



# SUMMARY OF CONFLICTS OF INTEREST POLICY

November 2018

## Introduction

This summarized Conflicts of Interest Policy (“the Policy”) is provided to you (our Client or prospective Client) in accordance with the Investment Services and Activities and Regulated Markets Law of 2017 L. 87(I)/2017 (“the Law”), which transposes the Directive 2014/65/EU on markets in financial Instruments (“MiFID II”), pursuant to which the Company is required to take all reasonable steps to detect and avoid conflicts of interest.

The Company is committed to act honestly, fairly and professionally and in the best interests of its Clients and to comply, in particular, with the principles set out in the above Law when providing investment services and other ancillary services related to such investment services.

The purpose of this document is to set out the Company’s approach in identifying and managing conflicts of interest which may arise during the course of its normal business activities. In addition, this document identifies circumstances which may give rise to a conflict of interest.

The Company has taken all sufficient steps to identify and prevent or manage conflicts of Interest which may arise between the Company, including its directors, managers, employees and any person directly or indirectly linked to the Company and its Clients or between one Client and another that arise in the course of providing any investment and ancillary services, or combinations thereof, including the Company’s own remuneration scheme and other incentive structures. Therefore, this Policy sets out the necessary procedures, controls and practices in place to ensure that any Conflicts of Interest are identified and prevented or adequately managed. If the steps taken by the Company to prevent or manage or mitigate conflicts of interest from negatively affect the interest of its Clients are not sufficient, the Company shall clearly disclose to the Client through durable medium, the general nature and sources of conflicts of interest as well as the risks to the Client and all the remedial actions taken to mitigate those conflict of interest.

## Scope

The Policy applies to all its directors, managers who directly or indirectly may affect the interest of the Clients or potential Clients, employees who directly or indirectly may affect the interest of the Clients or potential Client, persons or services outsourced who directly or indirectly may affect the interest of the Clients or potential Clients.

## Objectives

The Conflicts of Interest policy aims to ensure that the Company's Clients are treated fairly and at the highest level of integrity and that their interests are protected at all times. It also aims to identify conflicts between:

- The Company and a Client
- A Related Person and a Client
- Two or more Clients of the Company in the course of providing services to these Clients and to prevent conflicts of interest from adversely affecting the interest of its Client.
- A company's Service Provider and a Client

## Identification of Conflicts of Interest

When the Company deals with the Client, the Company, an associate or some other person connected with the Company may have an interest, relationship or arrangement that is material in relation to the Transaction concerned or that it conflicts with the Client's interest.

While it is not feasible to define precisely or create an exhaustive list of all relevant conflicts of interest that may arise, as per the current nature, scale and complexity of the Company's business, the following list includes circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more Clients, as a result of providing investment services:

- (a) The Company may be matching the Client's Order with that of another Client by acting on such other Client's behalf as well as on the Client's behalf;
- (b) ) When the Company accepts Client order in Contracts for Difference ("CFD"), the Company will be dealing in the CFD concerned as principal for the Company's account.
- (c) The remuneration scheme of employees/relevant persons which may be based on the Clients' trading volumes or value of trades placed by retail clients.
- (d) The Company or a Related Person is likely to make a financial gain, or avoid a financial loss, at the expense of the Client;
- (e) The Company or a Related Person may receive or pay inducements to or from third parties due to the referral of new Clients or Clients' trading in the form of monies, goods or services, other than the standard commission or fee for that service;

- (f) The Company or a Related person 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;
- (g) The Company or a Related person has a financial or other incentive to favour the interest of another Client or group of Clients over the interests of the Client;
- (h) The Company or a Related Person may receive goods, services or other inducement in addition to the standard commission or fee charged in respect of a service provided to the client;
- (i) The persons producing investment research/marketing communication and other relevant persons, whose responsibilities to business interest may conflict with the interests of the persons to whom the investment research/marketing communication is disseminated.
- (j) The Company may be the counterparty to its Clients posit) and therefore stands to profit if the Client loses.
- (k) The risk exposure generated by the Clients' trades is entirely affected on the Company and the Company does not hedge client's orders.
- (l) ) The Company may receive or pay inducements to or from third parties due to the referral of new Clients or Clients' trading.
- (m) The Company or a Related person carries on the same business as the Client.
- (n) The Company is a member of a group and as such potential circumstances of conflict of interest duties may, inter alia, arise because:
- (o) The Company and/or any other member of the group exercises the same activity as the Client;
- (p) A transaction is effected in financial instruments in respect of which the Company may benefit from a commission, fee, or non-monetary benefit payable otherwise than by the Client;
- (q) An interest in maximizing the Company's trading volumes in order to increase its commission revenue, which is inconsistent with the Client's personal objective of minimizing transaction costs.
- (r) The Company or any other member of the Company's Group may receive remuneration or other benefits by reason of acting in the provision of investment research or similar transactions involving an issuer whose financial instruments are held by the Clients;
- (s) The Company has a direct or indirect interest in a transaction.

