

## LCF Compensation Scheme Rules

These *Scheme Rules* were amended on 18 November 2021 to update the deadline referred to in *Scheme Rule 5.2.2* and on 3 February 2022 to clarify how any cap on liability will apply in the case where an *Eligible Bondholder* has more than one *Eligible Bond* and one or more of those *Eligible Bonds* is held within an *ISA*.

Term	Definition
<i>Act</i>	The Financial Services and Markets Act 2000.
<i>Applicable Cap</i>	Has the meaning given in <i>Scheme Rule 4.3.8A</i> .
<i>Eligible Bond</i>	An <i>LCF Bond</i> which has not been redeemed at the date of the <i>LCF Default</i> , and in relation to which the <i>Eligible Bondholder</i> has not already received compensation under the <i>Financial Services Compensation Scheme</i> .
<i>Eligible Bondholder</i>	A person who holds an <i>Eligible Bond</i> which was an <i>LCF Bond</i> at the date of the <i>LCF Default</i> , and who accordingly has an interest in <i>LCF</i> in relation to the <i>LCF Default</i> (including any person acting on behalf of such a person pursuant to <i>Scheme Rule 2.2.3</i> ), subject to <i>Scheme Rule 3</i> .
<i>Entitlement</i>	The amount of principal invested by an <i>Eligible Bondholder</i> in <i>Eligible Bonds</i> , including any reinvestment amounts (i.e. investments in <i>Eligible Bonds</i> using the proceeds from the maturity of a previous bond issued by <i>LCF</i> ), subject to the provisions of <i>Scheme Rule 4.3.7</i> where an <i>Eligible Bond</i> is jointly owned by one or more <i>Eligible Bondholders</i> .
<i>FCA</i>	The Financial Conduct Authority.
<i>FCA Complaints Scheme</i>	The complaints scheme that the <i>FCA</i> is required under Part 6 of the Financial Services Act 2012 to maintain for the investigation of complaints arising in connection with the exercise of, or failure to exercise, any of the <i>FCA</i> 's relevant functions.
<i>Financial Services Compensation Scheme</i>	The compensation scheme established under Part XV of the <i>Act</i> in respect of the failure of regulated financial services firms, which is administered by <i>FSCS</i> .
<i>FSCS</i>	Financial Services Compensation Scheme Limited, a company limited by guarantee.
<i>Governmental Parties</i>	Any government departments, agencies or any other public bodies, excluding <i>FSCS</i> .
<i>ISA</i>	An Individual Savings Account, as established in accordance with the Individual Savings Account Regulations 1998 (as amended from time to time).
<i>ISA Eligible Bond</i>	An <i>Eligible Bond</i> that <i>LCF</i> purported to hold in an <i>ISA</i> at <i>LCF Default</i> (notwithstanding that HMRC has subsequently stated that such <i>Eligible Bonds</i> were not validly held within <i>ISAs</i> ).

<i>Large Company</i>	A body corporate which does not qualify as a small company under section 247 of the Companies Act 1985, or section 382 of the Companies Act 2006, as applicable.
<i>Large Partnership</i>	A partnership (as defined in section 147(1) of the Act) with net assets of more than £1.4 million (or its equivalent in any other currency at the relevant time).
<i>LCF</i>	London Capital & Finance plc, a company that was incorporated in the UK with registered number 08140312 and entered into administration on 30 January 2019.
<i>LCF Bonds</i>	Those bonds issued by <i>LCF</i> , still in issue as at 30 January 2019.
<i>LCF Compensation Scheme</i>	The compensation scheme established for the purpose of compensating those <i>Eligible Bondholders</i> who suffered losses as a result of investing in <i>Eligible Bonds</i> and which is administered by the <i>LCF Scheme Operator</i> in accordance with the rules set out in the <i>Scheme Rules</i> .
<i>LCF Default</i>	The entering into administration of <i>LCF</i> on 30 January 2019.
<i>LCF Insolvency Administrators</i>	The insolvency practitioners who were appointed as administrators of <i>LCF</i> at <i>LCF Default</i> , and any successors to their function from time to time.
<i>LCF Scheme Operator</i>	<i>FSCS</i> , which is responsible for administering the <i>LCF Compensation Scheme</i> pursuant to Part 15A of the Act.
<i>PRA</i>	The Prudential Regulation Authority.
<i>Released Parties</i>	The <i>Governmental Parties</i> , their officers, directors and any past directors, shareholders (whether holding directly or through a holding company), employees, successors and assignees.
<i>Scheme Rules</i>	The rules set out in this document concerning the administration of the <i>LCF Compensation Scheme</i> .
<i>Small Business</i>	A partnership, body corporate, unincorporated association or mutual association with an annual turnover of less than £1 million (or its equivalent in any other currency) as at the date of the <i>LCF Default</i> .

## **Scheme Rules Section 1: Introduction and Overview**

### **1.1 Application, Introduction, and Purpose**

#### Application

1.1.1 Each of the sections in these *Scheme Rules* are relevant to:

- (a) the *LCF Scheme Operator*; and
- (b) *Eligible Bondholders*.

1.1.2 The *Scheme Rules* are principally relevant to *FSCS*, in its capacity as the *LCF Scheme Operator*. They set out the manner in which the *LCF Compensation Scheme* will be administered. They also describe how the *LCF Scheme Operator* will calculate compensation for these purposes (see *Scheme Rule 4*).

1.1.3 *Eligible Bondholders* will be particularly interested in the sections of the *Scheme Rules* which deal with eligibility for compensation, the way that the *LCF Scheme Operator* calculates compensation, how an offer of compensation can be accepted and the conditions to which such payment is subject.

#### Contents of Scheme Rules

1.1.4 The contents table below lists each section of these *Scheme Rules*.

<b>Chapter</b>	<b>Scheme Rules Section</b>
The qualifying conditions for compensation	<i>Scheme Rules Section 2</i>
<i>Eligible Bondholders</i>	<i>Scheme Rules Section 3</i>
Calculation and payment of compensation	<i>Scheme Rules Section 4</i>
Deadlines, complaints and appeals	<i>Scheme Rules Section 5</i>
Special cases	<i>Scheme Rules Annex 1</i>
Worked examples	<i>Scheme Rules Annex 2</i>
Declarations and agreements by <i>Eligible Bondholders</i>	<i>Scheme Rules Annex 3</i>

#### Introduction

1.1.5 The *Act* requires the *PRA* and the *FCA* to make rules establishing a compensation scheme in cases where a relevant person (usually meaning a person who is authorised by the *PRA* or the *FCA*) or their successor is unable to meet claims against them. That scheme is the *Financial Services Compensation Scheme* and the body established to manage that scheme is *FSCS*.

1.1.6 The failure of *LCF* did not, in itself, give all *Eligible Bondholders* the ability to claim under the *Financial Services Compensation Scheme*. However, HM Treasury has separately established the *LCF Compensation Scheme* for the purpose described in *Scheme Rule 1.1.8*. In accordance with its powers under Part 15A of the *Act*, HM Treasury has appointed *FSCS* to exercise specified functions in its capacity as the *LCF Scheme Operator*, for the purpose of administering the *LCF Compensation Scheme*.

- 1.1.7 Pursuant to section 224F of the *Act*, the *FCA* has made rules to apply certain provisions of the *Financial Services Compensation Scheme* to the *LCF Compensation Scheme*, with and without modifications, to ensure that *FSCS* is able to carry out specified functions under Part 15A of the *Act* in respect of the *LCF Compensation Scheme*. These provisions are set out in Appendix 1 to the Compensation Sourcebook of the *FCA*'s Handbook.

#### Purpose

- 1.1.8 Following the *LCF Default*, the *LCF Compensation Scheme* was established for the purpose of compensating those persons that suffered losses as a result of investing in *Eligible Bonds*. Due to the unique and exceptional nature of the collapse of *LCF*, the *LCF Compensation Scheme* was set up as a single purpose scheme that will be administered by the *LCF Scheme Operator* for a limited time. The *LCF Compensation Scheme* is constituted under and governed by English law.

### 1.2 **Finance and resources**

- 1.2.1 The *LCF Scheme Operator* must have regard to the need to use its resources in the most efficient and economical way in carrying out its functions pursuant to the *Scheme Rules*.

### 1.3 **Information to *Eligible Bondholders***

- 1.3.1 The *LCF Scheme Operator* will provide information to *Eligible Bondholders* about the way the *LCF Compensation Scheme* works and the conditions to which any compensation under the *LCF Compensation Scheme* is subject. The *LCF Scheme Operator* can be contacted at: Financial Services Compensation Scheme, 15 St Botolph Street, London, EC3A 7QU, or by telephone (0800 091 0030).
- 1.3.2 Information about the operation of the *LCF Compensation Scheme* available from [www.gov.uk/lcf-compensation-scheme](http://www.gov.uk/lcf-compensation-scheme).

## **Scheme Rules Section 2: The qualifying conditions**

### **2.1 Purpose**

2.1.1 The purpose of this section is to set out in general terms the conditions that must be satisfied before the *LCF Scheme Operator* makes an offer of compensation.

### **2.2 The qualifying conditions for making an offer of compensation**

2.2.1 The *LCF Scheme Operator* will make an offer of compensation to an *Eligible Bondholder*.

2.2.2 By accepting an offer of compensation (as described in *Scheme Rule 4.4.1*), the *Eligible Bondholder* will agree to the conditions set out in *Scheme Rule 4.4.2*. In addition, when the *Eligible Bondholder* accepts an offer of compensation, this will also trigger the subrogation of the *Eligible Bondholder's* rights against *LCF* and/or (subject to certain exceptions) any third party to the *LCF Scheme Operator*, as described in *Scheme Rule 4.6.1*.

#### Persons acting on behalf of an *Eligible Bondholder*

2.2.3 The *LCF Scheme Operator* may make an offer of compensation to a person acting on behalf of an *Eligible Bondholder* if the *LCF Scheme Operator* is satisfied that the *Eligible Bondholder* on whose behalf the other person is acting would have been paid compensation under the *LCF Compensation Scheme*.

