DRN-5422400

The complaint

Mrs S is represented (by 'R').

Her portfolio of investments is held on the platform provided by Financial Administration Services Limited, trading as Fidelity. Her complaint relates to her Individual Savings Account ('ISA') on the platform. In the complaint form she submitted to us she said –

"*Fidelity is providing me with inaccurate information relating to book cost of my investment. Back in 1996, I gave an instruction to reinvest dividend but I had no idea that the purchase of investment made from reinvested dividend, its cost is not included in the original purchase price. As a result of this exclusion, gains on my account gets grossly overstated*."

Fidelity disputes the allegation.

What happened

Mrs S' 23 November 2023 complaint to Fidelity, submitted by secure message, mainly stated as follows –

"*I have been reviewing my account and going certain figures, I find that Fidelity does not include actual purchase cost of reinvestment of dividend to the original book cost. With this revelation I find that the profits shown in my account is overstated, the figures presented are misleading.*
The issue of not incorporating additional acquisition cost to the original book cost has been an ongoing issue. Having analysed my account over the years i.e. since I opened the ISA with Fidelity it amounts to around £21,953.91.
It is a serious issue and I would like to lodge a formal complaint for further investigation."

In a submission to our service, R clarified that the allegation is about treatment of the investments' book costs "*When calculating Gains/Profit in investment report*". He also said the following additional allegation should be addressed –

"*Fidelity is also not maintaining a client specific "cash Account" where investor can see accurate movement of cash. The account that complies with acceptable double entry bookkeeping standard that provides accurate audit trail*."

R has also made submissions and illustrations about definitions and reporting treatments for elements connected with the complaint, and about the tax liability problem arising from the complaint matter – mainly covering the distinction between fund units and company shares; the distinction between accumulation units and income paying units (income paying units being the type in, and relevant to, the complaint); the relationship between dividends and their reinvestments; illustrations of the resulting and detrimental effects on the calculation of Capital Gains Tax ('CGT'); and expert opinions on the complaint matter.

One of our investigators looked into the issues and concluded the complaint should not be upheld. In the course of her views on the complaint, she mainly said –

- The submissions and illustrations from R are understood. However, it should be noted that the complaint essentially relates to Fidelity's business model and its operation. The commercial soundness of its business decisions in these respects would not be a matter she would comment on.
- Fidelity's explanation is that in terms of performance the reinvested dividends are not added to the original book costs of the relevant investments because they add extra units to the account, which increases the account's value, and which reflects a gain/loss. However, it acknowledges that the reinvestments change the average cost of the investment.
- Fidelity has also referred to support for its approach from an actuary.
- Its explanation is reasonable. It is also not in her [the investigator's] remit to ask Fidelity to change its business practices and to adopt the practice Mrs S seeks. If she [Mrs S] disagrees with Fidelity's practice she has the option to move her account elsewhere.
- The cash account issue raised by R is also a business decision for Fidelity, with which we would not interfere.

R disagreed with this outcome and made further submissions. On Mrs S' behalf, he also asked for an Ombudsman's decision.

In additional to comments on the investigator's approach to the case (alleging contradictions and bias on her part), R mainly said – the correct approach is to determine whether (or not) the dividend reinvestment costs should be included in the "original purchase cost of the asset", then determine whether (or not) a failure to do so affects the asset's overall valuation and/or tax treatment of its gains/losses and/or calculation of the asset's total return; Fidelity's position on the complaint is misguided, it overlooks the fact that the reinvestments are purchases in their own right, so they cannot be treated as having zero costs (they inherently have a purchase cost); the argument that Mrs S' dividend reinvestment instruction means the reinvestments are "dealt directly into the fund and do not go into cash first" is wrong and baseless, accumulation units could behave that way but reinvestment of dividends from her income paying units has an unavoidable stage in which the dividend is paid before it is reinvested, so it is not dealt directly into the fund; in this respect, Fidelity's failing in the cash account allegation has also compounded the problem; and, overall, he has submitted expert opinions, including from within Fidelity and from the Investment Association, which support his arguments for the complaint.

The matter was referred to an 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.

My initial finding relates to the cash account allegation that R appears to have added unto Mrs S' complaint. I consider it an *addition* based on the following – a comparison of the complaint she presented in her secure message to Fidelity and in the complaint form she submitted to us (both quoted above), against R's description of the cash account allegation (also quoted above); the difference between both; evidence that neither the secure message nor complaint form includes the cash account allegation; evidence that there does not appear to be reference to the cash account allegation elsewhere in the complaint form; Fidelity's complaint response, which does not mention the allegation; and the context in which R presented the allegation, which shows that it is a later addition.

I do not have jurisdiction to determine a complaint issue that has not first been put, by Mrs S, to Fidelity, and one which it has not been given a chance to respond to. Therefore, for this and the above reasons, I consider the cash account allegation outside the remit of her complaint and of this decision. If R considers that the allegation is implicitly part of the complaint, I disagree. The complaint is about investment book costs and treatment of the costs of dividend reinvestments, yet the additional allegation is about maintenance of and transparency within a client specific cash account. They are patently distinct matters.

Like the investigator, I too have read and understood R's submissions and illustrations in support of Mrs S' complaint. They have been competently presented and I consider his points to be clear. However, it seems equally clear that, overall, he and Mrs S essentially seek a change in Fidelity's reporting operations/practices.

