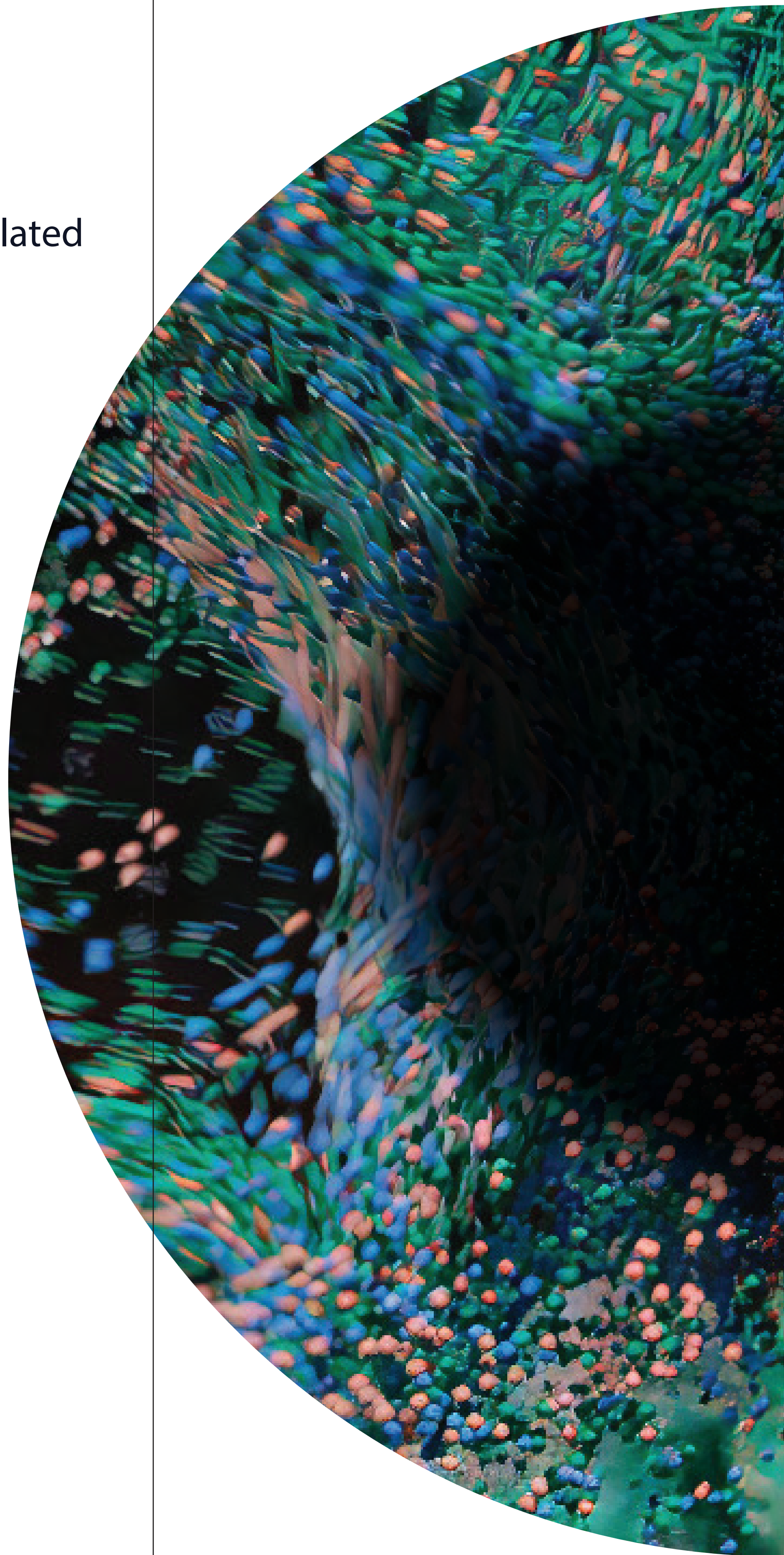
Task Force on Climate-Related Financial Disclosures ("TCFD") report 2023