2.2.4 Where the *LCF Scheme Operator* does not have the necessary information about the payee in order to make an offer of compensation, a person seeking to receive payment on behalf of an *Eligible Bondholder* will have to provide the *LCF Scheme Operator* with copies of:

- (a) a proof of identity;
- (b) bank account details; and
- (c) any other information which the *LCF Scheme Operator* considers to be reasonably necessary in order to carry out sanctions checks.

#### Special cases

2.2.5 See *Scheme Rules Annex 1 (Special cases)* for details of how the *LCF Scheme Operator* may pay compensation in certain cases.

### **Scheme Rules Section 3: Eligible Bondholders**

#### **3.1 Purpose**

3.1.1 The purpose of this section is to set out the types of person who are able to benefit from the *LCF Compensation Scheme*.

#### **3.2 Who is eligible to benefit from the LCF Compensation Scheme?**

3.2.1 *Eligible Bondholders* are able to benefit from the *LCF Compensation Scheme*, subject to *Scheme Rule 3.2.2*.

3.2.2 An *Eligible Bondholder* is not able to benefit from the *LCF Compensation Scheme* if they come within *Scheme Rule 3.2.3* as the date of the *LCF Default*, unless they satisfy the relevant exception in *Scheme Rule 3.3.1*.

3.2.3 The following persons are not eligible for compensation under the *LCF Compensation Scheme* unless *Scheme Rule 3.3.1* applies:

(1)	Persons authorised by the <i>PRA</i> or the <i>FCA</i> , other than:	
	(a)	a sole trader firm;
	(b)	a credit union;
	(c)	a trustee of a stakeholder pension scheme (which is not an occupational pension scheme) or personal pension scheme;
	(d)	a firm carrying on the regulated activity of operating, or winding up, a stakeholder pension scheme (which is not an occupational pension scheme) or personal pension scheme; or
	(e)	a <i>Small Business</i> .
(2)	Overseas financial services institutions.	
(3)	Collective investment schemes, and anyone who is the operator or depositary of such a scheme.	
(4)	Pension and retirement funds, and anyone who is a trustee of such a fund. However, this exclusion does not apply to:	
	(a)	a trustee of a personal pension scheme or a stakeholder pension scheme (which is not an occupational pension scheme); or
	(b)	a trustee of an occupational pension scheme insofar as members' benefits are money-purchase benefits; or
	(c)	insofar as members' benefits are not money-purchase benefits, a trustee of an occupational pension scheme of an employer which is not a <i>Large Company</i> , <i>Large Partnership</i> or large mutual association.
(5)	Supranational institutions, governments, and central administrative authorities.	
(6)	Provincial, regional, local and municipal authorities.	

(7)	Directors of <i>LCF</i> .		
(8)	Bodies corporate in the same group as <i>LCF</i> , unless that body corporate is:		
	(a)	a trustee of:	
		(i)	an occupational pension scheme in relation to members' benefits which are money-purchase benefits; or
		(ii)	(unless (i) applies) an occupational pension scheme of an employer which is not a <i>Large Company</i> , <i>Large Partnership</i> or large mutual association; or
	(b)	carrying on the regulated activity of operating or winding up a stakeholder pension scheme (which is not an occupational pension scheme) or personal pension scheme.	
(9)	Persons who, in the opinion of the <i>LCF Scheme Operator</i> , are responsible for, or have contributed to <i>LCF's</i> default.		
(10)	<i>Large Companies</i> .		
(11)	<i>Large Partnerships</i> .		
(12)	Persons whose claim arises from transactions in connection with which they have been convicted of an offence of money laundering.		
(14)	Alternative investment funds, and anyone who is the alternative investment fund manager or depositary of an alternative investment fund.		

### 3.3 **Exceptions: Circumstances where a person coming within *Scheme Rule 3.2.3* may receive compensation**

3.3.1 A person is eligible for compensation under the *LCF Compensation Scheme* if, at the date of the *LCF Default*, they came within category (11) of *Scheme Rule 3.2.3* and they do not exceed the limits for a body corporate which qualifies as a small company under section 247 of the Companies Act 1985 or section 382 of the Companies Act 2006, as applicable.

## **Scheme Rules Section 4: Calculation and payment of compensation**

### **4.1 Purpose**

4.1.1 This section sets out how compensation will be calculated, including the applicable limit on the amount of compensation payable by the *LCF Scheme Operator* and certain amounts that will be deducted. This section also sets out the mechanism by which an offer of compensation will be made, the conditions to which *Eligible Bondholders* are subject when accepting a compensation offer (including by cashing a cheque) and the circumstances in which the *LCF Scheme Operator* may withdraw an offer of compensation.

### **4.2 Offer of compensation and the conditions to which an *Eligible Bondholder* will be subject upon acceptance of compensation**

4.2.1 The *LCF Scheme Operator* will make an offer of compensation to an *Eligible Bondholder* by sending the *Eligible Bondholder* a cheque, subject to *Scheme Rule 4.2.2*. The *Eligible Bondholder* is able to:

- (a) accept the compensation (see *Scheme Rule 4.4.1*);
- (b) appeal the offer (see *Scheme Rule 5.3.1*); or
- (c) opt out of the *LCF Compensation Scheme* (see *Scheme Rule 4.4.3*).

4.2.2 The *LCF Scheme Operator* may, in exceptional circumstances, make a payment of compensation to an *Eligible Bondholder* via electronic payment. Exceptional circumstances include where the *LCF Scheme Operator* is satisfied that an *Eligible Bondholder* would have significant difficulties cashing a cheque. The *LCF Scheme Operator* may choose not to make the original offer of compensation by cheque and may instead contact an *Eligible Bondholder* to offer them the opportunity to accept their compensation via electronic payment. An *Eligible Bondholder* who has received a cheque in accordance with *Scheme Rule 4.2.1* may also request payment via electronic payment on the basis that exceptional circumstances apply.

### **4.3 Calculation of compensation amount**

4.3.1 The *LCF Scheme Operator* will calculate the amount of compensation that will be offered to *Eligible Bondholders* in respect of their *Eligible Bonds* in accordance with the following sections of the *Scheme Rules*:

- (a) where the *Eligible Bondholders* have already received any compensation from the *Financial Services Compensation Scheme* in respect of their *LCF Bonds*, following the steps set out in *Scheme Rule 4.3.3*; and
- (b) in all other cases, following the steps set out in *Scheme Rule 4.3.2*.

Quantification: cases where *Eligible Bondholders* have not received any compensation under the *Financial Services Compensation Scheme* in respect of their *LCF Bonds*

4.3.2 Where the *Eligible Bondholders* have not already received any compensation from the *Financial Services Compensation Scheme* in respect of their *LCF Bonds*, the *LCF Scheme Operator* will calculate the amount of compensation that will be offered to *Eligible Bondholders* in respect of their *Eligible Bonds* in accordance with the following procedure:



(a) **Step One - Determine the *Entitlement of the Eligible Bondholder***

The *LCF Scheme Operator* will determine the amount of the *Eligible Bondholder's Entitlement* as at the time of the *LCF Default* (as set out in the records of the *LCF Insolvency Administrators*).

(b) **Step Two - Deduct any interest paid in respect of *Eligible Bonds***

From the amount determined under Step One, the *LCF Scheme Operator* will deduct any interest payments that the *Eligible Bondholder* received from *LCF* in respect of *Eligible Bonds* prior to the *LCF Default*.

(c) **Step Three - Apply 20% reduction**

From the amount determined under Step Two, the *LCF Scheme Operator* will deduct 20%.

(d) **Step Four - Apply cap on compensation**

If the amount after the application of Step Three is greater than £68,000, the *LCF Scheme Operator* will reduce that amount to £68,000.

(e) **Step Five - Deduct any distributions from the *LCF Insolvency Administrators***

From the amount determined following the application of Step Four, the *LCF Scheme Operator* will deduct any amounts relating to *Eligible Bonds* that have been distributed to an *Eligible Bondholder* by the *LCF Insolvency Administrators* as part of *LCF's* insolvency proceedings.

If the application of this Step Five results in a negative figure, the *Eligible Bondholder* will not be required to repay any distributions from the *LCF Insolvency Administrators* or compensation received under the *Financial Services Compensation Scheme* but will not be entitled to any compensation under the *LCF Compensation Scheme*.

Quantification: cases where *Eligible Bondholders* have received any compensation under the *Financial Services Compensation Scheme* in respect of their *LCF Bonds*

4.3.3 Where the *Eligible Bondholders* have already received any compensation from the *Financial Services Compensation Scheme* in respect of their *LCF Bonds*, the *LCF Scheme Operator* will calculate the amount of compensation that will be offered to *Eligible Bondholders* in respect of their *Eligible Bonds* in accordance with the following procedure:

(a) **Step One - Determine the Entitlement of the *Eligible Bondholder***

The *LCF Scheme Operator* will determine the amount of the *Eligible Bondholder's Entitlement* as at the time of the *LCF Default* (as set out in the records of the *LCF Insolvency Administrators*).

(b) **Step Two - Deduct any interest paid in respect of *Eligible Bonds***

From the amount determined under Step One, the *LCF Scheme Operator* will deduct any interest payments that the *Eligible Bondholder* received from *LCF* in respect of *Eligible Bonds* prior to the *LCF Default*.

(c) **Step Three - Add on the compensation paid under the *Financial Services Compensation Scheme***

To the amount determined under Step Two, the *LCF Scheme Operator* will add the total amount of compensation paid to the *Eligible Bondholder* under the *Financial Services Compensation Scheme* in respect of *LCF Bonds*.

(d) **Step Four - Apply 20% reduction**

From the amount determined under Step Three, the *LCF Scheme Operator* will deduct 20%.

(e) **Step Five - Apply cap on compensation**

If the amount after the application of Step Four is greater than £68,000, the *LCF Scheme Operator* will reduce that amount to £68,000.

(f) **Step Six - Make a deduction to reflect the amount of compensation already received under the *Financial Services Compensation Scheme***

From the amount determined following the application of Step Five, the *LCF Scheme Operator* will deduct the amount that is equivalent to 80% of the total amount of compensation paid to the *Eligible Bondholder* under the *Financial Services Compensation Scheme* in respect of *LCF Bonds*.

