complaint

Mr P complains that IG Index Limited gave him incorrect information about the level at which a margin call would be triggered on his account. He says if he had been told the correct level, he would've added more funds and kept his positions open.

background

On 20 January 2016 Mr P had long positions open on 'A' at £275 a point. He telephoned the dealer at IG and asked at what point his account would breach the required 25% margin. He was told that this would happen when the price of A dropped to £3.60.

Mr P set an alert on his phone to notify him when the price of A reached £3.65. He did this so that he would be able to add more margin to his account in order to keep the positions open if the price dropped.

My understanding is that Mr P did receive such an alert. But when he logged into his account, he saw that his positions had in fact been liquidated when the price reached £3.65. He also had a debt on his account of around £1,300.

Immediately after the positions were closed, Mr P telephoned the same dealer at IG a couple of times to find out what had happened. The dealer initially had to check why the error had occurred. When Mr P called him again the dealer apologised and acknowledged that he had in fact made an error. He said that he should've told Mr P that the liquidation level was £3.70. And he explained that the reason Mr P's positions were closed at £3.65 was because the size of his positions required dealer intervention. This delayed the liquidation slightly.

The dealer explained to Mr P that A's price had dropped further and was trading at £3.60. He asked Mr P if he wanted to fund his account and re-open his positions. But Mr P said that he would get back to him.

About an hour later the dealer from IG called Mr P again. At this point the dealer explained that A's price was trading at £3.55 - £3.58. He explained to Mr P that if he entered the market at that point, he would in fact be better off as he had missed a seven point drop in the price of A. Mr P replied that he didn't want to re-enter the market because he thought that A's price was going to continue to drop. He said he wanted to *'hold off for now'*.

So Mr P didn't re-open his positions.

Mr P complained to the business. In addition to other service issues he had experienced in the previous week, he specifically complained about the debt on his account of around £1,300. The debt was the difference between the liquidation price of £3.70 and the price his positions were eventually closed at. In short, Mr P said that he would never have incurred this debt if he had been given the correct liquidation price. Eventually, IG agreed to waive the £1,300 debt.

Mr P subsequently brought his complaint to this service. I issued a provisional decision in August 2015. In it, I said:

'It's clear that Mr P was given incorrect information about the liquidation level on his account. And I accept that, if Mr P had been given the correct liquidation level of £3.70, he would probably have added more funds to his account and kept his positions open for a time.

But the price of A continued to drop in the short term – in fact it dropped at least a further 12 points. If Mr P had kept his positions open, as he says he would've done, his losses would've increased by approximately £3,300, this being the difference between the point at which he would've needed to add funds (£3.70) and the lowest price of the stock (£3.58).

So I need to be persuaded that Mr P would've continued keeping his positions open. And I'm afraid that I'm not currently persuaded that there is sufficient evidence for me to be able to conclude this. In fact I think the evidence shows that Mr P wasn't all that keen to continue taking a risk with these positions. And so in my view, it's just as likely that Mr P would've closed his positions when the price dropped further and incurred a greater loss than he actually did.

I've carefully listened to the telephone call between Mr P and the dealer immediately after Mr P's positions were closed.

Mr P is immediately told that the dealer had made an error. He is told what the correct liquidation price should've been. Mr P repeats, more than once, that he doesn't want to be liable for the additional debt on his account. The dealer explains to Mr P that 'slippage' is a risk when there are sharp movements in price, and that this debt wasn't related to the incorrect information he had been given about the liquidation price. It was caused by the fact that Mr P's positions needed to be manually closed, given their size, and as a result of the short delay the price had dropped further.

Mr P is asked whether he wants to go back into the market, and he says that he wants to think about it.

An hour later, he receives a call from the dealer at IG. He is told that the price had now dropped further to £3.58, and he would be in a better financial position now that he would've been if he had kept his positions open. But Mr P tells the dealer that he wanted to hold off because he thought that the price would drop further.

In my view, these telephone calls demonstrate that Mr P wasn't keen to continue taking a risk on A. Mr P has told me that he would've added more funds, and continued adding funds as required, until the price of A rose sufficiently to give him a profit. But I think that this is unlikely. I say this because in my view, if he had been prepared to continue taking a risk on A, he would've re-entered the market when the price had dropped to £3.58. In order to do this Mr P needed to add more funds to his account, and it's clear to me that he wasn't willing to risk further money on these positions at the time. And it goes without saying that he didn't know, at the time, whether or if these positions would ever return a profit.

And I'm satisfied that IG's offer to clear the £1,300 debt was more than generous. I say this because I agree that this debt wasn't actually caused by the incorrect information Mr P was given. It was caused by the price slipping between the moment the liquidation point was reached at £3.70, and the moment his positions were actually closed by the dealer at £3.65. The account documentation I've seen clearly explains that this is a risk, and in my view, this is what caused the debt on Mr P's account.

I would also add that even if Mr P had been given the correct information, and had managed to add funds to his account earlier than the £3.70 liquidation point, he would still have incurred the £1,300 loss on his positions. The only difference would've been that he wouldn't have crystallised this loss because his positions would still have been open. But as I've said *above, and as the dealer explained to Mr P at the time, the price dropped a further seven points from the price at which his positions were liquidated. This amounted to almost £2,000 which was more than the loss that was crystallised by the liquidation of his positions.*

So, for these reasons, I'm currently satisfied that this complaint shouldn't be upheld. And accordingly, I make no award for compensation.'

