



# Risk Management

**Capital Markets Day**

May 2018

# Part 1

## Risk Management

### Part I

Introduction: Vision and Values  
**PETER HETHERINGTON**

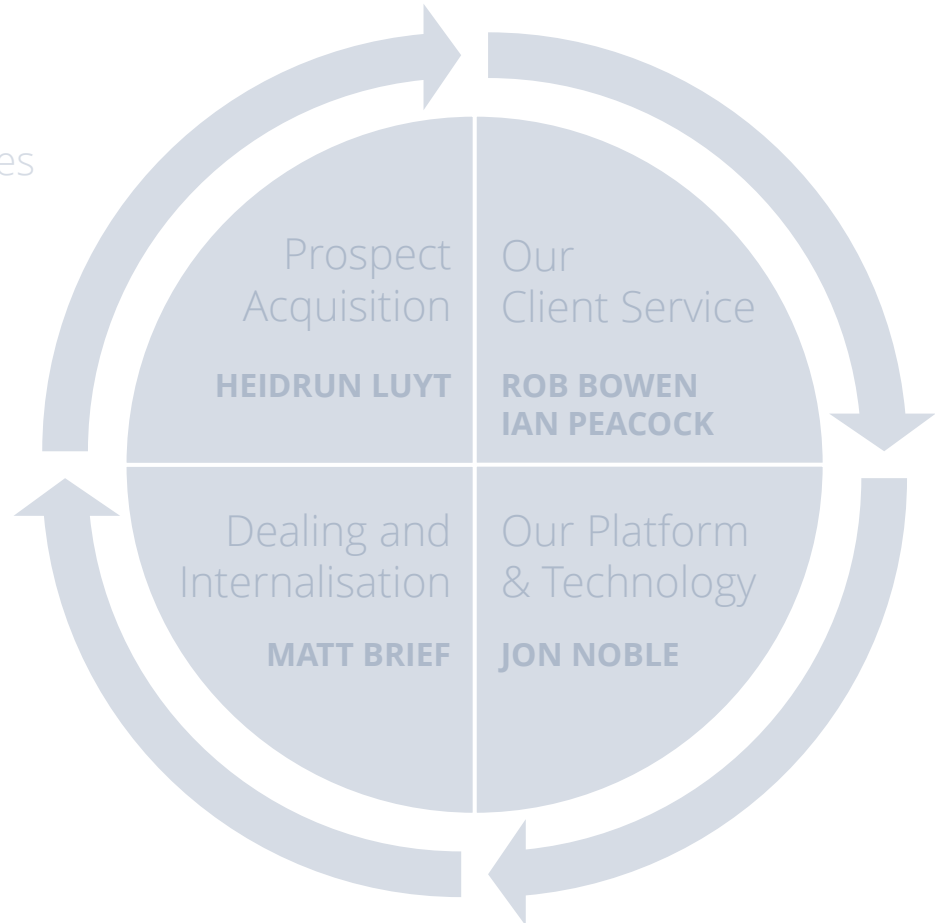
Risk Management  
**JOE McCAUGHRAN**

Cost Analysis  
**PAUL MAINWARING**

Regulatory Landscape  
**PETER HETHERINGTON**

Q&A

### Breakout



### Part II

Growth Opportunities  
**BRIDGET MESSER**

Conclusion  
**PETER HETHERINGTON**

Q&A

# Introduction

- 1** Importance of Risk Management
- 2** Who we are, our structure, depth of resource and what sets us apart
- 3** How we consider the levels of risk we're willing to expose ourselves to
- 4** Our modelling and stress testing
- 5** How we oversee management of Risk

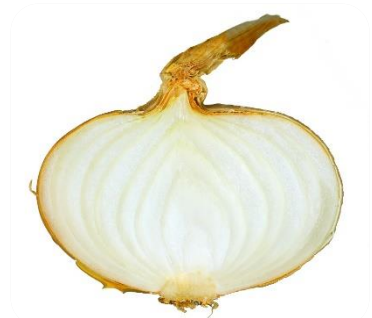
# To answer some un-asked questions....