(g) **Step Seven - Deduct any distributions from the *LCF Insolvency Administrators***

From the amount determined under Step Six, the *LCF Scheme Operator* will deduct any amounts relating to *Eligible Bonds* that have been distributed to an *Eligible Bondholder* by the *LCF Insolvency Administrators* as part of *LCF's* insolvency proceedings.

If the application of this Step Seven results in a negative figure, the *Eligible Bondholder* will not be required to repay any distributions from the *LCF Insolvency Administrators* or compensation received under the *Financial Services Compensation Scheme* but will not be entitled to any compensation under the *LCF Compensation Scheme*.

Quantification - general

4.3.4 The amount calculated as a result of the application of the steps set out in *Scheme Rules* 4.3.2 or 4.3.3 (as applicable) shall be the amount of compensation that is offered to the *Eligible Bondholder* in respect of its *Eligible Bonds*, save that the *LCF Scheme Operator* may deduct any other sums from that amount of compensation where this is expressly provided for in these *Scheme Rules* (such as where the *Eligible Bondholder* has received any amounts relating to the *Eligible Bonds*, whether by means of compensation or otherwise, from any third parties).

4.3.5 For the avoidance of doubt:

- (a) no deduction shall be made from the compensation amount in respect of any payments made to the *Eligible Bondholder* under the *FCA Complaints Scheme*; and
- (b) interest shall not be payable to *Eligible Bondholders* in respect of any compensation sum under the *LCF Compensation Scheme*.

Compensation under the *LCF Compensation Scheme* covers all investments in *Eligible Bonds*

- 4.3.6 The compensation payable by the *LCF Scheme Operator* will be in respect of the aggregate amount of all the *Eligible Bondholder's* investments in *Eligible Bonds* as at the time of the *LCF Default* (as set out in the records of the *LCF Insolvency Administrators*).

Joint holders of *Eligible Bonds*

- 4.3.7 In the event that an *Eligible Bond* is held jointly by two or more *Eligible Bondholders*, the amount of the *Entitlement* relating to that *Eligible Bond* shall (in the absence of satisfactory evidence as to their respective shares in the *Entitlement*) be shared equally between each of the *Eligible Bondholders* and the *Scheme Rules* shall apply to each *Eligible Bondholder* as if their share in relation to that *Eligible Bond* was a separate claim in relation to an *Eligible Bond* of which they were the sole owner, save that:

- (a) the amount of their *Entitlement* in relation to that *Eligible Bond* shall only be the amount of their share in the *Eligible Bond*, as determined in accordance with this *Scheme Rule* 4.3.7;
- (b) the amounts of any payments of interest made in relation to the *Eligible Bond* shall be deducted from their *Entitlement* in the same proportions as their share of the *Eligible Bond*;
- (c) the amounts of any distributions by the *LCF Insolvency Administrators* made in relation to the *Eligible Bond* shall be deducted from their *Entitlement* in the same proportions as their share of the *Eligible Bond*; and
- (d) where an *Eligible Bondholder* has previously received compensation under the *Financial Services Compensation Scheme* in respect of an *LCF Bond*, for the purposes of *Scheme Rule* 4.3.3 the amount of each *Eligible Bondholder's* compensation from the *Financial Services Compensation Scheme* in respect of the *LCF Bond* shall be the amount that the *Eligible Bondholder* received from the *Financial Services Compensation Scheme*, disregarding any compensation paid to the other joint owners of the relevant *LCF Bond*. It is anticipated that the *Financial Services Compensation Scheme* will itself take into account any joint ownership of the *LCF Bond* in question and that the amount awarded to the *Eligible Bondholder* under the *Financial Services Compensation Scheme* should reflect only their share of the *LCF Bond*.

- 4.3.8 Where an *Eligible Bond* is held jointly by two or more *Eligible Bondholders*, the compensation will take the form of a single payment made to the *Eligible Bondholders* jointly. Separate payments of each *Eligible Bondholder's* share of the compensation can be made on request.

Allocation of compensation between *Eligible Bonds*

- 4.3.8A Subject to *Scheme Rule* 4.3.8B, where an *Eligible Bondholder* receives compensation in respect of more than one *Eligible Bond* and the total amount of compensation payable has been reduced by the application of a cap on compensation, the *LCF Scheme Operator* shall determine the value of each individual *Eligible Bond* by applying the *Applicable Cap* to each *Eligible Bond* in proportion to the amount that the *Eligible Bond* represents of the total amount of compensation payable to the *Eligible Bondholder* in relation to all his *Eligible Bonds*. The *Applicable Cap* shall be either:

- (a) where the *Eligible Bondholder's* compensation is calculated in accordance with *Scheme Rule* 4.3.2: £68,000; or

- (b) where the *Eligible Bondholder's* compensation is calculated in accordance with *Scheme Rule 4.3.3*: the amount of compensation determined following Step Six under *Scheme Rule 4.3.3*.

4.3.8B Where an *Eligible Bondholder* receives compensation in respect of more than one *Eligible Bond* and the total amount of compensation payable has been reduced by the application of a cap on compensation (including an *Applicable Cap*), and the *Eligible Bondholder* has at least one *Eligible Bond* that is an *ISA Eligible Bond* and at least one *Eligible Bond* that is not an *ISA Eligible Bond*, the *LCF Scheme Operator* shall seek to maximise the amount of compensation paid in respect of the *ISA Eligible Bonds*, subject to the following principles:

- (a) the compensation for each individual *Eligible Bond* should not exceed the total amount that would be payable if that bond was the *Eligible Bondholder's* only *Eligible Bond*;
- (b) the total compensation payable for all *Eligible Bonds* is consistent with the amount calculated under *Scheme Rule 4.3.2* or *4.3.3* (as applicable);
- (c) where an *Eligible Bondholder* has more than one *ISA Eligible Bond*, the *LCF Scheme Operator* shall seek to allocate compensation proportionally between them where relevant and possible; and
- (d) where distributions have been made by the *LCF Insolvency Administrators* in respect of the *Eligible Bonds*, the total amount of such distribution shall be deducted from the total compensation payable and any such deductions shall be apportioned between the *Eligible Bonds* (including *ISA Eligible Bonds*) in a way that is fair and reasonable having regard to the principles above. The *LCF Scheme Operator* will seek to apply deductions to each *Eligible Bond* that the distribution was made in respect of but may in some circumstances have to apply a different deduction in order to achieve a fair and reasonable outcome.

#### The offer of compensation

4.3.9 Following the calculation of the amount of compensation payable to the *Eligible Bondholder* in respect of *Eligible Bonds*, the *LCF Scheme Operator* will:

- (a) issue a cheque directly to the *Eligible Bondholder*. The cheque will be accompanied by a letter explaining the conditions that will apply to the *Eligible Bondholder* in cashing the cheque. By cashing the cheque, an *Eligible Bondholder* will be subject to the conditions set out in *Scheme Rule 4.4.2*; or
- (b) if *Scheme Rule 4.2.2* applies, send to the *Eligible Bondholder* and require the *Eligible Bondholder* to complete a form requesting the *Eligible Bondholder's* bank details and require the *Eligible Bondholder* to sign a document agreeing to and acknowledging the conditions set out in *Scheme Rule 4.4.2*.

4.3.10 The offer of compensation is made on the basis that the *Eligible Bondholder* has not received other amounts in relation to the *Eligible Bonds* from any third parties (whether by means of compensation or otherwise, excepting any compensation paid under the *FCA Complaints Scheme*). If the *Eligible Bondholder* has received any such other amounts in relation to *Eligible Bonds*, they must inform the *LCF Scheme Operator* prior to cashing the cheque or (where applicable) before signing the documents described in *Scheme Rule 4.3.11(b)*, so that appropriate deductions from the compensation payment under the *LCF Compensation Scheme* can be made. Where the *Eligible Bondholder* so notifies the *LCF Scheme Operator*, the *LCF Scheme Operator* will:

- (a) recalculate the compensation offer by deducting the amount received from the third party in relation to the *Eligible Bond* from the amount of the *Eligible Bondholder's Entitlement* and then applying the steps set out in *Scheme Rule 4.3.2* or *Scheme Rule 4.3.3* (as applicable); and
- (b) take the steps specified in *Scheme Rule 4.3.11* in relation to the revised amount.

Worked examples

4.3.11 See *Scheme Rules Annex 2* (Worked examples) for examples of how the *LCF Scheme Operator* will calculate the amount of compensation payable to *Eligible Bondholders*.

4.4 **Procedure for payment of compensation**

*Eligible Bondholder's acceptance of an offer of compensation*

4.4.1 An *Eligible Bondholder* accepts the offer of compensation by:

- (a) cashing the cheque received from the *LCF Scheme Operator*; or
- (b) if *Scheme Rule 4.2.2* applies, by signing and returning the documents described in *Scheme Rule 4.3.9(b)*.

Conditions applicable to acceptance of compensation

4.4.2 By accepting an offer of compensation, as described in *Scheme Rule 4.4.1*, the *Eligible Bondholder*:

- (a) agrees and acknowledges that they are receiving compensation under the *LCF Compensation Scheme* for losses arising out of the *LCF Default* relating to *Eligible Bonds*;
- (b) agrees and acknowledges that they have not received any amounts relating to the *Eligible Bonds* from any third parties, whether by means of compensation or otherwise;
- (c) agrees that they will notify the *LCF Scheme Operator* promptly if they receive any amounts relating to the *Eligible Bonds* from any third parties (whether by means of compensation or otherwise). For the avoidance of doubt, *Eligible Bondholders* are not required to notify the *LCF Scheme Operator* of any amounts they have received under the *Financial Services Compensation Scheme* in relation to any *LCF Bonds* they hold, as these are not *Eligible Bonds*;
- (d) agrees that if they receive any amounts from third parties in respect of *Eligible Bonds* (whether by means of compensation or otherwise) after they have accepted compensation under the *LCF Compensation Scheme*, they shall (if requested to do so by the *LCF Scheme Operator*) refund to the *LCF Scheme Operator* the amounts received from the third parties up to the value of the compensation they have received under the *LCF Compensation Scheme*;
- (e) agrees that if the payment of some or all of the compensation under the *LCF Compensation Scheme* should not have been made for any reason, they will immediately and fully repay the *LCF Scheme Operator* any such compensation, without any deduction or set-off;
- (f) agrees and acknowledges that the compensation is in full and final settlement of any and all claims of the *Eligible Bondholder* against *Governmental Parties* (excluding claims under the *FCA Complaints Scheme*) – see *Scheme Rule 4.5*;

- (g) acknowledges that they will subrogate certain of their rights to the *LCF Scheme Operator* (as described in *Scheme Rule 4.6.1*);
- (h) agrees and acknowledges the use of their data by the *LCF Scheme Operator*, in accordance with applicable law; and
- (i) makes the declarations and agrees to the matters set out in *Scheme Rules Annex 3*.

