

1. OBJECTIVE

Under current regulations firms must set policies and procedures in place in order to ensure that conflicts do not adversely affect client's interests. Where conflicts cannot be voided, the client shall be informed of the conflict so they may decide whether to use firm's services or not. – FCA Principle 8 requires that a firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client

A conflict of interest is a financial or other type of interest that that may result in an action being taken which may not be in the best interests of clients. A firm will inevitably encounter such conflicts of interests between the firm and its clients and between different clients:

- Firm holds knowledge for one client which would benefit another;
- Acting for one client may adversely affect another;
- Firm may be remunerated in a way that conflicts customer's interest
- Firm's employees may use client information in his disadvantage

These items are mainly applicable to firms with multiples functions; London Stone Securities does not have a corporate finance division, not does it conduct trades for its own accounts and it does not normally conduct direct investment research. Therefore, the risks are mitigated.

2. DESCRIPTION

Detailed below is the firm's response to ensure that conflicts of interest are suitably managed.

In the normal course of business, circumstances may arise where a client's interests conflict with:

1. Firm's interests

- a. Products – As a firm, we do not offer products or services which could conflict against the client's best interests. For example, we do not offer a product where the firm buys a share at a discounted price and sells at a higher price such as is the case in matched principal trading. The firm recommends shares which it does not receive any referral commission for or which may incentivise it to offer it to its clients. Commission on all products is the same at 1% (minimum £100). Therefore, there is no incentive for one product to be more lucrative to the firm/broker than another.
- b. Multiple roles of employee – whenever an individual has more than one role within the business it is important to ensure that the roles do not in any way conflict with each other. Within the firm, the owner of the business, Ranjeet Singh, holds the following functions.

CF1– Director
CF10 – Compliance Officer
CF11 – Money Laundering Reporting Officer (MLRO)
CF30 – Advisor

Detailed below are the potential conflicts of interest which may arise and how they are managed.

The firm does not find any obvious conflict of interest for an individual to hold the Customer Function roles of CF10 and CF11. Both roles involve the same skill set in terms of monitoring and ensuring that checks and balances are in place to ensure that the business operates correctly within the regulatory framework. Where necessary the roles both involve taking action to ensure that rules and regulations are not breached.

Whilst the MLRO is more external facing and the Compliance Officer role is more internal facing, both have the capacity of impacting the firm's ability to operate as an FCA approved firm.

The firm also does not find any obvious conflict of interest between the CF1 Director role and either CF10 or CF11. This is because as a director (and in this case the director is also the owner) the entire existence of the business rests on the firm's ability to retain its FCA licence. It is therefore in the interest of a director that the roles of CF10 and CF11 are carried out competently and correctly.

The director/owner of the business recognises that these roles are critical to the business to remain in operation, even more than perhaps an individual who is specifically recruited for that role. This is because a failure by an 'employee' in the CF10 or CF11 role is likely to lead to their termination. For the owner of the business a significant failure in the CF10 or CF11 role could lead to the suspension or termination of the firm's licence. Therefore, it could be argued that an individual who is a shareholder i.e. has a vested interest in the business, is likely to be more committed to ensuring full and absolute compliance than somebody who is not a shareholder.

The CF11 function can also be seen as a standalone function in that it transcends FCA regulation. There are far and wide-reaching implications already in place including custodial imprisonment for breach of a CF11 function. This in itself is a sufficient deterrent to ensure that an individual holding a CF11 function does not act in any way other than absolutely in accordance with what is legally required of them. Therefore, a conflict of interest is highly unlikely.

The firm believes that the most likely potential conflict of interest could arise between the CF30 function and the CF10 function. This is because the CF30 is an advisor function which is revenue generating and the CF10 function provides compliance oversight to that advisor role. There are a number of measures, some introduced by the firm and others which already exist to manage this potential conflict:

- a. The firm has adopted an objective approach to his roles as both CF30 and CF10. Ranjeet does not look for short term gains and his reputation is far more important than anything else.

