DRN-5197068

The complaint

Mr M's complaint, in essence, is that IG Index Limited gave him inaccurate information about his spread betting trades, which misled him and caused him loss.

What happened

The trades in question were daily fund bets on 'undated' natural gas. Mr M's trades were 'short' trades, so he would profit if the gas price went down but lose if the price went up.

Mr M says his complaint, at core, is IG Index's *"Indicative costs & charges"* calculator gave him highly inaccurate *"Total daily running costs"* figures - around three times higher than those that were actually applied, and so wasn't at all *indicative* - yet IG Index kept this calculator on its platform for weeks and continued to call it 'indicative' without fixing it.

The parties agree that what the daily running costs figure was supposed to show was the adjustment to be applied to Mr M's account overnight for daily funded trades he was holding at the overnight market cut-off time. This has been referred to by the parties at various times as the overnight funding "costs" or "fees" or "charges" or "interest". I will refer to it here as the daily adjustment or overnight adjustment, as it was an adjustment made daily and processed overnight or while the market was closed.

Between 26 September and 9 October 2023 Mr M captured many screenshots showing daily adjustments of around £743. But the actual figures applied to his account for each day was between £229 and £249 – so something like £500 less (or around 67% less) each time.

Mr M has said his trading strategy relied on these incorrect estimates, with the result that he was forced to close trades at a loss once he discovered he wasn't going to receive the sums he thought he would. So he suggests the error with the calculator means it would be fair for certain losses arising from his trading to be cancelled. In particular, he asked IG Index in a phone call to cancel a trade that at the time IG Index said was losing around £8000 and that Mr M closed later - on or around 9 October 2024 - losing around £10,000.

IG Index accepts the figures shown to Mr M by the calculator were wrong. It says this was so because the calculator wasn't using the right 'swap rate' in the calculation. But it says the figures quoted were 'indicative' – and so weren't supposed to be figures for Mr M to rely on in the way he suggests he did. Also IG Index points out that although the adjustments quoted on the calculator were wrong, the adjustments actually made to Mr M's account were right. It said worked examples could be given to show how these had been calculated. Mr M doesn't suggest that the wrong adjustments were made to his account. His point is that the adjustments were shown wrongly in the calculator, so they were misleading.

When Mr M requested the cancellation of his large trade, IG Index mentioned in the call that the adjustments didn't actually affect his 'profit and loss'. IG Index says the only overnight charge that impacted Mr M's cash balance was its administration fee, which it says was between £0.70 and £5.00 a day. It says the adjustment was otherwise adjusting Mr M's position for a change in price that would happen overnight to its undated gas product due to the way the undated gas product was priced, rather than due to market movements.

In essence, this means that apart from the small fee element, IG Index says the adjustment wouldn't gain or lose Mr M money - regardless of its size.

Our investigator noted Mr M complained on 5 September 2023 that the adjustments on the calculator were wrong - and IG Index told him the calculator was using out of date data and so wasn't accurate or reflecting the actual adjustments that would be applied to his account. So she didn't think IG Index ought to be held responsible for the results if Mr M later tried to rely on figures from the calculator. She also noted IG Index told Mr M how to calculate a more accurate figure. So she thought IG Index had explained the situation in a fair way.

That said, IG Index had offered Mr M £150 because the calculator hadn't been working as it should and had used outdated data to calculate the indicative adjustment. Our investigator didn't think IG Index needed to do more than it had offered to do. IG Index has told us it is willing to increase this offer to £300 for the inconvenience caused to Mr M.

Mr M didn't agree with our investigator and made a number of points, including - in brief:

- IG Index admitted fault - in that its calculator was inaccurate. This inaccuracy misled him as a customer who uses IG Index's tools to make high-risk trading decisions. It is unacceptable and a breach of trust that a crucial tool like this remained faulty. He has provided proof of the inaccuracy of the calculator - which IG Index has also admitted – and proof that the issue was not resolved, contrary to his reasonable expectations.

