

The complaint

Mrs B complains Freetrade Limited failed to stop an unauthorised third party accessing her account. She holds the firm responsible for her resulting losses.

What happened

Mrs B holds a share dealing account with Freetrade. Her personal email address forms part of the credentials she uses to login to this account. On 28 February 2024 she had reason to believe the security of her email address had been compromised, so she contacted Freetrade via its app and asked the firm to amend her details.

Whilst her request was pending, an unauthorised third party (hereon, “the fraudster”) accessed her Freetrade account on 1 March 2024. At roughly 2pm they submitted a fresh request to change her email address and sold the shares she held, generating a cash balance. The fraudster was asked to confirm Mrs B’s date of birth when submitting their request to change her email address. They answered this question incorrectly.

Mrs B logged back into her account later that day and saw her shares had been sold. She messaged Freetrade at around 9pm expressing dismay at what’d happened. A few hours later, at around 11pm, the fraudster used the cash in Mrs B’s account to purchase new shares.

On 2 March 2024, at around 2am Mrs B sent a further message to Freetrade complaining it’d allowed the fraudster to continue accessing her account. The firm replied to Mrs B at around 8am. It confirmed her account had been disabled whilst it investigated what’d happened.

Freetrade and Mrs B discussed the fraud in the days and weeks following this. A month later, Freetrade wrote to Mrs B and concluded that:

- It accepted a fraudster had gained access to and defrauded Mrs B’s account.
- It didn’t consider it could’ve known this prior to Mrs B reporting her concerns.
- It wasn’t willing to reimburse Mrs B for her losses.

Mrs B didn’t accept Freetrade’s response and referred her complaint to our service.

Our investigator upheld the complaint. They concluded that:

- Given the chain of events leading up to the sale of Mrs B’s investments, they were persuaded Freetrade ought to have been suspicious of who was operating her account, and prevented any trades being placed until this could be verified.
- As Freetrade had failed to do so, they considered it was fair and reasonable of the firm to reinstate Mrs B’s original shareholding, as if the unauthorised transactions had never taken place.
- In addition to this, they recommended Freetrade should pay Mrs B £200 for the distress and inconvenience the firm’s actions had caused her.

Freetrade didn't accept our investigator's response. The firm reiterated it could not reasonably have known her account had been accessed by a fraudster. And as the unauthorised access stemmed from Mrs B's email being compromised, it didn't feel it was fair to redress her in the way our investigator had recommended. It conceded however that as of 2 March 2024, it would've been able to reverse the trades placed by the fraudster, including the acquisition of a share that had since become illiquid. Having made this concession, Freetrade told our investigator:

"...we would be willing to take possession of the [illiquid share] and reimburse [Mrs B] with the funds that were used to place the trades, along with providing her with £200 compensation".

Our investigator told Mrs B that Freetrade had made an offer to settle her complaint. Mrs B asked what amount specifically would be returned to her as part of the firm's settlement, and our investigator duly went back to Freetrade in order for this to be clarified.

Nearly a full month passed, during which our investigator chased the firm for a response on several occasions. When Freetrade did respond, it was initially to say its staff had been on annual leave. It subsequently provided the details of a loss calculation it'd carried out.

Our investigator shared Freetrade's figure with Mrs B, who agreed to accept it to resolve her complaint. Our investigator shared this with Freetrade on 8 November 2024, and asked the firm to contact Mrs B to settle her complaint.

A month later, Mrs B contacted us to explain she'd not heard from Freetrade. Our investigator chased the firm up for a response. Weeks passed. When Freetrade did respond it explained, contrary to what it'd said before, it hadn't intended to settle Mrs B's complaint and wanted to appeal our investigator's findings. As a result of this, the matter's been referred to me for a decision.