- b. Therefore, this potential conflict is naturally managed in as much that Ranjeet's default position is to ensure that he can never be accused of acting unfairly.
- c. Due to time-constraints and seniority, an individual like Ranjeet Singh who has a number of functions to perform, will generally only be able to manage a small number of clients. Therefore, his CF30 function is limited to a small % of the total clients of the firm. Furthermore, this small % is likely to include those individuals who are high net worth and therefore the most experienced, knowledgeable, financially secure. In other words, the conflict of interest is managed further as any conflict, if it does exist, involves those clients who are least vulnerable.
- d. As somebody whose name is 'above the door', Ranjeet Singh is more concerned about his reputation and long-term business model than trying to exploit relatively insignificant potential conflicts. There is no financial incentive in Ranjeet's roles as CF30 and CF10 to exploit.
- e. The number of complaints that have been registered against the firm since it was founded is very small in number. The number of complaints which are actually upheld either by the firm or by the FOS are smaller still. The excellent complaints record at the firm is testament that the business model is working which would suggest that there is no obvious conflict of interest and that a CF30 can also fulfil the role of a CF10.
- f. The FOS provides a very full proof safety check. Any complaints referred to the FOS are independently checked. Therefore, the Compliance Officer has no option but to act independently and in an unbiased way; hence this potential conflict is also managed externally by the FOS.

The benefits of having an individual who holds both a CF30 and CF10 functions

Whilst this policy looks at the potential conflicts, there are also very significant benefits to an individual who has both the Advisor and Compliance Officer function role including:

1. A Compliance Officer who is also CF30 qualified is undoubtedly more experienced, knowledgeable and better placed to supervise and provide compliance oversight to other CF30 advisors. After all, they will understand in much greater detail the exact trading strategies and risks that a CF30 may implement for a client. The individual will also more easily identify poor trading practices such as churning and unjustified trades. At the firm, it is without question that the experience and knowledge of Ranjeet Singh as a CF30 advisor, has allowed the firm to implement monitoring programmes that would otherwise have not been implemented (pre-PCP, Broker KPI, Traffic Light Performance etc.)
2. A Compliance Officer who is also CF30 qualified can speak to a client and understand their portfolio more clearly than somebody who has no past investor experience. The CO can even conduct KYC calls, suggest changes to investment strategies, identify risk-return plays that could benefit the client and so on. Clients are always very happy to hear such suggestions and have often commented that this is the firm believes that is is a refreshing change to the g

3. One of the biggest criticisms levied at the former Financial Services Authority (FSA) after the 2007-8 financial crash, was that those regulating the financial companies did not fully understand them. Whilst the firm does not deal in complex derivatives, the same principle applies. The best person to ensure that a trading strategy is managed correctly is somebody who is capable of creating such a strategy themselves.
4. The FCA gave the firm and Ranjeet Singh the authorisation to perform multiple customer functions. It is unlikely that the FCA would have done so if it had believed at the time that the potential conflicts of interest could not be adequately managed. The firm on balance believes that the benefits of a Compliance Officer who understands what it is to manage a portfolio as a CF30 advisor, far outweigh the downside. The potential conflicts have been adequately managed since 2008 when the firm was authorised with no issues to date.

2. Interest of member(s) of staff

The firm's policies have been created so that it has the clients' best interests at heart. The culture of the firm is from the top management (RSS) down to the Approved Persons, the Team Leaders and Account Executives. There is no obvious conflict of interest between staff members and the clients. The single biggest conflict is remuneration and over-trading. The broker will receive a commission for each transaction and this could encourage more trades than are suitable for the client. However, this is mitigated by the following steps:

1. Other staff members – only the individuals who are managing the account (brokers) have any control over trading activity. Therefore, account executives, sales staff etc. can have no conflict of interest with clients in this respect. A sales person is unable to exert any pressure on the broker as to the trading activity of one of their clients because:
 - a. They sit separately to the brokers
 - b. Due to the small size of the office it is easily 'regulated'.
 - c. The account executive also only receives a breakdown of their 'commission' at the end of each month and therefore have no idea about how much they are earning.
 - d. The commission is a relatively small % of their total salary and therefore is less critical to them
2. The firm's culture – it is made clear from the outset when joining the firm, what type of firm London Stone is. As a firm, we aim not to attract individuals who are overtly money hungry. We do not seek to build a large trading floor with aggressive sales personnel and our mission and values can be easily impressed on staff due to the small size of firm.
3. Firm's product range – the products which attract the most commission but which also put the clients at highest risk are avoided by the firm. For example, CFDs are not encouraged and rarely traded except in specific circumstances. The firm has an enviable complaints record, because it focusses on delivering value and does not seek short term quick gains. Brokers are restricted

