

**FINANCIAL SERVICES COMPENSATION SCHEME LIMITED**

**DIRECTORS' REPORT  
AND  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2004**

Registered no: 3943048



## **FINANCIAL STATEMENTS**

of Financial Services Compensation Scheme Limited for the year ended 31 March 2004

### **Directors' report**

The directors of the Financial Services Compensation Scheme Limited (FSCS) present their fourth report, together with the audited financial statements of the company and its Sub-schemes for the year ended 31 March 2004.

### **Principal activities**

FSCS was formed to be the designated Scheme Manager under s212 of the Financial Services and Markets Act 2000 (FSMA), to administer a single compensation scheme for consumers in respect of deposits, contracts of insurance and investment business, should a financial services firm be unable, or likely to be unable, to meet its liabilities. It assumed its responsibilities at midnight on 30 November 2001, (a date referred to as N2), when FSMA was fully enacted, and has fulfilled those responsibilities throughout the year.

### **Review of activities**

Since receiving its powers under FSMA and the integration of the former compensation schemes at N2, FSCS has continued to fulfill its responsibilities. On 1 February 2001 FSCS became the sole member of the Investors Compensation Scheme Limited (ICS), the Scheme Manager responsible for the Investors Compensation Scheme, a predecessor scheme, and the FSCS directors also became its directors. On 22 October 2002, ICS was placed into voluntary liquidation, by way of a Members' Voluntary winding-up, a process which is now expected to be completed within 2004/05.

### **Financial position**

The company's results show neither a surplus nor deficit as its management expenses are recovered in full from the Scheme's three Sub-schemes of Accepting deposits, Insurance business and Designated investment business, as shown on pages 26 to 29.

### **Fixed assets**

The movements in fixed assets during the year are set out in note 8 to the financial statements.

## The directors

Details of the directors, all of whom were non-executive, other than as stated, in the year to 31 March 2004 are shown within the Annual Report, as follows:

Nigel Hamilton (Chairman)  
 Suzanne McCarthy (Chief Executive, and executive director)  
 Michael Blair QC  
 Sarah Brown  
 Kenneth Culley, CBE  
 Bernard Day, OBE  
 Luke March  
 Graeme MacLennan  
 Tim Vogel  
 John Young, CBE

Suzanne McCarthy has indicated that she will be resigning as a director on 31 May 2004.

## Directors' emoluments

Total emoluments paid to directors are as follows:

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Aggregate emoluments	305	304
Pension contributions	36	34
	<b>341</b>	<b>338</b>

The highest paid director, the Chief Executive, received aggregate emoluments in the year of £153,098 (comprising basic salary of £145,000 and other emoluments of £8,098 (2003: £144,993, £137,000 and £7,993 respectively)), and contributions to a defined benefit arrangement under the company's pension scheme have been made of £35,550 (2003: £33,535). The Chief Executive received no additional remuneration in respect of her role as director.

At the end of the year retirement benefits were accruing for the Chief Executive as a result of participation in the defined benefit scheme as follows:

	Accrued Pension at 1 April 2003 (£ pa)	Accrued Pension at 31 March 2004 (£ pa)	Increase in Accrued Pension (in excess of inflation) (£ pa)	Transfer value of increase £
S McCarthy	3,915	5,637	1,613	42,905

The transfer value at 31 March 2004 was £86,350 (31 March 2003: £43,445).

The pension entitlement is that which would have been paid annually on retirement based on service to the end of the year on the assumption that the director left service on that date and this excludes any increase for inflation.

The fees paid to the Chairman are set at £40,000 per annum (2003: £40,000) and the fees paid to the non-executive directors are set at £14,000 per annum (2003: £14,000). The Chairman and directors, other than the Chief Executive, are not entitled to a pension funded by the company.

### **Liability insurance**

FSCS maintains insurance to indemnify itself, its directors and its officers against claims arising from its operations.

### **Statement of the directors' responsibilities in respect of the financial statements**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the income and expenditure for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the financial statements comply with these requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable it to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of FSCS' website is the responsibility of the directors. The directors recognise that uncertainty regarding legal requirements may be compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

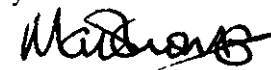
### **Corporate governance**

A statement of corporate governance is contained in FSCS' annual report.

### **Auditors**

A resolution proposing the re-appointment of PricewaterhouseCoopers LLP as auditors will be put to members at the Annual General Meeting.

**By order of the Board**



M Thomas

Secretary

26 May 2004

## **Report of the Auditors**

### **Independent auditors' report to the members of Financial Services Compensation Scheme Limited for the year ended 31 March 2004**

We have audited the financial statements which comprise the income and expenditure account, the balance sheet, the statement of cash flows and the related notes.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

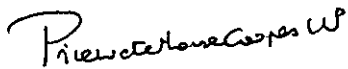
#### **Basis of audit opinion**

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company at 31 March 2004 and of its result and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in cursive script, appearing to read 'PricewaterhouseCoopers LLP', is written above the printed name.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
26 May 2004

## FINANCIAL STATEMENTS

for the year ended 31 March 2004

### INCOME AND EXPENDITURE ACCOUNT

	Note	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Administrative expenses	3	(11,240)	(12,320)
Other operating income, comprising:		11,240	12,320
Interest and other income	6	40	442
Net management expenses recoverable from Sub-schemes	7	11,200	11,878
<b>Excess of income over expenditure on ordinary activities before and after tax</b>		-	-

All the company's operations were continuing. There is no difference between the gains and losses shown above and those prepared under an historical cost basis. There are no recognised gains or losses other than those shown above.

The Notes on pages 10 to 23 form part of these financial statements.

# **BALANCE SHEET AS AT 31 MARCH 2004**

	Note	2004 £'000	2003 £'000
<b>Fixed assets</b>	8	<b>1,763</b>	<b>2,204</b>
<b>Current assets</b>			
Debtors – recoverable establishment costs: amounts falling due after one year	9	-	359
Debtors: amounts falling due within one year	10	7,796	5,925
Cash at bank and short term deposit	11	1,983	199
<b>Total current assets</b>		<b>9,779</b>	<b>6,483</b>
<b>Creditors: amounts falling due within one year</b>			
Sub-scheme borrowings	11	(507)	(680)
Creditors and accruals	12	(10,249)	(6,675)
Bank overdraft	11	(88)	(127)
<b>Total current liabilities</b>		<b>(10,844)</b>	<b>(7,482)</b>
<b>Total assets less current liabilities</b>		<b>698</b>	<b>1,205</b>
<b>Creditors: amounts falling due after one year</b>			
Bank loan	11	-	-
Sub-scheme borrowings	11	(698)	(1,205)
		(698)	(1,205)
<b>Total net assets</b>		<b>-</b>	<b>-</b>
<b>Accumulated excess of income over expenditure</b>		<b>-</b>	<b>-</b>

Approved for and on behalf of the Board of Financial Services Compensation Scheme Limited on 26 May 2004.

