



Private & Confidential

To the Firms' clients

12 April 2018

Dear Sir/Madam,

**Beaufort Securities Limited (“BSL”) in administration; and
Beaufort Asset Clearing Services Limited (“BACSL”) in special administration
(together the “Firm(s)” and the “administrations”)**

**Further update on client recoveries and distributions, client data notifications (GDPR)
and cessation of ISA manager status**

We are writing further to our notification of appointment of the joint administrators dated 15 March 2018, in order to provide a more substantive update on the work we have been undertaking, the preliminary conclusions that we have reached and how we currently envisage being able to commence distributions to clients.

Events leading up to the Firms' cessation of trade

Due to the circumstances surrounding the insolvency of the Firms, the appointment of the joint administrators occurred with very limited notice, which was unavoidable. Consequently, there was no time to make any plans as to how the disruption to clients might be minimised and the return of client assets could be expedited. As clients will be aware, BSL was (alongside certain other parties) charged with securities fraud in the United States of America. The Financial Conduct Authority (“FCA”) had also imposed various regulatory restrictions including a prohibition on all investment activity immediately prior to the Firms' insolvencies.

Prior to the administrations, the Firms had submitted to the FCA, on a routine basis, various regulatory confirmations regarding the status, quantity and amounts of client money and client assets held by BACSL. We have examined these regulatory confirmations and they have provided an important starting point for the joint administrators to review and assess the sufficiency of the client money and assets held for clients as compared with what is owed to them. They do highlight some relatively modest deficiencies in both client money and client assets. The Firms had, however, sometime previously switched over to a new accounting and record keeping system. These issues, together with the complex nature of the administrations, may create further challenges in the tasks ahead of returning client money and assets to clients.

Steps taken immediately following the joint administrators' appointment

Immediately upon our appointment, as we have previously advised, we took steps to safeguard the Firms' data and systems as well as their assets (those held for clients and their own). We have materially reduced the scale of the Firms' operations and brought in relevant experts to assist us in the conduct of the administrations.

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We have also secured funding to ensure that all critical operations can be maintained in order to facilitate the return of client money and assets, in accordance with the proposed courses of action set out below.

Preliminary conclusions

We have carried out a full assessment of the Firms' records, which enables us to reach the following preliminary conclusions:

- in the absence of a surplus of funds within the Firms' segregated resources and in accordance with governing legislation, relevant costs will need to be deducted from clients' entitlements to client money and client assets.
- client money and client assets were, as at the date of administration, substantially complete save for a very small number of isolated deficiencies.
- a large number of the client securities are made up of illiquid or potentially nil value positions which will complicate the basis upon which costs may be levied against them.
- in view of the issues identified, we have reluctantly ruled out an expedited return of assets without the statutory protection offered to clients and the joint administrators through a formal bar date and distribution plan.
- a distribution plan is being developed (see below) as a matter of urgency and a realistic timeframe to commence returns for the majority of clients will be September 2018 at the earliest.
- the FSCS will aim to make compensation payments to a client population who had only small client money balances with BACSL during May 2018.
- the basis of allocating costs is also being developed and is likely to be levied by reference to value of the client portfolio and charged on a sliding scale (so that higher value portfolios will contribute more in absolute terms but proportionately less of the overall value of their portfolio of client money and client assets).
- with a majority of clients likely to be eligible for Financial Services Compensation Scheme ("FSCS") compensation with shortfalls and costs falling within the £50,000 compensation limit, we believe the substantial majority of clients will recover their portfolios in full in due course.
- we do, however, estimate around 700 clients with client money and client assets together valued in excess of approximately £150,000 may experience a loss on their entitlements in excess of the FSCS's £50,000 compensation limit.
- clients who do not fulfil the FSCS eligibility criteria will not be entitled to receive FSCS compensation and will, regrettably, face a loss on their client money and assets.

