


Compensation

# Chapter INTRO

## Introduction 1A

 **INTRO 1A      Foreword**

**(This Foreword to the Compensation sourcebook does not form part of COMP.)**

The *Act* requires the *FCA* to make rules establishing a scheme for compensating consumers in cases where: (i) authorised *firms* are unable, or likely to be unable, to satisfy claims against them; or (ii) persons who have assumed responsibility for liabilities arising from acts or omissions of authorised *firms* ("successors") are unable, or likely to be unable, to satisfy claims against the successors that are based on those acts or omissions. The body established to operate and administer the compensation scheme is the *Financial Services Compensation Scheme Limited (FSCS)*. By making rules that allow the *FSCS* to pay compensation to retail consumers and small businesses, and focusing protection on those who need it most, the compensation scheme rules form an important part of the toolkit the *FCA* will use to meet its statutory objectives. This module of the *FCA Handbook* contains the rules and guidance that allow the *Financial Services Compensation Scheme Limited* to pay claims for compensation when an authorised person is unable or likely to be unable to meet claims against it. The rules specify who is eligible to receive compensation and in what circumstances, how much compensation can be paid to a claimant; and how the scheme will be funded. The compensation rules are of interest to consumers. The rules apply to the *FSCS* and to authorised firms.

The Sourcebook is divided into the following Chapters covering all aspects of the scheme:

**Chapter 1: Introduction and Overview**

This chapter provides an introduction to the *FSCS* rules and a table of question and answers that may be of interest to consumers.

**Chapter 2: The *FSCS***

This chapter gives the *FSCS* the duty to administer the compensation scheme. It also sets out the general conditions the *FSCS* must follow when administering the scheme, such as having regard to the efficient and economic use of resources, the requirement to publish an Annual Report, and the duty to ensure consumers are informed about how they can make a claim. The rules in this chapter also require the *FSCS* to have in place procedures for dealing with complaints.

### Chapter 3 The qualifying conditions for paying compensation

This chapter sets out the main qualifying conditions that must be satisfied before the FSCS can pay compensation to claimants. These are that a claimant is eligible to claim; the activity that gave rise to the loss is protected by the scheme; the firm against which the claim is being made is protected by the scheme; and that the claimant has assigned his rights to the scheme. Chapters 4 to 7 expand on the general conditions described in Chapter 3.

### Chapter 4 Eligible claimants

This chapter specifies who is eligible to receive compensation provided by the FSCS.

### Chapter 5 What is a protected claim?

This chapter specifies the activities that are protected by the FSCS.

### Chapter 6 Relevant persons in default

This chapter specifies the circumstances when a firm is in default, that is, when a firm is to be taken as being unable or likely to be unable to meet claims against it. The FSCS can only pay compensation if the circumstances specified in Chapter 6 are met.

### Chapter 7 Assignment of rights

This chapter enables the FSCS to make an offer of compensation conditional on the claimant assigning to it their rights to claim against the failed firm. If the FSCS recovers from the firm a greater sum than it has paid to the claimant, it must pay the balance to the claimant.

### Chapter 8 Rejection of application and withdrawal of offer

This chapter allows the FSCS to reject an application for compensation or withdraw an offer of compensation in specified circumstances.

### Chapter 9 Time limits on payment and postponing payment

This chapter requires the FSCS to pay a claim for compensation within a specified time unless specified conditions apply.

### Chapter 10 Limits on the amount of compensation payable

This chapter specifies the maximum amount of compensation the FSCS can pay to a claimant.

Chapter 11 Payment of compensation

This chapter specifies to whom the FSCS may pay compensation. In certain circumstances compensation may be paid to a person other than the claimant.

Chapter 12 Calculating compensation

This chapter specifies how the FSCS will calculate the amount of compensation it can pay to a claimant.

Chapter 13 Funding

Chapter 13 relating to the funding of the FSCS has now been deleted. The funding provisions for the FSCS are now contained in FEES 6 instead and allow the FSCS to make levies on authorised firms to fund the operation of the scheme or to pay compensation. FEES 6 specifies how FSCS can make levies, how costs are to be allocated, the maximum the FSCS can levy in any particular period of time, and how sums recovered from failed firms are to be treated.

Chapter 14 Participation by EEA firms

This chapter sets out the way the FSCS deals with incoming EEA firms who may choose to top-up into the FSCS to supplement the compensation available from their home state scheme.