

Beaufort Clients and Creditors meeting – 10th May 2018

Meeting started at 11:45am

Administrators present:

Russell Downs

Nigel Rackham

Notes by:

Nandish Haria

Venue of meeting:

The Platinum Suite, ExCeL London, One Western Gateway, Royal Victoria Dock, London E16 1XL.

The purpose of the meeting and its agenda can be found here:

[https://www.pwc.co.uk/business-recovery/administrations/assets/beaufort_noticeofreportandmeeting_20180420\(2\).pdf](https://www.pwc.co.uk/business-recovery/administrations/assets/beaufort_noticeofreportandmeeting_20180420(2).pdf)

Notes:

Registration of attendees started at 10:30am and there was a separate desk for attendees who had not confirmed attendance previously. Between 250-300 attended the meeting.

I had a chance to distribute leaflets to various clients and listen to their thoughts; one theme common to all were the ridiculous £100m costs that PwC wanted to charge and a strong opinion that the proposals must not be allowed to go through. Everyone was very angry, and the atmosphere right up-to the end was charged.

The meeting started at 11:40am with Russell Downs making some opening remarks:

1. The directors were invited but declined to attend and did not avail a statement either
2. FCA / FSCS were not present
3. The PRESS had not been invited.
4. The purpose of the meeting is to form a creditors committee to work with PwC in agreeing on a distribution plan to meet the objective of returning client assets / money expeditiously.
5. Encouraged all stakeholders (clients and creditors) to vote FOR the proposals as it would be the best way to keep all the costs under control.

He acknowledged that he was aware that many clients had the intention of rejecting the proposals and the consequences of this would be to inevitably increase costs and delay the return of assets beyond September 2018.

As per his perspective, BSL and BACSL tried to grow organically and by way of acquisitions. There were a number of companies in the group; the holding company is Beaufort International Associates which is not insolvent and provided equity to both BSL and BACSL. A Beaufort Mauritian company was also mentioned.

Most of what Russell mentioned has already been covered in the Proposals (available here: https://www.pwc.co.uk/business-recovery/administrations/assets/beaufort_administratorsproposals_20180425.pdf) and various letters to clients.

Nigel Rackham said that a lot of work had been done to reconcile the firms' several systems with those of the custodians. There were several key uncertainties due to the nature of the records and the systems migrations in the later part of 2017. He gave several examples:

1. Some rogue data (not assets) found its way into particular client accounts. That data was viewed on the company portal and acted on by some clients who chose to sell assets to which they had no entitlement. And that has created short positions in certain stocks and will no doubt affect other clients who had positions in those stocks.
2. A number of compliance weaknesses, absence of customer checks, manipulation of records, presence of potential fraudsters in the books
3. The firms were charged by the DOJ and it's anticipated that more enquiries will ensue.

The company's records cannot be relied upon to ascertain clients' entitlements, and hence the need for a proper verification process. The portal opening, bar date and legally sanctioned distribution would help in the transfer of assets by September 2018 with legal certainty.

The distribution plan is still being worked on, will be developed with the clients and in consultation with the committee who will have a key role in signing it off. PwC hopes to have the distribution plan sanctioned in June before the court recess and there will be a 3 month period between bar date and distribution of entitlements.

PwC aims to get vast majority of clients by number and value out in September 2018, however complex client positions will need more work such as deceased clients, untraceable clients, struck-off corporate clients, non compliant clients and tainted assets.

Costs and cost reserving

He also mentioned that they are acutely aware of the concerns regarding costs, but PwC is working under the regime of the SAR Rules and regulations and costs must be deducted from client assets / money as there is no solvent house estate. There is no other route for costs to be paid.

Regarding the allocation of costs, he mentioned the three options below and that they are still in the process of consulting.

1. Have considered a flat allocation across all clients but this will unfairly penalize clients with smaller portfolios
2. And a pro-rata allocation will penalize larger portfolios
3. Have considered a sliding scale

If costs are based on valuation, valuation will be a tricky issue and hence they have taken a prudent view on the value of illiquid stocks, and that's where the 40% shortfall mentioned in the proposals is from. If the value of stocks is higher, the percentage of costs will come down. Distributions of client money will incur a flat rate charge.

