

Judgment summary: Re Link Fund Solutions Limited

NOTE: This summary is provided to help in understanding the Court's decision. It does not form part of the reasons for the decision. The full judgment of the Court is the only authoritative document. Judgments are public documents and are available at: <https://www.judiciary.uk> and <https://www.nationalarchives.gov.uk>

Link Fund Solutions (“LFSL”) is regulated by the Financial Conduct Authority (the “FCA”). It acted as Authorised Corporate Director of the LF Equity Income Fund, formerly known as the LF Woodford Equity Income Fund (the “Fund”). Following a deterioration in the Fund’s liquidity position, LFSL suspended redemptions of holdings in the Fund on 3 June 2019. That resulted in investors who held units when the Fund was suspended (“Suspension Date Investors”) making claims (“Litigation Claims”) against LFSL. The FCA also performed an investigation and reached the preliminary conclusion that LFSL should pay compensation of approximately £298 million (the “FCA Total Amount”) to Suspension Date Investors. LFSL does not accept the FCA’s preliminary conclusions and nor does it accept liability in respect of the Litigation Claims.

To settle all claims, and potential claims in connection with the Fund, LFSL proposed a scheme of arrangement (the “Scheme”) under Part 26 of the Companies Act 2006 with “Scheme Creditors” who are broadly the same people as Suspension Date Investors. Under the Scheme all claims against LFSL in relation to the Fund would be settled and released in return for payment. The amount of the payment available depends on the amount of other possible liabilities of LFSL. The maximum amount payable in aggregate to Scheme Creditors under the Scheme is £230 million (approximately 77% of the FCA Total Amount). The minimum amount payable is £183.5 million (approximately 61% of the FCA Total Amount).

As previously ordered by the court, there was a meeting of Scheme Creditors on 13 December 2023 (the “Court Meeting”) to decide whether to approve the Scheme. At the Court Meeting, the Scheme was approved by a majority that was significantly greater than the minimum necessary. The FCA has also confirmed that it supports the Scheme.

In the judgment released today (the “Judgment”), the court decides that it will allow the Scheme to take effect. The Scheme will therefore become binding on all Scheme Creditors, including those who voted against it or who did not vote. The FCA will separately settle the outcome of their investigation into LFSL.

A number of interested parties argued that, despite the vote at the Court Meeting, the Scheme should not be approved. For example, it was argued that the Scheme forced Scheme Creditors to give up rights under the Financial Services Compensation Scheme (the “FSCS”) and rights to notify complaints to the Financial Ombudsman Service (“FOS”). These points are considered in detail in paragraphs [27] to [51] of the Judgment.

The court’s conclusion is that the purpose of Part 26 of the Companies Act is to enable companies to reach settlements which are binding on all creditors in a particular category. Scheme Creditors approved just such a settlement at the Court Meeting. Rights to access the FSCS and FOS are not arbitrarily being taken away. Rather, because Scheme Creditors have, by the requisite majority, agreed to settle their claims against LFSL, there are no longer any claims that can be notified to FOS or paid out of the FSCS.

More generally, the Judgment concludes that Scheme Creditors are the best judges of whether they should settle their claims or not. The claims they had against LFSL were not certain to succeed. It was rational for Scheme Creditors to decide to settle those claims in return for a payment of cash. Noting that the FCA supports the Scheme, the court concludes that there is nothing so wrong with the Scheme, or the way it was explained to Scheme Creditors, that should prevent the vote at the Court Meeting from being respected.