

The complaint

Mr H has complained about the way eToro (UK) Ltd ('eToro') handled a reverse stock split and conversion of one of his shareholdings. Mr H says he has lost US\$8,000 and wants this returned to him.

What happened

Mr H had been trading in shares and Contracts for Difference ('CFDs') with eToro since May 2021. As part of that trading Mr H took positions in AMC Entertainment ('AMC') and AMC Preferred Equity ('APE').

Mr H held 4880.01 units of APE. On 24 August 2023 a one for ten reverse stock split took place in AMC and on 25 August 2023 APE were converted to AMC Entertainment Common stock. As a result, Mr H held 480.121714 AMC Common stock.

Mr H wasn't happy with how eToro treated the corporate action on his account and raised his concerns. eToro responded to Mr H. It said;

- It explained the terms of the stock split and the impact on Mr H's holding.
- Its approach didn't involve opening the position at a specific market rate, but it offered its clients the number of units they were eligible for.
- Because of this, the initial price would display at 0.0100 so even though the opening price of the AMC position showed at US\$4.80 it was the APE position Mr H had previously held divided by the stock split ratio and converted into an AMC holding. It simply replaced the APE position he had previously held.
- At the time of writing Mr H's holding showed an unrealised profit of US\$5,449.38, subject to the market.
- eToro used the lowest possible value as the opening rate and the holding displayed as a stock dividend on Mr H's account so he could differentiate it from his other positions.
- It had acted within its term so couldn't offer any compensation.

Unhappy with the outcome Mr H brought his complaint to the Financial Ombudsman Service. Our investigator who considered the complaint didn't think eToro needed to do anything more. He said;

- He outlined eToro's Terms and Conditions relevant to both the CFDs and direct shareholdings and was satisfied they were complied with.
- Mr H's account showed that his APE positions incurred a loss from his APE positions closing at a zero price, but the corresponding AMC position was opened at a zero price following the conversion. While a loss was displayed on Mr H's account the new shares were added to his account with the corresponding quantity and value of the shares closed.
- Following the conversion there was a significant price drop on 24 August 2023 and

thereafter a fall in the value of Mr H's shares however, this wasn't because of eToro's actions, but market forces.

- The AMC shares showed as stock dividends to allow Mr H to differentiate between the shares received because of the reverse stock split and other AMC positions Mr H had opened through the market.
- It was at eToro's discretion – as per its Terms and Conditions – that allowed it to adjust the securities in light of the corporate action, but the investigator hadn't seen any evidence to suggest its handling of the corporate action was unfair or caused Mr H a financial loss.

Mr H didn't agree with the investigator. After further correspondence no agreement could be reached so the complaint has been passed to me to decide in my role as ombudsman.

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.

After doing so I've reached the same conclusions as the investigator and broadly for the same reasons. I'll explain why.

I'm aware Mr H has raised his concerns about the proxy voting rights for his position in AMC and how that has impacted on his position. But that is being dealt with as a separate complaint, so I won't be addressing any of those complaint points in this decision.

I fully appreciate Mr H doesn't agree with how eToro has actioned and recorded the corporate events in AMC/APE. While I can't tell a firm how to run a business, I can assess how that impacts on the customer and whether they have been treated fairly and reasonably. So, in this case I have reviewed the Terms and Conditions of the account which Mr H agreed to when he became a customer of eToro's and whether eToro acted in line with those terms.

The Terms and Conditions Mr H agreed to when he opened his account address the event of a corporate action. With regard to CFDs they say;

'3. Limitations to our CFD trading service When you trade a CFD, you will have an economic exposure to the underlying product of the CFD, but you will not have legal ownership of any underlying products. For example, if you trade a CFD over shares, you will not have the rights which legal owners have, such as voting rights or rights to dividends.

However, we may carry out adjustments if a "Corporate Event" occurs. Please see paragraph 11 – "Corporate Events" below for more information.'

Paragraph 11 the says;

'11. Corporate Events

11.1 A Corporate Event is something which will result in a change to one or more financial instruments. Examples of Corporate Events include, but are not limited to, share consolidations, share splits, reorganisations, mergers, take-over offers (and similar), name changes and rebranding, dividend distributions, insolvency, delistings and changes to Applicable Law or regulation.

11.2 If a Corporate Event impacts the underlying product of a CFD in your eToro account, we will use reasonable endeavours to adjust the open positions on that CFD, in a fair way and in accordance with market practice, and/or taking into account the treatment we may receive from our counterparties or any relevant third party and the deduction of any taxes applicable. The adjustments we carry out will depend on the circumstances of each event, and is according to our sole discretion, however we are not obliged to do this. Adjustments may include changing the price or the quantity of CFDs that you have in your account to reflect the economic rights that you had prior to the Corporate Event occurring.

11.3 Notwithstanding clause 11.2 above, we reserve the right to close any open CFD positions where the underlying product is impacted by a Corporate Event (including delistings and insolvency) in a fair way and taking into account the treatment we may receive from our counterparties and/or any relevant third party. In this respect we may make any required adjustment (price, quantity or any other adjustment) resulting from the Corporate Event as may be applicable.

