

## **The complaint**

Mr P complains that he was mis-sold two bonds by Basset Gold Limited ("BG Ltd"), an appointed representative of Gallium Fund Solutions Limited ("Gallium"). He believes the bonds were mis-sold because he thought the bonds were low risk and he wasn't given appropriate risk warnings.

## **What happened**

Between May and August 2017, Mr P invested £17,100 into a 3 Year Fixed Monthly Income IFISA Bond and £4,000 into a 5 Year Fixed Monthly Income Bond with Basset and Gold Plc ("B&G Plc"). Sales of these bonds were dealt with by BG Ltd, a separate business from B&G Plc, the issuer of the bonds.

BG Ltd arranged applications for investments in the bonds, through a website it operated. And it was responsible for advertising and marketing the bonds. Potential investors were also able to call BG Ltd, to discuss the bonds.

B&G Plc and BG Ltd were both appointed representatives of Gallium Fund Solutions Limited ("Gallium"). B&G Plc and BG Ltd were appointed representatives of Gallium from 17 February 2017 to 28 February 2018.

## ***Mr P's investment in the bond***

- Mr P came across BG Ltd's website whilst looking for a savings product that would be safe, could diversify his investments and that would give him a reasonable rate of return.
- Mr P applied for the 5 year bond via the BG Ltd website and the 3 year IFISA bond via a paper application form for an ISA transfer.
- Mr P held substantial holdings in investment ISAs and unit trusts. These were held via a platform and he invested in lower risk and more liquid holdings compared to his B&G Plc investments. A significant amount of this money was invested in fixed interest securities, such as government and corporate bonds.
- Mr P was looking to invest in the bonds to diversify his investment and to invest his money with different providers in order to mitigate risk – and this is what he understood the investment to be as it was advertised as a diversified holding.

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 P has not had his invested capital returned to him.

## ***The application process***

Mr P applied online for the 5 year bond and via a paper application form for an ISA transfer into the 3 year bond.

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

I have also seen copies of the paper application form which shows a transfer from another firm to B&G Ltd. This was completed by Mr P and signed on 12 April 2017. Mr P completed a five question appropriateness test as part of this application, however he was required to go through the online process as detailed above to reach this position.

### ***Gallium's response to Mr P's complaint***

Gallium did not uphold Mr P's complaint. It said Mr P had been given sufficient information and risk warnings about the investment. It then made further submissions, once Mr P'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 P's complaint and concluded it should be upheld. They said, in summary:

- Mr P met the requirements of both an everyday investor and a high net worth investor.
- The application process in terms of the assessment of the appropriateness of the bond for Mr P was inconsistent with the FCA's rules or guidance 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 P wouldn't have decided to invest or BG Ltd should have concluded that it shouldn't allow Mr P to invest. For these reasons, both cumulatively and individually, it was fair to uphold the complaint and for Gallium to compensate Mr P for the loss he has suffered.

### ***Gallium's response to the view***

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

- It notes that Mr P met the requirements of a high net worth investor
- 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.
- Mr P had investments in a London Capital & Finance bond and a Wellesley bond. This shows he had relevant experience of similar products to the B&G Plc bonds.

- Mr P 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.

As there's been no agreement the complaint has been passed to me to make a decision.

### **What I've decided – and why**

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

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.

As mentioned, 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 broadly the same reasons. In summary:

- As previously mentioned Mr P completed a paper application as part of his ISA transfer. Whilst I've taken the paper application into account, I don't think it's fair for BG Ltd to rely on the answers given within it as Mr P had to go through the online application process to reach this stage of the ISA transfer.
- I'm not persuaded there is enough evidence to show the bonds were appropriate. Mr P did at the time have existing minibond investments. He considered both these and the B&G bonds to be low risk. He had not yet experienced any losses in these bonds that would lead him to believe otherwise. I haven't seen any evidence that he had any experience of unlisted securities or corporate debt similar to the bonds. As such, I wouldn't consider that his investment experience in his existing minibonds meant the B&G bonds were appropriate for him.

- 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 P. In the circumstances Mr P would either not have proceeded or, acting fairly and reasonably, BG Ltd should have concluded it should not promote the bond to Mr P.

For these reasons my decision is that Mr P's complaint should be upheld. I am also satisfied Mr P 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 P 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 P as close to the position he would probably now be in if he had not invested in the bonds.

I take the view that Mr P 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 P's circumstances and objectives when he invested.

#### **What must Gallium do?**

To compensate Mr P fairly, Gallium must:

- Compare the performance of each of Mr P's investments with that of the benchmark shown below.
- A separate calculation should be carried out for each investment.
- Gallium should also add any interest set out below to the compensation payable.
- Pay to Mr P £350 for the distress caused by the total loss of his investments.

Income tax may be payable on any interest awarded.

Investment name	Status	Benchmark	From ("start date")	To ("end date")	Additional interest
3 Year Fixed Monthly Income 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)
5 Year Fixed Monthly Income 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)

**For each investment:**

### ***Actual value***

This means the actual amount paid or payable from the investment at the end date.

If at the end date the investment is illiquid (meaning it could not 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 P agrees to Gallium taking ownership of the investment, if it wishes to. If it is not possible for Gallium to take ownership, then it may request an undertaking from Mr P that he repays to Gallium any amount he may receive from the investment 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.

Any withdrawal, income or other distributions paid out of the investments should be deducted from the fair value calculation at the point it was actually paid so it ceases to accrue any return in the calculation from that point on. If there is a large number of regular payments, to keep calculations simpler, I'll accept if Gallium totals all those payments and deducts that figure at the end to determine the fair value instead of deducting periodically. If any distributions or income were automatically paid out into a portfolio and left uninvested, they must be deducted at the end to determine the fair value, and not periodically.

### **Why is this remedy suitable?**

I have decided on this method of compensation because:

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

### **My final decision**

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

Gallium Fund Solutions Limited should provide details of its calculation to Mr P in a clear, simple format.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 24 March 2023.

Marc Purnell  
**Ombudsman**