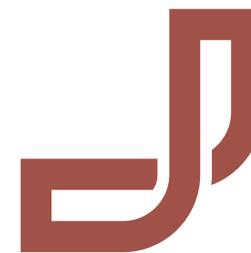




Reyker Securities plc (in Special Administration) (the “Company”)



Update to Clients and Creditors following the first
meeting of the Clients’ and Creditors’ Committee

14 February 2020



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Joint Special Administrators' update - 14 February 2020

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Capitalised terms within this document are as defined within the JSAs' report and statement of proposals dated 25 November 2019.



Introduction

Background

- At the meeting of the Company's Clients and Creditors held on 16 December 2019, the Clients and Creditors both resolved for a Clients' and Creditors' committee to be established and for the following members to represent the interests of the Company's Clients and Creditors generally:
 - Compass Bank
 - Custodian Life
 - Financial Services Compensation Scheme
 - Puma Investment Management Limited
 - Mr. A. Yadgaroff (together "the Committee")
- Following each of the proposed members consenting to act and signing a non-disclosure agreement, the Committee was duly constituted.
- The first meeting of the Committee was held on 30 January 2020. All members attended with the FCA also in attendance as an observer.
- These slides were presented at the meeting but have been modified to serve as a general update to the wider body of Clients and Creditors.

Next steps

- The following slides provide an update with regard to the JSAs' Reconciliation, the negotiations with interested parties and regulated brokers and the development of the client portal ("the Portal") which will be utilised to agree Client claims as efficiently and as cost-effectively as possible.
- At present, there is nothing for Clients to do.
- Page 10 of this slide deck confirms that the JSAs have accepted an offer for the sale of the Company's business and assets and the transfer of Client Assets subject to contract. It is anticipated an exchange of contracts will take place in the coming weeks.
- Given the purchaser has now been identified, the JSAs intend to issue formal notice of a bar date for both Client Money and Custody Assets, being the date by which Clients must confirm their holding via the Portal.
- It is anticipated the bar date notice will be issued in February 2020 once the Portal has been fully tested and secured. Further instructions will be provided to Clients at this time.



Client Assets held by the Company

- Clients Assets held by the Company total c. £977 million (as at 8 October 2019), being:
 - Custody Assets of c. £920 million across 15k Client plans and 3k securities;
 - Client Money within the CMP of c. £57 million across 5k Client plans and 118 bank accounts;
- Post pooling receipts now total c. £20 million (previously c. £9.5 million as at 11 December 2019)

Custody Assets

| Type of Custody Asset | Value (£)* |
|----------------------------|--------------------|
| Private Equity | 245,138,255 |
| Listed Corporate Bond | 195,639,893 |
| Structured Product | 187,537,432 |
| Non-UCITS Fund | 81,079,778 |
| Standard Equity Investment | 73,630,109 |
| Overseas UCITS Fund | 38,570,020 |
| Unlisted Corporate Debt | 29,138,396 |
| Securitised Derivatives | 20,157,106 |
| IP Group Private Equity | 16,905,653 |
| UCITS Fund | 11,035,683 |
| Sovereign Debt | 7,533,417 |
| LLP Entitlement | 6,246,052 |
| UCITS ETF | 4,492,576 |
| Hedge Fund | 2,152,827 |
| ETC | 442,604 |
| Asset total* | 919,699,801 |

Client Money

| Client Money Pool | Value (£)** |
|--------------------------|-------------|
| GBP, USD, Euro and other | 57,281,884 |

Post pooling receipts

| Post pooling receipts (28/01/20) | Value (£) |
|----------------------------------|------------|
| GBP, USD, Euro & other | 20,097,441 |

Previously reported as £9.5 million as at 11 December 2019.

** Client assets are still subject to the review of a number of physical certificate checks.*

*** Valued as at close of business on 7 October 2019. Values remain subject to market forces and will vary with time.*

N.B. The value of Custody Assets as at 8 October 2019 has reduced by £150k since our last report on account of capital proceeds received in respect of a redemption being mis-posted by the Company as dividend income prior to the Special Administration. The respective Custody Asset was actually sold in December 2017.



