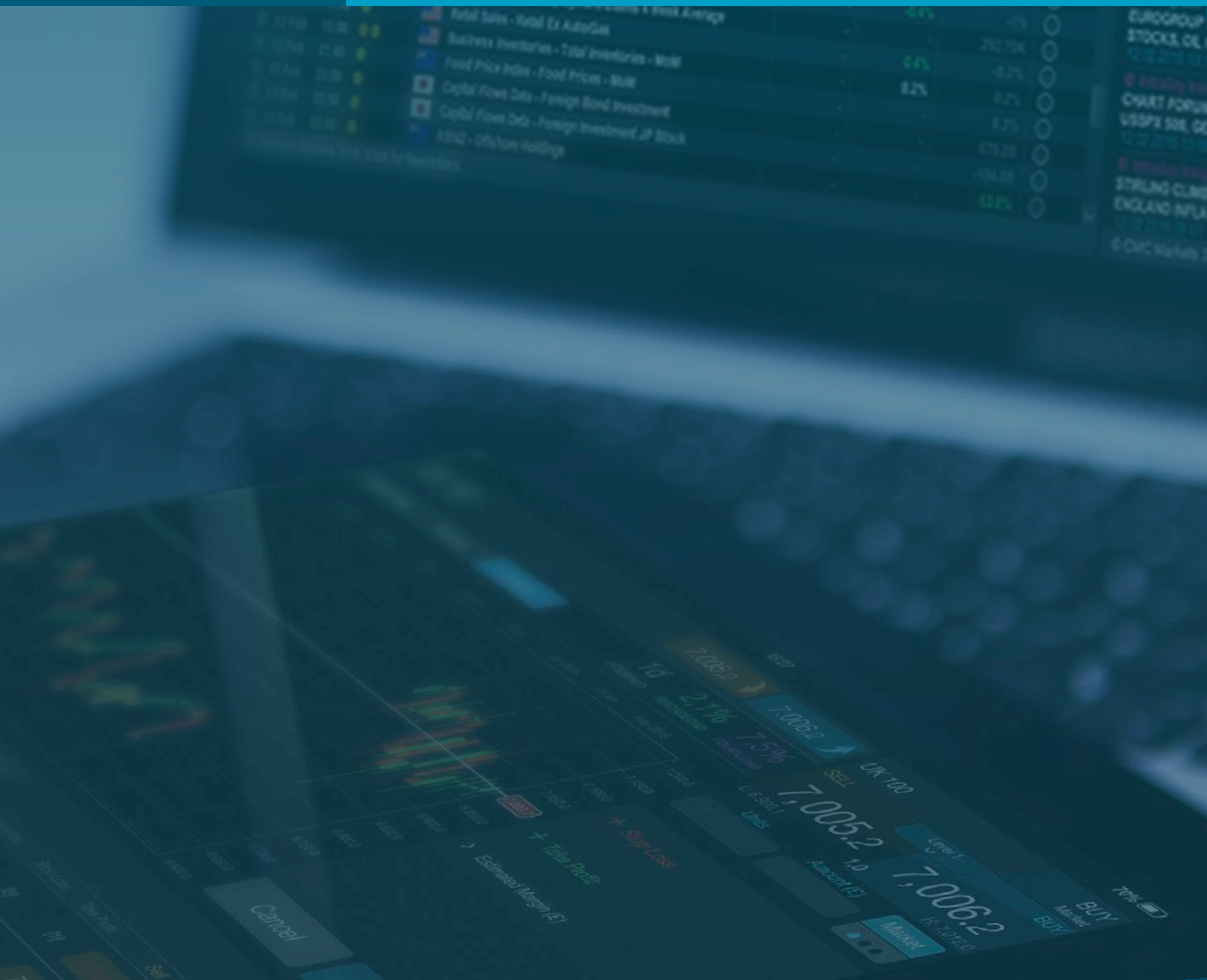
cmc markets

Pillar 3 Disclosures
2015




Overview
News
Chart
Margin (£) 389.65
Amount (£)
1,238.45
1,000.00
Regular
Take Profit
Points
1,274.50
20
Cancel
Confirm
Options
Positions (3)
Orders (0)
History
BUY
50
95.000
5.00%
142.16
Texas
BUY
50
91.000
1.00%
85.14
SELL
20
6,830.0
0.20%
256.00
Account Value
£9,586.04
Cash:
£9,102.74
Profit:
£483.30
Sell
Buy
99.590
99.625
6,816.2
6,817.2

Table of contents

1. Overview

1.1 Introduction

The Pillar 3 disclosure is prepared in accordance with the EU's Capital Requirements Directive (CRD) as implemented by the Financial Conduct Authority (FCA).

The purpose of the Pillar 3 disclosure is to encourage the stability of the financial markets by allowing market participants to assess key information on firms' capital adequacy and risk and control processes.

The three Pillars aim to implement a more risk sensitive framework for the calculation of regulatory capital:

- **Pillar 1:** Sets eligible capital resources of the firm and calculations of minimum levels of own funds requirement (OFR);
- **Pillar 2:** Ensures that a firm has sufficient capital to support the risks not fully captured by the minimum capital requirements, in accordance with the firm's internal models and assessment;
- **Pillar 3:** Covers external communication of the firm's regulatory capital and risk exposures and is designed to increase transparency and confidence about the firm's exposure to risk and the overall adequacy of its regulatory capital.