TCFD

Task Force on Climate-Related Financial Disclosures ("TCFD")

CMC acknowledges the systemic challenges posed by the climate crisis to business and society. We also know that we have a role to play in mitigating our own impacts on the climate whilst ensuring the resilience of our business. CMC reported against the recommendations of the TCFD for the first time in our 2022 Annual Report and Financial Statements. This year, we continue to enhance our approach to understanding and managing climate-related risks and opportunities in line with the TCFD's 2021 implementation guidance. In accordance with Listing Rule 9.8.6 R, the climate-related financial disclosures are consistent with 9 out of 11 of the TCFD recommended disclosures. Where we are not yet compliant (recommendations 9 and 11 relating to metrics and targets), we explain our position and forward-looking plan in the relevant sections below. We will continue to refine our approach to build resilience against the potential physical and transition risks of climate change whilst also identifying ways to reduce the Group's impacts on the planet.

Governance

The Board oversees the Group's Our Tomorrow sustainability strategy, which encompasses oversight of the risks and opportunities of the climate crisis. The Board receives updates on the Our Tomorrow strategy at least three times each year and approves relevant KPIs and targets, including those related to climate change. In 2023 the Board considered sustainability matters at four meetings, receiving updates on the Group's progress to implement its sustainability strategy and the establishment of the Sustainability Committee and its subcommittee and to discuss or approve the KPIs against which progress of the strategy will be measured and reported against.

This year we appointed a Chief Risk Officer ("CRO") who brings experience in implementing environmental,social and governance ("ESG") capabilities. The CRO is a member of the Sustainability Committee and will provide oversight on climate changes risks to which the firm is exposed.

The Board relays its thinking on climate-related risks and opportunities and is informed about CMC's performance against climate-related initiatives and targets via the Sustainability Committee. The Sustainability Committee reports up to the Board at least three times annually in accordance with its terms of reference. The Sustainability Committee includes two Board members, the Chief Financial Officer and Head of Asia Pacific & Canada, who represent the Board's position on climate-related topics and in turn act as advocates for the priorities of the Committee at the Board level.

The Sustainability Committee is chaired by CMC's Global Head of Sustainability, whose mandate includes the assessment and management of CMC Markets' sustainability risks and opportunities, including the impacts of climate change. Committee membership is comprised of a cross-functional team of senior management, including the above-mentioned Board members. The Sustainability Committee provides the forum through which the Global Head of Sustainability keeps senior management abreast of climate-related initiatives and progress. For more details about the responsibilities of the Sustainability Committee, see page 51.

A subcommittee specifically dedicated to the Planet Positive pillar of the Our Tomorrow strategy is charged with helping the Committee embed the goals and objectives of the Our Tomorrow strategy into the operations of the business. In addition, a TCFD working group including representatives from across different departments is convened to participate in climate risk assessment exercises including climate scenario analysis.

The Board and relevant Committees consider climate-related issues when considering its decisions and guiding major plans of action that could affect the climate impact aspirations of the Planet Positive pillar of the Our Tomorrow sustainability strategy. It also considers the risk and opportunities that climate change impacts have on its operations.

CMC's governance of climate risks and opportunities

The Board

Provides oversight of the Group's Our Tomorrow sustainability strategy, which encompasses monitoring KPIs and targets for climate-related risks and opportunities and approving the contents of this TCFD Statement.

Group Audit Committee

The Committee ensures an independent review of reporting on climate change risks within this TCFD Statement as part of its consideration of the Annual Report and Financial Statements.

Group Risk Committee

The Committee receives reports from the Executives on the principal risks to the business and reviews the TCFD Statement in order to make a recommendation on its approval to the Board.

Nomination Committee

The Committee considers the balance of skills on the Board and ensures that any gaps are identified and considered when new Board members are appointed and when any training needs for existing Non-Executive Directors are discussed. This will include consideration of the knowledge required by the Board in relation to sustainability matters.