Strategy for the return of Client Assets

- The Company is now in a specialist insolvency process known as Investment Bank Special Administration, a process introduced in 2011. The detail of this process is set out in the Investment Bank Special Administration Regulations 2011 (amended in 2017) (“Regulations”) and the Investment Bank Special Administration (England and Wales) Rules 2011 (“Rules”) which must also be read together with the FCA's Client Assets Sourcebook (“CASS”) (together “the Legislation”).
- The Legislation is written to ensure that a fair and consistent approach is applied to all Clients in relation to both their Client Money and Custody Assets (together “Client Assets”) and the return thereof.
- In accordance with the Legislation, the quickest and most cost-effective way for the Client Assets to be returned to Clients is for them to be transferred to a single broker (i.e. the purchaser) by way of one wholesale transfer. This is the strategy that the JSAs are pursuing.
- Given Client Money is held across circa 100 bank accounts for thousands of Clients and the securities may be held on behalf of a number of Clients, if Client Assets were to be transferred immediately to a new broker now, solely on the basis of the Company’s records, Clients might be at risk of claims from other Clients or third parties who may argue that the Company’s records were not correct. That could mean that Clients might not get what they are entitled to and transfers might need to be reversed later on. This also brings risk and uncertainty to both the JSAs and the purchaser.
- Accordingly, the Legislation provides for a legal process that offers protection for Clients, the JSAs and the purchaser against the above.



Strategy for the return of Client Assets

- The legal process involves the JSAs setting a deadline for Clients to submit a claim to Client Assets (known as the “Bar Date”) and for Client Assets to be transferred according to a detailed plan prepared by the JSAs and approved by the Clients’ and Creditors’ Committee and the Court (known as a “Distribution Plan”).
- As part of this formal process, the JSAs will agree individual statements with each Client and are only able to commence the process once the JSAs’ Reconciliation required by the Regulations is complete.
- If Client Assets are transferred to more than one broker, the legal process and the consents required by the JSAs become more complex, and the JSAs consider that would cause very significant delay and materially increase costs.
 - This is why the JSAs are pursuing the wholesale transfer to one single purchaser and, at this time, are unable to consider the requests of Clients for their Client Assets to be transferred to their own preferred choice of broker. To adopt this alternative approach would not be in the best interest of all Clients and Creditors.
 - The purchaser’s offer anticipates a wholesale transfer of all Client Assets and incorporates a Bar Date and Distribution Plan process which should minimise risk and uncertainty to all parties.



JSAs' Reconciliation: Overview

- The review part of the reconciliation of both Client Money and Custody Assets was completed on 20 December 2020;
- The reconciliation concluded:
 - No material discrepancies have been identified and the Company's cash records and Client Statement are, overall, very good;
 - Cash discrepancies totalling <£100,000 required additional investigation;
 - There is an overall shortfall of Client Money resource in the sum of £3,338 (representing 0.01% of all Client Money held within the CMP), however, the Company has historically provided funds of c. £70,000 in order to meet shortfalls arising from errors;
 - Discrepancies relating to physical certificates for approximately 80 holdings are subject to additional review which is ongoing; and
 - A Custody Asset was sold for £150,000 in 2017, however, the receipt was allocated as dividend income as opposed to capital receipt. Whilst the proceeds are accounted for within the CMP and credited to the correct Client Statement, it resulted in Custody Assets being overstated by the respective number of units which has now been corrected.
- Since the New Year, we have been seeking to rectify the identified cash holdings discrepancies which can broadly be categorised into one of three categories. Additional detail is provided on the next page.
- We are presently seeking to obtain the original physical certificates which are unaccounted for and could not be obtained from Companies House through either the corporate intermediaries or the designated Registrar or Company Secretary of the respective holding.
- We are advised by the head of our independent review that these discrepancies are unlikely to result in a client shortfall.
- A number of these reconciliation discrepancies have already been resolved throughout January 2020. The ongoing work will be done in parallel to notifying Clients of the Bar Date process and drafting of the Distribution Plan.