The FCA's rules for implementing Pillar 3 as set out in the EU Capital Requirements Directive (CRD) are contained in Articles 431 – 455 of the Capital Requirements Regulation (CRR) (Regulation of the European Parliament and the Council on prudential requirements for credit institutions and investment firms (EU) No 575/2013 and amending Regulation (EU) No 648/2012). Disclosures are made where the regulations apply to the Group and where the information is not deemed confidential or proprietary by the CMC Markets plc Board (the "Board").

Quantitative disclosures are made as at 31 March 2015.

1.2 Frequency and Scope of disclosures

The disclosures in this document are made in respect of CMC Markets plc (the "Group") which provides financial spread betting and CFD trading. The Group also has a stockbroking offering in Australia.

The Pillar 3 disclosures will be published on at least an annual basis on the Group's plc website (www.cmcmarketsplc.com) as a supplement to CMC Markets' Annual Report, in accordance with Article 433 of the CRR.

CMC Markets plc became the ultimate holding company of the Group under a reorganisation in 2006, and is a UK Consolidated Group, subject to consolidated supervision by the FCA. A group structure and a list of prudentially regulated entities are shown in Chart 1 and Table 1 on page 4.

There are no known current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between CMC Markets plc and its subsidiary undertakings except to the extent these items are required to meet the regulatory capital requirements of subsidiary undertakings.

Inter-group transferability of capital is subject to an annual review as part of the Internal Capital Adequacy Assessment Process (ICAAP).

Chart 1: Group structure as at 31 March 2015

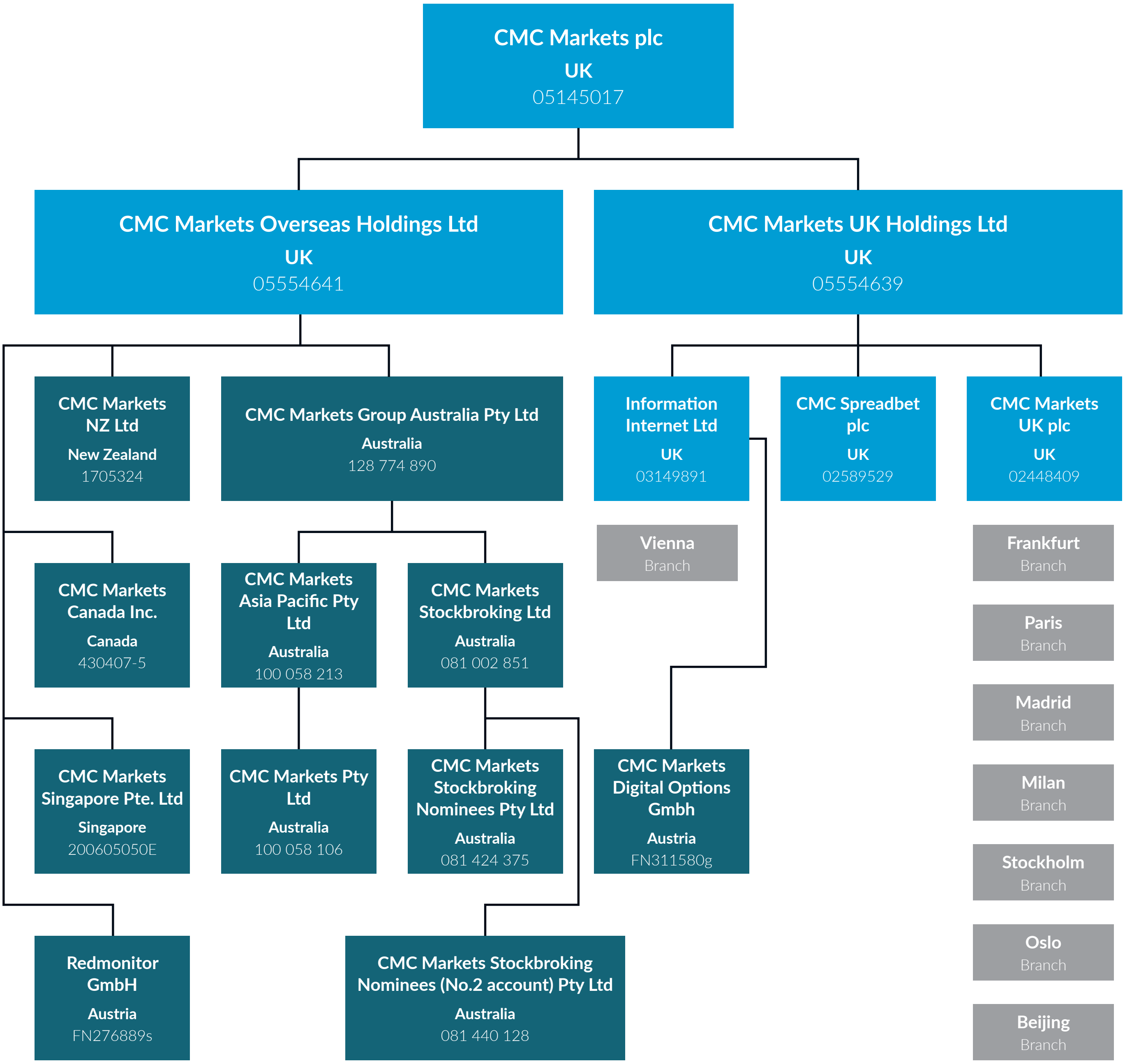


Table 1: Regulated entities and regulator(s)

