

complaint

Mr M complains he's lost money because of the way Beaufort Securities Limited handled his trading account.

background

I issued a provisional decision on 1 February 2016. A copy of this decision is attached and it forms a part of this final decision. In my provisional decision I set out the reasons why I was minded to uphold the complaint in part.

I asked both parties to let me have any further comments that they wanted to make.

Mr M said that Beaufort had told him that if he made payments on account he wouldn't have to sell his Physiomics or Concha shares before the T20 due date. He said Beaufort had taken orders to buy the shares once he'd paid £3,000 as part payment. Mr M later had to sell the shares at a loss.

Mr M considers he was misled and misinformed by Beaufort, and that it should be fully responsible for his losses.

Beaufort didn't reply to my provisional findings.

my findings

I've reconsidered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I note what Mr M has said about his discussions with Beaufort. He hasn't been specific about when the £3,000 part payment was made.

I accept that Beaufort wanted Mr M to put money on his account so that he could continue to trade without being overly exposed. But from what I've seen and heard, I can't be sure that Beaufort said a payment on account would mean Mr M wouldn't have to sell his Physiomics or Concha shares before the T20 due date.

I remain of the view that Beaufort shouldn't have allowed Mr M to buy so many Concha and Physiomics shares while his account was in debt above his credit limit. So I think it's reasonable for the business to cover some of the losses he made as a result of having to sell the shares.

But I still think Mr M's experience in trading, his relationship with Beaufort and what he'd said about sending money should be taken into account. As such, I don't consider it reasonable for Beaufort to cover all of his losses.

Overall, I'm not persuaded to depart from the position set out in my provisional decision.

my final decision

My decision is that I uphold this complaint in part. I direct Beaufort Securities Limited to pay the following to Mr M:

1. One half of the loss Mr M made on shares bought in London Mining Plc that took his credit limit above £20,000.
2. One half of the loss Mr M made on shares bought in Concha PLC on 3 November 2014 that took his credit limit above £10,000.
3. One half of the loss (if there was one) Mr M made on shares bought in Physiomics plc on 6 November 2014.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 21 April 2016.

Caroline Stirling
ombudsman

copy of provisional decision

complaint

Mr M complains he's lost money because of the way Beaufort Securities Limited handled his trading account.

background

Mr M placed a number of trades with Beaufort, where settlement takes place twenty days after the trade (a T20 trade). Some of the shares he bought were suspended, which created a debt on his account. Following a discussion with Beaufort, Mr M sold some Tesco plc shares to reduce the amount he owed. He made a loss on that sale.

The debt on Mr M's account was still more than his credit limit. Beaufort said he wouldn't be able to trade until there was more money on the account.

But Beaufort allowed Mr M to 'roll' shares in a different company on to another T20 deal. He had to sell those shares at a loss to reduce the debt on his account again.

Mr M said Beaufort hadn't been clear about his credit limit and the circumstances in which he could trade. He said he'd been put under pressure to sell, and considered Beaufort should cover the losses he made.

Our adjudicator didn't uphold the complaint. He found Mr M made an informed decision to sell the Tesco shares following a discussion with Beaufort about the position on his account. He didn't find any evidence that Beaufort had put pressure on Mr M in connection with his trades. The adjudicator didn't think Beaufort had misled Mr M about the credit limit on his account.

Mr M didn't agree so the complaint has been passed to me.

my provisional findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Mr M's credit limit and the London Mining trade

On 10 October Mr M bought shares in London Mining on a T20 basis. At the time he also had open trades in Tesco and Concha shares that hadn't yet settled. The London Mining shares were suspended shortly after Mr M bought them – so he couldn't sell them. The other unsettled trades on his account meant Mr M owed the firm around £27,000.

Mr M says Beaufort indirectly increased his credit limit by allowing him to invest in London Mining. Beaufort hasn't been able to explain exactly how Mr M's credit limit was established. Its website and terms of business say customers are offered an immediate credit limit of up to £5,000. Mr M's appears to have been higher than this, and Beaufort says this is probably because he was a longstanding customer and the broker was willing to increase his limit.

