

The complaint

Mr B complains about the setting up of a self-invested personal pension (SIPP), and the investments in a property syndicate subsequently made in it. The pension was operated by Merchant Investors Assurance Company Limited (now CASLP Ltd – “CASLP”). Mr B is represented by a Claims Management Company (CMC). The CMC says, in summary:

- Mr B’s attitude to risk was very conservative, given the importance of securing a pension fund for later use.
- Mr B was vulnerable to the influence of poor advice and would not have understood the duties a pension provider had whilst accepting a client’s application to transfer and therefore would have been unaware of any shortfalls in procedure.
- CASLP should have carried out due diligence on all the investments that are under its administration.
- The recommended investments were non-standard Unregulated Collective Investment Schemes that were high risk. In nearly all cases, these are not suitable for inexperienced retail clients that could not recover from losses especially when the funds being primarily utilised are that of pension funds.
- CASLP failed to recognise the hazards associated with the investments and failed to recognise that many of these were not explained to Mr B in full detail with the high risk clearly outlined.
- CASP should have conducted diligence on not only the investments but Mr B’s suitability to enter a SIPP in the first place.

CASP’s acceptance of a highly speculative, risky, illiquid asset into its SIPP was not in Mr B’s best interest.

What happened

There are two main parties involved in the events subject to complaint – CASLP and the IFA which the CMC says advised Mr B to transfer to CASLP’s personal pension in order to invest in the property syndicate (“the IFA”).

The CMC says Mr B was approached by the IFA, a review of his existing pension was undertaken, and a recommendation given to transfer his existing pension to a SIPP with CASLP and make investments in property syndicates.

The timeline of the subsequent key events was as follows:

- 29 March 2007 – Mr B signs an application for the Merchant Investors Pension Portfolio. The application requested the transfer in of Mr B’s existing schemes, and was received by CASLP on 11 April 2007.

- 24 July 2007 - Mr B signs CASLP's Syndicated Property Purchase Factsheet and Risk Deed, in which he gave various declarations (I explore these in my findings) and requested a switch of £50,000 of the money that was to be transferred into a Syndicated Property Fund.
- 16 August 2007 – Mr B signs CASLP's Syndicated Property Purchase Factsheet and Risk Deed, which again gave various declarations, and requested a switch of the remaining balance (following the switch instructed on 24 July 2007) to a Syndicated Property Fund.

Mr B's money was ultimately used to contribute towards the purchase of two commercial properties – both UK high street properties, which had leases to commercial tenants in place. I understand the syndicates were later closed, following the sale of the properties in question.

Mr B made a claim to the Financial Services Compensation Scheme (FSCS) about the advice he received from the IFA. The FSCS accepted Mr B's claim, and calculated his loss to be more than the applicable limit on what it could pay; accordingly, it paid Mr B an amount equal to that limit (£50,000).

Our investigator's view

Our investigator concluded the complaint should not be upheld. He said, in summary:

- The IFA was a Financial Services Authority (FSA) authorised firm at the time and Mr B's application form was signed by someone who was qualified and permitted to advise on both personal and occupational scheme transfers.
- CASLP did carry out due diligence on the IFA and there is no evidence to show CASLP should have had concerns about the IFA's suitability as an introducer of business.
- CASLP had a responsibility to carry out due diligence on the investments Mr B's pension fund was invested in, and to use this knowledge to decide whether the investments should be allowed in the SIPP.
- CASLP provided evidence of the due diligence it carried out on the investments. This shows it carried out sufficient due diligence and drew a reasonable conclusion to allow the investments.
- He was not persuaded that CASLP has acted unfairly or unreasonably in accepting the transfers into the pension and allowing the subsequent investments.

The CMC's response to the investigator's view

The CMC said Mr B did not accept the investigator's view. It shared the following comments from Mr B:

- Prior to transferring his pension into the SIPP, he attended a meeting, along with other prospective investors, hosted by the IFA, where he was told that investment in commercial property was very low risk, and much more secure than investing in domestic properties. He now understands that exactly the opposite is true.
- He was paying a significant sum each year for the investment to be managed, and yet there were no warnings that the investment was in jeopardy. It should have been

possible, under proper account management, for investors to have been warned and to have had an opportunity to withdraw their investment, albeit at a loss. Why was there no warning?

- The investigator's view seems to focus on CASLP, whereas there were a number of companies in the chain, some of them short-lived. The effects that these other companies may have had on the management (or lack of it) of the investment should not be ignored.

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.

