

The Financial Services Compensation Scheme

All UK building societies are participants in the Financial Services Compensation Scheme (FSCS) established under Part XV of the Financial Services and Markets Act 2000. The FSCS is administered by the Financial Services Compensation Scheme Limited, a body established by the Financial Services Authority (FSA). The FSCS is governed by FSA Rules.

The following information summarises the main provisions of the FSCS which are relevant to shares and deposits in a building society. Building societies and other participants in the FSCS are under a legal obligation to provide information about the FSCS to an actual or intending investor. The FSCS does not cover the amounts owed under mortgages and information relating to mortgages is below.

Summary Information

Yorkshire Building Society (YBS) is covered by the FSCS. The FSCS can pay compensation to depositors if a building society is unable to meet its financial obligations. Most depositors - including most individuals and small businesses - are covered by the FSCS.

In respect of deposits, an eligible depositor is entitled to claim up to £50,000. For joint accounts each account holder is treated as having a claim in respect of their share so, for a joint account held by two eligible depositors, the maximum amount that could be claimed would be £50,000 each (making a total of £100,000). The £50,000 limit relates to the combined amount in all the eligible depositor's accounts with the building society, including their share of any joint account, and not to each separate account.

YBS also operates under the trading names of Barnsley Building Society (BBS) and Chelsea Building Society (CBS). YBS is the participant of the FSCS. Therefore, depositors with any of YBS, BBS and CBS have an overall limit of £50,000 under the FSCS, unless the following exception applies.

Until 30 December 2010, depositors who held a savings account with both YBS and BBS on 30 December 2008 (being prior to completion of the merger which took place on 31 December 2008) will be entitled to a limit of £50,000 per individual for each of the YBS and BBS brands; depositors who held a savings account with both YBS (including BBS) and CBS on 31 March 2010 (being prior to completion of the merger which took place on 1 April 2010) will be entitled to a limit of £50,000 per individual for each of the YBS and CBS brands. The overall maximum limit is therefore £150,000 under the FSCS for depositors falling into that category.

Accord Mortgages Limited is a wholly owned subsidiary of YBS. Accord has offset mortgage products where the investor's deposits are held on behalf of Accord by YBS. Accord offset depositors are therefore covered, along with BBS and CBS depositors, by YBS being a participant in the FSCS. There is no additional protection for depositors with Accord Mortgages Limited.

For further information about the FSCS (including the amounts covered and eligibility to claim) please ask at your local branch, refer to the FSCS website www.FSCS.org.uk or call **0800 678 1100**.

The FSCS

Activation of the FSCS: Before the FSCS can be activated, the FSA or a court must make a decision about a building society participant in the FSCS. This would usually happen if it was determined that a participant was unable to repay investments which were due and payable. An example of where this might happen is if there had been a winding-up order in insolvency proceedings.

Amount of Protection: Under the FSCS, payments are limited to a maximum of £50,000. The payment is calculated by reference to all the investor's protected shares with, and deposits in, a society. Therefore, for example, if a claimant had two separate accounts with a society, one containing £2,000 and the other £1,500, he or she would receive £3,500. If the claimant had two separate accounts, one containing £40,000 and the other £25,000, he or she would receive £50,000. Please see 'Joint Accounts' below for where there is more than one investor. However, special rules may apply if you have accounts with Barnsley and/or Chelsea and/or Yorkshire – see below for further information.

Protected Currencies: Most shares or deposits with a building society are held in pounds sterling, but all other currencies are also covered.

Interest on an Account: Interest earned on accounts at the time the shares or deposits become due and payable is covered by the FSCS (within the limit of the maximum payment). If a winding-up order against a society has been made by the Court, interest will immediately stop being paid on that society's accounts.

Shares and Deposits which are Protected: All building society shares and deposits are protected by the FSCS except:

- (i) a bond issued by a building society which is part of its capital (for example subordinated debt);
- (ii) a secured deposit;
- (iii) a deferred share issued by a building society (usually permanent interest bearing shares); or
- (iv) a non-nominative deposit (that is, a deposit made without disclosing the depositor's identity).

Investors who are Protected: Most investors are protected including individuals and small firms, but there are some exceptions, such as larger companies, government bodies, large partnerships, and local authorities. Further details of exclusions can be found on the Financial Services Authority website at <http://fsahandbook.info/FSA/html/handbook/COMP/4/2>.

Joint Accounts: In the case of a joint account each joint owner is treated as having a claim for his or her share, and unless there is evidence about their respective shares, they will each be regarded as entitled to an equal share. For example, if two people have an investment of £110,000 the maximum compensation to each would be £50,000, which would usually mean a maximum total payment of £100,000.