Mr M made the London Mining trade on an execution only basis, and it seems to me that he was a willing speculator. But Beaufort also has a responsibility to run its business prudently, and not to expose itself or its customers to excessive credit risk.

Mr M was earning £50,000 a year at the time, and had savings of about £30,000. I'm inclined to agree with him that the London Mining trade did increase his credit limit to around £27,000. Given Mr M's circumstances, I don't think that was a reasonable level of exposure.

I don't think Beaufort should have allowed Mr M's credit limit to be more than £20,000. So I think there should be some redress for loss on the proportion of the London Mining trade that took his credit limit above £20,000.

But as I've already said, Mr M was a willing speculator in the London Mining trade. So I'm not persuaded Beaufort should cover all the losses he made in connection with the increased credit limit. I think it would be reasonable for Beaufort to cover half of Mr M's losses.

Sale of Tesco shares

Beaufort called Mr M on 13 October to discuss the position on his account. He closed the Tesco trade, and the money he made reduced the debt on his account by about £10,000.

Like the adjudicator, I think Mr M made an informed decision to sell the shares following a discussion with Beaufort. I don't think it was unreasonable for the business to manage Mr M's potential exposure. It discussed various methods of funding the account, and I'm not persuaded that it put pressure on Mr M to sell. So I don't think it should cover the loss he made on that sale.

Sale of Concha shares

On 14 October Beaufort spoke to Mr M again. It was at this point that Beaufort told Mr M how his credit limit was calculated. I'm not persuaded that Beaufort intended to operate a discretionary limit from then on.

Beaufort told Mr M the maximum credit line for his type of account was one quarter of any balance, plus £10,000. So Mr M had a credit line of about £10,100 at that point, but his potential debt was much more than this. Beaufort made it clear that Mr M wouldn't be able to trade until the debt on his account was reduced to within the credit limit.

The open trade on Mr M's Concha shares settled on 3 November. I understand that there was still a debt in excess of the credit limit at that point. Mr M banked the profit he'd made and Beaufort allowed him to reinvest in the same company on a T20 basis. I understand this trade took the debt on his account to about £16,000. The trade was due to settle on 1 December 2014.

Mr M also bought shares in Physiomics on a T20 basis on 6 November.

Mr M's Concha shares were sold on 28 November at a loss of around £2,000. In a call between Mr M and Beaufort on 3 December, Mr M suggested he'd wanted to wait until 1 December to sell. The conversation suggests that the sale was prompted by Beaufort, with a view to reducing Mr M's debt. I also note that in the same call, Beaufort's adviser says he might not have authorised some of the trades Mr M made while his account was in debt above his credit limit.

So I can see why Mr M is unhappy with how his account was handled between November and December 2014. Beaufort first said he couldn't trade until the debt was reduced, but then allowed him to do so. Beaufort then said it was still unhappy with the position on his account. I think it's likely that at that point, Beaufort put Mr M under pressure to sell the Concha shares.

From what I've seen, I don't think Beaufort should have allowed Mr M to buy the Concha and Physiomics shares while his account was in debt above his credit limit. I'm satisfied there should be some redress for the loss on the proportion of the Concha trade that took his credit limit above £10,000.

Redress should also be paid in connection with the Physiomics shares if there was a loss on that sale.

But Mr M was an experienced trader and had a longstanding relationship with Beaufort. I'm also mindful that some of the trades Beaufort allowed were made while Mr M was saying he was sending money to reduce what he owed.

When I take account of the evidence overall, I think it's reasonable for Beaufort to cover half of Mr M's losses on the Concha shares, and half of his losses on the Physiomics shares if there was one.

my provisional decision

My provisional decision is that I intend to uphold this complaint in part.

I intend to direct Beaufort Securities Limited to pay the following to Mr M:

1. One half of the loss Mr M made on shares bought in London Mining Plc that took his credit limit above £20,000.
2. One half of the loss Mr M made on shares bought in Concha PLC on 3 November 2014 that took his credit limit above £10,000.
3. One half of the loss (if there was one) Mr M made on shares bought in Physiomics plc on 6 November 2014

Caroline Stirling