DRN-5705879

The complaint

Mr D complains that Hargreaves Lansdown Asset Management Limited didn't take adequate steps to ensure the stop loss on his dealing account was triggered appropriately.

Mr D would now like HL to recompense him for his losses and agree to review their stop loss service.

What happened

Mr D holds a share dealing account with HL. On 4 October 2024, he placed a stop loss on 12,482 shares that he owned in the Xtrackers MSCI China Index UCITS ETF. The stop loss order was placed at a price of 1130p at around 09:52 hrs. At 13:30 hrs on the same date, the stop loss was executed at a price of 1094.05.

On 7 October 2024, Mr D contacted HL to query why his trade was executed below the market price. Mr D decided to formally complain to HL as he felt that instead of protecting him against a price drop, HL's systems had cost him a significant loss on his investment within a few hours of this being added.

After reviewing Mr D's complaint, HL concluded they were satisfied they'd done nothing wrong. They also said, in summary, that they hadn't made any errors when processing the stop loss. They explained that their stop loss system works by monitoring the London Stock Exchange (LSE) Yellow Strip bid price, "*which by nature will be at the extreme end of the prevailing bid offer spread. This spread will continue to change, and when you are dealing with an order-driven security, there may be occasions where the spread may widen more considerably. This can occur when orders are removed from the order book, often due to volatility in ETF's underlying investments. As our Dealing Desk have explained previously, in this instance, a larger volume of orders were removed from the order book around the time the US were releasing key economic data".*

HL explained that some stocks, such as this Xtrackers ETF, show abnormally wide spreads and this risk is known as 'gapping'. Gapping can lead to a stop loss being executed below the price that an investor sets, however this reflects the market at the point of execution. HL say that this is what occurred in Mr D's case. When US economic data was released, it caused orders to be withdrawn from the order book. As such, HL said that Mr D received a price that reflected the market and size of his order.

Mr D was unhappy with HL's response, so he referred his complaint to this service. In summary, he said that he didn't think HL took adequate steps to ensure the stop loss was triggered appropriately. Mr D went on to say that he believes the loss arose as a result of large volume, high speed, automated order processing that HL failed to monitor. To put things right, Mr D wanted HL to put right the loss of c£33,000 that he said he'd suffered as a result of their actions.

The complaint was then considered by one of our Investigators. She concluded that HL hadn't treated Mr D unfairly because by providing a stop-loss instruction, as an execution only customer, he was exposed to this type of risk which HL made clear was a risk highlighted in their terms of conditions of using that particular service. Our Investigator went on to say that there was always a risk the deal could be placed at a lower price than the stop loss price and from the evidence provided, HL executed the trade in line with their terms.

Mr D, however, disagreed with our Investigator's findings. In summary, he said:

- HL do have a duty to clients beyond mere execution. Even if HL have followed their 'execution only' terms, those terms describe a process that involves no checks or balances and HL have not explained to clients that these basic checks are absent.

- HL have therefore not adequately explained to clients that the potential for loss is unlimited because the execution is into a market where the withdrawal of bulk orders by institutional market participants is not uncommon and can create millisecond shifts in spread that in no way reflect the market available to the retail participant.

- The execution can in no way provide the protection that a normal person might expect from a 'stop loss'. HL felt it necessary to explain this to him in their email; they do not consider it necessary to explain it to their wider client base in their terms.

- He is not asking for 'execution only' to change, only that the checks and balances be reinstated and the real risks properly disclosed.

- Compliance with the terms of a process that is flawed cannot be deemed to be compliance with a duty of care.

- He would like the Ombudsman to consider this point by considering this question: "*Would you, in any circumstances at all, place a 'stop loss' on a holding if you knew that it could be triggered and executed at 1p simply because an institution withdrew all orders except for a speculative bulk purchase order at 1p*". HL seem to believe that their terms cover them for this eventuality.

- He had given considerable representation as to why this is not 'gapping'. As a sophisticated investor and one with many years of experience working in capital markets (including complex trading activities, regulation and market risk), he doesn't agree that what occurred can simply fall under the banner term 'gapping'.

- No number of warnings about 'gapping' would suggest to him that it would include the magnitude of spread shift that occurs when institutional market participants withdraw bulk orders and it would certainly not occur to the typical retail investor that this service seeks to protect.

- This service had accepted HL's definition of 'gapping' without any further consideration. He wanted the Ombudsman to consider this point and state explicitly whether he was forewarned because the definition of 'gapping' includes all such forms of market distortion.

The case now comes to me for a decision.

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.

I have summarised this complaint in less detail than Mr D has done and I've done so using my own words. The purpose of my decision isn't to address every single point raised by all of the parties involved. If there's something I've not mentioned, it isn't because I've ignored it - I haven't. I'm satisfied that I don't need to comment on every individual argument to be able to reach what I think is the right outcome. No discourtesy is intended by this; our rules allow me to do this and it simply reflects the informal nature of our service as a free alternative to the courts.

My role is to consider the evidence presented by Mr D and HL in order to reach what I think is an independent, fair and reasonable decision based on the facts of the case. In deciding what's fair and reasonable, I must consider the relevant law, regulation and best industry practice. Where there's conflicting information about what happened and gaps in what we know, my role is to weigh up the evidence we do have, but it is for me to decide, based on the available information that I've been given, what's more likely than not to have happened. And, having done so, I'm not upholding Mr D's complaint – whilst it's largely for the same reasons as our Investigator, I'll explain why below.

