Financial Conduct Authority October 21 2019

FCA will not investigate its role in Woodford saga

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The Financial Conduct Authority will not investigate its own role in the Woodford debacle as accusations that the City-watchdog had missed red flags mount.

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The FCA confirmed to *FTAdviser* on Friday (October 18) it would not commission an independent review into its actions in the lead up to the closure of Woodford Investment Management despite industry figures accusing it of having been "asleep at the wheel".

Consumers are expected to lose large sums of money from the saga which gathered pace after Woodford's flagship fund was suspended on June 3, triggering a series of unfortunate events which led to the firm’s eventual closure.

Woodford: what happened?

Mr Woodford's flagship Equity Income fund had been struggling with outflows which were running at a net £9m per working day in May.

But on June 3 Kent County Council asked to withdraw all of the £250m it had invested with him through its pension fund and Kier Group, one of the fund's substantial holdings, announced a profit warning which prompted its shares to plummet by 40 per cent.

This triggered the suspension on June 3. Since then, Mr Woodford had been scrambling to sell shares to improve the fund's liquidity in an effort to preempt a wave of redemptions when the fund reopened.

But on October 15 it was announced Mr Woodford's suspended Equity Income fund, initially touted to reopen in December, would be wound down and the former star manager fired from the fund.

He then walked from his remaining two investment vehicles before confirming he had taken the decision to close Woodford Investment Management later that day.

Some have since argued there had been a number of “red flags” missed by the regulator in the lead up to the events.

Former pensions minister Ros Altmann said the regulator "seems to have been asleep at the wheel" and pointed to the level of unlisted holdings in the fund.

According to FCA rules, unlisted securities can only make up a maximum of 10 per cent in open-ended funds but in February and March 2018 Woodford Equity Income breached this limit twice.

The regulator had been aware of this and arranged monthly meetings with the fund's administrators, Link, to discuss the liquidity position of the fund.

But a letter from the FCA to the Treasury select committee showed the regulator was aware Woodford's fund had become even more illiquid by April 2019 when compared with the year before.

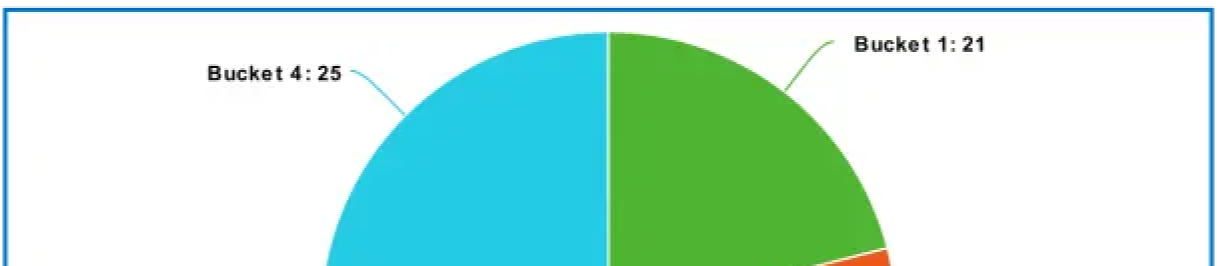
Link broke down the portfolio of the fund into four liquidity buckets. Bucket 1 was the most easily sellable assets (expected to be able to be sold between 1 - 7 days), bucket 2 was 8 - 30 days, bucket 3 was 20 - 180 days and bucket 4 was 180 - 360+ days.

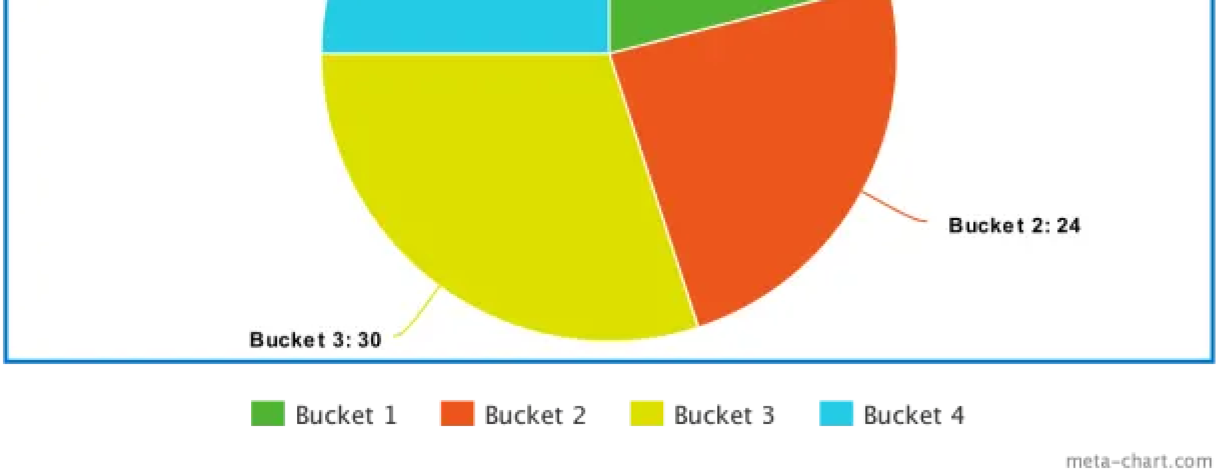
In June 2018, 21 per cent of the fund was in bucket 1, so easily sellable, but by April 2019 this had fallen to just 8 per cent.

