



IMMEDIATE: 20.01.11

MEDIA INFORMATION

FSCS announces 2010/11 interim levy for the costs of major investment failures

Sharply increasing costs of paying claims resulting from major investment failures are behind an interim levy of £326m in 2010/11 announced by the Financial Services Compensation Scheme today (20 January 2011).

The FSCS has an obligation to pay compensation to consumers, so it has no choice but to levy the industry for the costs of claims from Keydata Investment Services, Wills and Co and other investment firms. It needs the funds to pay compensation to thousands of eligible consumers who lost money when the firms went bust. About £247m of the costs are for claims against Keydata Investment Services, Lifemark.

Firms involved in investment intermediation and in investment fund management¹ will meet the costs, with the interim levy going out before the end of the financial year. The costs will trip the annual threshold for investment intermediation businesses of £100m which means investment fund management businesses will also contribute.

The allocation of the levy costs follows the approach upheld by last week's judgment in the judicial review proceedings brought against the FSCS by various intermediary firms.

Mark Neale, the Chief Executive of the FSCS, says: 'We fully recognise the levy will come during what are undoubtedly difficult times for many firms. But we have a duty to compensate consumers who have eligible claims and need to levy the industry for the continuing costs of the failures so we can protect investors. No matter how difficult it may be, we have to meet our obligations to consumers.'

¹ A threshold for each sub-class is set by the FSA by reference to what a particular sub-class or class (taken as a whole) can be expected to afford in a year. The threshold sets the maximum that the FSCS can levy for compensation in any one year. The model operates on the basis that a sub-class will meet the compensation claims from defaults in that sub-class up to the threshold.

Once a sub-class reaches its annual threshold, the other sub-class in that broad class will be required to contribute to any further compensation costs up the threshold for the class as a whole. A layer of cross-subsidy is then available from the general retail pool, through which firms in the other broad classes support any other broad class which has reached its overall threshold, up to the overall limit of £4.03bn.

‘We act according to the rules set for us by the FSA, who consult with the FSCS and the industry, and we do not have any power to depart from the rules when deciding on levies.’

The move comes ahead of the FSCS Plan and Budget for 2011/12, which is due in February. It will provide the Scheme’s estimate of claims, compensation costs and potential levies for the coming financial year. FSCS has been speaking to the relevant industry trade bodies during the course of the year to keep them up to date.

The financial services industry funds the FSCS through a compulsory levy. It is independent and provides a free service to consumers. Since 2001, the Scheme has come to the aid of more than 4m consumers and paid more than £24bn in compensation. Keydata is the single biggest investment failure the Scheme has dealt with.

Notes to editors

1. About the FSCS

The FSCS is the UK’s statutory compensation scheme for customers of authorised financial services firms. This means that the FSCS can pay compensation if a firm is unable, or likely to be unable, to pay claims against it. The FSCS can pay up to £50,000 compensation per investment claim. The Scheme is an independent body, set up under the Financial Services and Markets Act 2000 (FSMA), and does not charge individual consumers for using its service.

2. Authorised firms

The FSCS’s rules are made by the FSA, the independent watchdog set up by the government under FSMA to regulate financial services in the UK and protect the rights of consumers. The rules tell us which types of claim are protected, the eligibility criteria for claimants, and limit how much compensation we are allowed to pay. Firms need permission from the FSA to carry out a regulated activity, which covers activities such as accepting deposits, insurance business and investment business.

Dealing with an authorised firm gives consumers’ access to the FOS and the FSCS. Consumers can check that the firm they are dealing with is authorised by contacting the FSA on 0845 606 1234.

Press Enquiries:

| | | |
|-------------------|---------------|--|
| Mark Oakes | 020 7892 7370 | mark.oakes@fscs.org.uk |
| Sarah McShane | 020 7892 7882 | sarah.mcshane@fscs.org.uk |
| Suzette Browne | 020 7892 7372 | suzette.browne@fscs.org.uk |
| Sarah-Jane Savage | 020 7892 7896 | sarah-jane.savage@fscs.org.uk |