DRN-5213681

The complaint

Miss C's complaint against Scottish Widows Limited ("SW") is about the conversion of shares she held in a portfolio fund from one class to another. She complains that SW did not provide a satisfactory explanation for the conversion and feels she has lost out because there was a significant difference in the value and performance of the two share classes.

What happened

Miss C took out her original OEIC and ISA investments in 2010. Each year she moved an amount equivalent to the annual ISA allowance from the OEIC to top up her ISA. This continued until 2016 by which time all of the funds were invested in the ISA.

In April 2017 SW added 240.283 shares (valued at £427.22) to Miss C's ISA. They explained that this was to reimburse her for the overpayment of charges for top-up payments made to her ISA between 1 October 2012 and 19 February 2017.

SW wrote to Miss C in June 2017 to say that her top-up investments and the additional shares added in April 2017 had been converted into a new share class (from A class to P class shares), which had a lower annual management charge (AMC). The letter said that as a result of the move to a new share class there was a change in the number of shares Miss C held but no change in the value of her investment.

Miss C first complained to SW in July 2022, and then brought her complaint to our service in December 2022. Miss C raised a number of complaint points, one of which related to the share class conversion. She complained that although the documents she received at the time the new share class was introduced said that the value of her investment would not change, she felt it resulted in her incurring a loss of several thousand pounds a year.

One of our investigators looked into Miss C's complaint. He said SW had not responded to Miss C's concerns about the share class conversion and so he was unable to make a finding on whether SW's actions had been correct. He said that in order to put things right, SW should provide a detailed response to Miss C's correspondence on the share class conversion and pay Miss C £300 for the distress caused to her by their delays in responding to reasonable and legitimate questions about her investment. He said that Miss C could raise a further complaint about the issue if she remained dissatisfied with the answers received from SW. Both parties accepted our investigator's findings.

Miss C later complained that she had still not received an adequate response from SW about the share class conversion. She maintained that she had incurred a loss of £19,161.38 solely as a result of SW introducing a new share class and should be reimbursed that amount. In their final response, SW apologised for the poor service Miss C had received and sent her a cheque for £368 in compensation.

Our investigator gathered information from both parties and gave his initial view in January 2024. Both parties submitted further information and our investigator issued subsequent views in September and November 2024. In his most recent view our investigator said, in summary:

- He didn't think SW had acted unfairly when they converted Miss C's shares.

- The A class and P class shares were broadly invested in identical underlying investments, and he didn't think the performance of the P class shares was inferior to the A class shares.

- He thought SW had failed to provide Miss C with a detailed explanation in relation to her concerns within a reasonable timeframe. That led her to raise an additional complaint with our service. He therefore thought it was fair and reasonable for SW to pay Miss C £200 for the trouble and inconvenience caused.

SW agreed with our investigator's findings.

Miss C disagreed and asked for an ombudsman to make a final decision on her complaint. She says, in summary:

- Following the provision of further information by SW, she now sees that the unit prices of the two share classes were different, but SW's June 2017 letter did not make that clear. She thinks it was misleading for SW to say that the value of her investment hadn't changed.

- Her shares were automatically converted without consent and the two share classes had different eligibility criteria, charges and unit prices.

- She lost 76.8p per share on the P class shares and should have been given an additional 17668.592 shares. She calculates her loss on that basis to be £19,899.

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.

I should first acknowledge that the background I have provided above is a summary of this complaint. I have set things out in less detail than Miss C has done, and at times I've done so using my own words. The purpose of my decision isn't to address every single point raised by the parties involved. If there's something I've not mentioned, it isn't because I've ignored it. I'm satisfied that I don't need to comment on every individual argument to be able to reach what I think is the right outcome. No discourtesy is intended by this; our rules allow me to do it and it simply reflects the informal nature of our service as a free alternative to the courts.

As our investigator has explained, the share class conversion that SW carried out in 2017 was related to the retail distribution review (RDR), which was a regulatory change introduced in January 2013. The regulator identified that the AMC on a number of funds was too high as it still included an advice fee and so SW converted all top-ups that had been made since October 2012 to a new share class with a lower AMC.

The crux of Miss C's complaint is that she lost out from the share class conversion and that the information SW provided to her at the time was unclear. I've therefore looked closely at the letter that was sent to Miss C in June 2017 and note that it included the following information:

- It said that SW had notified Miss C in April that they would be converting her top-up investment into a new share class by 30 June 2017.