NIGEL HAMILTON  
CHAIRMAN



The Notes on pages 10 to 23 form part of these financial statements.



**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED  
31 MARCH 2004**

	Note	2004 £'000	2003 £'000
Net cash inflow from operating activities	14	2,566	1,068
Returns on investment and servicing of finance	15	-	(132)
		<b>2,566</b>	<b>936</b>
Taxation		<b>(10)</b>	<b>(14)</b>
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets		(53)	(352)
Net cash outflow from investing activities		<b>(53)</b>	<b>(352)</b>
Financing activities			
Loan repaid		-	(2,700)
Sub-scheme borrowing		(680)	1,885
Net cash (outflow) from financing activities		<b>(680)</b>	<b>(815)</b>
Increase / (decrease) in cash	16	<b>1,823</b>	<b>(245)</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2004

### 1 Constitution and subsidiary

Financial Services Compensation Scheme Limited (FSCS) is a company limited by guarantee. The members of the company are the directors of the company, and liability is limited to an amount not exceeding £1 for each member.

FSCS was formed to be the designated Scheme Manager under s212 of the Financial Services and Markets Act 2000 (FSMA). Its full powers were assumed following the coming into force of powers of the Financial Services Authority (FSA), under FSMA, at midnight on 30 November 2001. In anticipation of its powers, FSCS acquired Investors Compensation Scheme Limited (ICS) on 1 February 2001 for £Nil consideration. ICS was the current Scheme Manager under the Financial Services Act 1986, with responsibility for compensation for private clients of UK authorised investment firms that have gone out of business. ICS is a company registered in England and was placed into Members' Voluntary liquidation on 22 October 2002.

The company has one subsidiary, ICS (in liquidation), the financial statements of which show net assets of £Nil. ICS has not traded since 2002/03, but in 2001/02 it continued to act in its capacity as Scheme Manager and agent to the Investors Compensation Scheme until 30 November 2001. In accordance with s229(2) of the Companies Act, consolidated financial statements have not been prepared in view of the immateriality of the amounts involved. Financial statements of ICS for the year to 31 March 2002 are available from the company secretary.

### 2 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable FSMA provisions, COMP Rules and United Kingdom accounting standards.

#### *a) Administrative expenses*

These costs are included in the income and expenditure account on an accruals basis.

#### *b) Pension scheme payments*

FSCS operates both a defined benefit pension scheme and a money purchase scheme. The costs of the money purchase scheme are charged to the income and expenditure account as incurred. The costs of the defined benefit scheme are recognised so as to spread the cost of pensions over the expected remaining service lives of current employees in the Scheme.

FSCS continues to account for pensions in accordance with the Statement of Standard Accounting Practice No 24 'Accounting for Pension Costs'. Financial Reporting Standard No 17 'Retirement Benefits' ('FRS 17'), which changes the basis of accounting for pensions and other post-retirement benefits, will be mandatory for the year ended 31 March 2006. This new standard requires certain additional disclosures in accounting periods prior to full implementation, as set out in Note 4.

*c) Fixed assets*

Fixed assets are capitalised and depreciated over their estimated useful lives at the following rate:

Computers:	60% per annum (reducing balance basis)
Furniture & equipment:	33 1/3% per annum (reducing balance basis)
Building improvements:	straight-line basis over the period of the lease, commencing on occupancy.

Computer software is expensed when incurred.

*d) Levies, compensation costs and other items handled on behalf of Sub-schemes*

The Scheme Manager raises levies which are reflected as amounts due to the relevant Sub-schemes, and receivable from their Contribution Groups. Compensation offers are accrued at the balance sheet date if they have been made, accepted, and, for re-instatement cases, fully valued. Recoveries notified before the year-end, but not received by that date, are accrued by the Scheme Manager and reflected as amounts payable to, or receivable from the relevant Sub-scheme and their Contribution Group(s) in accordance with FSMA and the COMP Rules.

Management expenses comprise base costs, being the costs of running the Scheme, specific costs, which are the remaining costs which cover the handling and payment of compensation and establishment costs, which relate to the set-up costs of FSCS prior to 1 December 2001. These expenses are allocated by the Scheme Manager to each Sub-scheme and Contribution Group in accordance with the levy principles contained within COMP rules 13.5.5, 13.5.6 and 13.5.11.

*e) Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income and expenditure account.

*f) Operating leases*

Rentals on assets held under operating leases are charged to the income and expenditure account in equal annual amounts during the term of the lease.

*g) Legal challenges and costs*

On occasion, legal proceedings are threatened or initiated against FSCS. Provision is made for the estimated full cost in respect of any such challenges where at the end of the year it is more likely than not that there is an obligation which will require to be settled.

### 3 Administrative expenses

The following amounts are included within administrative expenses:

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Auditor's fees		
Audit work	78	53
Operating lease rentals (see note 13 for lease details)	661	701

### 4 Staff costs and FRS 17 disclosure

The average number of employees during the year was 122 (2003: 108).

At the year end the company had 122 staff comprising 101 permanent and 21 contract and temporary staff (2003: 116, 94 and 22 respectively).

Employment costs comprise:

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Aggregate gross salaries, including the Executive Director, together with costs of seconded, contract and long term temporary staff	4,573	3,928
Employer's national insurance contributions	458	412
Employer's pension contributions	658	780
	<b>5,689</b>	<b>5,120</b>

The employer's pension contributions shown above include the liability to contributions in respect of the service during the year.

FSCS operates both a defined benefits pension scheme, which is closed to new staff, and a money purchase scheme. The defined benefits pension scheme offers employees the better of a defined benefits pension or a pension secured by an individual pension account, built up from contributions (with effect from 1 April 2002 contributions to these individual pension accounts ceased). It is non-contributory and contracted out of the state scheme. The assets of the scheme are held separately from those of the company.

