

Sova Capital Limited – in Special Administration (“the Company”) Frequently Asked Questions (“FAQs”)

Important Notice

While the information in this document is provided in order to assist stakeholders in relation to the Special Administration process, it should not be viewed as legal, financial, tax or other advice and all information in this document is qualified in its entirety by reference to the relevant statutory and legal provisions and documents referred to herein, as well as the definitive documents in relation to the disposal of any part of the business.

Neither the Joint Special Administrators nor any of their advisors accept any responsibility for the current or continuing accuracy of this information and all stakeholders should arrange for independent advice in relation to the matters herein as required.

There is a glossary of defined terms at the end of these FAQs.

General FAQs

1) *What is a Special Administration?*

Investment Bank Special Administration is a process used following the insolvency of an 'investment bank', which for this purpose would include any institution incorporated in the UK that holds Client Money and Custody Assets for clients and is authorised for various purposes including carrying on the regulated activities of safeguarding and administering investments or dealing in investments as principal or agent. It was established by the IB Regulations, and the process involved is governed by the IB Regulations and the IB Rules.

The Joint Special Administrators' function is to act in the best interest of the Company's creditors (including TTCA Clients) and endeavour to return Client Money and Custody Assets to CASS Clients as soon as practicable.

The Joint Special Administrators will manage the affairs, business and property of the Company for the duration of the Special Administration, and will pursue the following statutory Special Administration objectives (which rank equally):

1. **Objective 1:** to ensure the return of 'Client Assets' (as defined in Regulation 10 of the Regulations) as soon as is reasonably practicable;
2. **Objective 2:** to ensure timely engagement with market infrastructure bodies and the Authorities (as defined in Regulation 2 of the Regulations) pursuant to Regulation 13 of the Regulations; and
3. **Objective 3:** is to either:
 - i. rescue the investment bank as a going concern; or
 - ii. wind it up in the best interests of creditors.

Note, 'Client Assets' for the purposes of Objective 1 include both Client Money and Custody Assets.

2) Who are the Joint Special Administrators?

David Philip Soden, Ian Colin Wormleighton and Stephen Browne of Teneo Financial Advisory Limited were appointed as the Joint Special Administrators of the Company on 3 March 2022 (the "**Joint Special Administrators**").

3) What did the Company do and why has the Company entered special administration?

The Company is an FCA authorised and regulated wholesale broker, headquartered in London.

The Company provided a full range of investment brokerage services to institutional and corporate clients, including independent research, securities trading, electronic and high-touch execution and public capital markets financing.

As a result of the war in Ukraine, the Company's business has been significantly impacted by the sanctions imposed on Russia and Russian assets, resulting in liquidity issues. The directors of the Company concluded it was, or was likely to become, unable to pay its debts and that it should enter Special Administration.

4) Which businesses does the Special Administration cover?

The Company's business only. No related companies have been placed into Special Administration or other insolvency process.

5) What type of client am I?

The Company has two main types of clients: (1) clients with a TTCA Account opened under Terms of Business A; and (2) clients with a CASS account opened under Terms of Business B.

For the purposes of these FAQs (and all correspondence in respect of the Special Administration):

- The terms "Client Money" and "Client Assets" / "Custody Assets" relate solely to CASS Accounts.
- Clients with a TTCA Account are "creditors" of the Company for the balance of their TTCA Account.

6) *What are the next steps for the Company and what does this mean for me as a client of the Company?*

The Joint Special Administrators are working with the Company to achieve the statutory objectives of the Special Administration, which includes seeking to establish if the business can be rescued as a going concern.

In the short term, it means that you will not be able to trade or otherwise use your Custody Assets or Client Money held with the Company – they are effectively frozen as at 2 March 2022.

Any TTCA Accounts you may have with the Company are also frozen as at 2 March 2022.

7) *Are you in contact with the FCA?*

Yes, the Joint Special Administrators are in regular contact with the FCA, and the FCA were consulted prior to the Joint Special Administrators being appointed.

A link to the FCA FAQ page on Sova Capital and Special Administration is:

<https://www.fca.org.uk/news/news-stories/sova-capital-limited-enters-special-administration>

CASS Clients

1) *What are Client Money and Custody Assets?*

Client Money and Custody Assets that are assets which are subject to the rules set out in the FCA' Client Assets Sourcebook ("**CASS**"). Under the CASS rules, Client Money and Custody Assets are segregated in accounts at third party banks/custodians.

The Company's Terms of Business Version B contains provisions consistent with the CASS rules. Version C of the Company's Terms of Business also contains CASS provisions to cover the event of a failed trade.