CMC Markets entity	Financial services regulator(s)
CMC Markets UK plc	Financial Conduct Authority (FCA), UK
CMC Markets UK plc – European branches	FCA, UK; and
Italy CMC Markets UK plc Succursale di Milano	Commissione Nazionale per le Società e la Borsa (CONSOB), Italy
France CMC Markets UK plc, France	Autorité des Marchés Financiers (AMF); and Autorité de Controle Prudential et de resolution (ACPR)
Germany Niederlassung Frankfurt am Main der CMC Markets UK plc	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Germany
Norway CMC Markets UK plc Filial Oslo	Finanstilsynet (The Financial Supervisory Authority of Norway)
Spain CMC Markets UK plc, Sucursal en España	Comisión Nacional del Mercado de Valores (CNMV), Spain
Sweden CMC Markets UK plc Filial Stockholm	Finansinspektionen (Financial Supervisory Authority Sweden)
CMC Markets UK plc – Representative Office:	
Beijing Representative Office of CMC Markets UK plc	China Banking and Regulatory Commission
CMC Spreadbet plc	FCA, UK
CMC Markets Asia Pacific Pty Ltd	Australian Securities and Investments Commission (ASIC)
CMC Markets Pty Ltd	ASIC
CMC Markets Stockbroking Ltd	ASIC; and Australia Stock Exchange (ASX)
CMC Markets Canada Inc. (Operating as Marches CMC Canada in Quebec)	Investment Industry Regulatory Organization of Canada (IIROC); Autorité des Marchés Financiers (AMF) Ontario Securities Commission; and British Columbia Securities Commission
CMC Markets NZ Ltd	Financial Markets Authority (New Zealand)
CMC Markets Singapore Pte Ltd	Monetary Authority of Singapore (MAS)

2. Risk Management Objectives and Policies

2.1 Corporate Governance Structure

The Group has a governance structure in place which is appropriate for the operations of an online retail financial services group and is aligned to the delivery of the Groups' strategic objectives. The structure is regularly reviewed and monitored and any changes are subject to Board approval. The risk governance structure as of 31 March 2015 is illustrated in Chart 2.

Chart 2: Group Risk Governance Structure

Board of Directors

The Board is responsible for the management and oversight of the Group, setting strategic aims and determining policy.

Its responsibilities in relation to risk management include:

- setting the Risk Appetite, monitored via Key Risk Indicators (KRIs);
- approving the Corporate Governance Report in the Annual Report;
- establishing, reviewing and challenging effective systems and controls for:
  - compliance with applicable requirements of regulatory systems;
  - countering risk of financial crime;
  - identifying, measuring, managing and controlling risks;
  - ensuring business continuity;
  - ensuring adequate records are maintained.
- approving of policies, procedures, frameworks, standards and controls required for business operations.

Board and Executive Committees

The Board Committees and Executive Committees carry out duties delegated to them by the Board and set out in their written Terms of Reference. They report directly to the Board and their responsibilities are detailed below:

Audit and Risk Committee
The Audit and Risk Committee reviews the annual report. It also manages and reviews the external and internal audit processes, the policies and processes for assessing the effectiveness of systems for internal financial controls and reporting within the Group. In addition, the Committee monitors the management and control of financial, operational, regulatory and reputational risk.

Nominations and Remuneration Committee
The Nominations and Remuneration Committee manages the process of Board appointments, performance reviews and succession planning. It agrees the remuneration policy of the Directors and senior management and its application, reviews Group-wide annual salary arrangements, performance-related reward schemes and incentive plans. Further details of the Nominations and Remuneration Committee's activities are provided in section 5.

Senior Management Team
Executive Committee meetings are held twice a month, attended by senior managers at the Executive level from each function and chaired by the CEO. Extended senior management meetings are held quarterly allowing for the communication and discussion of any business developments, on-going projects and new issues.

Business Risk Committee
The Business Risk Committee monitors the principal risk areas of the business and is chaired by the Group Director of Finance, Risk and Compliance. Its main responsibilities are to categorise and assess the Group's various risks in order to assist the Board in defining the appropriate risk appetite of the Group and to review and update the Risk Management Framework on an annual basis. The committee also reviews the ICAAP and the Individual Liquidity Adequacy Assessment (ILAA).

Client Money Committee
The Client Money Committee is a fundamental part of the Group's client money governance and oversight procedures. The committee is chaired by the CF10a, an FCA-approved person, who is responsible for overseeing the controls and procedures in place to protect client money and ensure it is adequately segregated from the firm's own funds. The committee is comprised of senior management from across the Group who oversee functions directly impacting client money.

An overview of the Board of Directors and Board and Executive Committees' duties and responsibilities is set out in the Corporate Governance Report on pages 34-38 of CMC Markets' 2015 Annual Report.

Risk and Control Functions

Risk and Control functions provide additional assurance to Board and Executive Committees by compiling periodic reports for the appropriate committees and the Board to review.

- Finance is responsible for maintaining accurate financial books and records of the Group through the application of adequate processes and controls. Its responsibilities also include adherence to local regulations, including compliance with client money rules, and regulatory and tax submissions where required. Finance also works with the wider business to recommend performance targets and monitor actual performance against these targets.

