

The complaint

Mr M has complained about the service he received from Halifax Share Dealing Limited ('HSDL') during a rights issue by Rolls Royce Holdings in November 2020. He would like additional compensation for the errors caused.

What happened

On 1 October 2020 Rolls Royce announced a rights issue. The terms were ten New Ordinary shares for every three Existing Ordinary shares at an Issue Price of 32 pence per New Ordinary share.

Mr M held Rolls Royce shares within his stocks and shares ISA he had with HSDL. Mr M wanted to take up his rights allocation if he could and contacted HSDL via its Webchat Service about what action he could take. He wasn't happy with the information he was given, and which resulted in him raising a complaint on 21 October.

In its response on 10 November 2020 HSDL upheld Mr M's complaint. It said;

- It confirmed that the information Mr M had been given via its Webchat Service on 27 September wasn't clear – poor and generic responses were given, and key dates were mistyped.
- It accepted the service provided was below expectations and offered Mr M £50 for the distress and inconvenience he had been caused.

After further problems – a year later – Mr M noticed that insufficient rights had been taken up. He raised a further complaint with HSDL on 5 November 2021. In its response of 2 December 2021, It said;

- Sufficient rights had been sold on his account to take up the balance but the cash which he had also wanted to use to take up rights remained uninvested.
- It confirmed that Mr M had been misinformed about which option he should accept.
- To correct the position, it had added a further 1,386 Rolls Royce Ordinary shares to his account on 16 November.
- It accepted it had taken a year for the position to be corrected but also took into consideration that Mr M hadn't made any contact during this period.
- In recognition of the distress and inconvenience caused, it offered to pay Mr M £100 in full and final settlement of the complaint.

Mr M wasn't happy with the outcome and brought his complaint to the Financial Ombudsman. Our investigator who considered the complaint didn't think HSDL needed to do anything more. He said;

- Mr M had been fully compensated and had been put back in the position he would have been in but for the error.
- Mr M operated an execution only account and he was solely responsible for funding

his account with cash to buy more rights if he wanted to.

- He thought the further redress of £100 was sufficient in the circumstances.

Mr M didn't agree with the investigator. He said;

- He had been given bad advice by HSDL and which he had acted upon.
- He was pleased that HSDL had upheld his complaint but not happy with the proposed remedy and didn't accept the investigator's comment that he 'had accepted all figures and redress offer for the B [business] error at the time.' He said he queried it and asked for a breakdown of the calculation which he never received.

As the complaint couldn't be resolved, it has been passed to me for a decision.

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 have reached the same outcome as the investigator and broadly for the same reasons. I'll explain why.

From the information HSDL has provided I can see that Mr M was first notified of the rights issue on 2 October 2020. That notification confirmed that HSDL would 'communicate the details of the Rights Issue and the options available to you as soon as possible after the proposed Ex-Date of 28th October 2020.'

On 29 October 2020 Mr M was notified with further details and was given four options;

'Option 1 – Take up their Rights.

Option 2 – Partial take up of their Rights.

Option 3 – Sell their Rights.

Option 4 – Cashless take up of their Rights.'

Further details about the options were given and that any rights subscribed to would be credited to Mr M's account on 12 November and stock market trading would start. If Mr M wanted to sell existing shares in his account to finance taking up the rights, he would need to carry out any trade prior to 6 November to ensure there were cleared funds on his account. To accept the rights within his ISA Mr M needed to complete an ISA Customer Application Form or give a verbal declaration.

Mr M spoke with HSDL on 5 November 2020. He had approximately £1,000 cash in his ISA which he wanted to use to take up some of the rights. He also wanted to sell sufficient of the remaining rights to take up the balance/tail swallow. I've reviewed the transcript of the call as provided by HSDL. It says;

'....Agent clarifies that Mr M[...] is wanting to sell some of his rights and use the money to buy up his rights, Mr M[...] says yes, but he also wishes to use the money in his ISA however the communication is not clear on how he would do that. Agent places Mr M[...] on hold whilst she clarifies what needs to be done.

Agent returns and confirms that Mr M[...] can sell as many of his rights as he wants and use the proceeds to take up what was left so if he chooses option 4 so we will sell sufficient for him. Otherwise, he will have to calculate the figures himself.'

As a result of the call Mr M elected for 'Option 4' on 6 November. On 17 November Mr M was notified that the New Rolls Royce Holdings Ordinary shares had been credited to his account.

