

SEVEN STARS LEGAL FUNDING BONDS

Frequently Asked Questions



What is Litigation Funding?

Litigation finance is where a third party invests in a claim, funding legal and associated fees, in exchange for a share of the proceeds from the claim and a fixed interest for having lent the funding.

For a solicitor to run a claim on a “no win, no fee basis” someone has to finance the work to settlement. Many institutional financiers will not provide funding as they are often the defendants in this kind of claim or may be limited from doing so through maintenance and champerty laws.

Any case which has a potential damages or money outcome is a potentially good case for funding. The funder is only paid on success and so the merits of a claim, as well as the opponent’s ability to pay, are consequently very important in determining whether the case is suitable for this type of funding. Litigation Funding is a firmly established funding tool in commercial litigation.

How does Litigation Funding work?

The funder will assess and accept suitable claims. The funder (not the claimant) would then pay all the legal fees and disbursements over the lifetime of the claim. In exchange, when the claim succeeds and damages are awarded, the funder will receive a pre-agreed share of the amount recovered. If the claim does not succeed, a claim is made against an ‘After the Event’ insurance policy that the funder has obligated the lawyer to contract. Such policies are for protection of the claimant but is intended to cover own disbursement costs as well as opposition costs. Seven Stars lends own disbursements and legal fees, so most, if not all of the lent funds are covered through the ATE policy. In addition, it is a prerequisite of funding that all ATE policies must be provided through or underwritten by A-rated providers.

What happens if the claim is lost?

If a claim is lost, then the ATE policy will be called upon to cover own disbursements – principally the funds provided by Seven Stars.

What is ATE Insurance?

After The Event insurance policies covers the cost of ‘own disbursements’ (the funds spent on that case) on funded cases in the event that a case is lost. It also covers the other party’s costs if a case is lost.

After the Event Insurance (ATE) is carried on all cases funded by Seven Stars as a condition of funding.

It is not a capital insurance for the investment and Seven Stars are not a beneficiary, however it does provide some assurance that the borrowing law firm will receive funds that can be used to cover any indebtedness to Seven Stars. Lending contracts also stipulate that funds are due to be paid back to Seven Stars from ‘settlement, insurance payouts or through law firms own cash’.

What is Legal Precedent?

A precedent is a legal case that establishes a principle or rule. This principle or rule is then used by the court when deciding later cases with similar issues or facts. Essentially, the court is duty bound to follow previous precedent unless there is exceptionally good reason not to. The use of precedent provides predictability, stability, fairness, and efficiency in the law. When combine with ‘simple’ case types where responsibility is less based on interpretation than on a binary yes/no factor, we have a strong combination of factors for success.

How big is the market for Litigation Funding?

Most people will have seen at least one TV advert on the subject of 'no win, no fee' compensation claims, which have led to large scale legal actions being taken, often with hundreds of thousands of claimants pursuing similar settlements once 'Legal Precedent' has been established. It is the increasing number of 'no win, no fee' actions and the continued increase in recognition of consumer rights in the UK that has led to significant growth in the sector.

The banking crisis made it harder for Law firms to raise the capital necessary to pursue mass claims, so alternative sources of funding were sought. Many institutional financiers will not provide funding as they are often the defendants in this kind of claim or may be limited from doing so through maintenance and champerty laws.

The litigation funding market is expected to be worth more than £45 billion by the end of 2023. There are developed litigation funding markets in the USA, Canada, UK, Australia, Singapore and Hong Kong.

According to a report by the law firm Reynolds Porter Chamberlain In the UK the litigation funding market has doubled over the past three years as the pipeline of court cases and cash held by litigation funders in the country has risen to £2bn, but this was before the most recent spate of GLO or class action cases (very much the realm of the larger Litigation Funders due to the high risk/ reward balance). It should also be noted that the application of the Plevin ruling on undisclosed commissions is also driving substantial market growth.

The growth in availability of litigation funding in part has been driven by investors looking for alternative assets where returns are uncorrelated with the performance of the wider economy and traditional assets such as equities. Another driver is the growth in providing access to justice for consumers fighting large corporations and institutions.

Where does an investors money actually go?

Seven Stars will use the money raised by the Seven Stars Bonds to lend to regulated law firms or to the marketing companies helping such law firms to acquire and progress appropriate cases to a successful settlement or court decision, whilst ensuring that there is a strict mechanism of controls in place for borrowers.

