

Compensation and FSCS Q&As

Background - 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 a failure of a firm authorised by the Financial Services Authority ("FSA") and is funded by levies on those firms.

There are qualifying conditions under which the FSCS can make compensation payments. The conditions are:

- There must be a **relevant person in default**. This means an FSA authorised firm or an Appointed Representative who is unable, in the opinion of FSCS or FSA, to satisfy a claim against it.
- There must be an **eligible claimant**. The FSCS essentially covers individuals (and some small companies).
- There must be a **protected claim**. A valid claim under a civil liability owed by the firm to the claimant.
- The FSCS operates three separate schemes for deposits, for contracts of insurance and for investment business and the maximum limits on compensation are different in each case. The current limits are:
 - **Deposits: £50,000** - for claims against firms declared in default from 7 October 2008 (100% of the first £50,000).
 - **Investments: £50,000** - for claims against firms declared in default from 1 January 2010 (100% of the first £50,000).
 - **Long-term insurance (e.g insured pension plans and life assurance): unlimited** (100% of the first £2,000 plus 90% of the remainder of the claim).

More information on the FSCS is available on its website www.fscs.org.uk.

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 FSA 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 member's specific circumstances. Any comment or opinion expressed therein is made to the fullest extent permitted by law entirely without liability. We strongly recommend that you seek professional advice if you are unsure as to your statutory rights.

Questions and Answers

1. What is the position for Bank of Scotland deposits?

The Bank of Scotland is now part of the Lloyds TSB Group and we are confident that deposits held with the Bank are secure.

Since the Prime Minister's statement on 30 September that the Government would do "whatever it takes" to protect people's savings, the Government has continued to put in place measures to ensure that deposits are protected and that institutions are supported through the current market conditions, including its support package to inject capital into banks where they need it.

In the unlikely event of the Bank failing, deposits held under a SIPP will be covered by the FSCS up to the current £50,000 limit (but see answers to the following questions).

2. What is the position if a client has more on deposit than the £50,000 limit?

If an individual holds deposits in excess of the limit, he or she may receive additional funds through the liquidation process, depending on the distribution of the Bank's assets by the liquidator. It will depend upon what assets are available once the liquidation process is complete and how the liquidator distributes any remaining assets, i.e. the rate of recovery in the liquidation process.

3. What if an individual also owes Bank of Scotland money?

Under the current scheme rules, the money owed to a claimant and owed by him, or her, would be netted off. So, if a person has savings but also has a loan or mortgage, then the liability on his or her borrowings would be deducted from his or her claim under the FSCS. If the borrowings exceeded the claim, then there would effectively be no claim on the FSCS.

4. How is the limit applied to joint accounts?

The protected claim is per individual claimant. So holders of joint accounts will each have protection, subject to the limits and in proportion to their entitlement.

Questions and Answers (cont)

5. How is the limit affected by other deposits held by an individual with the Bank of Scotland or with institutions in the same group?

The limit applies to the total held by an individual claimant with the authorised bank or deposit taking institution. If a person holds deposits in different accounts, for example, an account held within a SIPP and a current account, those deposits will be combined for the purposes of the compensation limit.

Many banks and building societies are part of the same group and whether or not an individual has a claim against different institutions within the same group will depend upon whether they have separate deposit taking "licences" under their FSA authorisation. The following link is to a website where you can see which institutions operate under one licence. This is not an official FSA or Government Website and we are not endorsing the contents: <http://www.moneysavingexpert.com/savings/safe-savings>.

6. Will Sippdeal offer alternative deposit arrangements to Bank of Scotland?

The Sippdeal product is designed with access to a single banking arrangement for deposits. All client funds are 'pooled' and invested with the Bank of Scotland. This helps us to keep the product simple to administer and the charging structure relatively low. We are not in a position to offer a range of bank accounts at present. However, we are looking into alternative methods of holding clients' funds, including distributing them amongst a group of banking institutions.

7. What would happen if A J Bell Management Limited or Sippdeal failed?

A J Bell Management Limited ("AJBML") is the administrator of the Sippdeal SIPP and Sippdeal Trustees Limited ("STL") is the scheme trustee. All investments are held under trust in the name of the scheme trustee or an FSA authorised nominee. In the event of the failure of AJBML or STL, the creditors of the company would not have any claim over the assets of the SIPP. All cash funds are held in a bank account in the name of the relevant scheme trustee, or its nominee, and are protected as bank deposits, subject to the FSCS limits.

If a loss arose to a client as a result of the failure of AJBML or STL and the company went into liquidation, a claim would potentially arise and would fall under the FSCS investment business scheme.

The A J Bell Group is financially strong and maintains resources considerably in excess of the FSA's capital requirements.

8. As all funds are held on trust through Sippdeal Trustees Limited, how would claims be handled?

The FSCS rules provide for trustees to make claims on behalf of members and/or beneficiaries and that, where a claim arises as trustee of a personal pension scheme, the FSCS must treat the member (or beneficiary) as having the claim. This has recently been confirmed by the FSCS.

It is possible that the FSCS would communicate with the trustees via the scheme administrator in processing claims.

9. What about the position of funds transferred to A J Bell Securities Limited for investment?

Funds transferred for investment are held within a designated client money account. This gives them trust status, which means that they are held separate from the assets of the stockbroker, and protects them from creditors should the stockbroker go into liquidation.

If the bank that holds the client money should fail, then how the funds would be treated will depend upon how they are held. Our understanding is that, if funds are held on "overnight deposit" arrangements, then the funds would be regarded as deposits and any claim would fall under the deposit scheme. But it is also possible that they could be regarded as funds held for investment in a client money account established by the investment firm. If the bank holding that client money failed, then special FSA rules on the distribution of client money in those circumstances would apply.

10. What is the claims process?

The FSCS deals with claims on a case-by-case basis and liaises with the liquidator of the failed firm. If a large institution goes into liquidation, it is likely that either the FSCS or the liquidator will contact individual claimants. In the case of a SIPP, it would probably do so via us, as scheme administrator.

11. How long does it take?

The FSCS aims to process claims within six months from a declaration of default. It may be quicker but will depend on the number and complexity of claims and how quickly the FSCS can obtain the information it needs to process claims.

The liquidation process is likely to take much longer. So, if an individual holds deposits to a greater sum than the FSCS limit and is therefore entitled to share in any assets recovered as part of the liquidation process (see question 2 above), that part of the process is likely to take some time but the FSCS compensation would be paid out first.

Regulatory

A J Bell includes A J Bell Holdings Limited and its wholly owned subsidiaries A J Bell Management Limited, A J Bell Limited and A J Bell Securities Limited.

A J Bell Management Limited is authorised and regulated by the Financial Services Authority. A J Bell Securities Limited is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority.

Sippdeal, Sippdealxtra and Sippcentre are platforms provided by A J Bell Management Limited. A J Bell Platinum SIPP is provided by A J Bell Management Limited. A J Bell Platinum SSAS is provided by A J Bell Limited.

The companies listed in the adjacent table are all registered in England and Wales at Trafford House, Chester Road, Manchester M32 0RS.

| Company | Company Number | VAT Number |
|-----------------------------|----------------|-------------|
| A J Bell Holdings Limited | 4503206 | 833 5478 13 |
| A J Bell Management Limited | 3948391 | 759 3531 03 |
| A J Bell Limited | 3091664 | 639 0316 44 |
| A J Bell Securities Limited | 2723420 | 918 4226 21 |