

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**REYKER SECURITIES PLC ("COMPANY" or "REYKER") (IN SPECIAL ADMINISTRATION)**

**THIS EXPLANATORY STATEMENT EXPLAINS THE DISTRIBUTION PLAN FOR THE RETURN OF  
CLIENT CUSTODY ASSETS BY THE COMPANY  
RELEASE DATE: 6 AUGUST 2020**

### **What is happening?**

As part of the special administration of the Company, the Joint Special Administrators of the Company (the "**Administrators**"), have prepared a Distribution Plan to provide for the return of Client Custody Assets, which are defined as Client Assets in the Distribution Plan.

If approved by the Court, the Distribution Plan will enable the transfer of the vast majority of the Client Custody Assets to the small number of Nominated Brokers that the Administrators have selected and is expected to allow Clients (called Claimants under the Distribution Plan) to access their Client Assets, for those Clients that are part of these planned transfers, from November 2020 directly through those Nominated Brokers.

Clients will be informed of the details of the relevant Nominated Brokers once the Court Hearing which will consider whether to approve the Distribution Plan has been held. The Court Application was filed on 6 August 2020 and is anticipated to be heard on or around 16 October 2020.

### **What is the purpose of this Explanatory Statement?**

This Explanatory Statement is intended to serve as an explanatory guide to the Distribution Plan being proposed by the Administrators. A copy of the Distribution Plan is also being made available to you at the same time as this Explanatory Statement.

This Explanatory Statement summarises:

- the background to, and purpose of, the Distribution Plan;
- how Client Assets (excluding Client Money) will be returned under the Distribution Plan;
- how the Costs of the return of Client Custody Assets will be allocated and settled; and
- the actions that clients now need to take to have their Client Assets (excluding Client Money) returned.

### **Is the Distribution Plan relevant to me?**

The Distribution Plan is relevant to you if the Company held Client Custody Assets such as securities or shares for you. If you do not know whether that is the case you should refer to the Portal where you can see your Client Statement. Alternatively you may contact your Investment Manager.

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

If the Company did hold Client Custody Assets for you, then you should read this Explanatory Statement. You should also log onto the Portal if you have not previously done so, so that you may submit your claim to your Client Custody Assets.

Unless you wish to attend the hearing of the application for the approval of the Distribution Plan, you do not need to do anything further until instructed to do so by the Administrators. The Administrators will make available to every Claimant (ie a Client who the Company holds Clients Custody Assets or Client Money for) a Client Assets Return Statement showing their Client Custody Assets and Corporate Actions Assets and which Nominated Brokers they are intended to be transferred to. This Statement will also provide Claimants with the ability to opt-out of the Transfer and direct their Client Custody Assets to a different broker.

A very limited number of Claimants will also be provided with a Payment Options Form where they are required to provide instructions for the payment of specified costs or liabilities. This primarily relates to Claimants who are not eligible for FSCS compensation and must give instructions as to how their share of the costs of returning Clients Assets should be paid.

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## IMPORTANT NOTICE

### What is on this page?

This page contains important information about the Explanatory Statement

This Explanatory Statement has been prepared by the Administrators and their advisers. It has also been reviewed by the Creditors' Committee of the Company, which includes the FSCS and where the FCA sits as an observer.

The Explanatory Statement is intended to be read in conjunction with the Distribution Plan. This is because, although it is designed to assist Clients in understanding the purpose and effect of the Distribution Plan, it is only the Distribution Plan which will be submitted to the Court for its approval and only the Distribution Plan will have legal effect (if and once approved by the Court).

The copy of the Distribution Plan which is being made available to Clients at this time has not yet been approved by the Court and therefore does not yet have any legal effect.

Unless otherwise indicated, words beginning with capital letters are definitions used in the Distribution Plan. A glossary of defined terms used in this Explanatory Statement is provided in clause 1 of the Distribution Plan.

In preparing this Explanatory Statement the Administrators have relied upon their own investigations and information obtained from the Company's books and records. Unless otherwise indicated, the statements, opinions and information contained in this document are made as at the date of this document and reflect the circumstances existing and the information which the Administrators are aware of at the time of producing this Explanatory Statement.

None of the Administrators or their firms, members, partners, directors, officers, employees, agents, advisors or representatives has authorised any person to make any representations concerning the Distribution Plan which are inconsistent with the statements contained in this Explanatory Statement and if any such representations are made they should not be relied upon.

Nothing in this Explanatory Statement is intended to constitute legal, tax, financial or other professional advice given to Clients. **Clients should take advice from their own professional advisers before taking any action in connection with the Distribution Plan.**

**You are encouraged to read and consider the Distribution Plan, this Explanatory Statement and any other communications you have received from the Administrators and, if necessary, seek professional advice as to their terms and their legal, tax and financial implications for you.**

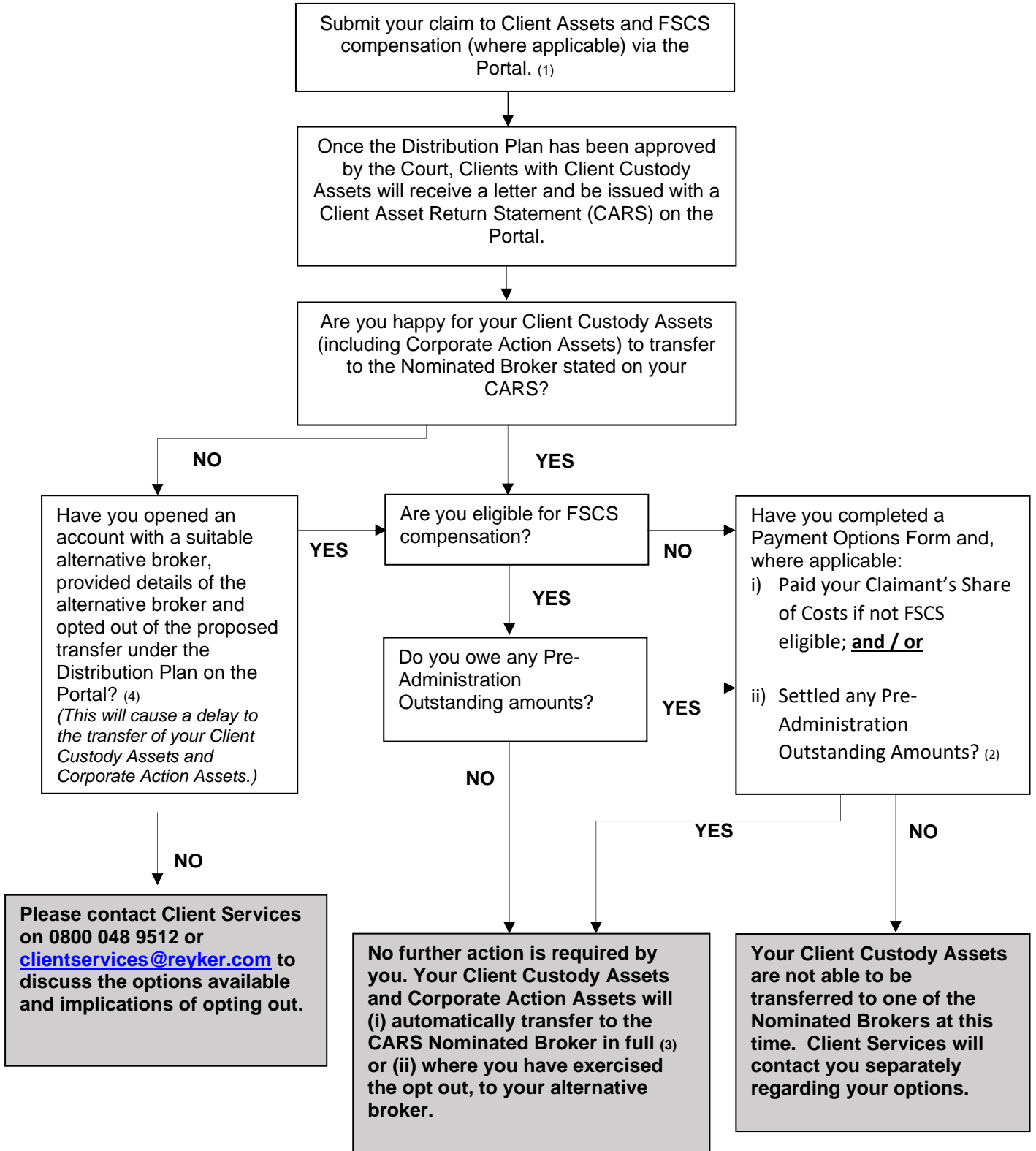
If you require more information or have any queries, please either:

1. *visit the Website - <https://smithandwilliamson.com/reyker-securities-plc>;*
2. *phone the Reyker client services team on 0800 048 9512;*
3. *email the Reyker client services team at [clientservices@reyker.com](mailto:clientservices@reyker.com); or*
4. *contact the Reyker client services team in writing at 25 Moorgate, London, EC2R 6AY.*

If contacting the Reyker client services team, please be mindful of the volume of calls and emails potentially being received by the team in a relatively short period of time following the issue of the Distribution Plan and this Explanatory Statement.

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**FLOWCHART: STEP BY STEP GUIDE TO THE RETURN OF CLIENT CUSTODY ASSETS  
(INCLUDING CORPORATE ACTION ASSETS)**



*This diagram explains at a high level the steps which Clients will be required to take in relation to the transfer of Client Custody Assets (including Corporate Action Assets) and are not intended to be exhaustive. This is a summary of how the majority of Client Custody Assets will be transferred.*

## Notes

Capitalised terms within this document are as defined within the JSAs' glossary of key terms which is available at <https://smithandwilliamson.com/reyker-securities-plc/>

- (1) All Clients are asked to submit a claim to Client Assets and apply for FSCS compensation via the Portal in the first instance:
  - a. Clients with Client Assets (i.e. Client Money and Client Custody Assets) with a total value of less than £85,000 (as valued at 8 October 2019) are automatically treated by the FSCS as if they have submitted a claim for compensation to the FSCS and, therefore, these Clients do not have to complete anything in this regard when submitting their claim;
  - b. Clients with Client Assets with a total value of equal to or greater than £85,000 (as valued at 8 October 2019) will not be treated as having automatically claimed compensation from the FSCS. Such Clients are asked as part of the online claims process to confirm whether they wish to submit a claim for FSCS compensation or not (if not already done so). If you do not confirm you wish to receive FSCS compensation, you will have to pay for your share of the costs before your Client Custody Assets can be distributed or transferred.
- (2) If you are required to settle any amounts due to the Company (which may be in respect of your Claimant's Share of Costs for the return of Client Custody Assets or, alternatively, a Pre-Administration Outstanding Amount, the JSAs will notify you in writing of the options available and request that you complete a Payment Options Form via the Portal. A transfer of Client Custody Assets to a Nominated Broker or an alternative broker will be delayed until such amounts are paid in full.
- (3) Certain Client Custody Assets may be excluded from the transfer, such as Tainted or Non-Returnable Client Assets in accordance with the terms of the Distribution Plan.
- (4) Should you wish to opt out of the transfer to one of the Nominated Brokers under the Distribution Plan you will be required to notify the JSAs via the Portal. Further details will be provided in writing once the Distribution Plan has been approved by the Court. Please note, any Clients that choose to opt out will need to have selected and opened a new account (if not already done so) with an alternative broker and will experience a delay in the transfer of their Client Custody Assets (including Corporate Action Assets) as the bulk transfers of Client Custody Assets to the JSAs' Nominated Brokers will be completed as a priority in the interests of all Clients generally.

