



## **Incompass Insurance Consultants (the "Company")**

### **POLICY DOCUMENT ON CONFLICTS OF INTEREST**

#### **STATEMENT OF INTENT**

THE AIM OF THIS POLICY IS TO ENSURE THAT WE DO NOT HAVE CONFLICTS OF INTEREST OR THAT IF THEY ARRISE; THEY WILL BE DEALT WITH APPROPRIATELY.

#### **Compliance with any conflicts management obligation:**

**Please note separate policies are available for Personal Account trading and the accepting/giving of gifts in the form of a policy on handling gifts**

#### **1. Introduction**

The Financial Advisory & Intermediary Services Act 2002 deals briefly with conflicts of interest. Specifically section 3 of the FAIS General code of Conduct: - it states that the provider must disclose to the client the existence of any personal interest in the relevant service being rendered, or of any circumstance which gives rise to an actual or potential conflict of interest in relation to the service. Necessary steps should be taken to ensure the fair treatment of clients at all times.

Non-cash incentives offered and/or other indirect consideration payable by another provider, a product supplier or any other person to the provider can be viewed as a conflict of interest and should be controlled, avoided and or disclosed to the client.

There are other conflict of interest scenarios to consider. These are outlined in the guidance provided to all employees of Incompass Insurance Consultants.

Should any potential conflict appear, the matter must be reported to a senior manager who will then, if applicable, refer to compliance for guidance.

#### **2. Definition of Conflict of interest**

Conflicts of interest are circumstances where some or all of the interests of people (clients) to whom an authorized financial services provider (or representative/key individual) provides financial services are inconsistent with, or diverge from, some or all of the interests of the FSP. This may include actual, apparent and potential conflicts of interest.

#### **Examples of Conflicts**

Conflicts can arise in many ways inside financial institutions particularly where research and execution are involved. Examples of conflicts that would be deemed as contrary to standards of fair dealing for clients would include

- Analysts issuing favorable reports on clients to boost investment banking income
- High percentage of buy recommendations to increase trading activity and subsequent fee levels

- Issuing recommendations in support of proprietary or in- house portfolios
- Exposure to non public information
- Trading/Dealing ahead of investment research
- Pre-hedging trades ahead of client approval
- High percentage of recommendations to buy or sell an investment in which the institution has respectively a long or short position
- An institution not executing client orders fairly and in due turn
- Not achieving a timely execution of client orders
- Not adopting an effective Personal Account Dealing procedure. Such dealings must never be in conflict with the firm's duties to its clients.

**All conflicts of interest, potential or otherwise must be recorded in the conflicts register and escalated to senior management, and to compliance for evaluation, recommendation and implementation.**

From time to time the individuals involved with the procedure may vary. At present, the senior manager detailed below is responsible for assessing and approving actions where a conflict of interest has been highlighted.

**Operations Director : Cindy Alfino**

### **3. Internal Conflict of interest Procedure**

We deal with conflicts of interest as follows:

Any non-cash incentives received by Incompass Insurance Consultants or its employees must be recorded in the incentives/gift registry (sub-section in compliance folder and disclosed to the client. Incompass Insurance Consultants must disclose any personal interest or conflict of interest involved in the provision of service to the client. Appropriate steps need to be taken to ensure fair treatment of the client and these matters should be referred to **Cindy Alfino** should their nature be severe enough.

**Incompass Insurance Consultants** may not disclose, to a third party, any confidential information acquired from clients without prior written consent from the client.

#### **Procedure to record a potential or existing conflict of interest that is severe enough to report to senior management**

1. Log the date and contents of the conflict of interest (whether real, existing, potential) in the Conflicts Register. Send an email in writing to the CC for immediate attention and inform her of the conflict.
2. The CC to liaise with compliance officer, if required, to evaluate the conflict of interest and to decide which mechanism will be used to manage the conflict, either controlling the conflict of interest, avoiding the conflict of interest or disclosing the conflict. The Register to be continually updated during the process. Investigate the conflict to ascertain its severity.
3. All meetings and reports and recommendations generated to be kept in writing and stored in the Conflicts file to be created for this purpose.
4. If the conflict can be resolved immediately, take the necessary action and advise accordingly. Record in register as to the ongoing status.
5. If the conflict requires further clarity and investigation by either the CC or compliance, insert comments as appropriate in the conflicts register.
6. Update the register with all developments/activities.

## **ROLE OF COMPLIANCE**

Compli-Serve, as compliance officers of **Incompass Insurance Consultants**, will assist the FSP in identifying the conflict of interest relating to the FSP, assess and evaluate the conflict, and decide upon, and implement, an appropriate response to the conflict.

Compli-Serve to ensure conflict-monitoring procedures are in place to ensure that any non-compliance with **Incompass Insurance Consultant's** conflicts management arrangements are identified and appropriately acted on.

As part of the conflict arrangements Compli-Serve will include measures such as meeting with affected staff as appropriate, conduct periodic reviews of the business operation and conduct periodic reviews of client files and other appropriate documentation.

## **ROLE OF ALL EMPLOYEES**

All employees of Incompass Insurance Consultants are obliged to report actual, perceived or potential conflicts of interest-see procedures above to senior management.

