

# 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; cash deposits are covered up to £120,000 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 or RIA. In the event of default by AJBSL following which you incur a loss, you can make a claim via the FSCS for compensation.

AJ Bell Management Limited (AJBML) is the FCA-authorized Scheme Administrator of the SIPP and RIA. 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. Any creditors of AJBML or STL would have no claim over the assets of your SIPP or RIA.

For GIA and ISA accounts, client money is held in trust accounts, opened with UK-regulated banks, in the name of AJBSL, which is authorised and regulated by the FCA.

Client assets are held in the name of our nominee company, Lawshare Nominees Limited, or by an appropriately authorised third-party custodian or nominee. Lawshare Nominees Limited is a wholly-owned subsidiary of AJBSL.

Cash or assets held under a SIPP or RIA are held subject to the trust deed and rules of the scheme, either in the name of Sippdeal Trustees Limited, or an appropriately authorised nominee company. As trust assets they are, again, ring-fenced from the assets of AJBML – the FCA-authorized administrator of the SIPP and RIA – and so not available to its creditors.

## Compensation for individual investments held on the AJ Bell Investcentre platform

Individual investments held in a GIA, in an ISA or in the Funds & Shares Service in a SIPP or RIA 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.

## 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.

## Platform and SIPP cash

### How do you hold platform cash?

We manage the cash we hold on your behalf to ensure that there is sufficient cash available to meet customer demand.

Your cash is held with a range of carefully selected banks, within pooled instant access, notice and fixed-term deposit accounts. We do this to reduce your exposure to the risk of any individual bank failing.

Cash held by individual customers on our platform is eligible for protection under the Financial Services Compensation Scheme (FSCS).

### Which banks do you hold cash with?

We hold your cash across up to 14 banks from the panel below.

- Bank of Scotland plc
- Barclays Bank plc
- Santander UK plc
- Lloyds Bank Corporate Markets plc
- Virgin Money UK plc
- Investec Bank plc
- Lloyds Bank plc
- Royal Bank of Scotland plc
- HSBC Bank plc
- HSBC UK Bank plc
- Qatar National Bank
- Cater Allen Limited
- NatWest Markets plc
- Bank of Montreal

All our panel banks are of an 'investment-grade' credit rating (BBB- or above with Fitch, and Baa3 or above with Moody's).

### In the event of a bank failure, how would an FSCS claim be assessed?

In the event of a bank's failure, your claim will be for a share of the cash held in all pooled bank accounts at that bank and you may also be able to claim via the Financial Services Compensation Scheme (FSCS).

FSCS rules currently state that an eligible person can claim up to a maximum of £120,000 per bank (or banking license) if that bank were to fail. However, the £120,000 limit includes any cash holdings that a customer may have under the same bank / banking license outside AJ Bell (e.g. in a current / savings account with that bank).

Your cash is not held in equal proportions across our panel banks, and the relative proportions held with each bank will vary on a daily basis. Therefore, the result of any FSCS claim assessment would depend on which bank failed and at which point in time.

### How does the diversification of cash increase the level of FSCS protection available to AJ Bell customers?

We continually aim to diversify your cash in order to offer as much FSCS protection as possible in the event of bank failure. This is illustrated below.

- If we held **all** of your cash with a single bank, up to £120,000 would be fully protected under the FSCS.
- If we held your cash across five banks, up to £120,000 would be protected by the FSCS in respect of each bank. If one or more of those banks failed, up to a total of 5 x £120,000, or £600,000, would be fully protected by the FSCS.

Both examples exclude any balances held outside AJ Bell.

We tier our panel banks so that the most credit-worthy banks hold the larger proportions of your cash.

The table below sets out the maximum proportion of your cash we hold with each bank. The actual proportion held with each bank on any given day is usually much lower than these maximums. The tiers are based on our internal assessment system, which takes into account several indicators of credit-worthiness, including credit ratings and certain capital ratios reported by banks.

Bank	Maximum limit
Tier 1	
Lloyds Bank plc	35%
Bank of Scotland plc	35%
Lloyds Bank Corporate Markets plc	35%
HSBC Bank plc	35%
HSBC Bank UK plc	35%
Barclays Bank plc	35%
Royal Bank of Scotland plc	35%
Santander UK plc	35%
Qatar National Bank	35%
Cater Allen Limited	35%
NatWest Markets plc	35%
Bank of Montreal	35%
Tier 2	
Investec Bank plc	15%
Virgin Money plc	15%

In order to diversify your cash and enhance the level of FSCS protection even further, we may from time to time add appropriate new banks to our existing panel listed above. If this happens, we will not place more than 5% of your cash with a new panel bank until this disclosure has been updated accordingly.

## **Is AJ Bell satisfied that its customers have adequate protection?**

We monitor the level of protection on a regular basis, and our ongoing internal assessments show that the vast majority of individual customer cash holdings are fully covered under the FSCS. As such, we are satisfied that the current level of diversification of our customers' pooled cash holdings is appropriate to minimise the risk of significant loss.

## **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 website: [fscs.org.uk](https://www.fscs.org.uk)

## **Compensation payments into SIPPs**

If you successfully claim compensation from the FSCS and you direct the compensation award into a SIPP or RIA, HMRC's current view is that 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.

There are no requirements for the SIPP or RIA to receive the compensation, even if it is paid in respect of an investment held in the SIPP or RIA and we will not accept payments of compensation into your SIPP or RIA. Compensation must be paid directly to you, and we highly recommend you take professional financial advice about your allowances and the potential tax implications before making any personal contribution to your pension.

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 or 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: [fscs.org.uk](https://www.fscs.org.uk).