House of Commons Library

Research Briefing
Number CBP 9272
By Ali Shalchi
1 July 2021

# The collapse of Blackmore Bond plc

## 1 Blackmore Bond plc

### 1.1 Introduction

Blackmore Bond plc (BB) was set up in July 2016 with its registered office in Brighton, and then Manchester. It raised money by issuing "mini-bonds".

Mini-bonds are essentially an "IOU". In return for receiving money from investors, the issuer promises to pay the money back together with interest over a period of time. Of course, if the firm fails, there may be no money available to pay back these bondholders.

Between 2016 and 2018 BB ran an investment scheme which involved raising millions of pounds from individuals to fund property developments. It promised to pay back these investments at interest rates of between 6.5 and 10%. BB would receive the money, lend it on to a Special Purpose Vehicle (SPV, a separate company set up for the purpose of investing the money) and the SPV would buy and develop the properties. BB and the SPV were also able to raise additional money by taking out loans and giving them security that ranked ahead of the bondholders.

In total BB invested £46 million from around 2,800 investors into 11 separate property developments. Around £9.3 million was spent on marketing and management fees.[1]

## Insolvency

In October 2019 BB stopped making payments to bondholders and in April 2020 it went into administration. The administrators Duff & Phelps (since rebranded as Kroll) have told bondholders they are not likely to recover more than £1 million of the £46 million invested. This means most will lose almost all of their money.

According to the administrators the poor quality of the building work used and substantial interest owed on loans taken out lowered the value of the investments made.[2]

BB had put in place a "Capital Guarantee Scheme" in favour of bondholders, which was intended (through the provision of guarantees) to provide protection to bondholders in the event that BB went insolvent. As of April 2021, claims have been made against the guarantors (Ion and Northern Surety Company)[3] for payment under the guarantees, but no payment had been made or agreed. Kroll has said that legal proceedings would likely be necessary to obtain payment.

By April 2021 administrator and legal fees relating to BB's insolvency had exceeded £1.8 million.

The only two employees of BB on the date the administrators were appointed were its two directors (Philip Nunn and Patrick McCreesh). They are reportedly claiming one month's salary and accrued holiday pay as preferential creditors (in priority to the bondholders). Kroll estimates that recoveries are likely to be sufficient to enable payments to be made to these employees.[4]

Another unsecured creditor of BB (in the same class as the bondholders) is Her Majesty's Revenue and Customs, which is claiming over half a million pounds in unpaid debts from BB.

In April 2021 Kroll reported that creditor approval had been gained to place BB in liquidation (i.e. to sell its assets off to pay creditors and close it down).

1 The Independent, FCA was warned three years ago about mini-bond firm Blackmore Bond, which collapsed with £45m of savers' money, 30 April 2020
2 Financial Times, Investors in £46m mini-bond scheme face 100% losses, 7 December 2020
3 Evening Standard, Blackmore Bond investors tell of their anger after learning they will get nothing back from their £47m investments, 23 November 2020
4 Kroll, Final Administration Progress Report to Creditors, 16 April 2021

In May 2021 Nunn and McCreesh, as directors of BB's parent company, Blackmore Group Ltd, applied to dissolve the parent company, but the Companies House registrar refused the application.[5]

## 1.2 FCA involvement

### Regulatory background

Issuing your own securities (e.g. mini-bonds) is not a regulated activity under UK financial services law. This means firms issuing mini-bonds do not need to be authorised by the UK's main financial services regulator, the Financial Conduct Authority (FCA). They are also not subject to FCA oversight and rules.

Such firms' customers are also not covered by the Financial Services Compensation Scheme, a UK statutory scheme funded by the financial services industry which pays out compensation to customers when firms fail. Customers also generally do not have access to the Financial Ombudsman Service (FOS) for easier dispute resolution.

However, the marketing of the mini-bonds does fall within the Financial Promotions Regime. This means that while the product itself is unregulated, the marketing of the product needs to be made or approved by someone who is authorised by the FCA. Through this the FCA has the ability to enforce its rules to ensure that such promotions are (for example) fair, clear and not misleading.