How are the yield and principal payments generated and protected?

Seven Stars charge a premium annual interest to the borrowing solicitor. This is combined with a share of the income generated by the solicitor via their 'no win, no fee' agreements provide the yield and principal payments. The potential gains from winning a case can be many times the amount spent pursuing the case. Where taking a share of compensation is deemed ethically unacceptable (such as in the case of Housing Disrepair Claims), lending agreements are structured to include higher base interest rates.

Seven Stars has a highly experienced advisory panel with expertise in the legal, corporate finance and debt structuring sectors who carry out extensive due diligence on the borrowers and the legal cases seeking finance.

We specifically target precedent-based, small legal claims for investment, which reduces the operational and results-based risks involved and we insist that ATE insurance is in place on all funded cases.

We will only fund cases against large, liquid entities, such as Banks, Housing Authorities and Utility Companies or where Government backed compensation schemes exist. We establish minimum claim values for each sector to ensure sufficient capital cover.

Having been successfully screened, the borrowing solicitor enters into either a Deed of Assignment of funded Assets or a general Debenture with the lender (Seven Stars). The assignment covers all income due to the Solicitor, both disbursements and also the contingency fee, so will generally be of greater value than borrowings.

In the event of solicitor default, the case or cases can be moved to another firm and in the case of discontinuation of a claim, the law firm is obliged to either replace the case with another, qualifying one or payback the capital and all accrued interest.

How do Investors rank in terms of Security?

All investors rank Pari Passu in terms of protection and representation; the Security Trustee holds a debenture over Seven Stars and all assets and securities, to the favour of the investors. The Trustee will act on behalf of all investors should there be a default and will be responsible for executing charges on each borrower.

What types of claims are you funding?

Seven Stars targets small precedent based claims against large liquid entities and institutions. These claims can include undisclosed commissions in financial products (such as car finance or credit loans), breaches of consumer protection, Undisclosed commissions in energy contracts, Financial Ombudsman and Compensation Scheme claims, Housing Disrepair claims or even flight delays:

Housing Disrepair

Four million households live in rented social housing in England, which is 17% of all households. The introduction of the Homes Fitness for Human Habitation Act 2018 has imposed further statutory obligations on landlords to provide safe and habitable homes. Where landlords fail to maintain safe and habitable properties there is scope for claims.

Financial Services

Where people in the UK have been poorly advised or mis sold a financial product, they can seek financial justice. A key area of focus is mis sold or poorly invested pensions which is estimated to be £10 billion.

Plevin Claims

The ruling of the Supreme Court in the Plevin was in respect of commission that was often included in PPI premiums but was not disclosed to the client. The court ruled that the lack of disclosure of the commission made the relationship unfair, not the level of commission itself. Non-disclosure deprives the client of the opportunity to consider whether the insurance was value for money.

Business Energy Claims

Small businesses often rely on Third Party Intermediaries (TPI) to secure energy contracts. The TPI's are paid Commission of this arrangement and don't disclose this. The secret commission is added to the per unit rate of energy supplied which inflates the cost of energy.

Businesses are kept in ignorance which means that they never had an opportunity to decide the 'best-fit' arrangement for them. As with Plevin cases non-disclosure is again the basis of the claim.

PCP Car Finance

In the provision of car finance there was widespread use of commission models which linked the broker commission to the customer interest rate and allowed brokers wide discretion to set the interest rates which gave rise to conflicts of interest and created strong incentives for the broker to charge a higher interest rate. Again, the key issue here is whether commission arrangements were disclosed to the consumer.

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Is Seven Stars regulated?

No, Seven Stars Legal Ltd is not a regulated entity and our products are not intended for any investors other than those qualified to invest under FSMA rules.

Is there a secondary market for Seven Stars?

Seven Stars bonds are listed on the Wiener Boerse MTF market (Vienna) and can be purchased via EuroClear and via Crest. At present this listing facilitates the purchase of new-issue units and as such, no true secondary market currently exists.

What are the Listing Details?

The bonds were listed on the Vienna Stock Exchange on the 23rd August 2023.

ISIN	BOND
GB00BNYLM811	Up to GBP 25,000,000 Series 1 17.5% Fixed Rate Bond 2025
GB00BNYLM704	Up to GBP 25,000,000 Series 1 14,0% Fixed Rate Bond 2024



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