For the purposes of paragraphs (b), (c) and (d) above, an *Eligible Bondholder* is not required to notify the *LCF Scheme Operator* of any amounts they receive under the *FCA Complaints Scheme*, either before or after the *Eligible Bondholder* receives any compensation under the *LCF Compensation Scheme*, and the *Eligible Bondholder* will not be required to refund to the *LCF Scheme Operator* any amounts received under the *FCA Complaints Scheme*.

*Eligible Bondholder's ability to opt out of the LCF Compensation Scheme*

4.4.3 An *Eligible Bondholder* is able to opt out of the *LCF Compensation Scheme* at any time (unless the *Eligible Bondholder* has already accepted compensation under the *LCF Compensation Scheme*) by notifying the *LCF Scheme Operator* in writing (including by email to [LCFenquiries@fscs.org.uk](mailto:LCFenquiries@fscs.org.uk)). In addition, an *Eligible Bondholder* will be deemed to have opted out of the *LCF Compensation Scheme* if:

- (a) the *Eligible Bondholder* does not cash the cheque received from the *LCF Scheme Operator* by the deadline in *Scheme Rule 5.2.2*; or
- (b) (where the *LCF Scheme Operator* has determined that the compensation for that *Eligible Bondholder* is to be made via electronic payment rather than by cheque, as described in *Scheme Rule 4.2.2*) the *Eligible Bondholder* does not return the documents described in *Scheme Rule 4.3.9(b)* within:
  - (i) six months of receiving the initial offer of compensation from the *LCF Scheme Operator*; or
  - (ii) if later, one month of receiving the documents described in *Scheme Rule 4.3.9(b)* from the *LCF Scheme Operator*.

Where an *Eligible Bondholder* opts out of the *LCF Compensation Scheme*, they will cease to be eligible for compensation, subject to *Scheme Rule 4.4.4*.

4.4.4 If an *Eligible Bondholder* who had previously opted out of the *LCF Compensation Scheme* subsequently wishes at any time before the expiry of the deadline in *Scheme Rule 5.2.2* to accept the offer of compensation, they may contact the *LCF Scheme Operator* to request that a new cheque is issued to them (or an electronic payment made in accordance with, and subject to, *Scheme Rule 4.2.2*). In this event:

- (a) the *Eligible Bondholder* will have six months from the date of issue of the first cheque to cash the new cheque or, if later, one month from the date of issue of the new cheque. The cashing of the new cheque will amount to an agreement by the *Eligible Bondholder* to the matters set out in *Scheme Rule 4.4.2*; or
- (b) where the *LCF Scheme Operator* determines in accordance with *Scheme Rule 4.2.2* that it will make a payment of compensation to an *Eligible Bondholder* via electronic payment, the *Eligible Bondholder* will be required to sign and return the documents described in *Scheme Rule 4.3.9(b)* within:

- (i) six months from (as applicable):
  - (1) the date of issue of the first cheque that was sent to them or
  - (2) where the original offer of compensation was not made to them by cheque, the date on which the *LCF Scheme Operator* first contacted them to offer them compensation, as described in *Scheme Rule 4.2.2*; or
- (ii) if later, one month of receiving the documents described in *Scheme Rule 4.3.9(b)* from the *LCF Scheme Operator*.

Where the *Eligible Bondholder* does not cash the new cheque or return the document (as applicable) within the timeframes specified in this *Scheme Rule 4.4.4*, they will be considered to have opted out of the *LCF Compensation Scheme* again and will cease to be eligible for compensation.

#### Withdrawal of offer of compensation

- 4.4.5 The *LCF Scheme Operator* must promptly withdraw any offer of compensation if it appears to the *LCF Scheme Operator* that no such offer should have been made.
- 4.4.6 The *LCF Scheme Operator* must seek to recover any compensation paid to an *Eligible Bondholder* if it appears to the *LCF Scheme Operator* that no such payment should have been made, unless the *LCF Scheme Operator* believes that it would be unreasonable to do so, or that the costs of doing so would exceed any amount that could be recovered.

#### 4.5 **Full and final settlement**

- 4.5.1 An offer of compensation to an *Eligible Bondholder* under the *LCF Compensation Scheme* is made in full and final settlement of that *Eligible Bondholder's* claim under the *LCF Compensation Scheme* and of any and all claims, past, present and future, howsoever and whensoever arising, whether known or unknown, and whether in law or equity, that the *Eligible Bondholder* has or may have against *Governmental Parties*, arising out of, or in any way connected with the regulation, activities and subsequent insolvency of *LCF*, including, but not limited to, the issuing or marketing of, or the *Eligible Bondholder's* investment in, *Eligible Bonds*, but excluding claims by the *Eligible Bondholder* under the *FCA Complaints Scheme*.
- 4.5.2 It shall be a condition of cashing the cheque issued by way of an offer of compensation under the *LCF Compensation Scheme* (or if *Scheme Rule 4.2.2* applies, the *Eligible Bondholder* will be required before receiving any compensation to sign and return to the *LCF Scheme Operator* a document confirming) that the *Eligible Bondholder*, on behalf of itself, its successors and assignees:
  - (a) agrees to and does release and discharge *Released Parties* from any and all liabilities and obligations, past, present and future, howsoever and whensoever arising, whether known or unknown, whether currently existing or arising in the future, and whether in law or equity, arising out of or in any way connected with the issuing or marketing of or investment in *Eligible Bonds*; and
  - (b) agrees not to sue, commence, voluntarily aid in any way, prosecute or cause to be commenced or prosecuted against the *Released Parties* any action, suit or other proceeding concerning any matter arising out of or in any way connected with the regulation, activities and subsequent insolvency of *LCF*, including, but not limited to, the issuing or marketing of, or investment in, *Eligible Bonds*, whether in England and Wales, Scotland, Northern Ireland, or any other jurisdiction;

provided that in neither case will the *Eligible Bondholder* be prevented from making claims under the *FCA Complaints Scheme*.

4.5.3 An *Eligible Bondholder* who accepts an offer of compensation in accordance with *Scheme Rule 4.4.1* agrees to and is bound by the full and final settlement provided for in this *Scheme Rule 4.5*. That agreement is conclusively given and communicated by the *Eligible Bondholder* through the act of cashing the cheque or signing and returning the documents described in *Scheme Rule 4.3.9(b)*.

4.5.4 The full and final settlement provided for in this *Scheme Rule 4.5* may be relied on by the *Released Parties*.

#### 4.6 **Subrogation**

4.6.1 In accordance with section 224F of the *Act*, the *FCA* has enacted provisions (contained in Appendix 1 to the Compensation Sourcebook of the *FCA's Handbook*) which empower *FSCS* to make determinations which are legally binding on *Eligible Bondholders* regarding the effect of a payment of compensation being made under the *LCF Compensation Scheme*. In the exercise of that power, *FSCS* has made a determination that the payment of such compensation shall have the following effects:

- (a) the *LCF Scheme Operator* shall immediately and automatically be subrogated, subject to such conditions as the *LCF Scheme Operator* determines are appropriate, to all of the rights and claims in the United Kingdom and elsewhere of the *Eligible Bondholder* against *LCF* and/or any third party (except the *FCA*) (whether such rights are legal, equitable or of any other nature whatsoever and in whatever capacity *LCF* or the relevant third party is acting) in respect of or arising out of the claim in respect of which the payment under the *LCF Compensation Scheme* was made;
- (b) the *LCF Scheme Operator* may claim and take legal action or any other proceedings or steps in the United Kingdom or elsewhere to enforce such rights and claims in its own name or in the name of, and on behalf of, the *Eligible Bondholder* or in both names against *LCF* and/or any relevant third party; and
- (c) the subrogated rights and claims conferred on the *LCF Scheme Operator* shall be rights of recovery and claims against *LCF* and/or any relevant third party which are equivalent (including as to amount and priority and whether or not *LCF* and/or any relevant third party is insolvent) to and do not exceed the rights and claims that the *Eligible Bondholder* would have had.

4.6.2 As a result of these provisions:

- (a) an *Eligible Bondholder* who accepts the offer of compensation will transfer its right to make claims or start legal actions or any other proceedings against *LCF* or any third parties (other than the *FCA*) to the *LCF Scheme Operator* and will no longer be able to pursue such claims or rights itself against *LCF* and/or any third parties (other than the *FCA*). *Eligible Bondholders* should note, however, that although their rights to bring claims against the *FCA* are not so transferred, the effect of *Scheme Rule 4.5.1* is that by accepting the offer of compensation they will be agreeing to full and final settlement of all claims against the *FCA* (other than claims under the *FCA Complaints Scheme*) and so *Eligible Bondholders* will be unable to bring any such claims;
- (b) the *LCF Scheme Operator* may use those rights to make claims against *LCF* and/or any third parties in order to recover the cost of paying the compensation to the *Eligible Bondholder* under the *LCF Compensation Scheme*; and



- (c) save where rights or claims have been transferred back to the *Eligible Bondholder* under *Scheme Rule 4.6.4*, the *LCF Scheme Operator* will assume all the rights of the *Eligible Bondholder* to make claims and be represented in relation to any proceedings relating to the insolvency of *LCF*, including those rights arising under the Insolvency Act 1986.

#### Duty on the *LCF Scheme Operator* to pursue recoveries

4.6.3 Once the *LCF Scheme Operator* is subrogated to the rights of the *Eligible Bondholder* as described in *Scheme Rule 4.6.1*, the *LCF Scheme Operator* must pursue all and only such recoveries as it considers are likely to be both reasonably possible and cost effective to pursue.

