

The complaint

Mr G complains that Interactive Brokers (UK) Ltd ('IBUK') charged him the wrong amount of interest. He wants IBUK to recalculate the interest it charged him.

What happened

Mr G had a trading account provided by Interactive Brokers. The account facilitated purchases in different currencies. And it allowed Mr G to make purchases using a margin loan.

IBUK said that when opening the account Mr G was required to acknowledge he'd read, understood and agreed to the IBUK Customer Agreement ('the Customer Agreement').

The Customer Agreement included the following:

'A. Operation of Multi-Currency Accounts: *The IB Multi-Currency Account function gives IB UK Customers the ability to trade securities or futures contracts that are denominated in different currencies using a single IB UK account that is denominated in a "base" currency of the customer's choosing. When a Customer purchases a security or futures contract denominated in a currency other than the base currency, a margin loan is established to fund the purchase. This margin loan is secured by Customer funds held by IB UK (through IB LLC) in the Customer's base currency and in other currencies and by Customer's securities and futures contract positions to the extent allowed by law.'*

The Customer Agreement said IBUK would charge debit interest at such rates and on such debit balances as were set out on the IBUK website, and IBUK reserved the right to amend its interest policy and rates at any time by posting the amended policies or rates on the website.

IBUK's website describes some of the features of its account as follows:

'IBKR does not require you to open accounts in multiple currencies. Deposit a single currency in an account and when you want to trade a product denominated in another currency, a loan is created which is secured by your deposited currency. If you want to eliminate the loan, you may do so at any time by trading currencies through our IDEAL FX network or depositing money in another currency ...'*

Mr G deposited £245,000 in his account. He also made purchases in USD, and margin loans were created in his account in USD to fund those purchases. And IBUK charged interest on the full amount of the USD margin loans.

Amongst other correspondence between Mr G and IBUK, Mr G asked IBUK in October 2021 to explain why his margin requirement for buying securities was at the level it was. IBUK told him how the margin requirement in the securities segment of his account was determined. And it said he had some funds in the commodities segment which weren't taken into account in the securities segment, but he could set up a sweep to automatically transfer unused

funds to the securities segment if he wished. IBUK also said Mr G had a currency pair position in the UK Regulated segment of his account, and that, if he wanted to, he could convert that back to GBP and transfer it to his securities segment.

Mr G said:

'Can you elaborate ...?'

Why would I actively have to exchange GBP into USD or vice versa? I haven't had to do any such thing so far. Also, you refer to a currency position which I imagine is simply derived from the fact that I deposited GBP but borrow USD on margin when I enter trades. However, usually all my positions are fully covered with the equivalent in GBP – am I paying fees on these currency pair positions? Or just on the balance if borrowed funds exceed my deposit? Are there settings that I can change so that it all happens automatically (ie I do no[t] manually have to do internal transfers), and I can use my full ELV for either equities or commodities as the case may be?'

IBUK said:

'By no means do you have to convert the GBP and USD balances that are being held within the UK Regulated Segment.'

Yes, when I am referring to a currency position I am referring to the fact that you are long GBP and short USD. This is the same as being long the GBP.USD currency pair. Again, if holding these funds this way works for your trading strategy you do not need to convert the USD back to GBP.'

It is possible to automatically transfer funds from the Commodities segment back to the Securities segment. To do this you will need to define an Excess Funds Sweep.'

It is unfortunately not possible to automatically transfer funds from the UK Regulated segment back to the securities segment. This will need to be done via Internal Transfers that are initiated within the Transfer and Pay section of Client portal.'

In December 2021 Mr G asked IBUK to explain the interest it was charging him on his margin loans. He said he'd had a positive cash balance most of the time and he wanted to know whether IBUK was charging interest on his USD cash balance without taking into account his GBP deposit. IBUK answered in January 2022 saying interest was calculated separately for each currency balance in the account.

In February 2022 Mr G again asked IBUK why the interest he'd been charged in USD didn't appear to take into account the GBP cash deposit in his account. IBUK again said interest was calculated separately for each individual currency balance held in the account. It said that, if he wanted to, Mr G could convert his GBP to USD so that it would offset his USD margin loan.

Mr G complained that IBUK had misled him into keeping his deposit in GBP while charging him interest on a USD 300,000 loan.

IBUK didn't uphold Mr G's complaint. In summary it said the following:

- It doesn't convert currencies to cover margin loans. Converting currencies would mean making decisions on behalf of customers. And the IBUK Customer Agreement makes clear it won't do that.

