



# Conflicts and Inducements Policy (Including Research)

**July 2021**



## What does this Policy Cover?

This Policy reflects the requirements set out in **MiFID II/MiFIR** and the **FCA Handbook** (together "**the Rules**") in respect of Conflicts of interest, Inducements and associated matters. This Policy applies to financial instruments as detailed in Annex 1 to this Policy.

This Policy will apply to all members and employees of the Partnership.

In this Policy the terms "Partnership" or "VCM" will mean Vantage Capital Markets LLP and VCM International Limited.

### This Policy

The Partnership will review this Policy on a periodic basis, but in any case at least annually.



## Identifying Conflicts

When identifying conflicts VCM must take into account, as a minimum, whether the Partnership or its members or employees are likely to: -

- make a financial gain, or avoid a financial loss, at the expense of a client;
- have an interest in the outcome of a service provided to a client (or of a transaction carried out on behalf of a client) which is distinct from the client's interest in that outcome;
- have a financial or other incentive to favour the interest of another client (or group of clients) over the interests of the particular client concerned;
- carry on the same business as a client; or
- receive an inducement in relation to a service provided to a client, in the form of monies, goods or services, other than a commercially standard commission fee or brokerage payment for that service (see Section 2 - “Inducements”)

The Partnership continuously seeks to identify any conflicts of interest that exist in its business and will put in place measures it considers appropriate to prevent the conflict or to manage and control the impact of the conflict with any clients that may be impacted by its existence.

Steps taken to achieve this aim may include: -

- preventing a conflict of interest which has been identified;
- managing any conflict that has arisen between clients with competing interests, if not preventable;
- managing any conflicts between VCM and its respective clients, where the clients’ respective interests in a particular outcome may be different unless the conflict is preventable; and
- preventing or managing conflicts that arise due to the personal interests of VCM members and employees and the interests of VCM and/or its clients where those interests may be different.



## Dealing with Conflicts

The Partnership has adopted a number of internal policies and procedures as well as other arrangements, in order to manage, recognise and prevent potential or actual conflicts of interests.

These are all subject to the Partnership's normal monitoring and review processes and include:-

**Personal Account Dealing (PA Dealing)** – The Partnership's policy requires all members and employees, regardless of their position within VCM, to disclose whether or not they engage in PA Dealing. If they do, they are required to instruct the relevant external broker to forward copy trading statements electronically to Compliance. Amongst other restrictions, holders of personal accounts may not deal in the same instruments which they broke for clients.

**Training and Competency** – The Partnership seeks to ensure that in its dealings with customers, its members and staff exhibit and apply the highest standard of integrity in their actions at all times. The induction procedure and competency monitoring programme the Partnership utilises are designed to ensure that all members and staff are familiar with and observe, inter alia, the FCA Principles for Businesses and the Statements of Principle and SM&CR conduct rules (COCON 2.2) and that they have the skills, knowledge and expertise to discharge their function as per the FCA's rules.

**Bribery and Corrupt Practices/Inducements** – members of the Partnership are not allowed to accept gifts, entertainment or any other inducement from any person which might benefit one client at the expense of another when conducting business.

For example, where two clients give similar orders and one client agrees to pay more commission, priority or better execution terms must not be granted to that client's order when it conflicts with obligations owed to the other client.

**Remuneration** – In order to comply with FCA rules, VCM maintains a Remuneration Policy which reflects FCA's Remuneration Code.

**Annual Competent Employee Rule (CER) certification** – provides VCM with confirmation that its members and employees understand the FCA's Statements of Principle and SM&CR conduct rules (COCON 2.2) SM&CR applicability of conduct rules (COCON 2.2)



**Segregation of supervision and function** – SYSC requires that senior management segregate duties to provide for the avoidance of potential conflicts of interest. However, it should be noted that in smaller companies, such as VCM, it is not always possible to achieve total segregation due to the limited number of staff within an organisation of the Partnership's size. While the principles have been considered when devising suitable controls, these are subject to modification to take account of the staff numbers performing such tasks and any cross-contamination of tasks.

**Chinese Walls (or information barriers)** may be employed in order to ensure that conflicts of interest cannot arise where the Partnership is providing a range of services. Clients must be able to trust that information about themselves will not be exploited for the benefit of other clients with different interests. Where the Partnership chooses to use information barriers to withhold or not use confidential information held by one part of the business from another, these arrangements are added to [the Conflicts of Interest Register](#).

**Changes to Rate Agreements or Fees** may be indicative of favourable treatment of one client over another, and thereby indicate an underlying conflict of interest. No changes to rate agreements or fees can be made without approval from the Head of Desk or other senior management. In circumstances where a change to a rate agreement or fees could give rise to a potential conflict of interest, the Head of Desk must advise the Partnership's Management Committee or the Risk Committee (whichever is to meet first) at the earliest opportunity.

