

The complaint

Mr B complains that Crowd2Fund Limited provided misleading information regarding an investment opportunity on its crowdfunding platform. Mr B says he wasn't made aware that his capital would be converted into shares in Crowd2fund at the end of the term of the loan.

What happened

In January 2021, Mr B invested around £31,000 in Crowd2Fund's Reboot Britain scheme, with further investments being made to it through interest on that amount and through automatic reinvestment of loan repayments from his Innovative Finance ISA with Crowd2Fund. The Reboot Britain scheme involved the issuance of convertible interest-only loans, structured as preference shares, offering 8% interest in total, with 4% simple interest paid monthly in cash to an investors Crowd2Fund account, and 4% interest on maturity in the form of equity.

Mr B complained to Crowd2Fund in May 2024 as he was unhappy that his invested funds had been converted into shares in Crowd2Fund, rather than him getting the capital he invested in Company A, paid back to him. He said he invested in Company A on the understanding that the conversion of his investment into shares in Crowd2Fund would be optional.

Crowd2Fund looked into Mr B's concerns but didn't uphold his complaint. In summary, it said ample evidence was provided to investors that the investment campaign was a convertible loan intended to result in ordinary B shares for investors.

Mr B remained unhappy and so he referred his complaint to this service for an independent review.

One of our investigators considered the complaint but didn't uphold it. In summary, they said it was Crowd2Fund's responsibility to ensure its communications were fair, clear and not misleading and they felt it had clearly explained to Mr B that the investment would be converted into B shares after the 36-month investment period had ended. They also felt Crowd2Fund had made it clear that the loans could only be sold on the secondary market, but only if there was a buyer.

Mr B didn't accept the investigator's findings. He explained that before he invested, Crowd2Fund's website said that investors would get the option to buy equity in Crowd2Fund, but this later changed to say that it was assumed that the investment would convert to equity. He said he wouldn't have invested had he known that his funds would ultimately be used to buy shares in Crowd2Fund instead of having the option to get his capital back.

As Mr B remained unhappy, the complaint has been passed to me to decide.

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.

In reaching my decision, I've considered Crowd2Fund's regulatory obligations. Crowd2Fund is authorised and regulated by the Financial Conduct Authority ("FCA"). The relevant rules and regulations FCA regulated firms are required to follow are set out in the FCA's Handbook of rules and guidance.

The FCA Principles for Business ("PRIN") set out the overarching requirements which all authorised firms are required to comply with. PRIN 1.1.1G, says "The Principles apply in whole or in part to every firm". The Principles themselves are set out in PRIN 2.1.1R. The most relevant principles here are:

- PRIN 2.1.1R (2) "A firm must conduct its business with due skill, care and diligence."
- PRIN 2.1.1R (6) "A firm must pay due regard to the interests of its customers and treat them fairly."
- PRIN 2.1.1R (7) "A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading."

Crowd2Fund was also required to act in accordance with the rules set out in the Conduct of Business Sourcebook (COBS). And the most relevant obligations here are:

- COBS 2.1.1R (1) "A firm must act honestly, fairly and professionally in accordance with the best interests of its client."
- COBS 4.2.1R (1) "A firm must ensure that a communication or a financial promotion is fair, clear and not misleading."

Crowd2Fund, therefore needed to ensure that the information it gave Mr B regarding his investment was clear, fair and not misleading. It also needed to pay due regard to Mr B's interests.

Having considered all of the information provided to Mr B, I'm satisfied that Crowd2Fund made it clear that his investment was ultimately in Crowd2Fund and that the loan notes could be converted to shares in it. I'll explain why.

The campaign page for the Reboot Britain scheme explained that the invested funds would be used to:

"scale the Crowd2Fund platform, funding 3,467 entrepreneurs with £274m of investment capital per year. We will also be releasing Crowd2Fund across the Commonwealth to give UK SMEs access to new markets and a platform to scale."

