

The complaint

Mr B has complained that Interactive Brokers (U.K.) Limited ('IB') gave him misleading information that caused him to lose gains on his call options. He wasn't aware IB would not automatically exercise those options even if they were in the money. Rather than the options being exercised they expired worthless, and Mr B says he incurred lost potential profits of more than US\$4,000.

What happened

Mr B held three NASDAQ Autodesk ('ADSK') \$205 call options that were due to expire on 31 May 2024. Mr B thought they were out of the money but around the US market close on their expiry day the underlying stock price spiked on company related news. Mr B says his account was adjusted as if the call options had been exercised but this wasn't the case, so he raised a complaint with IB.

IB didn't uphold Mr B's complaint. It said;

- It confirmed the option contract closed out of the money and there was no exercise request submitted by Mr B.
- The call options were outside of the Options Clearing Corporation's ('OCC') automatic exercise threshold.
- It provided information about how an option would or would not be exercised by the OCC and details of how Mr B could exercise or lapse an option.

Dissatisfied with the outcome Mr B brought his complaint to the Financial Ombudsman Service. Our investigator who considered the complaint didn't think IB needed to do anything more. He said;

- ADSK closed at US\$201.60 on 31 May 2024. Mr B's options had a strike price of US\$205 so the options expired out of the money.
- Mr B had said the ADSK stock price had spiked above US\$205 around the market close on 31 May 2024 which he thought meant they had expired in the money. But IB's FAQs and website confirmed the reason Mr B's options expired out of the money.
- As the options expired out of the money, they weren't automatically exercised in line with the Options Clearing Corporation's ('OCC') rules. Mr B would have needed to have given an instruction if he had wanted them exercised.
- Mr B said there was an increase in the value of his account in after hours trading which was misleading as it led him to believe his options had been exercised. But the investigator didn't agree because if they had expired in the money they would have automatically been exercised and so the contracts would have been marked as closed and replaced by the underlying stock.
- He was satisfied it would have been clear the options hadn't exercised due to the options position still being visible on Mr B's account after the market close and no

stock position being shown.

Mr B didn't agree. He said there was no way he could have known whether the options expired in the money or out of the money.

Our investigator asked IB for evidence as to how Mr B would have known how his options expired. It said there wasn't any method it could advise customer of this as it would depend on the closing market price which it couldn't predict. It provided its customers with 'Post Enquiry' figures which calculated the expected exposure for contracts expiring in the future, but this was only an estimate. An option closing price wasn't determined by any activity in the after hours trading session and if Mr B had wanted to exercise his option based on after hours pricing in the underlying stock he could have submitted an instruction to do so by 17:25 Eastern Time on the day.

Our investigator reiterated his opinion to Mr B and said the price used to determine if an option was in the money upon expiry was the Composite Close ('CC') price which wasn't determined by after hours activity.

Mr B said that IB's platform should indicate upon expiry which option instruments would be automatically exercised and which would not, and which would fall into a 'grey area' where automatic exercise was uncertain. He also said the platform shouldn't adjust the portfolio net liquidation value for options that had expired worthless or fell within this grey area. This was a significant factor that led to his misunderstanding.

As the complaint remains unresolved, it has been passed to me for a decision in my role as ombudsman.

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.

After doing so, I've reached the same conclusion as the investigator and broadly for the same reasons. I'll explain why.

Mr B's options had a strike price of US\$205. On 31 May 2024 the underlying stock closed at US\$201.60. As a result, Mr B's options were to expire out of the money and wouldn't be automatically exercised in line with OCC rules.

An automatic exercise only happens at expiration if they are in the money by US\$0.01 or more but, and I think crucial to this case, not during after hours. Options don't trade after hours even though the underlying stock does. This is confirmed on IB's frequently asked questions ('FAQ') page;

'What price does the OCC use to determine if an option is in-the-money at expiration?

The price the Options Clearing Corporation uses to determine if an option is in-the-money or out-of-the-money at expiration is not the Last Sale at any one specific exchange or market center, but rather a Composite Close price (see OCC Memo 39744). It is important to note that the Composite or Consolidated Closing (CC) price is not determined by any activity in the "after hours" trading session...'

And looking further on the FAQ IB explains that the CC price is used because it is considered the primary measure of the market and provides transparency. So, while the

stock price of ADSK might have spiked because of after hours news, and this impacted on Mr B's net liquidation valued ('NLV') which led him to believe the options had automatically been exercised, this wasn't the case because the options couldn't be traded after hours by automatic execution. This is further explained on IB's website;

'For Options Traded On US Exchanges And Cleared Through Options Clearing Corporation (OCC):

- Stock options expiring in the current month that are \$0.01 or more in the money will be automatically exercised by the OCC without the need for any explicit instructions from the broker.
- Index options expiring in the current month that are \$.01 or more in the money will be automatically exercised by the OCC without the need for any explicit instructions from broker.