**17<sup>th</sup> May 2018**

Market	Move	Market Risk	Credit Risk
All Crypto	-40%	-£358,884	-£61,144
CHF	30%	-£178,420	-£2,587,208

# Importance of Risk Management

**Our risk taxonomy lays the foundations and is all encompassing**



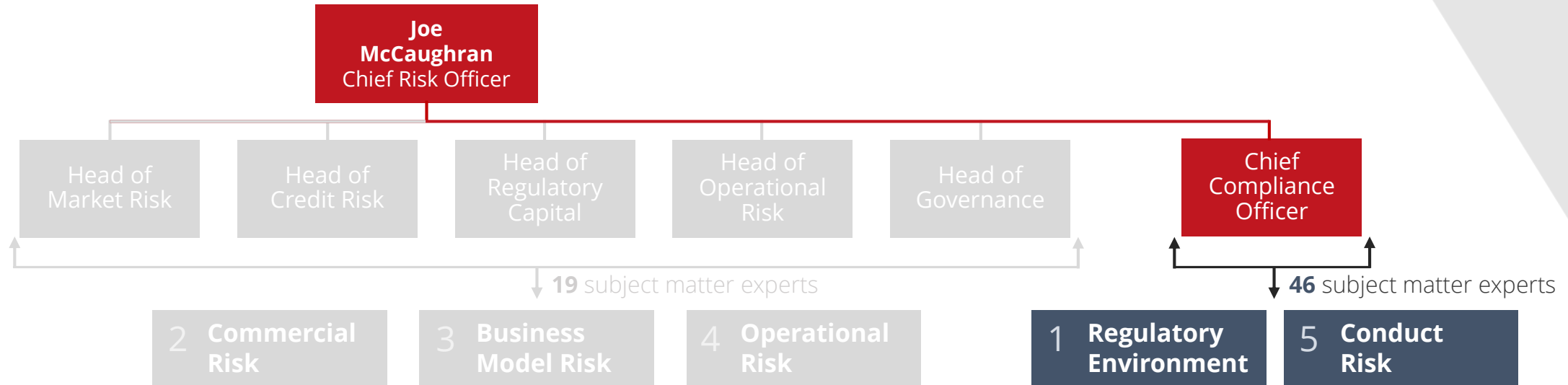
# Three lines of defence



# Oversight of Risk Management



# Focus on Compliance



Australia  
Germany  
France  
Italy  
United Kingdom  
Singapore  
Spain



Dubai  
Japan  
Switzerland  
USA  
South Africa  
New Zealand  
Sweden







# Focus on Compliance

Our **global presence**,  
our approach and  
**relationships with  
regulators**,  
our global expertise and  
**boots on the ground**,  
which makes us different

## Well established governance structure

- A proper, appropriate process for opening accounts
- Independent 2<sup>nd</sup> line functions performing 2<sup>nd</sup> line tasks

## Low Risk Appetite

- We will not take undue Regulatory and Conduct Risk for short term benefit
  - we support a sustainable business
  - a thorough Professional opt up process
  - our Regulatory and Conduct standards are high; our risk appetite, low

# Focus on Risk



## Our expertise and know how

- Significant experience within the risk team and Executive Committee
- Our CEO has been at IG longer than other firms in the industry have existed
- We learn from mistakes and we plan for the unexpected

# We learn from our mistakes

## 2002: Faced too much Market Risk

- Original CEO increased our exposure by hedging less
  - changed our approach to, and understanding of, market risk
  - better modelling
  - market risk proportionate to firm size
  - stronger Governance

## 2008: Clients had too much time to pay

- Whole market suffered in financial crisis
- Clients given extended periods to pay margin whilst still running risk
- Resulted in credit risk losses and significant losses to, and of, our clients
  - creation of our automated Close Out Monitor (COM)
  - necessary for good risk management
  - clients love it, and continue to love it



**Lead the way**

# We learn from our mistakes

## 2015: Mind the Gap

- The Swiss Franc de-peg
- Resulted in IG setting higher margin on pegged currencies
- Improved exposure monitoring around concentration of stop orders
- Improved way we execute client orders – putting the clients first