The defined benefits pension scheme was valued at 1 April 2001 by a professionally qualified independent actuary on a going concern and a discontinuance basis, the required rates of contribution payable being determined by the actuary. It was assumed that the investment return would be 7.25% per annum (pre-retirement) and 4.75% per annum (post retirement) and that the average rate of increase in pensionable salaries would be 5.5% per annum. The valuation showed that the market value of the pension scheme's assets was £2,692,000 and that in the opinion of the actuary, the actuarial valuation of these assets exceeded the liabilities of the pension scheme by £172,000 at that date. The current contribution rate is 25.2% of pensionable salaries, which has applied from 1 January 2002 and includes the expenses of running the FSCS Pension Scheme. A further special contribution towards the

deficit and costs relating to the Pensions Bill of £100,000 was approved by the Board and made in March 2004 (2003: special contribution in respect of the deficit, £268,000).

The non-contributory money purchase pension scheme, for permanent staff, was set up with effect from 1 February 2001. FSCS makes contributions of 5%, with potential annual increments of 2% after 2 years' service, and a further 2% after 5 years. The staff member may make voluntary contributions, which, to a further 3%, will be matched by the company. Company contributions to the money purchase pension scheme for the current year amounted to £131,000 (2003: £77,000).

### FRS 17 Retirement Benefits

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 1 April 2001, as described above, which has been updated by Mellon Human Resources & Investor Solutions (Actuaries & Consultants) Limited (formerly Buck Consultants), the Scheme actuaries, to take account of the requirements of FRS 17 in order to assess the liabilities for the scheme at 31 March 2004. Scheme assets are stated at their market value at 31 March 2004.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

	31 March 2004	31 March 2003
<b>Projected Unit Valuation method</b>		
Discount rate	5.50%	5.25%
Inflation rate	2.90%	2.50%
Increases to pensions in payment	2.90%	2.50%
Rate of increase in salaries	3.75%	3.75%

The expected rates of return and fair value of the Scheme's assets were:

	Long term rate of return expected at 31 March 2004	Value 31 March 2004	Long term rate of return expected at 31 March 2003	Value 31 March 2003
	%	£'000	%	£'000
Equities	7.05	2,927	7.05	2,708
Property	7.50	268		
Bonds	5.25	578		
Cash	4.00	134		
<b>Overall expected rate of return, and total market values of assets</b>	<b>7.05</b>	<b>3,907</b>	<b>7.05</b>	<b>2,708</b>

The following amounts at 31 March 2004 and 31 March 2003 were measured in accordance with the requirements of FRS17:

	31 March 2004 £'000	31 March 2003 £'000
Total market value of assets	3,907	2,708
Present value of insured annuity policies	-	-
Present value of Scheme liabilities	(4,589)	(3,997)
Surplus / (deficit) in the Scheme	(682)	(1,289)
Related deferred tax liability	-	-
<b>Net pension liability</b>	<b>(682)</b>	<b>(1,289)</b>

The net pension liability has decreased during the year mainly due to favourable investment returns. A further analysis of the movement is shown on page 15. Cash contributions to the above Scheme were £558,000 in 2003/04, including the additional special contribution of £100,000, made in March 2004 (2003: £699,000 and £268,000 respectively). The normal contributions are not expected to increase in 2004/05, before the next formal Scheme revaluation.

If the above amounts had been recognised in the financial statements, the net assets and accumulated excess of income over expenditure would be amended as follows:

	31 March 2004 £'000	31 March 2003 £'000
<b>Net assets</b>		
Net assets excluding pension scheme asset	-	-
Net pension (liability) / asset	(682)	(1,289)
Amount apportionable to Sub-schemes	682	1,289
<b>Net assets including pension asset / (liability)</b>	<b>-</b>	<b>-</b>
<b>Reserves</b>		
Accumulated excess of income over expenditure, excluding pension (liability) / asset	-	-
Pension (liability) / asset	(682)	(1,289)
Amount apportionable to Sub-schemes	682	1,289
<b>Accumulated excess of income over expenditure</b>	<b>-</b>	<b>-</b>

The following amounts would have been recognised in the performance statements in the year ended 31 March 2004, under the requirements of FRS 17:

	Year ended 31 March 2004
<b>Amounts included within administration expenses:</b>	£'000
Current service cost	451
Past service cost	0
<b>Total operating charge</b>	<b>451</b>
	Year ended 31 March 2004
<b>Amounts of net return credited to net interest payable:</b>	£'000
Expected return on pension scheme assets	220
Interest on pension liabilities	(228)
<b>Net return</b>	<b>(8)</b>

	Year ended 31 March 2004
<b>Analysis of amount recognised in statement of total recognised gains and losses (STRGL):</b>	<b>£'000</b>
Actual return less expected return on assets	515
Experience gains and losses arising on Scheme liabilities	10
Changes in assumptions underlying the present value of the Scheme liabilities	(17)
<b>Actuarial gain recognised in STRGL</b>	<b>508</b>

	Year ended 31 March 2004
<b>Movement in accumulated excess of income over expenditure during the year</b>	<b>£'000</b>
(Deficit) in Scheme at beginning of the year	(1,289)
Movements in the year:	
Current service cost	(451)
Contributions	558
Past service costs	-
Other finance income	(8)
Actuarial gain	508
<b>Deficit in Scheme at end of year</b>	<b>(682)</b>

	Year ended 31 March 2004	
<b>History of experience gains and losses:</b>	<b>£'000</b>	<b>%</b>
Difference between expected and actual return on Scheme assets	515	
Percentage of scheme assets		13.2
Experience gains and losses on Scheme liabilities	10	
Percentage of present value of the Scheme liabilities		0.2
Total amount recognised in statement of total recognised gains and losses	508	
Percentage of the present value of Scheme liabilities		11.1

## 5 Directors' emoluments

Details of directors' emoluments are shown in the directors' report (pages 3 and 4).



