CMC Markets Connect eFX / Precious Metals Disclosure Document

General Principles / Context and Scope:

CMC Markets UK plc, CMC Markets Germany GmbH and CMC Markets Asia Pacific Pty Ltd providing institutional services as CMC Markets Connect (referred to as 'CMC Connect', 'CMC' 'we', 'us' or 'our'), are principal market makers and liquidity providers, committed to servicing a range of clients in the institutional space in a manner consistent with best practices prevailing in the financial markets in which we operate. Principles of honesty, fairness and transparency underpin the ways in which we operate and serve as core values underpinning our institutional offering and brand.

We are signatories to the FX and Precious Metals Global Codes and adhere to such guidance that is relevant to us, when conducting institutional operations.

As a natural part of abiding by these codes, we publish various guidance documents describing in more detail how our trading operations are conducted, and the ways in which we seek to comply with current industry guidance and best practice. This document - the 'eFX / Precious Metals Disclosure Document', hereafter referred to as the 'Disclosure Document' explains our practices specifically as they pertain to liquidity provision in electronic markets for FX and Precious Metals.

This Disclosure Document may be updated from time to time without notice and is subject to the terms of business that apply to a CMC Connect account ('Terms').

Price Construction / Liquidity Provision:

Price construction: CMC Connect utilises proprietary technology and algorithms to derive our client pricing. Such client pricing offers no guarantees that it is tied to the price behaviour of any other external sources (either in terms of traded range or in terms of short-term pricing behaviour).

Price provision basis: CMC Connect facilitates client electronic trading via price streams (on a bilateral basis or via various technology intermediary solutions). These streams are indicative in nature, and CMC Connect reserves the right to accept or reject client requests to execute a trade via these streaming prices (any such request, a 'Trade Request') at our discretion, and subject to certain checks and safety mechanisms (the nature of which are detailed elsewhere in this Disclosure Document). Such contingent acceptance takes place in a manner that constitutes accepted normal market practice, and as a logical function of CMC Connect's desire to be a robust and high-quality liquidity partner to our clients.

Differential Client Pricing: CMC Connect endeavours to provide clients the best possible pricing and risk transfer experience. To this end, we employ multiple, tailored pricing streams. These streams are configured differently in aspects including but not limited to; spread behaviour, total distributed liquidity, post trade liquidity regeneration profile, skewness and market data update timelines. While we reserve the right to adjust the behaviour of those pricing streams at our discretion and without notice in response to various external and internal factors, we are available to engage in open dialogue with our clients, working towards a liquidity and pricing solution that suits a client's business requirements.

Order Handling:

Client Trading Governance: Notwithstanding any regulatory responsibilities around the electronic price distribution and order transmission process, clients interacting with CMC Connect's pricing and liquidity remain responsible for their own order placement and trade execution activities. CMC Connect's own internal pre and post trade risk controls do not in any way abrogate any extant client responsibilities to achieve independent robust governance of its electronic trading.

Price limits and other execution parameters: CMC Connect offers a variety of order types to our clients, some of which allow for additional parameters to influence execution behaviour. Use of such parameters remains the responsibility of the client, as does any market impact arising either from incorrect use of parameters, or of order type

selection that does not match with the desired trading use case. Examples might include, but not be limited to, additional transaction costs from use of 'At Market' orders in cases where a maximum inception execution cost was desired (but not explicitly specified).

Market Impact:

Market Impact from Client Flow: CMC Connect, whether trading with a client who is a direct credit counterparty or a client who will give up trades to a prime broker is a principal, in market risk terms, to our clients' flow. As such we reserve the right to regularly and on an intraday basis engage in hedging activities to manage trading book inventory. We aim to minimise market impact from our trading, by use of internalisation models and sophisticated execution strategies. We cannot guarantee that such impact will be zero.

