

## **Term Sheet**

### ***What is a Distribution Plan?***

The Distribution Plan is a document prepared by the administrators detailing how client assets will be returned as quickly and efficiently as possible within the rules laid down by the relevant legislation. To become effective, it needs to be approved by, first, the Creditors' Committee and, secondly, the High Court.

The Distribution Plan, together with an explanatory guide which will accompany it, are in the process of being prepared with the FCA and the Financial Services Compensation Scheme ("FSCS") providing input. It is also being discussed with the Creditors' Committee, which represents both large and small clients. Although the precise terms of the Distribution Plan could change as part of this ongoing review and approval process, we want to make clients aware of its key components.

### ***When will my client assets be returned?***

Under the legislation, the earliest date that client assets can be returned is 9 September 2018, (being three months after the soft bar date of 8 June 2018).

On or shortly after 9 September 2018, the intention is that the vast majority of client assets will be transferred for the benefit of relevant clients to a broker nominated by the administrators. The Creditors' Committee is currently assisting the administrators in selecting a nominated broker. Assets which cannot be transferred in this way will be distributed by other means, and the Distribution Plan will make clear the options that are available to clients for distribution of assets which are not transferred to the nominated broker.

### ***What are the costs of returning my client assets?***

The legislation provides that the costs of returning client assets are to be paid for out of the client assets, i.e. by clients. Such costs will be no more than £10,000 per client capped at the value of each client's assets. That sum has been based on the maximum estimated costs of completing the distribution of client assets. Whilst this represents the administrators' current prudent estimate, it is hoped that the actual costs of distribution will be much less than this estimate. If the estimate is reduced, the amount set out above will be reduced and repayments will be made via cost rebates.

Although considerable progress has been made in reconciling claims to date, returning assets will be quicker and less costly if clients agree their client asset statements with the administrators promptly.

### ***Who will pay for these costs?***

Nearly all individual clients, as well as certain other clients, are eligible for FSCS compensation. This means that these costs will be met in full by the FSCS on their behalf. Accordingly, those clients will not pay any costs of distribution personally.

The FSCS will also meet any losses suffered by eligible clients by reason of BACSL not holding all the assets which it has undertaken to hold for such clients (known as reconciliation shortfalls), subject to the statutory cap on compensation of £50,000. Although reconciliation work is still being carried out, reconciliation shortfalls identified to date have no or very little impact on most clients. The aim is for the shortfall compensation to be passed on to the nominated broker for the client's benefit.

### ***What about my client money?***

The Distribution Plan does not deal with the return of pre-administration client money, which is required to be returned under a separate legislative regime. We are looking into making an early distribution to those clients who hold small client money only balances. To speed up the process, we will aim to return any client money remaining in parallel with the return/transfer of client assets.

The costs relating to the distribution of client money will be a percentage (not more than 10%) of each client money balance.

Similar to the costs relating to the return of client assets, for most clients the costs of returning client money will be covered by the FSCS. The only clients identified to date who may have to make a costs contribution not covered by the FSCS are certain corporate clients and a handful of individuals (less than 10) who have large client money claims (typically over £400,000). These individuals will be contacted separately by the administrators.

### ***What else is covered by the Distribution Plan?***

The Distribution Plan is being designed to facilitate the efficient transfer of the vast majority of client assets to a nominated broker, but also needs to cover a number of more complex scenarios which are only likely to apply to a minority of clients.

The key terms of the Distribution Plan cover:

- How assets will be transferred to a new nominated broker. This will cover the vast majority of client assets.
- How assets which cannot be transferred to the nominated broker will be distributed by other means, and the options available to clients in that respect.
- How costs will be shared across clients and how cost rebates will be calculated. As noted above, the vast majority of clients' costs contributions will be covered in full by the FSCS. Clients who are not eligible for FSCS compensation will be asked to complete an options form to agree how their cost contributions will be settled. For the avoidance of doubt, the administrators do not intend to sell client assets to meet such costs unless the client agrees to the sale or does not meet their costs in any other manner. As stated above, there are only a handful of individual clients (less than 10) and certain corporate clients identified to date who are likely to make a costs contribution.
- How contractual debts due by clients to BACSL or Beaufort Securities Limited will be paid. This affects a limited population where payment will be required prior to or alongside the transfer or distribution of their assets.
- How the proceeds of corporate actions occurring post 1 March 2018 (e.g. interest and dividends) will be transferred or distributed alongside the underlying client assets.
- How any reconciliation shortfalls will be borne by the relevant clients, which will be in proportion to the number of securities held by each client. As noted above, to date these shortfalls appear to be limited, and there is FSCS protection for eligible clients.

The plan also covers various other matters aimed at allowing us efficiently and appropriately to deal with client assets and wind down the client estate. These include claims which BACSL does not recognise, disputes between clients, tainted client assets and assets which cannot be returned for any other reason.

### ***What about tax wrappers?***

The plan is being designed taking account of tax wrappers such as SIPP's and ISAs. FSCS will aim to pay any compensation in respect of costs directly to the administrators and will not affect tax wrappers.

### ***What do I need to do next?***

If you have not yet submitted a claim but want to submit a claim, please do so as soon as possible. It is very important that you review your client asset and client money personal statements carefully. These set out the administrators' understanding of the extent of your entitlement to client assets and/or client money based on the information contained in the books and records held by BACSL.

If you are an individual or otherwise eligible for FSCS compensation, it is very important that you confirm through the Portal (or by post) that you want the FSCS to cover your costs and any shortfalls directly with the administrators (i.e. without having to claim separately from the FSCS).

The administrators will send out a further update as soon as possible to explain what (if any) further steps you need to take in connection with the Distribution Plan.

### ***What if I have further questions or comments?***

Should clients have any questions or comments, please contact:

- Client.Services@beaufortsecurities.com
- 0800 063 9283 (UK) or +44 (0)20 7293 0227
- Beaufort Asset Clearing Services Limited (in Special Administration), 63 St Mary Axe, London, EC3A 8AA

*Russell Downs, Douglas Nigel Rackham, and Dan Yoram Schwarzmann have been appointed as joint special administrators by the High Court to manage the affairs, business and property of Beaufort Asset Clearing Services Limited. The Special Administrators act as agents of the company, 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 Special Administrators are bound by the Insolvency Code of Ethics which can be found at: <https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>.*

The Special Administrators may act as Data Controllers of personal data as defined by UK data protection law depending upon the specific processing activities undertaken. PricewaterhouseCoopers LLP may act as a processor on the instructions of the Special Administrators. Personal data will be kept secure and processed only for matters relating to the Special Administrators' appointment. Further details are available in the privacy statement on the PwC.co.uk website or by contacting the Special Administrators.