- It is deeply concerning to suggest his complaint can't be upheld because he was made aware of the issue during calls with IG Index. Even if he had been made aware of the error at the time of earlier trades, his complaint isn't about those trades but about large positions placed later where he relied on the calculator and for which he now seeks a refund. He assumed the error was fixed by the time of these trades. Having flagged the error, he assumed IG Index would fix it promptly. It was unreasonable to expect him to assume the fault persisted when the tool was still available for use. IG Index didn't remove the tool or add extra warnings – which implied the problem had been resolved. IG Index didn't inform him the calculator *hadn't* been fixed, misleading him by omission.

- IG Index's failure to correct a known issue with a tool essential to high-risk trades, was negligent. He should have been able to trust the accuracy of the tools provided by financial institutions, particularly when large sums of money are at risk. Given he was engaging in highly leveraged trades with significant sums, IG Index's failure to address the issue promptly was negligent and harmful. Even minor inaccuracies in tools can have significant consequences. IG should have prioritised resolving this error to prevent misleading him in a high-stakes environment like this.

- The ombudsman's role is to protect consumers from misinformation and negligence, like that demonstrated by IG Index. Failing to hold IG Index accountable, despite its admitted fault and the evidence he has provided, would send a troubling message about the fairness and objectivity of the ombudsman and its effectiveness in its purpose of protecting consumer rights. It would suggest large institutions can mislead and disadvantage clients without consequences.

- Many of his key points have been overlooked or not fully addressed. The focus on the earlier September phone call isn't justified. That call was about a very small position and wasn't included by him in this complaint because it wasn't significant enough to affect his trades at the time. This doesn't change the core issue - that IG Index's indicative calculator wasn't fixed and wasn't indicative but highly inaccurate.

- Video evidence he has provided offers further proof of the inaccuracy of the calculator. It shows he was expecting a credit of over £300 but actually received a debit of under £30. In that instance this affected the hedge he had planned, leading him to have to cut his positions by more, losing an estimated £1900 in the process. The calculator can't even be relied upon to say whether he will be due a net credit or a net debit.

- Even if charges are "indicative," there is an expectation they are reasonably and closely aligned with the actual figures. Receiving 61% less than expected is grossly inaccurate and far from indicative. A discrepancy of 35% is unacceptable and misleading. Indicative amounts generally vary by just 5%. Larger discrepancies have severe implications for customers relying on tools to make high-risk trading decisions. It wasn't acceptable for IG Index to display such a drastically incorrect figure, misleading him about the next day's fees.

- The purpose of the platform is to allow clients to make informed decisions with clarity. Introducing an indicative costs calculator indicates IG Index recognised the importance of such transparency. But if the information provided is incorrect, it not only misleads clients but also entirely defeats the purpose of having such a feature in the first place.

- Explaining the issue after the fact in a phone call does not solve the initial problem of the tool. It remains misleading at the time the figures are presented. If anything, the calls further confirm the level of inaccuracy in the calculator, as shown in the screenshots he provided. His evidence highlights the same level of inaccuracy affected the larger positions he is specifically complaining about, which occurred weeks later. Discrepancies and misleading information on IG Index's platform, led him to make trades based on inaccurate data. The clarification provided since, does not negate the significant confusion and financial impact caused by this.

- The conclusions so far have failed to consider critical evidence, particularly IG Index's admission of fault and a video he provided to show the fault. Also it is irrational and unreasonable to dismiss his reasonable expectation when he placed his later trades, that IG Index would have fixed the error by then. The severe financial harm he has suffered due to the tool has also been overlooked.

- The conclusions are unduly influenced by IG Index's market presence, undermining consumer protection. He expects a fair and balanced review of the facts and proofs that prioritises justice for consumers who rely on financial institutions to act in good faith.

As the complaint couldn't be resolved informally, it has been passed to me to decide.

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, like our investigator, I don't think IG Index needs to pay Mr M more than it has offered – which I think is fair redress for the confusion or concern Mr M suffered as a result of IG Index's shortcomings. I'll explain my reasoning briefly below.

