

Professional Group Is Reviewing Complaint Against E&Y

An investor group alleged the accounting firm failed to respond to its questions about audits of the EEA fund.

By Donna Horowitz

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A professional group is looking into a complaint against Ernst & Young LLP by an investor group alleging that the accounting firm failed to respond to questions about audits of the EEA Life Settlements Fund.

The Institute of Chartered Accountants for England and Wales would not confirm whether it's reviewing a formal complaint by the EEA Investors' Group. However, the investor group's coordinator provided a copy of a June 26 email from the Institute saying that it had received the investor group's letter and enclosures and had assigned the case a reference number.

"Your complaint will be allocated a case manager for assessment. The case manager will contact you as soon as possible," the Institute said.

"Please provide copies of all relevant supporting material you hold under the reference noted above if you have not already done so. The more you are able to help, the more quickly we will be able to consider your complaint," the Institute added.

When asked about the complaint, Yvonne Diaz, a spokeswoman for Ernst & Young in London, said in an email that the firm could not comment on client matters.

Caroline Florence, a spokeswoman for the Institute in London, said in an email that the group's disciplinary bylaws prevent it from commenting on whether any matter might be under consideration by its professional conduct department. If any disciplinary action is taken, it will be announced publicly, she said.

"Although we cannot comment on any individual matters, those same byelaws state that a member shall be liable to disciplinary action if he commits any act or default likely to bring discredit on himself, the Institute or the profession of accountancy," Florence said.

The investor group said it filed a formal complaint about Ernst & Young's audits of the EEA fund between 2008 and 2011 after the firm allegedly 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 June 30. David Trinkwon, the group's coordinator, previously said he made the complaint to the Institute asking it "to investigate the substance of our complaints and EY's failures to respond."

He said that his group made a complaint to the Institute after Ernst & Young failed to make any substantive responses to letters to the auditing firm in 2014 and 2015. The group then said it sent a final letter to Ernst & Young in April again asking for a response, but has yet to hear back.

The investors' group said in its letter to the Institute that investors and financial advisers worldwide relied on the fact that the fund was audited by Ernst & Young and regulated by the Guernsey Financial Services Commission when they made a \$1.5 billion investment in the fund.

It said the investors have suffered losses of more than \$900 million "as a result of the alleged mismanagement and misrepresentation of the Fund prior to E&Y's resignation in August 2013."

As to what outcome he hopes to achieve, Trinkwon said he'd like a disciplinary ruling about Ernst & Young Guernsey's conduct before 2012 and a potential investigation into auditing practices in Guernsey. Trinkwon said Friday, July 14, that he hadn't heard back yet from the Institute since it had given the case a reference number. He said he didn't expect to hear from the group for several weeks and that it might be asking the accounting firm for its response.

The Institute said it has more than 147,000 members worldwide and works to ensure they meet the highest ethical and technical standards, according to its website.

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 Guernsey-based fund manager, which is a subsidiary of EEA in London, 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 life expectancy estimates and the same was true after that. Grant Thornton Ltd. is the current auditor.

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