DRN-4337816

The complaint

Mr B complained about eToro (UK) Ltd (eToro). He said eToro significantly increased its overnight fees unexpectedly and didn't communicate this to him. He said eToro then didn't give clear information on its fees going forward, so he had to close his position due to the uncertainty around it.

Mr B would like eToro to refund the overnight fees he feels were unjustly charged to him, along with compensation for the inconvenience caused.

What happened

Mr B opened a contracts for difference (CFD) trading account with eToro. He said he held an open position in USD/TRY, this being a CFD in currency between the US dollar and Turkish Lira.

Mr B said on 31 May 2023, he saw he was charged an overnight fee, and this was around 11 times higher than the previous overnight fee eToro charged him. Mr B said he contacted eToro about this and asked it to explain the sudden increase. He said eToro was unable to explain to him why it had increased the overnight fee by so much and what the fee would be going forward, so because of the uncertainty around what he may be charged, he closed his position.

Mr B said eToro should under FCA regulation provide clear information abouts its fees and maintain transparency in their operations. He said eToro didn't do this in this regard. He said it should refund the unexpected and high overnight fee that he was charged on 31 May 2023 and eToro should pay compensation for the inconvenience this had caused him. He complained to eToro about this.

eToro said in response that its overnight fees are not fixed and are subject to change. It said currency (FX) CFDs overnight fees reflect several factors including the interest rate differential along with market forces such as supply, demand, and liquidity. It said ultimately, the fees reflected the impact of Mr B holding his open position from one day to the next.

eToro said it publishes its fees on its website. It said the deal ticket also displays an indication of overnight fees based on the prevailing rate. It said it in Mr B's case, it had to adjust its overnight fees to reflect market conditions arising from the geopolitical situation in Turkey. It concluded that it was only reacting to market conditions and acted reasonably in doing so. It didn't uphold Mr B's complaint.

Mr B was not happy with eToro's response and referred his complaint to our service.

An investigator looked into Mr B's complaint. She said the overnight fees charged on Mr B's account were a lot higher than what he expected, but this was due to a sudden change in the bid / offer prices for the instrument he was trading in. She said she could see eToro had charged its fees as it explained in the contract. She concluded that since eToro didn't charge excessive fees and since they were clear, she didn't feel she could uphold Mr B's complaint.

Mr B disagreed with the investigator. He responded in September 2023 and said the overnight fee that was charged was excessive being an increase 11 times higher than the previous day. He said he had no prior knowledge that it was going to charge the significantly higher fee and was unaware what the weekend fee was going to be. So, because of this he had to close his position. He said eToro and the investigator had inaccurately attributed the increase in fees to the election results in Turkey. He said eToro had responsibilities to be transparent and clear about its fees and be fair about how it applied them and how it communicated this to him. Finally, Mr B said whilst an explanation of eToro's fees may exist on its website, it was not clear and transparent with him about its fees.

Mr B is not in agreement with the investigator's view. Mr B's complaint has been passed to me, an ombudsman, to look into.

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 crux of Mr B's complaint with eToro is that it charged excessive overnight fees on his open positions in USD/TRY, so I looked into this.

According to a statement of Mr B's trading account, supplied by eToro, he took out 5 buy positions in USD/TRY between 26 May 2023 and 31 May 2023. All of these were opened by Mr B with leverage. He kept 4 of these open overnight so because of this, he incurred overnight fees.

The spot rate offered by eToro in USD/TRY was volatile during the time Mr B held open positions, and this led to Mr B making profit on 4 of them and a loss on 1. During this short period, Mr B also incurred overnight fees of around $465 in total. Most of these fees were applied by eToro on 30 May 2023. As I have already mentioned, this has been the cause of Mr B's dis-satisfaction with eToro. He said it increased this fee elevenfold on 30 May 2023, from the previous day.

Our service asked eToro how it worked out the overnight fees it charged Mr B on 30 May 2023, so we could see how it arrived at the fee it charged him. It explained how it calculated the fee. In explaining how it did so, I am satisfied on this occasion, eToro didn't make an error or mistake with its calculation and that it charged Mr B what it intended to, based on its method for calculating this fee.

eToro told our service the significant increase in the amount it charged, was due to wider geopolitical events that took place in Turkey at around that time and the impact those events had on its currency. Because of this the spot rate available in USD/TRY became volatile. eToro explained that the overnight fee for any of its clients holding a position in this FX CFD was going to be high, due to liquidity, an interest rate differential, and other market factors but that this was variable and subject to change.