JSAs' Reconciliation: Identified anomalies

| Anomaly | Aggregate value (£) | Narrative |
|---------------------------------|---------------------|---|
| Stamp Duty Reserve Tax ("SDRT") | £51k | <ul style="list-style-type: none">• Reyker previously acquired holdings in 6 securities on behalf of a number of its Clients that were understood to be stamp duty exempt; it subsequently transpired the Company's understanding was incorrect;• The Company paid the resulting pre-appointment SDRT on the Clients' behalf;• The SDRT has not been repaid by the Clients;• We are writing to Clients to request payment and seeking legal advice as to whether the balance can be deducted from the respective Client Money balances within the CMP; and• The SDRT has been paid from house assets pending repayment from the respective Clients. |
| ISA tax relief | £21k | <ul style="list-style-type: none">• 20% tax relief has been credited to dividend and interest income received on Client ISA accounts;• This has been paid by the Company from pre-administration house assets and not reclaimed from HMRC; and• We have submitted the requisite forms to HMRC to reclaim this tax credit. |
| Unpresented cheques | £7k | <ul style="list-style-type: none">• The Company holds £7k in respect of aged cheques issued to Clients which have not been presented;• The Company does not hold up to date records for these Clients;• We consider it is uncommercial to resolve this matter other than to seek authorisation for the sum to be transferred as part of the Distribution Plan. |



Marketing the business for sale and negotiations with potential purchasers and regulated brokers

Strategy

- The quickest and most cost-effective way of releasing Client Assets for the benefit of all Clients is to transfer them to a regulated broker (i.e. the purchaser) by way of one wholesale transfer in accordance with the Regulations and Rules.
- This remains the strategy being pursued by the JSAs.
- At the meeting of 16 December 2019 we confirmed we had engaged Seneca and together contacted 132 parties, following which we received:
 - 52 expressions of interest;
 - 41 signed non-disclosure agreements to access a data-room;
 - 10 formal offers by the initial deadline of 8 November 2019; and
 - Proceeded to final due diligence with the 3 leading contenders
- Deadline for best and final offers was set for close of business on Friday, 13 December 2019

Negotiations

- Since 13 December 2019 we have held ongoing negotiations with each of the Interested Parties with a view to securing the best possible deal for both Clients and Creditors;
- Whilst undertaking negotiations and considering offers, we have taken account of:
 - The sum and payment terms offered;
 - The extent of the business/assets being acquired;
 - The implications for remaining employees;
 - The speed at which the transfer can complete;
 - Our confidence in each of the Interested Parties' ability to work with us in a co-operative and proactive way;
 - Feedback from the FCA; and
 - Whether any party would be willing to agree to a penalty fee free transfer window for requests, made by a Client after the anticipated wholesale transfer takes place, for the transfer of their individual holdings to a broker of their choice.



Marketing the business for sale and negotiations with potential purchasers and regulated brokers

Negotiations (continued)

- In addition to the aforementioned considerations, considerable time has been spent specifically addressing requests that were made from two of the prospective purchasers with regard to the pre-transfer treatment of staff. These discussions have added to the negotiation timelines.
- As with any negotiation, the JSAs did not get all the terms requested (as seller) but we can confirm that we have resisted sale terms that would have, in the opinion of the JSAs, risked crystallising claims in the administration.

Accepted offer

- We are pleased to advise that, after considerable discussions and negotiations, on 28 January 2020 we accepted an offer, subject to contract
- We have instructed our solicitors to draft the sale contract in line with the accepted headline terms and issued this to the purchaser on 7 February 2020

Terms of transfer

- The purchaser will (subject to contract) act as the exclusive nominated broker in return for an upfront consideration, plus a deferred element based on a percentage of custody revenue from the first year following transfer.



Client portal

- A bespoke online Client portal (“the Portal”) has been developed to enable Clients to submit claims for Client Money and Custody Assets
- This is critical to expedite the process of returning Client Assets whilst significantly mitigating costs.
- A front end user interface will be hosted securely via the cloud based Microsoft Azure platform using a new domain www.reykerportal.com
- Clients will be provided with a unique log in code which may then be changed to their own password following first login.
 - Legal advice confirms the log-in details must be sent to the Client directly however the Client may authorise an advisor / intermediary to assist them.
- The Portal will enable Clients to:
 - Update, review and confirm personal details and the respective holdings of Client Money and Custody Assets in each of their plans, as part of the bar date process;
 - Confirm acceptance of FSCS compensation, if eligible; and
 - Access historic statements via the document library (exported from former Reyker portal).
- The Portal will confirm each Client’s holdings of Client Money and Custody Assets as at 8 October 2019 (being the date of the Special Administration) pursuant to the Regulations.
- Client Money in each of the Clients’ plans will be quoted in the native currency (e.g. Euro, USD or GBP).
- Custody Assets will be detailed by way of the number of securities held per plan and the underlying quantum of units in each security (i.e. no valuation will be provided).
- Clients will be referred to Reyker Client Services to resolve any queries they may have.
- Work consisted of developing front end user interface and back end support applications (the latter building upon work undertaken in October / November 2019 in respect of consolidating Client data into ‘data groups’ and enhancing VAULT’s functionality).
- In-house development and external testing is scheduled for completion in February 2020.



