

SHORE CAPITAL GROUP



# CONFLICTS OF INTEREST GROUP STANDARDS

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## Conflicts of Interest Policy

### 1.1. Background

Shore Capital Group Ltd, its subsidiaries and affiliates (the "Group" or "Shore Capital") is a multiservice financial group whose regulated subsidiaries comprise Shore Capital & Corporate Limited ("SCC"), Shore Capital Stockbrokers Limited ("SCS"), Puma Investment Management Limited ("PIML") and Shore Capital Limited ("SCL"). The Group offers a wide variety of products and services to a broad and diverse client range and from time to time, it will inevitably find itself in a position where the interests of one part of the business may conflict with the interests of another part of the business. These will include conflicts arising between interests of a Group company, other companies within the group, employees, clients and between clients themselves.

Companies which are authorised and regulated by the Financial Conduct Authority ("FCA") are required to manage these types of conflicts to ensure all our customers are treated fairly.

### 1.2. Scope

This Policy applies to all Group companies and their respective employees (including temporary staff and contractors), regardless of their roles, department and location.

This Policy is intended to be comprehensive but is not exhaustive. The concepts and risks it describes are complex and cannot readily be applied to all situations.

## 2. Objective

The aim is to ensure that the Group manages potential conflicts of interest in a consistent manner and in compliance with all relevant regulations.

## 3. What are Conflicts of Interest

In overview, conflicts fall into several categories, partly reflecting the nature of the historic and current relationships the firm has with individual parties or clients. Some of the more common types of potential conflicts of interest scenarios are:

- the interests of Shore Capital conflict with those of a client;
- the interests of one client or group of clients of Shore Capital conflict with those of other clients;
- Shore Capital has obtained Confidential Information from, or relating to, an existing or former client which would be of value to another part of Shore Capital (such as its securities trading business) or other clients of Shore Capital (who might be competitors); and
- the interests of an employee of Shore Capital conflict with the interests of a client of Shore Capital or the firm itself e.g. where an employee of the firm executes a personal account trade ahead of a client order, or if they were to be incentivised so as to engage with a client with a view to achieving an outcome advantageous to themselves rather than in the client's best interest.

The key factor in determining whether a conflict of interest exists is whether the client could be disadvantaged; a conflict of interest will not necessarily arise if the firm benefits, but there is no possible disadvantage to the client.

The arrangements that are in place within the firm to manage these types of conflict are set out below.

#### **4. Management of Potential Conflicts of Interest**

Shore Capital operates a range of "regulatory tools" and other controls which ensure that potential conflicts, once identified, are managed appropriately, and that the firm and its employees conduct themselves and their investment business activities so as to ensure the interests of clients are protected. These tools also deal with instances where there is a perception that the firm may have a conflict even where this might not, in fact, exist.

##### **4.1 Shore Capital adopts the following approaches in managing conflicts of interest:**

- control of access to, and movements of, information to relevant employees to protect each person's interests and prevent improper access to, and use of, such information. This is primarily achieved through the use of Chinese Walls. These are organisational arrangements which are established to act as information barriers controlling the disclosure of information and preventing its unauthorised release to other areas of the company or the Group.

The regulatory effect of Chinese walls is that individuals on the "other side of the wall" will not be regarded as being in possession of Restricted Information denied to them as a result of the wall.

This is the key mechanism by which Shore Capital ensures its clients' interests are protected and any conflicts managed, and enables it to engage with a large number of potential clients while still meeting legal and regulatory requirements.

- separate employees within each business area to look after the interests of clients in that area. In addition, the company has detailed personal account dealing restrictions that apply to all employees. The company also has a policy in respect of gifts and inducements to restrict the type and value of gifts that our employees may accept; and
- disclosure of potential conflicts where relevant. This would happen in cases where we feel that our procedures may not be sufficient to ensure that a potential conflict of interest does not damage a client's interests. In such circumstances we may decide that it is appropriate to disclose the potential conflict and obtain consent from the client to proceed.

For specific arrangements in relation to the group's research department see Appendix 2.

##### **4.2 Transaction-specific conflict management measures**

In certain cases special conflict controls, specific to an individual transaction, can be put in place to allow the firm to engage with one client without prejudicing another prospective client or business already under way.