## **1 WHAT DOES THE DISTRIBUTION PLAN DO AND WHEN CAN ASSETS BE RETURNED?**

1.1 The Distribution Plan has been prepared by the Administrators to enable the return of Client Assets held by the Company as soon as reasonably practicable. Its provisions set out:

- (a) how the Administrators plan to return Client Assets held by the Company as at 8 October 2019, as well as the proceeds of any Corporate Actions (such as dividends) received by the Company after that date; and
- (b) how the Costs of this process are to be met.

1.2 It is intended that the vast majority of Client Assets will be returned by Transfers to the Nominated Brokers (as set out in paragraph 5 of the Distribution Plan and sections 5 to 9 of this Statement).

1.3 For those Clients whose Client Assets are not transferred to the Nominated Brokers, including those who specifically request that they are not included within a Transfer, their Client Assets will be returned through a Distribution as set out in Clause 6 of the Distribution Plan and section 10 of this Statement.

## **2 WHAT ACTIONS DO YOU NEED TO TAKE IN RELATION TO THE DISTRIBUTION PLAN?**

**IMPORTANT NOTE: IF YOU ARE IN ANY DOUBT AS TO THE ACTIONS YOU SHOULD TAKE, YOU SHOULD CONSULT WITH THE ADMINISTRATORS AND/OR YOUR PROFESSIONAL ADVISERS WITHOUT DELAY.**

As explained above, you are encouraged to read and consider the Distribution Plan as well as this Explanatory Statement (in addition to any other information from the Administrators about your Client Assets, whether sent directly or notified via the Website).

### **2.1 The Client Assets Return Statement**

Following approval of the Distribution Plan by the Court, the Administrators will notify Clients, in their Client Assets Return Statement:

- (a) which of their Client Assets will be transferred to a Nominated Broker; and
- (b) the identity of that Nominated Broker.

There are a small number of Clients which have agreements with the Company that require the consent of the Client to be obtained before their Client Assets can be the subject of a Transfer. Clients affected by this issue were notified by a letter dated 24 July 2020 and will be required to provide their consent to any Transfer of their Client Assets.

As soon as reasonably practicable following the Effective Date, the Administrators will issue a Client Assets Return Statement to all Clients by publishing this on the Portal and informing them of its availability in writing. If you would like your Client Assets Return Statement circulated to you by email, please contact [clientservices@reyker.com](mailto:clientservices@reyker.com).

The Effective Date is the date and time at which the sealed order of the Court approving the Distribution Plan with or without modification has been received by the Administrators.

If any Client Assets are not proposed to be transferred to a Nominated Broker because it has not been possible to identify a Nominated Broker who will receive them, the Administrators will notify Clients in their Client Assets Returns Statement of those Client Assets that will not be transferred.

By completing the relevant sections of the Client Assets Return Statement, Clients will be able to:

- (a) inform the Administrators that they do not want some or all of their Client Assets to be included in the Transfer (i.e. an 'opt-out') (see section 9 below); and
- (b) provide instructions to the Administrators in relation to any Client Assets which are to be returned by a Distribution, rather than a Transfer – this will include any Client Assets the Client has confirmed are to be excluded from a Transfer.

## 2.2 The Payment Options Form

A very limited number of Clients will receive a Payment Options Form through the Portal in addition to their Client Assets Return Statement in order that they can provide instructions in relation to how their share of the Costs are to be paid or any sums owed to the Company from before the special administration are to be paid.

If you receive a Payment Options Form, it will contain clear instructions telling you which sections you need to fill in. You will need to complete the Payment Options Form before your Client Assets can be transferred to a Nominated Broker or subject to a Distribution.

See section 2.7 of this Statement (*Who will be sent a Payment Options Form?*) for further information on which Clients will be sent a Payment Options Form by the Administrators.

## 2.3 How do I find out what Client Assets are held for me?

On 6 March 2020, as part of the Soft Bar Date notification, the Administrators informed Clients that a statement showing that Client's holdings of Client Assets (based on their review of the Company's books and records as at 8 October 2019) was available to view on the Portal. Clients were provided with individual login details to access that statement.

In due course, the Administrators will provide all Clients with a Client Assets Return Statement showing that Client's holdings of Client Assets which the Administrators will transfer to the Nominated Brokers or which will be returned through the Distribution.

## 2.4 What happens if I did not submit my claim before 5pm on 7 April 2020 (the Soft Bar Date)?

- (a) If your claim was submitted after 7 April 2020 but was subsequently agreed by the Administrators through the Portal (or otherwise) before 22 July 2020, then your Client Assets will be returned through the Distribution Plan in accordance with your Accepted Client Assets Claim.
- (b) Clients who do not submit a claim via the Portal (or otherwise), known as Potential Claimants, or who submit a claim on or after 22 July 2020, may still have their Client Assets transferred to the Nominated Broker if they have met certain conditions (see paragraphs 5.4 and 7 of the Distribution Plan and section 12 of this Statement). In that case, the Administrators will determine Clients' entitlements to Client Assets based on the Company's books and records.

## 2.5 What if I dispute the number of Client Assets the Company says it held for me?

Any Clients who disputed the entitlements to Client Assets which were shown in their statement prepared by the Administrators and made available to them on the Portal on or after 6 March 2020, were asked to provide the reasons for disputing their claim, including any relevant supporting documentation. If you did not respond to this request, or if your dispute has not been subsequently resolved with the Administrators, please see section 11.1 of this Statement for further information on how disputes will be treated under the Distribution Plan.

## 2.6 What should I do if I have already submitted my claim?

If you indicated in your claim that you:

- (a) **agree with the statement prepared for you by the Administrators on the Portal** – the Administrators will make a Client Assets Return Statement available to you through the Portal (although a hard copy can be made available if required), which will:
- (i) detail the type and quantity of Client Assets held by the Company for you;
  - (ii) detail the Corporate Actions Assets held by the Company for you;
  - (iii) confirm which of your Client Assets and Corporate Actions Assets are proposed to Transfer to a Nominated Broker and which, if any, are to be Distributed to a broker of your choice;
  - (iv) state the identity of the Nominated Broker(s) that your Client Assets are to be Transferred to – Clients should note that there may be more than one proposed Nominated Broker depending on what Client Assets are held;
  - (v) confirm what conditions, if any, you are required to meet for the Transfer to happen;
  - (vi) confirm the date that the proposed Transfer to that Nominated Broker is intended to take effect;
  - (vii) contain a right to request that some or all of your Client Assets and Corporate Actions Assets are excluded from a Transfer (the opt-out) and, instead, are Distributed to an alternative broker of your choice;
  - (viii) enable you to provide the Administrators with any instructions that are required from you in respect of any of your Client Assets which will not be Transferred but are to be Distributed to a broker of your choice;
  - (ix) state the amount of your share of Costs, and whether or not you are eligible to receive FSCS compensation which will cover the payment of your share of Costs;
  - (x) state whether you are required to take any further action in relation to the payment of your share of Costs, whether by you or by the FSCS, and what that action is;
  - (xi) inform you whether you owed any contractual debts to the Company before the special administration, and how these debts, which are referred to as “Pre-Administration Outstanding Amounts” under the Distribution Plan are to be paid; and
  - (xii) where as part of the interim distribution of Client Money, you requested that your Client Money was held until it could be distributed to the same Nominated Broker as your Client Assets, you can provide your express consent to the distribution of your Client Money to the Nominated Broker.
- (b) **disagree with the statement prepared for you by the Administrators on the Portal** – as set out in section 2.5 above, you were asked to provide the reasons for disputing your claim, including any relevant supporting documentation. **If you have not done this you should do so urgently.**

Where you have indicated that you dispute your claim, the Administrators will have already informed you whether or not they agree with you. In circumstances where the Administrators have been unable to agree any part of your claim to Client Assets or are unable to do so, they will provide written reasons for their decision as soon as reasonably practicable, if they have not already done so prior to the Effective Date. You will be entitled to challenge this decision in Court using the process described

in section 11.1 below where you consider you have grounds to do so. A Court challenge will be at your own cost, unless the Administrators agree or the Court orders otherwise.

## 2.7 Who will be sent a Payment Options Form?

The Administrators will provide you with a Payment Options Form through the Portal if:

- (a) you need to take certain actions prior to the date of any Transfer to the Nominated Brokers in order for your Client Assets to be included in that Transfer to the Nominated Broker; or
- (b) you need to take certain actions before your Client Assets can be subject to a Distribution.

The content of this Payment Options Form will be different for each Client.

The Payment Options Form will be issued to the following Clients through the Portal (or, where requested, in hard copy):

- (a) Any FSCS Protected Claimant who has Client Assets and Client Money with an aggregate value of more than £85,000 as at the date the Company entered special administration, and who has not already confirmed via the Portal or otherwise, that they want to receive compensation from the FSCS;
- (b) Any Claimant who is not an FSCS Protected Claimant and who therefore will have to settle their share of Costs personally;
- (c) Any Claimant who owes a Pre-Administration Outstanding Amount to the Company For further information on your Pre-Administration Outstanding Amount, please see section 17 of this Statement.

