

I am responding to the above paper on behalf of Cofunds Limited.

Cofunds Limited was established in 2001 as an independent Intermediary only fund supermarket and currently has in excess of £14bn of assets under administration for over 290,000 customers. Cofunds comply with the FSA rules on client money with the result that client monies are held with one major UK clearing bank pending settlement of trades in authorised collective investment schemes. In addition client monies are held in separate client money accounts with that same bank for income distributions, monies held in cash where the client has deferred a decision on which funds to invest in, or monies held by Cofunds pending resolution of probate for deceased clients. On some of these accounts clients are entitled to interest on monies held. It would not be practical for Cofunds to hold client money accounts with different banks as this would cause significant administration problems and increased costs in adequately controlling client money as individual clients may have balances in more than one of these separate client money accounts.

All client balances are pooled within a client money account. At any one time clients will comprise individuals, corporate entities, pension plans and professional clients. Some of the professional clients may themselves be nominees acting for individuals.

We are restricting our response to elements of Chapter 5, consumer confidence and compensation arrangements, in particular the section on client accounts.

## **Background**

### ***Size of Client Money accounts***

***Due to the commercial sensitivity of these number we request that the amounts quoted in this paragraph be treated as confidential.***

Currently the total balance of all client money accounts is in the region of £160m to £180m.

These balances will cover a large number of clients, many of who will have cash balances below £35k. As noted in 5.16 of the consultation these balances should be eligible for compensation, but their existence does not appear in Chart 5.3. Indeed the growth of nominee accounts may disguise the actual number of balances in the 35k, 50k and 100k bands.

### ***Complexity of Paying Compensation under the current rules***

As mentioned above, the individual balances held for clients within a client money account will be for sums below and above the £35k threshold. In addition, sums will be held for eligible and ineligible claimants under the FSCS. We at Cofunds have no knowledge of whether a client has another account or loan with the bank we use, so the calculation of the sum eligible for

compensation would be a lengthy and expensive exercise, with the resultant delay in compensating the end client.

### ***Choice of Bank to hold client money***

The choice of bank is made by Cofunds, clients have no input into this. Even if a client has carefully invested no more than £35k with any one bank, that sum could be exceeded by the sums sitting temporarily in the Cofunds client money account.

### **Response to Consultation Questions**

***Q5.4 Which of the solutions to cover balances above the compensation limit is the most practical, desirable and/or proportionate, and why?***

***Q5.5 What types of large balances should be subject to additional protection, and in what circumstances?***

***Q 5.15 Are there any other classes of depositor that should be ineligible for FSCS compensation payments, and if so, why?***

We are of the view that the only practical solution is to apply an unlimited FSCS compensation limit to monies held by an investment firm in a client money account with statutory trust status, (see below). The client money account must be held with a reputable bank. This would include both eligible and ineligible claimants which would facilitate the timely payment of monies due to these clients via FSCS should the bank fail. We would not necessarily be in a position to identify clients who are deemed ineligible due to their relationship with the failed bank.

With regard to corporate clients, there are two classes to consider:

-Corporate clients acting on behalf of underlying individuals - these should continue to be treated as individuals

-Corporate clients acting on their own account - these should be entitled to unlimited compensation for monies held in a client money account. We accept that there is an argument that corporate clients investing in an interest bearing client money account for reasons other than immediate investment should not be entitled to unlimited compensation. We are not currently aware of any examples of this.

***Q5.16 To what extent would gross payments help maintain depositor confidence and speed up payment?***

As noted earlier, Cofunds are not in a position to identify whether a client has a loan arrangement with the failed bank. The move to gross payments will facilitate prompt settlement from FSCS without the need to request information from clients.

We believe that a clear statement to clients that any monies held by an investment firm in a client money account with statutory trust status, (see below), are fully protected in the event of the failure of the bank will assist in maintaining consumer confidence.

## **Other Comments**

### ***Statutory Trust***

Under CASS 7.7, client monies held by an investment firm are ring fenced from any liabilities of the firm in case of failure of that firm. If the same trust protection could be applied to monies held by a bank, being client money held on behalf of an investment firm, these sums would be ring fenced in the event of failure of the bank. This would give the required protections to consumers and grant immediate access to funds in the event of a bank failure without having to involve the FSCS.

Regards