- The Financial Risk Management (FRM) Function is responsible for identifying, monitoring and reporting Market and Counterparty Risk for the Group. This includes calculating of Pillar 1 capital requirements as well as running various stress scenarios to calculate any potential Pillar 2 regulatory capital requirements. FRM is also responsible for recommending margins for the product offering as well as monitoring and reporting adherence to board approved appetite through various KRIs.

- The Operational Risk Management Function is responsible for providing assurance on the level of risk within the Group and the effectiveness of the controls put in place by the business. This includes developing and undertaking robust monitoring activity as well as responsibility for oversight and governance of Information Security, Business Continuity and Data Protection.

- The Legal Function is responsible for all legal advice given to the business, whether this is advice given internally or from external legal counsel. It manages and advises upon the legal risks facing the business.

- The Compliance Function is responsible for regulatory risk policy and requirements, including assessment of all business procedures and controls to ensure regulatory rules are followed. This includes developing and undertaking robust compliance monitoring activity and on-going liaison with various regulators.

- The Financial Crime Function is responsible for formulating and advising on financial crime policy and requirements, including assessment of all business procedures and controls to ensure regulatory rules and industry best practice are followed.

Business Functions

In addition to the control functions, risk management is a key consideration throughout the Group. Each function designs, implements and monitors suitable risk mitigation controls so that risks remain within Board-approved risk appetite limits. The Group Risk Management Framework covers risk across the business.

2.2 Risk Management

As set out in the Strategic Report on pages 10-19 of CMC Markets' 2015 Annual Report, the Group's strategic goals and objectives are:

- Client service;
- Product innovation;
- Technology and operations;
- Trading risk management;
- Financial strength;
- People.

The purpose of the Risk Appetite Statement (RAS) is to articulate the aggregate level and types of risk that the Board is willing to take (its "risk appetite") in order to achieve its strategic objectives.

Alongside risk appetite parameters, the Board has put a number of KRIs in place to monitor the movement of risk levels over an appropriate time horizon. They are designed to alert the Board and senior management that a risk is approaching, or has exceeded, appetite so that appropriate mitigation measures can be implemented.

Risks to CMC Markets

The Group defines and categorises its **principal risks** as:

- Strategic risk;
- Financial risks;
- Operational risks.

The principal risks comprise of key risks the Group faces, including:

- Credit risk;
- Liquidity risk;

- Market risk;
- Business continuity risk;
- Financial crime risk;
- Information and data security risk;
- Technology risk;
- People risk;
- Regulatory and compliance risk.

Further information is available on pages 28-31 and note 4 to the financial statements (pages 58-63) of CMC Markets' 2015 Annual Report.

3. Capital resources

Table 2: Regulatory Capital

	March 2015 £'000	March 2014 £'000
Shareholders' equity as per audited financial statements	142.3	119.6
Common equity tier 1 capital	**142.3**	**119.6**
Less: Intangible Assets	(3.6)	(3.9)
Less: deferred tax asset that relies on future profitability	(2.8)	(3.3)
Total Common Equity Tier 1 Capital after deductions	**135.9**	**112.4**
Tier 2 capital	0.0	0.0
Total Regulatory Capital/Own Funds	**135.9**	**112.4**
Total Capital Resources (CR)	**135.9**	**112.4**
Operational risk capital requirement (ORCR)	18.5	19.2
Market risk capital requirement (MRCR)	12.9	17.3
Credit risk capital component (CRCC)	6.3	5.5
Counterparty risk capital requirement (CRCR)	1.3	1.4
Total Pillar 1 Capital Resources Requirement (CRR)	**39.0**	**43.4**
Total Risk Exposure	**487.5**	**542.5**
Surplus CR over CRR	96.9	69.0
Total Capital Ratio (%)	**27.9%**	**20.7%**

CMC Markets has adopted the standardised approach for credit risk (CRR, Articles 111-141), mark-to-market method for counterparty risk (CRR, Article 274) and the basic indicator approach for operational risk (CRR, Article 315). These requirements are added to the Market Risk Capital Requirement (CRR, Articles 325-377) in order to calculate the Basel III Pillar 1 minimum capital requirement under the CRD.

3.1 Capital Management

The Group's objectives for managing capital are as follows:

- to comply with the capital requirements set by the financial market regulators to which the Group is subject;
- to ensure that all Group entities are able to operate as going concerns and satisfy any minimum externally imposed capital requirements;
- to ensure that the Group maintains a strong capital base to support the development and growth of its business.

Further information is available on page 67 of CMC Markets' 2015 Annual Report.

3.2 Common Equity Tier 1 Capital

Common Equity Tier 1 Capital comprises share capital less own shares held in trust, other audited reserves and retained earnings. The Group has no 'innovative Tier 1' instruments.

A deduction is made from Common Equity Tier 1 capital in respect of intangible assets and deferred tax assets. Intangible assets comprise principally of software licences and development costs.

3.3 Tier 2 Capital

The Group does not have Tier 2 Capital.

3.4 Internal Capital Adequacy Assessment Process (ICAAP)

The Group undertakes an internal assessment of capital requirements via the ICAAP at least annually.

