

# ICAP Conflicts of Interest Management Policy

*December 2015*

Under the FCA's Principles for Businesses, Principle 8 requires a firm to "manage conflicts of interest fairly, both between itself and its customers and between a customer and another client." Under the Markets in Financial Instruments Directive ("MiFID") ICAP is required to maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps to identify, monitor and manage such conflicts of interest. The ICAP Group of companies has put in place a policy to meet this obligation and set out below is a summary of that policy and the key information that is needed by clients and counterparties (together "customers") to understand the measures ICAP is taking to safeguard the interests of its customers.

## **ICAP's Conflict of Interest Policy**

ICAP seeks to:

- identify circumstances which may give rise to conflicts of interest entailing a material risk of damage to customers' interests;
- establish appropriate mechanisms and systems to manage those conflicts; and
- maintain systems in an effort to prevent actual damage to customers' interests through the identified conflicts.

## **What is a conflict of interest?**

A conflict of interest under MiFID is a conflict that arises in any area of ICAP's business in the course of providing its customers with a service which may benefit ICAP (or another customer for whom ICAP is acting) whilst potentially materially damaging another customer where ICAP owes a duty to the customer. There may be a conflict where ICAP (or anyone connected to ICAP including another ICAP affiliate):

- is likely to make a financial gain (or avoid a loss) at the expense of its customer;
- is interested in the outcome of the service provided to its customer where the interests of ICAP is distinct from that of the customer;
- has a financial or other incentive to favour the interests of one customer over another;
- carries on the same business as a customer;
- receives money, goods or services from a third party in relation to services provided to a customer other than standard fees or commissions.

ICAP has sought to identify conflicts of interest that exist in its business and has put in place measures it considers appropriate to the relevant conflict in an effort to monitor, manage and

control the potential impact of those conflicts on its customers. The conflicts identified include:

- those between customers with competing interests;
- those between customers and ICAP where their respective interests in a particular outcome may be different;
- those between the personal interests of staff of ICAP and the interests of ICAP or its customers where those interests may be different; and
- those that might arise as a result of brokers covering relatives.

### **Policies and procedures**

ICAP has adopted numerous internal policies and procedures, as set out in this Compliance Manual or in its procedures manuals, in order to manage recognised conflicts of interests. These policies and procedures will be subject to ICAP's normal monitoring and review processes and include:

#### **(a) Integrity and Standards of Conduct**

ICAP insists that in its dealings with customers its staff must use the highest standard of integrity in their actions at all times. The induction programme, Training & Competency procedures and monitoring programme at ICAP are designed to ensure that all relevant staff are familiar with and observe, inter alia, the FCA Principles for Businesses and the Statements of Principle and Code of Practice for Approved Persons.

#### **(b) Customer Orders**

In order to ensure as fair treatment as possible for customers, the ICAP Execution Policy requires ICAP to take all reasonable steps to achieve the best overall trading result for customers; to exercise consistent standards; and operate the same processes across all markets, clients and financial instruments in which it operates.

No undue preference should be given to any customer when trades are aggregated. Re-allocation to any individual customer may only be made to correct an error or to adjust an uneconomic initial allocation e.g. on a partial fill of an order.

There may be occasions when customer orders may have a material effect on a relevant securities price. In order to ensure that a broker does not take advantage of the situation by dealing on his/her own account or encouraging a third party to deal, ICAP has a strict "no front running" policy.

In order to ensure a fair and orderly dealing environment within the market, ICAP further ensures that its staff comply with the revised Code of Market Conduct reflecting the provisions of the Market Abuse Directive, as well as the relevant FCA Rules, which aim to prevent insider trading, the misuse of information and market

manipulation.

**(c) Personal Account Dealing (“PAD”)**

ICAP has a policy on Personal Account Dealing and the rules are signed off as understood by all relevant employees regardless of their position within the ICAP Group.

Staff may not deal the same way for personal account as a customer order or potential order before it is executed or where a customer’s interest could be adversely affected.

Relevant employees shall not deal in stock within 5 days of a research recommendation being published and in no circumstances where a client order is pending.