Remuneration Committee

The Committee considers the performance of the Executive Directors against performance metrics which are linked to remuneration packages. This includes sustainability KPIs in performance targets.

Sustainability Committee

The Committee ensures robust governance of the Our Tomorrow strategy and provides transparency to the Board on sustainability considerations and developments, including, but not limited to, alignment with regulatory requirements, managing and identifying the risk and opportunities in our operating environment and providing strategic direction to the subcommittees, and oversees the implementation of sustainability initiatives and the climate strategy, including climate mitigation and resilience.

Planet Positive subcommittee

The Committee is responsible for the delivery of the Planet Positive KPIs including climate-related goals and objectives as well as tracking the data needed for reporting.

TCFD working group

The TCFD working group is convened to support climate risk assessment and to develop a decision-useful disclosure.

TCFD continued

Risk management

A key focus of the Group's climate change agenda this year was to improve our approach to identifying, assessing and managing climate-related risks that could impact our business. In addition to reviewing our identification and assessment methodologies, we conducted more rigorous climate scenario analysis to test the Group's strategic resilience over the short, medium and long term. The Group also deepened alignment with existing risk management approaches within the business with the hiring of a CRO who will support the business in continuing to improve the integration of climate-related risks into the Group's overarching risk management procedures. On pages 54 to 57 in our summarised risk register, we provide further detail on how we manage each identified risk.

Risk identification and assessment

Building on last year's work to identify climate risks, in 2023 the Group conducted a review of our register of identified climate risks and the Group's approach to climate risk assessment. With the support of external consultants from Ever Sustainable, this exercise included:

- research to enhance existing intelligence on industry and geographical considerations;
- mapping climate risks to our identified principal risks to better understand the interplay with our core business risks; and
- conducting internal interviews with stakeholders from departments across the business.

Additionally, we defined clear time horizons to assess climate-related risks and identified potential metrics to support the monitoring of risks in accordance with the TCFD's guidance on cross-sector metrics. We undertook this exercise in order to:

- enhance our understanding of the climate risks facing our business;
- determine whether any changes to the materiality of identified risks had occurred;
- uncover whether new climate-related risks had been identified;
- devise stronger monitoring capabilities for the identified risks;
- review and enhance our approach to integrating climate-related risks into the Group's enterprise risk management systems; and
- enhance our understanding of the key risks to be assessed in climate scenario analysis.

The risk review led to several changes to our climate risk assessment methodology. We streamlined the overarching risk identification taxonomy used to assess CMC's climate-related risks from four categories (physical, transition, liability and transboundary) to two (physical and transition), which achieves greater consistency with the climate disclosure standards adopted by our industry. We also elected to consolidate our twelve identified risks to nine risks, which further supports alignment to recognised climate risks impacting our industry and improves consistency with CMC's internal risk language. We disclose these risks and their potential impacts on pages 54 to 57.

Risk assessment and prioritisation

A more granular risk prioritisation methodology was applied to improve our assessment of climate-related risks. The risk assessment criteria align closely to the Group's risk evaluation matrices in order to enhance integration with the Group's overarching risk management systems and the judgements and estimates applied in our Financial Statements. The likelihood assessment reflects the probability of the risk crystallising over the assessed time period, taking into account industry and geographical considerations. The impact assessment reflects the potential financial losses incurred if the risk were to be realised.

We acknowledge the novelty of climate-related risks, which makes it challenging to define precise financial impacts for the business and will continue to iterate its assessment criteria as greater understanding of financial implications at the entity level become known. At present, we have adopted the threshold defined for a critical financial impact as greater than £5 million, which aligns approximately to Group risk appetite as at year end.