If you receive a Payment Options Form:

- (a) you should complete all of the steps indicated in your Payment Options Form; and
- (b) you should submit or, if received in hard copy, return your Payment Options Form to the Administrators as instructed in the Payment Options Form. **Your Client Assets will not be returned unless and until you have submitted the Payment Options Form.**

## 2.8 What if I do not receive a Payment Options Form?

If you:

- (a) are an FSCS Protected Claimant:
  - (i) with Client Assets and Client Money with a value of £85,000 or less; or
  - (ii) with Client Assets and Client Money with a value of more than £85,000, but you have already confirmed you want to receive the benefit of compensation from the FSCS; and
- (b) do not owe any Pre-Administration Outstanding Amounts to the Company; and

the Administrators will not send you a Payment Options Form as no action is required from you to settle any liabilities in order for your Client Assets to be included in the Transfer to a Nominated Broker or to be Distributed. You should simply review the Client Assets described in your Client Assets Return Statement, the details of any Nominated Broker and consider what, if any, instructions you wish to give for the return of your Client Assets.



If you do not fall into the above category and you have not received a Payment Options Form, you should contact the Administrators as soon as possible using contact details on page 2 of this Statement.

2.9 **What if I am sent a Payment Options Form but do not complete it?**

If you are sent a Payment Options Form and fail to complete it then subject to any power the Administrators have to waive any Pre-Administration Outstanding Amount, your Client Assets will not form part of a Transfer or a Distribution at that time. However, you may participate in future Transfers or Distributions, subject to completing the Payment Options Form and meeting these requirements.

In addition, where you have not agreed your claim to Client Assets, Section 12 of this Statement sets out the potential consequences of this.

### 3 OVERVIEW OF THE DISTRIBUTION PLAN

*The background to the Company's entry into special administration and the appointment of the Administrators is set out below in Appendix 1 (Background information on the Company, the Special Administration and the development of the Distribution Plan)*

#### 3.1 Why is this Distribution Plan being promoted by the Administrators?

- (a) When an investment firm like the Company is placed in special administration, there is legislation in place to facilitate the return to clients of their Client Assets and Client Money. This legislation provides that, once the investment firm has been placed into special administration, the administrators can return Client Assets by setting dates, known as Soft Bar Dates, by which claims must be submitted and then preparing a Distribution Plan in respect of the return of Client Assets.
- (b) Under a Distribution Plan, Client Assets can be returned in accordance with all information available to the Administrators which, in this case, includes information submitted by Clients through the Portal.
- (c) The Distribution Plan provides a statutory, Court-sanctioned process for Client Assets allowing them to be transferred or distributed to new brokers who will hold the Client Assets for Clients. The procedure ensures that, after any Transfer or Distribution, Late Claimants cannot disturb the Transfer or Distribution by making claims to Client Assets that have already been transferred or otherwise distributed to Clients. This means that Clients who have made their claims on time and receive Client Assets can feel safe that no other Client will claim those Client Assets if it turns out that there is a shortfall in Client Assets. This is helpful for Clients, the Nominated Brokers receiving the Client Assets and the Administrators.
- (d) Having decided that it was appropriate and necessary to use the Distribution Plan procedure:
  - (i) the Administrators set a Soft Bar Date of 5.00 pm on 7 April 2020 by notices issued to all Clients the Administrators were aware of from the Company's books and records on 6 March 2020;
  - (ii) the Soft Bar Date notice was also sent by the Administrators to any party the Administrators considered may have a right to assert any "Security Interest" such as a lien or charge over, or other entitlement to, any of the Client Assets;
  - (iii) when notifying Clients of the Soft Bar Date, the Administrators provided individual login details for the Portal and invited Clients to submit their claims to Client Assets explaining how Clients could access the Portal to see their entitlements to Client Assets based on the Company's records, submit claims to such entitlements, apply for FSCS compensation and submit any evidence of alternative entitlements or other relevant information to the Administrators;
  - (iv) alternative procedures were put in place to support any Client who did not have access to the internet or did not want to use the Portal;
  - (v) following expiry of the Soft Bar Date, the Portal has remained open for Clients to access and submit their claims. On 29 June 2020 a notice under Rule 143 of the Investment Bank Special Administration (England and Wales) Rules 2011 (the "**Rules**") was issued to all Clients who, according to the Company's records or information received by the Administrators, are eligible to make a claim, but who had not yet made a claim to Client Assets. The notice permitted eligible Clients an additional 14 business

days from receipt of the notice to submit a claim in accordance with the Rules. That period expired at the end of 21 July 2020;

- (vi) once the Soft Bar Date notice expired, the Administrators (working with their advisers) prepared the Distribution Plan, in consultation with the Creditors' Committee, including the FSCS. The FCA have also been given the opportunity to review the Distribution Plan. The final terms of the Distribution Plan were approved by the Creditors' Committee on 31 July 2020; and
- (vii) the final step for the Administrators is to obtain the approval of the Court.

### 3.2 What happens if the Court does not approve the Distribution Plan?

Whilst the Administrators do not expect this to occur, if the Court does not approve the Distribution Plan at the hearing, the anticipated timeline for the return of Client Assets will be delayed and the proposed Transfers to the Nominated Brokers may be jeopardised. In this scenario, the Administrators would need to revise the Distribution Plan and have it re-approved by the Creditors' Committee and the Court before it could come into effect. This process would delay the process of returning Client Assets.

### 3.3 Does the Distribution Plan apply to both Client Assets and Client Money?

- (a) The Distribution Plan applies to:
  - (i) Client Assets; and
  - (ii) Any Client Money which was received by the Company **after 2.35pm on 8 October 2019** and which constitutes the fruits of Client Assets held as at that time (including, for example, dividends received on shares). This Client Money is called Corporate Action Assets.
- (b) However, the Distribution Plan does not apply to the return of any Client Money held by the Company as at 2.35pm on 8 October 2019, because that Client Money comes under a separate legislative and regulatory regime. A soft bar date in respect of Client Money of 5.00pm on 7 April 2020 was also set by the Administrators by a notice distributed to all Clients on 6 March 2020. An interim distribution process was commenced by a letter sent to Clients on 10 July 2020 confirming that to receive the interim dividend of 85p in the £, Clients must have submitted a Client Money Instruction Form.

### 3.4 What are the key terms of the Distribution Plan?

The Distribution Plan covers the following key elements:

- (a) the transfer of Client Assets to the Nominated Brokers (the “**Transfers**”). This is intended to cover the vast majority of Client Assets. Further details are provided at sections 5 to 9 of this Statement;
- (b) how, and in what circumstances, Client Assets which may not be transferred to a Nominated Broker, may be returned to Clients through a Distribution, and the options available to Clients in that respect. Further information is provided at section 10.2 of this Statement;
- (c) how the proceeds of Corporate Actions relating to Client Assets, which occur after 2.35pm on 8 October 2019 (e.g. interest and dividends) will be returned alongside the underlying Client Assets;
- (d) how costs associated with the holding and return of Client Assets will be shared across Clients and how cost rebates will be calculated. The Administrators

anticipate that the vast majority of Clients' contributions to Costs will be compensated in full by the FSCS, thereby enabling a full return to most Clients. If, however, some or all of your Costs are not eligible to be covered by FSCS compensation, the Administrators will inform you of this. Any Clients who are not eligible for FSCS compensation will be asked to complete a Payment Options Form to agree how their Costs contributions will be paid. This is currently anticipated to impact fewer than 122 corporate Clients. In addition, any Clients who are eligible for FSCS compensation but have Client Assets and Client Money with an aggregate value of more than £85,000, will need to have confirmed that they wish to receive FSCS compensation; and

- (e) how contractual debts which were owed by Clients to the Company before the special administration will be paid. This affects approximately 302 Clients. Payment of these debts will be required before Client Assets can be transferred to the Nominated Brokers or returned by a Distribution. Please refer to Section 17 of this Statement for further information regarding the Company's rights in this regard.

The Distribution Plan also covers a variety of other matters aimed at allowing the Administrators to deal with Client Assets and wind down the client estate efficiently and appropriately. Such other matters include any Disputed Claims by Clients to Client Assets which are not reflected in the Company's books and records, the treatment of any assets where there is a Shortfall (although none is expected), assets that may be in some way tainted by criminal allegations and assets which cannot be returned for any other reason (Tainted Client Assets and Non-Returnable Client Assets). Further information on these issues is set out at section 11 of this Statement.

### 3.5 **What is the FSCS and who is an FSCS Protected Claimant?**

- (a) The FSCS is the statutory fund of last resort for customers of authorised financial services firms which are unable to pay customer claims.
- (b) In relation to the Company, the FSCS will compensate Clients who are eligible for such compensation for the losses suffered by reason of the Company being unable to pay their claims in full, up to an aggregate limit of £85,000 per Claimant. Such compensation will include cover for:
  - (i) the costs associated with returning Client Assets;
  - (ii) the costs associated with returning Client Money; and
  - (iii) claims in respect of any shortfall in Client Assets or Client Monies.
- (c) Although the FSCS is responsible for determining eligibility for compensation, the Administrators have estimated that more than 98% of the Company's Clients will be FSCS Protected Claimants. Importantly, where you are an FSCS Protected Claimant and therefore meet their eligibility criteria and have Client Assets and Client Money with a value less than or equal to £85,000, the FSCS will proceed to pay your share of the Costs even if you have failed to indicate through the Portal or otherwise that you wish to benefit from FSCS compensation, subject to their compensation limit of £85,000 per Client. That is unless you expressly indicate through the Portal that you do not wish to benefit from FSCS compensation.
- (d) However, for FSCS Protected Claimants with Client Assets and Client Money with an aggregate value of more than £85,000, the FSCS will require confirmation from you that you wish to benefit from compensation. See section 15.5 of this Statement for further details.
- (e) Although the statutory limit on FSCS compensation is £85,000, the Administrators do not expect any FSCS Protected Claimants to have compensation claims that exceed this level.

- (f) When compensation is paid to or for a Client, the FSCS automatically stands in the shoes of such Client in relation to any relevant claims which the Client has against the Company and any relevant third party relating to the matters which the Client has been compensated for by the FSCS), but, for the avoidance of doubt this does not mean the FSCS has any right to receive your Client Assets under the Distribution Plan.
- (g) The FSCS will not pay compensation to or for Clients to cover any contractual debts they owe to the Company, which relate to dealings before the commencement of the special administration. These debts are called Pre-Administration Outstanding Amounts and are covered in section 17 of this Statement.
- (h) Given the high percentage of FSCS Protected Claimants, only a very small number of Clients are likely to be responsible for paying their own share of the Costs out of their Client Assets or by alternate means:
  - (i) those who are not eligible for FSCS compensation;
  - (ii) those who are required to confirm they wish to benefit from FSCS compensation but who fail to do so; or
  - (iii) those whose losses exceed the FSCS' compensation limit of £85,000 per Claimant (although the Administrators do not expect there to be any Clients with compensation claims that exceed this limit).

