

# GFI Conflicts Management Policy

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# **1 Introduction**

## **1.1 The purpose of this section**

The purpose of this section is to outline the policy relating to conflicts of interest.

- The policy will serve as an explanatory guide for how GFI actively manages and deals with conflicts in the course of day to day business;
- The policy will explain existing controls and relevant monitoring programmes;
- The policy may not cover all eventualities and all circumstances that may be encountered and;
- The policy is designed to be fully self explanatory however where circumstances are not covered by this guidance, seek input from the Compliance department.

## **1.2 Background and regulatory context**

This policy has been prepared for compliance with the competent authority's rules and regulations and is not intended to create third party rights or duties that would not already exist if the policy was not made available, nor does it form part of any contract between GFI and any client.

## **1.3 The scope of these procedures**

It is GFI's policy to only conduct business with eligible counterparties and professional clients. Conducting investment business with Retail Clients, would constitute a breach of GFI policy. In light of this restriction, the scope of these procedures only extends to investment business conducted for or on behalf of clients classified as Professional Clients and Eligible Counterparties only. Failure to adhere to the rules could lead to stringent sanctions deployed against GFI and its employees by the competent authority.

Unless indicated, all procedures contained in this document apply to all GFI business. Where variation in the scope of the procedures occurs, the variation will be clearly indicated.

## **2 GFI policy for managing and identifying Conflicts of Interest**

GFI must always be alert to capturing potential conflicts of interest that may arise in the course of its business. As a business, it must identify and actively manage its conflicts in a responsible way as it owes a duty towards the regulators and to its clients. Failure to do so may harm GFI's reputation in the marketplace amongst clients and the regulators alike and could even lead to regulatory action.

There are several ways of managing conflicts and this section will look at the key ways GFI does so. It is important to note that disclosure should not be relied upon as method of managing conflicts. It should only be used as a last resort after all other pro-active methods have failed to manage the conflicts effectively.

### **2.1 What is a Conflict of Interest?**

Conflicts of interest may arise in one form or another in a financial institution such as GFI. A responsible approach to identifying and managing conflicts of interest and mitigating the risk of potential damage to our clients forms an important element in protecting and enhancing GFI's reputation.

It is not possible to set out in one policy all the potential conflicts of interest which may arise. However, broadly speaking, a conflict of interest can be defined as any situation where either a Firm or an individual is in a key position to exploit a sensitive situation in a personal or official capacity in some way for either a corporate or personal benefit. A conflict of interest can also arise where there is a potential for personal interests of an employee to clash with his or her official duties to GFI. A conflict of interest exists even if no unethical or improper act results from it and can create an appearance of impropriety that can undermine confidence in GFI.

Conflicts can occur in a number of situations that include:

- Between different clients, e.g. where two clients place orders to buy/sell the same security or are interested in acquiring a stake in the same company;

- Between clients and individual employees of GFI, e.g. where an employee has a personal holding in a security of a company and is involved in executing client orders or advising clients in relation to the same company;
- Between the GFI and its employees, e.g. where the employee has an interest in a security in which the Firm publishes research or has a position and;
- Between different divisions of GFI, e.g. where two divisions are trying to provide different services to the same client.

## **2.2 General Principles for Conflict Management**

In managing conflicts certain principles must be taken into account in order to manage conflicts effectively. These principles must apply at all times and they are listed below as follows:

### **A. Fair and equal treatment and Independence**

The principle ensures that clients are always treated fairly and equally when either advising them or dealing on their behalf. GFI staff will always act with independence. In particular, where an employee is aware he/she or the firm has a material interest which could influence their dealings with or advice to the client, that interest must be disregarded and the employee must act in the interests of the client. *Please refer to section 3.1.5 for further information on Independence.*

### **B. Disclosure of an interest to a client**

GFI is required to identify and manage the conflicts of interests arising in relation to its business under a comprehensive conflicts of interest policy. Disclosure of conflicts of interest will not exempt GFI from the obligation to maintain and operate effective organisational and administrative arrangements. While disclosure of specific conflicts of interest is a requirement, an over-reliance on disclosure without adequate consideration as to how conflicts may be appropriately be managed is not permitted and will not be tolerated. *Please refer to section 4.7 for further information on disclosure.*

### **C. Chinese Walls**

Effective procedures to prevent or control the exchange of information between relevant persons engaged in activities involving a risk of conflict of interest where the exchange of that

information may harm the interests of one or more clients. *Please refer to section 3.1.1 for further information on Chinese Walls and how they affect GFI.*

#### **D. Declining to act**

Even with appropriate management techniques, there may be some situations where it may not be possible for a GFI to act on behalf of a client. *Please refer to section 3.1.4 for further information on declining to act.*

#### **E. Inappropriate influences**

Measures to prevent or limit any person exercising inappropriate influence over the way in which a relevant person carries out services or activities. *Please refer to section 4.8 for further information on inappropriate influences.*

#### **F. Independence**

This requires relevant persons to act independently in the interests of the client ignoring any conflicting interest that may arise between the client and the firm. *Please refer to section 3.1.5 for further information on Independence.*