The soundness, effectiveness and comprehensiveness of the ICAAP are challenged and approved by the Board. The ICAAP is the process of identification, measurement, management and monitoring of the adequacy and allocation of internal capital. Based on this the Group determines the Pillar 2 requirement, which presents the Group's view of the additional amount of capital it should hold against risks not fully covered by the Pillar 1 requirements over a three year planning horizon.

The on-going review of the ICAAP throughout the year is delegated to the Business Risk Committee which ensures that it is updated with regard to all identified risk and is embedded in the risk management process of the Group.

The ICAAP is reviewed by the FCA, who set the Individual Capital Guidance (ICG) capital requirements for the Group as part of its Supervisory Review and Evaluation Process (SREP). The ICG gives guidance on the amount and quality of capital resources that the FCA believes the firm should hold under the overall financial adequacy rule. In accordance with FCA's rules, a public disclosure of the ICG is not undertaken.

4. Principal Risks

The Group's principal risks in view of its key business objectives are outlined in this section. These risks are subject to stress testing as part of the ICAAP.

4.1 Credit risk

Credit risk is the risk of financial loss that the counterparty to a transaction may cause the Group by failing to discharge a contractual obligation. Below are the channels of credit risk the Group is exposed through:

- Credit institution (Institutions);
- Client (Retail);
- Other items*.

*Other items include tangible fixed assets, deferred tax assets that rely on future profitability and arise from temporary differences, and trade and other receivables not related to clients.

Credit Institution Credit risk

Credit institution credit risk is the risk of a credit institution failing to meet or defaulting on their obligations in accordance with agreed terms.

Risk management is carried out by a central Liquidity Risk Management (LRM) team.

Mitigation is achieved by:

- Monitoring concentration levels to counterparties and reporting these internally/externally on a monthly/ quarterly basis in accordance with Group Counterparty Concentration Policy;
- Monitoring the credit ratings and Credit Default Swap (CDS) spreads of counterparties and reporting internally on a weekly basis;
- Assessing credit institution counterparties against specific criteria in accordance with the Counterparty Selection Policy.

Counterparty credit risk is also calculated on open positions held with our brokers and measured under the CCR Mark to Market method as per CRR, Article 274.

For more information see note 4 to the financial statements (pages 58-63) of CMC Markets' 2015 Annual Report.

Client Credit risk

Client credit risk is the risk of a client failing to meet or defaulting on their obligations in accordance with agreed terms.

The Group's management of client credit risk is significantly aided by automatic liquidation functionality where margin levels are constantly reviewed and if they fall below pre agreed levels the positions held on the account will automatically be closed out.

Other platform functionality mitigates risk further:

- Tiered margin requires clients to hold more collateral against bigger or higher risk positions;
- Mobile phone access allowing clients to manage their portfolios on the move;
- Guaranteed Stop Loss Orders allowing a client to remove their chance of debt from their position(s).

However, after mitigations, there is a risk that the Group could incur losses relating to clients moving into debit balances if there is a market gap.

Further information is available in note 4 to the financial statements (pages 58-63) to CMC Markets' 2015 Annual Report.

Table 3: The movement on the Group provision for impairment of trade receivables (£m)

GROUP	2015	2014
Opening provision	2.0	3.1
New debt provided for	4.3	(0.2)
Debt written off	(0.4)	(0.9)
Closing provision	**5.9**	**2.0**

Credit Exposures

The following tables are analyses of the Group's credit risk exposure as at 31 March 2015.

Table 4: Credit Exposures by Regulatory Asset Class (CRCC) (£m)

The following tables provide further breakdown by geographic region and counterparty type.

Regulatory Exposure Asset Class	Credit Exposure at 31 March 2015	Risk Weighted Exposure at 31 March 2015	Credit Exposure at 31 March 2014	Risk Weighted Exposure at 31 March 2014
Institutions	151.7	2.4	124.3	2.0
Retail	13.4	1.1	14.6	1.2
Other items	27.5	2.8	22.9	2.3
	192.6	**6.3**	**161.8**	**5.5**

Table 5: Geographic Analysis of Credit Exposures (£m)

Regulatory Exposure Asset Class	UK & IR	Europe	ANZ	ROW	Total
Institutions	126.8	0.6	11.9	12.4	151.70
Retail	0.6	–	12.8	–	13.40
Other items	23.0	1.0	3.1	0.4	27.50
	150.4	**1.6**	**27.8**	**12.8**	**192.6**

Table 6: Credit Exposures – Analysis by Maturity (£m)

Regulatory Exposure Asset Class	< 3 months	3 Months to 1 year	1 to 5 years	> 5 years	Total
Institutions	149.1	2.6	–	–	151.7
Retail	13.4	–	–	–	13.4
Other items	–	–	–	27.5	27.5
	162.5	**2.6**	**–**	**27.5**	**192.6**

Past due amounts and Impairment

The Group records impairments of trade receivables from clients in a separate allowance account. Impairments are recorded where the Group determines that it is reasonably certain that receivables are irrecoverable according to the contractual terms of the agreement. Amounts due from clients are considered to be past due from the date that positions are closed. The amounts past due but not impaired are not analysed by due date as they are not considered material exposures.