This normally involves establishing a temporary information barrier around the individuals or team involved in both of the potentially conflicting transactions (i.e. "Transaction Specific" Information Barriers) and/or obtaining the explicit consent of those parties or clients potentially impacted.

In such cases Compliance and/or senior management will usually determine that disclosure and/or client consent is a pre-condition to proceeding in the confidence that potential conflicts are being properly managed to avoid damage to the client's interests. However, careful consideration is required of how best to obtain explicit consent from the client, as consent is only deemed effective when given by a suitably informed customer.

The firm is conscious of the undesirability of its over-reliance upon disclosure and client consent as a conflicts management tool. For this reason it is only utilised as an additional step on top of the wide range of other organisational arrangements and controls in place when the organisational arrangements and controls are not sufficient to prevent the risk of damage to the client's interests. Where doubts exist as to whether transaction-specific arrangements will be effective in managing conflict risk with the appropriate degree of confidence, the firm will decline to act.

## Appendix 1 – Definitions

**Chinese Walls** -These are internal, organisational arrangements which act as information barriers controlling the disclosure of information within an organisation, and preventing the unauthorised release of Restricted Information to other areas of the firm.

**The Group** - References to the Group in this document should be taken to mean Shore Capital Group Limited along with all relevant subsidiary and affiliate companies either collectively or individually as the context may require.

**Confidential Information** - This is information received by Shore Capital from its clients, prospective clients or other third parties which has a "quality of confidence". Essentially, for it to be deemed confidential the information will:

- not be in the public domain; and
- be judged to be sufficiently sensitive so that its release or disclosure is likely to cause its owner to suffer a disadvantage or loss.

For the avoidance of doubt, Shore Capital must always treat information received from clients to whom it owes fiduciary duties as confidential.

Common examples of Confidential Information include information:

- released to Shore Capital for a specific purpose (such as to allow the firm to evaluate a transaction) and which cannot be used for any other purpose without the client's express agreement. Such information should generally be treated as Confidential Information whether or not there is a formal confidentiality agreement in place or Shore Capital has been formally engaged by the client;
- which might be subject to confidentiality or Banking Secrecy laws in the jurisdiction in which it was released to Shore Capital, which provide that Shore Capital cannot pass or disclose the information without the client's consent;
- relating to a client's plans for capital raising even where these are not material or are unlikely to effect the price of any publicly traded securities or instruments issued by that company;
- relating to the business structure or financing of a company which, while not insignificant, are unlikely to affect the price of any publicly traded securities or other instruments relating to that company. This might be the case for nonmaterial transactions (such as the sale of a small, non-core subsidiary) or other transactions where the market is already aware that it will take place;  
and
- obtained about a company as part of due diligence carried out to support a transaction for that company even where this is deemed unlikely to affect the price of the company's securities.

*Important Note: Confidential Information is not necessarily Inside Information. In common with other forms of Restricted Information, the firm and its employees have obligations to protect Confidential Information whether or not a confidentiality/nondisclosure agreement has been executed or whether Shore Capital has been formally engaged by the client. However, checks should be made as to whether such agreements are in place, as these may include additional specific requirements. This is a potentially complex area, and where doubts exist you should involve Legal and Compliance.*

**Inside Information** - While definitions vary slightly, it is essentially information which:

- is precise;
- is not generally available or within the public domain;
- relates directly or indirectly to one or more issuers of financial instruments or to one of more financial instruments; and
- would, if made public, be likely to have a significant effect on the price of those financial instruments or on the price of related derivative financial instruments.

Information will be precise if it indicates circumstances that exist or may reasonably be expected to come into existence or an event that has occurred or may reasonably be expected to occur and is specific enough to enable a conclusion to be drawn as to the possible effect of those circumstances or event on the price of financial instruments or related financial instruments.

