



Name:	VCMHK Conflicts of Interest Policy 2014
Version:	V2.0
Originator:	Compliance Department
Addressees:	All VCMHK staff

Purpose

This Policy sets out the key areas where Vantage Capital Markets HK Limited (“VCMHK”) may be subject to a conflict of interest in the provision of providing our services to clients and/or from anyone with whom we interact with as an inter-dealer broker.

The Policy aims to cover various circumstances which either constitute or could give rise to a conflict of interest entailing a material risk of damage to the interest of one or more of our clients. It describes the applicable structures and procedures for identifying and handling potential and/or actual conflicts of interest to ensure these are managed in a timely and equitable manner.

All members of staff must be aware of these procedures stated in this Policy and should endeavour to act in accordance with them.

Regulatory Background

The Securities and Futures Commission (“SFC”) expects Licensed Corporations to implement necessary systems and controls that are reasonably designed to identify and handle conflicts in a fair and equitable manner. If any actual conflict of interest is identified, a Licensed Corporation should ensure this gets timely managed in accordance with their internal procedures.

The SFC stipulates such obligation in General Principle no. 9 of the Code of Conduct which says:-

“A licensed or registered person should try to avoid conflicts of interest, and when they cannot be avoided, should ensure that its clients are fairly treated.”

It further stipulates the expected disclosure and fair treatment obligations in Provision 10.1 of the Code of Conduct:-

“Where a licensed or registered person 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 disclosed that material interest or conflict to the client and has taken all reasonable steps to ensure fair treatment of the client.”

VCMHK’s Regulatory Permissions and Business Activities

VCMHK is a Licensed Corporation authorized by the SFC for Type 1- Dealing in Securities and Type 2- Dealing in Futures Contracts regulated activities. The Company must comply with its SFC’s license condition to only provide services to Professional Investors, as the term is defined in the Securities and Futures Ordinance (“SFO”).

On the subject of conflicts of interest, it is important to highlight that the Company does not issue research reports and/or engage in principal investment and proprietary trading activities.

Definition of a Conflict

It is important at the outset to define and understand what a conflict of interest is in this context. A conflict of interest may arise in any area of VCMHK's business in the course of providing services to our clients where VCMHK (or another client for whom VCMHK is acting for) benefits whilst potentially and materially damaging (financially or otherwise) another client to which we also owe a duty of fair treatment.

When identifying conflicts a company must take into account, as a minimum, whether it or its 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 on 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 another client;
- 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 for that service.

VCMHK seeks to identify conflicts of interest that exist in its business and has put in place measures which are considered to be reasonably appropriate in an effort to monitor, manage and control potential impact of those conflicts with its clients, including managing conflicts arising between clients with competing interests.

Dealing with Conflicts

VCMHK has developed internal policies, procedures and other arrangements to help identify and manage conflicts of interest in the following areas:-

- I. Personal Account Dealing
- II. Training and Competency
- III. Inducements
- IV. Best Execution
- V. Staff Annual Undertaking of Compliance Manual
- VI. Segregation of Supervision and Functions
- VII. Chinese Walls
- VIII. Changes to Rate Agreements or Commission
- IX. Disclosure
- X. Refusal of Service
- XI. Conflicts of Interest Register

- I. **Personal Account Dealing (PA Dealing)** – VCMHK’s policy requires all employees, regardless of their position within the Company, to disclose whether or not they engage in PA Dealing, and if they do they are required to instruct the relevant external broker(s) to forward duplicate statements to the Compliance Department for regular monitoring purposes. Amongst other restrictions, the general principle in respect to personal account dealing is for holders of PA accounts to not deal in the same financial instrument(s) for which they broke for their clients. For further details please refer to VCMHK Compliance Manual and VCMHK Personal Account Dealing FAQs.
- II. **Training and Competency** – Staff should ensure they use the highest standard of ethic and integrity when dealing with clients. All of our licensed staff must fulfill their annual CPT requirements to ensure they remain fit and proper to carry-out regulated activities for our clients. Periodically, Compliance will circulate internal memorandum and regulatory updates to ensure our staff are abreast with relevant changes to the regulatory environment to which we operate in.
- III. **Inducements** – Staff 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 carrying out our business activities. For example, where two clients give similar orders and one client agrees to pay more commission, priority or better execution terms must not be given to that client’s order when it conflicts with obligations owed to the other client. The SFC expects licensed persons to handle client’s orders fairly and in the order in which they are received. For further details please refer to VCMHK Execution Policy and VCMHK Employee Handbook. A copy of the Hong Kong Prevention of Bribery Ordinance is available on the HK Intranet for your reference.
- IV. **Best Execution** - To ensure as fair treatment as possible for our clients, VCMHK Execution Policy requires our brokers to take all reasonable steps to achieve the best overall trading results for our clients, to exercise consistent standards, and to operate the same processes across all markets, clients and financial instruments in which the Company operates. There may be occasions when client’s orders may have a material effect on the price of a relevant security, in such circumstances all staff should ensure that they do not take advantages of the situation by dealing in his/her own account and/or encouraging a third party to deal on such privileged information, i.e.: no front running. In order to ensure a fair and orderly dealing environment within the market, VCMHK further ensures that our staff are aware of and to comply with the client priority principle as set out in the Code of Conduct, which aims to ensure fair treatment to clients and to prevent insider trading by inappropriate use of information for market manipulation. For further details please refer to VCMHK Execution Policy.
- V. **Staff Annual Undertaking of Compliance Manual** - This provides VCMHK with an annual confirmation that its staff stay current and understand the relevant requirements expected upon them as staff members of a SFC Licensed Corporation. For new joiners, they are required to provide undertakings of the Compliance Manual and any other applicable internal policies and procedures to Compliance at the start of their employment.
- VI. **Segregation of Supervision and Functions** – SFC requires Licensed Corporations to observe and implement segregation of duties for avoidance of potential conflicts of interest. However, it should be noted that in smaller companies, such as VCMHK, it may not be possible to always achieve total segregation in respect to job functions and/or office layout, due to limited number of

staff and available office space for organisations of this size. While the necessary principles have been observed when devising suitable internal controls, these may be subject to modification by taking into account staff members performing multiple tasks (which primarily occurs within the Back Office functions). That said, the Company ensures that segregation of duties between Front and Back Office is enforced at all times.

