

FCA Drops EEA Life Settlements Bombshell on the Wrong Target - Again

In November 2011, the UK Financial Services Authority (the FSA) made a “sensational” announcement about a forthcoming Consultation on whether Traded Life Policy Investments (TLPIs) should be sold to retail investors. Investors in the EEA Life Settlements Fund were the main “victims” of this announcement – it triggered a two-year suspension of the \$1.8bn Fund, financial hardship to many investors, a much-flawed restructuring and ongoing concerns about future liquidity and potential capital losses.

Last week, the FSA’s successor, the FCA, made another announcement, warning EEA Investors that they should consider making complaints and claims against their Financial Advisors before certain Financial Ombudsman Service (FOS) deadlines expire, potentially in five weeks’ time. This time, the “victims” will be the IFAs and their insurers. A West Country IFA told the EEA Investors’ Group :

“ One problem is that all marketing literature, Portfolio Statistics, Monthly Factsheets etc, have been issued by EEA Fund Management (Guernsey) Ltd., who are not regulated by the FCA. They are regulated by the Guernsey Financial Services Commission (GFSC). Retail investors and many IFAs naively think that GFSC regulation equals effective investor protection.

EEA Fund Management (Guernsey) Ltd have promoted the LOW RISK line all over their literature since this Fund started to trade, and this was repeated by the EEA London staff and Directors to IFAs in the UK – many of who still believe it. As a professional IFA I wrongly assumed that the GFSC regulated Guernsey firms in a similar way to the FCA in the UK. Indeed, many investors were also misled by the “low risk” statements, and the fact that the Fund was regulated in Guernsey. We were, sadly, all wrong.

Essentially The FCA and the FOS are saying that the EEA Life Settlement Fund is a high risk toxic product, while the GFSC tacitly approved the original EEA (Guernsey) statements that the Fund is a low risk, non correlated investment. One of them must be wrong as the product is the same regardless of whom it is bought by (High Net Worth, Sophisticated Investor or not), and regardless of where it is bought (London, Paris or Guernsey).

The FCA and the FOS frequently “advise” investors to seek redress from their IFA and this often pushes the IFA firms into default and bankruptcy, ruining businesses, lives and families along the way. If it can be proved that the GFSC were wrong to allow EEA Guernsey to promote the fund as low risk then they would also need to take some action to obtain some redress for the investors, without penalising the IFAs.

A spokesman for the EEA Investors’ Group said that they now have evidence that EEA has mismanaged and misrepresented the Fund to IFAs and investors, almost since inception in 2005, and is still doing so. EEA repeatedly refuses to release the more detailed information

necessary to confirm or modify their projections of future redemptions and profitability. The Group plans to publish its detailed analysis in mid-October.

The spokesman continued that, in his opinion, rather than drop the first bombshell in November 2011, the FSA should have worked quietly and professionally behind the scenes with the GFSC and the Company's auditor (Ernst Young) to uncover the true situation and put the Fund into a carefully managed independent administration process for the maximum benefit of the remaining investors.

He also suggested that in the second half of 2013, the FCA, GFSC and the new auditor (Grant Thornton) should have intervened to stop the restructuring, which was demonstrably not in the best interests of rational investors. The serious qualification of the much delayed 2011 Accounts, the resignation of Ernst Young on professional grounds, and the subsequent refusal of the Channel Islands Securities Exchange to relist the EEA shares are all factors which should have triggered Board resignations and thorough (and independent) investigations by the Regulator and the Auditor.

The spokesman went on say that rather than dropping this second bombshell, the FCA should again have worked with the GFSC and Grant Thornton to stop this Fund in its flawed tracks, rather than continue to harm UK IFAs and investors by invoking lengthy and expensive compensation proceedings, which still leaves the current EEA Directors in place to continue their misrepresentations, to the detriment of investors in the UK and around the World.

The EEA Investors' Group has never advocated the pursuit of mis-selling claims against IFAs, although it does provide information and support to members who have chosen to pursue this legitimate path. However, the Investors' Group spokesman added that last week's FCA Notice and the implications of an upcoming FOS deadline means that the Group will now have to recommend that all of its members should register a complaint against their UK IFA where applicable, if only to preserve their options under the Ombudsman scheme. The Group will be distributing a "Claims Information Bulletin" to all of its members later this week. It is also recommending that all holders of EEA Continuing shares should submit claims for the optional (discretionary) 5% redemption scheduled for December 2014. Further information can be obtained from the EEA Investors' Group via their web site www.EEAInvestors.com or by email EEAInvestors@gmail.com

BACKGROUND

The EEA Life Settlements Fund was launched in Guernsey in 2005, and has purchased 926 policies on the lives of 749 United States persons diagnosed with terminal illnesses or other short life expectancy of 2-4 years (exceptionally up to eight years). The Fund was suspended in November 2011, following a controversial announcement by the UK Financial Services authority (FSA) that the investments in Traded Life Policies (TLPs) were “toxic” and possibly unsuitable for retail investors.

In 2013 the Company announced a 20% de-valuation of the Fund due to a re-assessment of the outstanding policies, and following severe qualifications by the Auditor (Ernst Young) of the much delayed 2011 Annual Report and Accounts. Ernst Young subsequently resigned on professional grounds and a new Auditor (Grant Thornton) was appointed in August 2013. The Company announced its’ long awaited Restructuring proposals in September 2013 and these came into effect on 1st January 2014. The Restructuring included dividing the original share “Cells” into Continuing and Run-off classes on the basis of an irrevocable investor election in October 2013. Although investors and the Guernsey Regulator approved the Restructure, the Channel Islands Securities Exchange Authority refused to relist the EEA shares, which are currently not quoted on any stock exchange and can only be redeemed on the terms specified in the restructuring documents.

The EEA Investors’ Group was formed in October 2013 to oppose the EEA Fund Director’s restructuring proposals which they saw as being more in the interests of the Directors and their associated companies than of shareholders and other investors. The Group is funded by voluntary donations from its Investor and IFA members in more than a dozen countries worldwide.

The Group has since made several representations to the Company, the Auditor and the Guernsey Regulator to try and obtain better (and faster) returns for the investors, to reduce the expenses and charges borne by the Fund going forwards and to improve the corporate governance, transparency and accountability of the Board. They also want to specifically improve the options and prospects for Continuing shareholders, many of whom have been especially disadvantaged by the restructuring.

David Trinkwon

Director – Medley Systems Ltd

Coordinator

EEA Investors’ Group

EEAInvestors@gmail.com

www.EEAInvestors.com

Tel : +44 (0) 7802 538315