4. to generating large commissions as they are strictly controlled as to the products that they can trade.
5. KYC – the extensive KYC process which is very detailed ensures that there are numerous checks and balances to ensure that clients are not encouraged to engage in high-frequency trading. For example, the client is given the opportunity to complete the PCP form on their own first without possibly being influenced by their broker.
6. No financial bonus or incentive for revenue generated – there are no financial targets or tiers for advisors to reach or aspire to. In fact, the exact opposite is true. The firm encourages best trading practices which focus on client longevity and trading infrequently as the default position to assume. Brokers are expected to participate in sales and helping to generate new clients rather than spend time trying to look for trades that don't exist. There is no financial penalty for a broker who does not reach a certain level of revenue but there are countless deterrents for brokers who over-trade, who have unhappy clients (usually because they lose money as a result of over-trading).
7. Broker Key Performance Indicator (KPI) – daily oversight of the number of clients being traded and how often discourages brokers from trading aggressively. Full transparency gives greater control and deterrence simultaneously.
8. Traffic Light System – Brokers who lose more than X % of a client's portfolio will be highlighted and stopped from further trading. This discourages reckless and high frequent trading because they lose their ability to generate commission entirely if they trade too frequently. Rewarding and penalising brokers on their performance i.e. how much money they make for their client rather than how much money they make for the firm, is a big step towards rebalancing things in favour of the client. Brokers are more likely to only execute trades which they genuinely believe will rather than those which they think might work. Furthermore, if a series of trades do not work they are unlikely to continue doing the same thing; they will be encouraged to stop, re-strategise and consider an alternative approach.
9. Regular feedback – clients are routinely telephoned, emailed and generally made contact with by the Account Executive and the Compliance Officer for updates. Brokers are aware of this and there is no warning as to when this might happen which keeps brokers alert to not taking any action which could be deemed as being detrimental e.g. trading aggressively.
10. Personal Broker Responsibility – Brokers who trade outside of the client's PCP are take reckless action are held personally responsible for any loss that may result from a complaint that the firm believes should be upheld. In other words, if a broker has managed a portfolio incorrectly then the firm will compensate the client directly from the broker's commission. This acts as a strong deterrent to brokers to act sensibly – it means that a broker knows that commission that they may have earned previously can be retracted now.

11. Monthly 121 Ratings including the 10-point system – each month CF30 advisors are encouraged to focus their efforts on ‘compliance’ issues. There is a financial incentive for that month if the Broker satisfies these compliance metrics. None of these metrics are based on generating revenue.
12. Severe penalties for losing a client to another firm or if a client makes a complaint – the firm has introduced penalties which will impact the broker personally if they take action which could detriment their client. This ensures that brokers are not tempted to over-trade for short term financial gain because the financial cost of doing so is severe.
13. Recruitment – finding the right staff and particularly CF30 advisors who want to follow the rules and act responsibly, helps to eliminate many of the conflicts that might otherwise exist. The firm has extensive rules and policies to manage such conflicts but having good, decent people is always a useful starting point. The firm only recruits selectively, in very small number and manages them very closely in terms of compliance.
14. Compliance Oversight – random files are checked to ensure that trading is suitable and appropriate. Calls are routinely checked and monitored to ensure that calls are compliant.

3. The interests of another client

The firm only deals with a limited number of clients in a clear and transparent way and so the risk of a conflict of interest in this respect is minimal. There are no discounted offers on one share over another or deals to be made with clients and so therefore there is little risk of a conflict in this respect.

