DRN-4712576

Financial Ombudsman Service

The complaint

Mr K complains that IG Markets Limited have applied a corporate action to positions in his spread betting account in an unfair way.

What happened

On 29 January 2021 Mr K opened a spread bet position in his IG trading account on the share price of AMC Entertainment – the size of the position was £1pp, and the opening level was 1,591.4 pence. He opened another position on 2 December 2022 – the size of this was £5pp with an opening level of 838.3 pence. On 24 August 2023 a mandatory stock consolidation took place at a rate of one share replacing every ten held. This caused a corresponding change to the size and opening levels of Mr K's two positions, to £0.1pp and 15,914 pence and £0.5pp and 8,383 pence respectively. The current levels of the positions were also amended to reflect the new value. Though the shares trade in USD, Mr K's account statements show the prices in pound sterling.

Mr K complained, as the new opening positions reflect a share price of around $160 and he says the shares have never traded at that price, and so he would never be able to break even on his positions. He complained about a 50% margin being applied, as he didn't think one wasn't applied prior to the consolidation. He said that charges were being applied to these positions, which he felt was unfair as he says IG has trapped him in the trade.

IG didn't uphold his complaint, explaining that the share consolidation didn't impact the monetary value of his positions, and didn't affect his running profit and loss. They said the margin on these two positions was 20% prior to the consolidation and remained that way after. Due to a separate corporate event involving a dividend payment, which took place earlier in August 2023, Mr K held two separate positions in AMC that did attract a 50% margin.

Mr K disagreed and brought the complaint to our service. He said he feels he is in a worse position as a result of the corporate action and the new opening price that IG have shown on his positions, which he feels is unfair. An investigator at our service didn't uphold his complaint, explaining that IG weren't responsible for the corporate action itself, just applying it to Mr K's account. She found the margin and charges were not changed.

Mr K remained unhappy – he said he was no longer focused on the margin, but rather the opening level of the positions. He maintained that he felt the higher opening price was intentional to trap him in the positions, and that as he didn't hold the stock directly, they shouldn't have changed his positions in such a way. As the investigator wasn't persuaded to change her mind, the case 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.

As Mr K has made it clear that he is no longer complaining about the margin requirements, the focus of my decision will be on whether IG have treated him fairly and reasonably in the way the corporate action has been applied to his positions.

Firstly, I've considered what happened with the corporate action itself, and how it impacted the shares. I can see the stock consolidation that took place involved one new share being issued for every ten held, and when this happened, the share price changed in a corresponding way. This means immediately after the consolidation there were ten times less shares, but each had a ten times higher value – so technically the overall value of an investor's shareholding was the same.

After a share consolidation, when looking at a share price chart, the historical prices are retrospectively adjusted to reflect the later consolidation. I've considered the share price chart for AMC, and it does now show many times when the shares traded at over the $160 point that Mr K has mentioned.

That being said, Mr K's statement that the shares in AMC hadn't previously traded at that level is technically correct, as individual shares weren't actually at that price at that time and have since been amended. But this means the value of an overall trade would have been the same. For example, where a post-consolidation chart might show one share was traded at $160 several years ago, if you looked at the chart immediately after that trade itself, it would have shown each share as being worth $16. So, if an investor had spent $160, they'd have received 10 shares. Following the consolidation, their trade would be adjusted to show them having bought one share at $160.

It shouldn't be forgotten that there's been a corresponding increase on the current share price, not just the opening price. The difference between the opening price and current price as a percentage, remains the same pre- and post-consolidation (when discounting the impact of any market movement post-consolidation). If instead, the price shares were bought for *was not* amended to take account of the retrospective impact of the consolidation, but the current price of the shares *was* amended, then a shareholder's profit or loss could not be calculated correctly, as they would also own less shares following the consolidation.

Overall, where someone owns shares, I consider it reasonable for the platform on which they are held to amend the price a share was bought for, its current price, and the number of shares held, following a share consolidation. I know that Mr K doesn't hold the shares themselves, and rather a has positions that are based on the price of the shares. However, the above is relevant to show the impact of the corporate action on the share price, which Mr K's positions are in turn based upon. Having considered everything, I'm satisfied its fair and reasonable for IG to reflect the impact of the corporate action onto Mr K's positions, because:

- The position Mr K has opened is essentially a bet on the direction that the share price will go in – he's opened long positions, so he hoped the share price would increase. His position tracks the price of the shares – and the price being tracked will be impacted by normal market events, including dividends and corporate actions.

- The product IG is providing Mr K with, requires IG to have controls in place to ensure they are tracking the price accurately and reflecting what's happening to the shares themselves in the product they are providing to Mr K. An example of this is when IG passed on the specially issued dividend to Mr K earlier in August 2023.

- IG is not responsible for the price the shares trade at. Nor are they responsible for the consolidation itself, that was the decision of AMC.

- IG sent Mr K an email on 24 August 2023 setting out what would happen to his positions. I'm satisfied this clearly explained what a stock consolidation is.

- Section 24(1) of the terms and conditions of the account says that following a corporate action, IG will: "*determine the appropriate adjustment, if any, to be made* [to the bet]*, to account for the diluting or concentrating effect necessary to preserve the economic equivalent of the rights and obligations of the parties in relation to that bet… and/or replicate the effect of the corporate event on someone with an interest in the relevant underlying instrument. Any action taken by us… may, for the avoidance of doubt, be retrospective.*"

  I'm satisfied that this is a reasonable and clear explanation that IG would replicate any corporate actions onto Mr K's positions and that Mr K agreed to these terms.

- I consider this to be standard industry practice and simply a feature of this type of spread betting product. If Mr K held his positions with a different UK broker, the other broker likely would have acted in the same way following the share consolidation.

I appreciate that Mr K feels this is unfair as he doesn't foresee a situation where the share price will be high enough for him to break even on the trade. However, the consolidation and the way IG have applied it, haven't caused that – his positions were unfortunately running at the same loss after the consolidation (not accounting for any market movement) as they were prior to it. IG has merely proportionally adjusted all elements of the positions to account for the impact of the corporate action. So, I can't agree that IG have caused him to be in a different position in terms of his overall loss or prospects of success with his positions, compared to prior to the consolidation.

In summary, I'm satisfied IG acted fairly and reasonably in adjusting the opening level, current level, and the size, of Mr K's trades following the share consolidation. As I haven't found IG has done anything wrong, it follows that I won't be instructing IG to amend the positions, or refund the charges applied to them.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 30 December 2024.

Katie Haywood
Ombudsman