## 6 Interest and other income

During the year, FSCS received interest of £40,000 net of tax of £17,000 at 30% and no other income. (2003: £442,000, comprising interest of £37,000 net of tax of £16,000 at 30%, and other amounts of £405,000). In 2002/03, FSCS arranged borrowing facilities of £50m to one of the cases being handled by the Insurance business Sub-scheme, to provide finance under its COMP rules. Funds were provided by the Insurance business Sub-scheme, and interest credited to that Sub-scheme. Arrangement fees, management fees and termination fees relating to this facility, totalling £330,000, were received during that year, and credited to FSCS, and included within other income. All amounts of the loan draw-down were repaid and the facility expired in full by 31 March 2003.

## 7 Management expenses recoverable from Sub-schemes

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Management expenses allocated to Sub-schemes, and recoverable from them were:		
Accepting deposits	731	1,019
Insurance business	2,040	2,133
Designated investment business	8,429	8,726
	<b>11,200</b>	<b>11,878</b>

## 8 Fixed Assets

	Computers £'000	Furniture & Equipment £'000	Building improvements £'000	Total £'000
<b>Cost</b>				
Opening balance	1,130	481	1,624	3,235
Additions in the year	40	13	-	53
<b>At 31 March 2004</b>	<b>1,170</b>	<b>494</b>	<b>1,624</b>	<b>3,288</b>
<b>Accumulated depreciation</b>				
Opening balance	(589)	(190)	(252)	(1,031)
Charge for the year	(260)	(87)	(147)	(494)
<b>At 31 March 2004</b>	<b>(849)</b>	<b>(277)</b>	<b>(399)</b>	<b>(1,525)</b>
<b>Net book value at 31 March 2004</b>	<b>321</b>	<b>217</b>	<b>1,225</b>	<b>1,763</b>
<b>Net book value at 31 March 2003</b>	<b>541</b>	<b>291</b>	<b>1,372</b>	<b>2,204</b>

## 9 Debtors: recoverable establishment costs

The costs of a non-capital nature, incurred in establishing the single compensation scheme, FSCS, are being recovered from participating firms within FSCS' Sub-schemes and Contribution Groups over a period of 3 years from 1 December 2001, as provided within the COMP Rules.

	31 March 2004 £'000	31 March 2003 £'000
Opening balance	897	1,435
Recovered from Sub-schemes	(538)	(538)
Amounts falling due within one year	(359)	(538)
<b>Amounts falling due after one year</b>	<b>-</b>	<b>359</b>

## 10 Debtors: amounts falling due within one year

	Note	31 March 2004 £'000	31 March 2003 £'000
Amount due from the FSA	18	177	-
Levies receivable, net of provision:			
Insurance business		4	-
Designated investment business		3,135	56
Recoverable establishment costs		359	538
Net amounts due from Sub-schemes:			
Accepting deposits		430	449
Insurance business		3,024	4,363
Amounts due in respect of recoveries		125	10
Other debtors		56	56
Prepayments		486	453
		<b>7,796</b>	<b>5,925</b>

## 11 Bank overdraft, facilities and Sub-scheme borrowings

As at 31 March 2004 the company had negotiated facilities for business purposes of £52m, comprising a revolving credit facility of £38m; a £12m multi-currency stand-by loan, repayable over 5 years, at a floating rate of interest based on LIBOR; and an overdraft facility of £2m at a fixed margin above base rate.

	31 March 2004 £'000	31 March 2003 £'000
Cash at banks	9	3
Cash on short term deposit	1,974	196
	1,983	199
Overdraft	(88)	(127)
	<b>1,895</b>	<b>72</b>
Sub-scheme borrowings		
Amounts falling due within one year	(507)	(680)
Amounts falling due after one year	(698)	(1,205)
	<b>(1,205)</b>	<b>(1,885)</b>
	<b>690</b>	<b>(1,813)</b>

As permitted by COMP rule 13.4.15A, which came into force on 1 March 2003, a bank loan and related interest was fully repaid on 17 March 2003, and substituted, in part, by Sub-scheme borrowings of £1,885,000 from the Insurance business Sub-scheme of which £680,000 was repaid during the year. Interest is payable at a rate equivalent to the Bank of England's repo rate and the principal is repayable against receipt of future levies.

Cleared money at banks is placed on term-deposits for periods ranging from overnight to 6 months, to maximise available interest returns, but within strict limits and procedures as laid down and reviewed regularly by FSCS' Board.

Due to this management of available cash, cash book balances which include cheques or other effects which are drawn but not presented appear to be in debit, and are shown as

bank overdrafts, above. Cash balances are monitored daily, so, in effect, no unauthorised overdraft is maintained with FSCS' bankers.

## 12 Creditors and accruals

	Note	31 March 2004 £'000	31 March 2003 £'000
Amount due to the FSA	18	-	31
Compensation payable		6,911	3,371
Net amounts due to Sub-schemes:			
Designated investment business		1,520	1,078
Corporation taxation		10	3
Other taxation & social security costs		131	109
Accruals		885	1,094
Other creditors		792	989
		<b>10,249</b>	<b>6,675</b>

## 13 Payments under lease agreements

The company has lease commitments as follows:

	Leases expiring in:		
	Less than one year £'000	Two to five years £'000	Over five years £'000
Amounts payable in year to 31 March 2004			
Office rental	-	-	724
Equipment rental	11	79	-

The lease for the premises at 1 Portsoken Street, London, is from 13 February 2001 to 21 June 2018, but FSCS has the right to break the lease on 24 June 2012.

There are no assets held under finance leases.

**14 Reconciliation of the excess income over expenditure on ordinary activities before interest and tax to net cash inflow/(outflow) from operating activities**

The statement set out below relates cash flows to items shown in the income and expenditure account, and balance sheet movements:

	Year ended 31 March 2004		Year ended 31 March 2003	
	£'000	£'000	£'000	£'000
Excess of income over expenditure on ordinary activities before interest and tax		-		-
Interest transfer from Sub-schemes		-		132
Corporation tax charge		17		16
		17		148
Establishment costs charged to Sub-schemes		538		538
Depreciation		494		555
Compensation paid	(194,055)		(191,905)	
BCCI repayment (see note 19)	(4,000)		-	
Recoveries received	106,114		54,314	
Levies received	87,871		56,035	
Funds transferred from Sub-schemes	4,070	-	81,556	-
(Increase) / decrease in debtors		(2,050)		4,207
Increase / (decrease) in creditors		3,567		(4,380)
<b>Net cash inflow from operating activities</b>		<b>2,566</b>		<b>1,068</b>

