

The complaint

Mr D complains about the refusal by AJ Bell Asset Management Limited to assist him in the conversion of his holding in Rosneft Oil Company from Global Depository Receipts (“GDR”) to shares.

What happened

Mr D holds over 12,000 GDRs in Rosneft Oil Company via his general investment account with AJ Bell. In March 2022 the trading of these GDRs was suspended from the London Stock Exchange, due to the sanctions imposed following the invasion of Ukraine by Russia. In October 2022 Rosneft applied for the listing of the GDRs on the London Stock Exchange to be cancelled, which took place in November 2022.

Following suspension, Mr D got in touch with AJ Bell to ask that they assist him in converting his holding to the underlying shares. AJ Bell refused, because they can’t accept the underlying shares on their platform due to restrictions imposed by the UK government and because they only offer access to shares listed on certain markets. In September 2022 the custodian of the underlying shares changed, and the new custodian offered two options for conversion:

- The assisted process – for which AJ Bell would have to assist in conversion and hold a bank account and depository account in Russia to take delivery of the shares in the local market. This was not something AJ Bell was willing to do.
- The forced conversion process – this would require Mr D to complete an application to the custodian directly and would necessitate him having an account in Russia that was able to accept Rosneft shares. He would no longer be able to keep the holding in his account with AJ Bell. AJ Bell said they also wouldn’t be willing to be involved in this process.

Mr D complained about AJ Bell’s refusal to be involved in either process. In summary, he said they ought to either assist him directly, or outsource this to another party who was willing to hold the Russian assets. He said AJ Bell shouldn’t have offered the GDRs on its platform, unless it was willing and able to protect those investments by assisting in conversion. He feels the process of conversion is too onerous and technical for it to be realistic for private investors to be expected to follow it, without the assistance of the platform on which they hold the GDRs.

AJ Bell didn’t uphold the complaint and so Mr D brought it to our service. An investigator at our service looked into it and found that AJ Bell hadn’t done anything wrong. Mr D disagreed – he said other UK firms have utilised the conversion process and asked whether AJ Bell had followed best practice within the industry in this matter. He noted that the investigator hadn’t referred to any of the Financial Conduct Authority’s Principles in setting out his findings. Mr D has also said AJ Bell haven’t given him information about the name of the company his GDRs are registered in.

As the investigator wasn’t persuaded to change his mind, Mr D asked for an ombudsman to consider the complaint, and so it’s been passed to me for 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.

My role is to make a finding as to whether AJ Bell has treated Mr D fairly and reasonably. In deciding this, I've taken into account relevant evidence, law, rules and guidance – including the FCA Principles Mr D has referred to - but I may not comment on any specifically in my decision.

Mr D has provided detailed submissions to support the complaint, which I've read and considered carefully. However, I hope he won't take the fact my findings focus on what I consider to be the central issues, and that I don't go into as much detail, as a discourtesy.

The conversion of a GDR involves the custodian and/or depository transferring the underlying shares into the name of the beneficial owner – in this case Mr D. As the shares are not certificated, in practice this means the ownership is transferred to a broker to be held by the nominee on Mr D's behalf. Usually, only brokers who offer trading in the market of the underlying shares can hold them – so, as the shares in this case are issued by a Russian company, only brokers who access the MOEX (the Moscow Exchange) can hold the shares.

In considering AJ Bell's refusal to assist in the conversion process, I've started by considering the terms and conditions governing Mr D's account, as these set out the agreement he has with AJ Bell. They make no mention of depository receipts and how they can be converted into the underlying shares, which is not necessarily unusual in my experience, as terms and conditions can't cover every eventuality. So, I've considered the reasoning AJ Bell have given for this.

Not all brokers choose to access all exchanges – and generally I consider that this is something that is at their discretion. It's not our service's role to tell a company what investment services they ought to provide. There are various rules and costs involved in offering access to different markets, so it's up to the broker – here AJ Bell – to decide which markets they'll offer to UK investors. AJ Bell has chosen not to accept the underlying Rosneft shares onto its platform. So, I'm satisfied that it's reasonable for AJ Bell to decide not to be directly involved in converting the GDRs, as that would involve them accepting the underlying Rosneft shares onto their platform.

The laws that have gone in to place since Russia's invasion of Ukraine, both put in place by Russia and the sanctions imposed by the international community on Russia, are unprecedented in their scope. I'm mindful that during 2022 particularly there was a great deal of uncertainty in the UK financial sector about whether (or how) assisting in the conversion process would breach any of those laws. Many firms have chosen to take a risk averse approach towards potentially breaching them, given the uncertainty, and have refused to assist. So, AJ Bell aren't alone in their refusal.

Mr D has suggested that AJ Bell ought to have sourced a third party on his behalf who would be able to hold the shares – or assist in the conversion. However, I don't consider this to be something AJ Bell reasonably should have done here. This is because it would go unreasonably above and beyond the scope of the service that they've agreed to provide. I'll explain further.

Essentially if they were to source or recommend a third party for Mr D to use, this could be considered as them making a personal recommendation or making arrangements for Mr D to invest. This could also have the effect of making them somewhat responsible for any

transactions that then took place with that third party – and where that third party may sit outside of the UK regulatory system, this could cause further problems for AJ Bell. So, there are risks to AJ Bell in seeking out a third party on Mr D's behalf. I'm satisfied that whether or not to take those risk is AJ Bell's choice, as it's a matter for their commercial discretion.

Mr D has said AJ Bell shouldn't have offered the GDR on their platform if they weren't going to facilitate the conversion of those GDRs into the underlying shares. However, AJ Bell has not agreed to hold the underlying shares on their platform so conversion would always have been difficult. The main reason for buying GDRs is because the shares themselves are unavailable to buy in the investor's market – so the ability to convert was not guaranteed.

Again I'm mindful that this conversion request is against the background of the sanctions on Russia – it hasn't been made in "normal" circumstances. Overall, I'm satisfied that by offering the GDR for sale on their platform, AJ Bell weren't also promising to assist in the conversion of that GDR, especially given the change in global circumstances that have happened between the sale of the GDRs to Mr D and the conversion request.

I'm satisfied that AJ Bell provided Mr D with detailed information about how he could pursue the forced conversion process and have answered his questions in a fair way. I'm also satisfied that AJ Bell has explained what will happen to the GDRs if he chooses not to seek to convert them himself.

Lastly, Mr D has complained that AJ Bell hasn't told him the name his GDRs are registered in, but I can see that AJ Bell wrote to him on 8 February 2023 with this information, so I can't fairly say they've not answered his questions on this point.

I understand that Mr D will be naturally disappointed by my answer, as it leaves him in a position of holding an asset that can't be traded via AJ Bell. Though I appreciate AJ Bell haven't helped him in the way that Mr D wanted or expected, I'm not persuaded that AJ Bell has treated him unfairly or unreasonably in refusing to assist in the conversion process.

My final decision

My final decision is that I don't uphold this complaint for the reasons set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 5 January 2024.

Katie Haywood
Ombudsman