Risk Management

Our approach to risk management, centred around our Risk Management Framework, is key to achieving our business objectives whilst we preserve our strong financial position, regulatory reputation and ensure good outcomes for both clients and markets. The Board is ultimately responsible for ensuring that we maintain a strong risk management culture, supported by our robust Risk Management Framework.

Risk Management Framework (RMF)

We have an established framework to identify, measure, manage, monitor, and report the risks faced by our business. This includes the risk that our conduct may pose to the achievement of good outcomes for clients, or to the sound, stable, resilient, and transparent operation of financial markets.

The RMF provides the Board with assurance that our risks, including the risks relating to the achievement of our strategic objectives, are understood, and managed in accordance with our appetite and tolerance levels.

The RMF is supported by numerous policies covering all areas of our business, from our management of market, credit, and liquidity risk, to the systems and controls we put in place to manage and oversee our technology, operational and conduct risks.

Risk culture

Embedding a sound risk culture is fundamental to the effective operation of our RMF and sets the tone, alongside our core value of ‘Champion the Client’, for conduct in all business activities and expected behaviours. Central to our risk culture is a commitment to integrity and to principles of responsible business. This is driven by individual accountability, with defined roles and responsibilities prescribed across the Group as detailed under the Senior Managers Certification Regime in the UK. We operate a Three Lines of Defence Model, with segregation of responsibilities as detailed below:

Risk governance

Non-Executive oversight of the RMF has been delegated by the Board to the Board Risk Committee, with executive and operational oversight provided through the Executive Risk Committee (ERC).

The ERC meets weekly to discuss risks requiring executive-level oversight and management, with the frequency reflecting the commitment of senior management to play an active role in day-to-day risk management. Specific sub-committees are delegated additional oversight with membership comprised of management with subject matter expertise.

Principal Risks and Risk Appetite

Risk category	Principal risks	Mitigation and controls
Business Model Risk The risk we face arising from the nature of our business and business model, including market, credit and liquidity risks, and capital adequacy adherence. **Risk appetite** In pursuit of our business goals, we have an appetite for running modest levels of market risk to facilitate the high-quality instant execution of client orders while accepting that periodic credit risk losses will occur in normal business activity. We have very little appetite for liquidity or regulatory capital risk and ensure complete compliance with regulatory requirements. **Emerging and evolving risks** We monitor the emergence of significant events or topics which could, if unmanaged, have a material impact on the Group. Such matters include the war in Ukraine, trade wars, political and legislative changes and any other matters which may lead to macro market movements. Where such events or topics emerge, as a matter of course we consider client margin requirements, market risk limits, broker positions, and cash and capital held at each individual entity to ensure we remain within our risk appetite as the external environment and risks we face change.	**Market risk – trading book and non-trading book (inclusive of interest rate risk)** The risk of loss due to movements in market prices arising from our net position in financial instruments.	→ The inherent conflict in OTC trading, is mitigated at IG through the design of our business model, being based around the internalisation of client trading and hedging of residual exposures more than the predefined Board approved limits. In short, our long-term interests align with those of our clients → Additionally, our order execution system price improves client orders where the underlying market has moved against them while the order is being processed. We operate a real-time market position monitoring system → Our scenario-based stress tests are performed on an hourly basis → We have predetermined, Board-approved, market risk limits → Our dynamic approach to limit management makes full use of highly liquid markets in core hours, reducing in less liquid periods
	Credit risk – client The risk that a client fails to meet their obligations to us, resulting in a financial loss.	→ Our approach to setting client margin requirements is centred on protecting our clients from poor outcomes, taking into consideration underlying market volatility and liquidity, while simultaneously protecting IG from exposure to debt → Client positions are automatically liquidated once they have insufficient margin on their account – this not only protects IG against debt, but importantly protects our clients → Our client education offering provides information about robust risk management practices
	Credit risk – financial institution The risk of loss due to the failure of a financial institution counterparty.	→ We undertake credit reviews of financial institutional counterparties upon account opening, which is updated periodically (or ad hoc upon an event) → Our credit exposures to each of our broking counterparties are actively managed in line with limits → We perform daily monitoring of counterparties' creditworthiness
	Liquidity The risk that we are unable to meet our financial obligations.	→ Active liquidity management within the Group is central to our approach, ensuring sufficient liquidity is in the right places at the right times → We conduct monthly liquidity stress tests → We have access to committed unsecured bank facilities and debt
	Capital adequacy The risk that we hold insufficient capital to cover our risk exposures.	→ We conduct daily monitoring of compliance with all regulatory capital requirements. With our ICARA (Internal Capital Adequacy and Risk Assessment), we conduct an annual capital and liquidity assessment including the application of a series of stress-testing scenarios, based against our financial projections, all of which is approved by the Board

