



SEVEN STARS LEGAL FUNDING BONDS

**FREQUENTLY
ASKED
QUESTIONS**

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WHAT IS LITIGATION FUNDING?

Litigation funding, also known as 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/or a fixed interest payment for having lent the funding.

For a solicitor to run a claim on a “no win, no fee” basis, someone must 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 with potential damages or monetary outcomes is a potentially good case for funding. The funder is only paid on success, so the merits of a claim and the opponent’s ability to pay are vital 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 claims and accept funding applications for those deemed suitable and appropriate for funding. 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 (ATE) insurance policy the funder has obligated the lawyer to contract.

Such policies are for the protection of the claimant but are intended to cover “own disbursement” costs as well as opposition costs. Seven Stars lends funds for “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 IS ATE INSURANCE?

ATE policies cover the cost of “own disbursements” (the funds spent on that case) on funded cases in the event that a case is lost; in this scenario, it also covers the other party’s costs.

We insist on ATE insurance cover on funded cases where the case may be settled in the Courts of England or Wales or where a risk of adverse costs may exist. When this is required, Kevin Prior, Seven Stars’ Chief Commercial Officer, will request and discuss it with the Funding Partner, and agreements are written such that this is easily applied as a condition of lending.

There is no risk of adverse costs attached to claims brought via the Financial Services Compensation Scheme or Financial Ombudsman Service, so ATE insurance is not required when funding such cases.

ATE insurance is not capital insurance for the investment, and Seven Stars is not a beneficiary; however, it does provide some assurance that the borrowing law firm will receive funds that it can use 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 the law firm’s own cash.”

WHAT HAPPENS IF THE CLAIM IS LOST?

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

WHAT IS LEGAL PRECEDENT?

A precedent is a legal case that establishes a principle or rule. The courts then use this principle or rule when deciding later cases with similar issues or facts. Essentially, the court is duty-bound to follow previous precedent unless there is exceptional reason not to. The use of precedent provides predictability, stability, fairness, and efficiency in the law. When combined with “simple” case types where responsibility is less based on interpretation than on a binary yes or 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 have 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 was projected to be worth more than £45 billion by the end of 2023. Developed litigation funding markets exist in the USA, Canada, UK, Australia, Singapore and Hong Kong.

According to a report by the law firm Reynolds Porter Chamberlain, the UK litigation funding market almost doubled in size between 2019 and 2022 as the pipeline of court cases and cash held by litigation funders in the country grew to £2.2bn, but this was before the most recent spate of GLO or class action cases, which are very much the realm of 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 driving substantial market growth.

The growth in the availability of litigation funding has been partly 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 INVESTORS' MONEY ACTUALLY GO?

Seven Stars uses the money raised by the Seven Stars Bonds to lend to regulated law firms or to regulated marketing companies helping such law firms 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 charges a premium annual interest rate to the borrowing solicitor. This is combined with a share of the income the solicitor generates via their "no win, no fee" agreements to 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.

HOW DOES SEVEN STARS CHOOSE WHICH LAW FIRMS AND CLAIM TYPES TO FUND?

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



HOW DOES SEVEN STARS REDUCE INVESTMENT RISK?

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

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 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 repay the capital and all accrued interest.

WHY LIQUID ENTITIES?

Winning a case against a defendant who cannot pay is not an economically viable strategy. Therefore, ensuring that all cases Seven Stars funds are against defendants with solid balance sheets is vital.

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 Service and Financial Services Compensation Scheme claims, Housing Disrepair claims, or even flight delays. Further explanations and summaries of some of these claim types are below.

Housing Disrepair

17% of all households – a total of four million – live in rental social housing in England. 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, the claims market for which is estimated to be worth £10 billion.

Plevin Claims

The ruling of the Supreme Court in the Plevin case 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, not the level of the commission itself, made the relationship unfair. 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. Most estimates say 60% - 70% of companies find energy contracts this way, but some put the figure as high as 90%!

The TPIs are paid a commission for this arrangement and often don't disclose this. The secret commission is added to the per unit rate of energy supplied, inflating the energy cost. When companies receive their energy bill, they only see a single cost and have no idea how much of that sum is going to their energy provider or that the TPI is getting any of it.

Businesses are kept in ignorance, meaning they never have an opportunity to decide the 'best-fit' arrangement for them. Non-disclosure is 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 broad discretion to set customer interest rates, giving rise to conflicts of interest and creating strong incentives for the broker to charge a higher interest rate. Again, the critical issue is whether commission arrangements were disclosed to the consumer.

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. The trustees are FCA registered, and their role is to act in the best interest of investors.

IS THERE A SECONDARY MARKET FOR SEVEN STARS BONDS?

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.

CORPORATE GOVERNANCE

Further information about how we assess requests for litigation funding and work to fulfil our responsibilities to our investors, borrowing firms, and the legal and legal funding industries is outlined in our Corporate Governance Statement.


To receive a copy of this document, or copies of our white paper analyses of specific case types, when available, please email hello@7stars.legal.




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