At this time, the Group has deemed that the potential impacts of climate-related risks do not surpass this threshold and are not expected to over the next three years, the period over which we provide a viability statement. We have therefore determined that no action currently need be taken to adjust our Financial Statements and regard these disclosures to be consistent with the information contained herein. Additionally, we have determined that climate change will remain categorised as an emerging risk rather than a principal risk due to the result of the current assessment which concluded that critical thresholds are not expected to breach. We will continue to monitor this designation closely as we enhance the Enterprise Risk Management Framework ("ERM"). See page 67 for more details on emerging risks.

Risk assessment criteria

			Impact				
			Minor	Important	Significant	Major	Critical
			£0 to £50k	£50k to £250k	£250k to £2m	£2m to £5m	>£5m
Likelihood	Highly possible	>80%					
	Possible	40-80%					
	Unlikely	20-40%					
	Remote	10-20%					
	Very remote	<10%					

Very high | High | Medium | Low | Very low

Strategy

The Group identified and assessed climate risks and opportunities to understand their potential impact on different areas of our business and the Group's strategy over the short, medium and long term. These time horizons align with our business and financial planning timelines, including our viability assessment period as noted above, as well as the timelines defined by others in our industry. These time horizons are defined as short term (2023-25), medium term (2026-2035) and long term (2036+).

Different areas of the business including HR, facilities, technology, procurement, finance and operations are all considered as part of the risk assessment process. Our assessment of the potential consequences to different business units is captured through our mapping of each climate risk to the Group's principal risks. Over the short, medium and long term, the Group's technology department represents the portion of the business with the greatest exposure to both physical and transition risk. The Group's HR and facilities departments are limited in their exposure in the short term, although in the medium to long term, physical risk exposure is likely to increase.

Additionally, the Group monitors variations in the potential climate risks across the geographic locations of the Group's operations and markets, including the UK, Europe, and APAC & Canada. The Group has determined that its exposure to physical risk is most critical in the Asia Pacific & Canada region over the medium and long term. We will continue to monitor our exposure carefully and consider more granular assessment of our business units and geographical exposure as appropriate. The results of our assessment of the potential impact and likelihood of our identified climate risks across three climate scenarios is disclosed in the tables on pages 58 and 59.

TCFD continued

Strategy continued

Summary of CMC's climate risk register

Physical risks – Floods and storms

Risk/opportunity description: the risk of floods, storms, and other extreme weather events causing damage to premises/other physical assets and/or wider infrastructure on which we are reliant, and disrupting operations.

Mapping to principal risks	Potential financial impacts
– Business continuity and disaster recovery risk – Information technology and infrastructure risk – Procurement and outsourcing risk	– **Revenue losses** linked to outages or loss of technical services that affect client relationships and trust in CMC's platforms and products. – **Increased costs** through damage repair, asset replacement or data service provision if providers are forced to invest more in adaptation and resilience measures.

CMC's response: we will continue to monitor the exposure of its assets and geographies to extreme weather events. As new facilities and data service providers are introduced to the business, climate considerations will be increasingly embedded into decision-making processes.

Physical risks – Heatwaves

Risk/opportunity description: the risk of extreme heat disrupting operations through damage to premises/other physical assets and/or wider infrastructure on which we are reliant, or affecting the physical safety and security of our people.

Mapping to principal risks	Potential financial impacts
– Business continuity and disaster recovery risk – Information technology and infrastructure risk – People risk – Procurement and outsourcing risk	– **Revenue losses** linked to outages or loss of technical services that affect client relationships and trust in our platforms and products. – **Increased costs** for energy (including outsourced services) to keep key equipment and premises cool and employee absences or productivity losses.

CMC's response: the Group will continue to monitor the exposure of its assets and geographies to heat stress. In particular, we will look to embed consideration of the exposure of our digital infrastructure and location of data centres as we make procurement decisions in the medium to long term.

Transition risks – Technology (energy)

Risk/opportunity description: the risk of rising energy prices and unstable energy supplies increasing our costs and disrupting our services.