Described broadly for the purposes of illustrating what is relevant to this complaint, the underlying physical market for gas trades using futures contracts which are contracts to deliver or take delivery of gas on particular dates. Trading in each of these contracts will end on a certain date, linked to the delivery date. A separate contract is traded for each month's delivery of gas. So there are separate contacts for October and November 2023 gas. These separate contacts can have different prices. So when trading in a particular futures contract, like October 2023 gas, the price is derived from the price of that contract on the physical market, but the trade will end when the end date for trading the October 2023 gas arrives.

I gather from his calls that Mr M had held long positions in gas futures with IG Index. But his complaint here relates to his trading in 'undated' gas. Undated gas trades don't need to end on a particular futures end date. But IG Index's prices for undated gas don't come from an undated gas market - as it says there isn't such a market. Instead the undated prices are derived from two futures prices – using the nearest (or front month) and the next nearest (or back month) gas futures contracts.

So, for example, in a September call IG Index told Mr M the undated price was 2.69, the October futures price (the front month) was 2.58 and the November futures price (the back month) was 2.90. So the undated price was in between the two futures prices. Each day as the November futures contract date came closer, IG Index would move its undated gas price nearer overnight to the November price and further from the October price (the October price dropping out entirely when trading in that contract ended, with the undated price then moving from the November to the December contract price - December being the new back month).

The November price here was higher than the October price. So when IG Index moved its undated price overnight to be closer to the November price, this increased the undated price compared to what it would otherwise have been (the price could still open lower or higher than this, if market relevant factors occurred overnight). This price increase was an increase unrelated to any actual increase in the market price of gas (in gas futures prices). So without any other adjustments to customer accounts, those trading 'long' would gain from this effect (and profit overnight, if nothing else moved the market overnight) and those trading short would lose out from it - without there having been any actual increase in gas market prices.

To avoid this, IG Index would adjust the value of long trades down to balance out the gain that would otherwise have arisen from this moving of the undated price closer overnight to the November futures price - and adjust the value of short trades up to balance out the loss that would otherwise have arisen from this. So there was a negative adjustment for long trades and a positive adjustment for short trades. The effect was that neither short nor long traders would lose or gain, and have their profit or loss affected, by the move of the undated price overnight towards the back futures contract price.

The size of the adjustment wouldn't be known exactly during the trading day, as this would be based on prices of the two futures contracts at the end of the day. But IG Index accepts the indicative calculator was supposed to estimate this using current swap rates, reflecting current market conditions, but the rates used in the instances Mr M spotted were out of date. This was the cause of the significant differences Mr M spotted between the quoted indicative values and the actual amounts applied later to his account. But, as can be seen from what I've said above, whatever the size of this adjustment, it would merely balance out the price adjustment being made at the same time overnight to the undated gas price. What was given in one way would be taken away in the other.

So the effect of this adjustment on Mr M's cash balance and profit and loss was neutral – but there was another element to the daily adjustment. Holding a position like Mr M's overnight, whether long or short, involved a cost – in the form of this fee. The website example has a daily fee of 3% divided by 360. There's no suggestion this fee was wrongly calculated here.

The fee was levied by reducing what would otherwise be added to Mr M's account in the adjustment. Had he been long in the same market scenario, the fee would've been levied by increasing what would otherwise have been deducted in the adjustment. In both scenarios the rest of the adjustment was cancelled out by the move made to the price overnight. So it is only the fee part of the adjustment that actually affected Mr M's profit or loss position.

So overall the adjustment was a cost – presented by IG Index as a cost of holding positions overnight and explained under headings such as daily funding costs. IG Index's material says longer term investors for this reason might prefer to trade futures contracts as they don't have this regular daily cost.

Mr M opened his short trades to benefit if the price of gas fell. Had he wanted to know, before trading, more about the mechanics of how the price of his trades would be linked to market prices for gas, I think IG Index made available sufficient information about this and about how overnight adjustments and the deductions for fees would fit into this. What was shown on the indicative costs calculator was information to be taken into account with other relevant information, rather than something to base trades on in isolation.

Ultimately, though, I'm not persuaded Mr M's losses were caused by the mechanics of how the undated gas price was constructed, or Mr M's understanding of this. Rather they were caused by the actual price movements in the market for gas and how these differed overall from those Mr M needed for his trades to succeed.

