DRN-4151374

## The complaint

Ms H has complained that eToro (UK) Ltd ('eToro') incorrectly executed stop loss trades on nine Natural Gas positions she held. Ms H says the positions were closed before the stop loss price was reached.

## What happened

Ms H had an account with eToro and traded contracts for difference. She held nine open Natural Gas sell (short) trades. On 28 September 2021 all of the open positions were closed as the stop loss price of 6.309 had been reached.

Ms H complained to eToro. It responded to her complaint;

- It explained that since the positions were sell trades, when defining the stop loss for a sell trade on a chart, it was important to add the spread – the sell trades would close at the buy rate. The quotes were two-way prices, so the sell rate was always the lower of the two.
- In line with industry standard its charts only displayed the sell quote so it would be necessary to add the spread to the prices on the chart to define the buy rate.
- For Ms H's trades which closed on 28 September 2021 at 03:30:26, the sell rate was 6.299 and the buy rate was 6.309. The positions closed at the buy rate – the higher of the two.
- It wasn't prepared to release the formula used to reach the rates it received from its liquidity providers.
- Different brokers work with different liquidity providers so there might be a difference in the rates received by eToro and other exchanges.

Our investigator who considered the complaint didn't think it should be upheld. He said;

- He had been able to confirm that the ask price did reach 6.309 at 03:30:26 on 28 September 2021. The tick data eToro had provided showed how the instrument traded shortly before and after the stop loss was triggered and the spread that was applied by eToro.
- Ms H had referred to prices on the Chicago Mercantile Exchange ('CME') which showed that the prices didn't go so high. But Ms H's trades were based on contracts for difference ('CFDs') which are derivatives and wouldn't have identical prices to the underlying market. eToro was entitled to rely upon its third-party market data providers in line with its terms and conditions.
- eToro provided a platform and wasn't an exchange or market so its prices would be different than those provided by other brokers, the market or current prices on any exchange or trading platform in line with its terms that Ms H had agreed to.
- The stop loss was executed at the correct price as provided on eToro's feed so eToro couldn't be held responsible for the losses Ms H had incurred as the stop loss was traded as it should have been.

- Ms H had referred to scenarios where trades had closed out because of stop losses before reversing in the opposite direction. But eToro's Order Execution Policy ('OEP') confirmed that price feeds were sourced from independent third parties and the investigator hadn't seen anything to suggest that eToro would be able to manipulate those prices.

Ms H responded to say that after she had opened the account, she had only bought stocks but since she started to trade gas positions they had been closed twice at highs. The stop loss with eToro can only be 50% margin of the position. Ms H had downloaded Chicago Future software as she had wanted to know why the prices were different. She thought they should be linked to the Chicago Board of Trade.

Our investigator clarified that the prices Ms H was referring to on the CME weren't relevant to the complaint. eToro's prices were derived from that exchange but weren't the same. Ms H was trading on eToro's platform where the prices were provided by its data providers. eToro had provided evidence to confirm that the stop loss price had been reached.
Ms H didn't agree with the outcome. As the complaint remains unresolved, it has been passed 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.

After doing so, I've reached the same conclusions as the investigator, and broadly for the same reasons. I'll explain why.

As background, by holding sell or short positions, Ms H was betting that the price of Natural Gas would go down. By placing a buy stop loss market order to exit her position, the buy stop order would trigger once that stop loss price was reached. The subsequent market order would find any seller willing to fulfil the buy order, at the best available price once the buy stop price has been triggered.

I've reviewed eToro's terms and conditions to seek clarity on what Ms H agreed to when she became a client of the business and so would have known how eToro carried out this type of transaction.

e'Toro's 'Best Execution and Order Handling Policy' details;

> '3. **<u>Best Execution Factors</u>**
> …
> (a) … The difference between the lower and the higher price of a given financial instrument is the typical spread, which may vary according to market conditions and liquidity. Such orders as Buy Limit, Buy Stop and Stop Loss, Take profit for opened short position are executed at ASK price.'

This tallies with eToro's response to Ms H's complaint when it confirmed that it was important to add the spread to the sell quote – the sell trades would close at the buy rate. The Best Execution Factors continued to explain that;

> '**If the price reaches an order such as**: Stop Loss, Take Profit, Buy Limit, Buy Stop, Sell Limit or Sell Stop, these orders are instantly executed. However, under certain trading conditions it may be impossible to execute orders….at the Client's requested price. In this case, the Company has the right to execute the order at the first available price.'

It goes on to give examples of when this might happen, rapid price fluctuations etc. Market volatility can give rise to price gapping and spikes as examples which looks likely to have happened in the case of Ms H's trades. eToro has said that that Natural Gas experienced extreme volatility which led to price spikes and Ms H's positions being closed.

The price tick data provided by eToro for the five minutes before and the five minutes after Ms H's trades were carried out show that after the ask price reached 6.309 at 03:30:26 it peaked at 6.320 at 03:30:33 before falling away again and falling below 6.300 at 03:31:09. eToro has told us the tick data it has provided – the prices that it was streaming – reflects the prices that it was being provided by its liquidity provider rather than the CME.

Ultimately Ms H's trades were bets with eToro on the price of spot Natural Gas. I'm satisfied that the quotes eToro produced for its CFD which caused Ms H's positions to stop out, and the resulting execution price, were fair reflections of that underlying market at the relevant time. I therefore don't think that it treated her unfairly in the pricing and execution of her trades.

Ms H raised concerns with eToro that the equivalent price of Natural Gas on the CME commodity futures had never risen above 6.298 on the day of her trades but that her positions had closed at a quote of 6.309 on eToro's platform. But Ms H wasn't trading on the CME, she was trading on eToro's platform which is not an exchange.

However, even though the CFD wasn't traded on an exchange, the CFD should reflect the underlying assets it's based on – in this case Natural Gas. Natural Gas isn't traded on an exchange either. And in order for a spot price to be generated, I'm satisfied that its common practice to use the nearest future price, and usually blend the two nearest prices in order to provide a continuous estimate for a stop price without price gaps as one future moves to the next.

eToro has explained that this is what its liquidity provider does and is what I would expect. And eToro has given us details of its liquidity provider which I am satisfied it is a large investment institution.

So, I wouldn't expect eToro's price to exactly mirror the futures prices on the exchange, because the underlying product the CFD was reflecting wasn't a specific future. Overall, I'm satisfied eToro's methodology led to a CFD which fairly reflected the spot price for Natural Gas.

Ms H asked for the formula for the difference in the prices between what was offered by eToro and the spot price. eToro declined to provide this – it wouldn't share with a client its liquidity providers' price and/or agreements, only the final prices the client gets. I don't find this to be unreasonable as the formula methodology would be a commercial decision for eToro to make and which I am not surprised it wouldn't want in the public domain.

I note in her dealings with eToro Ms H commented that after her positions closed the prices suddenly dropped and she wanted to know why this happened. But as referred to above, I think this is just a reflection of market volatility rather than anything untoward carried out by eToro.
Taking all of the above into account, I am satisfied that Ms H's trades were executed at the correct price and time. It follows that I don't uphold Ms H's complaint.

I appreciate that Ms H will be disappointed with the outcome to her complaint, it's clear she feels strongly about it. But I hope I have been able to explain how and why I have received the decision that I have.

## My final decision

For the reasons given, my final decision is that I don't uphold Ms H's complaint about eToro (UK) Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms H to accept or reject my decision before 23 April 2024.

Catherine Langley
**Ombudsman**