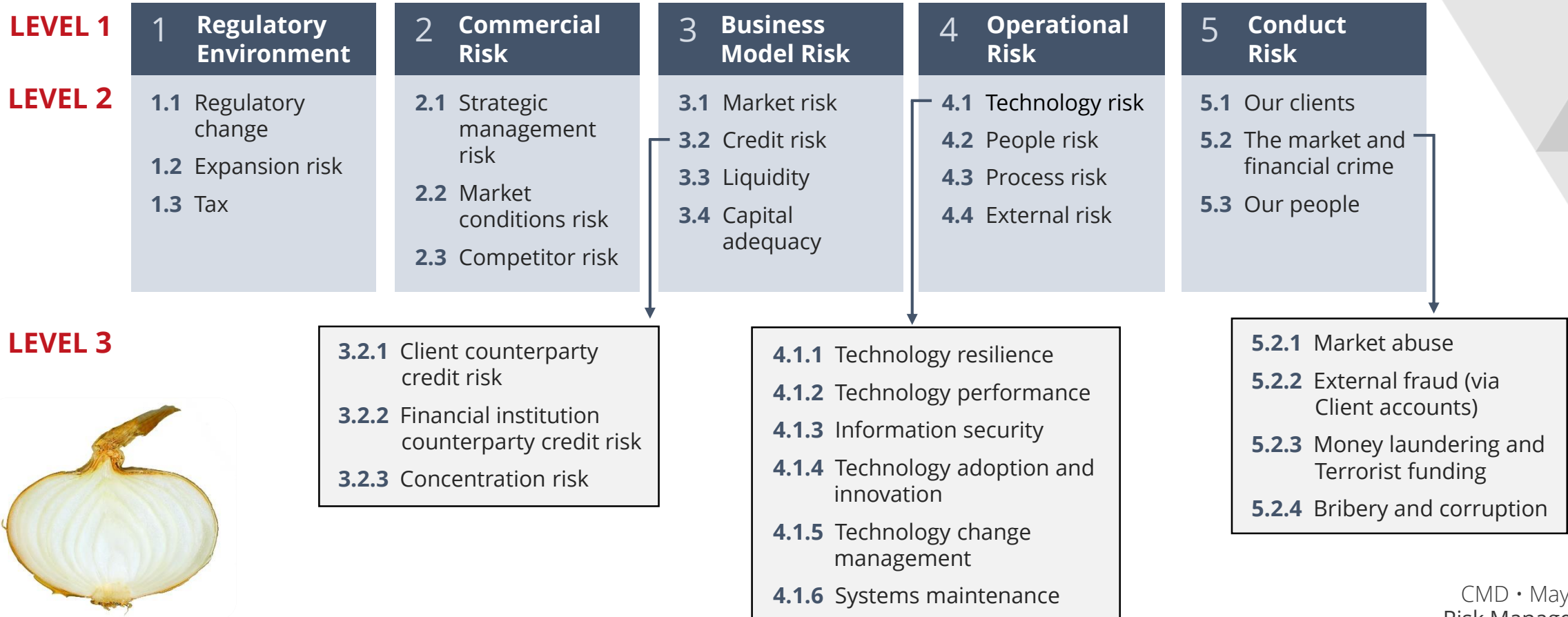


**Champion the client**

EURO TO SWISS FRANC



# Our layers of risk



# What risks exist

- Risk Appetite Statement (RAS) come right from the top
- Board approved – defines level of risk IG is willing to be exposed against
- The balance to allow for a highly profitable business whilst avoiding unacceptable loss
- Modelling and stress testing performed in real time, hourly and daily
- Our proprietary technology allows this to happen

**50**

KRIs tracked across the business to monitor compliance with appetite

**500ms**

time taken to recalculate our market risk exposure



# What risks exist

Product Type	Stress Testing
Indices and Equities Macro	6.5%
Individual Equities	10-100%
FX	4%
FX Pegged/Minor	30%
Crypto	40%
Rates	2%
Energies	10%
Gold/Silver	5%
Other Commodities	8%