4.6.4 If the *LCF Scheme Operator* decides not to pursue such recoveries and an *Eligible Bondholder* wishes to pursue those recoveries itself and so requests in writing, the *LCF Scheme Operator* must comply with that request and assign the relevant rights back to the *Eligible Bondholder*.

#### 4.7 **Treatment of recoveries**

4.7.1 If the *LCF Scheme Operator* makes recoveries in respect of any rights or claims of an *Eligible Bondholder* to which it has been subrogated in accordance with the powers described in *Scheme Rule 4.6.1*, the *LCF Scheme Operator* will pay the amount recovered to the *Eligible Bondholder*, subject to the deduction of:

- (a) any amounts paid to the *Eligible Bondholders* by way of compensation under these *Scheme Rules*; and
- (b) part or all of the *LCF Scheme Operator's* reasonable costs of recovering that amount and distributing it to the *Eligible Bondholder* (if any).

## **Scheme Rules Section 5: Deadlines, complaints and appeals**

### **5.1 Purpose**

5.1.1 The purpose of this section is to set out details of the relevant deadlines applicable to the *LCF Compensation Scheme*. This section also sets out provisions relating to complaints and appeals.

### **5.2 By what date must an offer of compensation be accepted?**

5.2.1 The *LCF Scheme Operator* will make offers of compensation to *Eligible Bondholders* by 20 April 2022.

5.2.2 Where compensation is paid by means of a cheque, an *Eligible Bondholder* will have six months from the date of issue of a cheque received from the *LCF Scheme Operator* to cash the cheque. Where, in accordance with *Scheme Rule 4.2.2* the *LCF Scheme Operator* determines that payment will be made via electronic payment instead of by cheque, the *LCF Scheme Operator* will send the documents described in *Scheme Rule 4.3.9(b)* to the *Eligible Bondholder*, and the *Eligible Bondholders* must accept the offer within the following deadlines (as applicable):

- (a) where the original offer of compensation was made to them by cheque, within:
  - (i) six months of the date of issue of the first cheque that was sent to them; or
  - (ii) if later, one month of receiving the documents described in *Scheme Rule 4.3.9(b)* from the *LCF Scheme Operator*, or
- (b) where the original offer of compensation was not made to them by cheque, within six months of the date on which the *LCF Scheme Operator* first contacted them to offer them compensation, as described in *Scheme Rule 4.2.2*.

5.2.3 If an *Eligible Bondholder* is receiving its compensation by means of a cheque and loses a cheque or a cheque becomes damaged, they may at any time before the expiry of the six months referred to in *Scheme Rule 5.2.2* contact the *LCF Scheme Operator* to request the issuance of a new cheque. The *Eligible Bondholder* will have six months from the date of issue of the first cheque or, if later, one month from the date of issue of the new cheque, to cash the new cheque.

5.2.4 Where, in accordance with *Scheme Rule 4.2.2*, the *LCF Scheme Operator* has determined that it will make a payment of compensation to an *Eligible Bondholder* via electronic payment, it will make the payment to the *Eligible Bondholder* as soon as reasonably practicable after the *Eligible Bondholder* has signed and returned the documents described in *Scheme Rule 4.3.9(b)*.

#### Exceptional circumstances

5.2.5 The *LCF Scheme Operator* may, in certain exceptional circumstances, make an offer of compensation after the expiration of the deadline referred to in *Scheme Rule 5.2.2*, if it considers it reasonable to do so.

5.2.6 The exceptional circumstances referred to in *Scheme Rule 5.2.5* include but are not limited to circumstances where the *Eligible Bondholder* did not know (and, in the opinion of the *LCF Scheme Operator*, should not reasonably have known) that they were an *Eligible Bondholder* or was otherwise reasonably not in a position to accept the offer of compensation as a result of:

- (a) the *Eligible Bondholder* being subject to a temporary or permanent debilitating illness or injury;
- (b) the *Eligible Bondholder* having to care for a family member, dependant, spouse or partner who is subject to a temporary or permanent debilitating illness or injury; and/or
- (c) the *Eligible Bondholder* experiencing a bereavement in relation to a family member, dependant, spouse or partner.

### Complaints

- 5.2.7 Any person is able to make a complaint of maladministration relating to any aspect of the operation of the *LCF Compensation Scheme* in accordance with the procedure in *Scheme Rule 5.2.8*.
- 5.2.8 In order to make a complaint, a person can contact the *LCF Scheme Operator* via email at [LCFenquiries@fscs.org.uk](mailto:LCFenquiries@fscs.org.uk) or by telephone on 0800 091 0030. A member of the *LCF Scheme Operator* complaints team will carry out an investigation into the complaint. This investigation will be independent of the *LCF Scheme Operator* team responsible for deciding whether or not to make an offer of compensation. The *LCF Scheme Operator* complaints team will acknowledge receipt of the complaint within two working days and will aim to respond with questions regarding the complaint or with a decision within 20 working days.
- 5.2.9 If a person is dissatisfied with the way in which a complaint has been handled or the service that has been provided (as opposed to the decision outcome), that person may ask the *LCF Scheme Operator* to escalate the complaint to an independent investigator by contacting the *LCF Scheme Operator* via email at [LCFenquiries@fscs.org.uk](mailto:LCFenquiries@fscs.org.uk) or by telephone on 0800 091 0030. If a person's complaint relates to the decision outcome, it will not be escalated, but a person may instead be able to make an appeal under *Scheme Rule 5.3*.
- 5.2.10 The *LCF Scheme Operator* has the right to refuse to deal with any person who is abusive towards a member of the *LCF Scheme Operator's* staff and/or continues to pursue a complaint even after the complaints process is complete.

### **5.3 Appeals**

- 5.3.1 *Eligible Bondholders* may appeal the amount of a compensation offer on the basis that it was incorrectly calculated.
- 5.3.2 Persons who consider that they are *Eligible Bondholders* but have not been offered compensation by the *LCF Scheme Operator* because of a failure by *LCF* to correctly register and/or maintain a record of their investment may appeal a decision by the *LCF Scheme Operator* not to make an offer of compensation.
- 5.3.3 In order to make an appeal, a person should contact the *LCF Scheme Operator* via email at [LCFenquiries@fscs.org.uk](mailto:LCFenquiries@fscs.org.uk) or by telephone on 0800 091 0030. A member of the *LCF Scheme Operator's* staff who was not involved in the decision as to whether to make an offer of compensation will review the appeal. The *LCF Scheme Operator* will acknowledge receipt of the appeal within two working days and will aim to respond with questions regarding the appeal or with a decision within 20 working days of receipt.
- 5.3.4 Any appeal must be supported by reasonable evidence in support of the applicable ground for appeal. Such evidence will be taken into account by the *LCF Scheme Operator* in determining whether to uphold the appeal. The *LCF Scheme Operator* may consider any additional information or evidence provided by the appellant in relation to an appeal, and

may also take into account other information or evidence available to it, including the records of the *LCF Insolvency Administrators*.

#### **5.4 Time limits for filing a complaint or appealing a compensation offer**

5.4.1 If an *Eligible Bondholder* wishes to file a complaint to file a complaint or appeal a compensation offer, they must do so within three months of the first offer of compensation (which shall be either the date on which the cheque was issued in accordance with *Scheme Rule 4.3.9(a)* or, where the *LCF Scheme Operator* has chosen not to make the original offer of compensation by cheque in accordance with *Scheme Rule 4.2.2*, the date on which the *LCF Scheme Operator* first contacts the *Eligible Bondholder* to inform them that they will be offered compensation). For the avoidance of doubt, the filing of a complaint or commencement of an appeal by an *Eligible Bondholder* will not have the effect of stopping the time limit in *Scheme Rule 5.2.2* running. However, if the *LCF Scheme Operator* issues a new cheque to the *Eligible Bondholder* as a result of the appeal, the *Eligible Bondholder* will have six months from the date of issue of the new cheque to cash that cheque.

5.4.2 Persons other than *Eligible Bondholders* will have nine months from the date on which the *LCF Compensation Scheme* commences to file a complaint or appeal as to their eligibility under the *LCF Compensation Scheme*. If successful in their appeal, those persons will have six months from the date of issue of a cheque to cash that cheque. Those persons may also request that any compensation be paid via electronic payment in accordance with *Scheme Rule 4.2.2*.

#### **5.5 For how long will the *LCF Scheme Operator* continue to perform functions in relation to the *LCF Compensation Scheme*?**

5.5.1 Once the *LCF Scheme Operator* has issued all cheques (and made all payments under *Scheme Rule 4.2.2*) to *Eligible Bondholders* who have not opted out of the *LCF Compensation Scheme*, it will continue to perform the functions specified under the *Scheme Rules*, to the extent reasonably necessary, until the date four calendar months after the *LCF Insolvency Administrators* have made all relevant distributions relating to *LCF's* insolvency proceedings or such other date as HM Treasury and the *LCF Scheme Operator* may agree.

## **Scheme Rules Annex 1: Special cases**

### **1. TRUSTEES**

- 1.1 If an *Eligible Bondholder's* interest in relation to the *LCF Default* includes an interest as trustee, the *LCF Scheme Operator* must treat them in respect of that interest as if their interest was the interest of a different person.
- 1.2 If an *Eligible Bondholder* has an interest in relation to the *LCF Default* as a bare trustee or nominee company for one or more beneficiaries, the *LCF Scheme Operator* must treat the beneficiary or beneficiaries as having the interest, and not the *Eligible Bondholder*.
- 1.3 If any group of persons has an interest in relation to the *LCF Default* as trustees, the *LCF Scheme Operator* must treat them as a single and continuing person distinct from the persons who may from time to time be the trustees.
- 1.4 Where the same person has an interest in relation to the *LCF Default* as trustees for different trusts, the *Scheme Rules* apply as if the interests relating to each of these trusts were interests of different persons.
- 1.5 Where the *Eligible Bondholder* is a trustee, and some of the beneficiaries of the trust are persons who would not be *Eligible Bondholders* if they had an interest themselves, the *LCF Scheme Operator* must adjust the amount of the overall compensation to eliminate the part of the interest which, in the *LCF Scheme Operator's* view, is an interest for those beneficiaries.
- 1.6 Where any of paragraphs 1.1 to 1.5 above apply, the *LCF Scheme Operator* must try to ensure that any amount paid to trustees is, in each case:
  - (a) for the benefit of members or beneficiaries who would be *Eligible Bondholders* if they had an interest themselves; and
  - (b) no more than the amount of the loss suffered by those members or beneficiaries.