Further, PAD procedures require **ALL** permanent ICAP employees, and certain designated others, to obtain pre-approval by line management and the Compliance Department when PA dealing in Equities or Equities related instruments.

All staff are required to take a training course on Personal Account Dealing rules in London.

**(d) Confidentiality and Information barriers**

ICAP has put in place procedures to control or prevent the flow of information between ICAP business units and entities where the interests of customers of one business unit or entity may conflict with the interests of customers of another ICAP business unit or entity or with ICAP’s own interests. Furthermore ICAP insists on strict customer confidentiality to ensure that information is disclosed only to those entitled to receive it or otherwise with the prior approval of the Compliance Department. For more information regarding Confidentiality and Anonymity of customer interest, orders and transactions, consult your regional Compliance Manual and/or the ICAP Group’s Compliance Rule of Conduct.

**(e) Gilt IDB and Gilt Agency Desks**

ICAP operates two Gilt desks; one operating as principal in the Inter-Dealer Broker (“IDB”) market under the rules of the London Stock Exchange amongst a closed user group comprising Gilt Edged Market Makers (“GEMMS”) and one acting as agent for customers off-exchange wishing to access the gilt market. GEMMS quote prices with the spread when trading via the Gilt IDB desk and these details are not seen by non-GEMMS. A conflict of interest, potentially giving an unfair advantage to customers of the agency desk, may arise if the agency desk becomes aware of the prices and spreads quoted by the IDB desk.

In order to manage this conflict of interest, ICAP has ensured that the two desks: (a)

operate under different legal entities; (b) use different systems to broadcast prices and book tickets, with neither desk having access to the other's system; and (c ) are separated by Chinese walls on different floors of the building. Further staff are made aware of the potential conflict and informed of ICAP's policy to ensure fair dealing.

**(f) Inducements to Employees from Customers**

Staff are not allowed to accept gifts, entertainment or any other inducement from any person which might benefit one customer at the expense of other when conducting investment business. For example, where two customers give similar orders and one customer agrees to pay more commission, priority or better execution terms must not be granted to that customer's order when it conflicts with obligations owed to the other customer.

ICAP staff are not allowed to place undue pressure upon customers to persuade the customer to trade through the firm to the extent that this might give rise to a conflict of interest between that customer and its own underlying customers

**(g) Group Companies**

Customers are to be informed of the relationship where the counterparty to the deal is another ICAP Group Company or where the services of another ICAP Group Company is recommended.

**(h) Remuneration Policy**

All relevant staff who are open to a conflict of interest are paid a basic salary including those in key support areas such as Compliance, Finance and Operations. This salary is not dependent on company performance. A bonus structure does exist which is linked to company performance, team performance or the individual's performance. It is at the discretion of the senior management and notified only on payment.

**(i) Separate supervision and segregation of function**

Where appropriate, ICAP has arranged for the separate supervision of those carrying out functions for customers whose interests may conflict, or where the interests of customers and ICAP may conflict and has taken steps to prevent 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.

**(j) ICAP Compliance Monitoring Programme**

ICAP Compliance department has an established and documented compliance monitoring programme of which part of this programme focuses on conflicts of interest and recognising where there may be a potential conflict. Compliance reviews Personal Account Dealing and monitors contract notes for such dealing. It also reviews the current Chinese Walls and information barriers and confirms the

effectiveness.

**(k) Disclosure**

As a last resort, where there is no other means of managing the conflict or where the measures in place do not, in the view of ICAP, sufficiently protect the interests of customers, the conflict of interest will be disclosed to customers to enable an informed decision to be made by the customer as to whether they wish to continue doing business with ICAP in that particular situation.

**(l) Declining to Act**

Finally, where ICAP considers it is not able to manage the conflict of interest in any other way it may decline to act for a customer.

**(m) Benchmarks**

As a contributor of data to various third party benchmarks, ICAP will establish effective controls to manage conflicts of interest between the parts of the business responsible for the benchmark submission or contribution of data and those parts of the business who may use, or have an interest in, the benchmark rate. ICAP will also establish effective measures to prevent or limit any person from exercising inappropriate influence over the benchmark submission or contribution of data.

**Any queries on the above should be directed to the Compliance Department.**