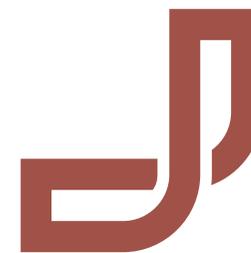




# Dolphin Financial (UK) Ltd - in Special Administration



Meeting of Clients and Creditors

etc. venues 200 Aldersgate Street, London EC1A 4HD

11.00am - 2 September 2021



## Timings

Times (approx.)	Proposed Running Order
11.00 am	Introduction
11.05 am	Presentation by the Joint Special Administrators
12 noon	Client and Creditor Q & A Session (possible comfort break if necessary)
	Formal business of the meeting <ul style="list-style-type: none"><li>• Explanation of voting process</li><li>• Committee constitution &amp; nominations</li></ul>
1.00 pm	Break for voting (if required) <ul style="list-style-type: none"><li>• Vote counting</li></ul>
2.00 pm	Announcement of result <ul style="list-style-type: none"><li>• Establishment of the committee</li></ul>
2.15 pm	Meeting closes

*Terms capitalised within the presentation are those that were defined within the JSAs' Proposals dated 17 August 2021*





# Presentation

1. Summary of some recent events
2. What is special administration
3. Objective 1 - work, including
  - Britannia sale
  - Future work
4. Objective 2
5. Objective 3

\* This presentation has been prepared for the purpose of the creditors and clients meeting held on 2<sup>nd</sup> September 2021 by the JSAs (without personal liability). The information disclosed within is for the creditors and clients of the company only and for no other purpose or groups.





# Summary of some recent events



# Events leading up to Special Administration

Timeline	Event
Nov 2019	<ul style="list-style-type: none"><li>• FCA supervisory visit - review of CASS arrangements</li><li>• Concerns raised regarding execution-only Tier 1 Investor Visa</li></ul>
Dec 2019	<ul style="list-style-type: none"><li>• First voluntary requirements notice ('VREQ'), included to cease execution only Tier 1 IV services to new Clients &amp; certain securities dealings.</li></ul>
Feb-Mar 2020	<ul style="list-style-type: none"><li>• Following FCA discussions, agreed second VREQ which included not to effect material increase in new business or make further business acquisitions.</li></ul>
Mar-Apr 2020	<ul style="list-style-type: none"><li>• Supervisory work undertaken to review new Client on-boarding process</li><li>• FCA invited Dolfin to agree third VREQ (included to cease all regulated activities)</li><li>• Declined as Dolfin intended to undertake various changes</li></ul>





# Events leading up to Special Administration

Timeline	Event
Apr 2020	<ul style="list-style-type: none"><li>• FCA investigation started into operation of execution only Tier 1 visas and related activities</li></ul>
Jun 2020	<ul style="list-style-type: none"><li>• FCA confirmed it did not intend to impose third VREQ</li><li>• Voluntary remedial work commenced</li><li>• Section 166 review ('S166') review commenced (covering CASS, conflicts of interest &amp; financial crime controls, governance &amp; wind down planning)</li></ul>
Oct 2020	<ul style="list-style-type: none"><li>• S166 report produced</li><li>• Management implemented investigations into execution only Tier 1 visa business</li></ul>
Nov 2020	<ul style="list-style-type: none"><li>• Dolfin team identified that majority of execution only Tier 1 visa clients appeared to have taken part in funding scheme which did not satisfy investment criteria under Immigration Funding Scheme ('IFS')</li></ul>
Nov-Jan 2021	<ul style="list-style-type: none"><li>• Management provided FCA with reports on the plans to de-risk business, and supplementary information on IFS</li></ul>





