

PRESS RELEASE

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Investor Compensation Company Limited Publishes 2011 Annual Report

Introduction

The Investor Compensation Company Limited (ICCL) today, Wednesday 7th December 2011, published its Annual Report for the year ended 31 July 2011. The principal objective of the ICCL is to pay compensation to eligible investors when an investment firm fails and is unable to return client money and/or investment instruments. To support that objective, the ICCL collects annual contributions from investment firms and retail intermediaries in order to build the reserves from which compensation can be paid.

Since the year-end under report the High Court placed Custom House Capital Limited into liquidation. The Court appointed Mr Kieran Wallace of KPMG as Liquidator and Administrator to the firm. It is expected that the ICCL will be required to pay claims to eligible investors of Custom House Capital in due course and that the cost of those claims will have an impact on the ICCL's reserves.

Results for the year

The Annual Report shows that the ICCL's total reserves at year-end amounted to €38.7 million. This represents an increase of €3.8 million over the reserves available in July 2010. The increase is made up of an additional €2.5 million in Fund A (investment firms) and €1.3 million in Fund B (retail intermediary firms). The Fund A reserves now stand at €21 million and the Fund B reserves stand at €17.7 million.

On 21 October 2011 the Court appointed Mr Kieran Wallace of KPMG as Administrator to the firm in accordance with the Investor Compensation Act 1998, to determine the extent to which clients of the firm had suffered losses and to certify the individual losses of eligible investors so that they may be compensated by the ICCL in accordance with the Act.

A number of issues will have to be clarified by the Administrator in his work before the ICCL is in a position to make a reliable estimate of the cost of compensation payable by the ICCL. The issues requiring clarification are set out in Note 8 to the Accounts. In light of these facts, the Directors have disclosed a contingent liability for the year end of July 2011 arising from the liquidation of Custom House Capital Limited and have made detailed disclosures concerning the contingent liability in the Annual Report.

Contributions

The member firms of the ICCL make contributions annually to build the reserves of the company so that claims may be paid when they arise and to ensure the efficient operation of the company. Annual contributions in the year to 31 July 2011 were received from 5,455 member firms and amounted to some €5.2 million. Fund A members numbering 222 contributed €3.48 million and Fund B members numbering 5,233 contributed €1.7 million. Total contributions received in the year ended July 2011 (€5.2m) have fallen when compared with contributions in the year ended July 2010 (€5.7m). This largely reflects a fall in the number of member firms, from a total of 5,968 to 5,455.

The ICCL's Reserves

The ICCL has reserves of €38.7 million, of which €21 million are to cover claims arising from the failure of Fund A firms. Custom House Capital Limited is a Fund A firm. In addition to these reserves, the ICCL has an excess insurance policy which provides cover for claims in excess of €15 million up to a maximum of €50 million. Furthermore, the ICCL has a number of alternative sources of funds, including the option to borrow funds from a commercial source along with the option to collect extra contributions from Fund A firms.

Claims

Custom House Capital Limited: The ICCL have written to the clients of the firm inviting them to make claims as soon as possible but in any case by the statutory deadline of 23 March 2012. On receipt of completed claim forms from clients, the ICCL will check that each claim form has been adequately completed and will then forward them to the Administrator for certification.

W&R Morrogh: Due to the complex nature of the claims arising from this failure, not all claims have yet been paid. Certification in relation to the remaining 26 claims was still awaited from the Administrator at the end of the funding year. These represent less than 1% of all claims received.

The ICCL's Strategic Plan 2011 to 2016

In June 2011, the Board of the ICCL formally revised the ICCL's strategic plan. The revised plan looks forward five years to 2016 and is subject to annual review. The main goals of the ICCL are to:

- pay certified compensation to eligible investors promptly;
- ensure that the company is adequately funded and properly governed;
- operate the company efficiently and effectively.

Progress in achieving our strategic goals is closely monitored by the Board.

Chairperson's comments

Speaking at the publication of the Annual Report, ICCL Chairperson, Mr Jim Bardon, said:

"As we report today, we are conscious that the liquidation of Custom House Capital Limited on 21 October is likely to lead to significant losses for clients of that firm. The ICCL will pay, on the certification of the Administrator, compensation to eligible investors of Custom House for 90% of their compensatable losses up to a maximum of €20,000.