Please see section 15.5 of this Statement for further information on the options available for the payment of Costs.

### 3.6 What about tax wrappers and capital gains tax?

- (a) The Distribution Plan provides, in very limited cases, for the Administrators to liquidate Client Assets to either discharge contractual debts owed to the Company or to pay the Costs of Clients who are not FSCS Protected Claimants (or who have not given any confirmation required by the FSCS); see sections 15.5(f)(iii) and 17.1 of this Statement for more details. In these circumstances, any capital gains tax or income tax liabilities arising as a result of the liquidation of Client Assets by the Administrators will be liabilities of the relevant Clients and not the Administrators or the Company.
- (b) **As stated at the outset of this Explanatory Statement, nothing within it or the Distribution Plan is intended to constitute legal, tax, financial or other professional advice given to Clients and Clients will need to take advice from their own professional advisers before they take any action or issue any instruction in connection with the Distribution Plan, particularly in relation to tax issues.**

### 3.7 The Long Stop Date and the Hard Bar Date

- (a) The Distribution Plan entitles the Administrators to set a Long Stop Date, following which the Administrators are released from certain obligations and are entitled to take certain steps in relation to Client Assets remaining with the Company, as set out in Clause 3.5 of the Distribution Plan. It is anticipated that only a small proportion of the current Client Assets will remain with the Company by that time. This is because the purpose of the Long Stop Date is to ensure that the Client Asset returns process can be concluded at an appropriate point once the Administrators have taken reasonable steps to return the Client Assets pursuant to the Distribution Plan. The Long Stop Date enables the Administrators to progress towards ending the special administration rather than incurring additional costs in continuing to hold any residual Client Assets which they have not been able to return, for a prolonged period of time.

- (b) The Long Stop Date will occur no earlier than two months after the Administrators serve a notice stating that they have determined, acting reasonably, that they have achieved Objective 1 (i.e. the return of Client Assets) to the extent reasonably practicable.
- (c) Clients are encouraged to contact the Administrators in respect of the return of their Client Assets well in advance of the Long Stop Date because if, and only if, at that date the Administrators continue to hold Client Assets and the required instructions have not been provided or outstanding amounts paid (whether in respect of Costs or a Pre-Administration Outstanding Amount), the Administrators may be released from an obligation to return the Client Assets and have powers instead to liquidate them—see Clauses 6.5 (Distribution), 7.3 (Potential Claimants), 8.3 (Tainted Client Assets) and 9.4 (Non-Returnable Client Assets). There is no need to contact the Company or the Administrators in relation to this specific issue at this time and Clients will not be impacted by it if they complete all steps referenced in section 2 of this Statement.
- (d) In addition to the Long Stop Date, the Administrators are entitled to apply in the future to set a Hard Bar Date. If a Hard Bar Date is set this enables the Administrators to set a final date for the submission of claims to Client Assets. Once the Hard Bar Date passes, the Administrators are entitled to sell any Client Assets which have not been claimed by Clients as at the Hard Bar Date and transfer the proceeds to the Company's bank accounts for the benefit of the Company and all its creditors. As a result, the Administrators will be unable to return these (unclaimed) Client Assets if Late Claims are made by Clients to them after the Hard Bar Date. These Late Claims will instead be treated as unsecured claims against the Company – although, as the Company is insolvent and has very few assets of its own, it is not currently expected that a dividend will be paid in respect of unsecured claims.
- (e) **In the event that an application to set a Hard Bar Date is necessary, the Administrators will notify all known Clients.** This is only likely to occur after the Transfers to the Nominated Brokers have been completed, any Distributions made where Clients have requested these and there are limited unclaimed Client Assets held by the Company which the Administrators need to deal with. The Distribution Plan provides that a Hard Bar Date will not be set earlier than 4 May 2021.

#### **4 WHAT IS THE PROCESS FOR AGREEING MY CLAIM AND RETURNING CLIENT ASSETS?**

- 4.1 Where your Claim has been agreed by the Administrators (whether through the Portal or otherwise), your Client Assets will be returned either by Transfer to the Nominated Brokers or Distribution.
- 4.2 The Administrators intend to make a Transfer of the vast majority of Client Assets to the Nominated Brokers because they consider that this represents the quickest and most cost-effective way to return Client Assets. To be entitled to a Transfer, you must have met the Transfer Conditions set out in Clause 5.4 of the Distribution Plan. See sections 5 to 9 of this Statement for further detail on the Transfer process.
- 4.3 Client Assets that are not returned to you by way of a Transfer may instead be the subject of a separate Distribution. To be entitled to a Distribution, you must have met the conditions and completed the Distribution section of the Client Assets Return Statement as detailed in sections 10.4 and 10.5 of this Statement.
- 4.4 In some cases, the Administrators may not be able to make a Transfer or Distribution of Client Assets. For example, if your share of the Costs has not been met, if any Pre-Administration Outstanding Amounts owed to the Company have not been paid or if there are legal or practical reasons why a Transfer or Distribution cannot reasonably be made. See section 11 of this Statement for further detail on these issues.

## **5 WHICH CLIENT ASSETS WILL BE RETURNED BY A TRANSFER TO THE NOMINATED BROKERS?**

The Administrators' intention is that the vast majority of Client Assets will be returned by way of Transfers to the Nominated Brokers for the benefit of relevant Clients.

In order to ensure compliance with the Company's standard terms and conditions, the Company will ensure that Clients receive at least 30 calendar days' notice of the proposed Transfer of their Client Assets through the Distribution Plan. This contractual notice will be provided as part of the correspondence that Clients will receive confirming the approval of the Distribution Plan by the Creditors' Committee and its publication on the Website along with this Statement.

Where any contract between a Client and the Company requires their consent to be obtained to any Transfer of their Client Assets, their Client Assets will not be subject to a Transfer until that consent has been given by the relevant Client. The Administrators have already contacted each of those Clients where express consent to a Transfer is required.

The Administrators will notify Clients of the identity of the relevant Nominated Broker(s) who will receive their Client Assets through the Client Assets Return Statement made available on the Portal at least 15 Business Days before any Transfer, but would hope to provide more notice than this, where it is possible to do so.

## **6 WHY IS THERE MORE THAN ONE NOMINATED BROKER?**

6.1 The Administrators have an obligation to return Client Assets as soon as is reasonably practicable, and have determined that returning Client Assets by way of several Transfers is the most expedient means of doing this.

6.2 Unfortunately, despite the detailed sale process undertaken by the Administrators, it was not possible to agree a transfer to a single broker. Even if it had been possible to agree such a transfer:

(a) a number of investment managers indicated that where they were able to do so they might or would opt-out of any Transfer to a broker not of their choosing or, if they were not given this right, would simply request that the new broker transfer the Client Assets received from the Company to the investment manager's preferred broker; and

(b) certain of the Client Assets held by the Company, such as Child Trust Funds and Innovative Finance ISAs, are not held by many other custodians and may have required a separate transfer in any event.

6.3 Returning Client Assets by way of a Transfer allows for the transfer of all or nearly all of the Client Assets in one process. This is both time and cost effective meaning Clients get their Client Assets quicker and with lower costs payable. However, some of this time and cost efficiency is lost where Clients either opt out of the Transfer or do not take the steps needed to be included in a Transfer.

6.4 Without one or more bulk Transfers of Client Assets, Client Assets would need to be returned by way of separate distributions to Clients, where each individual Client would have to provide instructions as to the return of their Client Assets to their nominated custodian, resulting in, potentially, more than 11,000 separate returns. The Administrators were very aware that this would not be a cost effective solution and would result in some Clients not having access to their Client Assets for some considerable time (as the Company worked through these potential 11,000 plus instructions).

6.5 As a result, the Administrators have worked with a number of the key investment managers and other stakeholders who manage funds for, or have relationships with, the largest number

of Clients, as well as the Creditors' Committee, to identify suitable successor custodians who are able to receive significant quantities of Client Assets.

6.6 In determining how many separate Transfers to complete, the Administrators have used their and their advisers' experience, and have been informed by their work with investment managers, stakeholders, Clients and the Creditors' Committee, to weigh the additional work, and therefore time and cost, required to make a separate, additional Transfer against the additional time and cost incurred in dealing with the risk and necessary workflows of Clients that opt-out of the Transfers set out in the Distribution Plan. Any proposed Transfer involves a detailed exchange of required information subject to the terms of a data sharing agreement, and the agreement of a transfer agreement covering, amongst other matters, data protocols, Client Asset transfer mechanics, communication strategy, pricing and variations to terms and conditions.

6.7 Having balanced the interests of all Clients of the Company, the Administrators have proposed a Distribution Plan as follows:

- (a) Where more than 1,000 Clients have invested in a fund or funds managed by a single investment manager or bond issuer and those Clients, through their investment manager or bond issuer, have indicated an intention or consideration to opt-out of any proposed Transfer (other than to their preferred broker), the Company will Transfer those Client Assets to their preferred broker.
- (b) This has resulted in four proposed Transfers to the preferred brokers identified by these groups of Clients and their investment managers or the bond issuer. Where your Client Assets will be transferred to one of these Nominated Brokers, you should have been contacted by your investment manager or bond issuer explaining the reasons and benefits for this Transfer.
- (c) For those Clients not covered by these four Transfers, the Administrators have agreed Heads of Terms with a fifth broker for the Transfer of nearly all of the balance of Client Assets.

6.8 Whilst the Administrators have been informed by some individual clients or investment managers who manage fewer than 1,000 Clients, that they would prefer to be transferred to a new broker of their choosing and that they may opt-out of any other Transfer, the Administrators have determined that negotiating further bulk Transfers as part of the Distribution Plan would not be in the interest of all Clients for the reasons detailed above. To put this in context, Distribution Plans in previous cases of investment bank special administration have only ever involved bulk Transfers to one or two nominated brokers. Further, the Distribution Plan does include an opt-out right for Clients as detailed further in section 9 of this Statement.