The only conflict may be that an approved person could favour their larger client over their smaller client (as a larger client would mean more commission potentially). However, a larger client will not necessarily benefit from being spoken to first and their trade executed before another client – in fact the opposite could be true. If the share price falls in value the client that had been advised to buy to second will benefit. The Broker KPI shows which clients are being called regularly and which are not.

Identification & disclosure of the nature of potential conflicts of interest and of their sources

LSS hereby identifies and discloses a range of further circumstances which may give rise to a conflict of interest and potentially, but not necessarily, may be detrimental to the interests of one or more clients. Such a conflict of interest may arise if LSS, or any person directly or indirectly controlled by LSS or a client, is likely to make a financial gain, or avoid a financial loss, at the expense of a client.

4. Client Allocation

Clients are allocated on a client-rota system by management. Clients cannot be allocated by an operational person as there is a potential conflict of interest. A broker could put pressure or influence, financial or otherwise, on the operational person to allocate the client to them rather to another broker. This conflict is managed by the fact that the client is distributed by the Compliance Officer, Ranjeet Singh.

The Compliance Officer is also the best person to make the judgement as to who should be allocated the client if there is an issue about suitability. For example, if a client is a vulnerable client then this needs to be highlighted to the Broker and steps taken to ensure that the client is treated as such.

5. Commission Calculations

If the financials i.e. commissions are calculated by an operational person this could lead to a potential conflict of interest as this means that pressure or influence could be placed upon them. Whilst this does not impact the client necessarily it does encourage bad practice including dishonesty which in turn could have a longer-term impact on how clients are treated. A dishonest person is more likely to act inappropriately with a client.

Notwithstanding the above, there are also issues about employee confidentiality with regards to pay structures which would be breached. This conflict is managed by the fact that the commissions are calculated daily by management, not an operational staff member. Some senior LSS employees may have extended roles within the firm. An appropriate degree of separation and independence on an ongoing basis is therefore expected from these 'double hatted' LSS individuals which will be monitored by the Compliance Officer.

6. Commission Confidentiality

If all employees are aware of what other employees are earning this could encourage those who are earning less to act inappropriately. In the case of Account Executives this could mean putting greater pressure on prospective leads in the 'sales process' and in the case of Brokers, it could mean being more aggressive in trading strategies. In both cases these actions would be detrimental to the prospect and client. This conflict is managed by keeping commissions confidential. Employees are also forbidden to discuss their salaries or pay structures.

7. Gifts and other inducements

Employees are not given any gifts or inducements generally speaking. The only gifts that are given are for low ticket items for birthdays or for an anniversary of being with the firm for example and therefore no risk.

8. Close links

The firm does not receive any financial benefit to working with any particular organisation. This is unlike for example with financial advisors who will often receive a 'kickback' for promoting a particular fund to their client. LSS does not receive a fee to recommend a particular fund or investment product.

9. Personal relationships

Any personal relationships must be disclosed to the Compliance Officer who will assess and ensure that their respective roles conducted do not lead to any conflict of interest.

10. Directorships

In a small firm, there is not an extensive hierarchy. The structure of the firm is relatively flat with one manager at the top in terms of supervisory responsibilities.

11. Financial promotions

Where Financial Promotions are directed at selection of or a group of clients that may affect Treating Customers Fairly principles. Financial promotions are generic and sent out to the entire database of opt-in investors. There is no specific area of people usually targeted.

12. Research

No individual has any material interest in any company that could have a material impact on the price. Research is generally on main market shares (FTSE100) where any research report would not have any impact on the price.

13. Personal Account Dealing

All transactions must be reported to the Compliance Officer for approval and so any conflict can be identified. Also any transaction must be notified to clients 48 hours in advance before the person may purchase for themselves.

Treating Customers Fairly

We are committed to treating our clients fairly and pay due regards to the information needs of our clients, following the principles of regulations as indicated above. We attempt to avoid getting in circumstances where firm's interests conflicts with our duty to a client. However, we accept that there may be cases whereby conflicts of interests are unavoidable.

The conflicts of interest policy have been designed to manage such situations, and to ensure that London Stone Securities' clients are treated fairly. Senior management responsibility for conflicts identification, management and mitigation

As stated in FCA regulations under senior management systems and controls (SYSC), a firm should have measures to prevent or limit any person from exercising inappropriate influence over the way in which a person carries out a regulated activity.

