

7 November 2024 - Update to Clients

## Financial Services Compensation Scheme ('FSCS') - payment of shortfall compensation

For the majority of Clients who have opted to receive FSCS compensation, their eligibility was confirmed in their Client Assets Confirmation Statement dated 11 September 2024. The JSAs have now received the shortfall compensation for these Clients from FSCS.

Whilst it was the JSAs' original intention to onward pay Clients' shortfall compensation received from FSCS to Clients' new brokers alongside the return of Client Assets and/or Client Money, the JSAs appreciate that not all Clients are yet in a position to receive the return of their assets. The JSAs also understand the distress that has been caused to Clients as a result of WealthTek's failure and Clients' inability to access their assets for a prolonged period of time.

To enable Clients to access their FSCS shortfall compensation as soon as reasonably possible, the JSAs therefore consider it appropriate to offer Clients (whose eligibility has been confirmed by FSCS and whose shortfall compensation has, to date, been received by the JSAs) the opportunity to receive their FSCS shortfall compensation prior to the return of their assets.

Please note that this option is only available to Clients who are yet to receive a proposed transfer/distribution instruction date in respect of their Client Assets and/or Client Money. If you are a Client who has already received your proposed transfer/distribution instruction date, the shortfall compensation will be provided to your broker alongside the return of your Client Assets and/or Client Money, as originally anticipated.

Additionally, this option will not be available to Clients whose:

1. eligibility has yet to be determined by FSCS;
2. compensation has not yet been received by the JSAs; and/or
3. FSCS compensation relates to the Costs Contribution only (i.e. Clients who do not have a shortfall in their Client Assets).

If you do not wish to receive your FSCS shortfall compensation directly and would instead like to receive it alongside the return/transfer of your Client Assets and/or Client Money, please contact a member of the JSAs' team via email at [WealthTekClients@bdo.co.uk](mailto:WealthTekClients@bdo.co.uk), or by telephone on + 44(0)113 521 4470 or +44 (0)151 351 4700, by no later than Friday 22 November 2024. If you do not inform us of your decision before this date, unless you hold your investments through a self-invested personal pension (SIPP), the JSAs will take steps to issue your shortfall compensation payment directly to you via cheque during the week commencing 2 December 2024. Further information regarding SIPP accounts can be found below.

### SIPP accounts

For those Clients who hold any of their investments through a SIPP ('SIPP Clients'), they should consider discussing the payment of FSCS confirmation with their SIPP provider. The SIPP providers do not appear to be adopting a uniform approach in respect of the treatment of FSCS compensation and there may be tax implications if Clients receive this payment directly rather than through their SIPP.

In light of the above, SIPP Clients will be required to opt-in to receiving their FSCS shortfall compensation directly and can do so by completing the form available via the following link:

[Financial Services Compensation Scheme \('FSCS'\) - Opt-in for SIPP account holders](#)

## Potential tax Implications

There may be potential tax implications if you receive your FSCS shortfall compensation directly rather than into a pension account like a SIPP or an ISA account. Clients should consider taking their own independent advice in relation to the potential tax implications and necessary notifications to HM Revenue and Customs may be applicable. For those Clients who hold investments through a SIPP, they should consider confirming with their SIPP provider how they would treat FSCS shortfall compensation as there does not appear to be a uniform approach adopted by SIPP providers.

Please note that Clients are able to 'opt-out' of receiving the direct payment of FSCS compensation as set out above.

## ISA Accounts - Defaulted Investment Subscription ('DIS')

The JSAs understand that clients may potentially have the opportunity to use FSCS compensation paid in respect of a loss (in whole or in part) of an investment held in their stocks and shares ISA to make a DIS, which will not be counted towards any current year ISA subscription in the tax year for which it is made.

Should you wish to make a DIS in respect of your ISA, this will need to be made in a single payment within 180 days of the shortfall compensation being paid. Your proposed ISA account manager will likely require the following information:

1. evidence of the amount and date of your FSCS shortfall compensation payment;
2. confirmation that the FSCS shortfall compensation payment has been made in respect of a defaulted ISA investment (including details of the relevant defaulted ISA investment);
3. the full name and address of the ISA account manager in which the defaulted investment was held, being WealthTek LLP, c/o BDO LLP, 5 Temple Square Temple Street, Liverpool, L2 5RH; and
4. the full name and address of FSCS (the maker of the compensation payment), being Financial Services Compensation Scheme Limited, 10th Floor Beaufort House, 15 St Botolph Street, London, EC3A 7QU.

Please note that there is no requirement for an ISA manager to accept a DIS. Any questions regarding making a DIS should be directed to your proposed ISA account manager.

Additional information can be found via the following link: [How to manage ISA subscriptions - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/how-to-manage-isa-subscriptions)

## Cost Contributions and the Potential Litigation Reserve

As noted in the JSAs' update to Clients dated 7 October 2024, Mr Justice Rajah handed down his judgment regarding the Distribution Plan on 4 October 2024, which included determinations in relation to the originally proposed Costs Contribution to be paid by Clients (or by the FSCS on Clients' behalf). In summary, the Judge determined that, as matters stand, it is not appropriate for the Costs Contribution under the Distribution Plan to include a reserve for the costs of potential future litigation by WealthTek and/or the JSAs against third parties.

Those Clients whose shortfall claims exceed £62,000 and who are eligible to receive FSCS compensation may now be entitled to additional shortfall compensation equivalent to the reduction in the Costs Contribution.

A further hearing before Mr Justice Rajah will be held on 14 November 2024 to clarify certain outstanding matters arising from his judgment, including in relation to the exact quantum of any reduction in the Costs Contribution. Given that the quantum of the reduction is yet to be determined, at this point the JSAs will only pay shortfall compensation up to the value of £62,000. For Clients whose shortfall claims exceed £62,000, a further payment may follow dependent on the outcome of the further hearing.

Once the position on the quantum of the Costs Contribution has been finally determined, the JSAs will contact affected Clients to inform them of the implications on their personal positions.