

The complaint

Mr D complains that Hargreaves Lansdown Asset Management Limited (“HLAM”) didn’t contact him about a rights issue, and that it didn’t sell the rights on his behalf. He wants compensation for his financial loss and for the time and stress he’s been caused, and he wants HLAM to have to tell its clients about corporate actions and their options at the outset.

What happened

Mr D has an execution only share dealing account with HLAM. He has a holding of overseas shares, which I’ll refer to as “M”. He says HLAM didn’t contact him as promised to tell him what his options were. When he contacted HLAM to check what was happening he was told he couldn’t participate in the rights issue, and that HLAM was trying to sell his rights. But, by the time it told him this, the date for trading the rights had expired.

HLAM said that there was no FCA approved prospectus and Mr D is a retail client, so he couldn’t take up the rights. It said it was reliant on its market maker to sell the rights and it couldn’t arrange a sale. It said it should have been more proactive in communicating with Mr D and paid him £150 by way of an apology.

Our investigator didn’t recommend that the complaint should be upheld. He thought HLAM had acted in line with regulations and its terms and conditions – it couldn’t allow Mr D to participate in the rights issue and the timetable for the sale of rights was outside of its control. The investigator thought the £150 compensation for the lack of communication and the inaccurate information given to Mr D was fair and reasonable.

Mr D didn’t agree. He said, in summary, that HLAM caused him a financial loss – he wasn’t told in a timely manner that he couldn’t participate in the rights issue, meaning he couldn’t sell his shares with the rights or sell the rights separately.

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.

In May 2022, K announced a rights issue. HLAM wasn't able to take up the rights on Mr D's behalf because he is a retail client and an FCA approved prospectus wasn't issued in the UK. In the circumstances, I don't find HLAM was obliged to contact Mr D about the rights issue, because he wouldn't have been able to take up the rights. But HLAM was obliged to act in Mr D's best interests, so it looked to sell his rights entitlement. I find this was set out in the agreed terms and conditions which say:

"We may attempt to sell any rights you receive in a corporate action without your prior instruction where (i) you do not have the option to take up those rights (usually where they relate to overseas securities)" (A18)

I'm satisfied from the information that HLAM has provided that it used reasonable endeavours to try to sell Mr D's rights. I say this because it was reliant on CREST allocating the rights to it and setting up the event to exercise the rights. And it was reliant on a market maker to trade. Mr D's rights weren't received by HLAM until 1 June. HLAM contacted its market maker to arrange a sale on 6 June. This was the following working day (due to two bank holidays and a weekend), so I think HLAM acted reasonably quickly. Trading in the rights closed on 8 June and, unfortunately, HLAM's market maker wasn't able to sell the rights in the couple of days available as it said there wasn't a market for them.

I think it's more likely than not that all market makers would have been in the same position.

As noted in the terms quoted earlier, HLAM wasn't obliged to seek Mr D's instructions. But, as he had contacted HLAM when the rights issue was announced and it had told him it would be writing to him, I find HLAM should have been more proactive in keeping Mr D advised of what was happening. I'm not persuaded the outcome would have been any different – HLAM couldn't take up the rights for Mr D and it tried to sell them but couldn't. So, whilst I don't find HLAM caused Mr D a financial loss, I find it's fair and reasonable that it compensates him for its lack of communication. It's paid him £150, and I find that to be fair and reasonable in the circumstances.

My final decision

For the reasons I've explained, my final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 29 September 2023.

Elizabeth Dawes
Ombudsman