BB used a marketing agency, Amyma Ltd (Amyma), to promote its bonds. Amyma was an "appointed representative" of an FCA-authorised firm, allowing it to carry out regulated activities as an agent of another firm.[6]

Paul Carlier, whom The Independent describes as a "White-collar crime expert" said that Amyma were "targeting pensioners and unsophisticated investors, using high-pressure sales tactics and making what he believed to be false and misleading statements".[7]

### Criticism

Conservative MP Peter Gibson, Chair of the APPG on Personal Banking and Fairer Financial Service (PBFFS), called in March 2021 for an independent report into what went wrong at BB. Later in March, Andy Agathangelou, founder of campaign group Transparency Task Force (the secretariat of the

5 Companies House, Blackmore Group Ltd
6 Equity for Growth (Securities) Limited
7 The Independent, FCA was warned three years ago about mini-bond firm Blackmore Bond, which collapsed with £45m of savers' money, 30 April 2020

PBFFS APPG) wrote to the Prime Minister urging him to take action to deal with the regulatory failures exposed by BB's collapse.[8]

Mr Gibson said that events at BB provided "irrefutable evidence" that the FCA was failing to regulate effectively and is "not functioning as parliament wishes".[9]

According to a Freedom of Information request submitted by the Telegraph, the FCA were reportedly warned by the City of London Police about potential fraud in BB in 2018, and on 44 occasions before BB entered administration. The FCA has said it did not receive any warnings about BB until February 2020.[10]

## FCA response

The FCA has defended its conduct relating to BB, saying that as both BB and the mini-bonds were unregulated, it did not have the power to intervene. It said that granting it such powers would require amendments to legislation and is therefore a matter for Parliament.[11]

According to the FCA its actions resulted in Northern Provident Investments, the firm which authorised BB's financial promotions under the Financial Promotions Regime, withdrawing its approval, so preventing the promotion of the minibonds.[12]

The FCA also claims it "took action" which resulted in Amyma's website being taken down and Amyma losing its authorised representative status in September 2019.[13]

In January 2020 the FCA put in place a temporary ban on the marketing of mini-bonds to retail (non-professional) investors. This was made permanent in January 2021. It was due to "concerns that speculative mini-bonds were being promoted to retail investors who neither understood the risks involved, nor could afford the potential financial losses."[14] It generally applied where the issuer used some or all of the funds raised to lend to a third party, buy or acquire investments, or buy or fund the development of property.[15] In such cases the products can only now be promoted to investors that are "sophisticated or high net worth", together with a risk warning.[16]

---

8 Financial Times, APPG chair calls for inquiry into Blackmore Bond scandal, 8 March 2021
9 Ibid
10 Citywire, 'Catatonic' FCA under fire over mini-bond firm's collapse, 26 April 2021
11 Financial Times, APPG chair calls for inquiry into Blackmore Bond scandal, 8 March 2021
12 The Telegraph, FCA warned three years ago about promotion of collapsed Blackmore Bond (paywall), 28 April 2020
13 The Independent, FCA was warned three years ago about mini-bond firm Blackmore Bond, which collapsed with £45m of savers' money, 30 April 2020
14 FCA, FCA confirms speculative mini-bond mass-marketing ban, 10 December 2020
15 HM Treasury, Regulation of non-transferable debt securities (mini-bonds), A consultation, April 2021
16 FCA, FCA confirms speculative mini-bond mass-marketing ban, 10 December 2020

## 1.3 London Capital & Finance plc

BB went into administration in the same month as another mini-bond firm, former West Ham United sponsor Basset & Gold (B&G), which had raised around £36m from 1,800 investors. Many bondholders accuse B&G Finance Ltd, a subsidiary of B&G which was FCA-authorised company and marketed the mini-bonds, of mis-selling them. The bondholders are seeking compensation from the Financial Services Compensation Scheme.[17]

The collapses of BB and B&G followed the high-profile collapse of another mini-bond issuer, London Capital & Finance plc (LC&F), which went into administration on 30 January 2019. Over 11,500 bondholders had invested around £237m in LC&F products and the administrators had estimated that investors might only get 20% of their investment back.

In December 2020, the independent Gloster Report into the FCA's regulation of LC&F was published. It was strongly critical of the FCA's approach, contending that the regulator had failed to fulfil its statutory objectives. The report made 13 recommendations to the FCA and to the Government, all of which have been accepted.

The Government has since established a one-off compensation scheme for LC&F bondholders, because of "the specific and complex set of circumstances surrounding the collapse of" LC&F.[18]

See the Commons Library briefings on London Capital & Finance for more detail and the Compensation (London Capital & Finance plc and Fraud Compensation Fund) Bill 2021-22 for detail on the statutory compensation scheme being set up.

