

The complaint

Mr S complains to Gallium Fund Solutions Limited ("Gallium") about a £3000 investment he made into a 3 Year Compounding High-Yield IFISA Bond with Basset & Gold Plc ("B&G Plc") in March 2017. He says the bond carried much greater risk of loss than he wanted, and that he was mis-sold the bond by Basset Gold Limited ("BG Ltd") and lost his money as a result.

Background

The B&G Plc Bond

Mr S invested in a 3 Year Compounding High-Yield IFISA Bond ("the bond"). Gallium has said the investment was made on 21 March 2017 and this is also the date on the certificate. Sales of this bond were dealt with by BG Ltd - a separate business from the issuer of the bond, B&G Plc. BG Ltd arranged applications for investment in the bond, through a website it operated. And it was responsible for advertising/marketing the bond. Potential investors were also able to call BG Ltd, to discuss the bond.

B&G Plc and BG Ltd were both appointed representatives of Gallium. B&G Plc and BG Ltd were appointed representatives of Gallium from 17 February 2017 to 28 February 2018.

Mr S's investment in the bond

Mr S made his application on 21 March 2017, as stated by Gallium. He applied for the bond online. I say this bearing in mind Gallium says the bonds were marketed principally via the internet and I've seen nothing to suggest Mr S's bond was any different. I've not seen a paper application. Gallium has said investors could only apply online. Mr S told Gallium the documents he relied on at the sale are likely to be on a computer he used at the time, which is consistent with an online application. He has said nothing to contradict our investigator's suggestion that he visited BGL's website in March 2017.

I've heard a call recording between Mr S and BG Ltd from 15 March 2017 which pre-dates the sale. From that recording it appears BG Ltd called Mr S in response to him downloading something from the website. But there was no discussion of what was downloaded or of the bond, and this call isn't material to the outcome here. The other calls I have date from after the investment and are also not material to the outcome here. Our investigator understood from Mr S that he hadn't invested in similar products in the preceding 30 months. I've seen nothing to suggest he had previous experience of that kind. As stated by our investigator, Mr S has told us he had no investment experience at all before 2017. I've seen nothing to suggest he had such experience.

As stated in our investigator's opinion letter, Mr S has estimated his savings at the time were £18,000 at most. I've seen no evidence to suggest Mr S's investible assets exceeded this figure.

On 8 January 2019, B&G Finance Limited (which by that point had taken on the role of BG Ltd), sent an email to all investors then holding B&G Plc bonds. This referred to the fact that nearly all the money invested in B&G Plc bonds had been lent to one short-term and

pay day lender, called Uncle Buck. Following action by the FCA, Uncle Buck went into administration in March 2020 - and B&G Plc went into administration shortly afterwards. As a result, Mr S has not had his invested capital returned to him.

The application process

I have seen screen prints of each stage of the online application process. These show the application journey that Mr S underwent. This consisted of two stages, designed to meet the rules restricting who the bonds could be promoted to and on how to test whether the investment was appropriate for the potential investor. The first was certification, where Mr S was categorised as an “everyday investor”. The second was the appropriateness test.

Gallium’s response to Mr S’s complaint

Gallium did not uphold Mr S’s complaint. It said Mr S had been given sufficient information and risk warnings about the investment. It then made further submissions, once Mr S’s complaint was referred to us. I have considered the submissions in full. I have also considered what Gallium described as its “position statement”, which sets out general information on the background to complaints about B&G Plc bonds.

Our investigator’s view

One of our investigators considered Mr S’s complaint and concluded it should be upheld. He said, in summary:

- The application process – both in terms of the certification of Mr S as a “restricted investor” and the assessment of the appropriateness of the bond for him - was misleading and didn’t gather sufficient information to comply with the FCA’s rules.
- Overall, BG Ltd, on Gallium’s behalf, didn’t comply with its regulatory obligations. Had it done so, Mr S wouldn’t have decided to invest or BG Ltd should have concluded that it shouldn’t allow Mr S to invest. For these reasons, both cumulatively and individually, it was fair to uphold the complaint and for Gallium to compensate Mr S for the loss he has suffered.

Gallium’s response to the view

Gallium did not accept the investigator’s view. It said, in summary:

- Regardless of label, Mr S was required to confirm that he met the requirements of a restricted investor and confirmed that he did. It is not fair or reasonable to conclude that the use of the word “everyday” contributed to Mr S giving an incorrect declaration, and it was reasonable for it to rely on the declaration.
- The appropriateness test answers, and these confirmations were sufficient for Gallium to satisfy itself that prospective investors had sufficient knowledge and experience of the bonds to understand the risks those bonds involved, as per the relevant rules.
- It was reasonable for Gallium to rely on the outcome of this test.
- The website and marketing material was not misleading – Mr S was given sufficient information and risk warnings.
- Mr S made the investment on the understanding it had risk associated with it, and did not choose to surrender it when receiving the email in 2019 which warned of the

concentration risk. So he would have proceeded with the investment regardless.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I am satisfied it is appropriate for me to consider all of the acts carried out by BG Ltd, on behalf of Gallium, in relation to the sale of the bond.