Relevant considerations

I have taken into account a number of considerations including, but not limited to:

- The agreement between the parties.
- The Financial Services and Markets Act 2000 ("FSMA").
- Court decisions relating to SIPP operators, in particular *Options UK Personal Pensions LLP v Financial Ombudsman Service Limited* [2024] EWCA Civ 541 and the case law referred to in it including:
 - *Adams v Options UK Personal Pensions LLP* [2021] EWCA Civ 474
 - *R (Berkeley Burke SIPP Administration) v Financial Ombudsman Service* [2018] EWHC 2878
 - *Adams v Options SIPP UK LLP* [2020] EWHC 1229 (Ch)
- The FSA and FCA rules including the following:
 - PRIN Principles for Businesses
 - COBS Conduct of Business Sourcebook
- Various regulatory publications relating to SIPP operators, and good industry practice.

The legal background:

As highlighted in the High Court decision in *Adams* the factual context is the starting point for considering the obligations the parties were under. In this case I am satisfied the contractual relationship between IFG and Mr C is a non-advisory, or execution only, relationship.

Setting up and operating a SIPP is an activity that is regulated under FSMA. And pensions are subject to HMRC rules. IFG was therefore subject to various obligations when offering and providing the service it agreed to provide – which in this case was a non-advisory service.

The case law:

I'm required to determine this complaint by reference to what is in my opinion fair and reasonable in all the circumstances. I am not required to determine the complaint in the same way as a court. A court considers a claim as defined in the formal pleadings and they will be based on legal causes of action. The Financial Ombudsman Service was set up with a wider scope which means complaints might be upheld, and compensation awarded, in circumstances where a court would not do the same.

The approach taken by the Financial Ombudsman Service in two similar (but not identical) complaints was challenged in judicial review proceedings in the *Berkeley Burke* and the *Options* cases. In both cases the approach taken by the ombudsman concerned was endorsed by the court. A number of different arguments have therefore been considered by the courts and may now reasonably be regarded as resolved.

It is not necessary for me to quote extensively here from the various court decisions.

The FCA rules

PRIN

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*" (see PRIN 1.1.2G). The Principles apply even when the regulated firm provides its services on a non-advisory basis, in a way appropriate to that relationship.

Principles 2, 3 and 6 are of particular relevance here. They provide:

"Principle 2 – Skill, care and diligence – A firm must conduct its business with due skill, care and diligence.

Principle 3 – Management and control – A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

Principle 6 – Customers' interests – A firm must pay due regard to the interests of its customers and treat them fairly."

I am satisfied that I am required to take the Principles into account (see *Berkley Burke*) even though a breach of the Principles does not give rise to a claim for damages at law (see *Options*).

The regulatory publications and good industry practice:

The regulator issued a number of publications which reminded SIPP operators of their obligations, and which set out how they might achieve the outcomes envisaged by the Principles, namely:

- The 2009 and 2012 Thematic Review Reports.
- The October 2013 finalised SIPP operator guidance.
- The July 2014 "*Dear CEO*" letter.

The 2009 Report included:

"We are concerned by a relatively widespread misunderstanding among SIPP operators that they bear little or no responsibility for the quality of the SIPP business that they administer,

because advice is the responsibility of other parties, for example Independent Financial Advisers...

We are very clear that SIPP operators, regardless of whether they provide advice, are bound by Principle 6 of the Principles for Businesses ('a firm must pay due regard to the interests of its clients and treat them fairly') insofar as they are obliged to ensure the fair treatment of their customers."

The Report also included:

The following are examples of measures that SIPP operators could consider, taken from examples of good practice that we observed and suggestions we have made to firms:

- *Confirming, both initially and on an ongoing basis, that intermediaries that advise clients are authorised and regulated by the FSA, that they have the appropriate permissions to give the advice they are providing to the firm's clients, and that they do not appear on the FSA website listing warning notices.*
- *Having Terms of Business agreements governing relationships, and clarifying respective responsibilities, with intermediaries introducing SIPP business.*
- *Routinely recording and reviewing the type (i.e. the nature of the SIPP investment) and size of investments recommended by intermediaries that give advice and introduce clients to the firm, so that potentially unsuitable SIPPs can be identified.*
- *Being able to identify anomalous investments, e.g. unusually small or large transactions or more 'esoteric' investments such as unquoted shares, together with the intermediary that introduced the business. This would enable the firm to seek appropriate clarification, e.g. from the client or their adviser, if it is concerned about the suitability of what was recommended.*
- *Requesting copies of the suitability reports provided to clients by the intermediary giving advice. While SIPP operators are not responsible for advice, having this information would enhance the firm's understanding of its clients, making the facilitation of unsuitable SIPPs less likely.*
- *Routinely identifying instances of execution-only clients who have signed disclaimers taking responsibility for their investment decisions, and gathering and analysing data regarding the aggregate volume of such business.*
- *Identifying instances of clients waiving their cancellation rights, and the reasons for this."*

I have considered all of the above publications in their entirety. It is not necessary for me to quote more fully from the publications here.