Estimated timeline for a transfer of Client Assets

- We previously reported that, where a wholesale transfer of Client Assets could be agreed, a transfer may be completed towards the end of Q2 2020 or during Summer 2020 in a best case scenario.
- This remains achievable and we are presently working towards:

| Target date | Action |
|---------------|--|
| 19 Feb 2020 | <ul style="list-style-type: none">• Completion of Client Portal development and external penetration testing• Portal launch• Issue formal notice of the bar date |
| 20 March 2020 | <ul style="list-style-type: none">• Target Bar Date (this provides Clients with 4 weeks from receipt of notice to agree their holdings) |
| Summer 2020 | <ul style="list-style-type: none">• Finalise distribution plan and receive Committee and Court approval• Complete contract with the nominated broker• Complete transfer of Client Assets |

- Please note, the above timeframe is a best case scenario and the JSAs are dependant upon a number of counterparties (e.g. the purchaser performing as per heads of terms, Court availability, the complexity of the Distribution Plan and the pro-activeness of Clients to agree their claims).
- **Clients are reminded that the Regulations prescribe that the date for the return of Custody Assets shall be no sooner than 3 months after the Bar Date**
- The timescales presented in the above table are the JSAs current target dates and are estimated based on information available at the time of writing and are, therefore, subject to change.



Costs of the Special Administration and compensation

- In accordance with the Legislation, the costs of the Special Administration that relate to Objective 1 (i.e. the return of Client Assets) may be recovered from Client Assets.
- The JSAs are presently meeting these costs through a repayable funding facility of up to £5 million. To date, £1.3 million has been drawn down for direct costs (excluding professional fees).
- The costs will be repaid from the Client Assets using the basis of charging approved in conjunction with the Committee and will be borne by ALL Clients for whom the Client Assets are held:
 - For Client Monies, in accordance with CASS rules, each Client will bear a proportionate amount (i.e. a percentage) of the costs based on the value of their claim in the Client Money Pool; and
 - For Custody Assets, the charging structure will be agreed by the Committee and the Court as part of the Distribution Plan
- Eligible Clients would, however, qualify for compensation from the FSCS for any shortfall that arises against their respective Client Assets (subject to a maximum total cap of £85,000 for all claims) as a result of the costs.
- We remain hopeful of agreeing a mechanism whereby the eligible Clients' share of the costs will be paid direct to the Special Administration by the FSCS (who will then sit in the Clients' shoes in respect of the Clients' claims against the Company). We are working towards eligible Clients being able to claim compensation through the online Portal at the same time that they submit their claim to Client Assets.
- If agreed, this mechanism would mean eligible Clients' assets would transfer to the new broker whole (subject to the extent of compensation not exceeding £85,000) and mitigate any need for Custody Assets to be liquidated to meet these costs (which would be a further expense to Clients).
- Client's who are not eligible to receive FSCS compensation will need to meet their share of the costs and the Distribution Plan will set out options to achieve this.



Outcome of the first Committee meeting

- At the meeting, the JSAs requested that the Committee considered and voted upon the following resolutions:
 1. The JSAs' unpaid pre-special administration costs incurred in pursuit of Objectives 1, 2 and 3 be paid from client assets held by the Company, approved in accordance with Rule 136 of the Special Administration Rules (plus VAT) and as outlined in Section 12.1 of the JSAs' proposals dated 25 November 2019.
 2. The JSAs' Category 2 disbursements incurred in pursuit of Objectives 1, 2 and 3 (plus VAT) and as outlined in the JSAs' proposals dated 25 November be approved.
 3. The JSAs' be discharged from liability in accordance with paragraph 98 of Schedule B1, as modified by Regulation 15, when the appointment of the JSAs ceases to have effect at a time specified by the Court and, subject to any order to the contrary that the court might make, immediately upon the appointment ceasing to have effect.
- Each of the resolutions were unanimously passed by the members' representatives present at the meeting.
- It was agreed to defer voting upon the basis of upon which the JSAs may be remunerated until the next meeting of the Committee.
- It was agreed the Committee would next meet on 9 March 2020.