Having considered Mrs B's complaint, I notified all parties of my intention to uphold it. My provisional decision concluded as follows:

"Freetrade is authorised and regulated by the Financial Conduct Authority. As a regulated firm, Freetrade has a number of broad obligations to its customers, like Mrs B, whilst it is the custodian of their assets. These obligations include:

PRIN 2.1.1 R

- "(2) A firm must conduct its business with due skill, care and diligence...*
- (6) A firm must pay due regard to the interests of its customers and treat them fairly...*
- (9) A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.*
- (10) A firm must arrange adequate protection for clients' assets when it is responsible for them...*

COBS 2.1.1 R

"A firm must act honestly, fairly and professionally in accordance with the best interests of its client..."

SYSC 3.2.6 R

“A firm must take reasonable care to establish and maintain effective systems and controls for compliance with applicable requirements and standards under the regulatory system and for countering the risk that the firm might be used to further financial crime”.

This regulation defines “financial crime” as:

“...any kind of criminal conduct relating to money or to financial services or markets, including any offence involving:

(a) fraud or dishonesty...”.

Freetrade is supported in its delivery of these obligations by its terms and conditions, which Mrs B will have accepted at the outset of opening her accounts. Within these terms Freetrade has reserved the right to unilaterally restrict access to its customers’ accounts. Its terms on the subject say that:

“...27.1 We may restrict your access to and use of one or more of your Freetrade Account(s), some or all of our Services and/or the Freetrade Platform if:

27.1.1 We reasonably suspect that this is necessary for security reasons. We might do this, for example, if we think there's been unauthorised or fraudulent use of your Freetrade Account...”.

I've kept all of these obligations in mind when coming to my decision on Mrs B's complaint. But I've also considered that the powers afforded to me at DISP 3.6.4 R say that, where appropriate, I can take account of what I consider to have been “good industry practice at the relevant time”.

For this reason I've considered the 2017 paper, BSI: PAS 17271: 2017 “Protecting customers from financial harm as result of fraud or financial abuse”. A number of banks and trade associations collaborated on the development of this document which recommends firms look to identify and help prevent transactions – particularly unusual or out of character transactions – that could involve fraud.

The paper explains its contents and recommendations are intended for anyone managing money or assets on behalf of UK consumers. Freetrade is not a signatory of this document, and I accept may never have directly reviewed its contents. But the standards and expectations the paper refers to represent a fair articulation of what was, in my opinion, already good industry practice as of October 2017, particularly around fraud prevention. It remains a starting point for what I consider to be the minimum standard of good industry practice now. In summary, the guidance in this paper recommends as good practice that:

- Firms should put systems in place to monitor for and detect suspicious patterns of account activity, and any requests that could be an indicator that fraud is taking place.*
- Examples of suspicious account activity include things like logins from new devices, requests to update contact details, and transactions which have the potential to deprive their customer of funds.*
- Firms should be particularly wary of requests to amend personal details such as email addresses. And should ensure efforts are made to identify the originator of such requests.*

Taken as a whole, I consider that at the time of the events in question, Freetrade possessed a broad obligation to build and implement systems to detect and mitigate the risk of Mrs B becoming the victim of fraud. And more specifically, that the firm should monitor her account

for signs of suspicious activity, such that it could fairly and reasonably exercise its right to restrict access to the account in the event it needed safeguarding. I've kept this in mind when considering the outcome of Mrs B's complaint.

From Freetrade's perspective, and as far as I consider it should reasonably have been aware, the events of 28 February 2024 onwards unfolded as follows:

- A user logged into Mrs B's account, using her regular device, and made a request to change the email address associated with the account. The chosen email address contained Mrs B's full name. For security, the user was challenged to provide their date of birth. They answered this question correctly.*
- Less than 24 hours later, a user logged into Mrs B's account from a different device. They proceeded to make a new request to change the email address on Mrs B's account. The email address proposed included the full name of a male with no recognised affiliation with Mrs B. This user was asked to confirm Mrs B's date of birth. They answered this question incorrectly.*
- Within minutes, the user who'd logged in via the new device and incorrectly entered Mrs B's date of birth, gave instructions for Freetrade to start selling assets in the account.*

Mindful of this, and taking account of all of the rules, regulations, guidance, and industry best practice I've referenced above, it's my view that Freetrade ought reasonably to have had suspicions that the user in control of Mrs B's account was not Mrs B. In particular, I think the specific combination of contact from an unfamiliar device, duplicate requests to amend contact details, failure to answer a security question, and the proximity of this to placing sell orders which could lead to Mrs B's deprivation, ought reasonably to have been considered as suspicious.

