

## **Conflict of Interest Policy**

### **Introduction**

The purpose of this Conflicts of Interest Policy (the “Policy”) is to set out the requirements for Xconnect Trading Limited and all entities within the group (the “Firm”, “Xconnect”) in relation to any conflicts of interest that may be identified or arise

The Policy is designed to prevent conflicts arising, give guidance on what is expected in relation to any conflicts that do arise and mitigate any risks that any conflict may cause. The policy should be read in conjunction with the following in order to have a comprehensive understanding;

- i. Principles of Business, FCA Handbook;
- ii. Statements of Principles, FCA Handbook;
- iii. The Firm’s Personal Account Dealing Policy;
- iv. The Firm’s Gifts & Entertainment Policy,
- v. The Firm’s Compliance Manual; and
- vi. Any other relevant rules and regulations.

### **Scope**

This Policy applies to all directors, officers, employees, contractors, consultants and secondees within the Xconnect group of companies (collectively, “Staff”). The firm respects the right to privacy and therefore would not normally take an interest in conduct outside work. There could however be a potential conflict between a member of staff’s personal conduct and professional duties towards the Firm which the Firm will seek to resolve satisfactorily.

Staff are reminded that they should always treat the Firm’s clients, counterparties, brokers and other third parties fairly, professionally and with integrity.

The board will oversee and be accountable for the implementation of this policy and will do so in a manner that promotes the integrity of the market and the interests of clients. The day to day responsibility for this policy lies with the designated Compliance Officer Mr Adrian Chorley. In his absence, Mr Mike Riddle will be responsible.

### **Regulatory reference**

Under the Financial Conduct Authority (“FCA”) Principles for Businesses 8 and Senior Management Arrangements, Systems and Controls Chapter 10 (SYSC 10), the Firm is required to identify and manage conflicts of interest fairly.

We acknowledge Markets in Financial Instruments Directive II 2014/65/EU (“MIFID II”), especially Article 23, and the fact the FCA has applied this to UK regulation.

## Identifying Conflicts

As a regulated entity, the Firm is compelled to take “all appropriate steps to identify and to prevent or manage conflicts of interest between themselves, including their managers, employees, and tied agents, or any person directly or indirectly linked to them by control and their clients or between one client and another that arise in the course of providing any investment and ancillary services, or combinations thereof, including those caused by the receipt of inducements from third parties or by the investment firm’s own remuneration and other incentive structures”, as outlined in MiFID II Article 23 (1).

When identifying a conflict of interest that may have a material risk of damage to the interests of a client, as a minimum, the Firm will consider, amongst other things, whether the Firm, its staff, a group entity or any other relevant person;

- i. Is likely to make a financial gain, or avoid a financial loss, at the expense of the client
- ii. Has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome
- iii. Has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client
- iv. Carries on the same business as the client
- v. Receives or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard commission or fee for that service

It is important that staff consider;

- i. Their involvement of service as a manager or board member of any other firm.
- ii. Any outside business activity
- iii. Any connections with the counterparties the Firm actively does business with
- iv. The fees or commissions from counterparties and clients
- v. Competing requirements between clients
- vi. To receive or give entertainment that is not reasonable or proportionate in cost or appropriate as to time, place and occurrence or falls outside the parameters set down in the Firms’ gifts and entertainments policy.

## Potential Conflicts

Staff should be aware of the potential conflicts the Firm could be faced with and consider new events in the light of possible conflicts. Conflicts may arise in three areas;

- i. Personnel conflicts, where the personal interests of any staff conflict with the interests of the Firm itself or with a counterparty of the Firm
- ii. Counterparty conflicts, where the interests of the Firm and its counterparties either directly conflict or are more generally incompatible or where the interests of two or more counterparties either directly conflict or are generally incompatible
- iii. Internal conflicts, where the interests between the Firms' internal units' conflict or where the interests between firm and other Group entities conflict

Clear conflicts of interest are likely to arise under certain circumstances. It is crucial to consider that a conflict of interest is considered to be present when the interests of the Firm and the Firm's clients are at odds. A member of staff may consider the following situations where a conflict is sure to arise when we;