- It had charged Mr G interest each month since June 2020 and the interest was calculated daily. The accrued interest had been visible on daily activity statements for the past 21 months. And the debit interest had been visible on Mr G's monthly and annual statements. Clients were encouraged to review their statements on a regular basis and question any transactions they didn't understand.
- The terms and conditions Mr G had agreed to said clients were responsible for managing currency exposure in their accounts.
- The margin loan was created by trades which Mr G instructed, and he had the opportunity to convert some or all of his excess GBP cash balance to cover the margin loan since it was created. The management of positions in a client's account is not IB's responsibility.

Mr G said in response that it was unfair for IBUK to charge interest the way it did. And he said IBUK had told him there was no need to convert currencies because the system would determine all margin requirements irrespective of currencies held.

Mr G referred his complaint to this service. He said:

- IBUK had missed the point which was that it had effectively charged him interest on the USD equivalent of his GBP deposit by calculating interest on his USD balance without taking into account positive cash balances in other currencies.
- IBUK had misinformed him by telling him there was no need to convert currencies because IBUK would determine all margin requirements irrespective of the currency of his initial deposit or any other currencies in his account.
- He never agreed to be charged interest in the way he was and he and wouldn't have agreed to it if he'd been made aware of it.
- It wasn't clear from the terms and conditions that he would effectively be charged interest on the deposit he held in GBP.
- GBP wasn't a foreign currency because he was told his account was denominated in GBP. But IBUK had admitted this was a gimmick for promotional purposes and his account was really in USD and his deposit in GBP was really an FX position for IBUK's accounting purposes. None of this was made clear.

One of our Investigators looked into Mr G's complaint. In summary, he said:

- IBUK could've given Mr G better responses when he queried the interest he'd been charged, but IBUK had given him correct information about it at the outset and had no reason to reimburse him the interest charges it had made.
- IBUK's terms made provision for the position in which Mr G found himself.
- Information on IBUK's website sets out how IBUK calculates interest and margin requirements for customers trading securities denominated in a different currency to their base currency.
- Customers might find themselves holding balances in currencies other than their designated base currency as a result of trades in products denominated in a different currency, from profits associates with forex trading. If IBUK automatically converted those balances to the base currency it would be making investment decisions for the

customer which is not its role under the terms and conditions.

- The Investigator acknowledged Mr G would've done things differently if he'd known from the beginning how interest would be charged. But the Investigator hadn't seen that Mr G should've believed, or was told, that things would be done differently.

Mr G didn't agree with the Investigator's view. In summary he said:

- The Investigator had ignored the injustice of how IBUK accounted for the GBP that Mr G had deposited before trading in USD.
- IBUK's logic meant that if Mr G deposited £1b and set his base currency to USD, and took out a margin loan of USD 100k, then IBUK would charge interest on the USD 100k without regard to the GBP deposit.
- IBUK wouldn't need to convert his GBP to USD in order to take an equivalent amount into account when calculating the interest due on his USD margin loan.

Because no agreement could be reached, the complaint was passed to me to review afresh and make a decision.

My provisional decision

I issued a provisional decision in which I said I was minded not to uphold Mr G's complaint. I said I'd consider any comments or information provided by Mr G or IBUK before making a final decision.

In summary Mr G said the following in response to my provisional decision:

- His complaint was, in essence, about being charged interest in USD while not receiving interest for his deposit in GBP in 2020 and 2021. Interest was only paid on his GBP deposit from 2022 onwards. And the lack of interest paid on his GBP deposit was part of the reason he thought the GBP deposit would offset the USD margin loan.
- Not upholding Mr G's complaint would exonerate IBUK when it should be given the opportunity to improve its service.
- He accepted the customer was responsible for reviewing and understanding documentation, but IBUK didn't provide clarification promptly enough. It's unfair to say IBUK did enough by referring Mr G to documentation or the website, in communications that took place over months.
- Margin loans were created when a customer made a purchase in any currency, not just a currency other than the base currency. And setting the base currency to USD or GBP only affected the presentation of numbers, not how interest and margin requirements were calculated.

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.

Having done so, I'm not upholding the complaint, for essentially the same reasons given by our Investigator. I'll explain why.

First I want to note that the role of this service is to consider complaints from individuals, with a view to putting things right for those individuals if a failure by a business has caused them harm. This service is not a regulator and doesn't have the power to require businesses to make changes for the general purpose of improving their systems and practices.

In considering the merits of Mr G's complaint, I haven't seen that IBUK's Customer Agreement, or any of its other documentation, said interest on a margin loan in a foreign currency would be offset by a cash balance in a different currency.