# Events leading up to Special Administration

Timeline	Event
Jan 2021	<ul style="list-style-type: none"><li>• Lloyds advised of account closures in May 2021 (changed to 30 June)</li></ul>
12 Mar 2021	<ul style="list-style-type: none"><li>• FCA imposed First Supervisory Notice ('FSN') comprising an own initiative requirement ('OIREQ')</li><li>• OIREQ restrictions included that Dolfin would not, without the prior written consent of FCA, carry on any regulated activities for which it had a Part 4A permission; other than to continue to hold new Client Money &amp; safeguard &amp; administer Custody Assets held at the date of the OIREQ</li><li>• Dolfin was unable to continue to trade as it had been doing</li><li>• OIREQ published on FCA Register &amp; website on 12 March 2021</li></ul>





# Period prior to Special Administration

- Following OIREQ, Dolfin Board sought independent professional advice from Smith & Williamson LLP on the financial position & available options
- Legal advice from DWF Law LLP & specialist regulatory & insolvency counsel
- Decision taken to commence solvent managed wind down predicated on:
  - Sale of most of the Client business to another provider;
  - Redundancy programme implementation & staff retention to deal with residual book;
  - Virtual business model adoption & assignment Coleman Street lease
- S&W engaged to undertake marketing & sales process
- Anticipated sale would be concluded outside of an insolvency process
- As part of sale not all Clients would transfer
- FCA discussions to agree process for necessary consents to return Client Assets





# Decision to apply for Special Administration order

- Following OIREQ regular Board assessment of position, wind down plan & sale & marketing progress
- 1 June 2021 Board meeting considered position & took into account:
  - Additional time & costs associated with resolution for Residual Client Book
  - Review of liabilities (*including actual & potential legal claims*)
- Board resolved that Dolfin was, or was likely to become, unable to pay its debts & should be placed into Special Administration
- As a consequence:
  - FCA advised it would provide necessary approvals & communicate with Bank of England
  - Britannia confirmed it was committed to continuing with transaction
  - DWF & counsel instructed to facilitate Court application
  - S&W progressed sale negotiations & commencement of reconciliation
- Company entered Special Administration on 30 June 2021





**What is special administration?**





# What is Special Administration?

## Objective 1

To ensure the return of Client Money and Custody Assets as soon as is reasonably practicable

## Objective 2

To ensure timely engagement with market infrastructure bodies and regulators both in the UK and abroad  
( FCA,BOE,FSCS)

## Objective 3

To rescue the investment bank as a going concern or to wind it up in the best interests of the creditors

- Insolvency process governed by the Investment Bank Special Administration Regulations 2011 & associated Rules
- Required where an investment bank fails
- Three principal objectives:
  - No hierarchy
  - Each being pursued in parallel & ongoing
- **Clients:** Any party that Dolfin holds Client Money (cash) and/or Custody Assets (stock)
- **Creditors:** Parties owed monies:
  - Clients that suffer shortfall in Client Money and/or Custody Assets
  - Employees, suppliers, HMRC, FSCS (*if compensation paid*)





# What is a Special Administration?

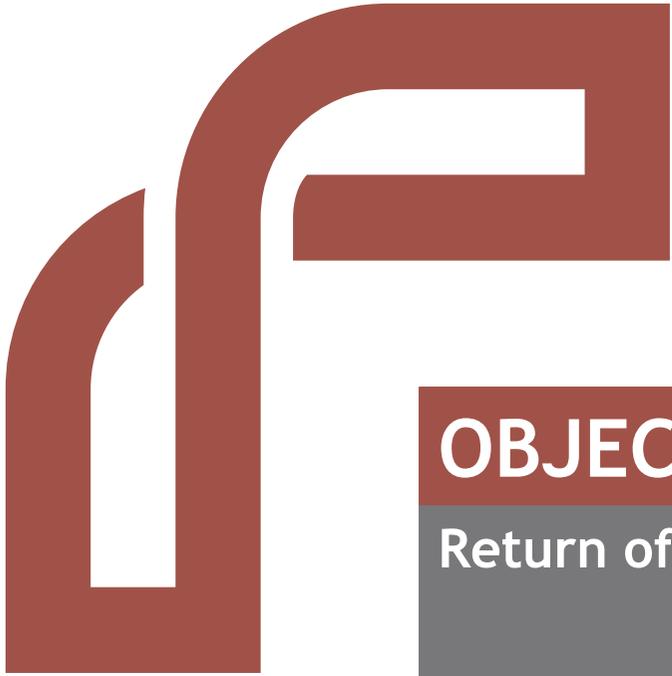
- JSAs have to perform their functions in interest of Clients & Creditors as a whole
- **Client Money:** Special Administration creates primary pooling event pursuant to the FCA client asset sourcebook (CASS). This means:
  - All Client Money held by Dolfon at 11.28am on 30 June 2021 is pooled into a single pool which is referred to as the Client Money Pool (“CMP”)
  - Funds in CMP need to be reconciled to the cash that should be held for Clients
  - CMP is returned on pro-rata basis to Clients & calculated on amount of monies that should be held for them in the CMP as a proportionate share of the whole, less costs incurred in distributing the Client Monies
  - All Client Money receipts received post pooling event on 30 June 2021 (*i.e. dividend income and coupon interest*) is held separately from CMP in designated post-pooling accounts, and will be reconciled and returned to the Clients (*subject to SA Reconciliation & any costs associated with the distribution*)
- **Custody Assets:** JSAs have to establish the securities held for each Client as at 30 June 2021 & determine a value of the investment portfolio in accordance with the Regulations & Rules (value is used for the purpose of voting at meeting)