**15 Returns on investments and servicing of finance**

	Year ended 31 March 2004	Year ended 31 March 2003
	£'000	£'000
Interest received	57	53
Interest paid	(57)	(185)
	<b>(-)</b>	<b>(132)</b>

## 16 Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
(Increase) / decrease in cash and short term deposits in the year	(1,823)	245
Cash inflow from Sub-scheme borrowings	-	1,885
Cash used to repay loan	(680)	(2,700)
(Reduction) in net debt	(2,503)	(570)
Net debt at 31 March 2003	1,813	2,383
<b>Net funds at 31 March 2004 (2003: net debt)</b>	<b>(690)</b>	<b>1,813</b>

## 17 Analysis of change in net funds (2003: debt)

	Opening balance £'000	Cash flows £'000	At 31 March 2004 £'000
Sub-scheme borrowings	(1,885)	680	(1,205)
Cash and short term deposits, net of bank overdraft	72	1,823	1,895
	<b>(1,813)</b>	<b>2,503</b>	<b>690</b>

## 18 Transactions with related parties

During the year, the company entered into transactions with the Financial Services Authority (FSA) as a related party.

The FSA appoints, and has the right to remove, directors to the Board of FSCS and it establishes the rules under which the scheme became operative as from midnight on 30 November 2001. It is considered that the FSA is a related party but not a controlling party.

During the year, the FSA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Levy invoices, net of credit notes were raised for £90,940,000, and related collections were received of £87,871,000 (2003: £56,207,000 and £56,035,000 respectively). The charge for the service was £176,000, and other costs invoiced by FSCS to the FSA amounted to £8,000 (2003: £118,000 and £78,000 respectively). Payments, less receipts of £87,495,000 (2003: £56,025,000) were made by the FSA to FSCS, leaving an amount due by the FSA to FSCS at 31 March 2003 of £177,000 (2003: due by FSCS to the FSA, £31,000).

The FSA is a party to the lease agreement for the company's premises at 1 Portsoken Street, London (see note 13) as guarantor of performance of the lease.

**19 Bank of Credit & Commerce International SA (BCCI)**

On 23 October 2003, FSCS made repayments from recoveries received from the liquidators of BCCI, under transitional arrangements provided at N2, and COMP 13.4.17R, of £4.0m to firms within the Accepting Deposit Sub-scheme which had previously contributed to a levy called by the Bank of England in 1992.

**20 Capital commitments**

Capital commitments authorised and contracted for but not provided in the financial statements amount to £Nil (2003: £nil).

## FINANCIAL SERVICES COMPENSATION SCHEME

## Sub-schemes and Contribution Groups

## Financial Statements to 31 March 2004

As explained in Chapter 13 of the COMP rules of the FSA's Handbook, for funding purposes FSCS is split into three Sub-schemes: the Accepting deposits Sub-scheme; the Insurance business Sub-scheme; and the Designated investment Sub-scheme (COMP 13.2.4G). Within each Sub-scheme, there is one or more Contribution Group (COMP 13.2.5G). The FSCS must keep accounts which show: (1) the funds held to the credit of each Sub-scheme and relevant Contribution Group; and (2) the liabilities of that Sub-scheme and relevant Contribution Group (COMP 13.4.12R).

The powers of the FSA under FSMA became effective as at midnight on 30 November 2001. The financial statements for FSCS' Sub-schemes and Contribution Groups for the year ended 31 March 2004, with comparatives for the year ended 31 March 2003, are set out as follows:

	<b>Page</b>
Statement of directors' responsibilities in respect of the financial statements	25
Summary of Sub-schemes	26
Accepting deposits (Including its Contribution Group A1 – Deposit takers)	26
Insurance business (Including its Contribution Group A3 – Insurance activities – General Insurance; and A4 – Insurance activities – Life Insurance)	27
Designated investment business (Including IFA pensions review claims (previously Contribution Group A16), and the non-pensions Contribution Groups)	27
Non-pension Contribution Groups	28 and 29
Notes to the financial statements	30 to 32
Report of the auditors	33 and 34



### **Statement of the directors' responsibilities in respect of the financial statements**

The directors are required to prepare financial statements for each financial year, in accordance with the Requirements, set out below:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Scheme will continue in business.

The directors confirm that the financial statements comply with these Requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Scheme and to enable it to ensure that the financial statements comply with the Requirements. They are also responsible for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the FSCS website is the responsibility of the directors. The directors recognise that uncertainty regarding legal requirements may be compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

**By order of the Board**



M Thomas  
Secretary  
26 May 2004

SUB-SCHEME ACCOUNTS - Summary  
Financial statements for the year ended 31 March 2004

Fund movements	Note	Total 2002/03 £'000	Accepting deposits 2002/03 £'000	Insurance business 2002/03 £'000	Investment business 2002/03 £'000
Compensation costs	2	(197,595)	(385)	(131,365)	(65,845)
Recoveries receivable		106,229	2,982	96,163	7,084
Exchange (loss) / gain		8	0	8	0
		(91,358)	2,597	(35,194)	(58,761)
Management expenses:	3	(150,223)	1,047	(%)735	(54,535)
Base costs		(2,081)	(473)	(485)	(1,123)
Specific costs		(9,119)	(258)	(1,555)	(7,306)
		(11,200)	(731)	(2,040)	(8,429)
Establishment costs		(538)	(123)	(125)	(290)
		(11,738)	(854)	(2,165)	(8,719)
Interest receivable	4	4,191	341	2,569	1,281
Taxation		(1,264)	(102)	(777)	(385)
		2,927	239	1,792	896
Net management expenses		(8,811)	(615)	(373)	(7,823)
Levy received / (BCCI repayment)		(100,169)	147	(35,567)	(66,584)
Net in / (out) flow in the fund	5	83,871	0	0	87,871
Funds at start of year		117,972	9,406	97,840	10,726
Funds at end of year		101,674	7,388	62,273	32,013
Statement of assets and liabilities at 31 March 2004					
		2002/03 £'000	2002/03 £'000	2002/03 £'000	2002/03 £'000
Current assets					
Interest receivable		608	12	375	221
Net amounts due from FSCS	6	1,205	0	1,205	0
Term deposits and cash at banks	7	109,355	9,844	65,522	35,914
		111,168	7,931	67,102	36,135
Current liabilities					
Taxation payable		(750)	(61)	(461)	(228)
Net amounts due to FSCS	6	(5,073)	(430)	(3,028)	(1,615)
Bank overdrafts	7	(3,671)	(52)	(1,340)	(2,279)
		(9,494)	(543)	(4,829)	(4,122)
Total net assets		101,674	7,388	62,273	32,013