6.9 At the time of submitting the Distribution Plan, the Administrators have not been able to identify and agree terms with a broker who will accept a Transfer of the Clients Assets comprising Child Trust Funds or Innovative Finance ISAs, although discussions are ongoing. These Client Assets will be subject to a Transfer if an appropriate broker is identified or, otherwise, would be returned through the Distribution mechanism detailed in section 10 of this Statement.

## **7 WHEN WILL I BE TOLD WHICH NOMINATED BROKER IT IS INTENDED TO TRANSFER MY CLIENT ASSETS TO?**

7.1 Where your Client Assets are intended to be transferred to a Nominated Broker, the Administrators will make a Client Assets Return Statement available to you identifying which of your Client Assets will transfer and to which Nominated Broker. The Client Assets Return Statement will be made available to you at least 15 Business Days before the proposed Transfer.

7.2 The Transfers to the Nominated Brokers may not happen on the same day. Due to the differing nature of the Client Assets (e.g. electronically or physically held securities) it is likely that the



Transfers will be completed over a period of several weeks (potentially months) with electronically held securities being transferred to the Nominated Brokers initially and physically held securities following. This is because the process of transferring physically held securities is more complicated and takes more time than that for most electronically held securities. Depending on the nature of the Client Assets held for a Client, those Client Assets may be transferred to more than one Nominated Broker.

7.3 In order for your Client Assets to be transferred to a Nominated Broker, you will need to have:

- (a) paid your Claimant's Share of Costs, unless you are an FSCS Protected Claimant who will have your Costs paid by the FSCS up to the limit of £85,000 per Claimant; and
- (b) settled any Pre-Administration Outstanding Amounts owed to the Company (as these will not be paid by the FSCS),

and in either case, unless you are an FSCS Protected Claimant and have no Pre-Administration Outstanding Amounts owed to the Company, you will be issued with and will need to complete a Payment Options Form. FSCS Protected Claimants who have Client Assets and Client Monies with an aggregate value of more than £85,000 will also be issued with a Payment Options Form if they have not yet confirmed that they wish to receive FSCS compensation.

## **8 HOW WILL A TRANSFER OF ASSETS TO A NOMINATED BROKER WORK?**

8.1 The Administrators will enter into a transfer agreement with each of the Nominated Brokers which will set out the terms of the Transfer of your Client Assets and related contracts. The specific terms of those transfer agreements are currently being agreed with the Nominated Brokers.

8.2 Under the legislation:

- (a) any contracts between the Company and a Client which are transferred to a Nominated Broker will be treated as if they were made between you and the Nominated Broker;
- (b) the Nominated Brokers are permitted to vary the terms of the contracts without your consent, where needed to give effect to the Transfer;
- (c) the Administrators are entitled to disclose to the Nominated Broker all information that is relevant to the Transfer and will have agreed an appropriate data sharing agreement for this process; and
- (d) the transfer agreement will include provision to ensure that Clients will be able to exercise their rights in relation to the assets as soon as reasonably practicable after the Transfer.

## **9 WHAT IF I DO NOT WANT MY CLIENT ASSETS TRANSFERRED TO THE NOMINATED BROKER THAT YOU OR MY INVESTMENT MANAGER HAVE CHOSEN FOR ME?**

9.1 The Administrators are aware that certain Clients may not wish to have their Client Assets transferred to the Nominated Broker selected for them. As a result, clause 5.7(b) of the Distribution Plan enables a Client to notify the Administrators at least 5 Business Days before the proposed date of transfer to a Nominated Broker that it does not want some or all of its Client Assets to be part of a Transfer (the opt-out).

9.2 Where a Client issues such a notice to the Administrators, their Client Assets will be subject to a Distribution as detailed in section 10 below and they will need to complete the Distribution section of their Client Assets Return Statement in order to provide instructions as to which custodian their Client Assets are to be returned to.

- 9.3 Clients should be aware that the Distribution process is intended to be commenced after the initial stages of each of the Transfers has been completed, and, potentially, a second distribution of Client Money, and therefore requesting the return of Client Assets by way of a Distribution is likely to result in a delay of at least three months to Clients having access to their Client Assets.
- 9.4 The Administrators anticipate that being included in a Transfer will mean that the relevant Client Assets are released at the earliest possible opportunity, and this may therefore be the fastest way for affected Clients to begin dealing with their Client Assets as each Nominated Broker will be under an obligation to ensure that a Client can exercise their rights in relation to their Client Assets as soon as reasonably practicable after the Transfer.
- 9.5 Alternatively, if your Client Assets are transferred to a Nominated Broker, you will be able to request, by contacting the Reyker client services team, after the Transfer to the Nominated Broker, that your Client Assets be transferred back to Reyker. However, the Administrators do not expect that Clients will want to exercise this option which is specifically preserved by the Regulations, as this would create a further significant delay in the return of your Client Assets.

## 10 WHICH ASSETS WILL BE RETURNED BY A DISTRIBUTION AND HOW?

- 10.1 Where possible, Client Assets which are not transferred to the Nominated Brokers as described in sections 5 to 9 above will be returned by way of a Distribution. This may happen because the Nominated Brokers are not able to accept a transfer of a particular type of asset (for example Child Trust Funds), or because you have not settled any Pre-Administration Outstanding Amount or your share of the Costs (where in the latter case you are not eligible for FSCS compensation or have not given a confirmation of your desire to claim compensation where required by the FSCS), or because you have specifically notified the Administrators you do not want your Client Assets being transferred to the Nominated Broker selected for you.
- 10.2 If some or all of your Client Assets are to be distributed to you, then you will need to complete the Distribution section of the Client Assets Return Statement, which will require that you select from the following options for the Distribution (following the payment of your share of Costs and any Pre-Administration Outstanding Amount):
- (a) **move Client Assets to a new custodian:** by this option you will instruct the Administrators to move some, or all, of your Client Assets to another custodian selected by you in an account in your name and that you have established; and/or
  - (b) **for Physically Held Client Assets:** in addition to selecting a custodian, where shares are not held electronically but are held through a share certificate, you may request that the share certificate is returned to you to hold on your own behalf.
- 10.3 In order for a Distribution to be possible, the Administrators will need to set a commencement date for the Distribution (the **Distribution Selection Date**). Once that date has passed, then provided you have completed the steps outlined in sections 10.4 and 10.5 of this Statement, the Administrators will comply with your instructions set out in the Distribution section of the Client Assets Return Statement within 28 days of the Distribution Selection Date, provided your new custodian is in a position to receive your Client Assets.
- 10.4 If you do not owe any Pre-Administration Outstanding Amounts to the Company, your Client Assets can be returned by way of Distribution if you:
- (a) have completed and submitted the Distribution section of the Client Assets Return Statement; and
  - (b) you are:
    - (i) an FSCS Protected Claimant – where FSCS Protected Claimants have Client Assets and Client Money with a value of more than £85,000 they are required to confirm that they wish to receive the benefit of compensation from the FSCS; or
    - (ii) you have paid your share of the Costs using the options shown on your Payment Options Form (see section 15.5(f) of this Statement for more details).
- 10.5 If you owe any Pre-Administration Outstanding Amounts to the Company, your Client Assets cannot be returned by Distribution unless and until you pay these amounts. The FSCS cannot settle these amounts for you. The options for paying your liabilities are the same as those available to you for paying your share of the Costs if you have not applied for and/or are not eligible for FSCS compensation (see section 15.5(f) of this Statement for further details) and which can be used together to settle both sets of obligations.
- 10.6 If you owe any Pre-Administration Outstanding Amounts and have not completed and submitted your Payment Options Form by the Long Stop Date, the Company will be entitled to settle the amounts owed to them from your Client Assets. If necessary, before making any Distribution, the Administrators may also sell enough of your Client Assets to settle your share of the Costs. See Clause 6.5 of the Distribution Plan.

## 11 WHAT COULD MAKE THE RETURN OF CLIENT ASSETS DIFFICULT OR DELAYED?

*Set out below are examples of circumstances which could delay or impede the return of certain Client Assets, and for which detailed provision is made in the Distribution Plan (should they arise).*

### 11.1 There may be a dispute between a Client and the Administrators about the Client's entitlement to Client Assets (Clause 11)

- (a) The Distribution Plan contains a dispute resolution mechanism by which the Administrators will resolve outstanding disputes in relation to Client Assets. Where there are ongoing disputes relating to certain types of Client Assets, this may potentially lead to the delay in the Transfer or Distribution of those Client Assets or limitations on what Clients may do with those Client Assets.

#### *Disputed claims to Client Assets*

- (b) If the Administrators do not accept your claim to Client Assets, whether in whole or in part, they will provide you with a Reasons Statement explaining why, as soon as reasonably practicable. You will then have 21 days from the date on which the Reasons Statement has been made available to you on the Portal to apply to the Court for the decision to be reversed or varied. If you make any such application, you are requested to notify the Administrators at [reyker.securities@smithandwilliamson.com](mailto:reyker.securities@smithandwilliamson.com) as soon as possible (and, in any event, within 48 hours) following the making of the application. The 21 day-period may be extended with the consent of the Administrators or by order of the Court.
- (c) Unless the Administrators agree or the Court orders otherwise, your costs of any such application will be paid by you and are not payable as an expense of the special administration and cannot be set off against any Pre-Administration Outstanding Amount. Any costs incurred by the Administrators in relation to such an application will constitute part of the Costs incurred in connection with the return of Client Assets.
- (d) If the Court or the Administrators reverse the Administrators' decision as a result of your application or a settlement is reached on this basis, subject to the payment of your share of Costs (whether by you or the FSCS) and any Pre-Administration Outstanding Amounts, you will thereafter be entitled to give instructions in relation to your Client Assets.
- (e) If:
- (i) no Court proceedings have been commenced by the time the 21 day period for challenge expires;
  - (ii) you appeal but the Court rules in favour of the Administrators (and all rights to appeal have been exhausted); or
  - (iii) you abandon or settle any application and appeal in line with the Administrators' original decision;

to the extent you have asserted a claim to Client Assets which the Administrators have not accepted, the relevant Client Assets will not be returned to you and the Administrators will be released from any obligations to take further action in respect of those Client Assets. This means that the dispute will automatically be resolved by the Administrators on the basis of the Company's books and records.

- (f) The dispute resolution process summarised above concerns a dispute about your entitlement to Client Assets. If you have a dispute concerning your Pre-Administration Outstanding Amounts, please refer to section 17 below.

