

PRESS RELEASE

Investor Compensation Company Limited Publishes 2015 Annual Report

Introduction

The principal objective of the Investor Compensation Company Limited ["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 levies from investment firms and retail intermediaries in order to build the reserves from which compensation can be paid. The ICCL is not funded by the State.

Significant Events

Custom House Capital Limited (in Liquidation) ["CHC"] - Fund A Firm

This is the largest case that the ICCL has dealt with since its inception.

On 21st October 2011, the High Court placed CHC into liquidation and the Court appointed Mr Kieran Wallace of KPMG as Liquidator and Administrator to the firm, in accordance with section 33A of the Investor Compensation Act, 1998 (the Act). As previously reported, Mr Wallace, in his capacity as Administrator, has estimated that the ICCL may be required to pay compensation, on foot of claims from eligible investors of CHC, of up to €19.7 million. The impact that this would have on the ICCL's reserves has been fully recognised in prior year financial accounts.

The role of the Administrator to CHC, is to determine the extent to which clients of the firm had suffered losses. The Administrator achieves this by leveraging on his work as Court-appointed Liquidator whereby he reconciles the position of each client of the firm, through an examination of the books and records of the firm. He is then required to certify the individual losses of eligible investors to the ICCL. Once an investor's claim has been certified by the Administrator, the ICCL will make a compensation payment to that investor in accordance with the Act.

Arising from the liquidation of CHC, the ICCL received 1,975 claims for compensation from investors. To date, the Administrator has certified a total of 553 claims which has resulted in aggregate compensation of in excess of €7 million being paid out by the ICCL to eligible investors. The certification of claims has been subject to extensive delays due to the absence of proper books and records in CHC, which has resulted in the considerable difficulties being encountered by the Liquidator in reconciling the client assets. No claims were certified and consequently, no compensation was paid during the year-ended 31 July 2015. However, certifications have resumed in recent months, resulting in compensation of almost €190,000 being disbursed to 62 claimants.

At this juncture, most of the outstanding compensation claims relate to pooled client accounts where it is understood a very significant level of misappropriation occurred. These accounts require reconciliation by the Liquidator, which is likely to be an onerous exercise given the complexities involved. It is envisaged that the Liquidator will submit a plan in respect of the reconciliation process to the High Court early in 2016 but the timeline for completion of certifications and the subsequent payment of compensation to the investors concerned remains unclear. The ICCL has engaged with the Administrator with a view to the acceleration of the certification of claims and will support a strategy that seeks to expedite that process.

In line with previous experience, ICCL will continue to pay compensation to eligible clients within two weeks of receipt of the necessary certification from Mr Wallace.

Irish Bank Resolution Corporation Limited (in Special Liquidation) [“IBRC”] -Fund A Firm

Following the appointment of Mr Kieran Wallace and Mr Eamonn Richardson of KPMG as joint Administrators to IBRC under section 33(1) of the Act in May 2013, 54 claims for compensation were made to the ICCL. Most of the claims were deemed ineligible as the investors concerned were compensated via the statutory Deposit Guarantee Scheme. The Company had previously paid aggregate compensation of €12,400 arising from 48 claims certified by the joint Administrators. There were no certifications made in period ending 31 July 2015 and the joint Administrators have since certified the remaining claims, none of which involves the payment of compensation by the ICCL.

Money Markets International Limited (in Liquidation) [“MMI”] - Fund A Firm

The liquidation of MMI continued during the year. The ICCL has paid out more than €775,000 in compensation to clients of this firm with the final claims involved having been processed some years ago. The ICCL's subrogated claim has been lodged with the Liquidator, Mr Tom Kavanagh (Deloitte) and the conclusion of the Liquidation is awaited.

Funding

The ICCL has been engaged in a process of steadily rebuilding its reserves in the aftermath of financial provisions made in relation to CHC. At this time, the Company has the capacity to meet aggregate compensation payments of up to €170 million for Fund A firms and €30 million for B firms.

Through its funding model, the Company has a number of sources of funds to complement its cash and investment reserves. It avails of an insurance policy which, subject to an initial excess of €15 million per fund, previously provided cover for compensation claims in any one year of up to additional €50 million on Fund A and €10 million on Fund B. During the year, the policy was extended to arrange for supplementary cover of €50 million in respect of Fund A. Standby credit facilities are also available as is the option to collect extra levies from participant firms if deemed appropriate.