Table 7: Credit Exposures – Analysis of impaired, Specific and General Credit Risk Adjustments (£m)

Regulatory Exposure Asset Class	Impaired	Specific and General Credit Risk Adjustments	Charges for Specific and General Credit Risk Adjustments during the Financial Year
Institutions	–	–	–
Retail	6.6	(5.9)	(4.3)
Other items	–	–	–
	6.6	**(5.9)**	**(4.3)**

Table 8: Credit Exposures – Geographic Analysis of impaired, Specific and General Credit Risk Adjustments (£m)

GROUP	UK & IR	Europe	ANZ	ROW	Total
Impaired Items	2.7	2.5	1.2	0.2	6.6
Specific and General Credit Risk Adjustments	(2.4)	(2.1)	(1.2)	(0.2)	(5.9)
	0.3	**0.4**	**–**	**–**	**0.7**

Table 9: Specific and General Credit Risk Adjustments (£m)

GROUP	Year Ended 31 March 2015
Balance as at 1 April 2014	2.0
Charge for specific and general credit risk adjustments during the financial year	4.3*
Amounts written off	(0.4)
Balance at 31 March 2015	**5.9**

*During the year ended 31 March 2015, the Group incurred an exceptional bad debt provision of £3.9m in relation to the decision by the Swiss National Bank to remove the Swiss Franc peg to the Euro.

Table 10: Institution Credit Exposure – Credit Quality Steps and Risk Weighting (£m)

Credit Quality Step	Long-Term Credit Rating	Risk Weight	Exposure
1	AAA to AA-	20%	19.2
2	A+ to A-	20%	88.0
3	BBB to BBB-	20%	43.5
4	BB+ to BB-	50%	–
5	B+ to B-	50%	–
6	CCC+ and below	150%	–
Unrated – non-default	–	100%	1.0
			151.7

Table 11: Breakdown of Trading Book Counterparty Risk Capital Requirement (CRCR) (£m)

Regulatory Exposure Asset Class	Risk Weighted Exposure at 31 March 2015	Risk Weighted Exposure at 31 March 2014
Institutions	0.4	0.4
Retail	0.9	1.0
	1.3	**1.4**

4.2 Liquidity risk

Liquidity risk is the risk that there is insufficient available liquidity to meet the liabilities of the Group as they fall due.

The Group has access to own funds, title transfer client funds and committed banking facilities, as described on page 25 and note 4 to the financial statements (pages 58-63) of CMC Markets' 2015 Annual Report.

Retail client money is held by the Group in trust for its clients. Retail client money is not used in the Group's business and is therefore not included in Net Surplus Liquidity.

Risk management is carried out by a central LRM team under policies approved by the Board and in line with the FCA's Individual Liquidity Adequacy Standards (ILAS) regime. The Group utilises a combination of liquidity forecasting and stress testing to identify any potential liquidity risk both during normal and stressed conditions. The forecasting and stress testing fully incorporates the impact of all liquidity regulations in force in each jurisdiction and other impediments to the free movement of liquidity around the Group.

Risk is mitigated by:

- The provision of daily, weekly and monthly liquidity reporting and real-time broker margin requirements to enable robust management and control of liquidity resources;
- A £40million committed bank facility to meet short-term liquidity obligations to brokers;
- A formal, Board-approved Contingency Funding Plan (CFP) is in place that is designed to aid senior management to assess and prioritise actions in a liquidity stress scenario.

The Group has a Board-approved ILAA, as of 31 March 2015.

For more information see note 4 to the financial statements (pages 58-63) of CMC Markets' 2015 Annual Report.

Core Liquidity Risks

Liquidity risks may arise in the following core areas:

Increase in broker margin requirements

Brokers can choose to increase their margin requirements. This risk is mitigated by the Group using multiple brokers per asset class as per the Group's Counterparty Concentration Risk Policy and Counterparty Selection Policy

Counterparty failure

Exposure to this risk is managed by monitoring the creditworthiness of the Group's counterparties.

Withdrawal of committed funding facility

Credit institutions may not renew committed facilities on commercial grounds. The Group's existing committed facility agreement does not include any provisions which allow the lender to terminate the contract without cause, other than default or breach of covenant.

4.3 Market risk

Market risk is defined as the risk that the value of our residual portfolio will decrease due to a change in market risk factors. The four standard market risk factors are stock prices, interest rates, foreign exchange rates and commodity prices. Further information can be found on pages 58-60 of CMC Markets' 2015 Annual Report

Market risk positions are managed in accordance with the Group's Risk Appetite Statement and Group Market Risk Management Framework to ensure that the Group has sufficient capital resources to support the calculated Market Risk Capital Requirement as well as staying within the Board approved Risk Appetite.

Overall client exposures can vary significantly over a short period of time and are highly dependent on underlying market conditions. The Group's Own Funds Requirement (OFR) has fallen against the prior year end and remains well within the Board-approved risk appetite.

The Group monitors its Market Risk exposures on a real-time basis to ensure adherence to board approved appetite and follows the FCA rules under IFPRU 6.1 for calculating its Market Risk Capital Requirements, as illustrated in the following table:

Table 12: Analysis of Market Risk Capital Requirements (MRCR)

	2015			2014		
GROUP	Net exposure	Gross exposure	OFR	Net exposure	Gross exposure	OFR
Asset class						
Consilidated equities	25.3	69.9	5.7	112.2	157.3	12.9
Commodities	(15.7)	17.2	2.7	(4.6)	11.9	2.1
Treasuries	37.2	42.5	1.7	21.2	21.4	0.9
Foreign exchange	30.8	30.8	2.5	12.9	12.9	1.0
Interest rate risk	–	–	0.4	–	–	0.4
	77.6	**160.3**	**12.9**	**141.8**	**203.4**	**17.3**

4.4 Operational risk

Operational risk is the risk of loss or negative impact to the Group resulting from inadequate or failed internal process, people and systems or from external factors, such as new regulation and key supplier failure. The Group appreciates that operational risk cannot be eliminated fully but systems and controls are in place to seek to minimise the likelihood and impact of operational risk events.