### *Transfer of Client Assets subject to disputes*

- (g) In the event that there are one or more outstanding disputes in relation to a Clients' entitlements to certain Disputed Client Assets, the Administrators will have discretion as to whether to proceed with the Transfer or Distribution of the Disputed Client Assets.
- (h) If the Administrators do permit a transfer of the Disputed Client Assets to a Nominated Broker then they may impose restrictions on what you may do with those Disputed Client Assets pending settlement of the dispute.

### **11.2 There may be Shortfalls in a stock-line of Client Assets held by the Company (Clause 4)**

- (a) A Shortfall occurs where the number of Client Assets actually held by the Company is less than the Client Assets which the Company has undertaken to hold for Clients. At the time of issuing this Explanatory Statement, as explained above, the Administrators are not aware of any circumstances giving rise to a Shortfall.
- (b) If a Shortfall were to arise (which is not currently anticipated), the Distribution Plan makes provision for it to be shared across Clients holding that particular stock-line of Client Assets in which it has occurred. The Shortfall would be borne in proportion to the amounts held for such Clients with the value of any such Shortfall calculated according to the value of the relevant Client Assets immediately prior to the Company entering Special Administration.
- (c) FSCS Protected Claimants would be entitled to claim FSCS compensation in respect of any such Shortfall.
- (d) Each Client with a Shortfall will have a claim against the unsecured estate of the Company. A proof of debt in respect of such claim will automatically be deemed to have been submitted without you needing to do anything. If the FSCS has paid compensation for the Shortfall, they will assume the benefit of this claim. As the Company is insolvent and has very few assets of its own, the Administrators do not anticipate that any dividends will be declared and paid to unsecured creditors.

### **11.3 Assets may be classified as "Non-Returnable" (Clause 9)**

- (a) Even where the Administrators accept a Client's claim to Client Assets, the relevant Client Assets will not be returned if the Administrators determine that those Client Assets are Non-Returnable Client Assets. This would be because:
  - (i) they are not currently under the Administrators' control (e.g. because the Administrators do not hold those Client Assets) (being "Not-Held Client Assets"; and/or
  - (ii) any legal or practical reasons mean that they must be excluded from any Distribution – for example, they are subject to a freezing order.
- (b) At the time of issuing this Explanatory Statement, the Administrators are not aware of any circumstances which may cause Client Assets to be non-returnable, but if any were subsequently identified by the Administrators, section (c) to (d) below would be relevant.
- (c) The Distribution Plan makes provision enabling a Client to release the Company and the Administrators from the obligation to return any Non-Returnable Client Assets. On providing such a release, the Client will automatically be deemed to have submitted a proof of debt for an unsecured claim against the Company.

- (d) Where any Non-Returnable Client Assets subsequently become returnable, they will then be returned to the relevant Client, either by a Transfer or a Distribution. Where the relevant assets are to be returned, the Claimant's Share of Costs and any Pre-Administration Outstanding Amounts will need to have been paid.
- (e) If any assets remain categorised as Non-Returnable Client Assets as at the Long Stop Date, the Administrators will be automatically released from any obligations to return those assets. If this happened, the Client with a claim to those assets would automatically be deemed to have submitted a proof of debt for an unsecured claim against the Company and if they were an FSCS Protected Claimant may wish to contact the FSCS to seek compensation from them directly in respect of the losses incurred as a result. However, the Client will not lose their proprietary rights to the Non-Returnable Client Assets held for them.

11.4 **Assets may be the subject of a restrictive court order or tainted due to association with criminal conduct (Clause 8)**

- (a) In the Distribution Plan such assets are called Tainted Client Assets and the Administrators are prevented from dealing with them. Such assets cannot, therefore, be returned by a Transfer or Distribution unless and until they cease to be Tainted Client Assets. The Administrators are not currently aware of any Tainted Client Assets.
- (b) If the Administrators were made aware of any Tainted Client Assets which then subsequently ceased to be tainted, the relevant Client Asset would then be returned to the relevant Client, either by Transfer or Distribution (as selected by the Administrators). Before the Client Assets can be returned, the Claimant's Share of Costs and any Pre-Administration Outstanding Amounts will need to have been paid.
- (c) If such assets remain categorised as Tainted Client Assets as at the Long Stop Date, the Administrators will be automatically released from any obligations to return those assets and the relevant Clients may be entitled to make an unsecured claim against the Company in relation to those Assets. However, the Clients will not lose their proprietary rights to the Tainted Assets held for them.

## **12 WHAT HAPPENS IF YOU DON'T SUBMIT YOUR CLAIM OR SUBMIT YOUR CLAIM TO ASSETS ONLY AFTER A DISTRIBUTION OR TRANSFER HAS TAKEN PLACE?**

12.1 The Distribution Plan makes provision for Late Claims (Clause 10), which are claims submitted by a Claimant after any Transfer or Distribution has taken place. The Distribution Plan also includes provisions relating to what are called Potential Claimants (Clause 7), who are Clients who have not agreed their Client Assets Claim but for whom the Company consider, based on the books and records, they hold Client Assets. The Company will produce Client Assets Return Statements for all Potential Claimants which set out the Client Assets which the Company records as held for them and are intended to be returned through the Distribution Plan.

12.2 In relation to the Potential Claimants, where:

- (a) they are FSCS Protected Claimants, meaning their share of Costs will be met by the FSCS;
- (b) the aggregate value of their Client Assets and Client Money is less than or equal to £85,000; and
- (c) they do not owe any Pre-Administration Outstanding Amount to the Company,

the Client Assets which the Company considers, based on its books and records, are held for that Potential Claimant will be included in the Transfers and will therefore transfer to the relevant Nominated Brokers without the Potential Claimant having to take any actions. The Nominated Brokers will then have responsibility for contacting the Potential Claimant in respect of those Client Assets. There will, however, be no such Transfer where any of paragraphs (a) to (c) are not satisfied until the Potential Claimant engages with the Administrators and addresses those issues but the Company will retain the relevant Client Assets it considers it holds for that Potential Claimant subject to the following.

12.3 If the Administrators still hold Client Assets for any Potential Claimants by the Long Stop Date, the Administrators will be automatically released from any obligation to take further action in relation to those assets. Further, the Administrators will be entitled to liquidate the relevant Client Assets, where this is possible, and return the proceeds (if any) to the Potential Claimant (after deducting the Potential Claimant's share of the Costs and any other amounts due). However, if the Administrators determine that they are not able to return the proceeds (if any) to the Potential Claimant and have set a Hard Bar Date, they will transfer the proceeds to the Company's bank accounts for the benefit of the Company.

12.4 If a Late Claim is submitted by a Late Claimant, which differs from the Company's books and records, either because the Company was not aware of the Late Claimant at all or because their claim differs in quantum to that in the Company's books and records, the Administrators may decide that, had it been submitted before the Soft Bar Date, it would have been accepted by the Administrators. They may also reject it as invalid in whole or in part. If they do accept the Late Claim then the next steps will depend on the stage reached in the Transfer and Distribution process:

- (a) where the Late Claimant was known to the Company and was a Potential Claimant but the quantum of their Late Claim is different to that found in the Company's books and records and therefore their Client Assets Return Statement, then certain of their Client Assets may already have been transferred to a Nominated Broker(s) and the Late Claimant will need to contact that Nominated Broker in respect of those assets;
- (b) taking account of any Client Assets already subject to a Transfer as detailed in paragraph (a), if enough of the Client Assets claimed by the Late Claimant are still available to be returned, they will be returned to the Late Claimant (subject to that Client's compliance with all other requirements of the Distribution Plan):

- (i) where the Late Claim is submitted prior to the Transfer Date relevant to that Late Claimant or those Client Assets, the relevant Client Assets will be included in a Transfer to the relevant Nominated Broker; or
    - (ii) if the Late Claim is submitted after the Transfer Date relevant to that Late Claimant or those Client Assets, the relevant Client Assets will be returned by Distribution and the Late Claimant will be treated in the same manner as a Non-Transferred Claimant; and
  - (c) taking account of any Client Assets already subject to a Transfer as detailed in paragraph (a), if not enough of those Client Assets are still available to be returned and are not the subject of a competing claim:
    - (i) insofar as any assets are still available, they will be returned to the Late Claimant (subject to that Client's compliance with all other requirements of the Distribution Plan); and
    - (ii) the Late Claimant will automatically be deemed to have submitted a proof of debt for an unsecured claim against the Company for the value of those Client Assets not returned to them.
- 12.5 In no circumstances will a Late Claim disrupt those Client Assets that have already been returned to other Clients, and any Client who has already received such Client Assets will have acquired good title to them as against any Late Claimant (save in cases of bad faith or a false claim).
- 13 WHAT IS THE PURPOSE OF THE RELEASES IN THE DISTRIBUTION PLAN (CLAUSE 19)?**
- 13.1 The Distribution Plan provides that Clients will not be able to pursue, in summary, any legal claim against the Administrators, their firm and their advisers in connection with the return of their Client Assets, other than for failing to implement the Distribution Plan in accordance with its terms.
- 13.2 The purpose of this is to ensure that time and costs are not wasted by the Administrators having to deal with claims that they should return Client Assets in a manner not consistent with the Distribution Plan. Specifically, it ensures that the costs of returning Client Assets are minimised, by removing the need for the Administrators to take account of any contingent costs attributable to these claims in determining the Costs associated with the return of Client Assets.
- 14 WHAT IS THE PURPOSE OF THE CONVERSION RIGHT IN THE DISTRIBUTION PLAN (CLAUSE 22)?**
- 14.1 Clause 22 provides the Administrators with a discretion to convert Physically Held Client Assets to Electronically Held Securities and vice versa should this be appropriate and consistent with their objective of returning Client Assets as soon as practicable. This has been included within the Distribution Plan due to the experience the Administrators have had on the workout of a previous distribution plan where a conversion of Client Assets has been necessary to ensure that the Client Assets are in a form which can be more easily returned in line with Clients' instructions.



