

Tullett Prebon **Conflicts of Interest Policy**

Introduction

Under FSA's Principles for Businesses, Principle 8 requires a firm to "manage conflicts of interest fairly, both between itself and its customers and between a customer and another client." Under the Markets in Financial Instrument Directive ("MiFID"), Tullett Prebon is required to maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps to identify, monitor and manage any such conflicts of interest. Controls and procedures are in place to ensure Tullett Prebon meets its obligations. Set out below is a summary of these controls and procedures and the key information that is needed by clients and counterparties (together "customers") to understand the measures Tullett Prebon is taking to safeguard the interests of its customers.

Procedures for managing potential conflicts

- Compliance manual - Documented procedures
- Independence Policy
- Conflict Management Policy for investment research material
- Physical separation (Chinese walls)
- Disclosure to customers

What is a conflict of interest?

A conflict of interest as defined under MiFID is a conflict that arises in any area of Tullett Prebon's business in the course of providing its customers with a service which may benefit Tullett Prebon (or another customer for whom Tullett Prebon is acting) whilst potentially materially damaging another customer where Tullett Prebon owes a duty to the customer. There may be a conflict where Tullett Prebon (or anyone connected to Tullett Prebon including another Tullett Prebon affiliate):

- is likely to make a financial gain (or avoid a loss) at the expense of its customer;
- is interested in the outcome of the service provided to its customer where the interests of Tullett Prebon is distinct from that of the customer;
- has a financial or other incentive to favour the interests of one customer over another;
- carries on the same business as a customer;
- receives money, goods or services from a third party in relation to services provided to a customer other than standard fees or commissions.

Tullett Prebon has sought to identify conflicts of interest that exist in its business and has put in place measures it considers appropriate to the relevant conflict in an effort to monitor, manage and control the potential impact of those conflicts on its customers. The conflicts identified include:

- those between customers with competing interests;
- those between customers and Tullett Prebon where their respective interests in a particular outcome may be different; and
- those between the personal interests of staff of Tullett Prebon and the interests of Tullett Prebon or its customers where those interests may be different.

What are Tullett Prebon's potential Conflicts of Interest?

Customer Orders

There may be times when customer orders which may have a material affect on a relevant securities price could be taken advantage of by the broker who may deal for their own personal account or encourage a third party to deal. To manage this potential conflict, all staff have signed-off on the Compliance Manual which instructs all brokers to disregard information that could serve as a detriment to customers' interests. Also within the Compliance Manual is a chapter on Market Abuse which gives examples and training to all staff on what may constitute market abuse and manipulation. The Compliance Department carries out monitoring to help ensure this requirement is met.

Personal Account Dealing ("PAD")

Tullett Prebon has a strict policy on PAD and the rules are signed off as understood by *all employees* regardless of their position within the Tullett Prebon.

The procedures are that all staff are to check with Tullett Prebon Compliance and obtain permission before trading in Tullett Prebon Plc shares. See Appendix 1 for full Policy.

All staff are regularly reminded of the Personal Account Dealing rules through general all staff emails.

Gilt IDB and Gilt Agency desks

The Gilt IDB desk brokers transactions under the rules of The London Stock Exchange between a closed user group made up of Gilt Edged Market Makers ("GEMMS") only. The Gilt Agency desk brokers OTC trades between GEMMS and other counterparties wanting to access the gilt market. GEMMS are permitted to quote prices within the LSE spread when trading via the Gilt IDB desk as long as these prices are not to be seen by non-GEMMS. A conflict of interest would arise were the Gilt Agency desk to become aware of prices being shown by the Gilt IDB desk.

This potential conflict of interest is managed by:

- Different Firms
The desks operate under different firms. The Gilt IDB trades under Tullett Prebon (Europe) Limited and the Gilt Agency desk under Tullett Prebon (Securities) Limited.

- **Systems**

The desks use two different systems to broadcast prices and book tickets, with neither desk having access to the other's system.

- **Location**

The Gilt IDB desk is located away from other Sterling Rates desks in its own enclosed room where the remainder of the dealing floor cannot see its prices.

External Investment Advice

Several brokers on certain desks issue written market commentaries which could be deemed advice concerning products and markets.

Under FSA Rule 12.2 – Investment Research, all authors are to remain objective and impartial in all written communication to customers. The risk is that any should any written communication not be objective and impartial and this fact is not disclosed to clients at the time this would be a breach of FSA Rule 12.2.

The full policy and rules are sent to the authors who sign off to confirm understanding, at the same time their line manager also signs off to ensure there is a 'four eyes' approach to this policy. See Appendix 2 for full Policy which compliments the Tullett Prebon Independence Policy which is detailed in the Compliance Manual which all brokers sign to adhere to.

Inducements to Employees from Customers

An employee must not allow inducements from customers to benefit the customer above the interests of others when conducting investment business. An example would be two customers giving similar orders where one customer agrees to pay more commission and that customer's order is executed first or at a better price than the other customer when it conflicts with obligations owed to the other customer.

This also extends to entertaining customers to the extent that undue pressure is put on the customer to trade through the firm giving rise to a possible duty the customer owes its own underlying customers.

Remuneration Policy

All relevant staff who are open to a conflict of interest are paid a basic salary including those in key support areas such as Compliance, Finance and Operations. This salary is not dependent on company performance. A bonus structure does exist which is tied in with company performance and that of the individual's performance. It is at the discretion of the senior management and notified only on payment.

Compliance Monitoring Programme

Tullett Prebon EMEA Compliance has an established compliance monitoring programme which amongst other areas looks at conflicts of interest and is able to recognise where there may have been a potential conflict. The programme looks at PA dealing and monitors contract notes. It ensures all new employees receive, understand and sign the Compliance Manual. It also reviews the current Chinese walls and confirms the effectiveness.

Disclosure to Customers

Whilst this method of managing conflicts is rarely used, it would be utilised if the occasion arose whereby the other methods currently in force could not guarantee that a customer's best interests was protected. As such Tullett Prebon does not envisage having to use this disclosure as a way of managing a conflict of interest.