



## **CONFLICT OF INTEREST POLICY**

**EFFECTIVE DATE: 3 JANUARY 2018**

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**Head office : 130 Wood Street - London EC2V 6DL - United Kingdom**

Louis Capital Markets UK LLP: Authorised and regulated in the United Kingdom by the FCA with Firm Reference Number 225544  
Louis Capital Markets UK LLP - Paris branch: Authorised and regulated in France as a Succursale

## I. Outline

The purpose of this Policy is to set out the requirements for Louis Capital Markets UK LLP (the “Firm”, “LCM”) in relation to any conflicts of interest and is designed to give guidance on what is expected in relation to any conflicts that could arise. This Policy should be read in conjunction with the following to have a comprehensive understanding of the requirements:

1. Principles of Business, FCA Handbook;
2. Statements of Principles, FCA Handbook;
3. The Firm’s Personal Account Dealing Policy;
4. The Firm’s Gifts & Entertainment Policy,
5. The Firm’s Compliance Manual; and
6. Any other relevant rules and regulations.

## II. Scope

This Policy applies to all directors, officers, employees, contractors and secondees (collectively, “**Personnel**” or “**Staff**”). The Firm respects all Personnel’s right to privacy and therefore would not normally take an interest in their 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 should be resolved satisfactorily.

All Personnel 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.

## III. Introduction

Under the Financial Conduct Authority (“FCA”) Principles for Businesses - Principle 8 and Senior Management Arrangements, Systems and Controls Chapter 10 (SYSC 10), we are required to identify and manage conflicts of interest fairly. We acknowledge Markets in Financial Instruments Directive 2 2014/65/EU (MIFID 2) especially Article 23 and the fact the FCA will apply this to UK regulation in January 2018.

## IV. Identifying Conflicts

As a regulated entity, the Firm must 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”. 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 Personnel, a Group Entity or any other relevant person:

1. Is likely to make a financial gain, or avoid a financial loss, at the expense of the client

2. 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
3. Has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client
4. Carries on the same business as the client
5. 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:

1. Their involvement of service as a manager or board member of any other firm.
2. Any outside business activity
3. Any connections with the counterparties we actively do business with
4. The fees or commissions from counterparty clients
5. Competing requirements between clients
6. To receive or give entertainment that is not reasonable in cost or appropriate as to time, place and occurrence or falls outside the parameters set down in the firms' gifts and entertainments policy.

## V. Potential Conflicts

Personnel need to 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;

1. **Personnel conflicts**, where the personal interests of any Personnel conflict with the interests of the Firm itself or with a counterparty of the Firm
2. **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
3. **Internal conflicts**, where the interests between the Firm's 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:

1. Carry on the same business as the client.
2. 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.
3. Is likely to make a financial gain, or avoid a loss, at the expense of the client.
4. 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
5. Has a financial or other incentive to favour the interest of one client over another or over the firms' interest

## VI. 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: -

1. **Compliance Reviews:** reviews are undertaken on a formal basis, having been developed in-house with advice from external advisers.
2. **Compliance Manual:** all members of Personnel 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.
3. **Compliance Forms:** the use of forms for Personnel 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.
4. **Compliance Training:** training programs are provided for Personnel, 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.
5. 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.
6. Limit on any person from exercising inappropriate influence over the way in which a relevant person carries out investment or ancillary services or activities.
7. The Personal Account Dealing Policy specifies the rules and procedures on personal account dealing by Staff.
8. The Gifts & Entertainment Policy will be implemented, which details the Firm's rules on the acceptance and offering of gifts and entertainment.
9. Order Execution Policy will be implemented, governing how the Firm deals with client orders to achieve the best result for the client.
10. All Personnel will receive training on their duties and obligations regarding anti-money laundering, anti-bribery and corruption and market abuse.
11. Relevant Personnel 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 (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 made us 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:

1. Non-compliance with the FCA's Principle 6 whereby the firm should always act in the best interests of its clients.
2. A loss of revenue for the firm.
3. Legal action being taken against the firm either by clients or the regulator.
4. Supervisory and enforcement action against either the firm or its controlled function staff

## VII. Information Barriers

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 Personnel 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.

Personnel 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 Compliance.