A link to CASS can be found here: <https://www.handbook.fca.org.uk/handbook/CASS>

2) *What is the difference between Client Money and Custody Assets?*

Client Money is the cash held for clients by the Company subject to a statutory trust, where the Company holds the cash as trustee for the clients.

Custody Assets are the individual stocks and shares and other investments that the Company holds for the client.

3) *Did the Company segregate Client Money and Custody Assets in line with the CASS rules?*

The Joint Special Administrators are carrying out an assessment of the Client Money and Custody Assets held by the Company to confirm the current position, including reviewing the Company records to assess the Company's compliance with the CASS rules.

At this stage there is nothing to suggest that CASS rules have not been followed.

4) Does the Company have a Client Money and/or Custody Asset deficit or shortfall?

Based on current information and data the Joint Special Administrators do not believe there is a shortfall in respect of Client Monies or Custody Assets.

However, the Joint Special Administrators will only be in a position to confirm this upon the conclusion of the reconciliation of Client Monies and Custody Assets, and this remains subject to any costs to distribute on the Client Monies or Custody Assets.

5) If my Client Money is held in a segregated account, why can't it be returned immediately?

Pursuant to the CASS rules, this is not permitted as Client Monies must be pooled in the Client Money Pool (see below).

This means that any client with Client Money claims will be entitled to receive a share of the Client Money Pool on a pro-rata basis.

Until the overall total of claims against the Client Money Pool are established, money cannot be returned to individual clients who have a claim against the Client Money Pool.

6) What is the Client Money Pool?

A Special Administration creates a "Primary Pooling Event" pursuant to the rules in the CASS rules. This means:

- All Client Money held by the Company on 3 March 2022 is pooled into a single pool¹ which is referred to as the Client Money Pool or CMP;
- Funds in the CMP need to be and have been reconciled to the cash that should be held for clients;
- CMP is returned on a pro-rata basis to clients & calculated on amount of monies that should be held for them in the CMP as a proportionate share of the entire CMP, less costs incurred in distributing the Client Monies.

7) What about money received after the date of administration?

All Client Money receipts received post pooling event on 3 March 2022 (i.e. dividend income and coupon interest) are held separately from CMP in designated post-pooling accounts, and will be reconciled and returned to the clients.

8) Is there a shortfall in relation to Client Money?

Based on current information, the Joint Special Administrators have not identified any shortfall with regards to the CMP, meaning that clients will be entitled to receive their Client Money in full (less the costs described above).

9) What are the costs of distributing Client Money likely to be?

Costs incurred in distributing Client Money are apportioned to each client with reference to their proportionate share of the CMP funds held. For example, if costs are at 1 pence in the £ on client monies, then a client with a claim of £1,000 in the CMP would receive a distribution of £990. A client with £10,000 would receive a distribution of £9,900;

At this stage we cannot give an estimate of the likely costs of distribution, but we will provide an update in due course. To give a sense of materiality, we expect these to be between 10 and 20 basis points.

10) Is there FSCS coverage for any shortfall?

In respect of the shortfall caused by the costs of distributing Client Money, clients will be able to submit an unsecured claim for the shortfall in the Special Administration estate.

Further, eligible clients are able to participate in the FSCS in the event of a shortfall.

11) Is there a pooling of Custody Assets?

Unlike Client Money, there is no pooling of Custody Assets.

As such, Custody Assets will be returned on a client-by-client basis, less costs associated with distributing Custody Assets.

12) What is the cost of returning Custody Assets?

At this stage we cannot give an estimate of the likely costs of distribution, but we will provide an update in due course. To give a sense of materiality, we expect these to be between 5 and 10 basis points.

13) When will I get my Client Money and Custody Assets returned to me?

Client Monies and Custody Assets will be returned as soon as reasonably practicable, subject to the claims process which is set out further below.

14) What's the process to return Client Money and Custody Assets?

- i. **Statement of account:** Statement of account will be provided to all clients shortly which will set out your pro-rata share of the CMP and your balance of Custody Assets.
- ii. **Client review:** We will ask all clients to review the statement of account and confirm if you agree with the balance. Information will also be provided should you wish to dispute your statement.
- iii. **Proof of debt:** A proof of debt form will also be provided to all clients to claim should there be any shortfall from the result of the costs incurred in distributing the Client Money and Custody Assets.
- iv. **Distribution:** Client Money and Custody Assets will be returned as soon as reasonably practicable.
 - a. **Custody Assets:** As Custody Assets are not pooled, we will return Custody Assets on a client-by-client basis and therefore will be able to return Custody Assets to you once we have received your agreement of the balance.
 - b. **Client Monies:** Due to the nature of the CMP, a distribution can only be made to clients once all have agreed to their pro-rata share of the CMP. Therefore, we anticipate that this process may take longer than the return of Custody Assets.