#### **G. Inducements**

This is one of the ways in which a firm seeks to ensure that clients are treated fairly and that conflicts of interest are identified and managed effectively. Inducements would cover inducements received by GFI as well as inducements given by GFI to its staff. *Please refer to section 4.4 and the Gifts and Inducements policy for further information.*

#### **H. Investment Research**

This is a policy that addresses the conflicts that arise over the dissemination and control of information produced by the Investment Research analysts. *Please refer to section 4 for further information on the Conflicts Management Policy – Investment Research Function.*

## **I. Personal Account dealing (PA Dealing)**

This policy imposes certain restrictions, approval procedures and reporting requirements in relation to personal account dealings. *Please refer to section 3.1.2 for further information on Personal Account Dealing.*

## **J. Remuneration**

The removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities. *Please refer to section 4.3 for further information on GFI's Remuneration policy for research analysts.*

## **K. Restricted lists**

Such lists are used to control access to sensitive and/or confidential information by granting access to only certain persons that have been pre-approved to be on the distribution list. *Please refer to section 4.5 for further information on the use of restricted lists at GFI.*

## **L. Segregation of function**

Measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate services or activities where such involvement may impair the proper management of conflicts of interest. *Please refer to section 4.6 for further information on the segregation of functions within GFI.*

## **M. Separate Supervision**

The separate supervision of relevant persons whose principal functions involve carrying out activities on behalf of or providing services to, clients whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the firm. *Please refer to section 4.1 for further information on separate supervision.*

If having read the principles above you do not feel comfortable that a conflict situation has been correctly addressed please report to the Compliance department for further clarification.

## **3 Tools Utilised to identify and manage potential conflicts**

### **3.1 General Compliance arrangements**

#### **3.1.1 Chinese Walls**

Information barriers and conflict clearance procedures help to ensure proper management of certain types of conflicts. GFI has therefore established a procedure known as “Chinese Walls”, to ensure the integrity of the operations of various business areas and potential conflicts of interest are properly managed and clients’ interests are preserved at all times. GFI is committed to restricting information flows within the firm’s Chinese Walls by having effective procedures in place and an effective programme to monitor & demonstrate their effectiveness.

It is essential that all employees are aware of the existence of information barriers and the requirement to maintain Chinese Walls. Failure by GFI to maintain their Chinese Walls may constitute a breach of regulations and jeopardise GFI’s reputation and business.

GFI implements these principles, incorporating good practice, to maintain permanent and effective Chinese Walls using physical and non-physical, barriers to prevent improper flows of information between various departments. These include the use of appropriate organisational requirements, proper reporting lines and IT systems.

The use of the Chinese Walls broadly affect the Investment Research department in that any research material it produces and, in particular, impending research publications, must remain confidential at all times. Physical barriers are in place to act as a barrier between the Investment Research team and the rest of the business. This exists in the form of restricted access to the research analysts’ area. Non-physical barriers also exist and these include putting several policies and procedures in place to ensure separation of functions such as the Gifts and Inducements policy and the use of restricted email distribution lists for issuing Investment Research material.

GFI ensures that the Chinese Walls are utilised effectively by:

- Maintaining a register of the persons authorised to receive Investment Research material. This will require regular reviews of the distribution list to ensure that only pre-authorised staff receives the research material produced by the analysts.

- Monitoring personal trade activity (“PA Dealing”) undertaken by employees to ensure that prohibited trades are not made (e.g. trading on firms securities close to the announcement of quarterly results.)

### **3.1.2 Personal Account Transactions (“PA Dealing”)**

The Personal Account dealing policy exists to meet the requirements of the competent regulatory authorities, to protect the firm’s reputation by managing conflicts and the appearance of conflicts and to promote fair dealing with clients. The policy requires employees to disclose all personal dealing and in some cases to receive prior approval by the firm’s independent compliance function for personal transactions.

The firm encourages employees to undertake long-term investment and discourages its employees participation in excessive short-term speculation i.e. trading. During office hours, GFI employees should ensure that their main priorities are that of fulfilling professional duties and not focusing on personal investment.

Employees should avoid any personal transactions that may place them in conflict with the interests of either clients or the Group. If in doubt, advice should be sought from line managers and Compliance. On a final note, Personal account Transactions must NEVER be combined with client orders.

Employees should refer to the **GFI Personal Securities Transactions Policy** for full details of restrictions and exemptions that apply.

### **3.1.3 Training and Guidance**

All employees , including new joiners, receive training and guidance on conflicts of interest as part of the firm’s overall compliance training programme, as and when deemed necessary by Compliance.

#### **3.1.4 Declining to act**

Due to the nature of the investment business GFI is involved in, it is unlikely that situations will arise whereby the conflict is so severe that that even with appropriate management techniques, GFI would have to decline to act on behalf of a client. However in the event that such a situation arises, where it is deemed that GFI best not act for a client, the case should be referred to the Compliance department.

#### **3.1.5 Independence**

All GFI employees are required to act independently at all times and in the interests of the client when carrying out their day to day duties and obligations in the course of investment business.