Approved for and on behalf of the Financial Services Compensation Scheme Limited on 26 May 2004. Nigel Hamilton Chairman

The notes on pages 30 to 32 form part of these financial statements

SUB-SCHEME ACCOUNTS - Insurance and Investment business  
Financial statements for the year ended 31 March 2004

Fund movements	Note	Total Insurance business		General insurance A3		Life insurance A4		Total Investment business		IFA pensions review claims (Formerly A16)		Other designated investment Contribution groups	
		2002/03	2002/03	2002/03	2002/03	2002/03	2002/03	2002/03	2002/03	2002/03	2002/03	2002/03	2002/03
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Compensation costs	2	(131,365)	(131,295)	(131,204)	(130,969)	(161)	(326)	(65,845)	(63,023)	(61,996)	(59,565)	(3,849)	(3,458)
Recoveries receivable		96,163	36,411	96,086	36,411	77	0	7,084	8,488	7,039	8,399	45	89
Exchange (loss) / gain		8	(1,851)	8	(1,851)	0	0	0	0	0	0	0	0
		(35,194)	(96,735)	(35,110)	(96,409)	(84)	(326)	(58,761)	(54,535)	(54,957)	(51,166)	(3,804)	(3,369)
Management expenses:	3												
Base costs		(485)	(617)	(143)	(172)	(342)	(445)	(1,123)	(1,459)	(128)	(88)	(995)	(1,371)
Specific costs		(1,555)	(1,516)	(1,515)	(1,452)	(40)	(64)	(7,306)	(7,267)	(5,450)	(5,921)	(1,856)	(1,346)
		(2,040)	(2,133)	(1,658)	(1,624)	(382)	(509)	(8,429)	(8,726)	(5,578)	(6,009)	(2,851)	(2,717)
Establishment costs		(125)	(118)	(37)	(33)	(88)	(85)	(290)	(279)	(33)	(17)	(257)	(262)
		(2,165)	(2,251)	(1,695)	(1,657)	(470)	(594)	(8,719)	(9,005)	(5,611)	(6,026)	(3,108)	(2,979)
Interest receivable	4	2,569	6,435	2,494	6,319	75	116	1,281	910	1,233	819	48	91
Taxation		(777)	(1,904)	(754)	(1,869)	(23)	(35)	(385)	(273)	(370)	(246)	(15)	(27)
		1,792	4,531	1,740	4,450	52	81	896	637	863	573	33	64
Net management expenses		(373)	2,280	45	2,793	(418)	(513)	(7,823)	(8,368)	(4,748)	(5,453)	(3,075)	(2,915)
Levy received		(35,567)	(94,455)	(35,065)	(93,616)	(502)	(839)	(86,584)	(62,903)	(59,705)	(56,619)	(6,879)	(6,284)
Net in / (out) flow in the fund		0	(170)	0	(170)	0	0	87,871	56,035	79,978	50,365	7,893	5,670
Funds at start of year (see footnotes)		(35,567)	(94,625)	(35,065)	(93,786)	(502)	(839)	21,287	(6,868)	20,273	(6,254)	1,014	(614)
Funds at end of year		97,840	192,465	95,187	188,973	2,653	3,492	10,726	17,594	10,964	17,218	(238)	376
		62,273	97,840	60,122	95,187	2,151	2,653	32,013	10,726	31,237	10,964	776	(238)

Statement of assets and liabilities at 31 March 2004

Current assets		375	710	364	697	11	13	221	29	213	26	8	3
Interest receivable		1,205	1,885	1,205	1,885	0	0	0	1,022	0	1,022	0	0
Net amounts due from FSCS	6	65,522	101,574	63,369	98,927	2,153	2,647	35,914	11,869	34,917	11,348	997	521
Term deposits and cash at banks	7	67,102	104,169	64,938	101,509	2,164	2,660	36,135	12,920	35,130	12,396	1,005	524
Current liabilities													
Taxation payable		(461)	(356)	(448)	(349)	(13)	(7)	(238)	(50)	(219)	(50)	(9)	0
Net amounts due to FSCS	6	(3,028)	(4,363)	(3,028)	(4,363)	0	0	(1,615)	0	(1,615)	0	0	0
Bank overdrafts	7	(1,340)	(1,610)	(1,340)	(1,610)	0	0	(2,279)	(2,144)	(2,059)	(1,382)	(220)	(762)
		(4,829)	(6,329)	(4,810)	(6,322)	(13)	(7)	(4,122)	(2,194)	(3,893)	(1,432)	(229)	(762)
Total net assets		62,273	97,840	60,122	95,187	2,151	2,653	32,013	10,726	31,237	10,964	776	(238)

Footnotes:

Contribution group A8 ceased to exist at 31 March 2003, and its fund balance at that date was transferred to A7.  
Contribution group A11 ceased to exist at 31 March 2003 and its fund balance at that date was transferred to A12.

The notes on pages 30 to 32 form part of these financial statements

**SUB-SCHEME ACCOUNTS - Investment business Contribution Groups**  
Financial statements for the year ended 31 March 2004