Although Operational risk management is the responsibility of every employee, the Group has a dedicated Operational Risk function.

The Group has adopted the Basic Indicator Approach under Article 315 of the CRR to calculate the Pillar 1 capital requirements for operational risk.

Risk mitigation measures for key risks have been put in place to control exposure within Board-approved risk appetite levels. Detailed information can be found in on pages 29-31 of CMC Markets' 2015 Annual Report.

Principal Operational Risks

The Group's key operational risks and their mitigation measures are as follows:

Business continuity

Business continuity risks include the unavailability of employees, premises or services due to a variety of possible events, some of which are outside the Group's control. The use of external specialist premises to enhance resilience in the event of disaster recovery or business continuity incidents and a prompt response procedure to significant systems failures or interruptions help the Group to mitigate such threats.

Financial crime

As a provider of financial services to retail markets, the Group is exposed to the threat of abuse of its services to commit financial crime including, but not limited to, fraud, bribery, market abuse and money laundering. Therefore the financial crime function carries out formal and regular risk assessments across global operations as well as implementing regular and on-going training and awareness programmes for staff at all levels and in all jurisdictions.

Information and data security

Information risk is the threat to the confidentiality, integrity and availability of information held by the Group. Protection of personal information provided by clients and employees is also a key concern. Technical and procedural controls are implemented to minimise the occurrence of information security and data protection breaches.

Technology

Technology risk is the risk of system failures exposing the Group to significant commercial, financial, regulatory or reputational damage. To compete effectively in a market that is characterised by innovation in both products and services, the Group must be able to anticipate, respond and deliver robust and continually enhanced technology in a timely and effective manner. Mitigation measures include continuous investment into the increased functionality, capacity and responsiveness of systems and infrastructure, rigorous testing regimes and constant monitoring of system performance.

People

People risk is the risk of loss of key individuals and skills, inadequate development, succession or resource planning and inappropriate behaviours or actions. To manage and mitigate this risk, various retention programmes and succession planning initiatives have been put in place in conjunction with developing recognition scheme for high performing individuals.

Regulatory and compliance

The Group faces the risk of regulatory sanction or legal proceedings as a result of failure to comply with regulatory, statutory or fiduciary requirements or as a result of a defective transaction. The Group must satisfy regulatory requirements in many jurisdictions and maintains a programme of active monitoring to ensure that standards are met consistently. This is an integral part of the Group's overall risk management approach.

Other operational risks

Other operational risks include the Group's exposure to legal and litigation risks, manual errors and any other action or occurrence over which it has little or no control but which may have financial impact or affect its reputation with clients and the business community. They also include the strategic risks related to peer group competition and business growth. The Group has systems and controls in place to minimise the impact of these risks.

4.5 Interest rate risk on the non-trading book

Interest rate risk arises from either less interest being earned or more being paid on interest bearing assets and liabilities due to a change in the relevant floating rate.

Interest rate risk is felt by the Group through a limited number of channels, income on segregated client and own funds, and debits on client balances that are over a pre-defined threshold.

The sensitivity analysis performed is based on a reasonable and possible move in the floating rate by 0.5% upwards and 0.25% downwards (FY14: 1% movement both upwards and downwards). This is summarised in the below table, and reflects the Group's view that in the current economic environment, interest rate volatility is unlikely to have a significant impact on the profits of the Group.

Table 13: Interest Rate Movement – Non-Trading Book (£m)

	2015		2014	
	Absolute increase	Absolute decrease	Absolute increase	Absolute decrease
GROUP	**0.50% change**	**0.25% change**	**1.00% change**	**1.00% change**
Profit after tax	0.7	(0.3)	2.1	(0.8)
Equity	0.7	(0.3)	2.1	(0.8)

5. Remuneration disclosure

The Group is required to comply with the Remuneration Code ("the Code") requirements within the FCA's handbook of rules and guidance in accordance with Article 450 of the CRR. These rules recognise that not all the Code's principles apply to firms equally and therefore introduce a concept of proportionality, internal organisation (including legal structure) and the nature, scope and complexity of its activities.

The FCA has defined a high level three tier proportionality framework which sets out their expectations on the level of application of the Code requirements to different types of firm. Within these tiers, the Group meets the definition of the proportionality tier 3, and these disclosures reflect the requirements for such tier 3 firms.

