Adviser Edge

Regulatory Safeguards and the Financial Services Compensation Scheme (FSCS)

CATEGORY: REGULATION

Is my money safe?

It is understandable to wonder how safe your investment is if the fund manager or investment platform went out of business.

The good news is that your investments are protected by strong regulatory safeguards. This guide explains more about how these safeguards provide the first layer of protection and how the Financial Services Compensation Scheme (FSCS) gives you more security.

How are your investments kept safe?

When you invest in an investment fund, your money does not just sit in the fund manager's bank account. Instead, there are strict regulatory safeguards in place:

- *Custodian structure & segregation:* Your investments are held by an independent custodian and kept separate from the fund manager's own finances. This means that if the fund manager were to fail, neither they nor their creditors can access your assets
- *Trustee/Depositary oversight:* They monitor the fund manager and ensure assets are properly looked after
- *Regulatory oversight:* The Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) enforce these strict rules
- *Internal risk controls:* Fund managers have their own systems to manage risks and ensure money is managed appropriately

These safeguards mean your investments are kept ringfenced and remain yours, even if the fund manager faces financial or operational difficulties.

Investing through a regulated product or service

If you invest in a regulated product/service through an investment platform, the provider offering the product/service, must also follow strict FCA rules designed to keep your money safe.

The key principle is segregation. This means your money and investments are kept separate from the provider's own finances.

In practice, any cash held on your behalf is placed in specially designated accounts until it is invested. Once invested, your assets are actual investments themselves, such as shares, funds, bonds etc, and these are also segregated.

If the provider were to fail, administrators would be able to clearly identify which assets belong to which investor because of this segregation. This protects your investments from being claimed by the provider's own creditors. In the rare event that segregation rules were not properly followed, FSCS protection could apply, giving you an extra layer of reassurance.

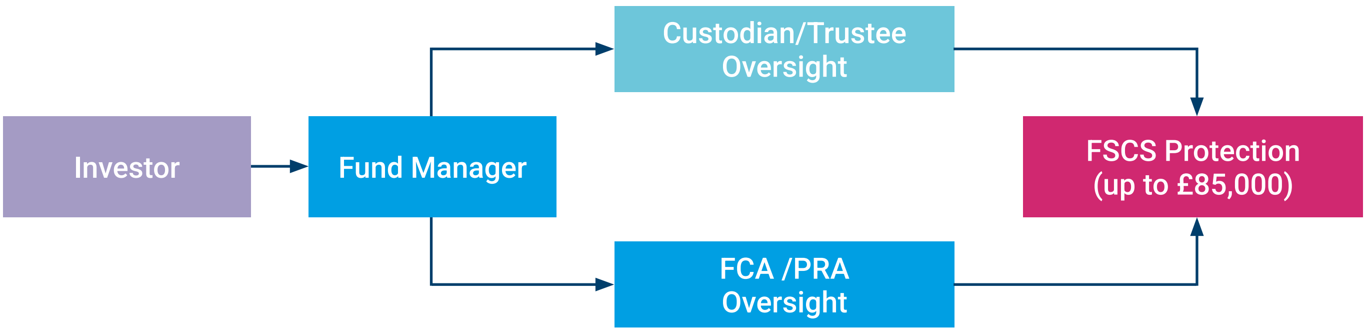
What is the Financial Services Compensation Scheme (FSCS) Investment protection?

The FSCS is the UK's safety net for customers of authorised financial firms. If an insurance company, fund manager or certain types of investment providers go out of business and cannot meet their obligations, the FSCS can step in to provide compensation.

For investments, the **FSCS protection can cover up to £85,000 per person, per firm.** It is important to understand that this protection does not cover the fall in investment value of your fund because the markets or the fund manager have performed poorly. It only applies in specific situations such as **fraud, negligence, or failure** of a regulated firm.

Does FSCS protect my investments?

The FSCS is independent but is funded by the financial services industry. If you invest in UK domiciled funds (such as Unit Trusts, Open Ended Investment Companies (OEICs), Investment Trusts and Exchange Traded Fund (ETFs)), through an authorised investment manager or fund platform, you are automatically covered.



Source: www.fscs.org.uk

FSCS protection in practice

So, while your investments are already protected through segregation of assets and independent custodianship, the FSCS provides an extra safety net.

For example, if a fund provider or custodian became insolvent and misused or lost your investments, the FSCS could step in to provide compensation. Similarly, if you were mis-sold an investment by a regulated adviser, this could also fall within the scope of FSCS protection.

There are, however, clear limits to what the scheme will cover.

The FSCS does not protect you if your investment simply falls in value because the markets or the fund manager have performed poorly. It also does not apply if you have invested in funds based outside the UK and not regulated under UK rules, such as certain offshore funds.

In addition, if you hold individual shares or bonds, any loss of value in those assets themselves is not covered by the FSCS. For investments in Cryptocurrency these are generally not covered by FSCS at all, even in cases of firm failure.

When FSCS applies	When FSCS does not apply
Scenario: You invest £50,000 into a UK-regulated investment fund. The fund manager goes into administration and stops trading	**Scenario: You invest £50,000 into a UK-regulated investment fund. The stock market falls, and the value of your investment drops to £42,000**
What happens: Your investments are held separately by an independent custodian. Even though the manager fails, your investment (shares, bonds) remain legally yours and can be transferred to a new manager. If the firm failed to properly safeguard your assets (for example, segregation rules were not followed), FSCS protection of up to £85,000 per person per firm, could apply	**What happens:** Your money is still safe and held securely by the custodian, but the value of your fund has gone down due to market performance. This is a normal investment risk, and FSCS does not cover these kinds of losses
FSCS may protect you (up to £85,000) if the firm fails to safeguard your assets or mismanages client money	**FSCS would not protect you against market losses**

Summary

You can think of the FSCS as a safety net for the investment industry. Your first line of protection comes from the custodian structure and segregation of assets, which ensure your investments remain yours even if a fund manager or platforms fails.

The FSCS then provides extra reassurance, stepping in if a UK-regulated firm fails through **fraud, negligence or insolvency** and you lose money as a result.

Please note that the FSCS protection compensation limits and rules per financial product type, are different. This document relates only to FSCS investment protection.

For more information, visit the FSCS website www.fscs.org.uk

Source: www.fscs.org.uk

To find out more visit **columbiathreadneedle.com**

WF3169398 (12/25)