



# MeritKapital

**CONFLICTS OF INTEREST POLICY  
OF  
MERITKAPITAL LIMITED**

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## INTRODUCTION

MeritKapital Limited (“the Company” or “MK”) is required to maintain and operate effective organisational and administrative arrangements that will identify and manage conflicts of interest which arise or may arise in the course of providing a service to clients and counterparties (“clients”).

This Policy is not intended to, and does not, create third party rights or duties that would not otherwise exist had the policy not been made available, nor does it form part of an agreement between the Company and the client.

According to Article 34 of the MiFID II Delegated Regulation (the “Directive”) a conflict of interest may arise where the Company or an employee who, owing a duty to a client or a counterparty, may have personal or professional interests which compete with this duty and may entail a risk of material damage to client’s interests. A situation may be a conflict of interest even if no improper act or disadvantage to the client arises from it.

This Policy has been written to enable MK identify and summarise conflicts of interest which the firm may experience as an organisation and how it can address the challenges that such conflicts create. This will outline the relevant procedures and systems and to ensure compliance to these rules by constant monitoring and maintenance. It also provides the Company’s clients and counterparties with the appropriate information relating to the policies the firm has in place to identify and manage conflicts of interest.

The Company, its managers, employees and appointed representatives or any person directly or indirectly link to them by control firm are to strictly abide by laws and fulfil the firm’s obligations under Law 144(I)/2007 and Directive DI144-2007-01 issued by the Cyprus Securities and Exchange Commission (the CySEC).

This Policy should ensure that procedures are in place to identify, monitor and handle all potential and actual conflicts so that these are not to the detriment of the client.

## SCOPE

The Policy specifies the requirement for the Company, to have in place appropriate procedures and measures in order to identify and manage any such material conflict of interest.

In addition, the Company will comply with the following principles:

- i) The Company should conduct its business with integrity;
- ii) The Company should take reasonable care to organise and control our affairs responsibly and effectively.
- iii) The Company should pay due regard to the interests of its customers and treat them fairly.
- iv) The Company should manage conflicts of interest fairly, both between the Company and its customers, and between one customer and another client.

The Company will put in place “appropriate” steps to identify and manage conflicts. This will include the following:

- identify their conflicts of interest;
- manage their conflicts of interest;
- establish and maintain a conflicts policy;
- disclose their conflicts of interest (as a means of last resort);
- keep records of their conflicts of interest.

The Company is a mid-sized firm, which operates as a CIF with 730K license and offering the below services:

- Brokerage

- Prime Brokerage, including REPO transactions
- Proprietary trading
- Custody & Clearing services
- Portfolio Management
- Investment Advice
- Corporate Finance
- Underwriting

Each MK department, with the exception of corporate finance, has an individual employee providing services in accordance with the standards set by CySEC. MK has not employed staff solely for the provision of corporate finance services, due to the size of MK and the flow of business within that unit.

MK is an affiliate of Meritkapital UK Limited (MKUK), and FCA regulated firm which acts as a matched principal broker; Meritservus Secretaries Limited (MS) and DI Ross & Co. Ltd (DI Ross). MS is a fiduciary services company and DI Ross is an accounting firm. The relationships with MS and DI Ross are taken into consideration when identifying and managing actual and potential conflicts of interest.

## GENERAL PRINCIPLES

The Company should conduct its business according to the principle that it must manage conflicts of interest fairly, both between itself and its clients and between one client and another. In this regard, the Company must have procedures for dealing with actual or potential conflicts of interest arising from all of its activities as a financial services licensee.

It is in the interests of clients and staff of the Company that these procedures are set out clearly and understood so that the appropriate course of action can be followed before a problem detrimental to a client or to the Company arises.

The procedures to be followed and measures to be adopted include such of the following as are necessary and appropriate for the Company to ensure the requisite degree of independence:

- (a) effective procedures to prevent or control the exchange of information between relevant 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;
- (b) the 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;
- (c) 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;
- (d) measures to prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries out investment services or activities;
- (e) measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate investment or ancillary services or activities where such involvement may impair the proper management of conflicts of interest.

Procedures set out by this section apply to each member of the Company and to all staff, whether they are licensed representatives or personnel in any other capacity.