Mapping to principal risks	Potential financial impacts
– Information technology and infrastructure risk – Procurement and outsourcing risk	– **Revenue losses** linked to disruption to energy supply could result in the loss of technical services affecting client relationships and trust in CMC's platforms and products. – **Increased costs** for running business operations and outsourced data services.

CMC's response: the business continuity team held an incident response exercise to prepare for a real-life major incident, in response to the energy crisis. These learnings will inform our ongoing approach to preparing for potential energy insecurity.

Transition risks – Regulatory and compliance

Risk/opportunity description: the risk that climate-related policy may affect business expansion, current product or service offerings and business operations.

Mapping to principal risks	Potential financial impacts
– Preparedness for regulatory change – Regulatory and compliance risk – Tax and financial reporting	**Increased costs** and/or **reduced revenues** through: – additional resources to meet new regulatory requirements or disclosures; – fines in the event of non-compliance; – restrictions to product offerings; and – taxes to fund national climate policies.

CMC's response: we continue to monitor the evolving regulatory environment closely.

Transition risks – Reputational

Risk/opportunity description: the risk that stakeholders perceive that our response to climate change is insufficient or inaccurate, leading to reputational damage.

Mapping to principal risks	Potential financial impacts
– Reputational risk – People risk – Procurement and outsourcing risk	– **Decreasing revenues** as customers leave for more climate-friendly competitors. – **Increased costs** and/or **reduced access to capital** through damaged relationships with investors and banks. – **Increased costs** through heightened employee recruitment and retention challenges.

CMC's response: through the Our Tomorrow sustainability strategy, we are increasing our engagement with key stakeholders to better understand their priorities and ensure we are addressing any concerns.

Transition risks – Market

Risk/opportunity description: the risk that product/service offerings don't align with evolving customer preferences or that climate-related factors negatively affect the value of assets on our platform, impacting revenues and profits.

Mapping to principal risks	Potential financial impacts
– Strategic/business model risk	– **Reduced revenues** and **profitability** linked to declining customer demand for products and services. – **Increased costs** of R&D into products or services that support the low carbon transition

CMC's response: ongoing diversification of our product offering and client base helps to de-risk our exposure. The Group is investing in the integration of ESG considerations into its products and platforms to ensure our offering is aligned with the trajectory of consumer demand.

TCFD continued

Strategy continued

Summary of CMC's climate risk register continued

Transition risks – Litigation

Risk/opportunity description: the risk that a perceived failure on behalf of the Group to consider, mitigate or adapt to the risks associated with climate change results in litigation.

Mapping to principal risks	Potential financial impacts
– Legal risks – Reputational risk	– **Increased costs** through legal fees and settlements to cover the costs of litigation. – **Reduced revenues** as reputation and brand equity are damaged.

CMC's response: we monitor our regulatory requirements closely to ensure our exposure to litigation remains minimal.

Transition risks – Investment

Risk/opportunity description: the risk that our business becomes less attractive to investors as a result of our approach to managing climate risks or that climate risks affect the value of our investments.

Mapping to principal risks	Potential financial impacts
– Market risk	– **Reduced capital inflows** as a result of impacts on investment attractiveness. – **Reduced investment returns** as climate factors impact the value of investments.

CMC's response

The Global Head of Sustainability has developed a holistic strategy for addressing sustainability topics including climate change to better address the concerns of investors and to bolster our risk management systems to account for climate risk.

Transition risks – Cost of capital

Risk/opportunity description: the risk of rising costs to the business as a result of increasing borrowing rates and/or insurance premia due to climate-related factors.

Mapping to principal risks	Potential financial impacts
– Insurance risk	– **Increased cost of borrowing** affecting investment in the business and its development. – **Rising cost of insurance premiums** and/or **losses** resulting from unpaid insurance claims will increase the running costs of operations.

CMC's response: we are a low debt business and regularly engage with banking counterparties to understand their expectations and forward-looking plans.

Opportunities – Climate-related products and services

Risk/opportunity description: the opportunity to provide financial products that help our client base to invest in the energy transition and climate-friendly investments.