Further details have been provided to all CASS Clients. If you have not received these, or have any questions on the above, please email CASS.SovaCapital@teneo.com

15) What is the FSCS and can I claim compensation from it?

The FSCS is the compensation scheme for customers of UK authorised financial services firms. While the purpose of the FSCS is mainly to provide assistance to private individuals, smaller businesses may also be covered. Larger businesses are generally excluded.

The Joint Special Administrators are continuing to work with the FSCS to determine the position of eligible clients and will provide an update to eligible clients in due course.

At this stage, we are not aware of any eligible clients.

Further information about FSCS and the Company can be found at:

<https://www.fscs.org.uk/making-a-claim/failed-firms/sova-capital/>

For general information please see the FSCS website: <https://www.fscs.org.uk/>

TTCA Clients

1) What are TTCA Assets?

TTCA refers to an agreement under which collateral is provided by one party (the “Collateral Provider”) to the other (the “Collateral Receiver”) on a “title transfer basis”.

This means that the Collateral Receiver receives full ownership (i.e. legal and beneficial title) to that collateral from the Collateral Provider.

TTCA Assets are those held under Terms of Business A.

2) What is the impact of the Special Administration on TTCA Assets?

TTCA Accounts have been frozen as at 2 March 2022, and the Joint Special Administrators are currently working closely with their lawyers to evaluate TTCA Clients’ rights against the Company.

Given the number of clients and open positions at the date of appointment, this process will take some time to resolve and further updates will be provided in due course.

3) What are the Joint Special Administrators’ plans for TTCA Assets?

The Joint Special Administrators are working with the Company's staff to maximise the value in the Company’s assets (including its trading book) for the benefit of TTCA Clients and the Company’s other creditors.

4) Is there any preference for TTCA clients?

No. TTCA Clients are unsecured creditors of the Company and there are no rights to claim against specific assets. All unsecured creditors will be paid *pari passu*, i.e. will all receive the same p/£ recovery.

5) How can I submit my unsecured claim?

Once our assessment of TTCA Clients’ rights is complete, TTCA Clients (and other creditors) will be able to submit claims against the Company for repayment of amounts owed to them.

Further details will be provided to TTCA Clients regarding the claims process in due course, however if you wish to speak to one of the Joint Special Administrators regarding your claim now, please contact SovaCapital@teneo.com.

6) *Can I have a statement of my TTCA balance?*

Statements for TTCA Clients are available up to (and including) 2 March 2022. Please contact your existing relationship advisor to ensure you have the most up-to-date statement.

Statements after 2 March 2022 are not available.

7) *I was in the process of transferring my TTCA Asset(s) to my CASS Account when the Company entered Special Administration. What is the position of this transfer?*

All uncompleted trades as at 1:22 p.m. on Thursday 3 March 2022 have been cancelled.

This is because the Joint Special Administrators are obliged by statute to preserve the Client Money Pool formed as a result of the appointment under the CASS rules.

In addition, due to the complex nature of the Company's operations, in particular that TTCA Assets are assets of the Company which it is able to reuse and deal with as the Company considers appropriate in providing its services to TTCA Clients, TTCA assets were not always available to be transferred from TTCA to CASS in accordance with client instructions.

Trade creditors

1) *I am a supplier of the Company, what do I do?*

The Joint Special Administrators have written to all known suppliers regarding outstanding balances and on-going supply required.

If you have not been contacted, please contact your normal Company contact or SovaCapital@teneo.com.

2) *I am a creditor of the Company, what should I do regarding outstanding balances due to me?*

The Joint Special Administrators have written to all known creditors regarding outstanding balances.

You need to complete a proof of debt form (downloadable [here](#)) and submit to SovaCapital@teneo.com.

If you have not been contacted, please contact your normal Company contact or SovaCapital@teneo.com.

3) *How much will I recover on my claim?*

At this stage it is too early to estimate the likely recovery for unsecured creditors.

4) *Will there be a creditors committee?*

A creditors committee can be established at the initial creditors meeting (of which creditors (including CASS Clients) will be given notice), and which will be held within 10 weeks of the Joint Special Administrators' appointment. If established, the creditors committee will meet to assist the Joint Special Administrators fulfil their obligations. The first meeting of the creditors committee will take place within 6 weeks of the committee's establishment.

