

Compensation and the FSCS Q&As

What is the Financial Services Compensation Scheme (FSCS)?

The FSCS is a statutory compensation scheme set up under the Financial Services and Markets Act. It provides compensation in the event of the failure of a firm authorised by the Financial Conduct Authority (FCA) and/or the Prudential Regulation Authority (PRA).

The FSCS operates separate sub-schemes for different types of financial products and services, including deposits and investment business. The maximum compensation limits are different for different types of financial product. Both cash deposits and investments are covered up to £85,000.

Compensation in the event of default by AJ Bell

AJ Bell Securities Limited (AJBSL) is the custodian for investments held in a GIA, an ISA and in the Funds & Shares Service in a SIPP. In the event of default by AJBSL following which you incur a loss, you can make a claim via the FSCS for compensation of up to £85,000.

AJ Bell Management Limited (AJBML) is the FCA-authorized Scheme Administrator of the SIPP. Sippdeal Trustees Limited (STL), a wholly owned subsidiary of AJBML, is the scheme trustee. If you incur a loss as a result of the default of AJBML or STL, a claim could arise under the FSCS. This would be limited to £85,000. Any creditors of AJBML or STL would have no claim over the assets of your SIPP.

Compensation for individual investments held on the AJ Bell Investcentre platform

Individual investments held in a GIA, in an ISA or on the Funds & Shares Service in a SIPP are also protected up to £85,000 per investment per individual. This is on the proviso that the investment itself is authorised by the FCA. Shares and equities are not authorised by the FCA, so they are not covered by the FSCS. Most funds and collectives, however, are authorised, and those that are authorised will be covered.

Compensation in the event of default by an investment partner or an off-panel investment provider

The AJ Bell Investcentre SIPP allows your adviser to invest your SIPP funds with other FCA-authorized stockbrokers and investment providers. In the event of default by one of those firms, you can make a claim via the FSCS for compensation of up to £85,000.

Compensation for individual investments in a SIPP held with an investment partner or an off-panel investment provider

An investment held in an account with an investment partner or an off-panel investment provider is protected up to £85,000, provided that the investment is FCA-authorized.

Compensation for cash deposits held in a SIPP

Any cash that you hold in your SIPP account is held across a number of carefully selected banks (each of which are separately covered under the FSCS). In the event of one or more of these banks failing, cash held on behalf of your SIPP is protected up to £85,000 in relation to the balance held with each bank. For further information please contact us.

If your SIPP holds deposits in excess of the limit, you may receive additional funds through the liquidation process, depending on the distribution of the bank's assets by the liquidator.

There is also additional deposit protection of £1 million for temporary high balances. However, this may be of limited benefit to SIPP customers as it only covers temporary large deposits arising from 'life events' such as property transactions and personal injury compensation, which are unlikely to be held in a SIPP.

The limit applies to the overall total that you hold with each of our selected banks. If you hold deposits in different accounts, for example in a current account as well as in a SIPP, those deposits will be combined for the purposes of the compensation limit. Any money owed to you personally

and any money owed by you would be netted off. So if you have savings but also have a loan or mortgage, then the liability on your borrowings would be deducted from your claim. If the borrowings exceed the claim, there would effectively be no claim on the FSCS.

Many banks and building societies are part of the same group, and whether or not you have a claim against different institutions within the same group will depend upon whether they have separate deposit-taking 'licences' under their FCA/PRA authorisation.

<http://www.fscs.org.uk>

Compensation in the event of default by your financial adviser

If you have a claim against your adviser, and your adviser is declared in default, you may be able to make a claim via the FSCS.

What is the claims process?

For more information about how to make a claim, please refer to the FSCS's website.

www.fscs.org.uk

Compensation payments into SIPPs

Under current HMRC rules, if you successfully claim compensation from the FSCS and you direct the compensation award into your SIPP, it must be treated as a personal contribution. This means that it is eligible for tax relief (up to 100% of your earnings) but it is also subject to the Annual Allowance. In addition, if you hold enhanced protection or any of the various forms of fixed protection you will lose this protection. There are no requirements for the SIPP to receive the compensation, even if it is paid in respect of an investment held in a SIPP. Therefore, you may wish to consider receiving the compensation personally rather than having it paid into your SIPP.

The contents of this Q&A document are provided by way of information and assistance only and reflect our interpretation and current understanding of the FSCS and FCA rules. They cannot be relied upon as a definitive statement of the application by the FSCS of its rules in any particular case and they do not, nor are they intended to, constitute advice, whether generally or as to any investor's specific circumstances. Any comment or opinion expressed herein is made to the fullest extent permitted by law entirely without liability. More information on the FSCS is available on its website www.fscs.org.uk.