

## **Complaint**

Mr C complains about an investment he made in a bond issued by Basset & Gold Plc (“B&G plc”). He says the bond was mis-sold to him. He says he was misled about how the money he invested in the bond would be used.

## **Background**

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

Mr C invested in a B&G Plc 3 Year Fixed Monthly Income IFISA Bond. Sales of this bond 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 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 Fund Solutions Limited (“Gallium”). B&G Plc and BG Ltd were appointed representatives of Gallium from 17 February 2017 to 28 February 2018.

### ***Mr C’s investment in the bond***

Mr C has told us he saw adverts for Basset & Gold in early 2017. He contacted BG Ltd, had several conversations with a representative and also exchanged emails with him. He says he was told by BG Ltd that B&G Plc’s focus was property and that the investment was secure.

Mr C invested £15,000 in the 3 Year Fixed Monthly Income IFISA Bond in March 2017.

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 C has not had his invested capital returned to him.

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

I have not seen any contemporaneous evidence relating to Mr C’s application to invest in the bond. Gallium has not provided us with any detail about Mr C’s application other than a spreadsheet recording information held on BG Ltd’s system as follows:

<i>High Net Worth Investor</i>	<i>2017-03-18</i>
<i>Completed Investor Questionnaire</i>	<i>2017-03-18</i>
<i>B&amp;G T&amp;C Confirmed</i>	<i>2017-03-18</i>
<i>KYC Completed</i>	<i>2017-03-22</i>

Based on this, it seems likely Mr C completed an online application on 18 March 2017, and was certified as a High Net Worth investor.

I have seen screen prints of each stage of the online application process. These show the application journey that Mr C likely 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 C was categorised as a 'high net worth investor'. The second was the appropriateness test.

We have asked Mr C about his investment experience and assets. He told us, in summary:

- The amount he invested in the bond represented, at the time, about 15% of his savings.
- He had just retired from working as a doctor in the Caribbean and had returned to the UK. He had little experience in investing and this was a major step for him.
- He had managed to put aside some money and had used this to buy some one bedroom flats and income from these flats is now effectively his pension.
- He does not have a significant pension. He receives a small pension from his 4 years in the NHS, a partial UK state pension and a small amount from an overseas Social Security system.
- He believes that his net worth if he sold his flats now, and including some cash reserves, would be in the region of £350,000.

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

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

- The application process – both in terms of the certification of Mr C as a restricted or "everyday" investor (as noted above, it seems Mr C was actually certified as a High Net Worth investor – a point I consider below) and the assessment of the appropriateness of the bond for him 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 C wouldn't have decided to invest or BG Ltd should have concluded that it shouldn't allow Mr C to invest. For these reasons, both cumulatively and individually, it was fair to uphold the complaint and for Gallium to compensate Mr C for the loss he has suffered.

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

Gallium didn't accept the investigator's view. It said, in summary:

- Our findings went beyond the scope of Mr C's complaint.
- Mr C certified that he met the requirements of a restricted investor (it seems Gallium based its response on the investigator's understanding). It was reasonable for it to rely on the declaration he made.
- 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 C 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, he would have proceeded with the investment regardless.

### **My provisional decision**

I recently issued a provisional decision. I concluded the complaint should be upheld. As I've set my provisional findings out again below, I will not set out any further detail here.

### **Responses to my provisional decision**

Mr C accepted my provisional decision. Gallium did not respond.

### **My findings**

As neither party has made any further submissions following my provisional decision I have not been persuaded to depart from it. I have therefore repeated my provisional findings as my final decision.

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 overall conclusion as the investigator. However, my findings on the certification point differ. In summary:

- Based on the available evidence, I think Mr C was categorised as a High Net Worth investor, not a restricted (or "everyday", as BG Ltd described it) investor.
- The wording used by BG Ltd for the High Net Worth Investor category mirrors the wording set out at 4.12.6R and, based on the available evidence, it seems Mr C may have had sufficient assets to meet the definition of a High Net Worth investor.
- The appropriateness test carried out by BG Ltd, on behalf of Gallium, did not however 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 C, as he did not have the necessary experience and knowledge to understand the risks involved in investing in the bond. In the circumstances Mr C would either not have proceeded or, acting fairly and reasonably, BG Ltd should have concluded it should not promote the bond to Mr C.

So my decision is that Mr C's complaint should be upheld. I am also satisfied Mr C 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 in relation to the appropriateness test. And so I am satisfied it is fair to ask Gallium to compensate Mr C 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 C as close to the position he would probably now be in if he had not invested in an inappropriate investment.

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

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

To compensate Mr C fairly, Gallium must:

- Compare the performance of Mr C'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 as set out below.

- Pay Mr C £300 for distress caused by the total loss of the investment.

Income tax may be payable on any interest awarded.

Portfolio name	Benchmark	From ("start date")	To ("end date")	Additional interest
3-Year Fixed Monthly Income IFISA Bond	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 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 Mr C 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 Mr C that he repays to Gallium any amount he may receive from the portfolio 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:

- I think Mr C wanted to achieve a reasonable return without taking a significant risk.
- The average rate for the fixed rate bonds would be a fair measure given Mr C's circumstances and objectives. It does not mean that Mr C 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 C in a clear, simple format.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 27 March 2023.

John Pattinson  
**Ombudsman**