The test for whether a particular piece of information is to have a significant effect on the prices of financial instruments is if and only if it is information of a type which a reasonable investor would be likely to use as part of the basis of his investment decisions. Examples of Inside Information include, but are not necessarily limited to, information relating to:

- the current or future financial or operating performance of a company whose securities are publicly traded on an exchange or in the OTC markets, where the release of such information is likely to affect the price of those securities;
- any financial restructuring activity such as capital raising or a share buy-back which is likely to impact the price of existing securities relating to the issuer;
- the firm's unpublished research recommendations and price targets, and changes in these likely to impact the securities to which they refer. This would include credit ratings issued by rating agencies, or Investment Research issued by a securities firm;
- Official statistics and announcements relating to fiscal and monetary policy before they are publicly released;
- the conduct of takeovers bids, disposals and acquisitions etc; and
- Regulatory disclosures required under the Transparency Directive, rules of a relevant exchange or the Takeover Panel, which have yet to be publicly disclosed.

Please note this list is not exhaustive.

**MiFID** - The Markets in Financial Instruments Directive to include the implementing directives and the associated recitals.

**Restricted Information** - In the course of its business Shore Capital and/or its employees will frequently receive information which is not in the public domain and which relates to its current or potential clients, other third-parties or information otherwise relevant to securities or financial instruments connected to these. While receipt of such information routinely occurs during the course of client engagements (from the client directly or its other professional advisors), it can also be released to us inadvertently. Within this Policy such information is referred to as "Restricted Information", which divides into two categories:

- Inside Information; and
- Confidential Information.

## **Appendix 2 - Policy for the Management of Conflicts of Interest in respect of Investment Research and Marketing Communications**

### **Introduction**

Shore Capital Stockbrokers Limited ("SCS"), as a company that is authorised and regulated by the Financial Services Authority ("FSA"), is required to manage conflicts of interest that may arise in its various areas of business to ensure that all its customers are treated fairly. This appendix to the policy sets out the particular steps that SCS has taken to manage any conflicts of interest in respect of its investment research activity and in particular to research produced that it has classified as being independent.

SCS is committed to providing its clients with high quality research and accordingly its Research Analysts are required to act in a professional manner at all times, producing all their research in an independent manner. Nevertheless, it is inevitable that conflicts will arise from time to time and this policy sets out to minimise the potential influence of other commercial influences e.g. SCS, its employees or its clients, on the objectivity of the Research Analysts and the research they produce.

Conflicts of interest may arise between those who receive our research, our Corporate Finance and other clients of the Group, the company itself and the personal interests of our staff.

The policies set out below are intended to manage such conflicts so that we can meet our obligations under the Conduct of Business ("COB") rules of the FSA. The policies do not create any rights or duties to, or by, third parties other than those agreed with ourselves elsewhere.

Where SCS feels a conflict cannot be effectively managed, or its clients' interests adequately safeguarded, it will decline to act.

### **Types of Investment Research Produced**

Research has been defined very widely by the FSA and includes the results of research into an investment or into a relevant company; an analysis of factors likely to influence the future performance of an investment or a relevant company; and advice or recommendations based on those results or that analysis. This excludes a personal recommendation. The research may be contained in single company reports, sector notes or morning meeting notes.

SCS produces all these types of publications and as its analysts are involved in producing all of these it treats all such publications as investment research. The investment research may be distributed via e-mail or hard copy, with both being classified as written research and the rules and this policy applying equally to both.

The FSA has distinguished between "independent" research (an impartial assessment) and a "non-independent marketing communication" (not an impartial assessment).

Independent research can only be produced by persons who do not have responsibilities that may conflict with the interests of the clients who may rely on that piece of research. Conversely, a non-independent marketing communication is categorised as such because it has been prepared by persons who may be exposed to such conflicts of interest.

Generally, all research produced by SCS will be independent. However, where the research is in respect of a company with which SCS or any other Shore Capital Group company are engaged either as broker, NOMAD or financial advisor ("House Stocks"), the analysts producing such research may have responsibilities to those companies which could conflict with the interests of the clients who receive their research. Accordingly, all notes in respect of House Stocks will be treated as non-independent marketing communications and will not include a recommendation.

Nevertheless, a non-independent marketing communication is subject to various regulatory requirements, which are designed to ensure that it is communicated to clients in a way, which is clear, fair and not misleading.

All of SCS' written research will be accompanied by a disclosure on the front page which explains its status, so that independent and non-independent research can be clearly distinguished.

Where a communication is labeled as being non-independent, employees may not indicate that such work is in fact an impartial assessment of the value or prospects of the investment covered by the communication.

Where material is published for internal purposes, it may not subsequently be issued to clients.

