

Conflict of interest claim against Financial Conduct Authority in Connaught fund review

[James Hurley](#), Enterprise Editor

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The Financial Conduct Authority will play a key role in an independent investigation of its conduct

Representatives of investors who lost £100 million after the collapse of an investment firm say they fear that an investigation into failings at the City regulator will be a whitewash.

A protocol document for Raj Parker, the barrister appointed in June to lead an independent review of the Financial Conduct Authority's handling of the demise of [Connaught Income Fund](#) Series 1, shows that the authority will play a key role in the investigation.

The regulator will be in control of document disclosure, including from third party organisations, as well as the administration of meetings with witnesses it employs or has employed.

Any individuals, groups or organisations that have been criticised and could be identified by Mr Parker's report, including the authority, will be able to comment on it prior to publication, and the regulator may help to decide who should receive such rights.

Mark Bishop, of the Connaught Action Group, which represents affected investors, said: “If the FCA’s intention is to deliver a whitewash that exonerates it and its senior team for seven years of negligence and cover-up, it could not have set up the review more effectively to serve its self-interest.”

George Patellis, the former chief executive of Tiuta who warned the authority’s Financial Services Authority, the FCA’s predecessor, about a black hole in the firm’s accounts, said: “The FCA appears to be controlling an external investigation of themselves.”

Connaught was a collective investment scheme that started operating in 2008, providing short-term bridging finance to commercial operators in the property market. It claimed it could offer returns of more than 10 per cent. It initially worked as planned but in 2011 Tiuta, a bridging loan firm in which the Connaught fund had placed investors’ money, became financially strained.

Connaught went into liquidation in 2012, leading to more than £100 million of losses for about 1,900 people. The FSA was accused of being slow to react, including to warnings from a whistleblower about accounting irregularities at Tiuta. Capita Financial Managers, a former unit of Capita, the outsourcing group, was censured in 2017 for its management of the Connaught fund. It agreed to pay £66 million to help to compensate investors.

Mr Bishop said: “An unnamed and unaccountable cabal of the FCA’s employees will filter the reviewer’s access to information. The regulator will also have wide-ranging powers to read and challenge a draft of the review.

“We will have no right to be notified of such challenges, let alone to question them, and nor will we be allowed to scrutinise a draft report.”

The authority said a dedicated team would help to administer the review, but there would be no filtering of information in order to influence it. Any redactions in the final report will have to be explained when it is published and Mr Parker will be able to have direct contact with parties if he wishes.