It is apparent from the facts of this case that the systems and controls implemented by Freetrade were such that it did not recognise this activity as being suspicious. But it's my opinion that in order to fulfil its various obligations to Mrs B, I would fairly and reasonably expect it to have done so.

Had Freetrade recognised this sequence of events as being suspicious, then prior to executing the first instruction it received to start selling off Mrs B's shares, I'd expect it to refuse all instructions and restrict access to the account in line with its terms and conditions. I would fairly and reasonably expect access to remain restricted until such time that the identity of the person in control of the account could be established. Freetrade's failure to do all of this is, in my opinion, a failure to treat Mrs B fairly.

Considering the events of this complaint, I'm satisfied that had Freetrade recognised the activity as being suspicious, and taken action to safeguard Mrs B's accounts, it would've avoided the losses Mrs B has ultimately sustained as a result of the firm's failure to treat her fairly. It's my opinion therefore that it is fair in the circumstances for me to require Freetrade to redress these losses.

Putting things right

My aim when redressing a complainant who's been affected by the mistakes of a respondent is to return the complainant to the position they'd likely be in had no mistakes been made.

The mistake I've identified in this case, is Freetrade's execution of the instructions to sell Mrs B's assets, at a time where I'm satisfied it ought to have been suspicious of the origins of

those instructions. I'm satisfied it's this, together with the subsequent failure to safeguard her account until it was returned to Mrs B's control, that's caused the losses she's suffered in this complaint.

Through my enquiries I've sought to quantify the loss Mrs B has suffered in this case. And I've come to learn that prior to the fraud, she held positions in three companies I'll refer to as B, X and T respectively. The fraudster sold her positions in these companies. The fraudster then replaced these positions with four assets of their own choosing, one of which has subsequently become illiquid. Freetrade has accepted that it could've stopped these trades, but it failed to do so.

When Freetrade eventually lifted the restrictions on Mrs B's account at the beginning of April 2024, I can see she sought to mitigate her losses by selling the fraudster's assets and trying to reinstate her original positions. She was unable to do so completely however, as a good portion of her investment capital was tied up in the asset which had become illiquid.

From looking at her statement I can see Mrs B reinstated her positions in B and T relatively quickly. But as of 15 July 2025, she's still 208 shares short of her original position in X, and a lot of her money is tied up in the fraudster's asset which I believe is still illiquid.

So to put matters right, and to return Mrs B to the position she'd most likely be in but for Freetrade's failure to safeguard her account, I will require that:

- Freetrade takes possession of the illiquid asset. Mrs B forfeits any right to benefit from it. And any future value Freetrade's able to realise from the disposal of this asset can be retained by the firm.*
- At no cost to Mrs B, Freetrade must then purchase her 208 shares in X to reinstate her original position.*
- Finally, Freetrade must calculate and pay the value of any dividends due on her original positions in B, X and T that she missed out on, as if those positions had never been sold.*
- When calculating and making this payment to Mrs B, Freetrade may deduct the value of any dividends or other payments she received from the assets purchased by the fraudster.*
- When paying back the value of any dividends or other payments Mrs B has missed out on, Freetrade must also calculate simple interest at 8% on top of this amount. Interest must be calculated from the date the distributions should have reached Mrs B but for the fraud taking place, up until the date of settlement.*
- If Freetrade considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mrs B how much it's taken off. It should also give Mrs B a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.*

Finally I must address the impact the events of this complaint have had on Mrs B. Her positions in the market were taken from her as a direct result of Freetrade's failure to act on the suspicious activity on her account. She subsequently had to watch and message Freetrade as the fraud developed, unable to prevent the misuse of her funds. The firm then missed opportunities to cancel the fraudster's unauthorised transactions. And at the culmination of a month long investigation into the fraud, concluded only that it agreed a fraudster had misappropriated Mrs B's funds, offering her no further support or assistance.

