PRESS RELEASE

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Investor Compensation Company DAC publishes its 2018 Annual Report

Introduction

The principal objective of the Investor Compensation Company DAC ["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, retail intermediaries and accountants in order to build the reserves from which compensation can be paid. The ICCL is <u>not</u> funded by the State.

Results for the year

The ICCL has recorded a surplus for the year to 31 July 2018 of €4.5 million, a decrease of €250,000 on the previous year. Total levies received from investment firms participating in the Compensation Scheme amounted to €6.1 million, comprising €4.5 million from large investment firms (such as banks and stockbrokers) that contribute to an earmarked fund (Fund A) and €1.5 million for smaller investment firms including insurance brokers, retail intermediaries and accountants that are members of a separate fund - Fund B. This outturn equates to a collection rate of 99.8 per cent.

At the financial year-end (31 July 2018), the accumulated reserves of the ICCL stood at €57.3 million. This comprised of Fund A reserves of €32.1 million and Fund B reserves of €25.2 million. In both instances, the reserves are net of all projected liabilities arising from ongoing compensation cases which have been fully provided for. These resources will continue to be augmented in accordance with the Company's latest three year funding cycle which runs to mid-2019.

Funding

Under its statutory remit, the ICCL is required to establish and maintain adequate reserves to fund compensation payments to eligible clients of failed investment firms for losses suffered. These reserves are derived solely from accumulated levies contributed by authorised investment firms. Since the financial year-end, the reserves have risen to €62.3 million (Fund A €36.4 million, Fund B 25.9 million), reflecting levies collected in the current funding year.

The reserves are supplemented by a bespoke Excess of Loss insurance policy in place which provides cover of €100 million in respect of Fund A and €10 million for Fund B failures respectively in circumstances where losses surpass a threshold of €15 million. Accordingly, the ICCL now has capacity to cover compensation liabilities of up to €136 million for Fund A firms and €36 for Fund B counterparts without recourse to charging additional levies to participating investment firms.

The total contributor base stands at 3,451 firms, of which 140 are in Fund A and 3,311 in Fund B. The latter includes 450 member firms of Chartered Accountants Ireland, authorised to conduct investment business activities that joined the Compensation Scheme in 2017.

Custom House Capital Limited (in Liquidation) ["CHC"]

CHC is the largest known failure of an investment firm dealt with by the ICCL, with total investor losses estimated by the Liquidator at €56 million and compensatable losses of €20 million, (which has been fully provided for in the ICCL's accounts). The firm was a member of the ICCL's Fund A.

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). 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 of 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 within a three month timeframe, as stipulated in the Act. In reality, compensation is paid within two weeks of certification of the claims by the Administrator. However, there is no deadline by which claims must be certified by the Administrator.

While the ICCL has received just under 2,000 claims for compensation from clients of the firm, only 574 have been certified to date, resulting in compensation of €7.4 million being paid to investors. During the past year, Mr Wallace certified 8 claims resulting in compensation paid of €20,000. The highly unusual and complex nature of the liquidation has contributed to lengthy delays in the validation of claims.

The Liquidator has recently indicated that the liquidation is at an advanced stage, with the transfer of a majority of client investments to new investment managers due to be completed in the short term while a first interim dividend of recovered misappropriated monies is expected in the first quarter of next year. It was planned that the certification of the remaining claims would be carried out contemporaneously with the reconciliation and distribution of the remaining client assets. However, as the recovery of misappropriated monies is dependent in many cases on the disposal (or refinancing) of property-related assets where embezzled funds were directed, the timeframe for completion of future certifications of claims is likely to be impacted, and could extend for a further period of years.

The ICCL has continued to seek the acceleration of the certification of claims. However, the Company remains of the view that legislative and other measures are needed to prevent a recurrence of the prolonged delays affecting the payment of compensation that have arisen in CHC and have advocated accordingly with the relevant authorities. The failure to address this matter would undoubtedly result in an equally unsatisfactory outcome for investors caught up in an investment firm failure of similar size and complexity, and ultimately serves to undermine investor protection and confidence.

<u>Asset Management Trust Limited (AMT)</u>

In February 2016, AMT was the subject of a determination by the Central Bank that it was unable to return money or financial assets held on behalf of clients. The Bank appointed Mr Des Ritchie as Administrator for the purpose of certifying claims for compensation from eligible clients of the firm. A total of 12 claims were received and validated by the Administrator resulting in aggregate compensation of €23,000 being paid during the past financial year, as reflected in the financial statements. No further payments are envisaged in this case.

Charleville Credit Union Limited (CCUL)

CCUL was an authorised investment firm and a participant in the ICCL Scheme (Fund B). In November 2017, the High Court appointed joint liquidators to CCUL at the request of the Central Bank.

All CCUL members known to have conducted investment business through the credit union were advised to submit a claim for compensation where they considered that they had suffered a compensatable loss. No claims were received.

<u>Chairperson's comments</u>

Speaking on the publication of the Annual Report, the Chairperson of the ICCL, Mrs Jane Marshall, said:

"In the year under review, the ICCL has continued to improve its financial resources and now has capacity to provide for compensation liabilities of the order of €136 million that could arise on the failure of a large investment firm. The regular growth in underlying reserves has only been possible through the commitment of the vast majority of participating firms to pay annual levies due on a timely basis.

It is to be welcomed that no new compensation cases arose in the past year that necessitated a call on ICCL's Funds. However, the persistent delays in the certification of claims in CHC and ensuing payment of compensation to eligible clients is a source of considerable disappointment, particularly as we stand ready to discharge any liabilities without delay on receipt of validation from the Administrator. While CHC represents a complex and difficult fraud case, nevertheless the protracted wait for statutory compensation endured by its investors is damaging to confidence within the investing public."

The ICCL Annual Report for the year-ended 31 July 2018 is now available online at www.investorcompensation.ie

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