been conducted by SFA in March 2000. Amongst other things, the review highlighted that between August 1999 and March 2000 EIL had failed to maintain adequate financial resources to meet its investment business commitments and to withstand the risks to its business. The inability of EIL to maintain adequate financial resources was caused by the withdrawal of US\$400,000 from EIL’s bank account at NatWest Bank, retained for the sole purpose of maintaining its financial resources (“the FR account”).

To maintain its financial resources at a satisfactory level, EIL had obtained a loan of US\$400,000 from EGL who in turn had obtained a loan from Talisman Capital Limited (“TCL”), a company associated with the US controller. The loan to EIL by EGL was evidenced by a Loan Agreement, which provided that the loan could not be repaid without the approval of SFA

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In June 1999 a request was made to EIL by TCL for the repayment of the loan. Although EIL was not liable to repay the loan, Mr Patterson authorised the transfer of funds held in the FR account to TCL. Mr Patterson admits that he did not obtain the approval of SFA to repay the loan.

On discovering that the transfer of funds from the FR account had a fundamental impact on EIL's ability to maintain its financial resources requirement, Mr Patterson made a request to the US controller for the replacement of funds that EIL had paid to TCL. The funds were restored to the FR account on 28 July 1999. Shortly thereafter the US controller became a sole signatory to the FR account.

On 10 August 1999 the US controller transferred the funds in the FR account to Epsilon Management Limited, a company associated with him. No corresponding benefit was ever received by EIL. Mr Patterson admits that he took no or no adequate steps to deal with the EIL's failure to satisfy its financial resources requirement. In particular he did not obtain additional capital to replace the amount transferred. Following the matter being discovered by SFA an Intervention Order was issued against the firm in March 2000. EIL was subsequently placed in liquidation, in the course of which it was determined that there was an estimated shortfall to creditors and its members of approximately £584,874.

EIL has acted in breach of Principle 8 of the FSA's Statements of Principle (financial resources) and is no longer fit and proper to be authorised. Mr Patterson has failed to act with due skill, care and diligence in breach of Principle 2 of the FSA's Statements of Principle as a result of his authorisation of the transfer of funds from the FR account in July and August 1999 and his failure to notify SFA of the effect of the withdrawal in August 1999. As a result Mr Patterson is no longer fit and proper to be registered as a Senior Executive Officer or a Director.

In relation to Mr Patterson, SFA has taken into account that no harm has been caused to investors by reason of the matters in question. In addition, Mr Patterson has acted in an open and co-operative manner with SFA during the course of its enquiries.

Any enquiries regarding this Notice should be addressed to Jeremy La Niece, Enforcement Counsel  
Tel: 020 7676 1346.

**BY ORDER OF THE BOARD**

**LYNDA BLACKWELL**

**SECRETARY**