Due to conflicts of interest that may emerge from the provision of investment and ancillary services or a combination thereof and whose existence may damage the interests of a Client, the Company takes note of several possibilities of conflicts of interest that may arise from situations such as the following:

- (a) The Company or a relevant person may have a financial or other incentive to favour the interest of another Client or group of Clients over the interests of the Client.
- (b) The Company or a relevant person is likely to make a financial gain, or avoid a financial loss, at the expense of the Client.
- (c) The Company or a relevant person receives 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 monetary or non-monetary benefits or services.
- (d) The Company or a relevant person 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.
- (e) The Company or a relevant person participates in the same business as the Client.
- (f) The Company or the relevant person is in possession of information obtained in the ordinary course of their business which would benefit the Company or the relevant person or the Group or the Client but such information is not publicly known.
- (g) The Company or a Relevant Person 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.

Probable contexts of conflict of interest may, inter alia, ascend due to the fact that the Company is a member of a group, as follows:

- (a) The Company and/or any other member of the group exercises the same activity as the Client.
- (b) A transaction is effected in financial instruments in respect of which the Company may benefit from a commission, fee, or non-monetary benefit payable otherwise than by the Client.
- (c) The Company or any other member of the Company's Group receives remuneration or other benefits by reason of acting in the provision of investment research or similar transactions involving an issuer whose financial instruments are held by the Client.
- (d) The Company acts as agent for the Client in relation to transactions in which it is also acting as agent for the account of other Client's including members of the Company's Group.
- (e) The Company deals in financial instruments as principal with the Client.

While it is not feasible to define precisely or create an exhaustive list of all relevant conflicts of interest that may arise, as per the current nature, scale and complexity of the Company's business, the following list includes circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more Clients, as a result of providing investment services:

- (a) The Company may be advising and providing other services to associates or other Clients of the Company who may have interests in Financial Instruments or Underlying Assets, which are in conflict or in competition with the Client's interests.

- (b) The Company may have an interest in maximizing trading volumes in order to increase its commission revenue, which is inconsistent with the Client's personal objective of minimizing transaction costs.
- (c) The Company may receive commissions and/or other inducements from its Liquidity provider for the transmission of Client Orders.
- (d) The Company may have relationships with many third party product providers/financial institutions who may remunerate the Company via inducements/commissions/fees and the Company may favour one over another in the recommendation process if higher inducements/commissions/fees are provided.
- (e) A transaction is effected in financial instruments in respect of which the Company may benefit from a commission, fee, or non-monetary benefit payable otherwise than by the Client; Any market information, training and discussions as regards possible market trends should not be construed as trading/investment advice. It is the Client's responsibility to perform its own market research before entering into any position.
- (f) The Company trades its proprietary positions and at the same time has knowledge of Client's future transactions via stop limit orders, as applicable.

## Procedures and Controls for Managing Conflicts of Interests

In general, the procedures and controls that the Company follows to manage the identified conflicts of interest include the following measures (list is not exhaustive):

- (a) The Company undertakes ongoing monitoring of business activities to ensure that internal controls are appropriate.
- (b) The Company has appointed an independent and objective in house Compliance Officer which is responsible, among others, for the identification, and management of conflicts of interest as well as for the monitoring of the related activities of the Company and Related persons. The Compliance Officer reports directly to the Company's Board of Directors.
- (c) Appointment of Internal Auditor to ensure that appropriate systems and controls are maintained and report to the Company's Board of Directors.
- (d) The Company has developed, adopted and maintained a framework of rules, policies and controls for the identification and management of conflicts of interest.
- (e) The Company undertakes effective procedures to prevent or control the exchange of information between Related Persons engaged in activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more Clients.

- (f) The Board of Directors of the Company sets out the Company's arrangements to ensure that its compensation arrangement will not give rise to conflicts of interest between the Company, its relevant persons, employees and Clients.
- (g) The separate supervision of Related Persons whose principal functions involve providing services to Clients whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the Company;
- (h) The Company employs rules and organizational arrangements in order to manage conflicts of interest which may arise from the production and/or dissemination of investment research to Clients by the Company.
- (i) The Company establishes rules which are applicable to the relevant persons who are involved in the production and/or dissemination of the investment research and other relevant persons whose responsibilities or business interest may conflict with the interest of the persons to whom the investment research is disseminated.
- (j) 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;
- (k) The Company prohibits relevant persons who are involved in the production and/or dissemination of the investment research to promise to any issuer of financial instruments that they will publish a favorable research on its behalf.
- (l) Measures to prevent or limit any person from exercising inappropriate influence over the way in which the Related Person carries out investment services;
- (m) Personal account dealing requirements applicable to relevant persons in relation to their own investments.
- (n) Measures to prevent or control the simultaneous or sequential involvement of a Related Person in separate investment services where such involvement may impair the proper management of conflicts of interest;
- (o) A policy designed to limit the conflict of interest arising from the giving and receiving of inducements;
- (p) Chinese walls restricting the flow of confidential and inside information within the Company, and physical separation of departments;
- (q) Segregation of duties that may give rise to conflicts of interest if carried on by the same individual;