- i. Carry on the same business as the client.
- ii. Carry on the same business with another regulated firm we have close ties with (share office premises or infrastructure with)
- iii. Receive or may receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods, services, outside of the standard commission normally charged to the client.
- iv. Is likely to make a financial gain, or avoid a loss, at the expense of the client.
- v. Has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome
- vi. Has a financial or other incentive to favour the interest of one client over another or over the Firms' interest

### **Managing Conflicts of Interest**

The firm is required to be able to demonstrate that it has taken appropriate steps to maintain and operate effective organisational and administrative arrangements to prevent conflicts of interest adversely affecting the interests of its clients.

The FCA requires firms to identify all known conflicts, along with the method of dealing with the conflict. This information is located in the Firms' high-level conflicts of interest framework documentation.

A conflict of interest or potential conflicts of interest must be managed promptly and fairly. The firm has put in place a proactive monitoring mechanism to manage potential conflicts;

- i. Compliance reviews: reviews are undertaken on a formal basis and are continually developed in-house with advice from external advisers
- ii. Compliance manual: all members of staff are required to declare that they have read and understood the Firm's compliance manual. The manual

provides detailed policy statements, instructions and procedures (with forms) for considerations

- iii. Compliance forms: the use of forms for staff to confirm personal responsibilities. These cover knowledge of the Firm's conflict policy, awareness of instances of conflict within the Firm, adherence to the Firm's code of conduct and ethical standards.
- iv. Compliance training: training programs are provided for staff, with ongoing refreshers and other more informal methods to raise staff awareness of the Firm's policies and procedures, legal requirements and expectations in relation to ethics and code of conduct.
- v. 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.
- vi. Limit on any person from exercising inappropriate influence over the way in which a relevant person carries out investment or ancillary services or activities.
- vii. The Personal Account Dealing Policy specifies the rules and procedures on personal account dealing by Staff.
- viii. The Gifts & Entertainment Policy will be implemented, which details the Firm's rules on the acceptance and offering of gifts and entertainment.
- ix. Order Execution Policy will be implemented, governing how the Firm deals with client orders to achieve the best result for the client.
- x. All staff will receive training on their duties and obligations regarding anti-money laundering, anti-bribery and corruption and market abuse.
- xi. Relevant staff holding controlled functions will be suitably trained and competent and approved by the FCA.

The firm will normally manage any conflicts that arise internally or by establishing special arrangements such as information barriers and separation of business groups (set out below). The firm may also decline to act for a client or disclose an interest to a client. We recognise that disclosure should be considered as a last resort (SYSC 10.1.8.) and only when the organisational and administrative arrangements established by the Firm to prevent and manage conflicts are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of the client will be prevented.

Where organisational or administrative arrangements put in place by the Firm to prevent conflicts of interest from adversely affecting the interest of its client are not sufficient to ensure, with reasonable confidence, that risks of damage to client interests will be prevented, we will disclose to the client the general nature and/or sources of conflicts of interest and the steps taken to mitigate those risks before undertaking business on its behalf. In the event that disclosure is necessary, we will make that disclosure in a durable medium and in sufficient detail so that the client may make an informed decision.

We acknowledge the FCA commentary on disclosing conflicts, especially in the area of commissions and Payment for order flow (“PFOF”), that the best strategy to manage conflicts of Interests to prevent the conflict from arising in the first place. Our policy with regards to PFOF is set out below.

In the event conflicts are not properly identified and managed, they could lead to at least one of the following;

- i. Non-compliance with the FCA’s Principle 6 whereby the Firm should always act in the best interests of its clients.
- ii. A loss of revenue for the Firm.
- iii. Legal action being taken against the Firm either by clients or the regulator.
- iv. Supervisory and enforcement action against either the Firm or its controlled function staff

#### Information Barriers and separation of business groups and entities

The firm has in place information barriers (also known as “Chinese Walls”) to control the flow of information on a ‘need to know’ basis whereby information known to persons in one part of the business is not available (directly or indirectly) to those involved in another part of the business. Information barriers are also maintained between the Firm and other Group entities.