## IDENTIFICATION OF CONFLICTS OF INTEREST

In accordance with Article 23(1) of the Directive, MK will take all appropriate steps to identify conflicts of interest between:

- The Company (including its managers and employees, tied agents, or other relevant persons, as well as any person directly or indirectly linked to them by control) and a client; or
- The Company and its affiliates
- A client and another client

For the purpose of identifying the types of conflict of interest that arise, or may arise, in the course of providing investment or ancillary services or a combination thereof and whose existence may damage the interests of a client, MK takes into account, as a minimum, whether MK or a relevant person, or a person directly or indirectly linked by control of the firm:

- is likely to make a financial gain, or avoid a financial loss, at the expense of the client;
- 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;
- has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client;
- carries on the same business as the client; or
- receives or will receive from another person other than the client an inducement in relation to a service

Material Conflict	Nature of conflict and measures
Personal Account Dealing	<p>The risk arising is that employees who are party to privileged information concerning investments with which the Company deals may trade on information which is unknown to the client for personal gain.</p> <p><i>The Company has a restricted investor list to counter this and a policy whereby employees are only able to invest after the investment has been made available to the general public. In addition, all personal investments must be approved by the General Manager prior to their taking place by means of full disclosure of all personal security accounts detailing any ongoing transaction logs for compliance review.</i></p> <p><i>The Company will strictly follow the procedures outlined in the Personal Account Dealing policy.</i></p>
Gifts	<p>The Company runs “Gift Policy and Entertainment” seminars that intend to mitigate the risk of gift or entertainment related activity rendered to materially influence a recommendation provided to a client. The respective seminars are drafted in accordance with pertaining regulatory framework of the CySEC.</p> <p>As such all gifts and entertainment activity rendered to clients that surpasses an internally set monetary threshold must be signed off by Compliance.</p>

Inducements	The Company maintains an inducement policy that acts in a complimentary and not substitutive manner to the Conflicts of Interest Policy. The said Inducement Policy reflects the legality of Inducement Rules, the internal Policies of the firm and the role of Compliance within this scope. This is to ensure that inducement in connection with the provision of an investment or ancillary service enhances the quality of a service and is in line with the client's best interest as per the Company's professional duty to do so.
Remuneration	This deals with the risk that remuneration policy may encourage staff to take account of their own earnings from a potential transaction rather than the best interests of the client. The firm puts in place a policy whereby all staff receive the same level of commission regardless of the project the client invests in. All staff are aware of their obligations to act in the client's best regardless of personal benefit.

## EXAMPLES OF CONFLICTS

The following is a non-exhaustive list of examples of situations where a conflict of interest may arise. The list is divided into conflicts that may arise between the interests of MK and the interests of one or more clients and those that may arise between the interests of one client of MK and another.

### i. The Company v Client Conflicts

- Where MK trades its proprietary positions in a security when at the same time it has information about ongoing or future transactions with clients in relation to that security;
- Where one of the employees of MK engages in personal account dealing in respect of securities and MK has a client with an interest that potentially conflicts with such dealing;
- Where MK gains information in relation to distressed assets and then trades proprietary positions in those assets;
- Where MK is providing advice in relation to a debt issuance and is advising other clients as to the advantages and disadvantages of investing in the debt;
- Where gifts and inducements are received by the Company that may influence behaviour in a way that conflicts with the interests of the clients of MK;
- With respect to the investment advice service, where the Company:
  - advises the client to buy the instrument classified as "stale" as per trading book policy
  - provides misleading information on an instrument which will affect a client's investment decision, with the ultimate goal to increase the trading flow
- With respect to prime brokerage, where MK gains information in relation to securities and then the proprietary unit engages in securities lending kept on the client's account and trades accordingly on the market to capitalize on forecasted price movements; i.e. negative news gained by MK on a stock trigger respective security borrowing by the proprietary desk which then sells the borrowed stock to then buy it back less expensively before it returns back to the client's account without their authorisation
- With respect to proprietary trading:

- Where MK wants to buy an instrument that a client also wants to buy, the client order will always come first. This is applied to both – primary and secondary markets.
- The traders will anticipate client orders and buy unto Company's books to sell to clients. An alternative option is that MK will switch into a broker capacity and will acquire the security from the market and buy for the client

## ii. Client v Client Conflicts

- Where MK provides advisory and financial services to one client in respect of a bid and seeks to provide financing services to another client in respect of the same bid;
- Where MK provides corporate finance advice in relation to the same target to clients who are direct competitors of one another;
- Where multiple clients are interested in acquiring the same underlying security and MK may need to choose between which clients may receive the product
- Where multiple clients are charged different fees for the same underlying investment strategy which may result in MK's deviation from its fiduciary responsibilities
- Where the Company may provide advice to clients whose interests may be in conflict or competition with other clients' interests;
- Where MK is a discretionary portfolio manager for more than one client or fund, in particular in respect of issues relating to allocation.

