

CONFLICTS OF INTEREST

Overview

Conflicts of interest can arise between:

- The interests of different operating activities within CMSUK;
- The interests of CMSUK and those of its clients; and
- The interests of different clients.

If conflicts are not properly identified and reconciled, this could lead to loss of revenues, legal action against CMSUK, criticism or censure from a regulatory body (which might also include a private warning which will form part of the firm's compliance history) or harmful publicity. Disclosure of conflicts of interest should be used as a last resort. Our procedures should be designed to manage conflicts of interests and prevent them from arising in the first place.

The FCA has made it clear that payment for order flow or "PFOF" (where a broker is paid by a client and also by the market maker/liquidity provider in respect of the same client transaction) is not consistent with the MiFID II inducement rule or with the requirement to avoid or prevent conflicts from arising in the first place under the MiFID II conflict of interest rules. CMSUK should seek best execution when directing its order flow and must not seek payment or services from market makers/liquidity providers in return for order flow. The FCA will consider the substance of the arrangements and any restructuring of arrangements to assess whether they have been established to circumvent the PFOF restriction (e.g. by redirecting business to overseas affiliates).

Separation of Function

Separation of functions is achieved through proper management structures. These structures ensure that decisions in a particular operational area are taken as matters of independent judgment without knowledge of, or regard to, the wishes, intentions, interests or the confidential information in the possession of any competing or conflicting operational areas. These structures can be reinforced by Chinese Walls when appropriate. There are currently no Chinese Walls within CMSUK, though CMSUK is obliged to comply with HQ's Chinese Wall Policy as posted under OA platform.

Examples of Types of Conflict

Employee conflicts - where the personal interests of any employee conflict with the interests of the company itself or with a counterparty or client;

CMSUK interests conflict with counterparty or client interests - where the interests of CMSUK and its counterparties or clients either directly conflict or are more

generally incompatible;

Counterparty or client conflicts - where the interests of two or more counterparties or clients are either directly or generally incompatible;

Internal conflicts - where the interests of one internal business area conflicts with another internal business area.

(a) Personal Conflicts

You should inform the appropriate line manager or Compliance if you are aware that you may be involved in an actual conflict of interest or if you become aware that there is a potential conflict of interest.

For personal conflicts that have been declared, the line manager in the first instance should investigate the conflict. They should also formally record the conflict and the measures (if any) taken in managing the conflict. Equally, if there are no measures taken the reason for this should be noted.

Examples where personal conflicts should be considered include:

- Gifts, entertainment and inducements.
- Personal account dealing.
- Outside business interests, such as an economic interest in a supplier to the company or a second job or serving as a director or consultant.
- Personal political interests. Whilst an employee has the right to engage in the political process you must be clear that you do not represent the company and you must not use company property to engage in that process.
- Previous employment. You must not bring proprietary information or documentation from previous employers as this may put the company in a breach of copyright or other risk of litigation.

(b) Business Conflicts

If you ever suspect that there is any conflict or have any concerns in relation to new or existing arrangements you should raise it with either your line manager or Compliance.

Conflicts Monitoring System

There will be occasions when irreconcilable differences may arise. To identify and manage such differences, Compliance ensures that potential conflicts arising from CMSUK's business are identified and resolved as quickly as possible.

All conflicts or potential conflicts need to be recorded and evaluated. Examples of the more common conflicts that can occur include:

- Proprietary book and client - how to manage the book and treat the client fairly;
- Pricing mechanisms – ensure these are fair to the client; and

- Dealing and recording client orders – front running, market abuse etc.

You are expected to raise any queries or concerns about any potential conflict of interest with your line manager who will, if appropriate, escalate and report the matter to Compliance.

In every reportable instance, Compliance should be informed of:

all customers involved, including the ultimate holding company of such customers;

key personnel involved; and

the nature of the transaction.