Mapping to principal risks	Potential financial impacts
– Reputational risk – Strategic/business model risk	– **Increased revenue** from new clients that are attracted to the platform due to its ESG capabilities.

CMC's response: we have introduced ESG filters within our investment platforms that allow clients to access climate-friendly investments.

Opportunities – Enhanced stakeholder relationships

Risk/opportunity description: through proactive action on climate-related issues, we can enjoy reputational benefits with its employees, customers and investors as leaders on climate action in the financial services sector.

Mapping to principal risks	Potential financial impacts
– Reputational risk – Strategic/business model risk	– **Enhanced access to capital** through positive investor relationships. – **Increased revenue** through improved productivity and innovation through engagement with employees. – **Increased revenue** from new clients attracted to the platform for its positive climate reputation.

CMC's response: we are taking proactive action to improve our climate-related credentials and we proactively engage with employees, investors and other stakeholders.

Evaluating resilience with climate scenario analysis

To enhance the Group's understanding of our exposure to identified climate risks and to assess our strategic resilience, we conducted a climate scenario analysis exercise facilitated by external consultants for three distinct scenarios. The parameters used to define the scenarios are summarised in the table.

Parameter	Selection	Rationale
Scenario source	Network for Greening the Financial System ("NGFS") Climate Scenarios for central banks and supervisors (Phase III) 2022	– The NGFS has the most comprehensive coverage of risks and opportunities for the financial sector. – Brings together the complex dynamics of the energy, economy and climate systems – including a strong focus on policy and technology variables – and so has strong alignment with CMC's driving forces. – Phase III scenarios were published in late 2022 and take account of latest trends, data and developments.
Base scenarios	1.5ºC – Net Zero 2050 Scenario ("NZ") – transition risk	– The NZ Scenario is the most ambitious scenario and closely aligned with the Paris Agreement.
	1.6ºC – Delayed Transition Scenario ("DTS") – transition risk	– DTS provides a middle-ground to test higher transition and physical risks than NZ.
	3ºC+ – Current Policies ("CP") – physical risk	– CP is the least ambitious scenario, assuming warming in line with current policy measures, giving a sense of what "business as usual" would mean for CMC.
Timeframe	**Short term:** 2023–2025 **Medium term:** 2026–2035 **Long term:** 2036–2050	– The world needs to halve emissions by 2030 in order to reach net zero by 2050 and therefore limit the global rise in temperature by 1.5ºC above pre-industrial levels by 2100.
Geographies	Global with basic focus on Australasia and Europe/UK as benchmark markets	– As this was the first time the Group has conducted a rigorous scenario analysis exercise, the focus has been kept broad to identify significant areas of risk and inform whether more tailored geographical focus is necessary moving forward.

TCFD continued

To craft the scenarios, narratives were constructed based on assumptions of how overarching dimensions would develop policy, technology, energy, industry macroeconomic, social and environment. These dimensions were mapped to our climate risk register to help focus the content of the scenarios to risks with higher ongoing risk ratings; however, the focus of this exercise was kept broad to encompass the full register of risks. In doing so, we aimed to further enhance our understanding of the identified risks. Using the revised climate risk assessment criteria and as part of the climate scenario exercise, we assessed each of our identified climate risks across the short, medium and long term for each of the assessed scenarios, as shown in the tables below.

Net zero 2050

Key characteristics

- Temperature: below 2°C
- GDP: -3% by 2030 and -4% by 2050
- Risk level: Physical risks are relatively low, but transition risks are higher
- Policy implementation level: immediate and stringent but orderly with low regional variation

Strategic impact

Considering higher carbon prices, clients in the APAC & Canada region may reduce trading on our investment platform as the economy adjusts given the region's emphasis on heavy industry. High inflation may also lead to increased staff overheads, and high interest rates may initially reduce trading activities if cash is preferred as a more stable alternative to markets initially. Initial periods of high volatility and market instability would likely have a positive impact on the Group's trading business.

