

## The complaint

Ms S is represented (by 'R').

Her Individual Savings Account ('ISA') is held on the platform provided by Financial Administration Services Limited, trading as Fidelity. The complaint referred to us said –

*"Fidelity is providing me with inaccurate information relating to book cost of my investment. Back in 2010, I gave an instruction to reinvest dividend but I had no idea that the purchase of investment made from reinvested dividend, it's 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 substantive complaint, but it has offered Ms S £150 for its delay in responding to it.

## What happened

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

*"... I have discovered that in displaying the original book of an investment or security Fidelity would not include the units or share purchased via re-investment of dividend instruction. As far as I am concerned this certainly is a serious issue, which completely discotrs [sic] the gains shown in my account as well as performance figures. Therefore, figures shown on the valuation is exaggerated and misleading. I would want to make a formal complaint regarding this and would like to take it to Ombudsman and make a formal complaint."*

*Having analysed my account I find that over the period my account was showing exaggerated profit of £ 6,154 50"*

However, in a submission to our service, Ms B said her complaint is also about Fidelity "... not maintaining a designated cash account for me where I can check accurate balance of my account at any given time and monitor movement of cash of my account that has an accurate audit trail."

R has also made submissions and illustrations, to us, about definitions and reporting treatments required for elements connected with the complaint, and about the potential tax liability harm caused by the complaint matter. They have mainly addressed 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 effects in the calculation of Capital Gains Tax ('CGT'), and expert opinions that have been obtained on the matter.

One of our investigators looked into the matter and concluded, with reasons, that the complaint should not be upheld. R disagreed with this outcome and made further submissions. On Ms S' behalf, he also asked for an Ombudsman's decision.

In addition 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); its argument that 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 Ms S did not have those; so reinvestment of dividends from her income paying units has an unavoidable stage in which the dividend is paid before it is actively reinvested; therefore it is not dealt directly into the fund; 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 then referred to an Ombudsman. R also asserts that Fidelity's failing in the cash account related allegation has compounded the reporting related problem, so he made a further submission on this for the Ombudsman's consideration.

### **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.

R has represented a number of complaints based on broadly the same claim(s) made in Ms S' case. I have already decided two of those complaints, and my conclusions in them stand in common with those (below) in the present complaint, so he will find the contents below familiar. For the avoidance of doubt, Ms S' case has been considered on its own merits. However, as R is aware, it shares the same core claims and arguments as those I addressed in the other decisions.

My initial finding relates to the cash account related allegation. I consider it an *addition* to the complaint based on the following – the complaint Ms S presented in her secure message to Fidelity did not include this allegation, and Fidelity's complaint response does not address the allegation.

I do not have jurisdiction to determine a complaint issue that has not first been put, by Ms 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.

I have read and understood R's submissions and illustrations in support of Ms S' complaint. They have been competently presented, and I have found his points to be clear. However, it is equally clear that he, and Ms S, essentially seek a change in Fidelity's operations and/or practices, in as far as they relate to the reporting matter.

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. However, if it can be established that Fidelity has treated Ms 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. 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 additional information in the opinions that are pivotal to deciding the complaint, or that alter my findings.

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, Ms S' argument that dividend reinvestment costs should be *included* in the "original purchase price" 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 Ms S' ISA have happened on the basis of her reinvestment instruction. It is also 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 2010 key facts and terms document for the account, but I have seen the November 2023 copy, and it 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](https://fidelity.co.uk) and choose your income to be re-invested under 'Income management' section. When a fund generates an income payment, you can use this to automatically buy additional shares. 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 this fact. Furthermore, Fidelity has told our service the following – "... for CGT purposes we do include reinvested dividends in book cost calculations, as these change the average cost of the investment. However, when calculating performance, we treat reinvested dividends as having zero cost as they are considered to be pure gain."

 [my emphasis]

In addition, Fidelity has referred to book costs being reflected in *Confirmation of Transaction* documents issued when transactions take place.

Ultimately, the harm that Ms S and R seek to avoid is misrepresentation of gains in an investment holding within the ISA. It is clear from the above 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 that they stand separately to the original purchase costs. Using average costs captures both (original purchase costs and subsequent dividend reinvestment costs), and it achieves the recognition of all 'costs', which is essentially what Ms S and R seek. Furthermore, and as Fidelity says, it does this for CGT purposes, so the approach also addresses the CGT related concern that they have in the matter.

Fidelity's approach towards presenting dividend reinvestments in the context of performance is different. I also take on board R's criticisms of the approach. However, overall and on balance, I consider the debate in this respect partly redundant (because the main issue, as is evident in the complaint submissions, is how gains/losses in Ms S' ISA holdings are treated for tax purposes, which Fidelity has addressed) and partly a matter of mismatch between Fidelity's business practice and the different practice that Ms 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/growth. 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 important point is that the approach is reasoned, not arbitrary. R might say a view should be taken on whether (or not) the approach meets minimum regulatory reporting requirements. If regulation is the consideration, that is beyond my remit. If the allegation is about a regulatory breach that has caused or contributed to the harm that Ms S complains of, I can address that. However, I have already found that the CGT related harm she is concerned about does not appear to exist. Fidelity's performance reporting practice is a somewhat separate matter, distinct from its CGT related reporting (as I addressed above), so an issue with the former does not automatically alter my finding on the latter.

If, as it appears, Ms S disagrees with performance of her ISA holding(s) 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 she has discretion to consider moving her ISA elsewhere.

Overall, on balance, and for the above reasons, I do not find that her complaint turns on this performance reporting aspect.

I can determine complaints about regulated activities. Complaint handling, in isolation, is not a regulated activity. It is also not an ancillary activity connected to the conduct of a regulated activity. Sometimes a complaint to a firm and any alleged mishandling of it might form a part of the substantive case. If so, addressing the firm's complaint handling might then be a necessary part of determining the overall complaint. Ms S' complaint is not that type of case. The complaint response delay for which Fidelity has apologised and offered £150 is a complaint handling matter that is separate from the reporting issue, so I do not comment on it.

**My final decision**

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 28 May 2025.

Roy Kuku  
**Ombudsman**