As I've already explained, on 4 October 2024, Mr D placed a stop loss on 12,482 shares that he owned in the Xtrackers MSCI China Index UCITS ETF. The stop loss order was placed at a price of 1130p and later that day, the stop loss was executed at a price of 1094.05. HL have explained that the immediate cause of the stop loss triggering was the withdrawal of a bulk institutional order which removed significant bid-side liquidity and caused the best bid on the LSE Yellow Strip to reset sharply lower. In short, the Yellow Strip displays the best bid, being the highest price at which a market maker is willing to buy, and the best offer, being the lowest price at which a market maker is willing to sell. When the institutional order was withdrawn, the best bid fell below 1130p, triggering the stop loss and converting it into a market order. The order then executed at the prevailing best bid of 1094.05p. Just because a stop loss was set at a specific level (1130p), it doesn't necessarily follow that the consumer will receive that amount, they'll only receive the executed market price, which when the stop loss was triggered, there was a bid-offer spread of 956.5p to 1415p and Mr D's trade was executed at the bid price of 1094.05p.

Mr D has said that he doesn't agree with HL's explanation that this was a case of 'gapping'. Strictly speaking, in market microstructure terms, gapping refers to a discontinuity in price between trading sessions, for example overnight closures or after a market halt, where the next available price is materially different from the last traded price. But, it's not quite so simple because across a number of investment platform providers, I've seen firms use gapping more broadly to describe any situation where there's a sudden discontinuity between the stop level and the execution price. And, that can be caused by overnight moves in the underlying market (which is gapping in the classic sense that Mr D has referred to), but also intraday liquidity shocks such as the withdrawal of a large institutional order or abnormally large spreads in certain ETFs, where the touch price can jump down or up when liquidity thins, the latter of which I think is relevant here.

Mr D was invested in the Xtrackers MSCI China Index UCITS ETF, and having looked at the Key Investor Information Document (KIID) that's freely available online (and which would have been available to Mr D prior to purchasing the investment), it states the instrument has a Synthetic Risk and Reward Indicator towards the upper end of 1 to 7 scale. The KIID highlights that the ETF is not capital protected and that investors must be prepared to sustain losses up to the total capital invested because the value of the investment can fluctuate heavily. This reflects the inherent volatility of emerging market equities, particularly China where sudden shifts in liquidity and particularly spreads are quite common. So, when

HL have explained that “on some ETFs, abnormally wide spreads are considered gapping”, in my opinion, I don’t think that’s an inaccurate assessment because it can be an indicator, and in any event, they’re applying a functional definition rather than a strict academic one. From a customer’s perspective, I suspect HL have explained the outcome as gapping because the outcome is essentially the same, that is, the stop loss triggered, and the execution price is materially below the stop level with no opportunity to fill at the trigger point.

But to be fair to HL, I don’t think this outcome is specific to them. Stop loss mechanics are universal, so once the trigger price is reached, the order converts into a market order and executes at the best available price. And, as HL operates on an execution only model, that means its responsibility is to transmit instructions and achieve best execution once triggered, not to exercise discretion over whether an order should be applied. The execution price itself is determined not by HL but by market makers and prevailing liquidity. The variance between the stop level of 1130p and the execution price of 1094.05p reflects, in my opinion, normal market behaviour under conditions of liquidity withdrawal and wide spreads and it’s more likely than not that the same outcome would have occurred with any other execution only provider.

Whilst I’ve read carefully what Mr D has had to say about HL’s obligations and whether they should have questioned whether the stop loss ought to have been applied in such circumstances, this isn’t consistent with the regulatory framework or HL’s role here. To query or override stop loss instructions based on anticipated market conditions would amount to discretionary portfolio management or straying into giving advice, which is outside the scope of an execution only service. HL’s responsibility is limited to ensuring that once the order is triggered, it is executed in accordance with best execution requirements under the FCA’s COBS 11.2A.2R rules, which in this case, meant filling at 1094.05p, which was the best available bid at the time given the prevailing market conditions. And in any event, had HL not executed the order when they did but sought clarification from Mr D on what he wanted to do, had the price continued to track downwards, there’s a very real possibility that HL would find itself in a position where they would be liable for Mr D’s losses for failing to fill his order at the earlier opportunity. And, whilst the price of the instrument increased immediately after the stop loss was triggered, it doesn’t mean that HL were wrong to sell his investment, that’s because they were obligated to follow his instructions as soon as the price in the market reached his stop loss price.

Mr D has stated that he believes the loss arose as a result of large volume, high speed, automated order processing that HL failed to monitor. Whilst I do want to acknowledge that large volume automated order processing activity can cause sudden price movements, it’s also really important to acknowledge that HL doesn’t monitor or control institutional or automated trading flow. These dynamics are inherent features of modern markets, particularly in higher risk ETFs such as the China UCTIS investment that Mr D held, which is why such price variations and risks are highlighted on the KIID that I’ve spoken about above. HL’s role is limited to transmitting instructions and achieving best execution once a stop loss is triggered, which in this case meant execution at 1094.05p, which was the prevailing best bid at the time.

From what I’ve seen of HL’s terms and conditions and website, they make it clear that they cannot guarantee execution at the stop price. HL explicitly set out that orders may be executed below the trigger level if prices move quickly or spreads widen and that gapping may occur, meaning that the order will fill at the next available market price, even if this is materially lower than the stop level. Consumers are required to accept that risk when placing a stop loss order, so I can’t conclude that Mr D wasn’t forewarned of what could happen.

As I’ve seen no evidence that the stop loss didn’t work as intended, it therefore follows that I’m not upholding Mr D’s complaint.

My final decision

I’m not upholding Mr D’s complaint and as such, I won’t be instructing Hargreaves Lansdown Asset Management Limited to take any further action.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr D to accept or reject my decision before 23 December 2025.

Simon Fox
Ombudsman