Principal Risks and Risk Appetite continued

Risk category	Principal risks	Mitigation and controls
Commercial Risk The risk that our performance is affected by adverse market conditions, failure to adopt an effective business strategy, or competitors offering more attractive products or services. **Risk appetite** There is little appetite for activities that threaten efficient delivery of any core initiatives or that can diminish our reputation, although acceptance of some strategic risk is necessary to foster innovation. **Emerging and evolving risks** We closely monitor the high-inflationary environment and the UK's cost of living crisis, and their effects on client's ability to trade, supplier costs, wages, and income from interest. As a UK-headquartered firm we are exposed to FX rate fluctuations when transferring funds between non-UK entities.	**Strategic delivery** The risk that our competitive position weakens or that our profits are impacted due to the failure to adopt or implement an effective business strategy, including the risk of failing to appropriately integrate an acquisition.	→ Regular strategy updates to the Board from the Executive Directors throughout the year detailing the strategic progress of the business → External consultation and extensive market research undertaken in advance of committing to any strategy to test and validate a concept → Projects managed via a phased investment process, with regular review periods, to assess performance and determine if further investment is justified
	Financial market conditions The risk that our performance is affected by client sensitivity to adverse market conditions, making it harder to recruit new clients and reducing the willingness of existing clients to trade.	→ Review of daily revenue, monthly financial information, KPIs and regular reforecasts of expected financial performance → Forecasts used to determine actions necessary to manage performance and products in different geographical locations, with consideration given to changes in market conditions → Regular updates to investors and market analysts to manage the impact of market conditions on performance expectations
	Competitor We operate in a highly competitive environment and seek to mitigate competitor risk by maintaining a clear distinction in the market. This is achieved through compelling and innovative product development and quality of service, all while closely monitoring the activity and performance of our competitors.	→ Our approach to conduct demands we put the client at the heart of our decision making. We do not engage in questionable practices, regardless of whether they would prove to be commercially attractive to clients → Ensuring that our product offering remains attractive, considering the other benefits that we offer our clients, including brand, strength of technology and service quality

Principal Risks and Risk Appetite continued

Risk category	Principal risks	Mitigation and controls
Conduct and Operational Risk The risks that our conduct poses to the achievement of fair outcomes for consumers or the financial markets, and the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. **Risk appetite** Operational risk is present in the normal course of business, and it is not possible, or even desirable, to eliminate all risks inherent in our activities. We have no appetite for poor conduct-related events. **Emerging and evolving risks** The cyber threat landscape continues to evolve, with cyber criminals and ransomware groups constantly changing and maturing their attack methods and targets. The impact of climate change poses risks to business continuity and, therefore, potential harm to our clients and people. Failure to responsibly manage our Group emissions or to mitigate the risks associated with climate change poses reputational and regulatory risks. The ongoing energy crisis in South Africa, which results in load-shedding, is a concern, with proactive steps taken by the Group to mitigate any potential impact on our clients and employees.	**Technology and information security** The risk of data loss or that our operations are affected, or clients receive a degraded service or are unable to trade due to an operational outage or system limitations. Technology threats can evolve from poor internal practices and systems or from the continuously evolving cyber landscape.	→ Maintenance of a 24/7 Incident Management function → Security operations function with 24/7 strength-in-depth capabilities to monitor, prevent and triage cyber threats → DOS mitigation services and 24/7 incident management capabilities → Regular disaster-recovery capability testing → Capacity stress testing → Our Change Management and Quality Assurance functions undertake risk assessments, utilise defined maintenance windows and help deploy new products and services → We invest in strength-in-depth capabilities to mitigate the ever-present and changing cyber threats
	Financial crime The risk of failing to identify and report financial crime. Inadequate oversight and client due diligence can result in clients attempting to use us to commit fraud or launder money, third parties trying to access client or corporate funds, or employees misappropriating funds if an opportunity arose.	→ A mature control framework for identifying and reporting on suspicious transactions, which is designed to protect the integrity of the financial markets and provide a stable and fair-trading environment for our clients → Appropriate onboarding processes for different client types and vendors with enhanced due diligence and monitoring processes where appropriate → Segregated duties within processes to ensure adequate oversight and control over internal fraud
	Trading issues The risk related to any issues around our internal hedging, client trading, and process for corporate actions, dividends, and stock transfers.	→ A 24/7 approach with trading desks located in London and Australia providing 24-hour coverage. We apply Board-approved Market Risk Limits and operate under a robust control framework to mitigate our exposure to loss through operational risk events which may impact trading. Our order execution processes not only comply with all regulatory requirements, but go over and above in filling client orders, on an asymmetrical basis, providing better than best execution