Whilst the matter was under investigation with our service, Freetrade gave the false impression it would be willing to settle Mrs B's complaint, raising her hopes of a resolution.

The firm then delayed matters by several weeks and ultimately retracted its offer to settle the complaint, which we understand was a great disappointment to Mrs B.

I'm satisfied that Freetrade has distressed and inconvenienced Mrs B through its failure to treat her fairly. To address this, I will require Freetrade to pay Mrs B the sum of £400.

In coming to my decision here, I've considered that Freetrade's terms and conditions required that Mrs B should take reasonable steps to keep her account safe. The evidence in this case seems to suggest that the fraud was only able to take place as a result of her email address being compromised. So I've considered whether it's fair to require Freetrade to compensate her as a result of this.

Ultimately, I'm satisfied that it's fair to do so. Because whilst her initial request to amend her email address didn't explicitly warn Freetrade she had concerns with the integrity of her account, she'd made the change with this in mind. And as she became aware of unauthorised activity on her accounts, she stayed in touch with the firm, making it aware that the actions being taken on her account weren't originating from her.

Broadly, I'm satisfied that even without Mrs B explicitly telling the firm she had security concerns at the time of her initial message, the firm still had enough information that it ought to have concerns and acted to safeguard her account.

For all of the reasons given above, I'm satisfied that it is fair and reasonable of me to uphold Mrs B's complaint about Freetrade".

Mrs B accepted the bulk of my findings. But she argued the redress I'd proposed wouldn't have the effect of returning her to the position she would otherwise have been in, but for Freetrade's failure to protect her from fraud. She pointed out she's only been able to partially rebuild her position in X by topping up her account with cash, and utilising distributions from her investments which she'd otherwise have been free to spend as she pleased. She argued therefore that crediting her with 208 X shares, would effectively mean she'd lost the cash she invested trying to reinstate her position. To accommodate this, she felt Freetrade should credit her with replacements for all 344 of the X shares that were sold in the course of the fraud.

Through our investigator, I sought Freetrade's response to both my provisional decision, and Mrs B's comments about my proposed redress. In reply, Freetrade said it would be willing to credit Mrs B with 344 shares in X. It did not comment on whether it accepted or rejected the rest of my findings. It offered that it would be willing to engage in further discussions with our service about its strong fraud controls, which it felt would have prevented Mrs B's funds from being withdrawn from her account. The firm also provided a statement for Mrs B's account which showed a running cash balance.

I've returned to the conclusions of my provisional decision in light of the comments provided by both parties.

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 see no need to depart from the core findings I made. I remain satisfied that for all of the reasons given in my provisional decision, Freetrade should've acted to safeguard Mrs B's accounts prior to her shares being sold.

I note the comments the firm's made about its fraud controls, and how this would in theory have prevented cash from leaving Mrs B's account. But that isn't relevant to the facts of her complaint. My finding is that, mindful of the relevant rules and what I consider to have been good industry practice, I would fairly and reasonably have expected Freetrade to stop Mrs B's account at the point it became clear the person in control of it was trying to sell her shares.

With that being said, I have reconsidered what I've proposed as being fair redress. The new submissions I've received from Mrs B and Freetrade persuade me that what I'd initially proposed would *not*, as I'd intended, have the effect of returning her to the position she'd likely be in, but for the fraud.

Post-fraud, Freetrade lifted the restrictions it'd imposed on Mrs B's account at the beginning of April. At this time, she sold as many of the assets purchased by the fraudster as she could, and fully reinstated her positions in T and B. Having done this though, a significant portion of her cash remained invested in an asset which had, during the period Freetrade had restricted her account, become illiquid.

