

Thank you for your e-mail dated 21 October 2008 about compensation available from the Financial Services Compensation Scheme (FSCS) in the event of an insolvency.

The FSCS is a fund of last resort, which deals with claims for compensation against authorised financial services firms that have gone out of business or been declared insolvent.

From 10 October 2008, when a bank or building society, authorised by the Financial Services Authority (FSA), is unable to pay back the deposits that have been made, the FSCS can pay 100% of the first £50,000 of each depositor's claim, per authorised institution.

This is calculated with reference to the value of a person's total deposit with the relevant institution, regardless of the number of accounts a person has their money in.

If a firm is not authorised by the FSA in its own right, but is a subsidiary of an authorised firm, a depositor would be eligible to receive a single maximum compensation payment of £50,000 for the sum total of accounts held by the subsidiary firm and the principal firm. You can confirm whether a firm is authorised in its own right by contacting the FSA on 0845 606 1234, or by using the FSA's "Check our Register" Service on its consumer website at [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)

You have raised a query about whether trusts are covered. The answer will depend upon whether the trust in question is a "bare" trust or a more formal trust such as a discretionary trust.

#### Bare" or Simple Trust

Where the trust is a "bare" or simple trust, the trustees can claim up to £50,000 for each beneficiary as with a bare trust we look through the trust to the underlying beneficiaries when calculating the compensation which is due. So we would also check to ensure that the beneficiaries were eligible under our rules. If any of the beneficiaries were not eligible, the trustees must reduce the amount of their claim to take account of this. The trust is treated as a separate entity from the individuals who are the trustees, and therefore any money held by the trustees in a personal capacity would not be aggregated with the trust's money when applying the compensation limit.

#### "Formal" Trust

If the trust is set up as a formal trust arrangement (discretionary for example), the trust (acting through its trustees) will be treated as the claimant and therefore will be entitled to claim up to £50,000 in the event that the bank/building society holding its deposits should fail. The number of trustees does not determine the amount of protection available.

The trust is treated as a separate entity from the trustees, and therefore any money held by the trustees in a personal capacity would not be aggregated with the trust's money when applying the limit.

However, in assessing the amount we could pay to the trust, we would look through the trust to the underlying beneficiaries to ensure that they were eligible under our rules. If any of the beneficiaries were not eligible under our rules, FSCS must adjust the amount of the "overall net claim" to eliminate that part of the claim which, in FSCS's view, is a claim for those beneficiaries.

For example if the trust had a deposit of £100,000 with 4 beneficiaries, one of whom was ineligible, £75,000 of the deposit is eligible, and we would pay a maximum of £50,000. However if the total deposit was £40,000 and one beneficiary (of four was) ineligible, £30,000 of deposit would be deemed eligible which we would pay that in full.

We would also need to ensure that no beneficiary receives more than £50,000 in total (i.e. in the form of money from trust and other accounts with the same institution). We would therefore aggregate any accounts the beneficiaries held in their own name with their share of the trust's compensation amount when determining whether or not they had reached the £50,000 limit. So, for example, if one of the beneficiaries had already received £30,000 in respect of their own account with the bank/building society, we would only be able to pay out a maximum of £20,000 in respect of their share of the trust's claim.

I would ask you to note that the information provided in this e-mail should be considered a guide based on our understanding on the information you have provided and the rules we operate under. This e-mail is not to be considered to provide definitive answers in relation to your relationship with a financial service firm now or in the future.

Any personal information you provide us with will be held by the Scheme in accordance with our data protection policy, which is available on our website or on request.

We trust the above has proved useful. However, if you have any further questions please telephone us on 020 7892 7300. For up-to-date information please visit our website at [www.fscs.org.uk](http://www.fscs.org.uk)