Revised estimate of securities value

The indicative figures first published as to the value of the securities in the client assets portfolio have now been subjected to an initial independent valuation. This has highlighted a number of important issues, including as noted above the fact that a number of highly illiquid and potentially nil value positions are held. The carrying value used previously was based on a historic price which we do not



believe appropriately reflects a more cautiously assessed valuation. The more conservative value for this assessment is in the region of £500 million.

Corporate actions

We have put in place new interim arrangements to manage the portfolio of custodied assets for corporate actions arising since our appointment, be this receipt of dividends or otherwise. We will provide an update at a later stage on our plans for dealing with clients' accruing interests.

Clients owing funds to the Firms

A number of clients are indebted to one or both the Firms. Those amounts will need to be collected from the relevant clients as part of the client assets distribution programme referred to below.

Access to the Firms' Client Portal

Shortly after our appointment, we suspended access to the Firms' online Client Portal. We are in the process of updating the Firms' records for the work detailed above and making other necessary changes to it. Once these are complete, we will provide access.

Plans for distribution programme

FSCS summary and overall client outcome

Irrespective of the method of allocating costs among clients, it is clear that clients will face shortfalls as a result of the Firm's insolvency and ensuing special administration. In accordance with applicable legislation, however, we have worked closely with the FSCS and are able to confirm that, where clients have client money and assets held with BACSL with a shortfall (including reserves for costs) of up to a value of £50,000, the FSCS will seek to provide compensation to eligible clients without it being necessary for a claim to be submitted in most cases. Further information on FSCS eligibility is available here: www.fscs.org.uk/what-we-cover/eligibility-rules/.

Proposed distributions

We are developing on an urgent basis two strands to an overall programme of distributions:

- We have worked closely with the FSCS to identify approximately 2,700 BACSL clients who held client money only, each of whose claim is less than £2,000 in value. FSCS will aim to compensate these clients in full during May 2018, without the clients having to submit an application form. No reserves for costs will be deducted in this context. FSCS compensation will compensate these clients in full, and they will have no further claim against the Firm in the special administration. A notification will be sent to qualifying clients separately. This notification will include details of the cash sum to be returned along with limited bank details (if any) and affected clients will have an opportunity to reject the distribution or notify the Firms of any amendments. (Any rejected claims will be deferred for distribution under the distribution plan described below); and
- A statutory "distribution plan", pursuant to the applicable insolvency legislation, designed to facilitate the return to clients of the balance of the client money and securities held by BACSL, running alongside a process of returning client money not covered by the distribution referred to above.



The applicable procedure laid down for the distribution plan by the relevant insolvency legislation entails the joint administrators:

- **Firstly, setting a bar date for claims in respect of securities:** That bar date will be set by means of a notice currently expected to be distributed to all clients during May 2018. We presently anticipate that the bar date will be set for some time in June 2018. Under the applicable legislation, the effect of the bar date is that claimants who submit their claims after the bar date are not guaranteed to have their claims taken into account when distributions are effected, albeit the joint administrators will in any event take into account clients' entitlements insofar as they are reflected in the Firms' books and records. When notifying clients of the bar date, we will explain how clients can access a portal on the Firms' website, designed to show clients what the Firms' books and records show their entitlements to be, so that clients are in a position to submit any corrections or other information or documentation that they consider the joint administrators ought to take into account, prior to the bar date.
- **Secondly, preparing and circulating to clients (and the FCA, among others) a document setting out how they propose to go about returning the client securities in BACSL's possession:** This will be a detailed document and it will take some time to prepare. We set out below some of the substantive features that we currently expect it will have.
- **Thirdly, seeking and obtaining approval of the above document from the creditors' committee:** The joint administrators will be circulating details of an initial meeting of creditors and clients of BACSL. One of the purposes of that meeting is to constitute a committee, made up of creditors and clients of BACSL, which can then represent the wider constituency of creditors and clients during the remaining course of the special administration. It is a requirement of the applicable insolvency legislation that the statutory "distribution plan" be approved by the creditors' committee, prior to being put into effect. Following the constitution of the creditors' committee, therefore, there will need to be a meeting of that committee during which the joint administrators' proposed distribution plan is considered and approved.
- **Fourthly, seeking and obtaining the approval of the above document from the court:** It is a requirement of the applicable insolvency legislation that the statutory "distribution plan" be approved by the court, prior to being put into effect. Following the approval by the creditors' committee of the draft distribution plan, therefore, the joint administrators will need to make an application to court seeking its approval.