I've considered Mrs B's argument that when she began rebuilding her position in X, she had to do so using income from her investments in T and B, as well as new cash deposits she'd made. Having looked at the new evidence in this case, notably the statement which shows a running cash balance in her account, I'm persuaded that the argument she's making is reasonable, to a point. Mrs B bought 35 shares in X on 11 November 2024. When doing so, she spent almost all of the cash held in her account in the process. From her statements I can see the cash she used to purchase these shares was derived from:

- Cash left over from reinstating her shares in B and T in April 2024
- Income she'd received from her investments.
- A distribution from a corporate action on the illiquid asset purchased by the fraudster.
- Interest she'd been paid on all of this accrued cash.

On the evidence available to me, I accept that as Mrs B says, the income from her B and T shares, and any interest on that income, should always have been hers to spend as she pleased. But the same is not true for the cash left over from reinstating her positions, the cash distribution from the illiquid asset, or the interest on any of that element of the cash in her account. That cash and a portion of the resulting interest is only available to her as a result of the fraud taking place. And she's had use of this money, spending it on X shares. That means that if I were to require Freetrade to credit her with all 344 X shares that were taken from her during the fraud, I'm satisfied I'd be overcompensating her by quite a bit, which wouldn't be fair.

Looking at Mrs B's statements, I think the majority of the additional cash she had access to as a result of the fraud was spent on 11 November 2024 when she began reinstating her X shares. She bought 35 shares that day. And combining the values of the residual cash, the distribution from the illiquid asset, and an approximation of the interest due on this balance, this amount purchased approximately 27 of the shares she acquired that day. I think it's likely that the remaining 8 shares she purchased that day, and any shares she purchased beyond that day would, in the main, have been purchased with her own money that she should always have been free to spend as she pleased.

So with all of that in mind, I think Mrs B's loss of shares in this case is more fairly characterised as being the total amount of X shares that were sold (344), less the amount of X shares she was able to repurchase with funds that became available to her as a result of the fraud taking place (27). I therefore think it's fair and reasonable to approximate that Mrs B has lost 317 X shares as a result of Freetrade's failure to protect her from fraud.

With this in mind, I've revisited the redress methodology proposed in my provisional decision. I shall now require Freetrade to take the following steps:

1. Freetrade must take possession of the illiquid asset. Mrs B forfeits any right to benefit from it. Any future value Freetrade's able to realise from holding or disposing of this asset can be retained by the firm.
2. At no cost to Mrs B, Freetrade must purchase her 317 shares in X to reinstate her original position.
3. Freetrade must calculate and pay the value of any dividends due on her original positions in B, X and T that she missed out on, as if those positions had never been sold. The firm must provide evidence of this calculation in a clear and simple format.
4. When paying back the value of any dividends or other payments Mrs B has missed out on, Freetrade must also calculate simple interest at 8% per annum on top of this amount. Interest must be calculated from the date the distributions should have reached Mrs B but for the fraud taking place, up until the date of settlement.
5. If Freetrade considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mrs B how much it's taken off. It should also give Mrs B a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.
6. Finally, Freetrade must pay Mrs B the sum of £400 in recognition of the distress and inconvenience its actions have caused her, for the reasons given in my provisional decision.

This methodology differs from what I'd proposed in my provisional decision in two key ways. Firstly, for the reasons given above, it's fair to require Freetrade to credit Mrs B with more X shares than I'd previously concluded. And secondly, the distribution Mrs B received from the illiquid asset is accounted for by a reduction in the amount of shares I require Freetrade to purchase for Mrs B. This is instead of using that amount to reduce the redress owed elsewhere in the methodology.

I'm satisfied that for all of the reasons given both here and in my provisional decision, the methodology above will effectively return Mrs B to the position she'd like be in, were it not for Freetrade's failure to protect her from fraud. And as a result, I'm further satisfied that it represents a fair and reasonable resolution to her complaint about the firm.

My final decision

My final decision is that I uphold Mrs B's complaint against Freetrade Limited. I now require the firm to implement the redress methodology outlined in steps 1-6 outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 3 September 2025.

Marcus Moore
Ombudsman