Partnerships: If two or more persons have a joint beneficial claim, the claim is to be treated as the claim of the partnership if they are carrying on business together in partnership. Otherwise the 'Joint Accounts' rules (above) apply.

Trustees: If a claimant's claim also includes a claim as a trustee, his or her claim as trustee will be treated as being separate from the claim in his or her own right. If the same person claims as trustee for different trusts, these will be treated as separate claims. If the claimant has a claim as a bare trustee for one or more beneficiaries, each beneficiary or beneficiaries will be treated as having their own claim. There are additional rules relating to trustees depending on the nature of the trust.

Personal Representatives: Where a person claims as a personal representative of someone who has died, the claimant will be treated in respect of that claim as if he or her were standing in the shoes of the deceased. Such claim would not count towards any claim the personal representative has in their personal capacity.

Agents: If a claimant has a claim as agent for one or more principals, the principal or principals will be treated as having the claim.

Funding the FSCS: The FSCS is funded by contributions from the businesses that are covered by the FSCS (including building societies, banks and others).

Making a Claim under the FSCS

The Rules of the FSCS require a claim to be brought to the FSCS within a set time (normally within six years of the date on which the claim occurred). In practice, a building society would give to the FSCS a list of the names and addresses of the investors who may be able to claim under the FSCS. Under the current rules the FSCS would then send a claim form to each investor for completion. Full details of how to complete the form would be provided at the time.

Each claim would need to be verified before payment could be made and claims would be paid as soon as practicable (subject to the checking procedure) once the share or deposit became due and payable. In liquidation, that share or deposit would become due and payable on the date that the final winding-up order is made - in all other cases it would continue to its original maturity date. Payments would be made normally by cheque in the currency of the account in which the share or deposit was held. From 31 December 2010 changes to the claim procedure will mean that no claim form will be needed, the FSCS will be able to agree claims without investigation and compensation payments will be made quicker - within 20 working days. This factsheet will be updated with more details of these changes nearer the time.

The FSCS and Mortgages

The FSCS does not cover mortgage loans and if a society was subject to insolvency proceedings or in liquidation, a borrower will still have to make monthly payments and comply with all the terms of the mortgage, as the mortgage is an asset of the institution. As a general rule the institution is currently entitled to "set-off" what is due to a customer on one account (usually a savings account) against what is due from that customer on another account (usually a mortgage account). So currently before any payment can be made, the FSCS takes into account what the customer owes under any mortgage to the same institution.

Example 1 - if a claimant had a savings account balance of £50,000 and a mortgage account balance of £65,000, then the savings balance would be set-off against the mortgage balance leaving the claimant owing £15,000. No payment would be made by the FSCS as full credit has been given for the claimant's savings.

Example 2 - if a claimant had a mortgage account balance of £50,000 and a savings account balance of £65,000, then after the mortgage balance has been set-off against the savings balance, the claimant will have a savings balance of £15,000 and the claimant would be entitled to £15,000 under the FSCS.

However the rule on "set-off" will change on 31 December 2010 so that an institution will be unable to set off money in a customer's savings accounts against any mortgage in that customer's name with that institution for the purpose of calculating any compensation payment. Any such payment would therefore be paid gross. In addition, the FSCS is currently being reviewed by the European Commission and this may mean future changes to the amounts protected and the way the FSCS works in the future.

Chelsea Building Society (CBS) and Barnsley Building Society (BBS) - additional information

What if I have money invested with YBS and/or CBS and/or BBS?

How does the FSCS cover apply?

In 2008 the FSA introduced temporary rules which allow separate compensation cover for customers with deposits in two merging building societies. On 4 June 2009, the FSA announced that it proposed to extend the rules beyond the original expiry date of 30 September 2009, to 30 December 2010. The temporary rules were introduced to alleviate concerns that customers with deposits in two merging societies, or whose deposits were transferred from another deposit taker, could find their combined savings exceeded the £50,000 maximum compensation limit per investor provided by the FSCS.

For eligible investors who were savers with both YBS and CBS immediately prior to the merger with CBS on 1 April 2010, or eligible investors who were savers with both YBS and BBS immediately prior to the merger with BBS on 31 December 2008, separate £50,000 FSCS depositor protection limits will be retained. As mentioned, this is a temporary measure imposed by the FSA until 30 December 2010. This means that a member who is a saver with YBS, BBS and/or CBS immediately prior to the mergers will be entitled to a separate FSCS protection limit of £50,000 for each of their "Yorkshire", "Chelsea" and/or "Barnsley" branded savings. For example;

Example 1: Saver A who has £50,000 savings with YBS and £50,000 savings with CBS (prior to 1 April 2010) will have an aggregate FSCS protection limit of £100,000.