## 15 HOW WILL THE COSTS OF RETURNING CLIENT ASSETS BE MET?

### 15.1 How are Costs determined and what am I paying for?

- (a) Under the Rules, the expenses properly incurred by the Administrators in returning Client Assets may be recovered out of those Client Assets by the Administrators (referred to under the Distribution Plan as the “**Costs**”). These include:
- (i) expenses properly incurred by the Administrators in returning Client Assets as soon as is reasonably practicable, which includes all of the work detailed in section 3.1 of this Statement and also Appendix 1;
  - (ii) any necessary costs incurred by the Administrators which are specific to the objective of returning Client Assets as soon as is reasonably practicable;
  - (iii) the remuneration or emoluments of any person employed by the Administrators to perform any services for the Company specific to the objective of returning Client Assets as soon as is reasonably practicable (including parties such as the Administrators’ solicitors who drafted the Distribution Plan); and
  - (iv) the Administrators’ remuneration in respect of the objective of returning Client Assets as soon as is reasonably practicable. The basis of the Administrators’ remuneration has been fixed in accordance with the Rules and approved by the Creditors’ Committee.
- (b) The Distribution Plan is required to set out how the Administrators propose that such Costs are **allocated** between Client Assets, as well as how this might affect the **amount** of Client Assets to be returned to Clients. This therefore requires the Administrators to identify both the amount and proportion of Costs which each Client needs to pay.
- (c) The Administrators have set the initial Costs reserve at £21,904,032. The Administrators consider this to be a prudent estimate of the total Costs to be incurred in completing the return of Client Assets.

### 15.2 How are Costs allocated between Claimants (Clause 13)?

- (a) The Administrators have a discretion as to the method by which such Costs are to be allocated between Claimants. In exercising this discretion and following consultation with the Creditors’ Committee, they have considered a number of different methodologies to determine which is most appropriate and proportionate for the Distribution Plan.
- (b) Based on the known Clients of the Company with a claim to Client Assets, a per Claimant sum capped at the **lower** of:
- (i) £2,500 (referred to as the Cost Threshold in the Distribution Plan); or
  - (ii) the value of a Client’s Client Assets (referred to as the Costs Allocation Value in the Distribution Plan),
- will be charged.
- (c) The above is subject to any adjustments explained at section 15.4(a) below, resulting in a Costs rebate being paid back to Claimants.
- (d) Importantly, as explained above, it is anticipated that over 98% of Claimants will be eligible for compensation from the FSCS, which will cover the share of Costs

applicable to them. As a result, the Administrators currently understand there are only approximately 121 Claimants who may not be eligible for FSCS compensation, and who will be required to settle their share of Costs as a precondition to the return of their Client Assets.

### 15.3 Why has a per Claimant basis for allocating the Costs been adopted?

- (a) The Administrators have concluded that, as a matter of principle, it is fair to allocate the Costs on the capped per Claimant basis, after having considered a number of alternative methods and discussed this with the Creditors' Committee and the FSCS. The allocation of Costs on this basis has been determined by the Administrators to be fair and appropriate having regard to a number of factors, including:
  - (i) the large majority of the Costs cannot be apportioned to specific Clients or Client Assets; rather, they apply to the process in general and the accrual of Costs is driven more by the **number** of client accounts the Administrators and their Advisers are dealing with than the value of the respective positions held by Clients in their accounts – this makes an allocation of Costs per Claimant more appropriate than an allocation in accordance with the value of Client Assets held for a Client;
  - (ii) the anticipated difficulties, delays and increased costs associated with a valuation basis, due to the likelihood and number of valuation disputes, particularly given the challenges around the valuation of certain Client Asset categories managed by the Company where no market or standard valuation would be available; and
  - (iii) the support of the Creditors' Committee, including the FSCS, for this approach.
- (b) As the per Claimant amount is fixed at £2,500 or, where lower, the Cost Allocation Value, this ensures that no party is ever required to settle a share of the Costs which is more than the value of their Client Assets.
- (c) Alternative methods by which to allocate the Costs were considered. This included a pro-rated basis where Clients would be charged based on the value of their Client Assets. This method would have included a process whereby the Administrators would have had to value all Client Assets for these purposes which would have taken some time and incurred additional expense. Further, given the number of unlisted securities held by the Company this process would have been particularly complicated with significant potential for Clients to challenge these valuations. This process would therefore have taken considerable time, incurred significant additional costs and would not, in the experienced view of the Administrators, have been appropriate in this case.
- (d) The Administrators can also confirm that a fixed costs basis similar to that proposed for the Company has been used in the three most recent cases in which other investment banks have been placed in special administration and a Distribution Plan has been approved by the Court.

### 15.4 Will my share of Costs be adjusted?

- (a) The share of Costs will not be increased above the Cost Threshold of £2,500; however, it is possible that the share of Costs will be reduced.
- (b) On a six-monthly basis (8 October and 8 April) during the life of the Distribution Plan starting on 8 April 2021, the Administrators will determine whether the Cost Threshold, and therefore a Claimant's Share of Costs, needs to be reduced, because of:

- (i) the total amount of the Costs that have been or may be incurred being reduced. This may be because of actual Costs being less than previously estimated and/or a revised estimation of future Costs by the Administrators; and/or
  - (ii) additional Claimants being required to contribute towards the Costs (e.g. because Client Assets that previously could not be returned have become returnable or because additional Claimants have been determined to have agreed claims to Client Assets).
- (c) If there is a reduction in the Cost Threshold, the Administrators will notify you and:
- (i) if you, as opposed to the FSCS, have already paid your share of Costs, you will be entitled to a rebate of the difference between the amount paid and the reduced amount due, provided this amount is £100 or more. If the FSCS have paid your share of Costs, they will be the party entitled to any rebate. The Administrators will make any payment due in that respect as soon as reasonably practicable; and
  - (ii) if you have not already paid your Share of Costs, you will only be liable for the reduced amount,
- and in each case, any Shortfall Claim that you (or the FSCS) may have will be reduced by a corresponding amount.
- (d) The minimum threshold of £100 per Client has been set as, if it were any less, the cost of confirming the payment details, making any repayment by bank transfer, the bank transfer costs and the cost of updating a Claimant's records would exceed the amount paid, negating, in full, the rebate.

#### 15.5 How do I pay for my Share of Costs (Clause 15)?

- (a) If you are an FSCS Protected Claimant, the FSCS will pay your share of the Costs (together with any other losses) up to an aggregate limit of £85,000. This is referred to as the **Compensation Process** under Clause 15.1(a) of the Distribution Plan. FSCS compensation is not available to fund any payment required to discharge any Pre-Administration Outstanding Amounts.
- (b) Where you are an FSCS Protected Claimant but may have failed to indicate in your claim or through the Portal whether you wish to benefit from FSCS compensation, the FSCS will proceed to pay your share of the Costs in any event, up to their compensation limit, without any further steps being required from you provided that the total value of your Client Assets and Client Money is £85,000 or less.
- (c) Where you are an FSCS Protected Claimant and the total value of your Client Assets and Client Money is more than £85,000, the FSCS require that you confirm through the Portal (or otherwise) that you wish to benefit from FSCS compensation, before they can pay your share of Costs.
- (d) If you have indicated through the Portal (or otherwise) that you do not wish to benefit from FSCS compensation, the Administrators will contact you directly to ensure you fully understand the implications of this decision.
- (e) If you are not an FSCS Protected Claimant, you have opted not to benefit from FSCS compensation or you have not given any confirmation required by the FSCS, your share of the Costs will need to be paid by you before your Client Assets can be returned. In addition, if your losses arising out of the special administration of the Company exceed the FSCS compensation limit of £85,000 per Claimant, then your share of the Costs which exceeds the FSCS compensation limit will be payable by you (although the Administrators do not anticipate that this will apply to any Clients).

- (f) For Claimants who do not or cannot make use of the Compensation Process, the Distribution Plan allows you to pay your share of Costs by selecting any of the following Costs Options (including a combination of them) which will be set out in the Payment Options Form:
- (i) the **Cash Option**, under which you can pay to the Administrators the amounts due in GBP Sterling by bank transfer or by cheque (which must first clear);
  - (ii) the **Client Money Option**, under which you can instruct the Administrators to use part of your Client Money Distribution Entitlement (if applicable) to cover the amounts due under your share of Costs, provided that you have a positive client money balance; or
  - (iii) the **Liquidation Option**, under which you can instruct the Administrators to sell enough of your Client Assets to pay the amounts due under your share of Costs. If this option results in a cash surplus, after the deduction of any Pre-Administration Outstanding Amounts, that surplus will be returned to you. This option may cause a delay as the mechanics of the liquidation of Client Assets are complicated.
- (g) If you have chosen the Cash Option:
- (i) If you wish to pay electronically by bank transfer, transfers should be made to the account detailed in the Payment Options Form. The reference should include "SOC" and clearly state your name and Reyker Client ID.
  - (ii) If you wish to pay by cheque, the cheque must be sent to Reyker Securities Plc (in special administration), Smith & Williamson LLP, 25 Moorgate, London EC2R 6AY and should reference your Client Identification Code on the back of the cheque. The cheque must be received by the Administrators and must clear at least 5 Business Days prior to the date of any Transfer or Distribution. Given there may be a short delay in processing cheques received by post, the Administrators would strongly recommend the bank transfer option, where possible.
- (h) If you are unable to cover your share of Costs by using only one of the Costs Options, then you can choose more than one Costs Option to settle the full amount of your share of Costs. In doing so, you must rank these options in order of preference on your Payment Options Form. Each option will be used in full before a lower ranking costs option will be used.
- (i) If you choose the Liquidation Option, you are required to either:
- (i) give express instructions in your Payment Options Form as to which Client Assets are to be liquidated and in what quantity in order to discharge your share of the Costs; or
  - (ii) confirm that the Administrators will have discretion as to which Client Assets to liquidate and when.

If you fail to provide any such express instructions or the express instructions provided do not enable the Administrators to discharge your share of the Costs, after the Administrators have tried and failed to obtain express instructions from you, they will have complete discretion as to the amount and type of Client Assets to sell, and the time and date on which they sell such assets.

Where a Client instructs the Administrators to liquidate specific Client Assets, the Administrators will not be able to commit to any specific timing for this and will not

be responsible for any changes in the Client Asset values between the Client choosing this option and the actual liquidation of the Client Assets.

Clients are responsible for ascertaining: (i) that their Client Assets can be sold for these purposes; and (ii) the value on sale of their Client Assets, before choosing the Liquidation Option.