IBUK's Customer Agreement makes clear that when a consumer makes a purchase in a foreign currency (meaning a currency other than the base currency), a margin loan will be created to fund the purchase. Although the loan is secured by other assets in the consumer's account, that doesn't mean that those other assets will offset any interest due on the loan. Mr G has said a margin loan is created whenever a purchase is made, regardless of whether it's in the base currency. Irrespective of whether this is the case, creating a margin loan for Mr G's USD purchases was in line with IBUK's Customer Agreement.

The Customer Agreement refers to information on IBUK's website showing that interest will be charged on margin loans, and how much. The interest rates are different for different currencies and they change from time to time. IBUK's website also sets out the interest rates IBUK will pay on cash deposits. Those interest rates also vary between currencies and change from time to time. For some currencies, at some times, the interest rate paid on cash deposits has been 0%. IBUK's website further says if a customer wants to eliminate the margin loan that's been created in a foreign currency, the customer can do that by converting funds into that currency or depositing funds in that currency.

I think this information indicates that margin loans will accrue interest. And that to avoid paying such interest Mr G would need to hold cash in the currency in which he made his purchases. While I don't think IBUK's documentation says very explicitly that margin loan interest *won't* be offset in the way Mr G expected, I also don't think it gave Mr G reason to expect that his GBP cash deposit *would* offset interest on his USD margin loan. Although Mr G has said a lack of interest paid on his GBP deposit caused him to think the GBP deposit would offset his USD margin loan, he could've seen on IBUK's website that IBUK specified separate rates to be charged for USD margin loans and to be paid for GBP deposits.

Mr G also said setting the base currency to USD or GBP only affected the presentation of numbers, not how interest and margin requirements were calculated. It remains the case that a margin loan was created for Mr G's USD purchases. And it remains the case that IBUK charges interest separately for separate currencies, and it was entitled to charge interest on Mr G's USD margin loan without offsetting his GBP cash deposit. I also haven't seen that IBUK told Mr G in communication with him that his GBP cash deposit would offset interest on his USD margin loan.

When Mr G corresponded with IBUK in October 2021 about his margin requirement for buying securities, I can see, with hindsight and in the context of Mr G's subsequent complaint, that Mr G appears at that point to have become concerned that his GBP cash deposit might not be offsetting the interest to be charged on his USD margin loan. However, he didn't explicitly mention interest in his messages at that time. And IBUK's response focused on how he could address his dissatisfaction with his margin requirement for buying securities, which was the subject of his initial enquiry at that time. Also, when IBUK said in these messages that Mr G didn't have to convert currency, it appeared to be saying that he could choose not to do so if not doing so suited his trading strategy. And that appeared to be in response to Mr G rejecting IBUK's suggestion that he could convert and transfer cash to change his margin requirement for buying securities. Overall, I don't think IBUK's response

was unreasonable in the circumstances of Mr G's enquiry at the time or that it gave Mr G reason to think his GBP cash deposit would offset interest on his USD margin loan.

When Mr G wrote again to IBUK on 30 December 2021 asking specifically about how interest was calculated on his USD margin loan, IBUK said unambiguously on 11 January 2022 that interest was calculated separately for each currency balance in the account. IBUK apologised on 11 January for not replying earlier to the 30 December email. And IBUK repeated that response consistently when Mr G asked the question again. I'm not persuaded IBUK has treated Mr G unfairly in its responses to his enquiries about how interest was charged.

Mr G said in his complaint that IBUK told him he didn't need to convert currency because its system would automatically calculate margin requirements across different currencies. But calculating margin requirements is not the same as calculating interest charges. So if IBUK said what Mr G recalled it saying, that wouldn't be sufficient basis for me to conclude IBUK had misled him about how interest would be calculated.

I know Mr G feels IBUK's method for charging interest is unfair. As with any terms of business, I'd expect IBUK to act fairly when implementing its terms for charging interest on margin loans. But I've found no reason to say it wasn't fair for IBUK to charge the interest it charged Mr G. The rates IBUK charges and pays, and how those rates are calculated are matters for IBUK's commercial discretion.

I understand Mr G's frustration around his account not working in the way he thought it would. But as a customer of an execution-only service Mr G was responsible for ensuring he knew how the account worked. And I can't conclude that IBUK has treated him unfairly or unreasonably in the circumstances of this complaint. So I won't be asking IBUK to take any action.

My final decision

For the reasons I've set out above, I'm not upholding this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 14 June 2024.

Lucinda Puls
Ombudsman