Meanwhile bucket 4, which was expected to take up to a year to sell, had grown from 25 per cent to 33 per cent.

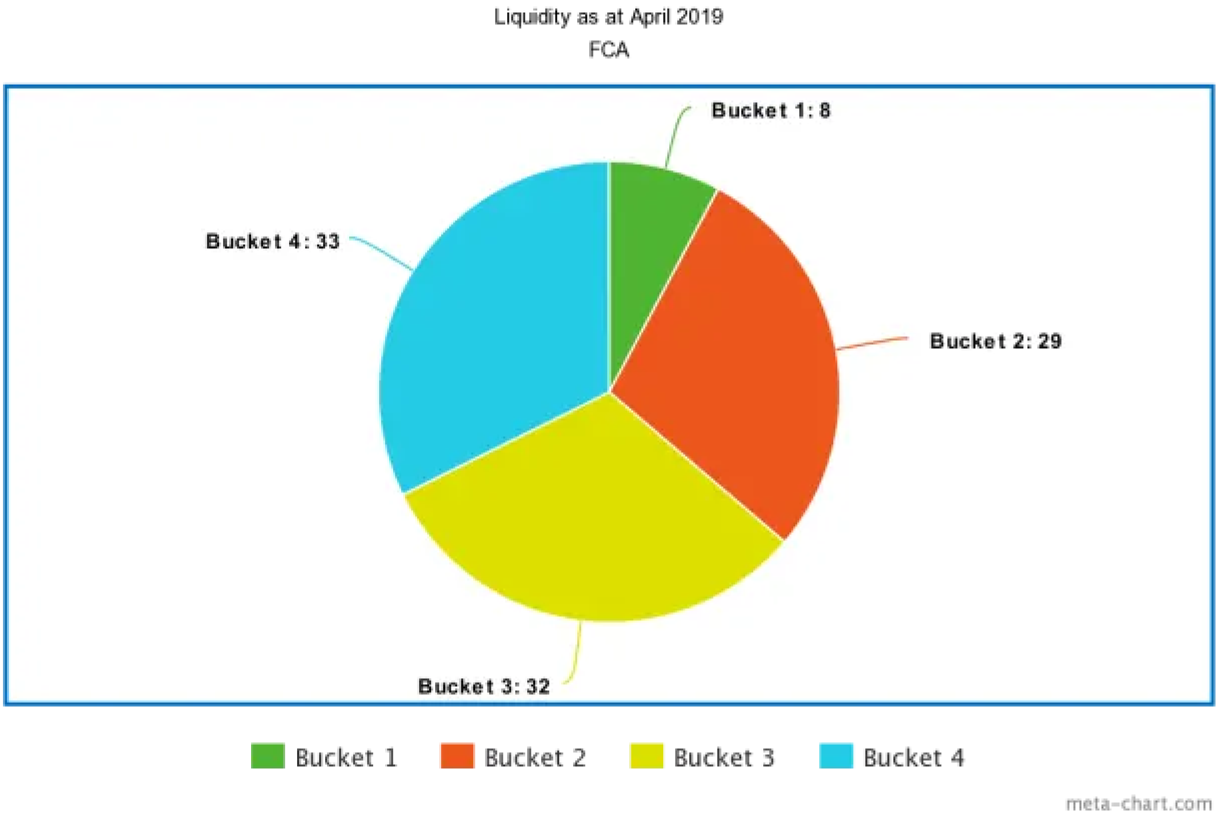
As at June 30, 2018 the liquidity of Woodford's Equity Income fund was as seen in the following graph (by %):

Liquidity as at June 2018
FCA





By April 30, 2019 the fund had become more illiquid, as illustrated below:



On top of this the City-watchdog had apparently not been aware the former-star fund manager had listed some of his unquoted holdings on the Guernsey Stock Exchange — which counted as liquid for regulatory purposes — in order to address the issue in April 2018.

> If you can't trust a retail fund that's meant to be well managed and regulated then there's an impact on the whole industry
>
> Baroness Altmann

In fact the FCA was only made aware Mr Woodford had bypassed the liquidity rules in this way when media reports covered the fact such holdings had been listed offshore.

In a letter to the Treasury select committee on June 18, 2019, FCA boss Andrew Bailey said although Woodford's actions were in line with the regulator's own rules they had underlined that just because securities were listed on an eligible market it did not mean those specific securities were liquid.