The 2009 and 2012 Thematic Review Reports and the "Dear CEO" letter are not formal guidance (whereas the 2013 finalised guidance is). However, all of the publications provide a reminder that the Principles for Businesses apply and are an indication of the kinds of things a SIPP operator might do to ensure it is treating its customers fairly and produce the outcomes envisaged by the Principles. In that respect, the publications which set out the regulators' expectations of what SIPP operators should be doing also go some way to indicate what I consider amounts to good industry practice, and I'm therefore satisfied it's appropriate to take them into account (as did the ombudsman whose decision was upheld by

the court in the *Berkeley Burke* case).

Points to note about the SIPP publications include:

- The Principles on which the comments made in the publications are based have existed throughout the period covered by this complaint.
- The comments made in the publications apply to SIPP operators that provide a non-advisory service.
- Neither court in the *Adams* case considered the publications in the context of deciding what was fair and reasonable in all the circumstances. As already mentioned, the court has a different approach and was deciding different issues.
- What should be done by the SIPP operator to meet the regulatory obligations on it will always depend upon the circumstances.

I acknowledge that all of these publications post-date Mr B's applications to open the SIPP and enter into the property syndicate funds. However, the obligation to act in accordance with the Principles existed throughout the events in this case. It is also clear from the text of the 2009 and 2012 Thematic Review Reports (and the "Dear CEO" letter in 2014) that the regulator expected SIPP operators to have incorporated the recommended good practices into the conduct of their business already. So, whilst the regulator's comments suggest some industry participants' understanding of how the good practice standards shaped what was expected of SIPP operators changed over time, it is clear the standards themselves had not changed.

Having taken account of the relevant considerations, I have reached the same conclusions as the investigator, for similar reasons. I have not seen sufficient evidence, in the circumstances of this complaint, to conclude that CASLP, acting fairly and reasonably to meet its regulatory obligations, should have concluded it should not accept Mr B's application to open a SIPP and transfer existing pensions into it and/or his later applications to make investments in the property syndicate funds.

The property syndicates

CASLP was not acting in an advisory capacity. It was acting in an execution only capacity, as the administrator of Mr B's SIPP. CASLP did not therefore have any obligation to ensure the suitability of the transfer to the SIPP and investments made in it.

But, considering the relevant regulatory obligations and standards of good practice set out above, CASLP should have carried out due diligence on the investments which was consistent with those obligations and standards. I have therefore considered what such due diligence should have led CASLP to conclude about the investments, and the steps CASLP took.

It is clear, from the evidence available, that CASLP undertook sufficient due diligence into the investments. CASLP has provided evidence to show it checked the funds were to acquire title to the properties, and secure arrangements were in place, with independent parties involved etc.

So, did CASLP reach a fair and reasonable conclusion about the funds and did it take adequate steps, in the circumstances, when allowing investments in the funds? Like the investigator, I think it did.

The funds were clearly genuine investments, and operated as described. It was therefore fair and reasonable, in principle, for CASLP to conclude the funds were appropriate investments for its SIPP. However, CASLP should also have recognised there were some features about the investments – they were high risk Unregulated Collective Investment Schemes (UCIS) - which meant it should take steps to reduce any risk of consumer detriment. And I am satisfied it did take sufficient steps, in the circumstances of this particular case.

The Factsheet, which was signed by Mr B for each of the two investments he made, included the following:

“What are the risks?

Please note the syndicated property arrangement is categorised as a high risk investment and should only be entered into by those investors who are willing to accept such a level of risk. Some of the risks are highlighted below but this list is not intended to be exhaustive. For a more comprehensive description of the risks involved please refer to the Syndicated Property Purchase Guide previously provided to you by the Syndicate Co-ordinator.”

At the same time as signing the Factsheets, Mr B signed the Risk Deed for each investment. That included the following:

“I acknowledge and agree that:

investment in commercial property involves significant risk, the fund will be exposed to higher volatility and/or risk than other funds of the Company because of a smaller spread of investments and/or greater risks inherent in the actual investments selected and these risks will be increased if the property is untenanted and where there is borrowing to facilitate the purchase of a property...”

“I have:

- A. *received and read the Syndicated Property Purchase Guide, the Factsheet and the Syndicated Property Agreement describing how the Syndicated Property arrangement works, and I have taken appropriate advice from my independent financial adviser acting as my agent, before applying for my Personal Pension Portfolio for Syndicated Property policy to be linked to units in the fund and in relation to the suitability of and risks attached to linking my pension benefits to a single commercial property investment.”*

So, whilst I appreciate Mr B recalls being told by the IFA that the investments were very low risk, the available evidence shows Mr B was given an explanation of the risks involved by CASLP which, in my view, was clear and specific to the investments in question, and he signed to acknowledge this. And he was asked to declare he had received advice from the IFA on the “*suitability of and risks attached to linking my pension benefits to a single commercial property investment*”, and did so.

