

The complaint

Mrs K complains that Basset Gold Limited ("BG Ltd"), an appointed representative of Gallium Fund Solutions Limited ("Gallium"), mis-sold her an investment.

What happened

The B&G Plc Bond

Mrs K invested in a B&G Plc *"Three-year compounding high yield IFISA Bond"*. Sales of this bond were dealt with by BG Ltd, a separate business from Basset & Gold Plc ("B&G plc"), the issuer of the bond. BG Ltd arranged applications for investments 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.

Mrs K's investment in the bond

Mrs K and her husband visited BG Ltd's website in March 2017 after searching online for savings products. She says at the time of application she was working for the NHS and was looking for a good interest rate on her savings. The savings she had set aside was money she was looking to use in her retirement years. She had very little investment experience. She invested £15,240, close to 50% of her total savings, into the bond. Her husband also invested, but his complaint is being investigated separately.

When Mrs K referred her complaint to us, we asked for copies of any call recordings BG Ltd held. None of the calls we were sent in response relate directly to sale of Mrs K's bond. As such, I've not referred to them in my decision.

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, Mrs K has not had her invested capital returned to her.

The application process

Mrs K doesn't seem to recall precisely how she applied for her bond. She recalls her and her husband discussing potential applications with a relationship manager from BG Ltd. But our service hasn't been provided with any recordings of a discussion like this. A separate spreadsheet we received from the administrators on behalf of BG Ltd confirmed BG Ltd received and accepted Mrs K's application form on 21 March 2017.

Having reviewed the available evidence, and mindful that Mrs K does recall visiting BG Ltd's website, I think it's likely that either Mrs K herself completed an online application, or that her

husband assisted with the online application on her behalf. So, I've examined the online application process to help me reach my decision.

I have seen screen prints of each stage of the online application process. These show the application journey that Mrs K and perhaps her husband 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 Mrs K was categorised as an "everyday investor". The second was the appropriateness test.

Gallium's response to Mrs K's complaint

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

- The application process – both in terms of the certification of Mrs K as a "restricted investor" and the assessment of the appropriateness of the bond for her - 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, Mrs K wouldn't have decided to invest or BG Ltd should have concluded that it shouldn't allow Mrs K to invest. For these reasons, both cumulatively and individually, it was fair to uphold the complaint and for Gallium to compensate Mrs K for the loss she has suffered.

Gallium's response to the view

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

- Regardless of label, Mrs K was required to confirm that she met the requirements of a restricted investor and confirmed that she did. It is not fair or reasonable to conclude that the use of the word "everyday" contributed to Mrs K 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.
- Mrs K made the investment on the understanding it had risk associated with it and did not chose to surrender it when receiving the email in 2019 which warned of the concentration risk. So, she would have proceeded with the investment regardless.

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 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 the same reasons. In summary:

- BG Ltd, acting on Gallium's behalf, misled either Mrs K or her husband into certifying her as belonging in a category to which she 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 Mrs K fairly or acting in her best interests. Had BG Ltd followed the rules and not misled Mrs K, it is unlikely she or anyone assisting with her application would have certified her 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 Mrs K. In the circumstances Mrs K would either not have proceeded or, acting fairly and reasonably, BG Ltd should have concluded it should not promote the bond to Mrs K.

For these reasons – individually and cumulatively – my decision is that Mrs K's complaint should be upheld. I am also satisfied Mrs K 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 Mrs K for her loss.

Fair compensation

In assessing what would be fair compensation, I consider that my aim should be to put Mrs K as close to the position she would probably now be in if she had not invested in the bond.

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

What must Gallium do?

To compensate Mrs K fairly, Gallium must:

- Compare the performance of Mrs K'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 Mrs K the sum of £350 for the distress she suffered when she learnt her investment had failed. This was money she'd hoped to rely on in her retirement years, and I'm satisfied the loss of it is likely to have caused her a lot of worry and upset.

Income tax may be payable on any interest awarded.

Investment name	Status	Benchmark	From ("start date")	To ("end date")	Additional interest
B&G Plc 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 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 Mrs K 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 Mrs K that she repays to Gallium any amount she 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.

Why is this remedy suitable?

I have decided on this method of compensation because:

- Mrs K wanted to achieve a reasonable return without risking any of her capital.
- The average rate for fixed rate bonds would be a fair measure given Mrs K's circumstances and objectives. It does not mean that Mrs K 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 Mrs K in a clear, simple format.

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

Marcus Moore
Ombudsman