**Work on the Objectives**





## OBJECTIVE 1

Return of Client Money and Custody Assets





# Objective 1- Return of Client Money & Custody Assets

## Activities undertaken to date

- Critical non-trading operations have been maintained remotely
- On date of SA:
  - Staff were retained to assist with achieving the objectives including the completion of SA Reconciliation
  - Staff made redundant following Britannia sale
  - Number of staff subsequently under consultancy agreements
- Certain IT contractors retained for extracting data, reports & Client Statements from IMS (underlying Dolfin software platform)
- Notified banks & assumed control of bank accounts
- Secured ongoing provision of services from sub-custodians/settlement systems
- Reviewed Dolfin records, contracts and terms & conditions to identify & classify Dolfin Clients (important & relevant for FSCS compensation review)





# Objective 1- Return of Client Money & Custody Assets

## Activities undertaken to date (continued)

- Engaged consultants with knowledge of Special Administration regime & CASS Rules to assist with SA Reconciliation & ongoing compliance matters
- Communications mechanisms established
  - Wrote to all client and creditors (several times in certain cases)
  - Dedicated website established
  - Dedicated phonenumber (supplemented by existing phone number)
  - Dedicated email address
- Special Administration Reconciliation completed on 12 July (see next slide)
- Sale to Britannia completed on 12 July (see subsequent slides)
- Expressions of Interest sought for Residual Client Book





# Objective 1- Return of Client Money & Custody Assets

## Special Administration Reconciliation

- Completion of the reconciliation was integral to ensuring that the sale to Britannia could proceed & complete
- In order to complete sale to Britannia in the time envisaged much of the work was undertaken in the weeks before the commencement of the special administration
- SA Reconciliation did not include Clients with holdings held with third-party custodians (*i.e. Credit Suisse, One Swiss Bank, VP Bank*)
- Internal reconciliations & accompanying statements were supplied before Special Administration to enable analysis to be undertaken as at 3 June
- Validations performed on Internal Client Money Reconciliation, Internal Custody Reconciliation ('ISEM') and CMAR





# Reconciled Client Asset position as at 30 June 2021

Reconciliation completed on 12 July 2021

<b>CLIENT MONEY</b>	<b>GBP - £</b>
Australian Dollar	360
Canadian Dollar	822,135
Swiss Franc	280,991
Czech Koruna	14,330
Euro	42,518,715
GB Sterling	34,669,992
Hong Kong Dollar	391
Norwegian Krone	4,056
Russian Rouble	100,346
Swedish Krona	799
Singapore Dollar	127,052
US Dollar	54,384,339
Liquidity Funds	33,974,097
	<b>166,897,609</b>

<b>CUSTODY ASSETS</b>	<b>GBP - £</b>
Bonds	812,635,031
Equities	97,515,239
Futures	30,625
Mutual Funds	87,697,390
	<b>997,878,286</b>





