



MeritKapital

MERITKAPITAL UK LIMITED

CONFLICT OF INTEREST

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## CONTENT

1. POLICY STATEMENT .....	3
2. SCOPE AND PURPOSE.....	3
3. CONFLICT OF INTEREST .....	4
<b>3.1 TYPES OF CONFLICTS .....</b>	<b>5</b>
<b>3.2 EXAMPLES OF CONFLICTS .....</b>	<b>6</b>
<b>3.3 MANAGING CONFLICTS OF INTEREST .....</b>	<b>7</b>
<b>3.4 CONTROL AND PREVENTION .....</b>	<b>10</b>
4. GENERAL PRINCIPLES.....	10
5. CHINESE WALLS .....	11
6. DISCLOSURE.....	12
7. RECORD KEEPING.....	12
8. TRAINING & REVIEW.....	13
9. CONTROL BY AUDITORS.....	13
<b>9.1 FAILURE TO COMPLY .....</b>	<b>13</b>
10. MONITORING AND REVIEW.....	13
11. CONFLICT OF INTERESTS: OUTSIDE BUSINESS DIRECTORSHIPS .....	14

The terms 'MeritKapital, MKUK, the Firm and the Company' refer to MeritKapital UK Limited registered at 70 Gracechurch Street, London, EC3V 0HR, company number 09779913, authorised and regulated by the Financial Conduct Authority ('FCA').

MeritKapital operating as an IFPRU 730K investment firm and will be offering the below services:

- i. Brokerage
- ii. Prime Brokerage services; Stock Lending, Repurchase Agreements (REPO)
- iii. Proprietary trading
- iv. Custody and Settlement & Clearing services
- v. Investment

MeritKapital will comply with the Markets in Financial Instruments Directive 2014/65/EU of 15 May 2014 ("MIFID II") and have a system in place to identify, prevent and manage conflicts.

## 1. POLICY STATEMENT

MeritKapital is committed to maintaining an environment where an effective system is enforced to face oncoming risks and preventing conflicts of interest. The Company through arrangements will manage conflicts of interest which arise or may arise in the course of providing a service to clients and counterparties ('clients').

This policy sets out how we aim to manage any existing and potential conflicts. MeritKapital's aim is to minimize conflicts by matching our interest with the interests of our clients. All employees must have a responsibility not to create a conflict and if not done, it could result in a disciplinary action being taken.

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 MeritKapital and the client.

## 2. SCOPE AND PURPOSE

The objective of this policy is to specify the circumstances where MeritKapital should identify potential conflict of interests. It will provide a description of our system that are in place to control, prevent and manage conflicts of interest.

MeritKapital must identify and summarise conflicts of interest which the firm may experience. It has preparation in place to address the challenges that such conflicts create. This will outline the relevant procedures and systems and ensure compliance with these rules by constant monitoring and maintenance. It also provides MeritKapital's clients and counterparties with the appropriate information relating to the policies the firm has in place to identify and manage conflicts of interest.

### 3. CONFLICT OF INTEREST

A conflict of interest is a moral problem that arises when a company has or has to deal with multiple objectives. As a result, it may lead the company to conceal information or provide misleading information.

In the context of a relationship between MeritKapital and its client, MeritKapital will owe a legal duty to ethically act in the best interest of the client and exclude its own interests.

MeritKapital may find occasions where the interests of one client may conflict with:

- i. the interests of MeritKapital;
- ii. MeritKapital's employees; and
- iii. those of another client.

MeritKapital UK Limited must ensure to prevent any conflict of interest with its affiliate, MeritKapital Ltd based in Cyprus.

A conflict of interest may be present even if no improper act occurs. One way to understand it is to use the term conflict of roles. A person with two roles, an individual who in compliance and is also monitoring sales. Such competing interest can make it difficult to fulfill either duties impartially. A conflict of interest may exist, even if no unethical or improper acts results.

A conflict of interest may arise in a situation where an internal auditor, who is in a position of trust, has a competing interest (the internal auditor may be influenced by their personal relationship with other people or the company). This will make it difficult to fulfil his or her duties impartially.

MeritKapital engages in a number of activities where there is a risk that the interests of one or more clients may be compromised. These activities include:

- i. Trading on behalf of clients;
- ii. Trading on own account; or
- iii. Providing investment advice.