Risk category	Risk	Short	Medium	Long
Physical risk	Floods and storms			
	Heatwaves			
Transitional risk	Technology risk (energy)			
	Regulatory and compliance risk			
	Reputation risk			
	Market risk			
	Litigation risk			
	Investment risk			
	Cost of capital risk			

Delayed transition

Key characteristics

- Temperature: below 2°C
- GDP: -2% by 2030 and -6% by 2050
- Risk level: higher Physical and transition risks over the medium and long term
- Policy implementation level: delayed until 2030, then sudden, with high regional variation

Strategic impact

We would expect to increase our need for liquidity in the medium term for its institutional businesses in anticipation of customers sitting on cash to ride out a period of market volatility and uncertainty. Our trading business would likely benefit from increased volatility in the marketplace.

Risk category	Risk	Short	Medium	Long
Physical risk	Floods and storms			
	Heatwaves			
Transitional risk	Technology risk (energy)			
	Regulatory and compliance risk			
	Reputation risk			
	Market risk			
	Litigation risk			
	Investment risk			
	Cost of capital risk			

Current policies

Key characteristics

- Temperature: +3°C
- GDP: -3% by 2030 and -8% by 2050 (up to -20% by 2100)
- Risk level: substantial physical risks over the medium and long term
- Policy implementation level: low; assumes that only currently implemented policies are preserved

Strategic impact

Short-term impact is likely to be limited. As physical climate stress increases in the medium and longer term, the Group's technology infrastructure could be increasingly exposed to heat-related stress in particular. The Australian market would likely be exposed as dampening GDP prospects decreased the appeal of the Group's investing platform.

Risk category	Risk	Short	Medium	Long
Physical risk	Floods and storms			
	Heatwaves			
Transitional risk	Technology risk (energy)			
	Regulatory and compliance risk			
	Reputation risk			
	Market risk			
	Litigation risk			
	Investment risk			
	Cost of capital risk			

A workshop was held comprised of the TCFD working group, a cross-functional group of individuals representing senior team members. Each scenario was presented and interrogated to assess the potential impacts on the Group's strategic resilience. Based on the resulting risk heat map, additional exercises were devised for each of the three scenarios and tailored to the time periods where our climate risk exposure was greatest for each scenario.

The Group's trading business is unlikely to be negatively impacted and may in fact benefit from periods of volatility across the different scenarios. The investing platform may experience more duress if sluggish markets and real economy growth translate into less disposable income among our client base in geographies that are hit harder by physical and transition risks. APAC & Canada has been identified as the region most likely to be impacted, according to our desktop assessment of core geographies and future scenario analysis exercises will be tailored to this region to explore how these challenges may unfold. Diversification of geographical exposure and client base was identified as the fundamental mitigating action that can be taken to increase climate resilience, a strategy already in place. Overall, we believe our strategy remains resilient in all three scenarios, with impacts likely to be negligible.

Metrics and targets

We have made progress to improve our data capabilities when it comes to climate change and its impact on the environment. This year, we began to define our Scope 3 emissions as we strive towards setting net zero goals and will be reviewing our options to align with Science Based Targets Initiative ("SBTi") in 2024. Our first step to setting ambitious goals has been to obtain a better understanding of the Group's carbon profile. Information on our Scope 1, 2 and 3 data definition, our carbon accounting methodology and current carbon profile can be found on pages 45 to 48.

While we have made significant progress this year in understanding and assessing our climate risks through the updates to our climate risk register and scenario analysis, we are not yet ready to disclose metrics and targets related to these risks. We are quickly progressing our understanding of the nature of these risks and their potential impacts to our business through the TCFD working group; however, this process is ongoing and essential in identifying meaningful metrics, putting processes in place to collect data and setting targets against these. We have established this as a key operational goal for this year to progress the monitoring and management of our climate-related risks and will update on our progress in our next disclosure.

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