# Objective 1- Return of Client Money & Custody Assets

## Sale to Britannia

- Overview of the sale process

Date	Stage/Action	Data
13.4.21	Teaser circulated	126 parties
14.4.21	FT Advert	-
-	Confidentiality undertakings (signed)	25 parties
-	Data room access	25 parties
-	Discussions with management	12 parties
-	Formal withdrawals from process	8 parties
-	Indicative offers received	4 parties
11.5.21	Best & final offers received	3 parties





# Objective 1- Return of Client Money & Custody Assets

## Sale to Britannia (continued)

- Best & final offers reviewed by non-conflicted directors & considered:
  - Ability to complete transaction within a short period of time
  - Level of further due diligence to be provided & agreed
  - Discussions with the FCA & likely timeframe to obtain any required consents to a sale
  - Underlying cashflow forecast & funding requirements to facilitate proposed sale
  - Holding costs of retained/residual Client holdings
  - Mitigation of any contractual liabilities
- Preferred bidder status granted to Britannia
- Negotiations progressed by board & senior management
- Negotiations continued following JSA appointment
- Metis Partners valued business - £518k-£777k
- Final agreement signed on 5 July 2021 & completed on 12 July 2021
- Sought to apply principles of SIP16





# Objective 1- Return of Client Money & Custody Assets

## Sale to Britannia

- Assets included:
  - Certain Client contracts
  - Part of Client database
- Assets excluded:
  - Business as a going concern
  - Physical assets
  - Cash
  - Excluded Client contracts
  - Liabilities including any arising from litigation or contingency claims
- Clients option to either opt out, apply for an early transfer or automatically transfer on 10 August
- Consideration:
  - £600k - paid on completion
  - £600k - deferred
- Sale achieved:
  - Over 2,900 Client positions transferable unless specific opt out
  - Cost reduction in dealing with all Client positions in SAR





# Objective 1- Return of Client Money & Custody Assets

## Sale to Britannia - Transfer Position

- Current position as regard transfers to Britannia:

<b>Client Positions (Both Monies &amp; Assets)</b>	<b>No</b>
Transferred/instructed/pending	2 697
Non-transferrable	75
Awaiting transfer	150
<b>No of Clients</b>	<b>No</b>
All Assets transferred	191
Partial Asset transferred	82
No Assets transferred	1





# Objective 1- Return of Client Money & Custody Assets

## Residual Client Book ('RCB')

- Breakdown of the RCB:
  - No of Clients 222
  - Client Monies £47m
  - Custody Assets £670m
- Composition of RCB: Tier I IV, Dolfin Group entities and conflicted bond holders





# Objective 1- Return of Client Money & Custody Assets

## Residual Client Book

- Quickest & most cost-effective way of releasing Residual Client Book holdings will be a transfer to new regulated broker, by way of one wholesale transfer, in accordance with the Regulations and Rules, albeit this may not prove possible
- JSAs contacted all parties identified at commencement of original AMA process together with those that made contact following Special Administration to seek expressions of interest:

Date	Stage/Action	Data
19.8.21	Teaser circulated	140 parties
-	Confidentiality undertakings (signed)	11 parties
-	Discussions with JSAs	4 parties
31.8.21	Expressions of Interest received	7 parties





# Objective 1- Return of Client Money & Custody Assets

## Residual Client Book - next steps

- JSAs are considering the specific expressions of interest
- Will need to seek the views of regulators (eg FCA);
- And legal advice on ability to transact/transfer & structure of any sale/transfer

## There may be hurdles and restrictions to achieving a wholesale transfer

- If Client Assets are transferred to new broker now without protections being built in, there might be competing ownership rights to those Client Assets following that transfer & therefore:
  - Good title may therefore not pass to the Client; and
  - New broker would be on risk of inheriting any shortfall in Client Assets
- The Regulations therefore prescribe use of a formal process
  - A Bar Date; and
  - Distribution Plan (involving a Court application)

The JSAs need to exercise their discretion on the best process versus risk but it is not yet certain whether or not the prescribed processes will be necessary depending on the offers received and the advice received.