As our accounts for the year ended July 2011 show, the ICCL has built up reserves in the past few years so that we have €21 million in the Fund from which the eligible investors of Custom House can be paid. This fund has been entirely financed by investment firms. In addition, the company has recourse to other sources of funds, including borrowing either from commercial sources or from a proportion of the reserves in Fund B, which is financed by retail intermediaries. We also have excess insurance in place to cover the ICCL in the event that compensatable losses arising exceed €15million in any one year. This provides significant comfort that we should be in a position to pay compensation promptly to eligible investors of Custom House once claims have been certified by the Administrator".

The ICCL Annual Report is now available online at www.investorcompensation.ie

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Mr Bardon and Ms Troy will be available to receive phone calls from the media on Tuesday, 6 December 2011 from 13.30 pm until 15.30 pm approximately. Any e-mailed or faxed requests for information will be attended to as quickly as possible and in the order in which they are received.

Note for Editors:

Custom House Capital Limited (in liquidation)

The High Court appointed Inspectors to examine the affairs of Custom House Capital Limited in July of 2011. In light of the Inspectors' final report (available in redacted version on the website of the Central Bank www.centralbank.ie) the High Court placed the company into liquidation and appointed Kieran Wallace of KPMG as Liquidator. Mr Wallace was also appointed by the Court as Administrator for the purposes of the Investor Compensation Act 1998. Mr Wallace's main function as Administrator under the Act is to determine the extent to which eligible investors of the firm had suffered losses and to certify individual losses so that they may be compensated by the ICCL in accordance with the Act. On receipt of certification, the ICCL will issue compensation payments to the eligible investors. However, it may take some time to reach this point. Under the Investor Compensation Act, 1998, the certification of claims requires that the losses sustained by each eligible investor be properly assessed and calculated by the Administrator. This process can take some time depending on the availability and accuracy of the records of the failed firm, in addition to the complexity of the investment instruments and transactions within the firm. The legislation provides that the ICCL will pay to eligible clients 90% of the compensatable loss certified by the Administrator up to a maximum of €20,000.

The ICCL has commenced this process by inviting claims from clients of the firm. While clients have been encouraged to respond as quickly as possible, the statutory deadline for receipt of claims is 23 March 2012. Claims submitted to the ICCL will be recorded, checked for completeness and passed to the Administrator for certification.

The ICCL

The ICCL was established under the Investor Compensation Act, 1998. Its principal objective is to establish and operate an investor compensation scheme in accordance with the terms of EU Investor Compensation Scheme Directive 97/9/EC. The Act provides that investment firms must become members of the scheme and contribute to its funding. Following industry consultation, detailed funding arrangements were put in place which provided for the establishment of two separate funds to take account of, e.g. differences in activities of investment firms. (A description of these funds is also included in this note.) The ICCL is not involved in the regulation or supervision of investment firms.

Ten Directors represent either the interests of consumers (5) or the interests of the financial services industry (5) and are prescribed by the Minister for Finance. The Governor of the Central Bank of Ireland nominates and appoints the chairperson and deputy chairperson of the Board.

ICCL Funding Model

The ICCL consults with its contributors once every three years concerning its funding for the following three years. The last consultation was held in 2009/10. The funding document published after that consultation in June 2010 sets out the various sources from which the ICCL may draw funds in the event of a claim arising. This is referred to as a “cascade” of funding options. The options are as follows:

- Payments to be made out of the reserve built up in Fund A or Fund B, as appropriate.
- Additional top-up payments to be collected from contributors, subject to certain limitations on the additional amount in any one year.
- Inter-fund borrowing. Under Section 19 of the Act, inter-fund borrowing is permitted up to one third of the fund, subject to the approval of the Central Bank of Ireland.
- Commercial borrowing can be arranged under the ICCL’s statutory borrowing powers, also subject to approval by the Central Bank. The ICCL has an arranged credit facility.

The implementation sequence of the individual elements of the cascade model will be determined by the Board of the ICCL depending on circumstances prevailing at the time of default.