It would be necessary to make a prudent early reserve for costs as the only place to get costs is from client assets.

He quoted several operational costs including but not limited to:

1. 35 ex-Beaufort employees
2. IT costs
3. Legal and advisors costs (They are using one of the most expensive law firm in the country, Linklaters)
4. Costs of PwC team. Over the previous 8-9 weeks, a team of 30 PwC full-time staff were working on this assignment.
5. Funding costs for the loan taken out to fund the administration
6. VAT is irrecoverable, so that would be an extra 20%

In the case of lower costs, a mechanism for returning unnecessary reserves back to clients will be put into place. Fees are subject to committee approval and he also mentioned that they are open to processes to align fees to clients' objectives.

There was a Q&A session afterwards. Questions & Answers are at the end.

Once the Q&A session was done, attendees were informed that 29 clients had sent in requests to be on the committee and others present at the meeting indicated they were interested as well. Due to the huge interest in being on the voting committee, an additional observation committee without voting powers was also allowed.

Possible nominees were split into categories of Small Client, Upto £1m, £1m - £10m and over £10m.

	Small Client	Upto £1m	£1m - £10m	Over £10m	Over £10m
Nominee (Voting)	Allen Chandler	Clive Brook	Robin Binks	Nick Moser	Robert Lee
Co-op nominee (Observation)	David Kipling	Anthony Bretton	Mark Hyde	Adam Stephen	John Yorke

Results of the voting will be released by PwC later.

Questions and Answers

Q

If clients equities are sold to raise fees, will PwC make sure that the shares in a loss position are sold first to avoid CGT?

A

Will only sell shares as a last resort, the worst position would be to exercise judgement over clients' multiple holdings and determine which shares to sell and in what order.

We will find a way to use the client money balances if one exists, or for the client to fund to enable the shares to be returned in whole. If the client doesn't want to do that, then the obvious next step is to suggest what shares are sold first and liquidate the shares on that basis.

If costs were allocated on valuation, illiquid portfolios could cause complexity as more shares than necessary would have to be sold.

If costs were to reduce to £60m, then the 700 clients fall to 300 clients

Q – Pritchard Stockbrokers had a similar size asset base and Mazars did this work for a much lower amount of fees.

A - Drivers in every situation are different.

Q - Why don't you step aside and let Mazars do this one?

A - No, no

Q

It seems to me that the whole basis of these costs is that you keep control of our shares, you sell them so that it's an easy way of getting your money. I have continually put this proposition to you that there should be a flat rate, everyone is entitled to £50,000 and it's the cost of this administration that can be claimed back, not just the loss on your account. So why can't you divide it by the number of clients so that this all goes away. We are all furious, we are talking about taking legal action, you will use our shares to fund your legal defence and I don't understand why the FCA and the FSCS are not here today. I wrote a letter to the FSCS, all 11 board members, and I haven't had one reply, even from Jimmy Barber who is the CEO. It seems to me that if you can't sit around the table and sort this out, this might happen again! How the hell do you justify charging £60m?

A

To address a number of issues:

Those people going for a flat rate fee are likely to have higher value positions and as Nigel suggested, where you have a flat fee and a number of clients, you end up in a situation where the lower level of clients have a much bigger representative loss.

Q

But they are covered by the FSCS, so how is that not fair?

A

We are working with the FSCS to come up with a number of ideas and we will discuss that with the committee, we will work out a way of sharing costs that is appropriate. It is highly unlikely that it will please everyone. There are about 100 clients who have positions worth more than £800,000 and of course, there is going to be a disparity in allocating costs that will keep that community happy vs the 1000s of clients that have a balance under £20,000. Allocating costs will be a matter of great debate and we will share that with the committee.

Q

What about the PI insurance?