Access to confidential information is restricted to those who have a proper requirement for the information consistent with the legitimate interest of a client or the Firm. The purpose is for decisions in one part of the business to be taken without reference to any interest which any other part or any person in any such part of the business may have in the matter.

It is essential that all staff are aware of and respect these information barriers so that the Firm cannot at any time be accused of misusing any confidential information whether it has been entrusted to the Firm by clients or relates to the operations of a particular business area within the Firm.

Staff who are in any doubt regarding the status or position of information which they have in their possession, or have access to, should consult with the Firm’s Compliance Department.

In order to complement the use of information barriers, all staff should utilise the following good practices;

- i. Use project names or code words when talking in public areas or non-secure areas in the Firm;
- ii. Use meeting rooms to discuss confidential or inside information;
- iii. Refer all potential conflicts of interest to the Compliance Officer;
- iv. Inform the Firm’s Compliance Department immediately if you believe that you are or may be in possession of inside information, even if received inadvertently;
- v. Obtain prior consent from a client if confidential information received is to be shared or used for purposes different to the capacity in which it was given;

- vi. Notify compliance of others you wish to make an 'insider';
- vii. Consider if another member of staff position will be compromised by his/her unwittingly becoming an insider;
- viii. Keep confidential and inside information secure;
- ix. Be aware of how long the inside information is likely to remain so, since holding it for a long period may only unduly restrict you or others in conducting other business; or
- x. Educate clients about the Firm's Chinese walls procedures, including disclosing those staff who should be contacted for specific reasons.

Personnel should be careful of the following prohibited practices;

- i. Bringing people over the Chinese wall unnecessarily or without their consent;
- ii. Disclosing confidential information to anyone who does not have legitimate business need to know;
- iii. Disclosing confidential information to third parties without prior written consent;
- iv. Breaching client confidentiality, even internally;
- v. Using confidential information or inside information to assist you in dealing with clients in the same sector.
- vi. Using confidential or inside information for personal gain.

### **Attribution of Knowledge**

When any regulatory rules apply to the Firm when it acts with knowledge, the Firm will not be taken to act with knowledge for the purposes of that rule if none of the relevant individuals involved on behalf of the Firm acts with that knowledge as a result of arrangement established under SYSC 10.2.

Where we establish and maintain an information barrier, individuals on the "other side of the barrier" will not be regarded as being in possession of knowledge denied to them as a result of the barrier. Acting as outlined above does not amount to market abuse, making misleading statements or engaging in misleading practices.

The information barrier procedures exist to protect employees from allegations of failing to use all available information when acting on behalf of their clients. The firm provides no corporate broking services. We do have entities in the office space who take proprietary risk positions (Xconnect Market Maker) and we consider that there is not only a physical barrier between this group and the rest of the business but also an information barrier. We maintain information barriers as a matter of good practice.

## Segregation of Duties

The firm is aware that segregation of duties is an effective way of preventing any potential conflicts of interest arising. The high-level purpose of segregation of duties is to ensure that no one member of staff, however senior, may commit the Firm's assets or incur liabilities on behalf of the Firm without impediment. We therefore do not allow any one individual to have unrestricted authority to do all of the following;

- i. Initiate a transaction
- ii. Bind the Firm
- iii. Account for transactions

## Commissions

Remuneration to the Firm's brokers is by way of a profit share arrangement based on the amount of commission income they or their team generate through the arrangement and execution of transactions.

Within the Firm's broking business, it may receive fees or commissions from counterparties (including market maker clients on the other side of a client trade). Where this is the case, we will disclose this to relevant clients and in addition we have clear and appropriate conflicts management procedures in place to ensure that such fees and commission do not damage our client's best interests.

Specific Conflicts of interest arising from payment for order flow (PFOF)

When we act for eligible counterparties ECPs in providing execution services for listed derivatives (which we refer to as our "listed derivative business") save where transactions are executed on screen on the exchange order book, we may receive payment from the eligible counterparty originating the order and also from the counterparty with whom the trade is then executed. The payment we receive from the counterparty is referred to in regulatory terms as a payment for order flow. This is because the payment we receive from the counterparty is in return for us placing the order of the originator (our client) with the relevant counterparty.