When assessing conflicts of interests, MK must consider not just its own conflicts but also conflicts which arise between: (i) relevant persons, or (ii) a person directly or indirectly linked by control to MK, and the duty MK owes to its clients.

## MANAGING CONFLICTS OF INTEREST

Where a conflict of interest has been identified, MK follows certain procedures and measures to ensure that the firm satisfies the necessary degree of independence when managing potential conflicts of interest. These procedures and measures include the following:

- effective procedures to prevent or control the exchange of information between the relevant people where the exchange of such information may harm the interests of one or more clients
- separate supervision of relevant persons whose principal functions involve carrying out such 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 Company
- 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 may arise in relation to those activities
- measures to prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries out investment or ancillary services and/or activities
- measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate investment or ancillary services or activities where such involvement may impair the proper management of conflicts of interest
- segregation of duties that could give rise to conflicts if carried out by the same individual

- to monitor and report on all compliance procedures above to the Board of Directors
- establishment of a “four-eyes principle” in relation to the supervision of the firm’s activities
- where necessary, relevant persons are subject to personal account transaction rules;
- measures to prevent or limit any person from exercising inappropriate influence;

Some of the policies and procedures established to prevent Conflicts of Interests are shown below:

- The Confidentiality Policy governing the dissemination of confidential or inside information within MK and between MK and its affiliates
- Chinese walls restricting the flow of confidential and inside information within MK and between MK and its affiliates and physical separation of departments
- Privacy Policy governing access to electronic data
- Personal Account Dealing Policy setting out personal account dealing requirements applicable to relevant persons in relation to their own investments and/or that any personal dealing must be approved by Compliance
- Gifts and Benefits Policy managing the registration of the solicitation, offer or receipt of certain benefits and to limit the giving or receiving of inducements.
- Remuneration Policy governing the Company’s remuneration is in line with the business strategy and a consistent approach is taken to attract, develop, retain and reward employees for contributing to MK’s success, whilst maintaining financial stability and robust and effective risk management.

In the event that a conflict of interest emerges between clients, the Company will not disclose the details of a client to another client in order to prevent a breach of confidentiality. Where the Company is of the opinion that a conflict cannot be managed in light of the arrangements currently implemented or by the introduction of new measures, the Company shall refuse to act on behalf of the client.

## CHINESE WALLS

Where there is a material conflict of interest, it is important that an effective Chinese Wall is in place within the Company, which are designed to restrict information flows between different areas of the Company.

A Chinese Wall is an arrangement whereby information - price sensitive, commercially sensitive, or other confidential information (such as those relating to strategy or trade secrets or covered by a confidentiality undertaking) that may cause a conflict of interests (“Conflict Information”) - known to persons in one or more parts of an organisation is not available to persons in other parts of the organisation or to outside persons (i.e. Conflict Information are isolated). This is achieved by:

- A physical barrier restricting the flow of information between employees, which is monitored and enforced
- Restricted access to documents and information, including electronic documents
- Where documents and papers relating to Conflict Information needs to be destroyed, they must be shredded and properly disposed of;
- shall Conflict Information need to be disclosed to parties outside the Chinese Wall, prior approval needs to be sought from the Compliance Officer and the relevant parties must be informed as to the sensitive nature of the information given to them;
- Prohibition and restriction of certain communications between employees

- A written policy and procedure statement, communicated and acknowledged by employees, and disciplinary measures for breach of the policies and procedures
- Acknowledgements by employees of receipt of policies, attendance at training concerning Chinese Walls and the management of conflicts of interest
- Separate management and supervision of employees on different sides of the Chinese Wall

There shall be Chinese Walls between the following teams –

- Brokerage and the Investment Advice
- Brokerage and Portfolio Management
- Brokerage and Proprietary trading
- Proprietary trading and Portfolio Management
- Proprietary trading and Investment Advice
- Custody/Safekeeping and the front office team

Whereby an employee becomes aware of information following the failure of a Chinese Wall or any other reason, which could give rise to a conflict of interest, the matter must be referred to the Compliance Officer.