- It said that SW had given Miss C additional shares to reimburse her for the overpayment of charges for top-up payments made to her ISA between 1 October 2012 and 19 February 2017. The number of additional shares (240.283) and their value (£427.22) was shown in table 1 of the letter.

- The letter explained that Miss C's top-up investments and the additional shares for reimbursement had been converted into a new share class, which had a lower AMC. There was a change in the number of shares Miss C held but no change in the value of her investment as a result of the move to the new share class.

- The letter explained the meaning of a fund share class and share class conversion. It said that having different share classes allowed the same fund to be used by different types of investors and that each share class would generally have different eligibility criteria, such as minimum investment values, and different levels of charges. The new share class for Miss C's holdings had a lower AMC.

- It provided the table below (table 2) showing the share class changes to Miss C's fund from the conversion date.

	Share class	Number of shares	Share value as at 19/05/2017	Annual Management Charge (%)
Former	Class A Accumulation	13,151.77	£23581.13	1.25
New (from SCC date)	Class P Accumulation	23,005.98	£23581.13	0.75

I think SW's letter provided sufficiently clear background on fund share classes and conversions. It explained why some of Miss C's shares – relating to the top ups she had been making to her ISA since 2012 and the additional reimbursement shares - would be converted to a different class of share. It also provided the number and value of class P shares that Miss C held following the conversion and made clear that there was no change in the overall value of her investment following the conversion.

I note that the letter did not set out the total number of class A shares that Miss C held prior to the conversion or the total number of shares (both class A and class P) and their value that she held after the conversion. Nor did it give the separate unit values of both the class A and class P shares following the conversion. It is clear from the subsequent correspondence that that information would have been helpful to Miss C in understanding what had happened and that the unit values of the two classes of shares were different.

But I've not seen evidence that SW did anything wrong when they converted Miss C's shares or treated her unfairly. And while I accept that their letter could have provided a fuller explanation, overall, I think the information that SW provided about the share conversion was sufficiently clear.

In his most recent view, our investigator gave a detailed explanation of Miss C's holdings before and after the share conversion, based on information provided by SW. He explained that:

- Prior to the conversion, Miss C held 38,051.632 class A shares, a figure that Miss C agrees with.

- As set out in the July 2017 letter, 13,151.773 of those shares were converted to 23,005.980 class P shares on 19 May 2017.

- The conversion was not on a 1:1 basis because the two classes had different unit prices - class P shares were priced at 102.5 and class A shares at 179.3.

- After the conversion Miss C held 23,005.980 class P shares and 24,899.859 class A shares.

Based on the information I've seen I'm satisfied that SW converted Miss C's shares correctly. The value of the 23,005.980 class P shares was equivalent to the value of the 13,151.773 class A shares they were converted from. So, Miss C did not lose out as a result of the conversion, and I don't agree that she should have been allocated more shares. I think it was reasonable and not misleading for SW to say that there was no change in the value of her investment as a result of the move to the new share class.

Miss C has also complained that she has lost out as a result of the subsequent performance of the class P shares. I'm not persuaded that is the case. The two share classes are invested in the same holdings and the difference in price is likely a reflection of the fact that the AMC of the class P shares is lower, something which is to Miss C's advantage.
And based on the information I've seen I don't think the performance of the class P shares (measured by % change in price) was inferior to the class A shares.

Miss C also queried why following the share conversion her statements didn't show any reinvested tax credits or distributions. I think that was due, not to the share conversion, but to changes in the rules governing how ISA tax protection worked. Previously, dividends were effectively pre-taxed before they were paid, and investors then received a dividend tax credit. From the tax year starting April 2016, the tax credit was removed, and taxpayers were entitled to an annual dividend allowance of £5,000 (reduced to £2,000 from 2018), which meant they could receive dividends up to that amount without becoming liable for tax.

In summary, I don't think SW did anything wrong at the time of the share class conversion and I don't think Miss C has lost out as a result of their actions. I am satisfied however that when Miss C later queried what had happened, SW failed to address her concerns and provide her with a clear explanation. That has caused Miss C significant distress and inconvenience. I note that SW have already paid some compensation in recognition of this, but taking account of all the circumstances of this case I agree with our investigator that it would be fair and reasonable for them to pay Miss C a further £200.

My final decision

For the reasons I've explained, my final decision is that I uphold in part Miss C's complaint.

Scottish Widows Limited should pay Miss C £200 in compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 24 March 2025.

Matthew Young
Ombudsman