We have identified PFOF as creating a potential conflict of interest between those ECPs for whom we execute transactions in listed derivatives and the Firm. The principal reasons for this are;

- i. Where brokers, such as the Firm's, route orders to market makers willing to pay for order flow the duty owed by the Firm to act in the best interests of our clients may be compromised.
- ii. Market makers engaging in PFOF may indirectly affect the interests of the underlying client by recovering PFOF in the spread of prices shown to brokers.

For the avoidance of doubt, if we have categorised a client as a professional client and we execute their order with a counterparty who is acting as a market maker, we will not receive 'payment for order flow' from that counterparty.

We have taken a number of steps to manage this potential conflict;

- i. We charge the same rate of commission by way of PFOF to liquidity providers with whom we execute listed derivative business. This helps our brokers select the market maker on the basis of the best outcome for the client considering a range of execution factors not simply payments.
- ii. We closely monitor the amount of PFOF charged to counterparties and the underlying clients involved.

### Our Declaration on PFOF

We have had an extensive review of our whole approach to trading in financial instruments post January 2018. We recognize that MiFID II sets a much higher bar in terms of compliance and especially regarding conflicts of interest, execution and order handling.

the text in Marketwatch 51 and the Dear CEO letter (regarding PFOF) focusses especially on the area of PFOF. We further accept that the regulators approach is that, the best way for a firm to manage conflicts of interest is to prevent them from occurring in the first place.

Given that an eligible counterparty is owed no obligation of best execution we will always execute orders in a way that we think will deliver the best possible result..

Below is a table that represents scenarios detailing where we will normally charge and not charge commissions.

Originator	Transacted with	Best Execution Obligations	Conflicts of Interest Obligations	We may charge Commission to
Professional	RM or MTF or OTF	Originator	Originator	Originator
Professional	Professional	Both Sides	Both Sides	Originator
Professional	ECP	Originator	Both Sides	Originator
ECP	RM or MTF or OTF	None	Originator	Originator
ECP	ECP (as originator)	None	Both Sides	Both Sides
ECP	ECP (as non-originator/liquidity provider/Market Maker	None	Both Sides	Originator
ECP	Professional	Professional	Both Sides	Both Sides
ECP passing one of its own client's orders originated by a professional or Retail client	ECP or Professional	Professional	Both Sides	Originator

We understand that on occasions two separate clients may originate an order in the same financial instrument, which may subsequently correspond and conclude in a transaction. Irrespective of client category we will charge commission to both sides in these cases.

Our understanding of a liquidity provide/market maker is a counterpart that holds out a risk price to us (this may be 2 way or 1 way). We will never charge in cases where a liquidity provider “holds out” to us or we request them to do so.

Where a client, who may carry on the activity of liquidity provider/market maker but separately approaches us and instructs us to work an order or his/her interests i.e. passes an order to us, we will execute that order and charge commission. The commission applicable will be made clear at the point of passing the order AND we will only charge commission with the agreement of the client.

Our policy since the publication of the Dear CEO letter is to record the communications detailing commissions charged.

Further to this we continue to review both our execution and order handling policy, and our conflicts of interest policy on a regular basis. We are confident that they are in line with our regulatory obligations and provide sufficient protection for all our customers.

### **Personal Account Dealing**

The firm has in place a strict personal account dealing policy designed to eliminate any conflict of interest which may occur in this regard. This policy may be found in Appendix 17 of the Compliance Manual.

### **Gifts & Entertainment**

We have in place a Gifts and Entertainment policy which aims to detail the stance of the Firm with respect to the gifts and entertainment and ensure brokers and partners understand their obligations. It also details the correct procedure that should be followed by staff to comply with its anti-bribery policy and not become involved with a conflict of interest.

The client’s gifts and entertainment registers are reviewed monthly as part of the Firms’ regular compliance monitoring procedures.

### **Whistleblowing**

The firm has a whistleblowing policy in place covering all staff within the Firm.