The failure of employees to notify management to the potential conflict of interest may result in disciplinary action being taken against the affected individual/s.

## **ROLE OF ALL SENIOR MANAGEMENT**


Those individuals responsible for the internal oversight function have responsibilities to implement appropriate processes and procedures for the effective risk management of conflicts of interest and other risks arising within their organizations.

It is the responsibility of senior management to implement arrangements, policies and procedures to manage conflicts effectively. There is no 'one size fits all' that can effectively address the full range of conflicts of interest that arise in the business of the FSP.

**I the undersigned hereby acknowledge that I have read and understood the contents of the above policy document and the accompanying guidance on managing conflicts of interest, and hereby agree to abide with the contents therein.**


## **EMPLOYEE DECLARATION**

I TARYN PETERSEN the undersigned hereby confirm that I have read and understood the contents of this policy document in respect of conflicts of interest that may arise during the course of my duties.

Signature   
Signed at CAPE TOWN on 19<sup>th</sup> JUNE 2013

## **EMPLOYEE DECLARATION**

I CHARNE SOLOMONS the undersigned hereby confirm that I have read and understood the contents of this policy document in respect of conflicts of interest that may arise during the course of my duties.

Signature   
Signed at CAPE TOWN on 19<sup>th</sup> JUNE 2013

**EMPLOYEE DECLARATION**

I CANDICE LE ROUX the undersigned hereby confirm that I have read and understood the contents of this policy document in respect of conflicts of interest that may arise during the course of my duties.

Signature



Signed at

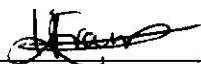
CAPE TOWN

on

19 JUNE2013**EMPLOYEE DECLARATION**

I KEZIAH FRANS the undersigned hereby confirm that I have read and understood the contents of this policy document in respect of conflicts of interest that may arise during the course of my duties.

Signature



Signed at

CAPE TOWN

on

19 JUNE2013**EMPLOYEE DECLARATION**

I \_\_\_\_\_ the undersigned hereby confirm that I have read and understood the contents of this policy document in respect of conflicts of interest that may arise during the course of my duties.

Signature

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## **Conflicts of Interest Register.**

The register should contain the following fields:

**Identification of conflict** This field will reflect the date on which the 'conflict' was identified

**Date Reported:** The date of the day on which the conflict is reported.

**Received From:** The name and designation of the person that submitted the perceived conflict must be entered here.

**Case Reference Number:** This field contains the reference number linked to an internal system (where applicable)

**Description of conflict:** What was the nature the conflict about?

### **Impact Assessment – what impact will the conflict have on the FSP**

**Activity Update:** Log all developments and movements.

**Outcome:** Summary of what decisions were taken in respect of the conflict.

Controls – what controls were utilised to control the conflict

**Date of Final Resolution:**

**Sign Off Responsible** person to sign off a conflict as having been resolved and finalised

**Learnings:** This is a field where any possible lessons learned from the handling of this conflict can be entered.

## **SOME EXAMPLES OF CONFLICTS IN THE SOUTH AFRICAN FINANCIAL SERVICES INDUSTRY**

**PLEASE NOTE:** - these are hypothetical case studies only, yet a number of the case studies are loosely based on real life examples various regulators around the world have seen. Some guidance is posted next to the examples to give one an insight as to how these conflicts could be handled.

### **A. FINANCIAL ADVISERS (WHOLESALE) AND RESEARCH REPORT PROVIDERS**

#### **1. LEAD MANAGER AND CONFLICTED RESEARCH**

XY'S RESEARCH STAFF have issued positive research on ZZ Holdings only because XY has been appointed as the lead manager of an IPO. One way to manage this conflict is to have arrangements in place to ensure that the quality and integrity of the research is of a high standard. One means is to create robust information barriers between the research staff and those working on the IPO, and review and approval of research reports by an experienced supervisor.

**Disclose** Research report should clearly disclose XY's role in the IPO and details and fees it will get, including actual amounts.

Another way to manage 1.would be by not providing research on ZZ Holdings during the quiet period when XY is marketing the IPO. This is seen as excellent practice by the International Organisation of Securities Associations (IOSCO)

### **1. FINANCIAL ADVISERS (WHOLESALE) AND RESEARCH REPORT PROVIDERS**

#### **CONFLICTED BUY RECOMMENDATIONS**

In 2006 Armageddon Securities' research staff made 'buy' recommendations on 47 listed entities and 'sell' recommendations on 14. Between 2001 and 2006, Armageddon provided advisory services to

approximately 25% of the entities on whom it published a 'buy' recommendation, but had no relationship with those on whom it published a 'sell' recommendation.

THE PERCEIVED CONFLICT HERE is that Armageddon's research staff only put 'buy' recommendations on companies with whom it has some sort of commercial relationship. This might be as a result of informal arrangements with the 'buy' companies or an attempt to get more corporate advisory work.