Given the nature of the appointment, we anticipate that creditors will request a committee, which we would welcome. Membership will be between 3 and 5 members, and we will seek a broad cross section of creditors (in terms of sizes and rights) to ensure there is adequate representation of the wider creditor population.

General Questions

1) *How do the Joint Special Administrators get paid?*

The remuneration and expenses of the Joint Special Administrators will be paid as follows:

- (a) in relation to services given in respect of Objectives 2 and 3, out of the assets of the Company; and
- (b) in relation to services given in respect of the pursuit of Objective 1, out of the 'Client Assets' (as defined in Regulation 10 of the IB Regulations) held by the Company.

This is subject to agreement by the creditors' committee or, if there is no creditors' committee or the committee does not come to an agreement, by the Company's clients and creditors at a meeting.

2) *What are you doing to try and rescue the business?*

The first stage is stabilisation. The business cannot be sold or recapitalised whilst there is so much uncertainty in the markets and given the short-term nature of significant proportion of the assets and the general uncertainty in relation to the ongoing war and changing market dynamics.

Accordingly, we are doing everything we can to stabilise the business in order to either: (i) enable a further injection of capital to return the business to solvency; or (ii) complete a sale to a third party.

3) *Is the former management team still involved?*

The Joint Special Administrators are working closely with the management team in order to maintain operational continuity and maximise chances of either: (i) a rescue of the business as a going concern; or (ii) maximisation of the available assets for the benefit of creditors.

4) *Are salaries paid up to date?*

Yes

5) What is happening to the Russian employees?

We are very concerned by ongoing developments in Russia and the Ukraine and are doing everything we can to minimise the impact of the war on the Sova team and its employees.

They remain employed and part of the critical infrastructure of the business and have our full support. We are sympathetic to the difficulties they face and are facilitating flexible and remote working where possible.

6) When will a further update be provided?

The Joint Special Administrators intend to update these FAQs regularly and will write to creditors again in the event there is a material change to the situation.

Further, the Joint Special Administrators will write to the you with their proposals for the Special Administration within 8 weeks of the appointment date.

Scams

All clients should remain alert to the possibility of fraud. If you are cold called by someone claiming to be from the Company or Teneo please end the call and contact us on +44 11 3396 0161.

FCA guidelines are available at www.fca.org.uk/consumers/protect-yourself-scams

Contact details

Should you wish to contact a member of the Joint Special Administrators' team, please use:

- Website: <https://www.ips-docs.com/case/SOVAC00011/Sova22>
- Email: SovaCapital@teneo.com
- Helpline: +44 11 3396 0161
- Post: Sova Capital Limited (in Special Administration), c/o Teneo Financial Advisory Limited, 156 Great Charles Street, Queensway, Birmingham, B3 3HN

Legal notice

David Philip Soden, Ian Colin Wormleighton and Stephen Browne, each Insolvency Practitioners of Teneo Financial Advisory Limited, were appointed Joint Special Administrators of Sova Capital Limited ("the Company") on 3 March 2022. The affairs, business and property of the Company are managed by the Joint Special Administrators.

The Joint Special Administrators act as agents of the Company and contract without personal liability.

Glossary

| Term | Definition |
|------------------------------|--|
| CASS | Client Assets Sourcebook |
| CASS Clients / CASS Accounts | Clients / Accounts which are opened under the Company's Terms of Business B and are subject to the rules set out in CASS |
| Client Money | Cash held for clients by the Company under the Company's Terms of Business B, which are subject to the rules set out in CASS |
| CMP | Client Money Pool |
| Collateral Receiver | Receiver of full ownership (i.e. legal and beneficial title) of the collateral related to a TTCA |
| Collateral Provider | Provider of full ownership (i.e. legal and beneficial title) of the collateral related to a TTCA |
| Custody Assets | Individual stocks and shares and other investments held for clients by the Company under the Company's Terms of Business B, which are subject to the rules set out in CASS |
| FCA | Financial Conduct Authority |
| FSCS | The Financial Services Compensation Scheme |
| IB Regulations | Investment Bank Special Administration Regulations 2011 |
| IB Rules | Investment Bank Special Administration (England and Wales) Rules 2011. |
| Objectives | Special Administration objectives (as set out under regulation 10 of the Regulations) |
| The Authorities | The Bank of England, the Treasury and the FCA |
| TTCA | Title Transfer Collateral Arrangement |
| TTCA Clients / TTCA Accounts | Clients / Accounts that are opened under the Company's Terms of Business A |