

EEA Investors' Group Makes Complaint About Auditor Ernst & Young

The EEA Investors' Group wants a professional organization to review concerns shared with auditor Ernst & Young to which it says the firm failed to respond.

By Donna Horowitz

Updated on July 06, 2017, 09:47 AM ET

An investors' group says it has filed a formal complaint about Ernst & Young LLP's audits of the EEA Life Settlements Fund between 2008 and 2011 after the firm failed to respond to previously expressed concerns.

"Apart from some acknowledgements we have never received a response to the matters raised," the EEA Investors' Group said in its Friday, June 30, update.

David Trinkwon, the Group's coordinator, said he made the complaint to the Institute of Chartered Accountants for England and Wales, asking it "to investigate the substance of our complaints and EY's failures to respond." The Institute said it has more than 147,000 members worldwide and works to ensure they meet the highest ethical and technical standards.

In June 2013, Ernst & Young said EEA Fund Management Ltd. overstated the value of the Guernsey-domiciled Fund by about \$100 million. The auditor gave its opinion in a report on the fund's 2011 financial results in which the fund's manager had valued the policies in the fund at \$871 million.

The Fund's Chairman told shareholders in a letter at the time that the policies in the Fund remained "highly illiquid" at the end of 2011, which made it more difficult to value than in previous years. He also blamed the fund's more recent mortality experience and a limited ability to use industry data for the valuation.

The Fund's Manager suspended redemptions and trading in the fund's shares in November 2011 after the U.K.'s Financial Services Authority, now known as the Financial Conduct Authority, referred to life settlements as a "toxic" asset. At the time, the FSA proposed prohibiting sales to retail investors. The Fund has since been restructured to allow investors to hold or sell their shares.

The auditor said that during 2011 new information surfaced showing that lives in the portfolio had extended beyond their expectancy estimates and the same was true after that. Grant Thornton Ltd. is the current auditor.

In another development, the Investors' Group said that three policy maturities on two lives with \$11 million in death benefits were reported in May, but there haven't been any reported maturities so far for June. The group also said that a total of 586 policies on 474 lives have matured since the policy's inception through December, with \$1.103 billion in gross income and \$865 million in costs. The fund was launched in 2005.

On another issue, the Group said that three policies with \$1.9 million in death benefits were sold in April for \$663,500. The group said it won't know what the costs and profits were until the 2017 annual report is published in a year.

The Investors' Group also reported that Maple Life Analytics, EEA's Bethesda, Md.-based independent valuation agent, has estimated that the fund will experience between \$28.7 million and \$119 million in maturities this year. At the low end of the range, cash available for redemptions this year would be about \$50 million while the high end would allow \$135.8 million in redemptions.

The Group noted that EEA announced on May 19 that a new Director, William Simpson, was appointed to the Fund Manager. He had been managing partner of the Ogier law firm in Guernsey, where he headed its fund practice, the Group said. He left last year to become a consultant. Ogier has been EEA's Guernsey law firm since the Fund's inception, the group also said.

The investors' group also commented on EEA's annual report for last year, which was released June 30. The Group said there's still no actual-to-expected performance statement published on the Fund. In addition, it said that ViaSource Funding Group LLC of Bernards Township, N.J., the provider that originated the policies in the fund, continues to state that policies matured at 80% of the projected life expectancy.

"This is meaningless on several grounds, and has been misinterpreted by financial advisers and investors to indicate that the maturities are occurring 'faster' (i.e. 'better') than expected -- which is demonstrably untrue," the Group said.

It also noted that eight policies with \$12.1 million in face value were allowed to lapse because they reached their expiration dates. In addition, another nine policies with \$7.1 million in face value will reach their expiration dates before their current expected maturity. As of December, the weighted average life expectancy for the remaining 139 policies was 33.3 months, but at the end of May, it was 34.8 months.

In addition, the Group noted that ViaSource also stated that 69% of the fund is made up of policies with death benefits of \$5 million or more and these policies have an average life expectancy of 115.7 months [from their purchase dates].

Neither an EEA representative nor ViaSource were immediately available for further comment.