In considering what is fair and reasonable in all the circumstances of this complaint, I have taken into account relevant law and regulations; regulators rules, guidance and standards; codes of practice; and where appropriate, what I consider to have been good industry practice at the relevant time.

The Principles for Businesses, which are set out in the FCA's Handbook "*are a general statement of the fundamental obligations of firms under the regulatory system*" (PRIN 1.1.2G). I think Principles 6 (Customers' interests) and 7 (Communications with clients) are relevant here.

Principle 7 overlaps with COBS 4.2.1R (1) (*A firm must ensure that a communication or a financial promotion is fair, clear, and not misleading*), which I also consider to be relevant here.

The bond was non-readily realisable and therefore there were rules restricting who it could be promoted to and how to test whether the investment was appropriate for the potential investor. These rules were set out in COBS 4.7 and COBS 10.1, 10.2 and 10.3. I have considered the relevant rules in full.

I note Gallium has referred to the FCA's policy statement PS14/4, and to question and answer sessions with the FCA's Head of Investment Policy and UKCFA. I have considered these too.

Having considered all the available evidence and arguments I have reached the same conclusion as the investigator, for the same reasons. In summary:

- BG Ltd, acting on Gallium's behalf, misled Mr S into certifying himself as belonging in a category to which he did not belong (a "restricted investor") by changing the term used in the rules to "*everyday investor*" and describing the category as being one "*anyone*" could fall into. This was not treating Mr S fairly or acting in his best interests. Had BG Ltd followed the rules and not misled Mr S, it is unlikely he would have certified himself as being a restricted investor.
- The appropriateness test carried out by BG Ltd, on behalf of Gallium, did not meet the requirements of the rules. And, had it done so, it would have been apparent the bond was not an appropriate investment for Mr S. In the circumstances Mr S would either not have proceeded or, acting fairly and reasonably, BG Ltd should have concluded it should not promote the bond to Mr S.

For these reasons – individually and cumulatively – my decision is that Mr S's complaint should be upheld. I am also satisfied Mr S would either not have proceeded to make the investment or would not have been able to proceed, had Gallium acted fairly and reasonably to meet its regulatory obligations. And so I am satisfied it is fair to ask Gallium to compensate Mr S for his loss.

Putting things right

Fair compensation

In assessing what would be fair compensation, I consider that my aim should be to put Mr S as close to the position he would probably now be in if he had not been misled into certifying himself as belonging in a category to which he did not belong or if Gallium had carried out an appropriateness test in accordance with the rules.

I take the view that Mr S would have invested differently. It is not possible to say *precisely* what he would have done differently. But I am satisfied that what I have set out below is fair and reasonable given Mr S's circumstances and objectives when he invested.

What must Gallium do?

To compensate Mr S fairly, Gallium must:

- Compare the performance of Mr S's investment with that of the benchmark shown below and pay the difference between the *fair value* and the *actual value* of the investments. If the *actual value* is greater than the *fair value*, no compensation is payable.
- Gallium should also add any interest set out below to the compensation payable.
- Pay to Mr S £250 for the distress and inconvenience caused to him.

Income tax may be payable on any interest awarded.

Investment name	Status	Benchmark	From ("start date")	To ("end date")	Additional interest
Three-year Compounding High-Yield IFISA Bond	Still exists but illiquid	Average rate from fixed rate bonds	Date of investment	Date of my final decision	8% simple per year from final decision to settlement (if not settled within 28 days of the business receiving the complainant's acceptance)

Actual value

This means the actual amount payable from the investment at the end date. If at the end date the bond is illiquid (and so can't be readily sold on the open market), it may be difficult to work out what the *actual value* is. In such a case the *actual value* should be assumed to be zero. This is provided Mr S agrees to Gallium, if it wishes, taking ownership of the illiquid bond. If it isn't possible for Gallium to take ownership, then it may request an undertaking from Mr S that he repays to Gallium any amount he may receive from the bond in future.

Fair value

This is what the investment would have been worth at the end date had it produced a return using the benchmark. To arrive at the *fair value* when using the fixed rate bonds as the benchmark, Gallium should use the monthly average rate for one-year fixed-rate bonds as

published by the Bank of England. The rate for each month is that shown as at the end of the previous month. Those rates should be applied to the investment on an annually compounded basis.

Why is this remedy suitable?

I have decided on this method of compensation because:

- Mr S wanted to achieve a reasonable return without undue risk to his capital.
- The average rate for the fixed rate bonds would be a fair measure given Mr S's circumstances and objectives. It does not mean that Mr S would have invested only in a fixed rate bond. It is the sort of investment return a consumer could have obtained with only a little risk to their capital.

Gallium should provide details of its calculation to Mr S in a clear, simple format.

My final decision

I uphold the complaint. My decision is that Gallium Fund Solutions Limited should pay the amount calculated as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 28 March 2023.

Richard Sheridan
Ombudsman