The sort of leveraged trading Mr B was doing with eToro attracted variable charges for holding positions open overnight. This is because Mr B opened his position with eToro with leverage, so eToro charged him for the amount that he borrowed, and costs associated with that. The amount it charged on his open position was variable each time he kept it open overnight, and the rate it charged depended upon factors such as market liquidity along with other market forces such as supply and demand. It is not uncommon for firms providing services for CFDs to charge overnight fees in this way. So, with what I have said in mind, I can understand why, in a volatile market, the overnight fee may increase suddenly, if the associated factors change suddenly also. This seems to me to be all part of the nature of high risk investing of this kind, something Mr B signed up for, when he applied for a trading account and then took up open positions on CFDs with eToro.

That said, what was important was for eToro to be clear about the charges that applied – including how it would work them out and when it would apply them. Mr B would have needed to accept eToro's terms and conditions when he opened his trading account with it, including how it charged its fees. I have looked through these terms and can see under term 10.2 for CFD fees, it said:

"How the overnight fee/credit is calculated will be different depending on your underlying product, the amount of leverage being utilised, and whether you are entering into a buy or sell trade. Our overnight fees/credits are subject to change and can be viewed on our website, and the overnight fee relevant to your order will also be displayed to you when you open a position and on our fees page".

I can see that eToro described how its overnight fees work in its terms, something Mr B signed up to when he opened an account with eToro. The variable nature of the overnight fee was also mentioned by eToro in its terms, as was the fact the fees would be displayed on its website.

With this in mind, I have gone on to look at eToro's fees page on its website. eToro states on this page:

"Overnight fees change from time to time based on global market conditions, when this happens, we will adjust the fees accordingly. Please be aware that fee charges will always apply to open positions. We encourage you to stay up to date with the correct overnight fees by checking this page. Please note that fees may change without advance notice."

I can see that eToro has listed the overnight fees that it currently charges for FX CFDs including USD/TRY. Mr B said eToro should have communicated to him what the overnight fees were going to be, so he was aware and could act if he wanted too about this. But I think Mr B would have been able to check on eToro's website and see what the overnight fees were at any given time. He would've been pointed to the fees page on eToro's website, through its trading platform, when he opened his positions, so I think he would've been able to find where this information was held or know it was there, so he could make decisions about his open positions, in the way he said he wanted to.

In addition, I can see that eToro was administering Mr B's account and providing a service to him on an execution only basis. So, ultimately it was up to Mr B to decide whether to keep his positions open overnight or not. And as I have already concluded, I think he could've obtained an up-to-date position about the overnight fee on its website, at that time. It was then up to Mr B to decide, having signed up to an execution only service, whether to keep his positions open or not.

In conclusion, Mr B is unhappy about how much the overnight fee changed from 29 May 2023 to 30 May 2023 and I can see that there was a sharp increase in the multiples that he has suggested. But I don't think on this occasion, eToro has made a mistake in how it has calculated this fee. I can also see that it communicated to Mr B that this overnight fee was variable and has on this occasion explained to him why the fee increased in the way it did.

Finally, I can see that eToro has a page on its website, that it updates with its current fees, and Mr B would have been able to obtain the information he needed from here. I think by doing all of this, eToro hasn't, in the circumstances of Mr B's complaint, treated him unfairly. So, I won't be asking it to do anything further.

I appreciate that my decision will be disappointing for Mr B, and I acknowledge the strength of his feelings in the submissions he has provided. I acknowledge Mr B's frustrations about the fees he was charged and the uncertainty he felt about his open positions after they were. But based on everything I have read and the findings I have given, I don't think I can conclude eToro has done anything wrong on this occasion. So, it follows that I don't uphold Mr B's complaint.

My final decision

My final decision is that I do not uphold Mr B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 24 July 2024.

Mark Richardson
Ombudsman