### **2. PERSONAL REPRESENTATIVES, AGENTS AND JOINT INTERESTS**

- 2.1 Where a person has an interest in relation to the *LCF Default* as the personal representative of another person, the *LCF Scheme Operator* must treat them in respect of that claim as if they were standing in the shoes of that other person.
- 2.2 If an *Eligible Bondholder* has an interest in relation to the *LCF Default* as agent for one or more principals, the *LCF Scheme Operator* must treat the principal or principals as having the interest, not the *Eligible Bondholder*.
- 2.3 If two or more persons have a joint beneficial interest in relation to the *LCF Default*, the interest is to be treated as an interest of the partnership if they are carrying on business together in partnership. Otherwise each of those persons is taken to have an interest for his share, and in the absence of satisfactory evidence as to their respective shares, the *LCF Scheme Operator* must regard each person as entitled to an equal share.

## **Scheme Rules Annex 2: Worked examples**

### **Calculation A: for *Eligible Bondholders* who have not received any compensation from the *Financial Services Compensation Scheme***

Following the steps in *Scheme Rule* 4.3.2:

- Step 1: Take the principal amount invested in *Eligible Bonds*.
- Step 2: Deduct any interest payments received in respect of *Eligible Bonds*.
- Step 3: Deduct 20% from the total amount calculated in Step 2.
- Step 4: Apply the compensation cap of £68,000 (where relevant). This is the maximum amount of compensation that *Eligible Bondholders* can receive for their *Eligible Bonds* under the *LCF Compensation Scheme*.
- Step 5: Deduct any distributions received from the *LCF Insolvency Administrators* in relation to *Eligible Bonds* (where relevant) to calculate the final compensation payment.

The resulting figure is the amount of compensation that *Eligible Bondholders* will receive under the *LCF Compensation Scheme*.

### **Calculation B: for *Eligible Bondholders* who have already received some compensation from the *Financial Services Compensation Scheme* in relation to *LCF Bonds***

Following the steps in *Scheme Rule* 4.3.3:

- Step 1: Take the principal amount invested in *Eligible Bonds*.
- Step 2: Deduct any interest payments received in respect of *Eligible Bonds*.
- Step 3: Add on the amount of compensation paid under the *Financial Services Compensation Scheme* in respect of *LCF Bonds*.
- Step 4: Deduct 20% from the amount calculated in Step 3.
- Step 5: Apply the compensation cap of £68,000 (where relevant).
- Step 6: deduct the amount that is equivalent to 80% of the total amount of compensation paid to the *Eligible Bondholder* under the *Financial Services Compensation Scheme* in respect of *LCF Bonds*.
- Step 7: Deduct any distributions received from the *LCF Insolvency Administrators* in relation to *Eligible Bonds* (where relevant) to calculate the final compensation payment.

The resulting figure is the amount of compensation that *Eligible Bondholders* will receive under the *LCF Compensation Scheme*.

*Eligible Bondholders* may keep any compensation that they have received separately under the *Financial Services Compensation Scheme*.

### **Example 1**

A bondholder invested £10,000 into *LCF Bonds*. The bondholder has not received any interest or payments from the *LCF Insolvency Administrators* and has not received any compensation from the *Financial Services Compensation Scheme* in relation to the *LCF Bonds*. As no compensation has been received from the *Financial Services Compensation Scheme*, Calculation A will be used to work out the compensation payments.

Step 1 - Principal investment	£10,000
Step 2 – Deduct interest payments received	(£0)
<b>Total</b>	<b>£10,000</b>
Step 3 – Deduct 20%	(£2,000)
<b>Total</b>	<b>£8,000</b>
Step 4 – Apply compensation cap	N/A
Step 5 – Deduct distributions by the <i>LCF Insolvency Administrators</i>	(£0)
<b>TOTAL COMPENSATION AMOUNT PAYABLE</b>	<b><u>£8,000</u></b>

### **Example 2**

A bondholder invested £90,000 in *LCF Bonds*. The bondholder has received £10,000 in interest payments and £2,000 in distributions from the *LCF Insolvency Administrators* and has not received any compensation from the *Financial Services Compensation Scheme* in relation to the *LCF Bonds*. As no compensation has been received from the *Financial Services Compensation Scheme*, Calculation A will be used to work out the compensation payments.

Step 1 - Principal investment	£90,000
Step 2 – Deduct interest payments received	(£10,000)
Total	<b>£80,000</b>
Step 3 – Deduct 20%	(£16,000)
Total	<b>£64,000</b>
Step 4 – Apply compensation cap	N/A
Step 5 – Deduct distributions by the <i>LCF Insolvency Administrators</i>	(£2,000)
<b>TOTAL COMPENSATION AMOUNT PAYABLE</b>	<b><u>£62,000</u></b>

### **Example 3**

A bondholder invested £120,000 in *LCF Bonds*. The bondholder has received £15,000 in interest payments and £3,000 in distributions from the *LCF Insolvency Administrators* and has not received any compensation from the *Financial Services Compensation Scheme* in relation to the *LCF Bonds*. As no compensation has been received from the *Financial Services Compensation Scheme*, Calculation A will be used to work out the compensation payments.

Step 1 - Principal investment	£120,000
Step 2 – Subtract interest payments received	(£15,000)
<b>Total</b>	<b>£105,000</b>
Step 3 – Deduct 20%	(£21,000)
<b>Total</b>	<b>£84,000</b>
Step 4 – Apply the compensation cap	£68,000
Step 5 – Deduct distributions by the <i>LCF Insolvency Administrators</i>	(£3,000)
<b><u>TOTAL COMPENSATION AMOUNT PAYABLE</u></b>	<b><u>£65,000</u></b>

#### **Example 4**

A bondholder invested £41,000 in two *LCF Bonds*: Bond A (£15,000) and Bond B (£26,000). In relation to Bond B, the bondholder received £1,000 in interest and £1,000 in distributions from the *LCF Insolvency Administrators*. The *Financial Services Compensation Scheme* has paid compensation for Bond A but not for Bond B.

As the bondholder has already received compensation from the *Financial Services Compensation Scheme*, Calculation B will be used to work out the compensation payments.

Step 1 – Principal investment in <i>Eligible Bonds</i> (Bond B only; Bond A is not an <i>Eligible Bond</i> )	£26,000
Step 2 – Deduct interest payments received in relation to <i>Eligible Bonds</i>	(£1,000)
<b>Total</b>	<b>£25,000</b>
Step 3 – Add on the compensation paid under the <i>Financial Services Compensation Scheme</i> (i.e. in respect of Bond A). As no interest was paid or distributions made in relation to Bond A, the bondholder would have received the full amount of their investment in Bond A: £15,000.	£15,000
<b>Total</b>	<b>£40,000</b>
Step 4 – Deduct 20%	(£8,000)
<b>Total</b>	<b>£32,000</b>
Step 5 – Apply compensation cap	N/A
Step 6 – deduct the amount that is equivalent to 80% of the total amount of compensation paid to the <i>Eligible Bondholder</i> under the <i>Financial Services Compensation Scheme</i> in respect of <i>LCF Bonds</i> (i.e. 80% of the £15,000 received in respect of Bond A)	(£12,000)
<b>Total</b>	<b>£20,000</b>
Step 7 – Deduct distributions by the <i>LCF Insolvency Administrators</i> in relation to <i>Eligible Bonds</i> (Bond B only)	(£1,000)



<b><u>TOTAL COMPENSATION AMOUNT PAYABLE</u></b>	<b><u>£19,000</u></b>
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### **Example 5**

A bondholder invested £41,000 in two *LCF Bonds*: Bond A (£15,000) and Bond B (£26,000). In relation to Bond A, the bondholder received £1,000 in interest and £1,000 in distributions from the *LCF Insolvency Administrators*. In addition, in relation to Bond B, the bondholder received £1,000 in interest and £1,000 in distributions from the *LCF Insolvency Administrators*. The *Financial Services Compensation Scheme* has paid compensation for Bond A but not for Bond B. (This example is the same as Example 4, except that the bondholder has received interest and distributions in relation to Bond A as well as in relation to Bond B.)

As the bondholder has already received compensation from the *Financial Services Compensation Scheme*, Calculation B will be used to work out the compensation payments.

Step 1 – Principal investment in <i>Eligible Bonds</i> (Bond B only; Bond A is not an <i>Eligible Bond</i> )	£26,000
Step 2 – Deduct interest payments received in relation to <i>Eligible Bonds</i>	(£1,000)
<b>Total</b>	<b>£25,000</b>
Step 3 – Add on the compensation paid under the <i>Financial Services Compensation Scheme</i> (i.e. in respect of Bond A). In this case, the amount paid under the <i>Financial Services Compensation Scheme</i> would have been the amount invested (£15,000) minus interest paid (£1,000) and distributions received (£1,000) in relation to Bond A: £13,000.	£13,000
<b>Total</b>	<b>£38,000</b>
Step 4 – Deduct 20%	(£7,600)
<b>Total</b>	<b>£30,400</b>
Step 5 – Apply compensation cap	N/A
Step 6 – deduct the amount that is equivalent to 80% of the total amount of compensation paid to the <i>Eligible Bondholder</i> under the <i>Financial Services Compensation Scheme</i> in respect of <i>LCF Bonds</i> (i.e. 80% of the £13,000 received in respect of Bond A)	(£10,400)
<b>Total</b>	<b>£20,000</b>
Step 7 – Deduct distributions by the <i>LCF Insolvency Administrators</i> in relation to <i>Eligible Bonds</i> (Bond B only)	(£1,000)
<b><u>TOTAL COMPENSATION AMOUNT PAYABLE</u></b>	<b><u>£19,000</u></b>

### **Example 6**

Mr Smith invested £10,000 in an *LCF Bond* and Mrs Smith invested £20,000 in an *LCF Bond*. Each investment is registered in their respective sole names. Mr and Mrs Smith also made a joint investment of £140,000 into a third *LCF Bond*. They have not received any interest, distributions from

the *LCF Insolvency Administrators* or compensation from the *Financial Services Compensation Scheme* in relation to any of the *LCF Bonds*.

