DRN-4393804

Financial Ombudsman Service

The complaint

Mrs C complains about an investment she purchased using Hargreaves Lansdown Asset Management Limited's ('Hargreaves Lansdown') platform. Mr C is acting on Mrs C's behalf in this complaint.

Mrs C has complained that Hargreaves Lansdown is showing an inflated, and fictional, profit on her investment account on its systems. This is due to how it shows equalisation information, and the costing and pricing systems it uses.

Mr C says this is not right and may lead to Mrs C, and other investors, making incorrect investment decisions. He would like Hargreaves Lansdown to correct their systems, so the 'profit' shown is correct, and realisable, at all times.

What happened

In 2022 Mrs C invested £131,661.92 into a fund using her Hargreaves Lansdown Self Invested Personal Pension Plan (SIPP). As part of the complaint Mr C has said that on 1 March 2023 the unit price was showing as £209.08 which made the value of the investment £131,945.30. An increase of £283.38.

But Mr C went on to say that Hargreaves Lansdown's system showed that Mrs C's investment had made a 'profit' of £1,234.65 which was £951.27 higher than Mrs C could theoretically realise. This was because, in October 2022, Hargreaves Lansdown applied a 'corporate action' transaction of £951.27. And it reduced the initial investment amount by the same value. This is what had increased the 'profit' for the investment.

As part of the complaint correspondence Hargreaves Lansdown has explained that it did this to display information about the fund equalisation. This situation arises when a fund is purchased between the previous and next dividend dates. So, part of the price paid for the investment includes an amount for the future dividend. Hargreaves Lansdown has said that it reduced the original investment price to show the true cost paid for the units, and separately showed the future dividend portion of the purchase price. This information can be used to calculate the taxation of any profits made. And equalisation is only relevant up to the time the first distribution is made after purchase.

Hargreaves Lansdown went on to explain how this accounting process fitted into its 'moving average' method of fund costing. And it provided an overview of how this worked to Mr C. It also gave him information about how he and Mrs C could use alternative methods to track this investment value, for example by using a watchlist.

As part of the complaint correspondence Hargreaves Lansdown said that whilst it doesn't think this system is incorrect, it is one of a variety of methods it could use to present this information. And that it may not meet with the approval of all of its customers. It also thought that it should have provided a better explanation in one of the telephone calls about how average costing worked. It paid Mrs C £200 as compensation for this.

Mr C, on Mrs C's behalf, doesn't think that Hargreaves Lansdown should display this information in this way as it can make the 'profit' calculation incorrect. When bringing the complaint to the Financial Ombudsman Service he said that he understood that it is shown in this way as it can be used for taxation purposes. And Mrs C hasn't suffered a detriment because of this. But he still thinks it is fundamentally wrong and that Hargreaves Lansdown should change its systems.

One of our Investigators considered the complaint but didn't think that Hargreaves Lansdown needed to do anything further. In summary our Investigator said:

- The equalisation and cost information provided was reasonable and matched industry standard practice.
- Our Investigator provided excerpts and links to the information contained on Hargreaves Lansdown's website that explained how average cost pricing and equalisation payments worked. He didn't think that the information provided was misleading.
- He did agree that Hargreaves Lansdown could have better explained how average cost pricing worked as part of the complaint. But he thought the £200 compensation paid to Mrs C for this was reasonable.

Mr C hasn't agreed, he thinks that if profit is not realisable then it is incorrect to display it on a system as 'profit'. Including a 'theoretical profit' is factually misleading. He thinks that consumers may make investment decisions based on this to their detriment.

As no agreement was reached the complaint has been passed to me to make a final 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.

The industry regulator, the Financial Conduct Authority (FCA) has what it terms High Level Standards which include its Principles for Business (PRIN). There is more information about these here: https://www.handbook.fca.org.uk/handbook/PRIN/2/?view=chapter.

Two of these are particularly relevant here. Principle 6 – Customers' interests, which says a firm must pay due regard to the interests of its customers and treat them fairly. And Principle 7 – Communications with clients which says a firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.

I've reviewed this complaint correspondence, bearing these standards in mind.

I'll start by saying that to uphold this complaint I think it needs to be clear that Mrs C was misled or misinformed and that this was due to the information Hargreaves Lansdown provided. And it also must be the case that Mrs C has suffered some kind of loss, or detriment, due to this misleading information provided by the business.

I've read what all the parties to the complaint have said about how the fund's costs and values are calculated, and the various ways this information has been provided to Mrs C by Hargreaves Lansdown. I won't repeat all this detail as Hargreaves Lansdown has provided a full explanation about this, and it's clear that Mr C has considered and understood this – albeit he disagrees with some parts of it.

The crux of this dispute concerns how Mrs C's investment fund is costed and the treatment of future dividends, which was illustrated by the equalisation entry on Mrs C's investment account. As I've outlined above, Hargreaves Lansdown has chosen to display this information, at times, in a way that shows a potential profit figure that may be slightly different to what Mrs C may receive if she were to sell the investment.

But I don't think this has led to Mrs C (or Mr C on her behalf) being misled here. Firstly, Mrs C has purchased a number of units in a fund. The valuation of these units changes over time in relation to a wide range of factors such as the underlying performance of the investments, any income or dividends these investments provide and the movements in and out of the fund and so on. Hargreaves Lansdown has explained how this can work.

Essentially, this means that whilst the number of units in the fund that Mrs C owns is established and factual, the information about the value of these units over time is indicative. And what the investment will actually provide, that is any profit or loss it has made, won't be established as fact until the units are sold. So, it follows that any profit or loss the investment may show over time is also only broadly indicative. And as Mr C has recognised, it is for 'information only' and so it shouldn't be considered a 'factual' position.

Added to this, Hargreaves Lansdown has provided information that shows how the equalisation payments have affected this investment. It has allocated an amount of the investment for a future dividend payment and reduced the initial investment value. This is so it can be shown how much of the initial investment cost purchased the future dividend payment. This information can be important for taxation purposes, and it's a standard way of providing this kind of information. And Hargreaves Lansdown is right to provide this.

It has led to one part of the information provided about Mrs C's investment showing a potentially greater 'profit' than she may receive if she were to sell this investment. But as I said above these amounts are indicative only and there is full explanation on the website about how the information can be shown. There is other information (such as the unit price) that surrounds this, and Hargreaves Lansdown has provided other ways for Mrs C to track her funds. And I've borne in mind that this is only a short-term situation in any event – pending the next dividend being paid.

Mr C has outlined how he thinks this information could be displayed better such as an entry on a cash account to offset this (similar to how an income fund can work) or a change in the number of units held. But these are also not entirely correct as Mrs C wouldn't actually have access to this cash and I understand Hargreaves Lansdown is required to display the correct number of units.

Mr C, on Mrs C's behalf, has clearly understood all of the information provided. So, I don't think it's reasonable to say that the overall information provided to Mr and Mrs C has misled them.

Mrs C hasn't acted on this information to her detriment. She hasn't suffered a financial loss due to the information she received, and I don't think she suffered a loss of expectation either. I don't think there was a material misunderstanding on their part about what they could receive from the investment.

Hargreaves Lansdown has paid Mrs C £200 as it didn't fully explain how the funds were costed initially. I agree that this is reasonable and is similar to any award I would make if I were to uphold the complaint. So, I don't think that Hargreaves Lansdown should do any more here and I'm not upholding Mrs C's complaint.

My final decision

I don’t uphold Mrs C’s complaint and I make no award.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs C to accept or reject my decision before 12 February 2024.

Andy Burlinson
Ombudsman