A potential conflict may occur where MeritKapital finds itself at the centre of multiple interests which oppose each other. This may arise in the following cases:

- i. MeritKapital-Client conflict;
- ii. Client-Client conflicts;
- iii. Employee-Client conflicts; and
- iv. Employee-Firm conflicts.

MeritKapital, its managers, employees and appointed representatives or any person directly or indirectly linked to them by control are to strictly abide by laws and fulfil the firm's obligations under:

- i. Financial Services and Markets Act 2000

- ii. Principle for Business 8 of the FCA Handbook
- iii. COBS 12
- iv. FCA Handbook SYSC 10.1
- v. Directive 2014/65/EU - Markets in Financial Instruments and Amending Directive

### 3.1 TYPES OF CONFLICTS

To identify the types of conflict of interest that have or may arise, in the course of providing services, MeritKapital should as a minimum consider whether a person directly or indirectly linked by control:

- i. is likely to make a financial gain, or avoid a financial loss, at the expense of the client;
- ii. 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 clients interest in that outcome;
- iii. has financial or other incentives to favour the interest of one client or group of clients over the interests of the client;
- iv. carries on the same business as the client; or
- v. receives or will receive from another person other than the client an inducement with a service i.e. in the form of monies, goods or services or other than the standard commission.

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 MeritKapital deals may trade on information which is unknown to the client for personal gain.</p> <p>MeritKapital 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. Additionally, all personal investments must be approved by managers before taking place through full disclosure of all personal security accounts detailing any ongoing transaction logs for compliance to review.</p>
Gifts	<p>MeritKapital's bribery, corruption, gift and entertainment policy (BCGE policy) intends to mitigate the risk of gift or entertainment-related activity that may materially influence a recommendation provided to a client. The respective seminars</p>

	<p>are drafted following the regulatory framework and Code of Conduct of the FCA.</p> <p>As such, all gifts and entertainment activity to clients that surpass MeritKapital's monetary limit must be signed off by compliance.</p> <p>The BCGE policy and its register is complementary to this policy.</p>
Remuneration	<p>The remuneration policy may encourage employee to take advantage of their earnings from a potential transaction rather than the best interests of the client. MeritKapital has a in place a policy whereby all employee receives the same level of commission regardless of the project the client invests in. All employees are aware of their obligations to act in the clients best regardless of personal benefit.</p>

### 3.2 EXAMPLES OF CONFLICTS

This section is not, and is not intended to be, a complete explanation of all the potential conflict of interest that may arise. The following is a list of examples of situations where a conflict of interest may arise.

#### i. MeritKapital v Client Conflicts

- Where MeritKapital trades its proprietary positions in a security when at the same time it has information about ongoing or future transactions concerning the client and the security.
- Where an employee of MeritKapital engages in personal account dealing in respect of securities and MeritKapital has a client with an interest that potentially conflicts with such dealing;
- Where MeritKapital gains information about distressed assets and then trades proprietary positions in those assets;
- Where gifts and inducements are received by MeritKapital or its employees that may influence behaviour in a way that conflicts with the interests of the clients of MeritKapital;
- With respect to the investment advice service, where MeritKapital:
  - provides misleading information on an instrument which will affect a client's investment decision, with the ultimate goal to increase the trading flow
- Concerning prime brokerage, where MeritKapital gains information about securities and then the proprietary unit engages in securities lending kept on the

client's account and trades accordingly on the market to capitalise on forecasted price movements; i.e. negative news gained by MeritKapital 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 to the clients account without their authorisation

- With respect to proprietary trading:
  - Where MeritKapital wants to buy an instrument that a client also wants to buy, the client's order will always come first. This is applied to both – primary and secondary markets
  - The traders will anticipate client orders and buy onto MeritKapital's books to sell to clients. An alternative option is that MeritKapital 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 MeritKapital 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 multiple clients are interested in acquiring the same underlying security and MeritKapital 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 MeritKapital's not acting in good faith to its clients.
- Where MeritKapital may provide advice to clients whose interests may be in conflict or competition with other clients' interests;

When assessing conflicts of interests, MeritKapital must consider conflicts which arise between a person directly or indirectly linked by control to MeritKapital, and the duty MeritKapital owes to its clients.