As noted above, the statutory "distribution plan" applies to securities, as opposed to client money. In practice, however, in order to expedite the process of returning clients' investments (of whatever nature) to them, the joint administrators are planning to deal with client money in parallel with the process for returning client securities. That parallel process will also entail the setting of a bar date and may also involve one or more applications to the court for approval of particular aspects of the process.

These procedures are important for the following reasons: if cash and/or securities were to be distributed to those clients to whom the Firms' records indicate they are owed, without these procedures first having been implemented, it is possible that competing claims (not reflected in the Firms' books and records) could subsequently be asserted by clients or other counterparties of the Firms; and that those asserting such claims might contend that the earlier distributions of securities ought to be disturbed, or that client money already distributed ought to be recovered from the clients to whom they were originally paid, for the purposes of meeting the late claims.



In the circumstances, a significant advantage to clients that will be secured by the joint administrators following the procedures set out above is that, once clients receive their cash and/or securities from BACSL in accordance with such procedures, the applicable insolvency legislation expressly provides that such distributions cannot be disturbed by late claimants who later assert that they were entitled to share in the relevant stock lines and/or cash pool (e.g. the clients will receive good title to the securities).

As appears from the above, however, the statutory process is necessarily complex, involving as it does a number of steps, including one or more court applications. There will inevitably be material costs associated with this process and such costs would ordinarily need to be paid for out of client money and assets, though the FSCS may be able to provide compensation in relation to the resulting shortfalls of eligible clients. The complexity, as well as the timeframes specified in the rules themselves, will also mean that there is a certain amount of unavoidable delay associated with the return of cash and securities.

The joint administrators currently anticipate the statutory “distribution plan”, and their parallel plan for distributing client money in accordance with the applicable rules will involve, among other things:

- A transfer for clients holding client money (who have not been compensated by FSCS in relation to a small client money balance) and/or client assets up to a certain limit to a nominated regulated broker. We are in the process of identifying a recipient broker and will communicate directly with those clients included within this programme. A client will be able to nominate another new custodian but that may delay the eventual transfer depending on the circumstances at the time. This is a complex exercise to arrange and execute. We anticipate, however, that it may in this way be possible to effect returns to a majority of clients by number and value. We have explored the possibility of effecting such a transfer outside of the statutory process described above (with a view to effecting it more quickly than will be possible within the confines of that process), but we have reluctantly concluded that such is not practicable or, in any event, in the interests of clients, particularly in light of the point made above as regards finality once distributions have been made (i.e. clients receiving good title). As it is, the joint administrators hope that a transfer of this nature may be achievable September 2018 at the earliest.
- A plan for effecting distributions of all remaining client securities and money, possibly involving further bar dates and/or the liquidation of unclaimed or other client assets. Given that the clients and/or the assets to which this part of the overall plan will apply will be those giving rise to complexities of one kind or another (failing which they would have been included in one of the other methods of return referred to above), it is likely that this part of the process will be time-consuming and therefore the relevant returns to clients will inevitably take place at a later date than those referred to above.
- A methodology for levying costs against client money and assets and as noted above this is likely to be by reference to value and charged on a sliding scale. Costs will need to be assessed on a prudent (high case basis) and allocated against portfolios valued on a conservative basis. The methodology will need to offer alternatives to avoid assets being sold to settle costs (which may need to be carried out as a last resort) and also set out how any rebate for costs will be returned to clients once the final costs have been settled and value of illiquid and potentially nil valued positions finalised.
- How the Firms and clients will interact jointly with the FSCS in order to streamline claims for shortfalls arising on their client money and securities interests through costs levies or otherwise.