Mr P didn't agree with my provisional decision. In summary, he said that he called IG within 10 seconds of the positions being closed. He said that he had sufficient liquidity at the time to be able to fund his positions, and would've done so if he had been given the correct liquidation price.

He said that I was incorrect when I said that he didn't fund his account because he wanted to think about it. He said that he made it consistently clear that he was prepared to add more money to re-instate the position, but he wasn't prepared to cover the debt which he said occurred as a result of IG's error. He said that the disagreement was about IG insisting he cover his debt before he was able to add more margin. He provided a word for word exchange which can be heard in one of the telephone call conversations in which he explained this to the broker at IG.

He also said I was wrong to say that he was given the option to *'re-open his positions',* because the only option he was given was to open new positions. He said that the reason he was reluctant to do this wasn't due to a lack of understanding on his part as to why the positions had been liquidated, but rather about who should be liable for the debt that had accrued on his account.

Mr P concluded by saying that he did intend to keep his positions on A open at the time, and was prepared to add more risk as long the error was reversed. He said that although IG admitted that it had made an error, it didn't offer him any compensation or apology until he escalated his complaint to the CEO of IG.

my findings

I've reconsidered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Having done so, I've reached the same conclusions as in my provisional decision.

Mr P has said that there are a number of factual errors in my provisional decision. Where relevant, I have corrected these in the background section of this decision. But in my view, none of these make a difference to the key reason why I think this complaint shouldn't be upheld. I already accepted that if Mr P had been given correct information about the liquidation level on his account, he would've kept his positions open for a time. So whether he complained 20 minutes after his positions were closed, or 10 seconds, I don't disagree that he would've been able to deposit funds before his positions were closed as a result of insufficient margin.

I would also like to reassure Mr P that I have very carefully considered the points he has made. And I've listened to the telephone call he quotes in its entirety. But the purpose of my decision isn't to address every point raised. The purpose of my decision is to set out my conclusions and reasons for reaching them.

In my provisional decision, I said that *'the dealer explained to Mr P that A's price had dropped further and was trading at £3.60 He asked Mr P if he wanted to fund his account and re-open his positions. But Mr P explained that he wanted to think about it'*. Mr P says that this is factually incorrect, but I don't agree.

During this particular phone call, Mr P is concerned about the debt on his account. As I said in my provisional decision, the debt on his account wasn't actually caused by IG's error. IG's mistake was to tell Mr P that the break-even point was £3.60, when in fact it was £3.70. The effect of this error was that his positions were closed earlier than he would've liked, and crystallised his losses. The debt was actually caused by the fact that his positions weren't closed at £3.70, but at £3.65. This wasn't as a result of the error – this is a well-known risk when prices are falling rapidly and a position needs to be manually closed given its size, or a lack of liquidity in the market.

In other words, even if Mr P had been given the correct liquidation price of £3.70, and he had logged in to add more funds on his account, he would still have incurred an unrealised loss equal to that debt. And the price continued to drop, so the unrealised losses on his account would have continued to rise, potentially requiring him to add more margin. This is what the broker explained during this telephone call. And this is why Mr P needed to cover his debt if he wanted to open his positions.

I acknowledge that Mr P says that he was happy to *'put more money in'*. But in my view it wasn't reasonable for Mr P to insist on IG reversing this debt as a condition for putting more money in. And he also clearly says to IG '*I'm not asking you to reinitiate the position, but I think that debt, I don't want to be liable for it'*.

What is also clear, is that when Mr P is asked, at the end of the telephone call, whether he wants to open the positions at the now lower price (effectively putting him in a better position than if the error hadn't occurred) he *does* say he will call IG back:

IG: The debt is there due to the market prices moving, there's been no inefficiency that's caused this. The risk of having a debt is very possible, and this is an example of that. It's still coming off, it's 3.55 to 3.58, so if we do put it back on, you've saved yourself almost 7 points now, which is more than how far we went past your break even point.
Mr P: let me call you back about this. I'm just confused on why you let me run a debt, because I'm assuming you would just clear it at the point at which it's break even zero.
IG: as I said it's a semi automated system, so we do run the risk of it not quite reaching the liquidation level. It's not like a panic button […].
Mr P: Ok I will get back to you.

Mr P doesn't call IG back. So about an hour later, IG calls Mr P:

IG: Hi Mr P, you said you we're going to call me back, and I haven't heard from you yet. The market is just moving around, and I'm just conscious if you are looking to get back in of the market moving.
Mr P: Where is the market now?
IG: 3.58 at 3.61
Mr P: Yeah I think I'm going to hold off for now. My hunch is that [inaudible]*, this could go even further, today is quite a bloody day. I'll get back to you a bit later.*

I'm satisfied that this second telephone call, even more than the first, shows that Mr P made a decision not to buy back into the market because he wasn't willing to take the risk on. In my view, if Mr P had wanted to continue taking a risk on A, he would've decided to open his positions at that point. Instead, he thought they were going to go down further.

So for these reasons, and those that I gave in my provisional decision, I don't uphold Mr P's complaint. And accordingly, I don't award any compensation.

my final decision

My final decision is that I don't uphold Mr P's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 24 October 2016.

Alessandro Pulzone
ombudsman