Information handling / Data Governance:

Flow Data Dissemination: CMC Connect complies with the relevant regulations and operating best practices with regards to client and personal data and its governance. Flow to which we are a risk principal may be subject to a variety of aggregation and enhancement processes for the purpose of commercial analytics, which in turn may drive enhancements to our pricing offering, our risk management framework and / or our outbound execution capabilities. Such analysis will be conducted at our sole discretion and in accordance with such regulatory stipulations as may be in force

at the time in respect of storage, obfuscation / anonymity and security of such datasets.

Use of our Data: CMC Connect assumes no responsibility for the fidelity or characteristics of any pricing data that we distribute where it is stored outside our networks, by our clients (or their vendor partners), and for the purposes of their own analysis. Additionally, periodic checks are undertaken to detect reverse engineering of our price construction, downstream skew leakage and other practices that we consider are not in accordance with industry practice and/or a breach of the Terms.

Trading Governance:

Trading terms acceptance: Where a client has submitted a Trade Request on CMC Connect's pricing stream in accordance with the Terms and such Trade Request has been accepted, such acceptance shall, in the normal course of business and subject to the Terms, constitute a binding transaction. Any questions about an executed trade should be directed to the relevant CMC Connect contact as soon as possible after execution.

Precious Metals Specific Disclosure:

CMC Connect is a signatory to the Global Precious Metals Code in addition to the FX Global Code. As such our Precious Metals trading activity, while of a slightly differing workflow profile to that of FX, will adhere to this Disclosure Document where applicable.

Trade Acceptance: Last Look / Additional Hold Time

CMC Connect acts as a principal, in market risk terms, when providing liquidity for our institutional clients, and as such are exposed to various potential risk factors including but not limited to, technical issues with the price / trade transmission process, transitory market volatility and certain client behaviour patterns around nature of liquidity consumption and market impact.

Within this universe of factors, CMC Connect's view is that the use of 'Last Look' i.e. certain pre-trade checks, is appropriate as a risk protection measure when used to mitigate technical issues (for example, where such issues may specifically and directly influence adverse selection on our pricing). Issues such as variances in client trading behaviour and, liquidity consumption are more appropriately addressed by a combination of pricing configuration and good relationship management. In essence, our core belief is that Last Look is appropriate for its original, historic FX use case and this represents the full extent to which it should be applied.

What does this mean in practice – FAQs:

We have set out answers to some FAQs that will hopefully give some transparency to give our clients guidance on our approach to trade acceptance.

1) **What pre-trade checks are conducted by CMC?** CMC conducts broadly two types of checks on inbound client Trade Requests on our streamed liquidity: Validity checks and Price checks.

   - Validity checks are designed to ensure that Trade Requests are appropriate to the liquidity they are attempting to consume. This includes but is not necessarily limited to checks on credit availability, correct message formatting, liquidity quantity, value date matching, quote ID validity and quote age.

   - Price checks help ensure that, for the reasons already mentioned, there is not a significant disconnect between the prevailing market price at time of Trade Request, and the price at which the Trade Request is to be executed.

2) **What is CMC's trade acceptance timeframe?** After completing the pre-trade checks CMC will endeavour to return a response to a Trade Request to the client as rapidly as possible, given system constraints.

3) **Does CMC employ an 'additional hold time'?** Under normal circumstances, the default configuration for additional hold time is set to zero. This is because CMC aims to provide clients the smallest processing time that can be achieved consistently with the policy of allowing for an evaluation of whether any technical transmission factors exist that are causing a price misalignment. This means a price check will be conducted on the most recent market data available to CMC at time of Trade Request, with no additional hold time employed to allow for further inbound ticks.

4) **You have stated that the hold time window will be set to zero under 'normal circumstances'. Can you clarify?** In cases where our clients specifically request for an additional hold time to be employed, we may do so as part of an ongoing dialogue with the client(s) in question, and with their explicit written consent. Typically, clients request additional hold time so that CMC can adhere to certain commercials around price behaviour that the clients may desire in order to service their own downstream business.