- VII. Chinese Walls** – Or the so-called “Information Barrier” is used to eliminate the possibility of conflicts of interest from arising as a result of inappropriate use of privileged information entrusted to us by our clients in the provision of our services. Our clients should be able to trust that information about themselves is not being exploited for the benefits of other clients with different interests. Where we choose to use Chinese walls to withhold or not to use confidential information held by and within that part of the business unit, these arrangements are clearly documented and monitored to maintain evidence of their effectiveness.
- VIII. Changes to Rate Agreements** may be indicative of preferential treatment of one client over another, and thereby indicating an underlying conflict of interest. No changes to rate agreements can be made without prior approval from one of the deskheads and/or Management. In circumstances where a change to a rate agreement and/or commission could give rise to a potential conflict of interest, the relevant broker and/or deskhead must advise Management at the earliest opportunity in order to timely manage such potential conflicts of interest.
- IX. Disclosure** - In instances where a conflict cannot be managed or eliminated appropriately, which by default, we do not therefore protect client interests sufficiently, such conflict shall be disclosed to the relevant client(s) for them to make an informed decision as to whether they wish to continue with the particular transaction(s). Any such disclosure to the client must be made in a durable medium (i.e. email, letter) and should disclose sufficient details, taking into consideration the nature of the client, and the relevant conflicts of interest to enable the client in question to make an informed decision. Such disclosure should be clear, fair and not misleading irrespective of the categorisation of the client. Any disclosures must be recorded and signed off using the Conflicts of Interest Declaration Form (see Annex 1).
- X. Refusal of Service** may occur in circumstances where VCMHK warrants that it cannot manage a particular conflict of interest effectively, and that it may decline to do business with or act for a client. Any such refusals of service must be recorded and signed off using the Conflicts of Interest Declaration Form (see Annex 1).
- XI. Conflicts of Interest Register** – VCMHK has a Conflicts of Interest Register for recording of conflicts of interest incidents which occurred as a result of the activities carried-out by the Company. The Company should periodically review the Register and to take appropriate actions to address any control deficiency to ensure such conflicts from not happening in the future. The Register is maintained by Compliance and in circumstances where a conflict of interest is deemed to be material, Compliance should timely report this to the Board.

If you have any questions with regards to this Policy and/or any issue concerning conflicts of interest in general, please contact the Compliance Department by emailing compliance@vcm.hk. Alternatively, you may choose to speak to the following persons in a confidential manner.

Simon Clowes, Managing Director	Ph: (852)2200-5280 / sclowes@vcm.hk
Ingo Kleinschmidt, COO and CFO	Ph: (852)2200-5250 / ikleinschmidt@vcm.hk
Cindy Sham, Head of Compliance	Ph: (852)2200-5260 / csham@vcm.hk

ANNEX 1- CONFLICT OF INTEREST DECLARATION

This form must be completed and emailed to Heads of Desk and/or Managing Director for review and sign-off. Once completed please send it to Compliance.

Broker Name:
Desk:
Details of the Conflict of Interest: <i>(including client's details and potential impact to other clients)</i> Client(s):
Date Identified:
Details:
<u>To be completed by Head of Desk only</u> I confirm that all relevant details of this reported potential conflict of interest are disclosed and recorded here. Upon my review and assessment here below are my recommendations:- i) Is disclosure of the concerned conflict to client(s) is recommended? YES/NO ii) Is refusal of service recommended? YES / NO
Sign-off by Head of Desk: Signature: _____ Date: _____
Sign-off by Managing Director: Signature: _____ Date: _____
Receipt by Compliance: Signature: _____ Date: _____

ANNEX 2

Conflicts of Interest Procedures in respect to CFTC and NFA Rules

- In the Commodity Exchange Act (“CEA”), it stipulates the expected requirements by the CFTC on Introducing Brokers (IBs) to implement conflict of interest systems and procedures that establish structural and institutional safeguards to ensure that the activities of any person within the firm relating to research, analysis of the price/market for any commodity are separated by appropriate informational partitions within the firm from the review, pressure, or oversight of persons whose involvement in trading or clearing activities might potentially bias the judgment or supervision of the persons.

In the case of VCMHK, the Company does not issue any research reports to our clients. Any publications such as desk notes are written by brokers within the broking department and are of the type of general market information only. Considering the Company does not engage in any principal investment or proprietary trading activities, there would not be instances whereby VCMHK is attempting to off-load any proprietary trading positions to our clients with the support of issuing conflicting view in such analysis reports on the specific commodity(ies) to our clients.

- NFA Members are required to diligently supervise its employees, to ensure professional ethical standards remain an essential element of their business model. NFA Members should use well-designed ethics training programs to support supervision of its employees and business activities.

Such training program should bring awareness to staff of changing industry standards, developments in technology, commercial practices and regulations and other changes which have ethical ramifications associated with them. Staff should receive periodic training to keep them cognizant of these developments and their ethical implications. In such training, this should include but not limited to, e.g. the avoidance, proper disclosure and handling of conflicts of interest.