For the Brokerage business, the trading system is password protected so that the transaction log is not accessible to other departments. Similarly, all transactions are cross checked with orders that are received in order to ensure that no supplementary transaction flow was affected to benefit from any price manipulation mechanisms.

Chinese Walls and other measures are put in place to enable the Company and relevant persons to carry out business on behalf of Clients without being influenced by other information held within the Company that may give rise to a potential Conflict of Interest. Management of the Company shall monitor the communication content between the departments to ensure that the necessary Chinese Walls are maintained.

Each department of MK is separate and distinct. In consideration of the size and organisation of MK and the complexity of its business, the following Chinese Walls are in place in respect of each department:

#### ***A. Portfolio Management***

The Portfolio Manager of MK is responsible for structuring, monitoring, rebalancing and reporting on clients' portfolios. The Investment Adviser maintains the investment profile of the client with the changing market conditions and thereafter reiterates the picture to the Portfolio Manager so that the changes are reflected in the rebalancing of the portfolio. As the Portfolio Manager is directly linked to making financial instrument transactions, the separation of contact between this unit and the client makes it less difficult to facilitate a transaction which could be a breach of a conflicts of interest e.g. if the client is involved in an M&A transaction and the portfolio manager wishes to benefit from it after conversing with the client.

#### ***B. Investment Advice***

The Investment Adviser maintains the relationship with the client and ensures that the 'Know your client' (KYC) process has been completed, including the Conflicts of Interest Checklist, in order to understand the background and business dealings of the client. The completion of the KYC process will enable the Investment Adviser to more easily recognise conflicts of interest if they were to arise. This unit operates with password protected software so that other departments cannot view the trades that were received and transmitted. Moreover, all transactions will be tracked and cross checked so that all transactions effected on any one day are subsequent to the orders of the counterparty.

### **C. Brokerage**

The trading system is password protected so that the transaction log is not accessible to other departments. Similarly, all transactions are cross checked with orders that are received in order to ensure that no supplementary transaction flow was affected to benefit from any price manipulation mechanisms.

### **D. Proprietary Trading**

There are numerous conflicts of interest that arise as a result of proprietary trading. One common complaint is that the proprietary traders may buy a security they discern their buy-side customers are purchasing in order to profit from the price appreciation that will result from their customer's purchases. Another conflict that might occur is that when the proprietary traders buy securities that have been performing badly. In this instance, the trader might instruct their sales staff to call clients to try and convince them to purchase these securities. Therefore, the department needs to be segregated from the brokerage department, investment advice and portfolio management departments.

### **E. Corporate Finance**

The main service lines of this department include project valuations, raising financing for clients, option valuations, financial projections, drafting business plans etc. This department handles confidential and price sensitive information and could give rise to a conflict of interest if that information becomes known to other departments. As such, the Corporate Finance department is physically separate from all other departments and is under separate supervision. This ensures the prevention of the flow of information between departments.

### **F. Underwriting**

A more frequent and more observable conflict occurs between the Company's Underwriting department and its Brokerage Operations, Portfolio Management and Investment Advise departments. The Underwriting department is responsible primarily for completing transactions such as bond issuance or initial public offerings. The brokerage operation and the Investment Research department, on the other hand, are motivated to maximize commissions by providing fair, timely, high-quality and unbiased information for their clients. These two objectives may conflict. It is also applied to the Portfolio Management Department, where it is important the risk taken to the clients' portfolios.

### **G. E. Investment Research**

THE PERSONS INVOLVED IN THE PRODUCTION OF INVESTMENT RESEARCH SHALL NOT DISCLOSE DRAFT DOCUMENTS TO ANY RELEVANT PERSONS SUCH AS THE ISSUERS OF SECURITIES COVERED BY THE RESEARCH OR PERSONS WITH A MATERIAL INTEREST IN THOSE SECURITIES, inclusive other employees of the company, prior to its official publishing.

## **DISCLOSURE**

Where the organisational and administrative arrangements established and implemented by MK are not sufficient to ensure, with reasonable confidence, that the risk of damage to the interests of a client will be prevented, MK will clearly disclose the general nature and source of the conflict(s) of interest to the client before undertaking business on its behalf.

According to Article 34 of the Directive, MK will ensure that disclosure to clients of conflicts is a measure of last resort that can be used only where the organisational and administrative arrangements established by the firm to prevent or manage its conflicts of interest are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of the client will be prevented.