As Mr and Mrs Smith have not received any compensation from the *Financial Services Compensation Scheme*, Calculation A will be used to work out the compensation payments.

The compensation available to Mr and Mrs Smith under the *LCF Compensation Scheme* must be calculated separately. Their joint investment in the *LCF Bond* is deemed to be held equally between them, with each of them considered to have invested £70,000.

#### Mr Smith

Step 1 – Principal investment in <i>Eligible Bonds</i> (£10,000 + £70,000)	£80,000
Step 2 – Deduct interest payments received	(£0)
<b>Total</b>	<b>£80,000</b>
Step 3 – Deduct 20%	(£16,000)
<b>Total</b>	<b>£64,000</b>
Step 4 – Apply compensation cap	N/A
Step 5 – Deduct distributions by the <i>LCF Insolvency Administrators</i>	(£0)
<b><u>TOTAL COMPENSATION AMOUNT PAYABLE</u></b>	<b><u>£64,000</u></b>

#### Mrs Smith

Step 1 – Principal investment in <i>Eligible Bonds</i> (£20,000 + £70,000)	£90,000
Step 2 – Deduct interest payments received	(£0)
<b>Total</b>	<b>£90,000</b>
Step 3 – Deduct 20%	(£18,000)
<b>Total</b>	<b>£72,000</b>
Step 4 – Apply compensation cap	£68,000
Step 5 – Deduct distributions by the <i>LCF Insolvency Administrators</i>	(£0)
<b><u>TOTAL COMPENSATION AMOUNT PAYABLE</u></b>	<b><u>£68,000</u></b>

#### Example 7

A bondholder invested £200,000 in two *LCF Bonds*, Bond A and Bond B, each of which were worth £100,000. The bondholder has not received any interest or payments from the *LCF Insolvency Administrators*. However, Bond A was covered by the *Financial Services Compensation Scheme*, and so the bondholder received £85,000 (which is the maximum amount payable) under the *Financial Services Compensation Scheme*. Bond B was not covered by the *Financial Services Compensation Scheme*.

As the bondholder has already received compensation from the *Financial Services Compensation Scheme*, Calculation B will be used to work out the compensation payments.

Step 1 – Principal investment in <i>Eligible Bonds</i> (Bond B only; Bond A is not an <i>Eligible Bond</i> )	£100,000
Step 2 – Deduct interest payments received in relation to <i>Eligible Bonds</i>	(£0)
<b>Total</b>	<b>£100,000</b>
Step 3 – Add on the compensation paid under the <i>Financial Services Compensation Scheme</i> (i.e. in respect of Bond A)	£85,000
<b>Total</b>	<b>£185,000</b>
Step 4 – Deduct 20%	(£37,000)
<b>Total</b>	<b><u>£148,000</u></b>
Step 5 – Apply compensation cap	£68,000
<b>Total</b>	<b><u>£68,000</u></b>
Step 6 – deduct the amount that is equivalent to 80% of the total amount of compensation paid to the <i>Eligible Bondholder</i> under the <i>Financial Services Compensation Scheme</i> in respect of <i>LCF Bonds</i> (i.e. 80% of the £85,000 received in respect of Bond A)	(£68,000)
<b>Total</b>	<b><u>£0</u></b>
Step 7 – Deduct distributions by the <i>LCF Insolvency Administrators</i> in relation to <i>Eligible Bonds</i> (Bond B only)	(£0)
<b><u>TOTAL COMPENSATION AMOUNT PAYABLE</u></b>	<b><u>£0</u></b>

In this example, no compensation is payable under the *LCF Compensation Scheme*, but the *Eligible Bondholder* did receive £85,000 under the *Financial Services Compensation Scheme* in respect of Bond A.

### **Example 8**

A bondholder invested £137,000 in 3 separate *LCF Bonds* of £10,000, £27,000 and £100,000, which are Bonds A, B and C respectively. The bondholder received £1,000 interest payments in relation to Bond A and no interest in respect of Bonds B or C. The bondholder also received distributions from the *LCF Insolvency Administrators* of £250, £675 and £2,500 in respect of Bonds A, B and C respectively. The bondholder has not received any compensation from the *Financial Services Compensation Scheme* in relation to any of Bonds A, B or C.

As the bondholder has not already received any compensation from the *Financial Services Compensation Scheme*, Calculation A will be used to work out the compensation payments.

Step 1 - Principal investment	£137,000
Step 2 – Deduct interest payments received	(£1,000)

<b>Total</b>	<b>£136,000</b>
Step 3 – Deduct 20%	(£27,200)
<b>Total</b>	<b>£108,800</b>
Step 4 – Apply compensation cap	£68,000
Step 5 – Deduct distributions by the <i>LCF Insolvency Administrators</i>	(£3,425)
<b><u>TOTAL COMPENSATION AMOUNT PAYABLE</u></b>	<b><u>£64,575</u></b>

In practice, the *LCF Scheme Operator* may make separate payments of compensation in respect of different *Eligible Bonds*. In doing so, the *LCF Scheme Operator* will determine the effect of the compensation cap on each individual payment by:

- (a) calculating the aggregate value of all of the bondholder's *Eligible Bonds* (after deduction of interest);
- (b) determining the proportion of that amount that would be recoverable taking into account the application of the cap; and
- (c) applying that proportion to the claim for each *Eligible Bond* (after deduction of interest).

In this example, the compensation cap (£68,000) represents 50% of the aggregate value of the bondholder's *Eligible Bonds* after accounting for interest payments (£136,000). The proportion that is applied to each individual payment is therefore 50%, and the compensation award for each individual Bond is calculated as follows:

$$[(\text{Value of Bond} - \text{interest received for that Bond}) \times 50\%] - \text{distributions for that Bond}$$

The amounts of compensation payable for Bonds A, B and C are therefore:

- Bond A:  $((£10,000 - £1,000) \times 50\%) - £250 = £4,250$
- Bond B:  $((£27,000 - £0) \times 50\%) - £675 = £12,825$
- Bond C:  $((£100,000 - £0) \times 50\%) - £2,500 = £47,500$

Total compensation: £64,575

### **Example 9**

The facts are the same as example 8, except that in this case Bond A is an *ISA Eligible Bond* but Bonds B and C are not.

As set out in example 8, the total amount of compensation payable is £64,575.

In this case, because Bond A is an *ISA Eligible Bond*, the *LCF Scheme Operator* will allocate compensation between the Bonds using the approach set out in *Scheme Rule 4.3.8B* of seeking to maximise the amount payable in respect of the *ISA Eligible Bond*.

The total amount of compensation payable in accordance with *Scheme Rule 4.3.2* (which is the applicable rule in this case) for all the bondholder's *Eligible Bonds* is £68,000, prior to the deduction of distribution paid by the *LCF Insolvency Administrators*. The *LCF Scheme Operator* will then allocate

to Bond A an amount of that compensation up to but not exceeding 80% of the bondholder's *Entitlement* in respect of Bond A after the deduction of any interest that was paid in relation to that *ISA Eligible Bond*. In this case, the *Entitlement* in respect of Bond A was £10,000 and £1,000 of interest was paid, so up to 80% of £9,000 (i.e. £7,200) can be allocated to Bond A. (From that amount, the *LCF Scheme Operator* will deduct £250 in respect of the distribution paid by the *LCF Insolvency Administrators*.)

The *LCF Scheme Operator* will then allocate the unused part of the *Applicable Cap* between the bondholder's other *Eligible Bonds* in proportion to the value of those *Eligible Bonds*.

In this case, the calculation is made under *Scheme Rule 4.3.2*, so the amount of the *Applicable Cap* is £68,000. Following the allocation of compensation to the *ISA Eligible Bonds*, the unused part of the *Applicable Cap* is (£68,000-£7,200) = £60,800. The amount of £60,800 is allocated proportionately between Bonds B and C. No interest was paid in respect of Bonds B and C, so the value of each of those *Eligible Bonds* is £27,000 and £100,000 respectively. Of the aggregate amount of these values, Bond B represents approximately 21.2% and Bond C represents approximately 78.8%. The amount of £60,800 is applied in relation to those proportions, so the amount attributable to Bond B is £12,889.60 and the amount attributable to Bond C is £47,910.40. From these amounts, the *LCF Scheme Operator* will deduct the distributions made by the *LCF Insolvency Administrators* – namely £675 for Bond B and £2,500 for Bond C.

The amounts of compensation payable for Bonds A, B and C are therefore:

- Bond A: ((£10,000 - £1,000) x 80%) - £250 = £6,950
- Bond B: (((£27,000 - £0)/£127,000) x £60,800) - £675 = £12,250.99
- Bond C: (((£100,000 - £0)/£127,000) x £60,800) - £2,500 = £45,374.01

Total compensation: £64,575.

The total amount of compensation in this example is the same as in example 8, but in this case proportionally more of the compensation has been attributed to his *ISA Eligible Bond* than to his other *Eligible Bonds*.

**Example 10**

The facts are the same as example 9, except that in this case the bondholder had a further bond (Bond D) which had a value of £20,000 and in respect of which he received £20,000 compensation (i.e. the full value of the bond) from the *Financial Services Compensation Scheme*.

As the bondholder has received compensation from the *Financial Services Compensation Scheme* in relation to Bond D, Calculation B will be used to work out the compensation payments.