My power is limited to determining the complaint. Our service is not the industry regulator so it is beyond my remit to tell Fidelity how to conduct its operations, but if it can be established that Fidelity has treated Mrs S unfairly and/or unreasonably, in terms of reporting in her ISA platform account, then I can address that. This is the approach to the complaint I have taken, and that, I believe, was also taken by the investigator. In this respect, I have read R's criticisms of her overall approach. I do not address them, because my role is to consider the complaint afresh and to make my own findings, which is what I have done. Having done so, I am not persuaded to uphold the complaint.

Before proceeding further, I briefly comment on the different expert opinions both parties have referred to in support of their respective positions. I have read and considered them, but I do not feature them in my findings mainly because, as I explain below, the main issue can be determined by available facts and evidence. I have not found any added grounds in the opinions that are pivotal to deciding the complaint.

By definition, dividend reinvestments will stand separately to the "original" book cost of an investment. The latter relates to the purchase cost at the outset of the investment. Any dividends/incomes from the investment can only be reinvested *after* the initial investment – potentially at different prices to the initial investment price; potentially at different prices to earlier reinvestment prices; potentially at different purchase sizes to the initial investment size; and potentially at different purchase sizes to earlier reinvestment sizes.

In other words, Mrs S' argument that dividend reinvestment costs should be *added* to the "original purchase price" or "original book cost" appears to face difficulty in the sense that, for the above reasons, it would be factually impossible to do so. This does not mean R is wrong about all such reinvestments bearing purchase costs. That is an undisputable fact, and it does not appear to me that Fidelity disagrees.

It is clear that the dividend reinvestments in Mrs S' ISA have happened on the basis of her reinvestment instruction. It is equally clear that they happen in the form of the dividends being used to increase the ISA's units in the relevant fund, through reinvestment. I do not have a copy of the 1996 key facts and terms document for the account, but the November 2023 copy includes –

"***Can I reinvest any income generated by my investment?***

Yes, you can. When we open your new account any income paying funds will automatically pay income to 'Cash within your account', however you can log in to your account online at fidelity.co.uk and choose your income to be re-invested under 'Income management' section. <u>When a fund generates an income payment, you can use this to automatically buy additional shares</u>. Please note the fund manager may make a charge when you do this (please see page 12 for details on charging).

In addition, please also note that the income payment will only be re-invested into the asset that generated the income." [my emphasis]

As I have emphasised above, Fidelity recognises that execution of a reinvestment instruction involves the use of dividends to 'buy' additional shares (or units), so it does not appear to me that it disputes the fact that there is an associated purchase cost. Furthermore, in its complaint response to our service, Fidelity said – "… *<u>for CGT purposes we do include reinvested dividends in book cost calculations, as these change the average cost of the investment</u>. However, when calculating performance, we treat reinvested dividends as having zero cost as they are considered to be pure gain*." [my emphasis]

Ultimately, the harm that Mrs S and R seek to avoid is misrepresentation of gains in an investment holding within the ISA. It is clear from the above quote that Fidelity's process covers this. It has confirmed that for CGT purposes it incorporates dividend reinvestments as part of a holding's "average cost". I consider this reasonable. An average cost approach caters for the point I made earlier about dividend reinvestment costs having (or potentially having) different characteristics to a holding's initial purchase costs, and standing separately to the original purchase costs. Using average costs captures both (original purchase costs and subsequent dividend reinvestment costs), and it achieves the overall recognition of all 'costs', as sought by Mrs S and R. Furthermore, and as Fidelity says, it does this for CGT purposes, so the approach also addresses the CGT related concern that Mrs S and R have in the matter.

I appreciate that Fidelity's approach towards presenting dividend reinvestments in the context of performance is different. I also take on board all of R's criticisms of the approach. However, overall and on balance, I consider the debate in this respect partly redundant – because the main issue for Mrs S, as is evident in R's submissions and illustrations, is how gains/losses in her investment holdings are treated for tax purposes, which Fidelity's quoted response above addresses and appears to resolve – and partly a matter of conflict between Fidelity's business practice and the different practice that Mrs S would prefer.

The dividend reinvestments are costs and Fidelity treats them as such for CGT purposes. In terms of performance, my understanding is that it considers dividends/incomes from an investment holding to be a type of gain from the initial investment, and that if they are reinvested then both the reinvestment(s) and any gain that results from that depict the investment's overall performance – and, to maintain consistency in this approach, it treats the reinvestments as having 'zero cost' and as 'pure gain'. The reasoning behind this approach can be understood. I do not venture beyond this comment. I do not make a finding on whether (or not) the reasoning and/or approach is reasonable, because I do not need to and because, depending on what is considered, it could be beyond my remit to do so.

The point to note is that the approach is reasoned, not arbitrary. R might say a view should be taken on the approach in terms of whether (or not) it meets minimum regulatory reporting requirements. If regulation is the consideration, that is beyond my remit. If the consideration is about a regulatory breach that has caused or contributed to the harm that Mrs S has complains of, I can address that, but I have already established, above, that the CGT related harm she is concerned about does not appear to exist. Fidelity's performance reporting practice is a somewhat separate matter and it does not alter that finding.

If, as it appears, Mrs S disagrees with performance of her holding being presented in the way Fidelity presents it and if, as it appears, she is not persuaded by the reasoning behind Fidelity's approach and finds it unreasonable, then, as the investigator noted, she has discretion to consider moving her ISA elsewhere. Overall, on balance, for this reason and for the above reasons, I do not find that her complaint turns on this aspect.

My final decision

For all the reasons given above, I do not uphold Mrs S' complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 22 April 2025.

Roy Kuku
Ombudsman