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29 October 2009

Dear Sir/Madam

**Arc Capital and Income Plc - in Administration ("the Company")  
In the High Court of Justice No. 20,074 of 2009**

Please be advised that Robin Davis, Melvyn Carter and John Alexander of Carter Backer Winter LLP ("CBW") were appointed Joint Administrators of the Company on 26 October 2009. Formal notice of our appointment is enclosed for your information.

The Joint Administrators have taken over the running of the company with a view to achieving a better result for the company's creditors, including investors, than would be likely if the firm were wound up without first being in Administration.

Following our appointment, the business has effectively been suspended other than for the administration of existing plans. Our hope is to sell the business to another plan manager who will take over the management of these plans.

The Administration of the Company will affect investors in products in different ways, depending on when they invested in the products and who provided the underlying securities.

**Information for Investors with Lehman-backed Plans**

Some of the structured products sold by the Company in 2008 were backed by companies in the Lehman Brothers Group ("Lehman"). The marketing and distribution of these products, in common with the wider structured products market, has been subject to review by the Financial Services Authority ("FSA").

The following plans are those which were backed by companies in the Lehman Brothers Group:

- Arc Fixed Income Plan 6
- Arc Stepped Kick Out Plan 5
- Arc Bull and Bear Enhanced Investment Plan 3

Customers who have invested in these Lehman-backed products with the Company may be entitled to compensation from the Financial Services Compensation Scheme ("FSCS").

**Partners**

- John Alexander  
FCA FABRP
- Melvyn Carter  
FCA CTA FABRP
- Robin Davis  
FCA FABRP
- David Kramer  
FCA
- Harry Lipman  
FCCA
- Vipul Shah  
FCCA
- Paul Smethurst  
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- Malcolm Somerston  
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- Edward Tsui  
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- Andrew White  
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- Peter Winter  
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- Paul Woosey  
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IMPORTANT NOTICE - Partners and staff acting as Administrative Receivers and Administrators act as agents and contract without personal liability. Where a company is in Administration, the affairs, business and property of the company are being managed by the Joint Administrators, who act as agents of the company. The authorising body for J A G Alexander, M J Carter and R H Davis acting as insolvency practitioners is the Institute of Chartered Accountants in England and Wales.

## **The role of the Financial Services Compensation Scheme ("FSCS")**

The FSCS is the UK's statutory fund of last resort for customers of financial services firms which cannot meet their liabilities. The FSA determined the Company to be "in default" on 26 October 2009. This means the FSCS can be satisfied the Company is unable, or likely to be unable, to pay claims against it, and this opens the way for consumers to claim compensation from the FSCS.

The FSCS is working closely with both the Joint Administrators and the FSA to understand as much as possible about the activities of the Company which might give rise to valid claims for compensation.

It is too early for the FSCS to say which investors could be eligible for compensation. However, the FSCS has commenced its investigations into certain investment plans sold by the Company which were backed by the Lehman Brothers Group, and its investigations and analysis into these plans is ongoing.

You do not need to contact the FSCS at this stage. The FSCS will work with the Joint Administrators to identify investors who may have suffered a loss as a result of their dealings with the Company. If there is compensation to pay, the FSCS and the Joint Administrators will work together to ensure that these investors know what to do.

### **Information for Investors with products not backed by Lehman**

Under FSA rules the Administration triggers a 'primary pooling event'. This effectively means all client accounts are frozen whilst the Joint Administrators verify and account for all client monies.

The Administrators will work with the FSA, and other relevant bodies, to help protect your funds or investments as well as the assets of the Company. Our priority is to confirm that investors' funds and investments have been identified and segregated from those of the Company in accordance with FSA Client Money Rules. Based on what we have established thus far, it appears that this is the case.

The fact that the Company has gone into Administration does not mean your product has been affected. We will continue to undertake limited administration of the plans while we look for a long-term solution.

Our appointment should not affect the value of any investments made in the Company's products and, for the time being, they will continue to be administered by us.

It is the Administrators' responsibility to verify the Company's financial records. In the short term this could result in some delay in making income payments. We are also not in a position to encash investments and/or process maturity payments at this time.

### **Information for Investors investing in Open Plans**

Open Plans are those where you have sent your money to Arc, but the investment transaction has not yet been completed.

Under FSA rules the Administration triggers a 'primary pooling event'. This effectively means all client accounts are frozen whilst the Joint Administrators verify and account for all client monies.

The Administrators will work with the FSA, and other relevant bodies to help protect your funds and investments as well as the assets of the Company. Our priority is to confirm that investors' funds and investments have been identified and segregated from those of the Company in accordance with FSA Client Money Rules. Based on what we have established thus far, it appears that this is the case.

At the time of our appointment the Company had three open plans:

- Arc Protected FTSE Growth Plan
- Arc 17.25% Kick Out Plan
- Arc Fixed Income Plan 16

**The "Arc Protected FTSE Growth Plan" with an investment date of 30 October 2009 will not be proceeding.** It is the Administrators' intention to refund your money.

It is unlikely that the "Arc 17.25% Kick Out Plan" with an investment date of 27 November 2009 and the "Arc Fixed Income Plan 16" with an investment date of 1 December 2009 will go ahead. However, if we are successful in selling the business these plans may still go ahead. As with the "Arc Protected FTSE Growth Plan", if either or both of these two plans do not go ahead your money will be refunded by the Administrators.

If you have given the Company instructions to invest in one of these plans on your behalf, and you are within the 14 day cooling off period and wish to cancel your instruction, please sign and return the cancellation notice to the Company's offices at 22 Lovat Lane, London EC3R 8EB.

It is the Administrators' responsibility to verify the Company's financial records. In the short term this could result in some delay in making refunds to you of monies held in the Company's Client Accounts.

Any payments received by cheque at the offices of the Company from 26 October 2009 together with instructions to invest in one of the open plans will be returned to you, unbanked.

The Joint Administrators are reviewing the financial position of the Company and will provide updates on their website <http://www.cbw.co.uk/arc.html> when there is new information to report. This website also includes a "Frequently Asked Questions" section.

Additionally, pursuant to paragraph 51 of Schedule B1 of the Insolvency Act 1986, the Administrators have a duty to call a meeting of creditors to consider our Proposals for achieving the purpose of the Administration within 8 weeks of our appointment. Notice of the meeting of creditors and our Proposals will also be available on the above-mentioned website in due course.

A copy of this letter has been sent to your Independent Financial Advisor, where appropriate. If you have any general queries in respect of the information contained in this letter your IFA may be able to assist.

Yours faithfully



**R H Davis**  
**Joint Administrator**