Beaufort Securities Client Campaign

June 2018

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Events at Beaufort

- Beaufort was a full service stockbroker
- December 2016, FCA restricted Beaufort's Discretionary Fund Management activities
- 8th September 2017, FCA imposed restriction on receiving or holding client money or assets
- 2nd March 2018, US indictments announced, FCA places Beaufort into insolvency, appoints PwC

So, you thought your assets were safe?

From Interactive Investor:

- Your investments are held with Interactive Investor Services Limited and registered in the name of Interactive Investor Services Nominees Limited, or other appointed custodian. Investments held in this way are afforded ‘trust status’ which means that in the event of the firm becoming insolvent your assets are protected from the firm’s creditors.

- Any money (cash) held in your account is treated as ‘client money’ as defined by the FCA. This means your money is held separately from the firm’s own corporate funds, in bank accounts specially designated as holding client money. Money held in these bank accounts is afforded ‘trust status’ which means that in the event of the firm becoming insolvent your money is protected from the firm’s creditors.

PwC's Bombshell

- Assets £550m largely intact
- No return before September
- Administration costs up to £100m
- Accounts > £150,000 may suffer haircut up to 40% to pay those costs.

Answer to Lord Lee’s question:

The legal basis for the payment of administrators’ expenses from client assets is contained within rule 135 of the Investment Bank Special Administration Rules (England and Wales) 2011 (Statutory Instrument 2011/1301).

The Investment Bank Special Administration Rules apply to a broad range of businesses which hold client assets and are authorised to carry on a regulated activity which relates to the dealing, safeguarding or administration of investments as agent or principal, including stockbrokers.

Rule 135 sets out that client assets may be used only to pay the expenses which administrators have properly incurred as a result of the work undertaken to ensure that client assets are returned as quickly as possible. The rule also sets out the order of priority for payment of those expenses.

What ShareSoc did Next

- Approached at Mello 2018
- Campaign launched 2nd May
- Press publicity
- Contact made with substantial clients
- Liaison with Lord Lee
- Informal advice received
- Meeting arranged

Campaign Objectives

1. Influencing the administrator through a creditors' committee ✓
2. Monitoring and controlling the administration costs of BACSL, which may involve a change of administrator. ✓
3. Requiring that a transfer of the BACSL assets and accounts to another broker be properly explored. ✓
4. Ensuring that the costs of the BSL liquidation are kept entirely separate and are not charged to BACSL (?)
5. Challenging the basis for the apportionment of costs among BACSL clients ✓
6. Reviewing the actions and motivations of the FCA in this matter
7. Looking to have the 2011 Special Administration Rules reviewed to better protect the interests of investors

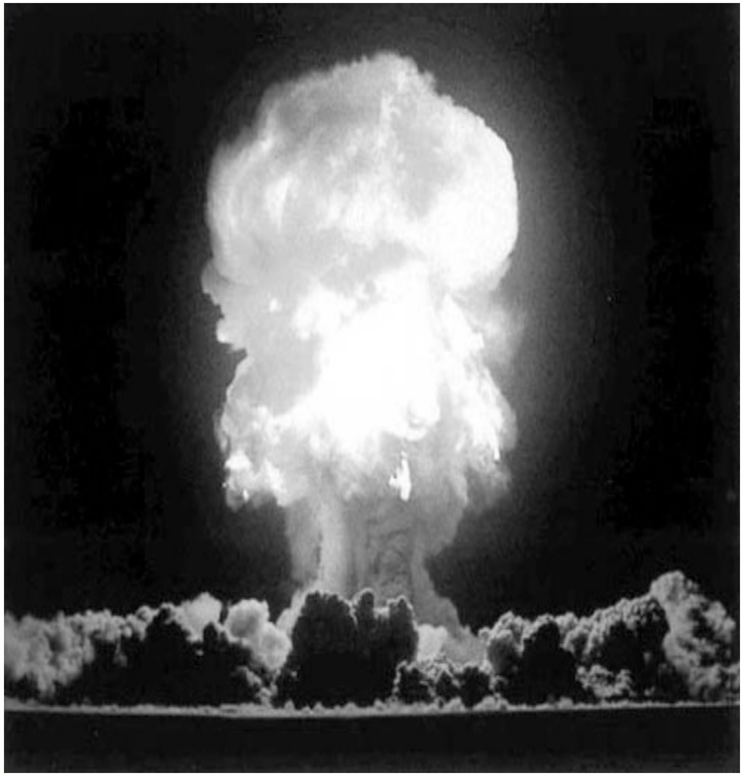
Campaign Membership

- Now over 300 members
- 70 large accounts
- Over £11,000 received towards fighting fund

Forming the SBCC

- 8th May: meeting with substantial clients & client representatives
- >£80m assets represented
- Tactics & objectives for client/creditors meeting
- Candidates for creditors' committee agreed
- Two subsequent meetings, prior to creditors' committee meetings

Clients and Creditors Meeting



- Q&A
- Creditors committee selection: 30 candidates down to 5 + 6 observers
- Ballot

First Battle Won!

- 3 favoured candidates selected
- Real work began

Further Battles Won!

- PwC immediately reduced cost and timescale estimates to £55m and 2 years.
- In 2nd creditors' committee meeting, FCA agreed that FSCS would fully & directly cover costs for all but fewer than 10 individual investors (representing 94% of costs) and that money and assets for individual investors would be transferred to another broker in September.

Role of the FCA

Questions:

- Why wait until US indictment?
- How was PwC selected/appointed?
- Any discussion of administration costs & methodology on appointment?

The War's not Over

- Ensure that the FSCS and PwC deliver
- Avoid unfair treatment for large cash accounts
- Seek legislative change
- Hold FCA to account for their behaviour
- Shareholder rights campaign

What can I do?

- Join the campaign
- Write to your MP
- Use CREST wherever possible
- Check stability of your brokers

Q&A