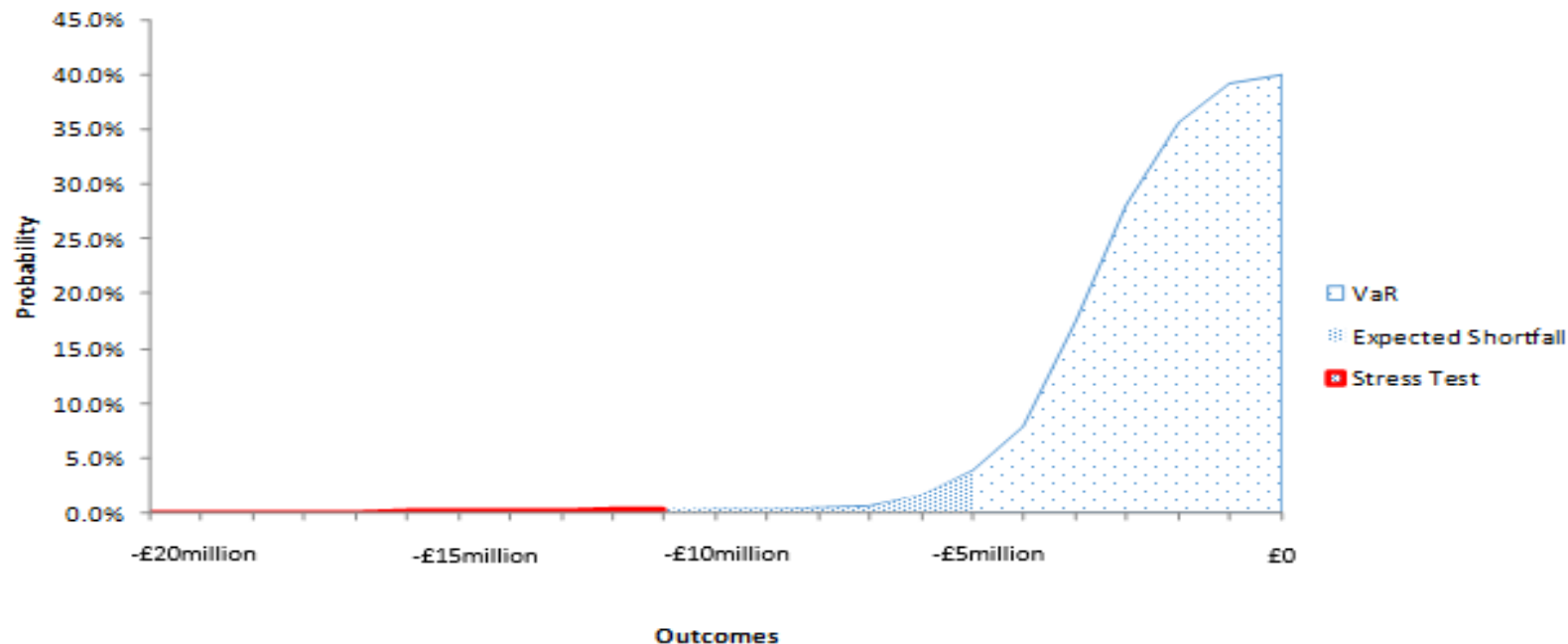
## Some scenarios we consider in our market and credit risk stress testing

- ✓ We stress at inflated levels
- ✓ We stress using drastic market moves
- ✓ True gaps, not just movements throughout the day

# What risks exist

## Value at Risk and expected shortfall monitoring

- ✔ Quantify our risk within a certain level of confidence and bridge the gap between daily monitoring and the extreme case of the scenario based stress tests
- ✘ Based on historical data, not a guarantee that the same result will occur in future





# What risks exist

Should we find ourselves approaching or close to a position outside our Risk Appetite, **we know** about it, **can report** on it, and **act on** it