Once again ensuring that robust information barriers exist between the research and advisory staff can help manage the conflict. Other measures that may assist include:-

- Review and approval of research reports by experienced supervisor
- Disclosure in the research report of the initial and ongoing relationship-if any- between the firm and the listed entity covered by the report, and
- Implementing internal controls that ensure that the research is reasonably based and not biased.

## **2. FINANCIAL ADVISERS (WHOLESALE) AND RESEARCH REPORT PROVIDERS**

### **POOR DISCLOSURE OF INTERESTS**

Salami Securities, a stockbroker, discloses, at the end of one of its research reports on Frog 1, that it might have a range of relationships with Frog 1 from time to time. The disclosure is a lengthy attachment to the report, is non-specific, written in dense legalese and in a much smaller font than the rest of the document. Empirical evidence suggests that clients almost never read this disclosure.

THE PROBLEM HERE is that disclosure is ineffective. The reader must be able to make an informed decision about how the conflict of interest might affect the substance of the research. For example the RESEARCH REPORT should clearly and concisely disclose the actual relationships and fees associated with these relationships and the disclosure should be prominent and in the same font size as the body of the research report.

## **B. FINANCIAL ADVISERS/REPRESENTATIVES**

### **1. COMMISSION ONLY REMUNERATION**

Warthog Ltd, employers' advisers who are solely remunerated by way of broking commission. If advisers do not advise a client to buy or sell a security, they are not remunerated.

IN THIS CASE the interests of Warthog's adviser's in earning remuneration for their services might be entirely at odds with the interests of its clients in receiving appropriate investment advice. This conflict is serious and as a matter of best practice should be avoided.

The Conflict can be managed in one of two ways:

- Warthog could implement additional incentives structures and reward advisers for providing quality, compliant and consumer focused advice.
- Second Warthog could make full and frank disclosure to its clients about how the adviser is paid and why this method of remuneration can lead to a conflict of interest. The client requires this information so that he / she can decide how much weight to place on the adviser's advice.

### **2. PRODUCT PIPELINE**

Mrs. D has worked as a financial advisor for about 15 years at the same firm. In the last 5 years the firm started pressurizing advisors such as Mrs. D to encourage clients to apply for new issues that the firm is underwriting or to apply to new managed fund products on which the firm gets commissions. This often

leaves Mrs. D having to suggest to clients that they go ahead and sell securities or other products that she would otherwise recommend they retain so they can invest in the new issues.

THE CONFLICT HERE is that the firm is putting its own interests above those of its clients. Unless the advisor reasonably believes that it is in the client's best interests to sell and existing holding so that the client can take up new securities, the only way of adequately managing such a scenario would be by avoiding it altogether.

Advisors should avoid situations where the interests of a financial services licensee in earning fees and commissions are preferred to the interests of clients.

### **3. RELATIONSHIP BETWEEN PRODUCT ISSUER AND ADVISOR**

Makemonie, a product issuer, owns a financial planning practice called PP Zee. PP Zee's advisors only advise on and sell Makemonie's products. PP Zee does not use any of Makemonie's branding or logos, but if you look closely enough on PP Zee's website there is a small paragraph which says that PP Zee is a wholly owned subsidiary of Makemonie. PP Zee's financial services initial disclosure documentation and the Record of advice also make a mention, in fine print, that Makemonie owns PP Zee.

CONFLICT ARISES HERE when clients might not realize that PP Zee's services are restricted and that the advice that its advisors give is biased. PP Zee needs to be confident that, given the limited product range available to its advisors, it is still possible to provide advice that is appropriate and in the client's best interests.

For disclosure to be an effective part of managing conflict, the client must understand the relationship that exists between both entities and how the relationship may affect the final product recommendations. The client should clearly understand that the advisor couldn't recommend other issuer's products and that the advice will be limited and as such the client might suffer detriment.

### **4. BULKY RECORDS OF ADVICE**

Stingray FS asks for advice from its CO's about its record of advice template that it uses. A priority for Stingray is to limit its liability as far as possible. The CO advises that Stingray should put as much protective wording in the final record to limit its legal exposure. This resulted in Stingray's record being 65 pages long.

STINGRAY is putting its own interests above those of its clients. Clients require advice that is clear, concise and effective. Stingray should go back to its CO and ask him or her to draft user friendly Records of Advice that are not full of dense legalese.

## **C FINANCIAL ADVISERS/REPRESENTATIVES**

### **1. DIRECTED BROKERAGE**

Mackerlsnoek, a fund manager, gives Tuna Ltd, a stockbroker. A large portion of its routine stockbroking work because Tuna's advisors, in turn, sell large amounts of Mackerlsnoek's products in return for commissions from Mackerlsnoek at prevailing market rates. However, Tuna charges higher commission than other brokers for its execution services. These services provided by Tuna are generic and do not involve any kind of 'value-added' service.

Mackerlsnoek is favouring its own interests ahead of its clients by paying Tuna above market commission rates. The conflict can be adequately managed by perhaps avoiding it altogether. The higher commissions charged by Tuna will be reflected in increased management costs for Mackerlsnoek's products and a correspondingly reduced return for investors.

Mackerlsnoek must act in the best interests of its fund member clients. This applies to its selection of service providers, including its stockbroker.