

## **The complaint**

Ms V complains she was mis-sold investment bonds by Basset Gold Limited (BG Ltd) which has caused her a financial loss as they weren't secure and she hasn't received a return on her investment.

## **Background**

### ***The B&G Plc Bond***

Ms V invested in a B&G Plc four-year Compounding High-Yield Bond (BG25490) and three-year Compounding High-Yield IFISA Bond (BG27375). Sales of these bonds were dealt with by Basset Gold Limited ('BG Ltd'), a separate business from Basset & Gold Plc ('B&G plc'), the issuer of the bond. 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 Fund Solutions Limited ('Gallium'). B&G Plc and BG Ltd were appointed representatives of Gallium from 17 February 2017 to 28 February 2018.

### ***Ms V's investment in the bonds***

Ms V came across the bonds through an online advertisement and the spreadsheet I've seen confirms she applied for the bonds by completing an online application in October 2017. Ms V, who was a housewife at the time, had inherited some money and was looking for a low risk investment. She understood the bonds to be low risk and were able to provide a high return. Ms V said she had no complex investment experience. In total, she had approximately £100,000 held in savings. This money was mainly held in cash ISAs, though she did have small amounts of shares in British Gas and Lloyds TSB from the 1980s.

In terms of call recordings, there were calls made between BG Ltd and Ms V. However, these calls don't change the overall outcome of this complaint and so I haven't relied on them within my investigation.

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, Ms V has not had her invested capital returned to her.

### ***The application process***

Ms V completed an online application and I have seen screen prints of each stage of the process. These show the application journey that Ms V 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 Ms V was categorised as an “everyday investor”. The second was the appropriateness test.

### ***Gallium’s response to Ms V’s complaint***

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

- The application process – both in terms of the certification of Ms V 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, Ms V wouldn’t have decided to invest or BG Ltd should have concluded that it shouldn’t allow Ms V to invest. For these reasons, both cumulatively and individually, it was fair to uphold the complaint and for Gallium to compensate Ms V for the loss she has suffered.
- There were three bonds sold in total but one of them we couldn’t consider as it was for a one-year fixed period and would’ve matured before B&G and BGL Ltd fell into administration. If this had rolled into another bond it would be a matter for the Financial Services Compensation Scheme (FSCS) to consider.

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

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

- The website and marketing material was not misleading – Ms V was given sufficient information and risk warnings.
- Regardless of label, Ms V 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 Ms V 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.
- Ms V 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 she 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 two bonds we're able to consider.

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 bonds were 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 Ms V into certifying herself 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 Ms V fairly or acting in her best interests. Had BG Ltd followed the rules and not misled Ms V, it is unlikely she would have certified herself 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 bonds were not an appropriate investment for Ms V. In the circumstances Ms V would either not have proceeded or, acting fairly and reasonably, BG Ltd should have concluded it should not promote the bonds to Ms V.

For these reasons – individually and cumulatively – my decision is that Ms V's complaint should be upheld. I am also satisfied Ms V would either not have proceeded to make the investments 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 Ms V for her loss.

## Fair compensation

In assessing what would be fair compensation, I consider that my aim should be to put Ms V as close to the position she would probably now be in if she had not been given unsuitable advice.

I take the view that Ms V 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 Ms V's circumstances and objectives when she invested.

### What must Gallium do?

To compensate Ms V fairly, Gallium must:

- Compare the performance of Ms V's investments 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 Ms V £350 for the distress and worry caused to her by the loss of her investment; an investment she never should've been allowed to invest in.

Income tax may be payable on any interest awarded.

Portfolio name	Status	Benchmark	From ("start date")	To ("end date")	Additional interest
Four-year Compoundi ng High-Yield Bond (BG25490)	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)
Three-year Compoundi ng High-Yield IFISA Bond (BG27375)	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 investments at the end date.

If at the end date any asset 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 Ms V agrees to Gallium taking ownership of the illiquid assets, if it wishes to. If it is not possible for Gallium to take ownership, then it may request an undertaking from Ms V that she repays to Gallium any amount she may receive from the portfolio in future.

### ***Fair value***

This is what the investments would have been worth at the end date had they 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 investments on an annually compounded basis.

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

I have decided on this method of compensation because:

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

Under the rules of the Financial Ombudsman Service, I am required to ask Ms V either to accept or reject my decision before 1 March 2023.

Warren Wilson

**Ombudsman**