In April 2021, in line with the recommendations of the Gloster Report, the Treasury published a consultation on the regulation of mini-bonds. The options being explored are (i) bringing the issuance of mini-bonds within the FCA's regulatory perimeter (remit), requiring issuers to be authorised by the FCA; (ii) keeing mini-bonds unregulated but requiring issuers of mini-bonds to produce an FCA-authorised prospectus before offering the product to the public; or (iii) relying on measures taken by the FCA and the Treasury to tighten the Financial Promotions regime (such as the FCA's ban on marketing mini-bonds). The consultation closes on 12 July 2021.[19]

---

17 Thisismoney, West Ham United sleeve sponsor Basset & Gold goes bust - but investors 'mis-sold' its mini-bonds may be entitled to up to £85k compensation, 23 April 2021

18 Statement UIN HCWS678, 17 December 2020

19 See HM Treasury, Regulation of non-transferable debt securities (mini-bonds), A consultation, April 2021

## 1.4 Developments in Parliament

The Government has emphasised the exceptional nature of the compensation scheme set up for LC&F bondholders. Economic Secretary John Glen said it was an "an important point of principle that the government does not step in to pay compensation in respect of failed financial services firms that fall outside of the FSCS. Doing so would create the wrong set of incentives for individuals and an unnecessary burden on the taxpayer." Mr Glen distinguished between LC&F, which was authorised by the FCA to conduct other regulated activities[20] and BB, which was not and did not directly promote its own mini-bonds.[21]

Peter Grant MP said he disagreed with the Government's assessment that LC&F was "distinctive in any material way" from BB. Whilst BB was not authorised by the FCA, it "hid behind the FCA registration of other companies that acted as its representatives."[22]

At Prime Minister's Questions on 9 June 2021 Mr Grant raised the issue of BB and asked "How many more scandals like that will it take before we have a regulatory environment that is fit for purpose and that offers our constituents proper protection against investment scams?" The Prime Minister responded that he "cannot comment on the case, save to say that if he will send me details, we will get back to him as soon as we can."[23]

### Adjournment Debate

SNP MP Peter Grant secured a House of Commons adjournment debate on "the Financial Conduct Authority and the collapse of Blackmore Bond plc" on 30 June 2021.

In his speech, Mr Grant gave examples of BB's promotional material which he believed were "blatantly false or extremely misleading". He argued that "it took the FCA far too long to do anything, and when it did something, it did not do enough".

Conservative MP Kevin Hollinrake intervened to say it was "simply unacceptable" that the FCA was not "more proactive" in dealing with complaints about BB.

Mr Grant concluded that without action, "in 50 years from now or 100 years from now, our successors will be in the successor to this Parliament bemoaning the fact that billions of pounds have been taken out of the pockets

---

[20] See FCA, London Capital and Finance plc, last updated 13 April 2021

[21] Question UIN 3935 (Blackmore Bond: Insolvency), tabled on 19 May 2021

[22] HC Deb 8 June 2021, vol696, col913

[23] HC Deb 9 June 2021, vol696, col956

of hard-working people and used to fund a luxury lifestyle for charlatans, crooks and conmen."

For the Government, Economic Secretary John Glen expressed his "deep sympathies" to bondholders but argued that "ultimately the FCA cannot be said to have the same set of responsibilities towards unauthorised firms engaged in unregulated activities." However, he noted that the Government had "launched a consultation that includes proposals to bring the issuance of mini-bonds into regulation".[24]

After the debate Mr Carlier tweeted that the "FCA is choosing to lie about this case because they dropped the ball" and accused Mr Glen of "making [the] same false representations" as the FCA.[25]

[24] HC Deb 30 June 2021, vol698, col373 onwards

[25] Twitter, Paul Carlier (@Carlier_J87), tweets from 1 July 2021 [accessed 1 July 2021]

## Disclaimer

The Commons Library does not intend the information in our research publications and briefings to address the specific circumstances of any particular individual. We have published it to support the work of MPs. You should not rely upon it as legal or professional advice, or as a substitute for it. We do not accept any liability whatsoever for any errors, omissions or misstatements contained herein. You should consult a suitably qualified professional if you require specific advice or information. Read our briefing 'Legal help: where to go and how to pay' for further information about sources of legal advice and help. This information is provided subject to the conditions of the Open Parliament Licence.

## Feedback

Every effort is made to ensure that the information contained in these publicly available briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated to reflect subsequent changes.

If you have any comments on our briefings please email papers@parliament.uk. Please note that authors are not always able to engage in discussions with members of the public who express opinions about the content of our research, although we will carefully consider and correct any factual errors.

You can read our feedback and complaints policy and our editorial policy at commonslibrary.parliament.uk. If you have general questions about the work of the House of Commons email hcenquiries@parliament.uk.

The House of Commons Library is a research and information service based in the UK Parliament. Our impartial analysis, statistical research and resources help MPs and their staff scrutinise legislation, develop policy, and support constituents.

Our published material is available to everyone on commonslibrary.parliament.uk.

Get our latest research delivered straight to your inbox. Subscribe at commonslibrary.parliament.uk/subscribe or scan the code below:

commonslibrary.parliament.uk

@commonslibrary