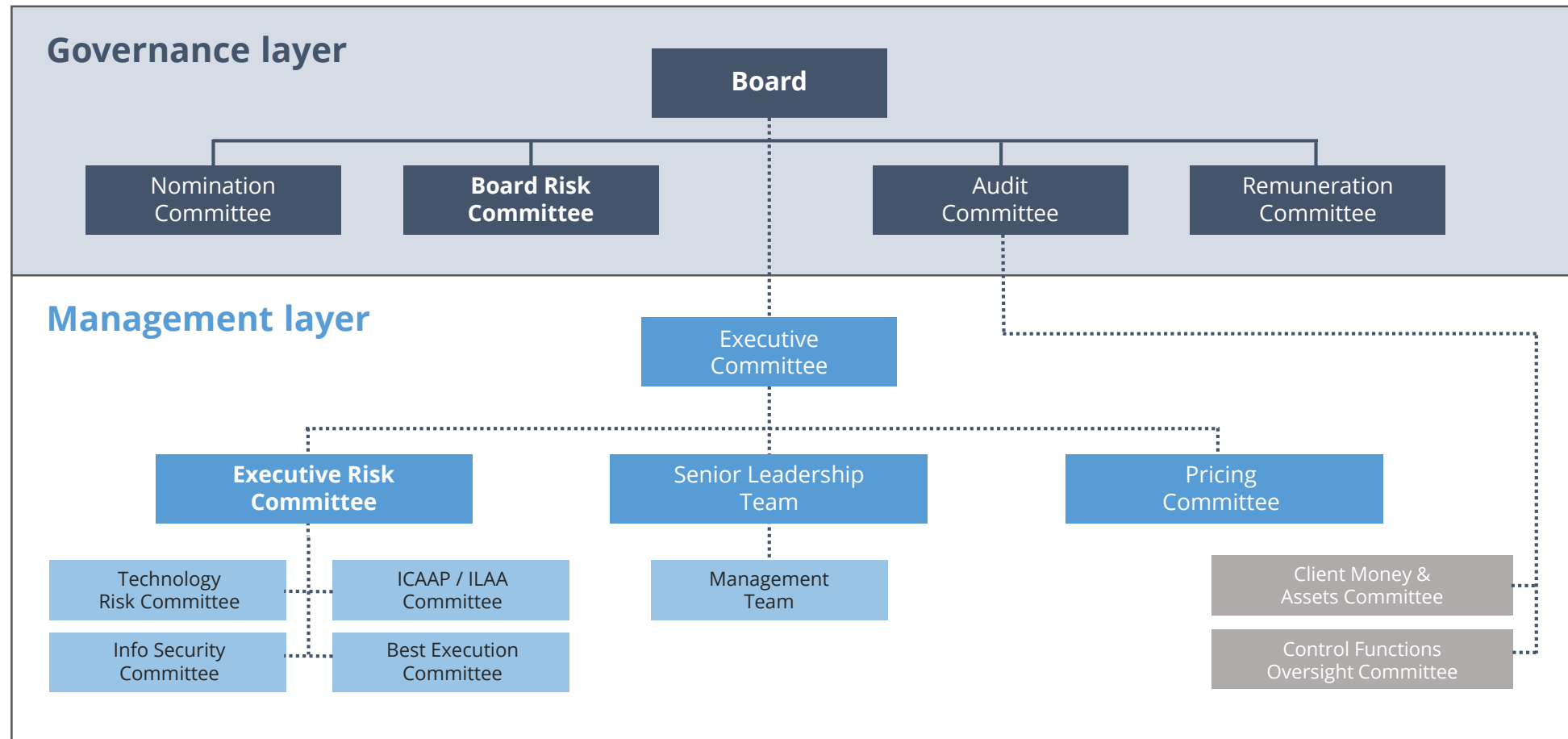
- Our Risk Appetite Statements quantifies risk limits, allowing for a profitable business whilst avoiding unacceptable loss
- We **consciously accept** our levels of exposure
- We **act** when near or outside our Risk Appetite
- We can, and do, act if the “**what if**” is outside of what we’re willing to accept

# What risks exist

## Appetite, Management and Oversight

- Holding cryptocurrencies poses unique risks
- As such, we imposed a physical limit
- When close to our appetite, we manage accordingly
- This includes turning off the ability to open new, long positions, existing open positions are unaffected
- Real time oversight through via our technology

# How we oversee management of Risk



# Conclusion

- When you think risk – think big
  - Not just market and credit, but regulatory, conduct, technological etc ...
  - We have the right people, with the most experience and the best technology
  - We have a low risk appetite – we do things properly
  - We know our risk positions at all times, accept them and take action to manage them
  - We have the governance structure to make this work
- 
- Risk has many layers

