DRN-3932692

## The complaint

Mr B complains that when Interactive Brokers (UK) Limited ('IBL') liquidated his derivative long positions because of a margin call, they used prices that were inconsistent with the wider market.

Mr B says IBL have treated him unfairly and he'd now like them to compensate him for his losses.

## What happened

Mr B held long positions in cotton option CTN3 130/150. When IBL's margin system reviewed Mr B's account on 1 November 2022, the bid and ask spread were between $0.008 per share and $0.0134 per share (or $0.80 and $1.34 per contract). Based on those valuations, IBL concluded that Mr B's account was at risk of breaching its margin requirement. IBL subsequently contacted Mr B to forewarn him but despite their two notifications to him, he didn't take any action, so IBL liquidated 11 CTN3 contracts in two trades at market prices to bring his account back into tolerance levels.

Shortly afterwards, Mr B decided to formally complain to IBL. In summary, he said that he felt IBL had incorrectly liquidated his option positions. Mr B went on to explain that IBL had based their values of the margin on prices that were inconsistent with the true prices in the wider market. Mr B felt that IBL wouldn't have closed out his positions had they used the correct prices.

After reviewing Mr B's complaint, IBL concluded they were satisfied they'd done nothing wrong. They also said, in summary, that they had liquidated his contracts at the prices available on the market at that time. IBL also explained that the liquidations were valid because Mr B had agreed in the terms and conditions at the start of their relationship that if he failed to maintain a sufficient margin, they could liquidate some or all of his positions.

Mr B was unhappy with IBL's response, so he referred his complaint to this service. The complaint was then considered by one of our Investigators. She concluded that IBL hadn't treated Mr B unfairly and that from what she'd seen, IBL had used the correct prices available on the market at the time of liquidation.

Mr B, however, disagreed with our Investigator's findings. In summary, he said that it made no theoretical sense that if his account was in margin compliance the day before, and that the next day the futures market is limit up and trading synthetically well above its limit, that the options could be marked at a daily loss and force a liquidation.

Our Investigator was not persuaded to change her view as she didn't believe that Mr B had presented any new arguments she'd not already considered or responded to. Unhappy with that outcome, Mr B then asked the Investigator to pass the case to an Ombudsman 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.

I have summarised this complaint in less detail than Mr B has done and I've done so using my own words. The purpose of my decision isn't to address every single point raised by all of the parties involved. If there's something I've not mentioned, it isn't because I've ignored it - I haven't. I'm satisfied that I don't need to comment on every individual argument to be able to reach what I think is the right outcome. No discourtesy is intended by this; our rules allow me to do this and it simply reflects the informal nature of our service as a free alternative to the courts. Instead, I will focus on what I find to be the key issue here, which is whether IBL treated Mr B fairly by applying a margin and whether they used prices that were inconsistent with the wider market.

My role is to consider the evidence presented by Mr B and IBL in order to reach what I think is an independent, fair and reasonable decision based on the facts of the case. In deciding what's fair and reasonable, I must consider the relevant law, regulation and best industry practice. Where there's conflicting information about what happened and gaps in what we know, my role is to weigh up the evidence we do have, but it is for me to decide, based on the available information that I've been given, what's more likely than not to have happened. And, having done so, I'm not upholding Mr B's complaint - I'll explain why below.

As I've already explained, Mr B held long positions in cotton option CTN3 130/150. When IBL's margin system reviewed Mr B's account on 1 November 2022, the bid and ask spread were between $0.80 and $1.34 per contract. Based on those valuations, IBL concluded that Mr B's account was at risk of breaching its margin requirement, so they liquidated 11 CTN3 contracts in two trades at market prices to bring his account back into tolerance levels.

Despite IBL's two warnings to Mr B on 1 November 2022, at 11:25.01 (ET), IBL liquidated 9 long FOP contracts of CT JUL23 1.3 C at 0.008, (bid/ask -0.008/0.0135) (147 long contracts held). At 11:25.01, the amount of violation was 478.78 and the maintenance margin requirement again had not been met. So, at 11:25.02, IBL liquidated 2 long FOP contracts of CT JUL23 1.3 C at 0.008, (bid/ask -0.008/0.0135) (145 long contracts held).