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

1. Use project names or code words when talking in public areas or non-secure areas in the Firm;
2. Use meeting rooms to discuss confidential or inside information;
3. Refer all potential conflicts of interest to the Compliance Officer;
4. Inform Compliance immediately if you believe that you are or may be in possession of inside information, even if received inadvertently;
5. 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;
6. Notify Compliance of others you wish to make an ‘insider’;
7. Consider if another member of Personnel’s position will be compromised by his/her unwittingly becoming an insider;
8. Keep confidential and inside information secure;
9. 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
10. 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:

1. Bringing people over the Chinese Wall unnecessarily or without their consent;
2. Disclosing confidential information to anyone who does not have legitimate business need to know;

3. Disclosing confidential information to third parties without prior written consent;
4. Breaching client confidentiality, even internally;
5. Using confidential information or inside information to assist you in dealing with clients in the same sector.
6. Using confidential or inside information for personal gain.

## **VIII. 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 maintain Information Barriers as a matter of good practice

## **IX. 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 firms’ 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:

1. Initiate a transaction
2. Bind the firm
3. Make payments
4. Account for transactions

## **X. Commissions**

Remuneration to the firms’ staff 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.

We 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.

## **XI. 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 eligible ECPs for whom we execute transactions in listed derivatives and the firm. The principal reasons for this are:

1. Where brokers such as us 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.
2. 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;

1. We charge the same rate of commission by way of PFOF to the Market Makers with whom we execute listed derivative business. This helps LCM brokers select the Market Maker on the basis of the best outcome for the client considering a range of execution factors not simply payments.
2. We closely monitor the amount of PFOF charged to counterparties and the underlying clients involved.

## **XII. Provision of Conflicts of Interest on Organised Trading Facility OTF**

LCM intends to operate an OTF. We understand that Conflicts of Interest may arise in relation to orders executed on the OTF between the OTF (the firm) and our clients and between two separate clients. We will manage these Conflicts of Interest effectively as set out in other areas of this policy, and in a way, that is not unfairly prejudicial to clients of the OTF.

We will owe those clients who we categorise as Professional an obligation of Best Execution (please refer to our Execution Policy) but those clients we categorise as Eligible counterparties will not be afforded the same protection and the Best Execution and order handling rules will not apply. We will require all Eligible counterparties to tell us that they wish to be treated as such. Eligible counterparties have the right to ask to be treated as Professional.

We will apply the same aggregation and allocation policy to clients trading through our OTF as if in the normal course of business transacted across other venues.

We further understand that additional Conflicts of Interest can arise when we execute orders through our OTF which could be:

1. We are the operator of the OTF and charge commission to clients who execute orders through it. We may be incentivised to use our OTF rather than another venue or favour one client over another because of a different commission structure with that client. We mitigate this by applying the same consideration factors to each client equally.
2. We will have discretion in executing orders through the OTF – the discretion we use can be a subjective judgement. We will always make these judgments with the client's best interests in mind and in a way and that will bring the best possible result.
3. All participants of our OTF will be clients (MAR 5A) and we will have the same or similar obligations to them as we have to you. Given that this may result in you not getting the result that is favourable we will use discretion to withdraw your orders from the OTF if we judge that it is in your best interest.

4. We will use our discretion as to what we think will achieve the best result although what may look like a good result at one time may not subsequently. We will therefore use our discretion as well as following our set criteria (below) for executing orders through the OTF. We will always have an overriding duty to act in your best interests.
5. Where conflicts arise and we use disclosure as a form of managing that conflict, we will only disclose as a matter of information and NOT because we rely on it as a last resort.
6. The cost and charges the OTF applies to clients are set out publicly. When executing orders on the OTF we will charge both parties to the transaction in line with the charges we display publicly

Factors considered for orders executed through OTF. The following are ranked in order of Importance:

1. Specific Instructions. We will follow all specific instructions as closely as is possible
2. The price and explicit costs of executing your order
3. The speed and likelihood of execution
4. The likelihood of settlement
5. The size of your order
6. Any other consideration that we consider relevant at the time

### **XIII. 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.

### **XIV. 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 clients Gifts and Entertainment registers are reviewed monthly as part of the firms' regular compliance monitoring procedures.

### **XV. Remuneration Policy**

All relevant staff who are open to a conflict of interest are paid a basic salary, including those who hold key support areas such as Compliance, Finance and Operations. This salary is not dependent on company performance.

A bonus structure exists 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. Sales members of staff receive a percentage of their fee income ('draw and bonus' scheme). This percentage represents a pre-agreed proportion of their net revenues and is subject to adherence with the Firm's strict procedures, guidelines and principles.

### **XVI. Whistleblowing**

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