- (r) Prohibition on officers and employees of the Company having external business interests conflicting with the interests of the Company without the prior approval of the Company's board of directors;
- (s) A “need-to-know” policy governing the dissemination of confidential or inside information within the Company.
- (t) Establishment of the “four-eyes” principle in supervising the Company’s activities.
- (u) Procedures governing access to electronic data.
- (v) Establishment of Personal Transaction Policy.
- (w) Staff members are forbidden to accept gifts, promotions, discounts or any other monetary or benefit in kind from Clients or third parties, which may create conflicts of interest.
- (x) In circumstances not covered by the points above and given the nature of a conflict of interest situation, the Compliance Officer and/or the Senior Management shall decide whether to allow a transaction by notifying the Client, or not allow the transaction all together.
- (y) Employees are prohibited from accepting gifts or other inducements from any person that cannot be regarded as justifiable in all circumstances.
- (z) Effective procedures to ensure that the persons that produce marketing communications and/or marketing material comply will all provisions of this Policy in relation to conflict of interests that may arise from the performance of their duties.
- (aa) Before the publication of marketing communications and/or marketing material, they are being reviewed for the purposes of verifying the accuracy of factual statements or for ensuring that they are in line with the Company’s marketing guidelines and requirements.
- (bb) Execution arrangements for obtaining the best possible result, “best execution” when executing Client orders.
- (cc) The Company shall maintain and regularly update the Conflicts of Interest register. It shall log all the conflicts of interest that may arise as a result of the provision of investment and ancillary services by or on behalf of the Company and it may entail a risk of damage to the interests of one or more Clients.
- (dd) The Senior Management of the Company shall receive on a frequent basis, and at least annually, written reports on the situations referred to in the Conflicts of Interest register.

#### **Specific Identification of Conflict of Interest and Measures for their Management**



The Company is constantly conducting an in-depth analysis of its business and organisational arrangements including best execution arrangements, inducement practices, remuneration practices and research/marketing communication procedures, to ensure that all likely conflict of interest situations are identified regardless of materiality. The Company has identified the following circumstances which give rise to a conflict of interest entailing a risk of damage to the interests of one or more Clients, as a result of providing investment services:

#### **Remuneration of staff:**

The Company in accordance with its governing legislation does not remunerate its employees based on any factors that create conflicts of interest or are not in favor of the best interest of its Clients. The Company's employees are remunerated (fixed and variable) based on Key Performance indicators within their departments, which are approved by the Compliance Function and Board of Directors. In order for the Company to manage the potential conflicts arising out of this practice, it has put in place the below procedures and arrangements regarding the variable remuneration:

- (a) The variable Remuneration is not provided until a specific period of time has passed. Under this measure, the Company aims to lessen the risk of a short term speculative mindset especially in sales staff. The variable Remuneration practice is structured to align the long term interests of the staff and the direct and continuous best interest of the Clients.
- (b) The Company awards variable Remuneration only when the relevant departments of the Company or/and the third party service providers have conducted their duties according to the regulatory requirements (act clear, fair and not misleading).
- (c) The Company monitors via a variety of methods the Departments and the third party providers that receive variable Remuneration (especially sales staff) in order to ensure whether they are acting on the best interest of their Clients. Company records all calls between the sales and Clients whereas Compliance performs sample checks of the recorded calls and makes a relevant monthly report to the Board of Directors of the Company.
- (d) The Company proceeds in an on-going education of the key functions of the Company in order to update their knowledge and be consistent with the regulatory requirements (act clear, fair and not misleading).

#### **a) Commissions received by its Liquidity Provider:**

In some cases where the Company sends orders for execution to its Liquidity Providers, the Company's Liquidity Provider pays the Company a rebate commission for the order flow sent for execution. In order for the Company to manage the potential conflicts arising out of this practice, it has put in place the below procedures and arrangements regarding the commissions received by its Liquidity Provider:

- (a) The Company has examined this and has recorded how the commissions received from its Liquidity Provider enhance the quality of the services provided to Clients and the steps taken in order not to impair the Company's duty to act honestly, fairly and professionally in accordance with the best interests of its Clients.