# Objective 1- Return of Client Money & Custody Assets

## Distribution Plan

- JSAs, together with the legal advisors, will prepare any Distribution Plan
- A Distribution Plan is a detailed document that must set out:
  - Schedule of dates on which Custody Assets would be transferred
  - Type of Custody Assets to be returned and to whom
  - How quantity and/or quantum of Custody Assets to be transferred to a particular Client will be calculated
  - Amount & identity of Custody Assets that are to be retained to pay the associated costs & expenses of achieving Objective 1 (*where appropriate*)
- A Plan must be approved by any Clients' and Creditors' Committee and, subsequently, by the Court
- A DP you will likely involve the setting of a soft bar date which will require clients to agree their claims (over and above what they have done for voting purposes at this meeting)





# Objective 1- Return of Client Money & Custody Assets

## Alternative strategy

- JSAs would pursue alternative strategy that may include transfers of Client Assets to a widespread & piecemeal transfer to high number of brokers & custodians nominated by each Client through Distribution Plan
- There would likely be extra complexity & cost of the process of effecting a transfer/distribution.
- This would will require Clients to go through a process of all providing instructions
- This would lead to a delay in the return of Client Assets when compared to a wholesale transfer





# Objective 1- Return of Client Money & Custody Assets

## Cost Recovery

- Costs associated with achieving Objective 1 are likely to be material due to:
  - Need to support ongoing operations for several months
  - Volume of Clients & respective accounts
  - Complexity of some Client Assets & the distribution process
- Costs will be paid from Client Assets using the basis of charging approved in conjunction the Clients' and Creditors' Committee & borne by ALL Clients for whom the Client Assets are held. Likely to involve:
  - For Client Monies, in accordance with CASS each client will bear a proportionate amount of the costs based on the value of their claim in the CMP
  - For Custody Assets - costs relating to return, and in previous special administrations has sometimes involved a fixed fee per client
- The position of the FSCS in funding any costs for relevant clients remains to be resolved. We are in liaison with them.





## OBJECTIVE 2

Timely engagement with market infrastructure bodies and regulators



# Objective 2 - Engagement with regulators

## Financial Conduct Authority

- JSAs have continued to liaise extensively with FCA following their appointment & will continue to do so in relation:
  - SA Reconciliation updates
  - Regulatory compliance matters
  - Potential RCB sale or transfer
  - Statutory reporting requirements
  - Overall strategy for achieving the statutory SAR Objectives
- Terms of OIREQ lifted on 1 July 2021 (*apart from record retention*)





## Objective 2 - Engagement with regulators

### Financial Services Compensation Scheme

- JSAs contacted FSCS with regard to ability of Clients to claim compensation
- Work continues to provide the information required by the FSCS for it to decide whether protection is likely to apply
- FSCS is obliged to determine claims submitted to it under the rules set for it
  - FSCS will only pay compensation if satisfied that a Client's claim meets qualifying conditions for paying compensation
  - For eligible claims, the FSCS can pay up to £85,000 in compensation per claimant
- **The FSCS has asked the JSAs to highlight that given its ongoing investigations, the FSCS cannot, at the present time, conclude whether or not FSCS protection exists for any Dolfin Clients**
- JSAs recognise that the outcome of the FSCS decision is of great interest & importance to certain Clients





## OBJECTIVE 3

Rescue as a going concern or wind up



# Objective 3 - Rescue as a going concern or wind up

## Key matters

- Realisation of Dolfin (House) assets (eg artwork, debtors)
- Fulfil other statutory duties
- Liaison with various authorities
- Conduct regulatory investigations
  - Thank you to those Clients and Creditors that have provided information already
  - We welcome any information





# Position of clients and creditors

## Residual Client Book

- Dependent on outcome of ongoing sales process, and any subsequent distribution process
- FSCS involvement needs to be resolved