The campaign page I've seen also explained under the heading "What are the returns from your investment?" explained the following:

"Investors earn 8.00% APR on the balance of their investment, 4.00% APR is paid monthly and 4.00% APR is paid on maturity in shares. It is assumed your investment will convert to equity at a 20% discount at the next round, please see the term sheet for conversion details. Investors can potentially access their capital by selling their investment to another investor via The Exchange, they can subscribe further funds or stop re-investments at any point."

Mr B has provided a screenshot of the campaign page which was worded differently. This says:

“Investors earn 8.00% per year on the balance of their investment, 4.00% is paid monthly and 4.00% is paid on maturity. Additionally, investors have the option to purchase Crowd2Fund equity at a 20% discount at the next round. Investors can access their capital by selling their investment to another investor via The Exchange, can subscribe further funds or stop re-investments at any point.”

Having read both of these, I appreciate Mr B’s point that in the excerpt he provided, Crowd2Fund said there would be an option to purchase equity in it, rather than it being assumed that this would happen. However, I note that both versions didn’t say that capital would be repaid at maturity of the loan term. Rather, in both versions of the campaign page provided, it was explained under the heading “Access to your capital” that:

“The Exchange is currently disabled because we’re implementing improvements and we aim to re-open it soon. When the Exchange is reopened you can potentially access your capital invested by selling some or all of your Reboot Britain investment to another investor on the Exchange assuming market demand.”

So I think it was made clear that the only access to capital would be by way of selling the investment to another investor.

I also understand that Mr B was provided with terms for the convertible investment. These explained that the loan notes wouldn’t be repaid in cash:

“5. Repayment of Notes

The principal amount of the Notes cannot be repaid in cash under any circumstances.

For the avoidance of doubt, only interest in accordance with clause 6 shall be paid in cash by the Company to the Noteholders.”

Schedule 2 of the terms further explained this:

“2. REPAYMENT OF PRINCIPAL

The Notes (or any part of them) are not to be redeemed or the Principal repaid under any circumstances.”

I’m also aware that Crowd2Fund provided Mr B with some headline terms which was a one page summary of how the investment would work. These explained how the conversion to shares in Crowd2Fund would work:

“Conversion:

- (i) Automatically on completion of an equity round by Crowd2Fund raising at least £10,000,000 (excluding the loan amounts converting). At a 20% discount to the price paid by investors in the round.*
- (ii) At the election of a majority of the private investors in respect of an equity round raising at least £2m. At a 20% discount to the price paid by investors in the round.*
- (iii) At the election of a majority of the private investors and the British Business Bank in respect of an equity round raising less than £2m. At a 20% discount to the price paid by investors in the round.*
- (iv) On a sale of Crowd2Fund only if the private investors would end up with more than if the loan plus the accrued 4% interest was repaid.*

- (v) *Automatically at the expiry of the term unless the British Business Bank elect otherwise.”*

The headline terms also gave an example of the kind of return an investor may make and how they could sell their investment to get their capital back:

“Example: If an investor pledges the £1,000 in their wallet which is currently not earning interest the investor will receive £40 per year of interest (4% APR) in monthly payments. Based on the financial model with £10m of investment the Crowd2Fund platform can scale to a value of £389m and the investor can purchase equity at £311m valuation. The investor will also receive an additional £40 interest in the form of equity if the next round occurs in 12 months from making the initial investment. Alternatively, investor can choose to sell the investment on the secondary market if they do not wish to convert into equity at this point subject to there being willing buyers.”

I understand Mr B's investment automatically converted to shares in Crowd2Fund after the 36 months term had lapsed, as set out in (v) above. As Mr B didn't elect to sell his investment on the secondary market prior to this conversion event happening, I don't think Crowd2Fund has acted unfairly by explaining that he would need to find a buyer for his shares in Crowd2Fund to realise his capital.

Taking into account all of the above, I'm satisfied that Crowd2Fund provided Mr B with clear, fair and not misleading information regarding his investment into the Reboot Britain scheme and I've not seen any evidence to support that it didn't have his best interests in mind when promoting the investment. I appreciate Mr B feels he's unfairly had his capital tied up with Crowd2Fund, however, I'm not persuaded it has acted unfairly in the circumstances.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 15 August 2025.

Ben Waites
Ombudsman