DRN-5096464

Financial Ombudsman Service

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. The particular trade Mr M's complaint concerns here was made in January 2024.

Mr M says his complaint, at core, is IG Index's *"Indicative costs & charges"* calculator gave him highly inaccurate *"Total daily running costs"* figures - and so wasn't at all indicative - yet IG Index kept this on its platform and continued to call it 'indicative' without fixing it. He says the difference affected the hedge he had planned, leading him to have to cut his positions by more, losing an estimated £1900 in the process.

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.

Mr M says the calculator led him to expect a fee *credit* of £379 – meaning a negative running cost was shown, implying a positive adjustment to his account - but instead he was *debited* £29, meaning a negative adjustment was made to his account.

He says this means the result was more than 100% inaccurate in that he received a debit when the calculator indicated he should have received a credit. He says this is misleading and it is unacceptable to continue allowing traders to use such a flawed tool.

Mr M is aware of the formula used to calculate the adjustments. But he says if traders are expected to perform their own manual calculations, why have a calculator at all – especially one promoted as "indicative" that proves grossly inaccurate?

Mr M says the result of the inaccuracy in this instance was his account balance was less than he had anticipated, with the result that more of his trades needed to be closed than would've otherwise been the case when he approached his margin limits. IG Index's position is that the calculator is indicative only, so Mr M shouldn't have relied on it. It has also referred to terms in its terms and conditions which it says mean it shouldn't be held responsible for losses if there are errors in the market data it provides.

Our investigator didn't think Mr M's complaint should be upheld. Mr M disagreed and made a number of further points, including, in brief summary:

- 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.

- 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 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.

- The conclusions so far 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 matter 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, I've decided not to uphold Mr M's complaint. I'll explain my reasons briefly.

Mr M was aware the figures on the calculator were sometimes wrong – because he'd raised this previously with IG Index on more than one occasion in previous months. The reason the figures had been wrong on those occasions was because the calculator wasn't using current market swap rates when estimating the overnight adjustment that would be made at market close. Instead it was using outdated rates that weren't updated.

Mr M points out such problems ought to be fixed - and there is force in his point. On the other hand, knowing of prior errors would've arguably underlined that the "indicative" figures weren't ones to rely on to such an extent as to risk having to close positions if the figures shown varied from the actual adjustments.

But having said all that, I don't believe the outcome of Mr M's trades was actually affected by the variance between the quoted adjustment and the actual adjustment that was made. I say this because of the nature and purpose of the adjustment shown on the calculator.

Described broadly for the purposes of illustrating what is relevant to this complaint, the underlying physical market for gas uses 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. These separate contacts can have different prices. So when trading in a particular futures contract, 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 that futures contract arrives.

Mr M's complaint relates to trading in 'undated' gas. Such trades don't have to end on a particular date, but IG Index's prices for undated gas are still derived from futures prices – using the nearest (or front month) and the next nearest (or back month) futures contracts. The undated price will be in between the two futures prices and each day as the back month end date moves closer, IG Index would move its undated gas price nearer overnight to the that back month price and further from the front month price.

Where the back month price is higher than the front month – a market set up known as contango - the overnight move by IG Index of its undated price towards the back month price, will increase 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 is 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 the gain that would otherwise arise from the overnight moving of the undated price - and adjust the value of short trades up to balance the loss that would otherwise arise from this. So there would be a negative adjustment for long trades and a positive adjustment for short trades. The effect would be 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, 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.

That said, for both long and short traders there would be a slight effect from the overnight adjustment because a fee is levied for holding positions overnight, so this would be levied by slightly reducing what would otherwise be added for short trades and slightly increasing the deduction for long trades. At the margins, if the adjustment otherwise due for short trades was small, this effect could turn a positive adjustment to a negative one, but given the sums involved in the trade Mr M has highlighted, I don't believe this explains what happened in his case.

Adjustments won't always be a positive for short trades and negative for long trades. If the later futures price is lower than the earlier one - a scenario known as 'backwardation' - the daily overnight price move towards the later futures contract price will decrease the undated price. The account adjustment for short positions would be negative in that scenario, with a positive adjustment for long positions. If the market moved from contango to backwardation after the point at which the indicative calculator had made its calculation, this would explain why an adjustment quoted as positive might be negative when it was actually applied to an account – or vice versa. Likewise this could happen if historic or out of date data used by the calculator was taken from a market in contango that had since moved to backwardation.

I do not know whether the data used by the calculator was current at the time it was given, or whether this was another instance of the calculator using out of date information. But if the figures quoted by the calculator had turned out to be correct and positive, as was shown, this would've been so only because the overnight price move that the adjustment was intended to balance was negative (for Mr M's chosen trade). Aside from the small fee element, the adjustment on his account - and its effect on his profit and loss position, and so his ability to have sufficient margin for his various trades – will have been balanced out by the overnight move IG Index made to the price towards the back contract price. Only the fee element of the adjustment actually affected Mr M's cash balance and ability to sustain trades.

In light of what I've said above, I don't believe that the losses that caused Mr M to have to close trades, were caused by the extent to which the adjustment quoted by the indicative calculator differed from the actual adjustment – even though in the instance Mr M has referred to, the adjustment was entirely opposite in direction to the adjustment the calculator showed him.

It follows that I don't believe any error in the calculator caused Mr M's losses in this instance.

Mr M's account application was made in January 2021. This complaint relates to trades he was making in 2024. 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.

So, in light of all I've said above, I do not uphold this complaint.

I'd like once more to thank Mr M for all his submissions, which I have reviewed before reaching my conclusions here. I'm grateful for the prompt and courteous manner in which he has provided these to us throughout our consideration of this complaint.

My final decision

For the reasons I've given, and in light of all I've said above, I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 12 January 2025.

Richard Sheridan
Ombudsman