HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Rt Hon. Mel Stride MP
Chair of the Treasury Committe
House of Commons
Committee Office
London SW1A 0AA

13 May 2021

Dear Mel,

RE: LONDON CAPITAL AND FINANCE

Thank you for your letter of 29 April requesting further information about the London, Capital & Finance (LCF) Compensation Scheme (the 'Scheme').

As I said when I met the Committee, I would like to emphasise my sympathy for all of those impacted by the failure of LCF. I have received and read many letters from bondholders and appreciate that this has been a very difficult time for them.

The government is actively working on delivering a compensation scheme that appropriately balances the interests of both bondholders and the taxpayer, which will ensure that all LCF bondholders receive a fair level of compensation in respect of the financial loss they have suffered. I am keen to make progress on this as quickly as possible and, as you will have seen, Yesterday, I introduced into Parliament the primary legislation necessary to establish the LCF compensation scheme and I am hoping for a swift passage through Parliament.

As the Bill makes clear, the Financial Services Compensation Scheme (FSCS) will administer the Scheme. They are a highly experienced and suitable delivery partner and are committed to ensuring that payments are made to all eligible LCF bondholders within 6 months of securing Royal Assent.

You asked about eligibility for bondholders that have made multiple investments in LCF. I can confirm that the full principle value of bondholders' investments will be eligible for the scheme, regardless of the number of investments they have made, up to the £68k maximum for the Scheme. Some investors may have already received partial compensation from the FSCS, for example because they invested in two bonds, only one of which was eligible for existing FSCS protection. Individuals in this position may still be eligible for the government scheme, provided they have received less than £85k from the FSCS.

My officials in HM Treasury and I are working hard to devise the exact details of the compensation scheme and the government will provide further details on how the scheme will operate in due course, including on gov.uk. The Treasury is also working with the FSCS to develop some FAQs, which the FSCS will provide to bondholders on our behalf.

Thank you for raising the issue of access for vulnerable bondholders. I am mindful that many of the bondholders are elderly and may not, for example, have access to the internet. The Treasury is seeking to ensure that the Scheme is designed so that it is simple and straightforward to navigate and so that bondholders will not need to use a claims management company, solicitor or any other organisation to help them claim.

You have also asked about the circumstances in which government compensation is warranted and justified. No regulatory system can prevent firm failures altogether, and indeed it is important that firms are able to fail in an orderly way. As I noted in my written ministerial statement (19 April 2021), the government does not ordinarily step in to pay compensation to consumers in relation to allegations of fraud, investment losses, mis-selling or mis-buying of investment, which is why it is so important that individuals choose investments that are suitable for the risk tolerance.

Only three government compensation schemes have been established in the last three decades (for Barlow Clowes, Equitable Life and LCF), despite many investment firms failing over that period, demonstrating that this type of intervention is the exception, not the rule. The common feature in each of these three instances is the degree and scale of regulatory failure by the relevant authorities. While I have not seen evidence that the FCA's failures in the complex case of LCF were the primary cause of the losses for bondholders, they are a significant factor that the government has taken into account in deciding to establish the Scheme.

Thank you for your Committee's ongoing interest in and time on this important issue.

John P. Glen

JOHN GLEN