11.4 We may close your open positions prior to or following such Corporate Events, at our sole discretion.

11.5 Please refer to Part 3 of the Terms and Conditions for more information about our rights and your rights in special circumstances.'

The Terms and Conditions also outline those terms when investing in securities;

'10. Corporate Events

10.1 A Corporate Event is something which will result in a change to one or more financial instruments. Examples of Corporate Events include, but are not limited to, share consolidations, share splits, reorganisations, mergers, take-over offers (and similar), name changes and rebranding, dividend distributions, insolvency, delistings and changes to Applicable Law or regulation.

10.2 If a Corporate Event impacts a security in your eToro account, we will use reasonable endeavours to adjust the securities in your account in a way that is fair and which aligns with market practice, depending on the circumstances of each event and according to our sole discretion, although we are not obliged to do this. Adjustments may include changing the price or quantity of securities in your account, to reflect the economic equivalent of such rights.

10.3 Notwithstanding clause 10.2, we reserve the right to close out any open positions impacted by a Corporate Event (including delistings and insolvency) in a fair way and taking into account the treatment we may receive from our counterparty and/or any relevant third party. In this respect we may make any required adjustment (price, quantity or any other adjustment) resulting from the Corporate Event as may be applicable. We may close out open positions prior to or following such Corporate Events, at our sole discretion.

10.4 Actions taken by us to adjust the securities in your account after a Corporate Event may create tax liabilities for you. We may deduct tax when making adjustments, however it will be your responsibility to satisfy these liabilities if we did not make such deduction. We may claim or reclaim tax credits on dividends or other income on securities.'

I'm satisfied those Terms and Conditions lay out the ways in which eToro could act in the event of a corporate action and how it could make adjustments to the price, quantity or other adjustments at its sole discretion. I don't find those terms to be unfair or unreasonable.

eToro's final response to Mr H's complaint confirmed that he held 4,880.01 APE prior to the conversion to AMC shares. And from the account statements I can see that all of Mr H's APE positions were closed on 25 August 2023 and replaced on the same day with an open position of 480.12174 AMC shares. So, Mr H's holding of APE was effectively replaced with a holding in AMC and this tallies with the ratio for the reverse stock split of one for ten and the conversion. And I can also see a further open position on 31 August 2023 of 22.400371 AMC shares. eToro explained to Mr H this was the stock dividend distribution for shareholders who held shares at the end of trading on 23 August 2023.

For a reverse stock split the share count drops and its normally the case that the share price rises correspondingly. But that didn't happen in this case. I see that in August 2023 AMC shares were trading at around US\$40 but in mid-August the share price fell after AMC announced it would hold the reverse one for ten stock split.

And on 25 August – the day APE positions were converted to AMC shares – the share price fell to around US\$12. Since then, the shares have continued to fall in value. So, while I accept that Mr H's shareholding has considerably fallen in value from before the reverse stock split and conversion, that looks to be as a result of the stock market response rather than eToro's handling of the corporate action.

I appreciate that Mr H has raised questions about this and the conversion itself but it's not the role of this service to look at the reasons for corporate actions etc or how that decision is received by the stock markets. But from the information presented to me I can't see that eToro mishandled the corporate action or that Mr H hasn't received the correct number of AMC shares that he was entitled to under the terms of the corporate action.

eToro has annotated the AMC shares that came about post the conversion from APE as a stock dividend or 'DIV' on Mr H's account. It said this was so Mr H could identify that particular shareholding as being shares that came about as a result of the conversion compared to other AMC positions he held. I appreciate Mr H disagrees with the presentation of the AMC shares being annotated as 'DIV', but I don't see that has any material impact on the value of the shares or the shares themselves.

Taking all of the above into account, I don't agree eToro has acted unfairly or has unreasonably treated Mr H, nor do I find it acted outside of its Terms and Conditions. And I haven't seen any evidence to suggest Mr H hasn't been allocated the correct number of AMC Common stock post the reverse stock split and APE conversion. I accept Mr H isn't happy the resulting shareholding is annotated with 'DIV' on his account, but I don't find eToro's reasons for doing so to be anything other than helping its customers to differentiate the origin of those shares compared to positions opened in the market.

And I can't see any loss Mr H may have incurred has been caused by eToro. Rather it was the stock market's reaction to the reverse stock split announcement and then conversion of the APE holdings. But clearly eToro can't be held responsible for that.

So, overall, I don't uphold Mr H's complaint. I appreciate Mr H will be disappointed with the outcome. It's clear he feels strongly about his complaint, and I thank him for the time and effort he has spent in bringing it. But I hope I have been able to explain how and why I've reached the decision that I have.

My final decision

For the reasons given, I don't uphold Mr H's complaint against eToro (UK) Ltd about its handling of the corporate action referred to.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 19 November 2024.

Catherine Langley
Ombudsman