### 3.3 MANAGING CONFLICTS OF INTEREST

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

- i. effective procedures to prevent or control the exchange of information between the departments and non-acting traders via Chinese walls where the exchange of such information may harm the interests of one or more clients;

- ii. separate supervision of employees whose principal functions involve carrying out such activities on behalf of, or providing services to clients whose interests may give rise to conflict, or who otherwise represent different interests that may give rise to conflict, including those of MeritKapital;
- iii. the removal of any direct link between the remuneration of employees 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 concerning those activities;
- iv. measures to prevent or limit any person from exercising inappropriate influence over the way in which employees carry out investment or ancillary services and/or activities;
- v. measures to prevent or control the simultaneous or sequential involvement of employees in separate investment or ancillary services or activities where such involvement may impair the proper management of conflicts of interest;
- vi. segregation of duties that could give rise to conflicts if carried out by the same individual;
- vii. to monitor and report on all compliance procedures above to the board of directors;
- viii. establishment of a "four-eyes principle" in relation to the supervision of the firm's activities;
- ix. where necessary, relevant persons are subject to personal account transaction rules; and
- x. measures to prevent or limit any person from exercising inappropriate influence.

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

- i. The confidentiality policy governing the internal and external information of confidentiality within MeritKapital and between MeritKapital and its affiliates;
- ii. Chinese walls restricting the flow of confidential and inside information within MeritKapital UK Limited and between MeritKapital Limited and its affiliates;
- iii. Privacy policy governing access to electronic data;
- iv. 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;
- v. BCGE policy managing the registration of the solicitation, offer or receipt of certain benefits and to limit the giving or receiving of inducements; and
- vi. Remuneration policy is in line with MeritKapital's business strategy and a consistent approach is taken to attract, develop, retain and reward employees for contributing to MeritKapital's success, whilst maintaining financial stability and robust and effective risk management.

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

MeritKapital UK Limited may at time conflict with its affiliate companies i.e. MeritKapital Limited, Meritservus and DI Ross & Co. There is more of likelihood between MeritKapital UK Limited and MeritKapital Limited as both are investment firms. Such conflict could include:

- Dealing on behalf MeritKapital's UK Limited client with MeritKapital Limited, including but not limited to:
  - MeritKapital UK Limited brokerage service is used in a transaction including MeritKapital Limited or related to any affiliates, which may lead to increasing revenues for either companies.
  - Arranging a transaction on a counterparty/client's behalf through MeritKapital Limited who acts as a custodian for MeritKapital UK Limited counterparties or clients.
- Where an affiliate executes a trade on behalf of MeritKapital UK Limited
- Dealing with an affiliate can be recurring or ad-hoc under the instruction of a client requesting MeritKapital UK Limited to do so.

To manage this conflict, MeritKapital UK Limited has several policies and procedure in place to control, manage reduce the risk of conflict occurring. These include policies relating to the monitoring of trade execution. The most important consideration when dealing with an affiliate, is for MeritKapital to ensure that the client or counterparty is not disadvantaged.

In a position where conflict is inevitable, pre-approval is required from the head of the operational department and, in some circumstances, approval may not be given. If approval is granted, MeritKapital's risk management committee may recommend additional controls to manage the potential conflict.

In addition, directors of MeritKapital UK Limited will be required to declare any conflicts of interest in accordance with their directors' duties.

In some instances, MeritKapital Limited may use MeritKapital UK Limited as a broker in security transactions unless otherwise restricted by a law, agreement or regulation.

There is also a physical barrier between both MeritKapital UK Limited and MeritKapital Limited acting as a Chinese Wall. This fully segregates the clients between each company.

In cases where conflict arises between the companies and where the best course of action cannot be agreed, it would be for the best that neither company acts in that particular situation or transaction. Alternatively, the companies could:

- Appoint non-executive directors to the board to arrange a mutual agreement between both companies. This will avoid the common directors from breaching their legal responsibility to each company.
- Hold separate board meetings for each company on different days for the best interest of each company to be taken in consideration. Document and minute board decisions.
- Ensure that intra-companies' transactions are at arm's length where possible.

### 3.4 CONTROL AND PREVENTION

MeritKapital, has in place appropriate procedures and measures to identify and manage any such material conflict of interest. Also, MeritKapital will comply with the following principles:

- to conduct its business with integrity.
- take reasonable care to organise and control its affairs responsibly and effectively.
- to pay due regard to the interests of its clients and treat them fairly.
- the most applicable in this instance, to manage conflicts of interest fairly between:
  - MeritKapital and its clients
  - and between one client and another client.