However, Mr B says that the price IBL liquidated his positions at wasn't reflective of their true value. And, whilst things do sometimes go wrong, I don't think that they have in this case. That's because I've seen evidence that Mr B's positions were liquidated at the bid price at the time in the market (which was the 0.008 price IBL achieved).

From what I've seen, IBL's options margin requirements are derived from calculations based on asset values in a portfolio and market risk provided by the Chicago Mercantile Exchange (CME). The CME's standard portfolio analysis of risk (or SPAN) establishes a margin requirement by calculating the value of the portfolio given a set of hypothetical market scenarios where underlying price changes and option implied volatilities are assumed to change. IBL include in these scenarios' other assumptions, which account for extreme price moves. Of those scenarios, IBL will use the one which projects the greatest loss for the consumer's margin level. It seems that the options contracts were trading at very low prices and wide spreads which create increased risk exposure, requiring higher margin maintenance requirements.

Whilst Mr B has explained that he is a professional derivatives analyst, by their very nature, trading in such investments is considered high risk. And, before applying that margin, I've seen evidence that IBL notified Mr B in advance that his account was at risk of having a margin applied, twice in 96 minutes so he could bring his account into compliance. IBL contacted him on 1 November 2022 at 09:43 (ET) and again at 11:19 to set out that his account was at risk of margin violation. But, it wasn't until 11:25 that IBL then closed out Mr B's positions, around one hour and 40 minutes after first contacting him. Whilst I'm aware of the fact that those times are based on Eastern Time and Mr B resides in a different time zone, he was still forewarned.

There's no dispute that Mr B was trading as an execution only client – this meant IBL was not responsible for advising him or managing his positions. He alone was responsible for deciding how much money to deposit, when to open trades and on what markets, monitoring those positions, and when to close them. But in any event, from what I've seen of IBL's terms and conditions, they didn't need to forewarn him about the margin being applied. IBL had the right to liquidate any or all positions in Mr B's account immediately, without notice or margin call. IBL were not responsible for keeping Mr B informed of when his positions may close out because of a change in the markets he was trading on – that responsibility rested with him.

It therefore seems very clear to me that given the agreement that Mr B entered in to with IBL, he alone was responsible for regularly checking his positions and ensuring that he had adequate funds in his account to ensure IBL didn't liquidate his positions. In any event, from what I've seen, Mr B was already well aware of IBL's liquidation policy because they'd previously sold options contracts on his account in January 2022. But, Mr B could have logged into his account within the (around) 100 minutes window, provided and taken preventative action to stop IBL applying a margin, but he either chose not to or was unable to do so. I appreciate that Mr B may not have been in a position to do so at that specific time, but as I've already explained, given Mr B had open positions, he accepted the risk that if he was unable to monitor his account, there was a danger that a margin could be applied at any time.

In his correspondence with our Investigator, Mr B stated that the model IBL uses to value options is flawed. However, I won't be commenting on that because Mr B's complaint to IBL was that the prices they had used were not reflective of the market at the time his positions were closed out. And, I've already seen evidence that the prices they used were market prices at the time.

Ultimately, Mr B's account was subject to a margin violation of which IBL warned him, giving him the opportunity to take appropriate action. As for whatever reason he failed to do so, I'm satisfied IBL was entitled to liquidate the positions at the prices it did, in accordance with its Client Agreement and Disclosure of Risks of Margin Trading document.

I therefore can't conclude that Mr B was treated unfairly when IBL liquidated his positions and as such, I'm not upholding his complaint.

## My final decision

I'm not upholding Mr B's complaint and as such, I won't be instructing Interactive Brokers (UK) Limited to take any further action.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 28 May 2024.

Simon Fox

**Ombudsman**