5.1 Decision making process for determining remuneration policy

The Nominations and Remuneration Committee (NRC) is made up of the Group's Non-executive directors. Senior management may be invited to attend and regular attendees include the Group Director of Finance, Risk and Compliance and the Group Head of HR. Meetings are held at least twice a year and written terms of reference, approved by the Board, include:

- The regular review of the structure of the Board; to lead the process for making Board appointments and to ensure plans are in place for orderly succession;
- Participation with the Board in its periodic review of the performance of Directors and to make recommendations arising from such review;
- Consideration and periodic recommendation to the Board of the remuneration policy (including incentives linked to the Group's performance measured, amongst other things, by financial results adjusted for risks) relating to the executive Directors and other senior managers is designated to consider and ensure that such policy attracts and retains high calibre Directors and senior management;
- The review of Group-wide annual salary arrangements, performance related pay schemes and incentive plans and to consider and make recommendations in respect of their rationale, structure and aggregate cost.

As well as assessing performance against a dashboard of objectives and using a discretionary approach to remuneration, the implications of remuneration decisions for risk management are taken into account as follows:

- The Group has a formal process that gives the Risk team the responsibility to validate and assess risk adjustment techniques, to ensure that the remuneration policy promotes sound and effective risk management within Board approved risk appetite;
- The Chair of the Audit and Risk Committee (ARC) attends the NRC meetings to consider the decisions which could have risk implications;
- Decisions regarding bonus pool funding are taken after review by the NRC and the Board, taking into account the risk appetite objectives and framework; the Risk function has Board input into the risk related objectives set as part of the balanced scorecard framework;
- The ARC, all members of which are Non-executive Directors, advises the Board on risk appetite. The ARC receives information on risk related aspects of reward structures to be proposed by the NRC. The Finance function validates the achievement of relevant financial hurdles/metrics (e.g. the definition of profitability from which bonus funding is derived) including assurance that the capital is not endangered.

The NRC obtains independent external advice from Mercer on specific issues as they arise.

5.2 Code Staff Criteria

The FCA Remuneration Code requires the Group to identify individuals whose professional activities have a material impact on its risk profile (known as “Code Staff”) and the Code requirements and disclosures (applicable to tier 3 firms) apply to those individuals.

The following criteria have been identified as meeting the FCA’s requirements for Code Staff:

- Reporting lines including but not limited to direct reporting line to the CEO;
- Primary responsibilities and staff performing a Significant Influence Function within CMC Markets;
- Level of autonomy in role;
- Extent to which each individual has the ability and authority to make decisions that impact on material areas of risk set out in the Group’s internal risk documentation including: ICAAP, Risk Register and Risk Assessment Matrix (or similar/ comparable documentation).

The Group has a policy on diversity as detailed in page 18 of CMC Markets’ 2015 Annual Report in accordance with CRR Article 435(2)(3) .

5.3 Link between pay and performance

The Group’s remuneration policy supports the Group business strategy, which is based on building long-term relationships with customers and employees and managing the financial consequences of business decisions across the entire economic cycle.

All Code Staff receive a salary (executives) or fees (non-executives) that reflect their market value, responsibility, and contribution to the Group. The Group pays market competitive salaries with variable pay awards based on performance.

Pay increases are based on merit. The level of the pay increase is influenced by Group affordability and market influences. Salary increases outside the annual pay review cycle are subject to a strict process of justification, control and approval.

The variable pay element is differentiated by performance. The Committee believes the remuneration for code staff provides an appropriate balance between fixed and variable pay elements.

The policy is to position base salaries to reflect the relevant market median and the total package is designed to enable upper quartile performance to be rewarded with upper quartile remuneration levels. Overall the policy is designed to ensure that cost effective packages are provided which attract and retain directors and senior management and employees of the highest calibre and motivate them to perform to the highest standards. At the same time, the objective is to align individual rewards with the Group’s performance, the interests of its shareholders, and a prudent approach to risk management. In this way the Group balances the requirements of its various stakeholders: customers, shareholders, employees and regulators.

The variable pay element includes a short term incentive plan and a long term incentive plan.

Most employees are eligible to participate in the Group discretionary bonus scheme.

A Long Term Incentive plan (LTIP) was put in place in 2014. During the year, LTIP awards were granted to members of the senior management team and other selected critical talents, who either report to the senior management team or have unique skills that cannot be replaced. Awards granted during the year were in the form of phantom (nil-cost) options. Vesting of awards is subject to the achievement of performance conditions measured over a 3 year period aligned to Group objectives.

5.4 Remuneration cost for Code Staff

For the year ending 31 March 2015 the aggregate remuneration in respect of Code Staff was as follows:

	Executive Directors		Other Code Staff	
	No. of recipients	£m	No. of recipients	£m
Fixed Remuneration 2014/15	**3**	**0.6**	**13**	**1.5**
Variable Remuneration awarded for 2014/15 performance				
Cash	3	0.6	13	0.8
Share Options (including Phantom Options at Face Value)	2	0.4	13	0.3
Total		**1.0**		**1.1**
Deferred Remuneration as at 31/03/2015				
Outstanding unvested and unexcercised	2	0.4	13	0.3

6. Further information

Should you have any queries, please contact:

Grant Foley

Group Director of Finance, Risk and Compliance G.Foley@cmcmarkets.com

CMC Markets plc

133 Houndsditch London EC3A 7BX

Company number: 5145017

As disclosures in this document involve risks and uncertainties, actual results may differ from those expressed or implied by these statements.

CMC Markets plc
133 Houndsditch
London EC3A 7BX
United Kingdom
Tel +44 (0)20 7170 8200
Fax +44 (0)20 7170 8499
Email info@cmcmarkets.co.uk
www.cmcmarketsplc.com