It would have been an error to hold positions overnight purely in order to earn money by virtue of the daily adjustment that would be paid. But I'm not persuaded Mr M's trading decisions were made on that basis. In my view Mr M keep his trades open, and held them overnight rather than closing them and taking his profit or loss, for the same reason he opened them - to profit if the price of gas fell in future, which would increase his potential profit or reduce his potential loss, depending on how his trade was going.

I say this bearing in mind he was aware the calculator at times hadn't shown reliable figures and he had been warned against relying on it. I'm not persuaded that in those circumstances Mr M made decisions that relied on the estimated adjustment to be the amount that was quoted by the calculator – to do so would've been unreasonable in my view. I say this noting that Mr M documented, by keeping screenshots, the figures given by the calculator each day, and it seems to me this shows he had at least some doubt about whether these would prove to be correct – as he ought to have done, given what IG Index had told him previously.

If the figures on the calculator had been crucial to his trading, I would've expected him to raise with IG Index any doubts he had about it, or any issues he spotted, straightaway. It seems he raised it only after observing it for many days – when his trade was already showing a significant loss. Also, once aware of the problem, he chose not to close his trade.

I note what Mr M says about how important tools should be fixed promptly, and there is force in what he says, but the error in what was quoted couldn't be relevant to the outcome of a trade. To put it another way, if the figures quoted by the calculator had turned out to be correct and as large as was shown, this would've been so only because the price move that the adjustment was intended to balance was equally large. In any case, I'm not persuaded Mr M assumed the tool had been fixed and traded in reliance on its figures.

So overall what I have doesn't persuade me the adjustments shown on the calculator were the determining factor in Mr M's trading decisions – or that the errors in the calculator were the cause of Mr M's loss. His trades lost money because they relied on the gas prices falling but it rose. This was the substance of his trade and I'm not persuaded its outcome was affected by the errors in the calculator or deficiencies on the part of IG Index.

Mr M's account application was made in January 2021. His dispute relates to trades in 2023. Those trades weren't successful, but what I've seen doesn't make me think that IG Index shouldn't have allowed Mr M to trade the instruments he had chosen to trade – and Mr M hasn't suggested this. I note IG Index's risk warnings disclosed that the majority of its retail clients trading instruments like those Mr M was trading, lost rather than won.

I have considered all Mr M has sent, including the evidence he says shows the calculator couldn't even be relied on to say whether the adjustment would be positive or negative. But I accept that the calculator didn't show the right information during the trades he complained to us about and that I'm considering here, so further evidence on this isn't needed here. Matters raised relevant to that evidence, and later trades they relate to, are to be considered by our service separately under a separate complaint reference.

That said, it isn't right to assume the adjustment for a 'short' trade will always be a positive figure. Whether it is positive or negative depends on the relative prices of the two futures contacts – what might be called the 'shape of the futures curve', which can and does vary. It appears the price of the later futures contracts was higher in September and October during the trades I've considered here (as in the October and November contract figures above). This is a scenario known as 'contango'. But in some market conditions the later futures price can be lower than the earlier one - a scenario known as 'backwardation'. In that situation the daily overnight price move towards the later futures contract price will decrease the undated price, so the adjustment to an account with a short position would be negative not positive.

Returning to the trades under consideration here, in light of the errors that IG Index accepts affected its calculator, and the inconvenience and distress Mr M suffered as a result, which IG Index has acknowledged, I conclude that IG Index ought to pay Mr M the £300 it has offered for this. So I uphold Mr M's complaint in that respect. I don't make any other award.

I acknowledge my conclusions will disappoint Mr M. I'm grateful to him for the courteous and prompt manner in which he has responded to all our enquiries and assessments – and for all the points and information he has provided. It has greatly assisted my considerations here.

Putting things right

IG Index Limited should pay Mr M £300 for inconvenience caused to him by the failings I've noted above.

My final decision

For the reasons I've given, I uphold this complaint in part. IG Index Limited should put things right by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 6 January 2025.

Richard Sheridan
Ombudsman