Fund movements	Note	Total contribution groups		Fund managers holding client money / assets		Fund managers - not holding client money / assets		Managers of an AUT, ACDs and depositaries		Dealers as principal		Brokers Execution only	
		2002/03	2002/03	A7	A8	A9	A10	A11	2002/03	2002/03	2002/03	2002/03	2002/03
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Compensation costs	2	(3,849)	(3,458)	0	0	0	0	0	0	0	0	0	0
Recoveries receivable		45	89	0	0	0	0	0	0	0	0	0	0
Exchange (loss) / gain		0	0	0	0	0	0	0	0	0	0	0	0
		(3,804)	(3,369)	0	0	0	0	0	0	0	0	0	0
Management expenses:	3												
Base costs		(995)	(1,371)	(232)	0	(53)	(131)	0	(131)	(196)	0	0	(33)
Specific costs		(1,856)	(1,346)	0	0	(24)	0	0	0	0	0	0	0
Establishment costs		(2,851)	(2,717)	(232)	0	(77)	(131)	0	(131)	(196)	0	0	(33)
		(257)	(262)	(60)	0	(14)	(34)	0	(34)	(37)	0	0	(6)
		(3,108)	(2,979)	(292)	0	(91)	(165)	0	(165)	(233)	0	0	(39)
Interest receivable / (payable)	4	48	91	33	0	(11)	0	0	0	1	0	0	0
Taxation		(15)	(27)	(10)	0	3	0	0	0	0	0	0	0
		33	64	23	0	(8)	0	0	0	1	0	0	0
Net management expenses		(3,075)	(2,915)	(269)	0	(99)	(165)	0	(165)	(232)	0	0	(39)
Levy received		(6,879)	(6,284)	(269)	0	(257)	(165)	0	(165)	(232)	0	0	(39)
Net in / (out) flow in the fund		7,893	5,670	0	0	100	200	0	200	195	0	0	26
Fund at start of year (see footnotes)		1,014	(614)	(269)	0	(157)	35	0	35	(37)	0	0	(13)
Fund at end of year		(238)	376	320	0	(43)	(22)	0	(22)	15	0	0	2
		776	(238)	251	0	(200)	13	0	13	(22)	0	0	(11)

**Statement of assets and liabilities at 31 March 2004**

Current assets													
Interest receivable	8	3	0	0	0	0	0	0	0	0	0	0	0
Net amounts due from FSCS	6	0	0	0	0	0	0	0	0	0	0	0	0
Term deposits and cash at banks	7	997	521	251	0	0	13	0	13	0	0	0	0
		1,005	524	254	0	0	13	0	13	0	0	0	0
Current liabilities													
Taxation payable	6	(9)	0	(3)	0	0	0	0	0	0	0	0	0
Net amounts due to FSCS	7	0	0	0	0	0	0	0	0	0	0	0	0
Bank overdrafts		(220)	(762)	0	0	(200)	0	(43)	0	(22)	0	0	(11)
		(229)	(762)	(3)	0	(200)	0	(43)	0	(22)	0	0	(11)
Total net assets		776	(238)	251	0	(200)	13	(43)	13	(22)	0	0	(11)

**Footnotes:**

Contribution group A8 ceased to exist at 31 March 2003, and its fund balance at that date was transferred to A7.

Contribution group A11 ceased to exist at 31 March 2003 and its fund balance at that date was transferred to A12.

The notes on pages 30 to 32 form part of these financial statements

**SUB-SCHEME ACCOUNTS - Investment business Contribution Groups - continued**  
Financial statements for the year ended 31 March 2004

Fund movements	Note	Brokers		Brokers - not		Corporate advisers		Advisory only	
		holding client money / assets	2002/03	holding client money / assets	2002/03	2002/03	2002/03	2002/03	2002/03
		A12	A13	A14	A15	£'000	£'000	£'000	£'000
Compensation costs	2	(819)	(462)	(2,872)	(2,996)	0	0	0	0
Recoveries receivable		0	20	45	69	0	0	0	0
Exchange (loss) / gain		0	0	0	0	0	0	0	0
		(819)	(442)	(2,827)	(2,927)	0	0	0	0
Management expenses:	3								
Base costs		(155)	(227)	(372)	(466)	(52)	(77)	0	0
Specific costs		(457)	(330)	(1,375)	(1,016)	0	0	0	0
		(612)	(557)	(1,747)	(1,482)	(52)	(77)	0	0
Establishment costs		(40)	(44)	(95)	(89)	(14)	(15)	0	0
		(652)	(601)	(1,842)	(1,571)	(66)	(92)	0	0
Interest receivable / (payable)	4	(12)	18	41	71	(3)	0	0	0
Taxation		3	(6)	(12)	(21)	1	0	0	0
		(9)	12	29	50	(2)	0	0	0
Net management expenses		(661)	(589)	(1,813)	(1,521)	(68)	(92)	0	0
		(1,480)	(1,031)	(4,640)	(4,448)	(68)	(92)	0	0
Levy received		1,998	568	5,495	3,953	100	36	0	0
Net in / (out) flow in the fund		518	(463)	855	(495)	32	(56)	0	0
Fund at start of year (see footnotes)		(411)	62	(230)	265	(52)	4	0	1
Fund at end of year		107	(401)	625	(230)	(20)	(52)	0	1
<b>Statement of assets and liabilities at 31 March 2004</b>									
Current assets									
Interest receivable		0	0	5	3	0	0	0	0
Net amounts due from FSCS	6	0	0	0	0	0	0	0	0
Term deposits and cash at banks	7	107	0	626	0	0	0	0	1
		107	0	631	3	0	0	0	1
Current liabilities									
Taxation payable		0	0	(6)	0	0	0	0	0
Net amounts due to FSCS	6	0	0	0	0	0	0	0	0
Bank overdrafts	7	0	(401)	0	(233)	(20)	(52)	0	0
		0	(401)	(6)	(233)	(20)	(52)	0	0
Total net assets		107	(401)	625	(230)	(20)	(52)	0	1

Footnotes:  
Contribution group A11 ceased to exist at 31 March 2003, and its fund balance at that date was transferred to A12.  
Contribution group A15 ceased to exist at 31 March 2003 and its fund balance at that date was transferred to A12.

The notes on pages 30 to 32 form part of these financial statements

## Notes to the Sub-scheme Financial Statements for the year to 31 March 2004

### 1 Accounting policies

The financial statements have been prepared in accordance with the following accounting policies:

*a) Basis of accounting*

The financial statements have been prepared under the historical cost convention and on the basis that FSCS Limited, as Scheme Manager, will exercise its responsibilities under FSMA and the COMP rules to recover management expenses and compensation costs.

*b) Compensation costs*

These costs, which include interest paid to claimants, comprise payments made to claimants and amounts for offers which have been made and accepted, and, for reinstatement cases, fully valued, but which have not been paid at the balance sheet date. No account has been taken of compensation costs in respect of offers accepted after the balance sheet date.

*c) Recoveries*

Recoveries are credited to funds when received, and when notified, in respect of Scheme dividends from liquidators/provisional liquidators, or notified and agreed in respect of other recoveries, which have not been received by the balance sheet date.