### **Chinese Walls**

SCS and the Shore Capital Group operate a Chinese Wall policy. This means that where relevant, information obtained by one part of the business must be withheld from persons for whom it acts in another part of the business. In the event that an analyst is required to "cross" a Chinese Wall to assist on a particular project, the analyst will be deemed to be an "insider" for that project and a record maintained to note that fact. That analyst will not be permitted to write about relevant investments and must not include any non-public information in any research until such time as it comes into the public domain or the analyst receives specific clearance from the Compliance Department.

Corporate Finance staff are physically separated from analysts to control the flow of information, particularly in relation to unpublished price sensitive information. Analysts may be brought "over the wall" and briefed on a company's results or other announcements before any announcement (after the Market has closed the working day before an announcement) but must not discuss the subject matter or any significant views thereon until the company's results have been published.

### **Recruitment & Remuneration of Analysts**

The recruitment of analysts is carried out by the Head of Research and Head of Equity Capital Markets. The views of the Corporate Finance department on the appointment may be taken into consideration. However, all appointments are subject to the ratification of the Board of the Company, which comprises of Heads of all business areas.

Remuneration of analysts is decided by the Head of Research and the Head of Equity Capital Markets within parameters set by the Board. All analysts may qualify for a bonus, the pool of which is dependent upon the general profitability of the firm. Individual analysts will be awarded a share of the pool related to their individual performance, determined by factors such as: productivity; quality, quantity and accuracy of research; reputation; evaluations from clients, industry surveys, Corporate Finance staff, sales and trading staff. However, the bonus will not solely be reflective of any individual success or specific recommendation made by an analyst during the course of their activities.

### **Supervision & Management of Analysts**

All of SCS' analysts report to the Head of Research. He is an analyst in his own right and does not have responsibilities which could conflict with the production of research. He is also a Board member and in turn reports to the Head of Equity Capital Markets.

Analysts work in a separate part of the main sales/trading floor, which has no physical barriers between it and the rest of the floor. However, separate rooms are available for use when working with confidential or unpublished price-sensitive information, with such confidential or unpublished price-sensitive information held by analysts being kept secure.



## **Editorial control**

Editorial control remains solely with the analyst and the Head of Research. All work must be reviewed and signed off by the Head of Research or those identified by him as competent to conduct such a review. This review involves the consideration of the quality, integrity and legal and regulatory compliance of the note.

Where a subject company is asked to review a research note, this is solely to confirm the facts contained therein. Changes, which are at the discretion of the analyst, are only made if the subject company points out errors in the facts. Revised material will be verified as much as possible before being accepted. Any recommendation will be removed before it is passed to the subject company for review.

The Corporate Finance Department only review notes on House Stocks and only with a view to validate factual information as SCS does not make recommendations on House Stocks.

## **Timing & Content of Publications**

Each analyst has discretion over the timing of publications. However, this would have to be agreed with the Head of Research.

Research will be communicated to recipients appropriately and fairly, Different service levels and client requirements mean that not all investment clients receive investment research or marketing communications and those who do will not necessarily receive all produced by the firm. However, in general, analysts may not give preference to selected clients in the same research-recipient category by providing notes that other clients in the same category do not simultaneously receive and in such a way that clients given preference might be able to derive an advantage there from.

SCS has internal guidelines for restrictions on the publication of a marketing communication in certain circumstances (for example, around the time of an investment offering or in a takeover code offer period) where Shore Capital has a corporate relationship with the relevant company.

## **Manner of Publications**

The analysts' initial trading comments and daily analyst comments are issued simultaneously to staff and clients by e-mail shortly after the meeting and at consistent times each day. Other notes are issued on an ad-hoc basis and the intra-day timing depends on when the note is completed.

Employees may not communicate the substance of any note to staff or clients prior to its issue.

## **Analyst Involvement in activities other than production of Investment Research**

SCS analysts are not allowed to be involved in activities that are likely to appear as being inconsistent with the production of impartial research. The Corporate Finance department is located in a distinct area of the building and separated by a Chinese Wall.

SCS analysts can be involved in pitching both for prospective new clients and for Corporate Finance transactions. In the latter case those analysts are deemed as having crossed over the Chinese Wall and this matter is reported to and recorded by the Compliance Department. As such, the prevailing restrictions on activity apply.