MeritKapital has put in place appropriate steps to identify and manage conflicts. The steps are to:

- refer to the conflict of interest policy for guidance;
- disclose a conflict of interest, as a means of last resort; and
- keep a record.

### 4. GENERAL PRINCIPLES

MeritKapital 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, MeritKapital has 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 employees of MeritKapital that the procedures set out below are clear so that the appropriate course of action can be followed before a problem occurs to a client of MeritKapital.

The procedures to be followed and measures to be adopted include:

- 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;
- the separate supervision of employees 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;

- iii. 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 concerning those activities;
- iv. measures to prevent or limit any person from exercising inappropriate influence over how a relevant person carries out investment services or activities;
- v. measures to prevent or control the simultaneous or sequential involvement of employees 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 MeritKapital and all staff, whether they are licensed representatives or personnel in any other capacity.

## 5. CHINESE WALLS

Where there is a material conflict of interest, a Chinese Wall is in place within MeritKapital to restrict information flows between different areas of MeritKapital.

- A Chinese Wall is an arrangement where confidential information is not shared between two departments in an organisation. This is to prevent commercially sensitive or confidential information from being made known. 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;
- Before any conflicting information is disclosed to another department, approval must be obtained from the compliance officer.
- 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; and
- Separate management and supervision of employees on different sides of the Chinese Wall.

There are Chinese Walls between the following services:

- i. Brokerage; and
- ii. Proprietary trading

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 protected so that the transaction log is not accessible to other departments. Similarly, all transactions are cross-checked with orders that are received 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 MeritKapital and relevant persons to carry out business on behalf of clients without being influenced by other information held within MeritKapital that may give rise to a potential conflict. Management of MeritKapital shall monitor the communication content between the departments to ensure that the necessary Chinese Walls are maintained.

## 6. DISCLOSURE

Where MeritKapital cannot ensure with reasonable confidence, that the risk of damage to the interests of a client will be prevented. MeritKapital will disclose the general nature and source of the conflict(s) of interest to the client before undertaking business on its behalf.

As a last resort and for the benefit of the client, MeritKapital must disclose a conflict of interest where it cannot through arrangement ensure that conflict will be prevented or managed.

The relevant disclosure will:

- i. be made in a durable medium;
- ii. 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;
- iii. include a specific description of the conflict of interest in question;
- iv. 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.

Where MeritKapital 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 about the transaction, it should neither advise or be involved in concerning the transaction unless it has taken all reasonable steps to ensure fair treatment of the client.

## 7. RECORD KEEPING

MeritKapital will maintain a record of all activities where a conflict of interest has arisen or may arise in the conflict of interest register. This will also be presented to the board frequently.

## 8. TRAINING & REVIEW

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

## 9. CONTROL BY AUDITORS

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 MeritKapital.

### 9.1 FAILURE TO COMPLY

The requirements of employees to comply with MeritKapital's policies for managing conflicts of interest as set out above are part of the mandatory internal obligations of all staff. If an employee does not comply with this policy, a formal warning will be given. If non-compliance with this policy is identified as malicious action, a disciplinary procedure will be invoked.

## 10. MONITORING AND REVIEW

MeritKapital 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:

- i. MeritKapital's Board has the ultimate responsibility for ensuring the adequacy of this policy, its implementation and that this policy is reviewed adequately.
- ii. MeritKapital 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.
- iii. The compliance officer has the responsibility for:
  - monitoring the day-to-day implementation of this policy;
  - training of all staff; and
  - advising MeritKapital senior management on particular issues for potential change to this policy.
- iv. MeritKapital staff have responsibility for ensuring their compliance with this policy and for suggesting changes to this policy.
- v. This policy is approved by the board of MeritKapital and is available to all employees.

MeritKapital annually reviews this Policy and should any amendments be made which may materially affect how 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.

## 11. CONFLICT OF INTERESTS: OUTSIDE BUSINESS DIRECTORSHIPS

MeritKapital employees who wish to hold a directorship in a business organisation other than MeritKapital 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 MeritKapital, the relevant employee should fully declare all their directorships or consultancies and may be required to resign from the boards of those companies which may be considered to be in conflict potentially or, with any business of MeritKapital or its clients.