Step 1 – Principal investment in <i>Eligible Bonds</i> (Bonds A, B and C only; Bond D is not an <i>Eligible Bond</i> )	£137,000
Step 2 – Deduct interest payments received in relation to <i>Eligible Bonds</i>	(£1,000)
<b>Total</b>	<b>£136,000</b>
Step 3 – Add on the compensation paid under the <i>Financial Services Compensation Scheme</i> (i.e. in respect of Bond A)	£20,000
<b>Total</b>	<b>£156,000</b>

Step 4 – Deduct 20%	(£31,200)
<b>Total</b>	<b><u>£124,800</u></b>
Step 5 – Apply the £68,000 compensation cap	£68,000
<b>Total</b>	<b><u>£68,000</u></b>
Step 6 – deduct the amount that is equivalent to 80% of the total amount of compensation paid to the <i>Eligible Bondholder</i> under the <i>Financial Services Compensation Scheme</i> in respect of <i>LCF Bonds</i> (i.e. 80% of the £20,000 received in respect of Bond D)	(£16,000)
<b>Total</b>	<b><u>£52,000</u></b>
Step 7 – Deduct distributions by the <i>LCF Insolvency Administrators</i> in relation to <i>Eligible Bonds</i> (Bonds A, B and C only)	(£3,425)
<b><u>TOTAL COMPENSATION AMOUNT PAYABLE</u></b>	<b><u>£48,575</u></b>

As Bond A is an *ISA Eligible Bond*, the *LCF Scheme Operator* will allocate compensation between the Bonds using the approach set out in *Scheme Rule 4.3.8B* of seeking to maximise the amount payable in respect of the *ISA Eligible Bond*.

The total amount of compensation payable for all the bondholder's *Eligible Bonds* is £52,000, prior to the deduction of distribution paid by the *LCF Insolvency Administrators*.

The *LCF Scheme Operator* will then allocate to Bond A an amount of that compensation up to but not exceeding 80% of the bondholder's *Entitlement* in respect of Bond A after the deduction of any interest that was paid in relation to Bond A. In this case, the *Entitlement* in respect of Bond A was £10,000 and £1,000 of interest was paid, so up to 80% of £9,000 (i.e. £7,200) can be allocated to Bond A. (From that amount, the *LCF Scheme Operator* will also deduct £250 in respect of the distribution paid by the *LCF Insolvency Administrators*.)

The *LCF Scheme Operator* will then allocate the unused part of the *Applicable Cap* between the bondholder's other *Eligible Bonds* in proportion to the value of those *Eligible Bonds*.

In this case, the unused part of the *Applicable Cap* is (£52,000-£7,200) = £44,800. The amount of £44,800 is allocated proportionately between Bonds B and C. No interest was paid in respect of Bonds B and C, so the value of each of those *Eligible Bonds* is £27,000 and £100,000 respectively. Of the aggregate amount of these values, Bond B represents approximately 21.2% and Bond C represents approximately 78.8%. The amount of £44,800 is applied in relation to those proportions, so the amount attributable to Bond B is £9,524.41 and the amount attributable to Bond C is £35,275.59. From these amounts, the *LCF Scheme Operator* will deduct the distributions made by the *LCF Insolvency Administrators* – namely £675 for Bond B and £2,500 for Bond C.

The amounts of compensation payable for Bonds A, B, C and D are therefore:

- Bond A: ((£10,000 - £1,000) x 80%) - £250 = £6,950
- Bond B: (((£27,000 - £0)/£127,000) x £44,800) - £675 = £8,849.41
- Bond C: (((£100,000 - £0)/£127,000) x £44,800) - £2,500 = £32,775.59
- Bond D: £20,000 (amount already paid under the *Financial Services Compensation Scheme*)

Total compensation: £68,575 (comprising £48,575 for Bonds A, B and C and £20,000 for Bond D).

**Example 11**

A bondholder invested £580,000 in four separate *Eligible Bonds* of £20,000, £60,000, £400,000 and £100,000, which are Bonds A, B, C and D respectively. The bondholder received no interest payments in relation to any of the Bonds. The bondholder has received distributions from the *LCF Insolvency Administrators* of £500, £1,500, £10,000 and £2,500 in respect of Bonds A, B, C and D respectively. The bondholder has not received any compensation from the *Financial Services Compensation Scheme* in relation to any of the bonds. Bonds A and B are *ISA Eligible Bonds*.

Calculation A will be used to work out the compensation payments.

Step 1 - Principal investment	£580,000
Step 2 – Deduct interest payments received	(£0)
<b>Total</b>	<b>£580,000</b>
Step 3 – Deduct 20%	(£116,000)
<b>Total</b>	<b>£464,000</b>
Step 4 – Apply the £68,000 compensation cap	£68,000
Step 5 – Deduct distributions by the <i>LCF Insolvency Administrators</i>	(£14,500)
<b><u>TOTAL COMPENSATION AMOUNT PAYABLE</u></b>	<b><u>£53,500</u></b>

As Bond A and B are *ISA Eligible Bond*, the *LCF Scheme Operator* will allocate compensation between the Bonds using the approach set out in *Scheme Rule 4.3.8B* of seeking to maximise the amount payable in respect of the *ISA Eligible Bonds*.

The total amount of compensation payable in accordance with *Scheme Rule 4.3.2* (which is the applicable rule in this case) for all the bondholder’s *Eligible Bonds* is £68,000, prior to the deduction of distribution paid by the *LCF Insolvency Administrators*. The *LCF Scheme Operator* will then allocate to each of Bond A and Bond B an amount of that compensation up to but not exceeding 80% of the bondholder’s *Entitlement* in respect of each of those bonds, after the deduction of any interest that was paid in relation to them – which in this case was £16,000 in respect of Bond A and £48,000 in respect of Bond B. From these amounts, a deduction of £500 and £1,500 respectively must also be made in respect of the distributions paid by the *LCF Insolvency Administrator*.

- Bond A:  $((£20,000 - £0) \times 80\%) - £500 = £15,500$
- Bond B:  $((£60,000 - £0) \times 80\%) - £1,500 = £46,500$

The *LCF Scheme Operator* will then allocate the unused part of the *Applicable Cap* between the bondholder’s other *Eligible Bonds* in proportion to the value of those *Eligible Bonds*.

In this case, the calculation is made under *Scheme Rule 4.3.2*, so the amount of the *Applicable Cap* is £68,000. Following the allocation of compensation to the *ISA Eligible Bonds*, the unused part of the *Applicable Cap* is  $(£68,000 - £64,000) = £4,000$ . The amount of £4,000 would then be allocated proportionately between Bonds C and D. No interest was paid in respect of Bonds C and D, so the value of each of those *Eligible Bonds* is £400,000 and £100,000 respectively.

Of the aggregate amount of these values (£500,000), Bond C represents 80% and Bond D represents 20%. The amount of £4,000 is applied in relation to those proportions, so the amount attributable to Bond C is £3,200 and the amount attributable to Bond D is £800.

From these amounts, the *LCF Scheme Operator* would normally deduct the distributions made by the *LCF Insolvency Administrators* – namely £10,000 for Bond C and £2,500 for Bond D. However, in this scenario the respective distributions exceed the amounts attributed to Bond A by £6,800 (£3,200 – £10,000) and to Bond B by £1,700 (£800 – £2,500). Therefore, there is a shortfall of £8,500 that needs to be deducted in order to reduce the total amount of compensation to £53,500.

In this situation, the *LCF Scheme Operator* would normally reduce the amount of compensation payable in respect of Bonds A and B to ensure that the correct amount of compensation is paid overall. The *LCF Scheme Operator* would also seek to apply any such reduction proportionately between the affected bonds. Of the aggregate of the compensation amounts calculated above for Bonds A and B (£15,500 and £46,500 respectively), Bond A represents 25% and Bond B represents 75%. The shortfall of £8,500 is applied in relation to those proportions, so the amount deducted from Bond A is £2,125, and from Bond B is £6,375.

The amounts of compensation payable for Bonds A, B, C and D are therefore:

- Bond A:  $((£20,000 - £0) \times 80\%) - £500 - (25\% \times £8,500) = £13,375$
- Bond B:  $((£60,000 - £0) \times 80\%) - £1,500 - (75\% \times £8,500) = £40,125$
- Bond C:  $((£400,000 - £0) / £500,000) \times £4,000 - £10,000 = -£6,800 =$  no compensation payable, with the shortfall also having been applied to Bonds A and B
- Bond D:  $((£100,000 - £0) / £500,000) \times £4,000 - £2,500 = -£1,700 =$  no compensation payable, with the shortfall also having been applied to Bonds A and B

Total compensation: £53,500.



### **Scheme Rules Annex 3 – Declarations and agreements by *Eligible Bondholders***

By accepting an offer of compensation under the *LCF Compensation Scheme*, each *Eligible Bondholder*:

- (a) makes the following declarations:
  - (i) that they were not responsible for, nor contributed to, the default of *LCF*;
  - (ii) that they were not a director of *LCF* as at the date of the *LCF Default*;
  - (iii) that they do not owe any liability to *LCF*;
  - (iv) that none of the investment which gives rise to their claim was acquired in the course of money laundering or in any way comprised of or connected to the proceeds of crime;
  - (v) that their claim in respect of *LCF* is not subject to any charge, lien, trust, assignment, negative pledge or other encumbrance or right in favour of any third party (including, but not limited to, the selling of their debt in respect of *LCF* to any third party); and
  - (vi) that they are duly authorised to give valid receipt for any compensation paid and to agree to the terms for the offer and payment of compensation and, where *Eligible Bonds* are jointly held in two or more names, that they are duly authorised by all *Eligible Bondholders* holding jointly with them to give valid receipt for any compensation paid and to agree on behalf of all such *Eligible Bondholders* to the terms for the offer and payment of compensation;
- (b) agrees that they will not exercise any right or remedy that they may have or retain against *LCF* or any other person arising out of, or in connection with, the losses suffered by *Eligible Bondholders*, namely:
  - (i) to rescind, set aside, avoid or otherwise alter any contract or obligation;
  - (ii) to set off, or reduce liability in respect of such a contract or obligation; or
  - (iii) any other right or remedy that is either personal to the *Eligible Bondholder* or cannot be assigned or both;
- (c) agrees that, save where rights or claims have been transferred back to the *Eligible Bondholder* under *Scheme Rule 4.6.4*, the *LCF Scheme Operator* will assume all the rights of the *Eligible Bondholder* to make claims and be represented in relation to any proceedings relating to the insolvency of *LCF*, including those rights arising under the *Insolvency Act 1986*; and
- (d) acknowledges that the *LCF Scheme Operator* may give a valid receipt to any person in respect of any claim for losses suffered by *Eligible Bondholders* which have been handled under the *LCF Compensation Scheme*.