The broker must receive "contrary intentions" from you through the Option Exercise window if you want to:

- Avoid the exercise of a stock option or index option that is in the money by \$0.01 or more.
- Exercise a stock option or index option that is in the money by LESS than \$0.01.
- Exercise a stock option or index option that is out of the money.'

So overall, I'm satisfied that Mr B's options expired without any intrinsic value as the stock closed below the option strike price and I don't think IB did anything wrong here. The OCC Risk Disclosure Statement and Acknowledgements Mr B agreed to when he opened his account with IB makes clear it is the client's responsibility to instruct IB if he wanted to exercise his option even if out of the money.

'Risks of Trading Equity Options and Terms and Conditions for Trading Equity Options

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12. Customers who wish to exercise an option on a particular trading day acknowledge that they must provide specific, written instructions to IB using the procedure specified on the IB website before the Close Out Deadline specified. Customer further acknowledges that, absent receipt of such instructions, IB has no obligation to exercise Customer's option on any given trading day or prior to the expiration of the option. Customer acknowledges that, subject to paragraph H below, OCC will automatically exercise any long equity option held by a Customer that is in-the-money by \$.01 or more at expiration, absent specific instructions to the contrary provided by Customer to IB using the procedures specified on the IB website.

...

14. Customer is responsible for entering an offsetting transaction to close out a Customer position, or to exercise an equity option by written e-mail instruction to IB prior to the expiration date, and Customer's failure to do so may result in the equity option expiring worthless, regardless of the monetary value of the equity option on its expiration date.'

Mr B accepts that he needed to make such an instruction but has said it was the increase in the NLV on his account that caused him to believe his options had been exercised.

After the close of regular trading hours on 31 May 2024 ADSK's stock price – and the mark price for Mr B's call options – increased because of an after hours news release. Because of this the NLV of Mr B's account increased. And Mr B has said the crux of his complaint is that as the NLV increased he assumed that his options had automatically been exercised. He says if he had known otherwise, he would have manually exercised his options.

My understanding is that the OCC does not close, or exercise options automatically based solely on stock price movements and that options remain open until a customer closes it, it expires or its automatically exercised based on it's in the money status at expiration. And I also understand that after an option expires worthless it will disappear from the account but not until overnight after expiration which is usually the next trading day. It follows that the NLV on Mr B's account wouldn't reflect that until the option contracts disappeared.

I appreciate that Mr B was under the impression that his options had automatically exercised because of the increase in his account's NLV but this was a reflection in the underlying stock price and so his options mark. Mr B has explained that IB's platform interface – which is what a customer sees – behaves in the same way irrespective of whether an option is automatically exercised or not. He has said it greys out and is replaced by the underlying stock if exercised. It's not known until the next day when the final status is confirmed. This tallies with my understanding that reconciliation and clearing delays removal of the options from an account.

However, Mr B hasn't explained why – irrespective of how the platform's interface works – he doesn't accept his options expired worthless bearing in mind the closing stock price. It's clear from the above that options don't trade out of hours and the price of the underlying stock only increased after trading closed for the day. If an option expires worthless on Friday the NLV will reflect changes in the underlying stock price during after-hours trading. But the stock itself closed at US\$201.60 which was US\$3.40 below Mr B's strike price. So, I don't think it's unreasonable to conclude that Mr B should have known his option contracts hadn't exercised and that any increase in his NLV was as a result of the increase in the stock price after hours and clearing delays.

Mr B has said that IB's trading platform should show whether an option wouldn't be automatically exercised or otherwise and that it shouldn't adjust the NLV for options that expire or where the automatic exercise is uncertain. While this service can't tell a firm how to manage its own business, I can consider whether the impact of that and whether it has treated a customer fairly and delivered good outcomes.

But overall, Mr B's options expired out of the money as the OCC only used the CC price available during market hours. While the stock price spiked the strike price in after hours trading this didn't impact on Mr B's options as they could only be traded during market hours. Mr B had until 17:25 Eastern Time to exercise the options if he had wanted to. While I appreciate Mr B's strength of feeling here, I don't find that IB has done anything wrong. And while I accept Mr B thinks IB should made changes to its platform interface this isn't something I can compel a business to do. But taking all the above into consideration I don't find that IB has treated Mr B unfairly.

It follows that I don't uphold the complaint. I appreciate Mr B will be disappointed with my conclusion. It's clear he feels strongly about it, and I would like to thank him for the time and effort he has spent in bringing his complaint. However, I hope I have been able to explain how and why I have reached my decision.

My final decision

For the reasons given, I don't uphold Mr B's complaint about Interactive Brokers (U.K.) Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 4 September 2025.

Catherine Langley
Ombudsman