**15.6 What are my options if my Client Assets are worth less than the Cost Threshold of £2,500?**

- (a) If the valuation of your Client Assets is less than the Cost Threshold then you (or the FSCS for FSCS Protected Claimants) will only be required to pay this (lesser) amount in order to settle your share of Costs.
- (b) The valuation for these purposes will be based on the closing value of the Securities making up your Client Assets Claim at the end of 7 October 2019 on a recognised stock exchange or, where such Securities are not traded on a recognised stock exchange, the nominal value of those Securities as determined by the Administrators. For the purposes of this valuation the Administrators will be using the Company's value in its records, as supplied to it by the respective company or Investment Manager, as at 8 October 2019, and as provided to Clients, by the Administrators, in their letter of 22 November 2019.
- (c) The Administrators have agreed to notify each Claimant whose share of the Costs cannot be paid in full by the FSCS and who the Administrators believe is likely to have Client Assets which have a value lower than the Cost Threshold. In those circumstances, you:
  - (i) need only pay, as your share of the Costs, the amount of the value of your Client Assets (the Costs Allocation Value); but
  - (ii) may elect in your Payment Options Form (or otherwise) to release the Company from any obligation to return the relevant Client Assets to you in return for not paying your share of the Costs (i.e. give up any rights to your Client Assets). If you elect to release the Company and the Administrators from those obligations, you will be automatically deemed to have submitted a proof of debt for an unsecured Shortfall Claim for the value of your Client Assets without needing to take any action.

**15.7 Will my share of Costs be treated as an unsecured debt claim?**

- (a) If you are one of the Clients who has paid your share of Costs (rather than these being settled by the FSCS), the amount which you have paid will be treated as an ordinary unsecured debt owed to you by the Company.
- (b) If you are an FSCS Protected Claimant and your share of Costs has been paid by the FSCS, the FSCS will have the benefit of the relevant unsecured claim against the Company.
- (c) However, as the Company is insolvent and has very few assets of its own, it is not currently expected that any dividends will be paid in respect of unsecured claims.

**15.8 Can my Client Assets be subject to a Transfer or a Distribution if I have not paid my share of Costs?**

- (a) No, it is a pre-requisite that a Client's share of Costs are settled before Client Assets can be transferred or distributed to them.
- (b) However, the FSCS will pay the share of Costs directly to the Administrators for the majority of Clients who are eligible to receive FSCS compensation. It is only if you

are not an FSCS Protected Claimant that arrangements must be made for the payment of your share of Costs.

**16 HOW WILL PRE-ADMINISTRATION OUTSTANDING AMOUNTS BE CALCULATED AND WHAT IF I DISPUTE THE PRE-ADMINISTRATION OUTSTANDING AMOUNT?**

- 16.1 A Client's Pre-Administration Outstanding Amount will be calculated in accordance with Clause 17.2 of the Distribution Plan. Please note that if you have a Client Money entitlement, the Administrators are entitled to deduct outstanding balances owed to the Company from the Client Money that would otherwise have been paid to you in satisfaction of your Client Money Distribution Entitlement and this will be taken into account in calculating your Pre-Administration Outstanding Amount (see clause 14.9 of the Company's general terms and conditions of business). The Administrators intend to complete this deduction before completing any distribution of Client Money.
- 16.2 The Administrators will include the amount of any Pre-Administration Outstanding Amount in both the Client Assets Return Statement and Payment Options Form to be made available to the Client as soon as reasonably practicable following the Effective Date.
- 16.3 In the event that a Client is dissatisfied with the Administrators' calculation of any Pre-Administration Outstanding Amount set out in that Client's Client Assets Return Statement and Payment Options Form, pursuant to the terms of Clause 17.4 of the Distribution Plan, the Client may apply to Court within 21 days following the date on which the Client Assets Return Statement has been made available on the Portal. In the first instance, however, Clients are requested to contact Client Services on 0800 048 09512 to discuss this.
- 16.4 If a Client:
- (a) does not appeal to Court within the **21 day period** referred to above;
  - (b) appeals but the Court rules in favour of the Administrators (and all rights to appeal have been exhausted); or
  - (c) abandons or settles their claim at the level originally proposed by the Administrator,
- the Administrators' calculation of a Client's Pre-Administration Outstanding Amount will stand.
- 16.5 Where a Client successfully appeals to the Court or agrees or settles their claim at a level different to that originally proposed by the Administrators, that new amount will be the Pre-Administration Outstanding Amount that is required to be paid by the Client for the purposes of the Distribution Plan.

**17 HOW WILL PRE-ADMINISTRATION OUTSTANDING AMOUNTS BE PAID?**

- 17.1 The Administrators have already written to clients with Pre-Administration Outstanding Amounts and updated the Company's records where these amounts have been paid. If you have paid your Pre-Administration Outstanding Amounts then you need take no further action.
- 17.2 As set out above, if you owe any Pre-Administration Outstanding Amounts to the Company, your Client Assets cannot be returned by Transfer or Distribution unless and until you pay these amounts. The FSCS cannot settle these amounts for you as it is not a compensable loss, being a pre-administration debt owed to the Company. The options for paying your liabilities are the same options described in relation to the payment of Costs in section 15.5(f) above. If you have chosen to pay your Pre-Administration Outstanding Amounts in cash and wish to pay by cheque, please note that the guidance set out in section 15.5(g) above applies equally in this section.
- 17.3 Please note that the calculation of Pre-Administration Outstanding Amounts under the Distribution Plan takes into account any Client Money being held for a Client as at 8 October 2019. As a result, you will only owe a Pre-Administration Outstanding Amount to the extent that what you owe to the Company exceeds the amount of Client Money held for you. This means that if the amount you owe the Company is lower than or equal to the amount of Client

Money held for you, the Administrators are entitled to deduct the former from your Client Money entitlement.

- 17.4 The Administrators intend to rely on the relevant provisions of the Distribution Plan, which require the payment of Pre-Administration Outstanding Amounts before any Client Assets are returned by Transfer or Distribution (See Clauses 5.4 and 6.3). For completeness, clause 14.9 of the Company's terms of business permit the Company to realise any Client Assets held on behalf of a Client in order to discharge any obligations owed by that Client to the Company. The Administrators do not intend to exercise this power, unless required to do so, and instead intend to recover Pre-Administration Outstanding Amounts under the provisions set out in the Distribution Plan, in the Company's client terms of business and in the relevant legislation allowing deduction from Client Money for that purpose.
- 17.5 The Administrators intend to complete this deduction before any Transfer to a Nominated Broker where Clients have not otherwise paid those outstanding balances by then, because this means that any such Clients will transfer to the Nominated Brokers providing earlier access to the Client Assets and mitigating any otherwise unnecessary increase in the Costs.



## **APPENDIX 1: BACKGROUND INFORMATION ON THE COMPANY, THE SPECIAL ADMINISTRATION AND THE DEVELOPMENT OF THE DISTRIBUTION PLAN**

### **What is in this Appendix 1?**

This Appendix 1 contains background information about the Company, the special administration and the development of the Distribution Plan which you may find relevant to your review of the Distribution Plan and this Explanatory Statement.

#### **Summary**

- 1 On 8 October 2019, the Company was placed into special administration by Court order under the Investment Bank Special Administration Regulations 2011, following an urgent application made by the Company's directors. Mark Ford, Adam Stephens and Henry Shinnars were appointed as the Administrators of the Company.
- 2 The Company is an investment bank within the meaning of section 232 of the Banking Act 2009. It is authorised and regulated by the FCA and in the course of its business it was authorised to hold client assets for clients. Prior to the entry of the Company into special administration, the FCA had imposed a voluntary requirement which placed restrictions on the conduct of the Company's regulated activities.
- 3 The business of the Company, and its entry into Special Administration, has been addressed by the Administrators in their report and statement of proposals dated 25 November 2019, which can be found on the Website.
- 4 Following their appointment, after an initial review, the Administrators concluded that the most appropriate strategy was to set a Soft Bar Date and proceed to return Client Assets pursuant to the distribution plan procedure provided by the Regulations and the Rules. In conjunction with this, the Administrators have worked closely with the FSCS regarding compensation arrangements, in particular, in relation to the Costs being incurred in connection with the return of Client Assets.
- 5 As detailed in section 6 of this Statement, the Administrators sought initially to agree a Transfer of the Client Assets to a single Nominated Broker and issued a sale contract on this basis in February 2020. However, it has not been possible to agree any Transfer to a single broker and, as a result, the Administrators are now pursuing separate bulk Transfers to five main Nominated Brokers.
- 6 Since that time, the Administrators have worked to reconcile the Client Assets based on the Company's books and records and to make preparations to return Client Assets to Clients under the Distribution Plan. The Distribution Plan has been approved by the Creditors' Committee, which represents the Clients and creditors of the Company as a whole (rather than the interests of certain parties or individuals).
- 7 The FSCS (which is represented on the Creditors' Committee) has also reviewed drafts of the Distribution Plan and has approved it. The Administrators shared the final form Distribution Plan with the FCA on 3 August 2020 and on the same day the FCA confirmed that it had no objection to the Distribution Plan and did not propose to attend the hearing.
- 8 A significant amount of work has had to be done by the Administrators since their appointment to get to the stage where they can implement the Distribution Plan. It has included, for example:
  - (a) analysing and reconciling the accounts of over 11,000 Claimants, as well as Client Money balances;
  - (b) reconciling post-pooling receipts arising from Client Assets held;

- (c) seeking to establish and maintain contact with Clients listed in the Company's books and records and their investment managers;
- (d) reviewing claims submitted by Clients following the Soft Bar Date and updating their reconciliations by reference to those claims;
- (e) engaging with custodians and depositories to gain control of the Client Assets and Client Money held for Clients;
- (f) formulating a plan and engaging with custodians to arrange the return of Client Assets;
- (g) securing funding to ensure that critical operations are maintained in order to facilitate the Transfer and Distribution of Client Assets;
- (h) providing data to the FSCS to ensure that compensation can be paid to FSCS Protected Claimants and FSCS Protected Scheme Members;
- (i) working with the FSCS to agree a process by which Costs can be borne by the FSCS directly and automatically, rather than by eligible Clients who would subsequently be compensated by the FSCS;
- (j) taking in excess of 13,000 calls and responding to nearly 10,000 emails from Clients;
- (k) relocating the Company employees from the Company's offices to all working from home;
- (l) running a marketing and sale process, identifying three potential purchasers for the entire business and, ultimately issuing a sale contract to the preferred purchaser;
- (m) following the withdrawal of the proposed purchaser's offer, pivoting the strategy and selecting the Nominated Brokers, negotiating the terms and logistics of the Transfers, and agreeing the form of Transfer Agreements with them;
- (n) drafting the Distribution Plan and associated documents, such as this Explanatory Statement, in consultation with the Creditors' Committee, the FCA and the FSCS; and
- (o) developing a parallel strategy for returning Client Money to Clients.