The relevant disclosure will:

- be made in a durable medium; and
- include sufficient detail, taking into account the nature of the client, to enable that client to make an informed investment decision with respect to the service in the context of which the conflict of interest arises.

- include a specific description of the conflict of interest in question;
- explain the general nature and/or sources of conflicts of interest, as well as the risks to the client that arise as a result of the conflict and the steps undertaken to mitigate these risks; and
- explain that the firm's organisational and administrative arrangements are not sufficient to protect the client – which may suggest to clients for the first time that the firm may not be doing enough to manage its conflicts effectively.

Where the Company has a material interest in a transaction with or for a client or a relationship which gives rise to an actual or potential conflict of interest in relation to the transaction, it should neither advise, nor deal in relation to the transaction unless it has taken all reasonable steps to ensure fair treatment of the client.

## AFFILIATES

In order to prevent the disclosure of confidential information and possible conflicts of interest arising, Chinese walls are employed and each of MK, MS and DI Ross operate from separate offices. Access to the respective offices is restricted to employees, who must use a swipe card to gain entry.

MKUK is an FCA licensed investment firm, acting as a matched principal broker. The company is managing the conflict with MKUK by fully segregating their clients between the offices.

In its interactions with affiliated companies, MK employees are required to abide by the rules and regulations set out in the employee Code of Conduct Policy.

## REMUNERATION

All MK employees receive a fixed monthly salary that is not dependent upon the daily activities they perform. Changes in MK employees' salaries are subject to annual company review, in accordance with the employees' overall performance. The Remuneration terms are disclosed in the Remuneration Policy of the Company.

## RECORD KEEPING

The firm will maintain a record of all activities where a conflict of interest has arisen or may arise in the Conflicts of Interest Register. This will also be presented at to the board on a frequent basis.

## TRAINING & REVIEW

All firm employees are given training on how to be aware of conflicts of interest and how to report any new or future conflicts.

## CONTROL BY AUDITORS

On all of the above processes a sequential internal audit visit will mitigate conflict of interest risks especially within the undertaking of functions such as trading and back office; settlement and payments functionalities. An external audit visit will mitigate conflicts of interest within the unit of accounting and across other units of the Company.

## FAILURE TO COMPLY

The requirements of employees to comply with the Company's policies for managing conflicts of interest as set out above are part of the mandatory internal obligations of all staff. Breach of these requirements will be dealt with in accordance with the principles that the only internal discipline and may also be recorded through the ordinary documentation of compliance monitoring by the Compliance department.

Failure to comply with this Policy may result in disciplinary procedures being invoked.

## MONITORING AND REVIEW

The Company has a responsibility and a legal obligation to ensure that its conflict management arrangements remain adequate. These compliance policies must work in a changing environment. For these purposes:

1. The Company board has the ultimate responsibility for ensuring the adequacy of this Policy, its implementation and that this Policy is reviewed adequately.
2. The Company senior management has the responsibility for ensuring implementation of the board's directions, including implementation by the Compliance Officer and other employees, and monitoring by the Compliance Officer.
3. The Compliance Officer has the responsibility for:
  - monitoring the day-to-day implementation of this policy;
  - for implementing the Company's obligations to record documents and for monitoring and implementing this policy;
  - training of all staff; and
  - advising the Company senior management on particular issues for potential change to this Policy.
4. The Company staff have responsibility for ensuring their compliance with this Policy and for suggesting changes to this Policy.
5. This policy is approved by the board of the Company.  
This policy is available to all employees.

MK annually reviews this Policy, and should any amendments be made which may materially affect the way in which the firm would handle a conflict of interest on behalf of a client, the client shall be notified in writing of the nature of the changes. The client is provided upon account opening, and further upon request, with an up-to-date copy of the conflicts of interest policy statement.

The responsibilities contained within this document will be reviewed on an annual basis by the Board of Directors and any changes made if appropriate.

## CONFLICT OF INTERESTS: OUTSIDE BUSINESS DIRECTORSHIPS

The Company employees who wish to hold a directorship in a business organisation other than the Company must obtain prior written approval from the Compliance Officer. The request should be submitted in writing and contain the following information:

- name and address of the organisation;
- nature of its business;
- the basis on which the staff is remunerated.

Upon joining the Company, the relevant employee should fully declare all their outside directorships or consultancies and may be required to resign from boards of those companies which may be considered to be in conflict potentially or, with any business of the Company or its clients.