Regulatory matters

We are working closely with the FCA regarding the distribution of client money and assets. All distributions will be subject to the approval of the FCA.

As part of the above, we will be seeking various “know your client” information and documentation. We shall provide guidance where specific actions on clients’ parts are needed.

Other claims for compensation

We are aware of some 700 claims against BSL by clients for compensation in respect of various matters, including poor investment advice. It is possible that further claims will be made and we will (as appropriate) develop a programme for dealing with these in due course. As regards what (if anything) relevant claimants might recover in respect of such claims, we note the following:

- Distributions (if any) to ordinary creditors of the Firms through the insolvencies are likely to be minimal.
- Clients of BSL who believe they have a claim for example in relation to negligent advice can submit their claims via the FSCS online portal at www.fscs.org.uk/your-claim/ with any compensation being capped at £50,000 per investor. This is separate from any claim the client may have in relation to a shortfall in client money or assets that were held by BACSL, where there is a separate £50,000 cap per investor and the FSCS will seek to compensate eligible clients without the need for an application to be submitted.
- Existing claims against BSL being adjudicated by the Financial Ombudsman Service (“FOS”) are expected to be transferred to the FSCS. We understand the FOS is in the process of writing to all affected clients and will need client consent for this transfer to occur.
- Once the FSCS is in receipt of the files, it will contact affected claimants. If a claim is accepted, the FSCS will pay compensation and will take an assignment of the claimant’s rights against BSL and any third party. This will enable the FSCS to seek recoveries, including from BSL’s Professional Indemnity Insurer, and there is no need for clients to seek their own recovery against the Professional Indemnity Insurer. Any recovery of insurance proceeds is likely to be limited.

Individual Savings Account (“ISA”) notification

We set out below formal notification to ISA clients.

In accordance with the **ISA Regulations** SI 1998 (No.1870) (the “**ISA Regulations**”), we are obliged to notify you that BACSL has ceased to qualify as an ISA Manager effective from 1st March 2018.

Ordinarily, individual ISA account holders are required to transfer their account to another ISA manager within 30 days of this letter to preserve the ISA status of their assets. However, having regard to BACSL’s special administration, HMRC have agreed to relax such a deadline in order to preserve ISA status. You therefore do not need to take any action at this time.

As soon as any client money and client assets are ready to be returned to you, you should be able to validly transfer your ISAs to another account manager, but only after the joint administrators have quantified all of the assets held by BACSL, and the FCA have authorised the transfer of such assets. Further information will be provided shortly.



On commencement of the new tax year, 6 April 2018, you should be able to open and pay into a new ISA with a different ISA manager subject to your individual circumstances. However, please note nothing in this letter is intended to constitute UK tax or planning advice. It is recommended that you seek independent advice where required.

We will continue to keep clients informed on progress through the website and targeted communications.

Yours faithfully
For and on behalf of the Firms

A handwritten signature in blue ink, appearing to read 'Russell Downs', with a small blue dot at the end of the signature.

Russell Downs
Joint Administrator and Joint Special Administrator
Acting as agent of the Firms and without personal liability

Enclosed
Client Data Notifications (GDPR)

Russell Downs, Douglas Nigel Rackham, and Dan Yoram Schwarzmann have also been appointed as joint administrators by the High Court to manage the affairs, business and property of Beaufort Securities Limited. Russell Downs, Douglas Nigel Rackham, and Dan Yoram Schwarzmann have also been appointed as joint special administrators by the High Court to manage the affairs, business and property of Beaufort Asset Clearing Services Limited.

The Administrators act as agents of the Company and without personal liability. All are licensed in the United Kingdom to act as Insolvency Practitioners by the Institute of Chartered Accountants in England and Wales.

The Administrators are bound by the Insolvency Code of Ethics which can be found at:
www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics

The Administrators are Data Controllers of personal data as defined by the Data Protection Act 1998. Personal data will be kept secure and processed only for matters relating to the appointment.