In my view these were reasonable steps to take, in the circumstances, and consistent with CASLP’s regulatory obligations at the time.

So, I am satisfied it was fair and reasonable for CASLP to allow the investments. However, I also need to consider the introduction of business from the IFA.

The IFA

The IFA was authorised at the relevant time, with the correct permissions. And Mr B’s

advisor was a pension transfer specialist, with permission to give advice on defined benefit transfers as well as personal pensions.

CASLP says it did check the IFA's authorisation and permissions, and put terms of business in place with the IFA, but has not been able to locate a copy of those terms (it says it only holds some archived paper records, and none of the staff which worked in the business at this time are there now).

I think it more likely than not that CASLP did take the steps that it describes, and I am satisfied it was, as a starting point, fair and reasonable for CASLP to accept applications referred by the IFA. But, to meet its regulatory obligations, CASLP should also have had regard to the nature of the business being referred to it by the IFA. So, should CASLP have identified any anomalous features which presented a risk of consumer detriment and, if so, did it take adequate steps to address these?

The overall volume of business introduced by the IFA does not, in my view, appear to be anomalous. CASLP says applications arrived at a frequency of around five per month. That, in my view, was not sufficient to suggest a significant risk of consumer detriment, in the circumstances.

In terms of conflicts of interest, the IFA was an independent third party – it appears to have had no connection to CASLP. So, there was no conflict of interest between CASLP and the IFA. But there was a conflict between the IFA and some of the parties associated with the investment (the property advisor and managing agent) – they had a common director; and linked businesses therefore stood to benefit from the IFA's recommendation. And CASLP was aware of this.

CASLP says it:

- Obtained various assurances from the IFA in respect of matters impacting the fair treatment of customers.
- Understood that customers were fully aware of the links between the IFA and other parties, as a result of the manner in which the services of the other parties (for example, the managing agent) were marketed to customers.
- Ensured certain controls, which mitigated the risk of conflicts of interests, were in place – including by requiring that all property valuations be obtained from independent third parties.

And it has provided some further detail of the steps it took, as follows:

- It took steps to obtain information from the IFA and the linked businesses to understand and obtain assurances as to whether staff at the linked businesses had the requisite professional expertise and qualifications to act as either property adviser or managing agent. And additionally took steps to understand how the linked businesses would manage any conflicts of interest that arose if it were to act in a dual capacity as both property adviser and managing agent.
- It challenged the level of management fees that the linked businesses proposed to charge syndicate members as a managing agent, robustly requiring evidence that the linked businesses had obtained agreement to these from 100% of syndicate members.
- Required the linked businesses to agree to a site visit, to verify and discuss their

systems and controls in respect of the proposed managing agent services.

- Required that, under any prospective agreement for the linked businesses to provide managing agent services to syndicate properties, any property valuations would be carried out by independent third parties. This was expressly required to manage the risk of property valuations being inflated for the purposes of increasing property value-based commissions or fees payable to the IFA or the linked businesses.
- During the same period, it obtained further assurances from the IFA that it undertakes due diligence in respect of syndicate properties on behalf of clients, including by taking the advice of relevant professionals regarding any property purchase, property lending, and related issues.

And it has pointed out it was the IFA's job to manage any conflicts of interest it had, when it gave advice; there was no regulatory obligation on CASLP to manage the IFA's conflicts of interest.

I think it more likely than not that CASLP did take the steps it describes - I think it is reasonable to accept CASLP's account of events, which it arrived at after extensive searches of its archives.

I have given this careful thought – considering the circumstances of this particular case – and do not think there is sufficient evidence here to uphold the complaint based on CASLP failing (insofar as the point relates to a decision by it as a SIPP operator as to whether to accept or reject Mr B's application) to take sufficient action to address the conflict between the IFA and the linked businesses, or CASLP proceeding in the light of assurances it received.

I have not seen sufficient evidence to show CASLP should have been aware of any other anomalous features in this particular instance. So, I am satisfied it was fair and reasonable for CASLP to accept the introduction of business from the IFA.

Additional points made by Mr B

Mr B made additional points, following the investigator's view. These relate to the ongoing management of his investments in the property syndicates, and the activities of other businesses involved with the syndicates. Whilst I note Mr B's points – and understand he is upset about the loss he suffered through making the investments – my role here is to make a decision on the complaint Mr B has made against CASLP. That complaint is about CASLP's operation of the SIPP. If Mr B has other complaints about other activities undertaken by CASLP or other businesses involved he will need to make those complaints to the relevant parties in the first instance. He can then (subject to the usual tests which apply to determine whether a complaint is one we can consider) refer those complaints to us, if he is dissatisfied with the responses he receives.

My final decision

For the reasons given, I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 9 July 2025.

John Pattinson
Ombudsman