## **4 Conflicts Management Policy - Investment Research function**

### **4.1 Scope of the policy**

This section sets out GFI's approach to effective management of the conflicts of interest that may arise specifically in relation to the preparation and distribution of Investment Research in accordance with the guidelines of the COBS rules issued by the Financial Services Authority ("FSA").

The Investment Research function publishes research specifically for the clients of Christopher Street Capital ('CSC'). CSC is a trading division of GFI Securities Limited, an entity within the GFI Group.

#### **Nature of the Investment Research**

GFI issues research on equities for the clients of CSC. GFI has procedures in place to ensure that the equity research produced by the analysts is fair and impartial and is correctly labelled as 'Investment Research' unless otherwise stated.

#### **Supervision and management of research analysts**

Each research analyst is responsible for ensuring that he or she complies with the Conflicts Management Policy at all times. The research analysts report directly to GFI's Managing Director, who is responsible for the monitoring of the performance of the research team and their conduct on a day to day basis. Due to his direct involvement in the Investment Research function, GFI's Managing Director is not permitted to undertake any other roles that would conflict with his role as a supervisor of the research team and its publications.

### **4.2 Editorial control of research**

The ability to make editorial changes to GFI's impartial research is restricted to those individuals with special editorial rights within the firm. Additionally, only the research analysts and Senior Management (if required), have the authority to approve the dissemination of Investment Research prior to its issue. No other employees of GFI can view Investment Research material prior to its issuance, with the exception of Compliance staff and Legal counsel who may be required to review the research prior to issue in order to ensure compliance is met. This is also a necessary control for GFI in order to ensure that it meets the requirements of the competent regulatory authority's rules and regulations and any other statutory requirements.

### **4.3 Remuneration policy for research analysts**

The remuneration structure for our research analysts is awarded using metrics which are not linked to the success or otherwise of the research recommendations issued. This is in order to prevent a conflict of interest that could arise between employees of GFI and its clients. The research analysts are permitted to participate in the bonus scheme which is linked to the profits of the CSC desk. The award of bonuses to the team is discretionary-based upon performance.

### **4.4 Gifts, entertainment and inducements**

The Gifts and Inducements Policy specifically prohibits ALL employees that have any tangible connection with the production of Investment Research and/or have any form of editorial control over investment research, from offering or accepting any gifts or inducements.

**Please refer to the GFI policy on Gifts, Entertainment and Inducements and the Travel and Expenses Policy for further information.**

### **4.5 Publication and distribution of research**

To ensure all clients are given an equal opportunity to act on Investment Research material produced by GFI, all research must be published and distributed to the CSC's clients in a timely manner. The research is disseminated to clients simultaneously on an electronic basis. Research analysts are prohibited from passing any research information to the sales team until all the external clients of CSC have received a soft copy of the research for that day.

Under no circumstances may research material be issued to the sales team prior to the research being issued to external clients. Only factual market data can be discussed between the research team and the sales team. For additional clarity, this refers to non-sensitive information and any other information that is already in the public domain. Research may also be distributed electronically via third party providers. All research material which is distributed via electronic means, directly or via third parties, must be issued simultaneously.

### **4.6 Activities of research analysts**

In order to maintain the integrity of its research function, GFI restricts the extent to which research analysts may be involved in activities other than research within the Firm. This ensures that potential conflicts arising from any such involvement are mitigated. Research analysts are not permitted to undertake any other roles, either internally or externally, such as acting as a trader or broker or forming part of a team of traders or brokers within the Firm.

Research Analysts are required to seek the approval of the Head of Compliance for all externally held roles, including external directorships.

#### **4.7 Disclosures**

GFI as an inter-dealer broker may enter into transactions for clients of the Firm in respect of investments that may at the same time have been the subject of CSC research. This is undertaken unknowingly by other parts of the Firm with the protection of Chinese Walls and other information barriers. Additionally, other parts of GFI may undertake transactions that may appear contrary to research issued by the firm. Again these transactions are executed behind a Chinese Wall and are therefore undertaken unknowingly.

Given that the firm neither trades as principal for its own account, nor conducts corporate finance business, it is unlikely that the firm will need to disclose related conflicts of interest. In the abnormal event that such a conflict arises including those arising as a result of personal holdings and outside directorships of research analysts, GFI will make the appropriate disclosure. However, conflicts in relation to GFI's investment holdings or other financial interests, other than trading positions, will need to be disclosed to the Compliance department.

All research distributed to clients must contain a legal disclaimer which sets out the necessary disclosures in relation to conflicts of interest.

#### **4.8 Avoiding inappropriate influences**

Policies and procedures have been implemented to ensure that investment analysts do not offer or accept gifts or inducements which may give the perception that Investment Research produced by GFI is not impartial.

Policies and procedures have been implemented in relation to personal account dealing and outside business interests to ensure that conflicts of interest which may arise between investment analysts' personal interests and the need to prepare impartial research are appropriately managed. Investment analysts must obtain approval from the Compliance department prior to undertaking personal account trades and are subject to additional restrictions to trading in the issuers they cover.

#### **4.9 Further Information**

Any queries about this policy and its application should be directed to the Compliance department for further advice and assistance.