## Unsecured creditors

- Preferential and Unsecured Creditors are not entitled to any recovery from Client Assets
- Any distribution is dependent upon the level of realisations from Dolfin 'owned' assets ('House Assets'), associated costs of realising the House Assets
- We are not in a position to disclose the likely level of any realisations as this may prejudice the Residual Client Book sale process & negotiations with certain debtors of Dolfin





# Client and Creditor Q & A Session





# Formal Business of the Meeting



# Resolutions to be considered

- Purpose of the meeting is to consider and vote upon the following resolutions:

**Resolution 1: To approve the JSAs' Proposals**  
(as circulated on 17 August 2021)

**Resolution 2: To establish a Clients' and Creditors' committee**  
(subject to sufficient Clients & Creditors willing to act)

- In the event that Resolution 1 is not agreed, the JSAs can adjourn the meeting for up to 14 days in accordance with Rule 64 of the Investment Bank Special Administration Rules (England & Wales) 2011
- If Resolution 1 is not agreed following any adjournment, the JSAs will need to apply to Court for directions in relation to the approval of the Proposals
- If Resolutions 1 and 2 are agreed today, we will proceed to consider nominations for the membership of the Clients' and Creditors' Committee





# How voting works

- For voting purposes, there are two classes of voters:
  1. **Clients** - with claims for Client Assets (Custody Assets and/or Client Money)
  2. **Creditors**
- Two separate votes will take place in respect of Resolutions 1 and 2:
  1. **Clients** with claims admitted for voting purposes for Client Assets
  2. **Creditors** with claims admitted for voting purposes
- Each valid vote will be calculated on the monetary value of the admissible claim submitted by noon on 1 September 2021
- A resolution will be passed if a majority in value, of those present and voting (in person or by proxy), vote in favour of the resolution





# Valuation of Client & Creditor claims

## Clients

- Voting rights are equal to a Client's claim by value in respect of their total Client Asset portfolio
- Any securities are valued by reference to the closing/settlement price published by an appropriate pricing source on 29 June 2021 or as close to it as possible
- Where Client Money is held in non-sterling currencies, the value of the funds will be derived at the exchange rate prevailing on the London market and as published at the close of business on 29 June 2021
- Britannia transferring clients - any monies/assets already transferred to Britannia will be excluded from the vote.

## Creditors

- Voting rights are calculated according to the amount of a Creditor's claim as at 30 June 2021
- Where a Creditor votes for an unliquidated/unspecified sum, the chairperson may assign an estimated minimum value for voting purposes only (typically £1)
- Chairperson will review each claim received and assess the entitlement to vote at the meeting
- Chairperson may admit or reject a claim in whole or in part
- A claim can may marked as objected to but allowed to vote (subject to the vote being declared invalid if the objection is subsequently sustained)





## Votes received by noon: 1 September 2021

- In order to vote, both Clients and Creditors had to return a valid statement of claim form
- Clients and Creditors not able to attend but wished to vote, should have returned a proxy form in order to ensure they were duly represented and their vote cast at the meeting
- Votes validly received by the deadline are shown below (the figures are could be subject to change in the event that any individual or proxy holder is not present today for the purpose of voting)





# Clients' and Creditors' Committee ('the Committee')

- The Committee shall consist of 3 but no more than 5 members
- Additionally, the FCA can attend the meetings (and have for a number of other cases)
- A Client or Creditor can nominate themselves to be a member
- A Client or Creditor can be proposed by a fellow Client(s) and Creditor(s)
- Only the Client or Creditor can be the member of a Committee (the member can authorise a representative to act on their behalf i.e. solicitor, accountant, investment advisor)
- The function of the Committee is to assist the JSAs and to act & serve the collective interests of all Clients and Creditors as a whole and not individual interests or agendas
- The role of the Committee includes sanctioning the remuneration of the JSAs and supporting any proposed Distribution Plan