## Compliance Function

The Company has established and maintains a permanent and effective compliance function which operates independently, and which has the following responsibilities:

- I. to monitor and to assess the adequacy and effectiveness of the measures and procedures put in place, and the actions taken to address any deficiencies in the Company's compliance with its obligations under the Law and the Directive;
- II. to advise and assist the relevant persons responsible for carrying out investment services and activities to comply with the Company's obligations under the Law and the Directives and any subsequent regulatory requirements.

In order to enable the compliance function to discharge its responsibilities properly and independently, the Company ensures that, among other, the following related conditions are satisfied:

- (a) Ensure that the relevant persons involved in the compliance function must not be involved in the performance of services or activities monitored by the department
- (b) Identify any potential conflict of interest situations, and attempt to resolve it in a timely and efficient manner
- (c) Ensure that the method of remuneration of the relevant persons involved in the compliance function does not compromise their objectivity and must not be likely to do so
- (d) Identify any potential conflict of interest situations, and attempt to resolve it in a timely and efficient manner
- (e) Ensure that the performance of multiple functions by the Company's relevant persons does not and is not likely to prevent those persons from discharging any particular function soundly, honestly, and professionally.

## Internal Audit

The Internal Auditor's function is independent of the Company's operational units and it is an outsourced party. The Internal Auditor's duty is to scrutinize and evaluate the activities of the Company so as to provide an internal service to the Company. The Internal Auditor reports to the Senior Management. Accordingly, the Senior Management takes all necessary measures so that the Internal Auditor may practice his duties unhindered by internal obstacles, and that all the members of the Company shall be made aware of this function and necessity.

The main scope of the Internal Auditor's position shall be the evaluation of the adequacy and effectiveness of the Company's internal control systems, as well as the prevention and administration of risk connected to its operation so as to ensure:

- (a) the Company's legitimate operation
- (b) the safeguarding of the procedures and guidelines set by the management of the Company
- (c) the security of the Company's assets

- (d) the undertaking of timely remedial action in order to prevent or combat actions and conflicts of interest which might put the Company's operations and/or clients' interest at risk.

## Procedures governing access to electronic data.

The management information handled by each department is provided on a need-to-know basis to ensure that the information is not improperly communicated.

Appointment of Internal Auditor to ensure that appropriate systems and controls are maintained and report to the Company's Board of Directors.

Establishment of the "four-eyes" principle in supervising the Company's activities.

## Client's Consent

By entering into a Client Agreement with the Company for the provision of Investment Services, the Client is consenting to an application of this Policy on himself. Further, the Client consents to and authorises the Company to deal with the Client in any manner which the Company considers appropriate, notwithstanding any conflict of interest or the existence of any material interest in a Transaction, without prior reference to the Client. In the event that the Company is unable to deal with a conflict of interest situation it shall revert to the Client.

### Record Keeping

The Company shall maintain and regularly update the Conflict of Interest register. It shall log all the conflicts of interest that may arise as a result of the provision of investment and ancillary services by or on behalf of the Company and it may entail a risk of damage to the interests of one or more clients.

## Reporting

The Senior Management of the Company shall receive on a frequent basis, and at least annually, written reports on the situations referred above.

## Disclosure of Information

The Company must adequately consider how to manage all conflicts of interest before resorting to disclosure. This will be a last resort after all appropriate steps have been taken.

If during the course of a business relationship with a Client or group of Clients, the organizational or administrative arrangements/measures in place are not sufficient to avoid or manage a conflict of interest relating to that Client or group of Clients, the Company will disclose the conflict of interest before undertaking further business with the Client or group of Clients.

The disclosure shall take into account the nature of the client, to enable that client to take an informed decision with respect to the investment or ancillary service in the context of which the conflict of interest arises.

The disclosure will:

- be in durable medium,
- clearly state that the organisational and administrative arrangements established by the Company to prevent or manage the conflicts are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of the Client will be prevented;
- include a specific description of the conflicts of interest that arise in the provision of investment services and ancillary services;
- explain the risks to the Client that arise as a result of the conflicts of interest and the steps undertaken to mitigate these risks;
- include sufficient detail, taking into account the nature of the Client, to enable the Client to make an informed decision with respect to the services in the context of which the conflict of interest arises.

If a Client decides not to go ahead with the service due to the conflict disclosed, the Company will have no choice but to decline the provision of services if the conflict cannot be effectively managed.

## Staff Understanding

All of our directors, officers and employees are made aware of this policy to highlight and emphasize the importance of identifying and managing conflicts of interest and they are required to maintain confidentiality of all information entrusted to them except where disclosure is required by the law.

## Amendment of this Policy

The Company reserves the right to review and/or amend its Policy and arrangements whenever it deems this appropriate according to the terms of the Client Agreement between the Company and the Client.

Should you require any further information and/or have any questions about conflicts of interest please apply your request and/or questions to [support@xtrade.com](mailto:support@xtrade.com).