Example 2: Saver B who has £50,000 savings with YBS and £30,000 savings with CBS (prior to 1 April 2010) will have an aggregate FSCS protection limit of £80,000 (i.e. £50,000 plus £30,000).

Example 3: Saver C who has £60,000 savings with YBS and £70,000 savings with CBS (prior to 1 April 2010) will have an aggregate FSCS protection limit of £100,000.

Example 4: Saver D who has £50,000 savings with BBS and £50,000 savings with YBS (prior to 31 December 2008) will have an aggregate FSCS protection limit of £100,000.

Example 5: Saver E who has £50,000 savings with CBS (prior to 1 April 2010) and £50,000 savings with Yorkshire and £50,000 with the Barnsley (where both YBS and BBS accounts were opened before 31 December 2008) will have an aggregate FSCS protection limit of £150,000.

What if I have an account with CBS or YBS and I want to open another account with the other or put additional money in - will I get the extra FSCS cover?

If you had a savings account with YBS and CBS before 1 April 2010 you will be entitled to a limit of £50,000 per individual for each of the YBS and CBS brands after that date. Subject to the terms of the account (as some do not allow additional deposits after opening) you will be able to deposit further money in either or both accounts until 30 December 2010 and that additional money will still be covered. Again, this will be to a total limit of £50,000 for the accounts with each of YBS and CBS.

If you had an account with either one of YBS or CBS before 1 April 2010 but only open a new account with the other after that date, then the single limit of £50,000 per individual will apply to all the accounts held with YBS and CBS.

What if I have an account with BBS or YBS and I want to open another account with the other or put additional money in - will I get the extra FSCS cover?

If you had a savings account with YBS and BBS before 31 December 2008 you will be entitled to a limit of £50,000 per individual for each of the YBS and BBS brands after that date. Subject to the terms of the account (as some do not allow additional deposits after opening) you will be able to deposit further money in either or both accounts until 30 December 2010 and that additional money would still be covered. Again this will be to a total limit of £50,000 for the accounts with each of YBS and BBS.

If you had an account with either one of YBS or BBS before 31 December 2008 but only open a new account with the other after that date, then the single limit of £50,000 per individual will apply to all the accounts held with YBS and BBS.

What will happen after 30 December 2010?

The FSA introduced the dual cover in November 2008, originally to expire on 30 September 2009. It was extended in June 2009 to 30 December 2010. Although the FSA and FSCS website states the extension is until 31 December 2010, the FSA Handbook and relevant statutory instruments refer to 30 December 2010, which is therefore the correct date.

The FSA decided to extend the period to 30 December 2010, by which time it should be clear what changes will be made to the EU Deposit Guarantee Schemes Directive (further details of which are set out in the FSA statement below), allowing a decision to be made at that time about permanent arrangements.

We are lobbying the FSA to try and ensure that the protection that is afforded to customers of merged societies will be extended again and, if anything, the amount of protection will increase. However YBS is unable (and the case is the same for all other building societies) to confirm anything further at the moment. We will continue to lobby on behalf of our members for continuation of this cover.

The following is an extract from a statement made by the FSA's Retail Markets Managing Director, Jon Pain, which sets out the FSA's view of the future of the rules on merged societies:

“The interim rules were introduced on a temporary basis to reassure customers involved in particular mergers or transfers. They helped existing savers who wished to keep below the deposit protection limit and also served to reduce withdrawals by savers from successor firms driven purely by compensation considerations. We now propose to extend the operation of these rules until December 2010, by which time it should be clear what changes will be made to the EU Deposit Guarantee Schemes Directive. We will then be able to put in place permanent arrangements which will take account of any new EU requirements. The European Union Deposit Guarantee Schemes Directive (DSGD) has recently been amended to introduce an EU-wide common deposit protection limit of €100,000 from 31 December 2010. But this amendment will only take effect if the EU Commission reports that such a change would be appropriate and financially viable for all EU Member States. The Commission's report is due by the end of this year, but even then it may not be clear what the eventual outcome will be. In these circumstances the FSA has decided that an extension to December 2010 is the right course now allowing a permanent decision to be made later when the final DSGD position is known. The separate compensation arrangements apply only if the new firm formed by a merger, or a firm that takes over deposits from another deposit taker, informs the FSA beforehand that it wishes them to apply and also continues to operate the business of the previous firm under its former name.”

Source - FSA/PN/072/2009 4 June 2009

<http://www.fsa.gov.uk/pages/Library/Communication/PR/2009/072.shtml>

How will I know when changes to the FSCS have been made and what has been agreed for after December 2010?

We will keep our website updated as and when the position on the FSCS changes. We believe it is unlikely that we will know of any changes possibly until later in 2010. However we will keep members updated as we are aware that this is of concern to many of our members. We are seeking as much clarification as possible on this issue.