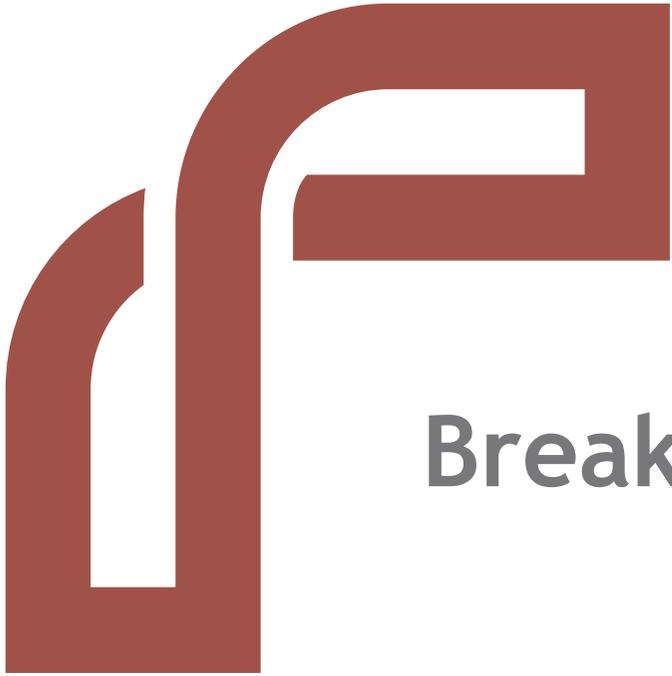
# The Committee (continued)

- Nominated committee members should be aware that:
  - Participation can be a significant time investment
  - The only cost recoverable is reasonable travel expenses
  - Membership is voluntary & is not a paid role
  - Members will be expected to sign a non-disclosure agreement
  - Members will be expected to divulge any matters of conflict during any Committee meeting or discussion (i.e. investigations, legal claims and proceedings)
  - There may be parts of the meeting which require certain members to be absent
- Document submitted to Companies House that formally constitutes the Committee includes each Member's name and address (this document is publicly available)

## Nominations received

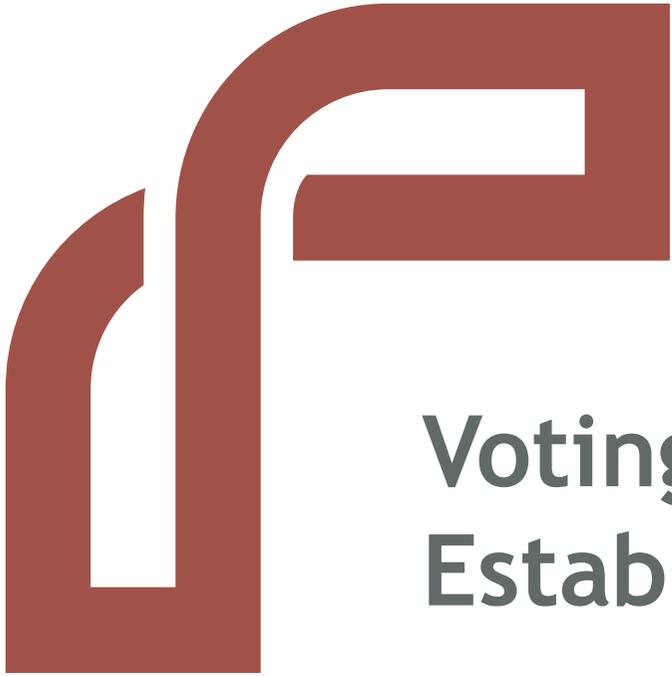
- Prior nominations have been received
- Constituency of committee





**Break for voting**





# Voting Outcome & Establishment of Committee





# Conclusion

- We will report the outcome of this meeting
- Committee meeting will be arranged with the elected members at as soon as practicable
- Committee meeting minutes are confidential although any formal resolutions passed at a meeting are included in the reports circulated to Clients and Creditors
- Next report - Progress report for the first 6 months of this assignment, due within month 7
- We appreciate your attendance and contribution to the meeting today
- If you have any follow up questions or queries please email the team at:  
[dolfin@smithandwilliamson.com](mailto:dolfin@smithandwilliamson.com)

THANK YOU





Thank you