1. Senior management of London Stone Securities is responsible for identifying, managing and mitigating the conflicts of interest that might arise within their business.
2. Responsibility for identifying and managing conflicts should be allocated to accountable staff
3. The systems, controls and processes for managing and mitigating conflicts should be reviewed regularly

4. Senior management should take reasonable care to implement and maintain such systems and controls as if they are appropriate to firm's business
5. Relevant information should be available to support the process

For London Stone Securities, this means that senior management:

- Are fully engaged in all aspects of the business and hands on. One of the many benefits of being a relatively small firm is the fact that the director/senior management has full visibility of everything which substantially reduces the risks involved.
- Takes a holistic view to the business. The approach is one centred on giving the client the best possible service and ensuring that the client's interests are always the focus.
- Reviewing policies and procedures regularly to ensure that they are fit for purpose.
- Leads by example in their actions so that the team members can follow suit inspired from the direction at the top.

This policy is part of London Stone Securities' strategy for identifying, managing and mitigating conflicts of interest.

Registration of conflicts of interest

LSS maintains a register of the investment services, activities and ancillary services carried out by or on behalf of LSS which have given, or could give rise to a conflict of interest which may be detrimental to the interests of one or more clients. The information in the register facilitates the management of conflicts of interest and potential conflicts of interest.

Managing and Mitigating Conflicts of Interest

LSS maintains processes, procedures and organisational arrangements to manage actual and potential conflicts of interest which include the following:

- A. LSS is not permitted to undertake any proprietary trading and therefore LSS is not impaired by any proprietary trading interests from acting in a client's best interest.
- B. All employees are bound by professional secrecy and access to confidential information is only permitted if essential for performing a job function.
- C. All clients are to be treated fairly.
- D. All employees are bound by the Gifts and Hospitality Policy which does not allow the employee to solicit or accept any gift or inducement which may influence their independence or create a conflict with the duty owed to LSS of its clients.

E. All employees are at all times bound to act in full compliance with LSS's policies and procedures.

F. All employees receive instructions and guidance regarding the managing of conflicts of interest.

G. All employees are bound by the Personal Account Dealing Policy and transactions undertaken by employees are actively monitored.

H. All employees are prohibited from engaging in other external business interests unless granted prior consent by the senior management.

I. LSS's Compliance Officer continuously monitors the effectiveness of its policies and procedures for managing conflicts of interest.

Disclosure of conflicts of interest

If the measures in place are not sufficient to fully avoid or manage a conflict of interest relating to a client, LSS will disclose the conflict of interest before undertaking further business with the client.

Review of conflicts of interest policy

This document is reviewed at least annually, with interim reviews being triggered in the event of a material and significant change.

Special Interest Records

Financial Conduct Authority requirements make it necessary for London Stone Securities to maintain a register of firms in which staff have a special interest or knowledge. Special interest may arise in a number of ways. There are no cases of any special interests within the firm.

6. PROCESS

How does the firm respond to a potential conflict of interest?

- If there is any suspicion of a conflict of interest, all staff members have been trained to report any such issue to the Compliance Officer.
- The compliance officer will look at the potential conflict and note it in the COI log
- If the compliance officer deems there to be a genuine conflict this will be addressed and appropriate policies implemented to ensure that such conflicts cannot arise again.
- The compliance officer shall also ensure that if a conflict has arisen that the client has not been affected detrimentally and if they have, that this detriment is reversed. For example, if a broker over-trades a client, the client could potentially have the commissions paid returned and any

- loss recovered. There would be disciplinary action taken against the broker. KEY THINGS TO CONSIDER
- The firm does not regard itself as high risk with regards to conflicts of interest and follows a business model which does not lend itself to obvious conflicts.
- Any conflicts that arise will be used as a tool to prevent/mitigate them going forward.

ADDITIONAL COMMENTS

Not applicable.

SUCCESS MEASURES

The number of conflicts identified and how they are managed.

EXCEPTIONS

Not applicable.