A

Quick comment on the FSCS position, FSCS do have eligibility requirements and there are a large number of corporate entities who will not have recourse to FSCS. We have reviewed the PI and it is limited, there are already potential claims that would exhaust the limits.

Q

This is a rare occasion where creditors have not had a say in appointing the administrator. I think a lot of the frustration is because of that fact. All the arguments about costs would become less emotionally charged if those costs are properly controlled. Pritchard had huge problems reconciling client entitlements, but from what I understand as you say it, this is a relatively clean

situation in terms of client assets / money. If you do a quick calculation, I reckon it's about £10m worth of costs incurred to get us here, the vast majority of work seems to be done and what remains is the distribution. How is that going to cost £90m?

A

I can re-iterate that we don't want it to cost that amount of money, and in the right forum we can debate our remuneration. There are particular complexities in the records and fraud allegations and it's not straightforward. There are still many thousands of clients impacted by discrepancies.

Q

Worst case scenario is £100m, what is the best case scenario? Why can't you provide a breakdown explaining costs?

A

These will be provided in due course, and various scenarios that would be discussed with the committee will affect the break-downs. We have spent about £6m for two months and the costs depend on how many clients come into the distribution plan. A return of client assets / money in September will mean about another £20-£30m and a quick distribution will ensure that costs will drop dramatically. We had to give a worst case scenario, but all costs will be managed appropriately. The committee clearly have a role, we can be very transparent and you will see pages of fee disclosures. We are happy to share budgets, scenarios once we have built those with the committee.

Q

We heard that you have been approached by 13 brokers who would not mind taking over the clients

A

Yes, we did and PwC will nominate one for the transfer of assets after the sanction by the court of the distribution plan so that clients are protected and receive clean title.

Q

It's bad enough that clients have realized that assets were not ring-fenced as we thought they would be, but the systemic shock waves that will come through if you were to charge clients for leaving their assets in a nominee account, no client will leave assets in nominee accounts going forward.

A

I cannot answer your first question as it's a regulatory question.

Q

I have been to a number of creditors meeting and this is the first one in 34 years where you have not identified the size of the hole. I will be very curious

to know what this deficit is in approximate terms. You have given us an approximate fee, how come you can't approximate the deficit?

A

Client assets to some extent are a question of valuation. Client money is largely intact; we are talking about low hundreds of thousands in relation to the £50m figure. There are a whole host of issues but that number has been going down over the months. When people go through the portal process, it will eventually prove if there is any deficit at all.

Regarding client assets, we are still working on corporate actions, dividends and endeavouring to address any anomalies. We do not think that the value of deficits is massive.

Q

Would it be true to say the combined deficit is less £1m for both client assets and money?

A

Not sure about the exact figure, but that probably near there.

Q

So we are going to spend £100m to recover £1m of deficits? You people are mad, and you need to be thrown out. What you are doing today is criminal, how much do we have to pay you to go, it's cheaper!

A

Ultimately, we have been appointed by court, the distribution plan and costs can be discussed in court, the views of clients and creditors can be wrapped up in that process. I absolutely get that you are measuring the costs compared to the deficiency, but in these circumstances, there are no other assets available to pay these costs and we have had to unravel a lot of complicated issues.

Q

I think a number of us know about the Big 4, and we already know that administration is THE most profitable activity of these firms. Several attendees have asked this yet you haven't explained why you are charging £100m, and why it should be higher than any previous precedent. So my question is, what is your day rate?

A

£900 / hour + VAT

Q

Is this what you are going to charge us?

A.

No, you asked for my day rate. In this context, PwC fees will be provided to the committee and they have the mandate to agree that. If they approve of the people, scope of the work and the skill-set, there will be a debate in the committee forum on the agreement on the fees. Time will tell what the overall cost will be.

Q

From the mood in the meeting, it seems that you won't have your proposals voted through. What I suggest is a ceiling on your costs of £30m, and if there might be exceeded at a future time, that a meeting is called again.

A

If we can see progress is made over the next 6 weeks, we can revisit the costs at anytime.