Results for the year

The ICCL has recorded a surplus for the year of €4.5 million, representing net inflows (annual levies plus interest income less expenses) of €3.5 million into Fund A (investment firms) and €1.0 million into Fund B (retail intermediary firms).

As of 31 July 2015, the reserves of the ICCL stood at €43.3 million. This was comprised of Fund A reserves of €20.9 million (which are net of the estimated cost of €19.7 million in respect of claims arising from the failure of CHC) and Fund B reserves of €22.4 million. The ICCL is well positioned to meet its medium term reserve targets for the two funds of €30 million and €25 million respectively.

The ICCL's Strategic Plan 2011 to 2016

Progress on the achievement of the ICCL's strategic goals is constantly monitored by the Board and the plan was formally reviewed during the year. The main goals of the ICCL are:

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

Chairperson's comments

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

"This year saw no new failures of investment firms that gave rise to a call on the Compensation Funds, which is to be welcomed. Unfortunately, progress in relation to our main ongoing case, Custom House Capital, continues to be extremely slow. It is a matter of considerable frustration/regret that the certification of claims by the Administrator in this case has proven to be such a protracted exercise, hampered by deficiencies in the firm's books and records in the aftermath of the serious misappropriation of client funds perpetrated. The lengthy period which many eligible investors have been required to wait for their compensation is at odds with the spirit of the underlying investor compensation legislation. The ICCL has continued to be proactive in attempting to address the delays involved although certification of claims is solely the responsibility of the Administrator. It is to be hoped that the Administrator's plans, due early in 2016, for the resolution of issues relating to the main asset class that awaits reconciliation, will signal a clear roadmap for the way forward.

The recent introduction by the Minister for Finance of Regulations regarding the return of investor funds or other assets in the event of the failure of investment firms should contribute in an improved outcome for the clients of these firms.

During the past year, we continued on the necessary path of replenishing our reserves which had been severely depleted following the significant level of compensation paid previously in the Morrogh and CHC cases. The ICCL's reserves now exceed €43 million, following an increase of €4.5 million on the previous year. I am grateful to the vast majority of our contributing firms who have paid their levies on a consistently timely basis.

I am pleased to report that our insurance cover, which constitutes an important element of the current funding model, has been strengthened substantially in recent months. Our policy now provides that any compensation payments made in excess of €15 million will be refunded, up to a maximum of €100 million (previously €50 million) for Fund A participants, which comprise the large investment firms. When taken with the other funding sources available, such as standby credit facilities and the imposition of supplementary levies on firms, investors can have confidence that the ICCL will be in a position to meet a substantial level of compensation that that may arise from a failure of any large investment firm.

The ICCL Annual Report for 2015 is now available online at www.investorcompensation.ie
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For further information, please contact:

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Mr Bardon and Mr Fagan will be available to receive phone calls from the media on Tuesday, 8 December 2015 from 10.30am until 12.00pm. Any e-mailed requests for information will be attended to as quickly as possible and in the order in which they are received.

Note for Editors:

The ICCL

The ICCL was established under the Act. 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 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.

The ICCL is fully funded through levies collected from participant investment firms and receives no State funding (see below).

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 Bank nominates and appoints the Chairperson and Deputy Chairperson of the Board.

ICCL Funding Model

The ICCL consults with its participant firms once every three years concerning its funding for the following three years. The latest Funding Arrangements document was issued on 31st May 2013 for the Funding Years ending 31 July 2014, 2015 and 2016. The document is available under 'Publications' on our website www.investorcompensation.ie. Section 4.1 of the document 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 reserves built up in Fund A or Fund B, as appropriate.
- Additional top-up payments to be collected from participant firms subject to certain limitations on the additional amount in any one year.
- Claim on 'Excess of Loss' Insurance Policy where the level of claims in any one year exceeds €15 million per fund.
- 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 Bank.
- Commercial borrowing may be arranged under the ICCL's statutory borrowing powers. This borrowing would be subject to approval by the 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.

Role of the Administrator

The Act requires that the Central Bank of Ireland or High Court, as appropriate, appoint an Administrator to each new case. The principal roles of the Administrator are to review each claim received from clients of the failed investment firm, to verify the eligibility and net loss of each claimant and to certify the level of compensatable loss, if any, to be paid. The ICCL strives to ensure payment to each eligible client is made within two weeks of receipt of the certification statement from the Administrator.

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