Principal Risks and Risk Appetite continued

Risk category	Principal risks	Mitigation and controls
Conduct and Operational Risk continued	**Client life cycle management** This is the risk related to issues in the client life cycle spanning the customer agreement, account set-up, interactions, and appropriateness of account types and product offerings.	→ Bespoke onboarding processes ensure we only offer products and services to clients with sufficient means and a clear understanding of the risks involved. Regular assessments of services identified as being critical to clients to ensure their operational resiliency. Single points of failure identified, and contingency plans set in place → Complete adherence to client money and asset regulations, taking the highest standard set by the FCA in the UK and applying them worldwide where possible → The use of KPIs to monitor levels of service provided and act where needed → We offer a plethora of high-quality, easily accessible educational material to ensure clients can improve their understanding of our products and the financial markets – supporting their pursuit of financial freedom → We monitor for client behaviours which may indicate levels of vulnerability and proactively engage with them to minimise poor outcomes
	Financial integrity and statutory reporting issues The risk of production issues which could lead to untimely, incomplete, or inaccurate Financial Statements, transaction reporting, tax filing, regulatory capital, and forecasting.	→ Our operational risk framework provides the base from which our robust control environment reduces operational risk events from manifesting → Our automated systems enable us to flex with client trading volumes → Dedicated specialist steering committees manage and oversee niche areas, such as transaction reporting, financial crime, financial reporting and forecasting, climate responsibilities, our Internal ICARA and Annual Report production

Principal Risks and Risk Appetite continued

Risk category	Principal risks	Mitigation and controls
Regulatory Environment Risk The risk that we face enhanced regulatory scrutiny with a higher chance of regulatory action, or the risk that the regulatory environment in any of the jurisdictions in which we currently operate, or may wish to operate, changes in a way that has an adverse effect on our business or operations, through reduction in revenue, increases in costs, or increases in capital and liquidity requirements. **Risk appetite** We have no appetite to breach financial services regulatory requirements and we strive to always comply with applicable laws and regulations. **Emerging and evolving risks** The regulatory landscape continues to evolve, and we need to react and ensure adherence to incoming regulations in a timely manner. Less well-developed regulatory frameworks, such as digital assets, are actively monitored for any changes where we may need to adapt strategic rollouts. The introduction of the FCA's Consumer Duty principle is an example of how we plan for change by identifying workstreams with owners who are responsible for updating steering committees on progress. The same approach will be taken with incoming DORA[1], MiFID/MiFIR[2] Review, EMIR[3], and any other regulatory changes. Many of the concepts in the FCA's Consumer Duty, and other incoming regulations, are already practiced and well-embedded; and are in line with our purpose, strategic drivers, and values such as being 'Tuned for Growth' and 'Champion the Client'. We welcome their introduction and the impact that they will have on our industry.	**Regulatory risk** The risk of investigation, enforcement, or sanction by financial services regulators. This may be driven by internal factors, such as the strength of our control framework or our interpretation, understanding, or implementation of relevant regulatory requirements. This risk can also arise from external factors, such as the current and changing priorities of our regulators' policy and supervision departments.	→ Continuous monitoring of operations to ensure they adhere to regulatory requirements and expected standards → Continuous review of all regulatory incidents and breaches with deep dives performed on common themes → Policies and procedures are embedded across the Group with a regulatory compliant mindset → We operate values to always Champion the Client, whilst Raising the Bar
	Regulatory change The risk of governments or regulators introducing legislation or new regulations and requirements in any of the jurisdictions in which we operate which could result in an adverse effect on our business or operations, through reduction in revenue, increases in costs or increases in capital and liquidity requirements.	→ We foster strong relationships with key regulators, with whom we actively seek to converse to keep abreast of, contribute, to and correctly implement regulatory changes → We pay close regard to relevant public statements issued by regulators that may affect our industry → The Board Risk Committee receives regular reports of current and emerging risks which timeline incoming, and potential incoming, changes → The Board Risk Committee has received regular updates on UK Consumer Duty regulation, from the early consultation stage through to approval of the final implementation plan
	Tax change The risk of significant adverse changes in the way we are taxed. A prime example is the imposition of a financial transactions tax, which could severely impact the economics of trading and developments in international tax law.	→ We monitor developments in international tax laws to ensure continued compliance and ensure stakeholders are aware of any significant adverse changes that might impact us → Where appropriate and possible, we collaborate with tax and regulatory authorities to provide input on tax policy, or changes in law

1 DORA – Digital Operational Resilience Act7
2 MiFID – Markets in Financial Instruments Directive
MiFIR – Markets in Financial instruments Regulation
3 EMIR – European Market Infrastructure Regulation