



IG Group Holdings plc

RNS

Tuesday 27th March 2018

Peter Hetherington, CEO

Hello everyone, this is Peter Hetherington, I'm joined by Paul Mainwaring and Liz Scorer for this call. Getting straight to it, this announcement is pretty much as expected, the leverage rules we now have are disappointing. They have not changed. With the exception of crypto we're under the original proposal, only a range was proposed. Talking on crypto the leverage number is the maximum leverage we allow anyway. You'll all recall our H1 analyst presentation where we had a number of proposals which we marked in orange and ticked. Where we said, 'the proposal's fine but some of the detail needs to be worked through. It appears that the detail has been worked through and with the exception of leverage, the proposals do, in our view, work. This is good news. We've reiterated our guidance on the impact of these changes: these have moved modestly from the interims, as the period we've modelled has moved on, and we're now modelling against the actual results of the first 9 months of this financial year, rather than the last financial year, and the products that the clients have traded during the period has changed slightly.

On the subject of clients applying to be treated as an elective professional, you'll see from the statement the overall number is still small, circa 3000 clients, but these now represent over 30% of UK and EU revenue already. We now think that over half our UK and EU revenue will come from clients who end up being classified as professional.

Looking more broadly, we think the outcome is disappointing for our clients and it reinforces our view that ESMA's first use of these emergency powers is somewhat questionable. According to their own figures, there were only 400 complaints in the most recent 6-month period. Complaints are falling fast; less than one complaint for every half a million trades done by a client. By clients in the whole industry, not just by us, that is.

ESMA has ignored the vast majority of the 18,500 people who submitted comments to the call for evidence, throwing into question the point of the call for evidence in the first place. ESMA has made it clear that submissions would be made public, we look forward to seeing them. Despite our best efforts, some of these measures are still not brilliantly thought through. For example, ESMA will force clients to have money on their accounts to protect against short term interest rates at 20%, when in the last 5 years they have not exceeded 1%. Thousands of clients who have happily been trading for decades will now be materially disadvantaged and have to put much more money on their account to continue trading as they were before.

That's my pre-amble, I'm very happy to go to questions at this point.

Q&A

Paul McGuinness, Shore Capital

Good morning. Just a quick question on the margin close-out rules, just on the basis that ESMA were going on a per-account basis rather than on a per-position basis which is how I understand that you guys do it. Any particular comment on their reasoning for going for one rather than the other?

Peter Hetherington

Paul, the whole industry lobbied for ESMA to choose this option which is how we currently operate, so what they've actually done is they've moved to the position which is how we currently operate the vast majority of our accounts, and that is where we are. So I think the original point is wrong. We don't currently operate on a per-position basis except for a small number of limited risk accounts.

Paul Mainwaring, CFO

Yes, when the limited risk accounts ask for a guaranteed stop on every trade, Paul. But that's not the same as closing out trades on a per-position basis, which clients run out of margin which would have been very difficult to implement

Paul McGuinness Shore Capital

Ok, I understood –

Paul Mainwaring

What's happened is its moved back to the per account basis

Paul McGuinness Shore Capital

Ok thank you.

Justin Bates, Liberum

Morning folks. Just a couple of questions from me. First could you talk about some of the mitigating actions or factors you will look to? I think you mentioned cost in the past but I just wonder if there's anything you can do on the revenue front in terms of spreads and finance charges.

Secondly, could you remind us what proportion of revenue in the UK and EU comes from retail binary clients?

And finally, just on the negative balance protection – could you remind us again what percentage of clients in UK and EU are already operating on that basis? Thank you.

Peter Hetherington

So, three questions there, I'll let Paul first of all take the one on the binary revenue.

Paul Mainwaring

Yes, we haven't disclosed the amount of binary revenue from retail clients in the UK and EU separately, we have taken that into account in determining the impact of these changes that we've set out in the statement. I don't think there's that much value in getting more granular than that Justin.

Justin Bates, Liberum

Ok thanks.

Peter Hetherington

On the third question, with what proportion of clients in the UK and EU have negative balance protection, I don't have the absolute number but I do know that more than half the accounts that we've been opening for well over a year now, have been what we'd call limited risk accounts. It is the way that all accounts in Germany now operate, ever since BaFin changed their rules 9 months ago or so.

Converting all retail clients to operate on a no-negative basis, we do not see as a serious impediment to the business because retail clients have not been ending up with debts on their account in any event.

Your first question which I deliberately left to last was the wider question about how do client behaviours change, how do we change and how does the industry change - I think it's too early to say. The point I'd make is that what we've modelled was the about 10% impact, assumed that clients do not change their behaviour, do not put more money on their account, do not choose to do anything differently. All of the mitigations that clients may choose to implement have the impact of reducing the impact of these measures. There are a number of other things that we are working on as a business around how to mitigate the effects of some of these changes which we're not going public with at this stage.

Justin Bates, Liberum

Ok I understand, that's helpful, thank you chaps.

Mark Thomas, Hardman & Co

Just wanting to get a little bit of clarity on the revenue guidance. I mean, ballpark if we say 10% coming off the regulatory changes, crypto for a full year effect maybe about 5, so we've got gross 15% of revenue at risk. That would then be offset by normal business growth, perhaps more normal volatility environment. I mean it looks to me like the 2019 revenue should be safely above 2017 revenue. Can you confirm that?

Paul Mainwaring

No, they're your estimates not mine!

Mark Thomas, Hardman & Co

Would you note any comments which would suggest that the assumptions within the estimates were wrong?

Paul Mainwaring

I recognise the 10% that we've given you as the impact of regulatory change, we did say in the first half of this year, a client created from crypto currencies accounted for about 5% of the revenue, and it was a

slightly higher percentage of that in the third quarter. I think it would be wrong to think that all of that would go away, on the basis that there would still be some interest in crypto currencies and the fact that we've said before that clients would be likely to have traded something else had they not had the interest and volatility in crypto currency, so, I would suggest you make an adjustment for the fact that crypto may not be as strong next year, and you're right to include an element of growth. But I'm not going to tell you what I think the revenue figure will be.

Mark Thomas, Hardman & Co

No problem, thank you.

Peter

Thank you everyone for your time, any further questions please do contact Liz, who will be answering any questions, as ever. Thank you all very much.

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