After reviewing the transcript, I think Mr M was given the correct information, but further clarification would have been helpful. It seems likely to me that;

- Mr M should have taken up as many rights as he wanted to with the £1,000 he had available – which I am of the opinion was indicated by the comment 'he will have to calculate the figures himself';
- and then go on to sell sufficient rights of the remainder to take up as many of the remaining balance as he could.

However, it's not necessary for me to make a finding on this point as HSDL has already put the matter right. I say this because a year later Mr M contacted HSDL about the £1,000 cash on his ISA which hadn't been used to take up any rights. On 15 November HSDL recognised its error when Mr M was informed to select Option 4 which resulted in the uninvested cash being left on his account. It confirmed to Mr M that it would be correcting the position – inclusive of costs and charges – by buying an additional 1,386 Rolls Royce shares for his account which would be debited with £967.92 and it would write off the difference.

Mr M wanted time to review the figures, but the changes went ahead, and the costs of £9.50 commission and £9.79 stamp duty hadn't been absorbed by HSDL. HSDL said it would credit this to Mr M's account. In response to the investigator Mr M disagreed with the comment that Mr M had agreed to the proposed correction at the time.

I've reviewed the transcript of the calls that Mr M had with HSDL on 16 and 17 November. During the first call it confirmed that Mr M's Rolls Royce position was to be corrected and that 1,386 shares would be credited to his ISA. The call continues and 'Mr M confirms that everything is fine, but he would like a couple of days to look at it then we can close it out. Handler requests that when Mr M is happy with the outcome could he please call back, alternatively we will call him in a couple of days....confirms that we will not send him any further details and runs through the figures again...'

On 17 November Mr M is called and he says he has not checked the figures yet but has noticed movements on his account, but he wanted to check the figures. The handler explains that 'the correction was taking place regardless, as we must close the position in the market...' Further into the call the handler apologises that the trades are going ahead but 'it is classed as price sensitive, we need to close the open position in the market.'

While I can understand why Mr M wanted to check the figures before the correction went ahead, I think it's clear from the above that it was sufficiently explained to him why it had to happen as soon as possible. HSDL had a responsibility to make any stock market trade corrections as soon as it could otherwise prices could move against it. So, I don't think by HSDL carrying out the trade as soon as possible was unreasonable.

However, I wanted to make sure that HSDL had corrected the situation properly and asked for details from the time of the rights issue and time of the correction. HSDL has provided the following;

- Mr M was entitled to 5,603 Rolls Royce rights.

- Mr M elected for option 4 (tail swallow/selling sufficient to take up the balance) and the following action took place –
 - 2,562 of the rights were sold at a market price of 0.382p, which after a £5.00 commission charge raised £973.12.
 - The remaining 3,041 rights were taken up at 0.32p each and an overall cost of £973.12.

But Mr M's intention was to use as much of the cash on account as he could to pay for the rights issue and subsequent to that 'tail swallow' the remainder. If that had been done the following would have happened;

- Mr M had £967.92 cash on account.
- He could have added to that by selling 1,194 Rolls Royce rights to raise a further £443.60 based on the sale price of 0.382p and less HSDL's £12.50 commission which took the total cash on his account to £1,411.52.
- He could have taken up the remaining 4,409 rights at a cost of £1,410.88 giving him a total of 4,409 Roll Royce Ordinary shares.

So, to put the matter right, HSDL had to debit the £967.92 from Mr M's account and add 1,368 Rolls Royce Ordinary shares being the difference between the 3,041 shares originally taken up and the 4,409 shares which he should have had if he had been correctly informed.

I hope that now Mr M has had the opportunity to review all of the above figures he is satisfied that HSDL has corrected the matter and he is now in the position he should have been in if he had been able to take the action that he wanted at the time of the rights issue.

Taking all of the above into account I won't be asking HSDL to do anything more. It has added the correct number of Rolls Royce Ordinary shares to Mr M's account and absorbed any charges associated with that. And it has also offered Mr M £100 for the upset that he has been caused. It follows that I don't uphold Mr M's complaint and it is for him to decide whether to accept the £100 that has already been offered.

I know Mr M feels very strongly about his complaint and no doubt my conclusion will be a disappointment to him. But I hope I have been able to explain how and why I have reached the decision that I have.

My final decision

My final decision is that I do not uphold Mr M's complaint and won't be asking Halifax Share Dealing Limited to do anything more.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 7 September 2023.

Catherine Langley
Ombudsman