5) **Within that set of checks, what are the specific mechanics regarding trade acceptance?** – CMC will compare the client's Trade Request price against the current prevailing market mid-price tick if, as is normal, zero additional hold time is configured. In situations where an additional hold time window is configured, comparison shall be against the first inbound tick during that window or, if no updates have been received by the end of the additional hold time window, the

prevailing data available at time of Trade Request.

If the price difference falls within an internally specified tolerance range (and assuming that the validity checks are also successfully returned) then the Trade Request shall be accepted. Naturally if any failure is returned in the various validity checks, then the Trade Request shall be rejected.

If the price difference exceeds the specified tolerance range, then the Trade Request will be rejected, on a symmetric basis (i.e. with an equal magnitude tolerance applied on either side of the price, and with the reject decision happening regardless of whether CMC would stand to benefit or lose from this action).

If the price difference is within specified tolerance range, but the validity checks are not fully returned, then the decision to accept or reject shall be made upon return of the validity checks. But, importantly and to be clear, NO further price checks shall be undertaken in that window unless the client is explicitly permissioned for additional hold time.

The specified tolerance range may vary by client and may be amended at our discretion without notice.

6) **Is price improvement an option?** Not currently but we may seek to provide this as an option for clients in the future.

7) **Are any other parameters (e.g symmetry) configurable with some input from the client?** Currently no additional parameters are explicitly exposed to client influence / control, although as has been stated, we view the relationship as collaborative and seek to engage with our clients to determine their trading objectives and how we may best support those as a liquidity partner.

8) **Can I obtain some more information on the settings applied to my trading?** Yes – certain post trade information is available to clients. We are available to engage in open dialogue with our clients, including with our sales and trading coverage teams. Please liaise with your CMC Connect contact to discuss further.

9) **Does CMC Connect 'Pre-Hedge' while performing the trade acceptance checks?** No. CMC Connect does not attempt to 'pre-hedge' any part of a client's inbound Trade Request during the trade acceptance checks.

10) **Does the client's inbound (as yet unresolved) Trade Request influence CMC Connect's pricing in any way?** No – the information that a client has the requested trade price in a Trade Request does not form part of our price construction workflow in advance of any decision to accept or reject such Trade Request.

11) **In Q5 you have detailed that you check the validity of the client's Trade Request price against the prevailing market mid-price, rather than against the side of the bid / ask spread on which the client has submitted the Trade Request. Can you further elaborate?** Yes – we check the market neutral mid-price utilised in constructing the price in a client's Trade Request against the same prevailing market mid-price at the time of execution of that Trade Request.

We check against the mid-price because this is consistent with the original ethos of what a Last Look check can appropriately guard against (i.e. technical price transmission mechanisms, extreme transient spikes in market volatility and the outlier extremes of client driven latency arbitrage and systematic adverse selection).

Checking on the side of the Trade Request, if the mid-price were not to move significantly, might result in client rejections for transient changes in market depth, which we feel is not an appropriate reason for rejection and where we would merely expect to see such changes show up as variance in our own internal commercials. This, we feel, sits at the heart of what it means to be a principal market maker and liquidity provider.

12) **Further to Q4, can you document an example of where you feel that additional hold time, while potentially beneficial to CMC is nevertheless NOT justified?** Yes – one such example might be where a client's flow is exhibiting significant short term positive alpha, without the client

having necessarily executed on stale quotes, gamed the wholesale venues or engaged in any other potentially predatory execution practices. In such cases, where appropriate, we would welcome the client's flow and work to support and monetise it to the best of our abilities with a combination of flexible price construction / distribution logic and engage in an open, ongoing and bi-directional dialogue with the client around their needs and execution style.

13) **Can your approach to Last Look be summarised in a brief sentence?** Yes. 'Do unto others' is a principle that guides our pricing and distribution rules. We aim to treat our market counterparts (whether end user clients, trading venues or upstream liquidity partners) in a manner that is fair, transparent and consistent with how we ourselves would expect to be treated in line with best practice.