**OTF Operating Policy** requires any conflicts of interest, which may arise during the operation of the OTF, to be identified and reported.

## **Refusal of Service**

Refusal of Service may occur in circumstances where the Partnership warrants that it cannot manage a particular conflict of interest effectively, and that it may decline to do business with or act for the client unless the conflict is removed or the client is in agreement with the disclosure made to it regarding the conflict.



## Inducements

An inducement is broadly a payment (or provision of a non-monetary benefit), which if received by the Partnership would conflict with the Partnership's own legal or regulatory obligations or those of its clients.

The FCA's Inducements rules are designed to ensure that firms only act in the interests of their clients and disclose payments (or non-monetary benefits) in a comprehensive, accurate and understandable way.

A payment is permitted if it satisfies the following three tests: -

1. The payment must not impair compliance with the Partnership's duty to act in the best interests of a client.
2. The details of the inducement are disclosed to a client in a manner which is comprehensive, accurate and understandable.
3. The inducement is designed to enhance the quality of the service to a client.

In 2012 the FCA issued the first Guidance to the Industry in relation to the practice known as payment for order flow ("PFOF"). PFOF is an arrangement whereby a broker receives payment from market makers (or liquidity providers) in exchange for sending order flow from clients to them. This guidance has been supplemented since its first issue, most recently by the PFOF Supervisory Statement issued in April 2019. The key identifier as to whether or not a conflict of interest arises when charging a market maker or a liquidity provider brokerage commission, is the status of the client order. Where a client has a right of first refusal then we will owe a primary duty to that client when working the order. If that order is matched with a market maker or liquidity provider then no brokerage commission may be charged on that leg.

We commissioned an external review of the capacity in which we act and the review confirmed our own understanding: our practices fall within the category of 'broad dissemination of non-exclusive liquidity'.

The issue of inducements also arises in the context of the Partnership's Prevention of Bribery and Corrupt Practices Policy in which payments or non-monetary benefits to clients or agents may be perceived as being questionable. This can be from a conduct perspective or in the worst case be deemed a bribe and therefore a criminal activity.



## Research

Research for the purposes of this Policy is defined as: -

- covering one or several financial instruments or other assets, or the issuers or potential issuers of financial instruments, or closely related to a specific industry or market such that it informs views on financial instruments, assets or issuers within that sector; and
- explicitly or implicitly recommending or suggesting an investment strategy and providing a substantiated opinion as to the present or future value or price of such instruments or assets, or;
- otherwise providing “Value Added Analysis”. This means containing analysis and original insights and reaching conclusions based on new or existing information that could be used to inform an investment strategy and be relevant and capable of adding value to the Firm’s decisions on behalf of Clients being charged for that research.

Where a Firm supplies research to Clients it must be able to explain how it prices its services, (especially as it also executes orders or receives and transmits orders for execution), to enable the Firm to evidence that its research pricing is not influenced or conditioned by other payments for execution services.

In order for investment research not to constitute an inducement the Client must pay for the research directly within its own funds either using the Client’s own resources at an unbundled price or from a specific Research Payment Account (‘RPA’) which is funded by that Client’s underlying customers under certain conditions, for the purpose of purchasing research. That is investment firms could no longer pass on broker commission to their Clients where such commissions include execution fees as well as research cost.

The methods described above are the only permissible way through which a Client is able to obtain research as acceptance under any other circumstances will be a breach of the inducement rules the Client is obliged to adhere to.

### What is not “Research”

Firms are able to send clients publications or provide them with information categorised as an *acceptable minor non-monetary benefit* which will not be viewed as an inducement. This will include the provision of market commentaries, which consist of: -

- non-substantive material consisting of short term market commentary on the latest economic statistics or company results (for example); or
- information on upcoming releases or events which contains only a brief summary of the Firm’s own opinion on such information that is not substantiated nor includes any substantive analysis (such as where a firm simply reiterates a view based on an existing recommendation or substantive research material); or



- services which can be deemed to be information relating to a financial instrument or investment service of a scale and nature commensurate with the broking services provided.

In order to ensure that the Partnership does not issue **Research** (unless expressly authorised by Compliance), materials provided to clients should be reasonable and proportionate, for example limited commentary or opinion.



## Appendix 1

### Financial Instruments as defined by MiFID II

- (1) Transferable securities;
- (2) Money-market instruments;
- (3) Units in collective investment undertakings;
- (4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
- (5) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);
- (6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market and/or an MTF;
- (7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in 6 and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls;
- (8) Derivative instruments for the transfer of credit risk;
- (9) Financial contracts for differences; and
- (10) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market OTF or an MTF.
- 11) Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC (Emissions Trading Scheme).