*d) Management expenses*

Management expenses comprise base costs, being the costs of running the Scheme, specific costs, which are the remaining costs which cover the handling and payment of compensation and establishment costs, which relate to the set-up costs of FSCS prior to 1 December 2001. These expenses are allocated by the Scheme Manager to each Sub-scheme and Contribution Group in accordance with the levy principles contained within COMP rules 13.5.5, 13.5.6 and 13.5.11.

*e) Levies*

Levies raised are credited on receipt.

*f) Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income and expenditure account.

*g) Legal challenges and costs*

On occasion, legal proceedings are threatened or initiated against FSCS. Provision is made for the estimated full cost in respect of any such challenges where at the end of the year it is more likely than not that there is an obligation which will require to be settled.

*h) Cash flow*

No statement of cash flow is prepared because, in the opinion of the directors, this would not provide any useful information in addition to that already provided in the statements of Fund movement, and assets and liabilities.

## 2 Compensation costs

Payments to valid claimants are made in accordance with the COMP rules and are summarised within Sub-scheme records by type of claim and defaulting firm. Extracts from these summaries are shown within FSCS' Annual Report and further details may be obtained from FSCS' Company Secretary and from its Website. A number of claims relate to firms which were handled previously by the former schemes. Details of claims paid in the period to 30 November 2001 are available for Sub-schemes as follows:

Accepting Deposits: DPB's audited accounts to 30 November 2001;  
Insurance: PPB's audited accounts to 30 November 2001 (copies of these documents can be obtained from the Company Secretary at FSCS);  
Designated Investments: the ICS financial statements to 31 March 2002, which were enclosed with FSCS' 2001/02 Annual Report.

## 3 Management expenses

As stated above, (note 1d), management expenses are allocated to Contribution Groups under the rules within COMP, chapter 13. The respective shares of establishment costs are based on the allocation set out in COMP 13.5.11R, and cover 12/36ths of the balance as at 30 November 2001, which is being recovered over a three-year period.

## 4 Interest receivable

Interest receivable comprises:

		Year ended 31 March 2004	Year ended 31 March 2003
		£'000	£'000
Term-deposits	Rates Available money-market rates	3,993	7,273
Other bank accounts	Available rates	141	-
Loan to an Insurance business Sub-scheme case.	LIBOR plus 2%	-	444
Sub-scheme borrowings	Bank of England's repo rate	57	2
		<b>4,191</b>	<b>7,719</b>

## 5 Bank of Credit & Commerce International SA (BCCI)

On 23 October 2003, FSCS made repayments from recoveries received from the liquidators of BCCI, under transitional arrangements provided at N2, and COMP 13.4.17R, of £4.0m to firms within the Accepting deposit Sub-scheme which had previously contributed to a levy called by the Bank of England in 1992.

## 6 Loans receivable and Sub-scheme borrowings

During 2002/03, FSCS arranged borrowing facilities of £50m for one of the cases being handled by the Insurance business Sub-scheme. Amounts totalling £25.9m were drawn down under this facility. As at 31 March 2003, all amounts of the loan draw-down and interest were repaid in full, and the facility expired.

Sub-scheme borrowings of £1,885,000 were made under COMP rule 13.4.15A from the Insurance business Sub-scheme to FSCS in March 2003. £680,000 was repaid during the

year and £1,205,000 was outstanding at 31 March 2004. Interest is receivable at a rate equivalent to the Bank of England's repo rate and the principal is repayable against receipt of future levies.

## **7 Term-deposits and cash at banks**

Cleared money at banks is placed on term-deposits for periods ranging from overnight to 6 months for each Sub-scheme, to maximise available interest returns, but within strict limits and procedures as laid down and reviewed regularly by FSCS' Board.

Due to this management of available cash, cash book balances, which include cheques or other effects which are drawn but not presented, appear to be in debit, and are shown as bank overdrafts within the statement of Sub-scheme assets and liabilities. Cash balances are monitored daily, so, in effect, no unauthorised overdraft is maintained with Sub-scheme bankers.

As at 31 March 2004, FSCS is a party to various joint accounts with claims administration companies involved with the Insurance business Sub-scheme and payments to policyholders. The balances of these accounts at 31 March 2004 of £4,569,000 (2003: £2,399,000) are included within Term-deposits and cash at banks in the Insurance business Sub-scheme statement of assets and liabilities.

## **8 The Advizas fund**

In the Designated investment business Sub-scheme, FSCS, through its subsidiary ICS, negotiated with Towry Law plc and AMP plc, and others, resulting in an agreement dated 26 June 2001, to secure recoveries for levy payers of up to some £20.4m to help meet the cost of claims flowing from the default of Advizas Limited and to minimise disruption to investors' claims. Following the conclusion of litigation between various parties, the available recoveries were approximately £16m. By 31 March 2004, FSCS had received a total of £12.2m directly by way of recoveries (£5.3m received in the year) and £3.8m had been paid from the funds to meet directly investors' claims that would otherwise have been paid out of FSCS funds (£1.2m in the year).



## **Report of the Independent Auditors of the Financial Services Compensation Scheme to the Financial Services Authority**

We have audited the financial statements for the year ended 31 March 2004 which comprise the movement in the Sub Scheme funds, the statements of assets and liabilities, and related notes.

### **Respective Responsibilities of the Scheme and Auditors**

The scheme manager's responsibilities, on behalf of the Scheme, for preparing the financial statements are set out in the Statement of directors' responsibilities in respect of the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the Financial Services Authority in accordance with

- Section 218 of the Financial Services and Markets Act 2000;
- The FSA Handbook (in particular rule COMP 2.2.5); and
- The FSA-FSCS Memorandum of Understanding (sections 24 to 26)

and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements have been properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the FSA Handbook (in particular rule COMP 2.2.5);
- the FSA-FSCS Memorandum of Understanding (sections 24 to 26); and
- the accounting policies set out on page 30.

We also report to you if, in our opinion, the scheme manager has not kept proper accounting records for the Scheme, or if we have not received all the information and explanations we require for our audit.

### **Basis of Opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Scheme's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements for the year ended 31 March 2004 have been properly prepared in accordance with:

- Section 218 of the Financial Services and Markets Act 2000;
- the FSA Handbook (in particular rule COMP 2.2.5);
- the FSA-FSCS Memorandum of Understanding (sections 24 to 26); and
- the accounting policies set out on page 30.

*PricewaterhouseCoopers LLP*

**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

London

26 May 2004