

FSCS FAQs

01 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.

02 Compensation in the event of default by AJ Bell

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

03 Compensation in the event of default by an investment provider

The AJ Bell Platinum SIPP allows you to invest your SIPP funds with FCA-authorised 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.

04 Compensation for individual investments in a SIPP held with an investment provider

An investment held in an account with an investment provider is protected up to £85,000, provided that the investment is FCA-authorised.

05 Compensation for cash deposits held in a SIPP

Any cash that you hold in your SIPP cash account is held across a number of carefully selected banks, each of which are separately covered under the FSCS. In the event of a bank failing, any deposits held under or on behalf of the SIPP will be covered by the FSCS up to the current £85,000 limit.

If you also hold cash in your SIPP under a separate deposit account, this will also be protected up to £85,000 provided the deposit taker operates under a different banking licence.

Please note that the £85,000 limit applies to all cash that you hold with that deposit taker, including any non-SIPP cash such as that held in personal accounts or savings accounts.

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 non-SIPP 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 bank. 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. The following link is to a website where you can see which institutions operate under one licence. (Please note that we are not endorsing the contents.)

<http://www.fca.org.uk/consumers/complaints-and-compensation/how-to-claim-compensation/banking-and-saving>

For further information about offshore deposits, offshore investments and deposits held with UK-based branches of EU banks, please contact us.

06 Compensation in the event of default by your financial adviser

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

07 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

08 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, Fixed Protection 2012, 2014 or 2016, it will result in the loss of that 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.