

LEGAL & GENERAL GROUP PLC
CONFLICTS OF INTEREST POLICY

A policy for the identification and management of
conflicts of interest

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INTRODUCTION

This document sets out Legal & General's general policy for the identification and management of conflicts of interest between Legal & General customers and companies within the Legal & General Group (the **policy**). It sets out high-level standards to be applied:

- (a) for oversight at Group level, helping to maintain a consistent and effective approach to conflicts management across the Group; and
- (b) by individual Group members in seeking to ensure that conflicts of interest are properly managed.

The Financial Services Authority (FSA) has addressed the question of the responsibility of senior management in the area of conflicts. It has indicated that it is important that senior management should:

- be engaged fully in all aspects of conflicts identification;
- take a holistic view of conflicts management, looking across business lines and ensuring consistency of approach;
- review the performance of conflicts mitigation strategies, including receiving appropriate management information on the extent and mitigation of risks; and
- have policies and practices in place for compensation and training and develop a culture that supports conflict management and mitigation.

The policy is split into three sections:

- **Section 1** explains what we mean by a conflict of interest.
- **Section 2** sets out the policy that applies to all Legal & General Group companies ('Group companies').
- **Section 3** provides information on more detailed FSA rules that apply to a number of regulated investment firms ('common platform' firms) within the Group.

APPLICATION

The policy reflects certain legal and regulatory duties imposed on companies in the UK. It is not, however, a complete statement of the FSA's rules in relation to conflicts of interest. Group companies remain responsible for determining the extent to which legal and regulatory duties may apply to their business so as to ensure that they remain compliant.

In addition, different standards may apply to Group companies established in other jurisdictions or where UK members of the Group carry on business in other jurisdictions. Therefore, while the policy is intended to apply generally throughout the Group, it is subject to such changes as senior management of relevant Group companies consider necessary to comply with laws and regulations in jurisdictions outside the UK.

1. WHAT IS A CONFLICT OF INTEREST?

1.1 A conflict of interest arises when:

- one person owes a duty (or duties) to another; and
- the interests of that person (and those associated with them) could adversely affect the discharge of that duty (or duties).

Where conflicts of interest are not properly managed, it may result in a breach of those duties with potential regulatory consequences. It can also affect the enforceability of transactions that are tainted by the conflict.

1.2 The FSA's rules describe the sort of conflicts of interest that certain FSA regulated companies are required to identify. Although the FSA description only applies directly to some Group companies, it is nonetheless helpful in understanding the sort of conflicts that may need to be managed. The rules do not provide an exhaustive statement of when conflicts may arise. Group members must also therefore consider whether there may be any other conflicts in relation to their business that are not within the scope of those described below.

1.3 Under the FSA rules a company must, as a minimum, regularly consider whether there is a possibility of conflicts that could entail a material risk of damage to customers:

- (a) where the company is likely to make a financial gain or avoid a loss at the expense of a customer;
- (b) where the company has an interest in the outcome of a service provided to the customer or a transaction carried out on behalf of a customer which is distinct from the customer's interest in the outcome;
- (c) where the company has a financial or other incentive to favour the interest of another customer or group of customers over the interests of the customer;
- (d) where the company carries on the same business as the customer;
- (e) where the company receives or will receive from a person other than the customer an inducement in relation to a service provided to the customer in the form of monies, goods or services other than the standard commission or fee for that service.

1.4 The duty extends not only to conflicts involving the company but also to conflicts involving individuals and companies connected with the company.

2. THE GENERAL POLICY ON CONFLICTS OF INTEREST

Overview

2.1 This section of the policy sets out general standards that should be applied by all Group companies in respect of conflicts of interest.

2.2 Where any Group company provides services to customers that involve giving advice or doing something on behalf of the customer, it is likely to be under a general legal duty to avoid or obtain consent to conflicts of interest that could prejudice the interests of a customer.

2.3 All Group companies must:

- (a) pay due regard to the interests of their customers and treat them fairly (FSA Principle 6); and
- (b) manage conflicts of interest fairly whether they are between the company and its customers or between two different customers (FSA Principle 8).

2.4 In order to help ensure that all Group companies comply with any applicable legal and regulatory duties on conflicts management, all Group companies are required to:

- (a) **identify conflicts of interest** between the company and its customers and between one customer of the company and another customer;
- (b) **manage conflicts of interest** to prevent them from constituting or giving rise to a material risk of damage to the interests of their customers; and
- (c) **disclose conflicts of interest** and obtain customers' informed consent to any conflict and to any steps being taken to manage it.

Identifying conflicts of interest

2.5 All Group companies that provide any service to customers are expected to maintain procedures to identify conflicts of interest in the course of providing those services. The identification procedures should include, as a minimum:

- (a) an annual review of the business carried on by that group member to identify any conflicts of interest in addition to those already identified;
- (b) a new business procedure that involves the review of any new business activity that the relevant group member is proposing to undertake to establish whether it gives rise to any new conflicts of interest;
- (c) training for staff so that they are able to identify and report conflicts and potential conflicts of interest;
- (d) procedures for staff to report conflicts of interest identified by them; and

- (e) the maintenance by a designated person of a written record of conflicts and potential conflicts of interest which involve a risk of damage to the interests of one or more customers.¹

Management of conflicts of interest

2.6 As a starting point, Group companies should take all reasonable practical steps to manage conflicts of interest so as to avoid the conflict or, where that is not possible, at least manage it so as to avoid any material risk or loss to customers.

2.7 The measures set out in the detailed rules at 3.10 below may help Group companies more generally in seeking to manage conflicts and potential conflicts of interest that they identify in the course of their business. Group companies may also find it helpful to maintain a written statement as to how they manage conflicts of interest arising in the course of their business.

2.8 Where it is not possible to manage a conflict of interest in any other way, unless the conflict is particularly severe, it should normally be possible to continue to carry on the relevant activity giving rise to the conflict provided that there is full and clear disclosure of the conflict to the relevant customers and they have given their informed consent.

Disclosure of conflicts of interest

2.9 Whether or not a Group company is able to manage conflicts of interest in the manner outlined above, it is important that there is disclosure to customers of:

- (a) all relevant conflicts and potential conflicts that could affect them; and
- (b) the measures being taken (if any) to manage the risk to customers.

2.10 For legal reasons, it is highly desirable for customers to consent to the existence of any conflict and to the retention by any Group company (or any relevant associate) of any profit arising as a result of the conflict. Wherever possible the disclosure should, therefore, be made in a contractual document so that the customer can give its consent.

3. DETAILED RULES FOR CERTAIN REGULATED COMPANIES

Overview

3.1 As mentioned above, certain FSA regulated companies known as common platform firms are subject to the more detailed FSA rules described in section 3 of this policy. Those

¹ There is no regulatory rule requiring firms not subject to the MiFID regime to maintain a record of conflicts identified. In addition, common platform firms are only required to maintain the record in relation to **material** conflicts in the context of **services** provided to customers in the course of their regulated or ancillary services. However, because of the wider legal and regulatory rules on conflicts of interest, all group members are required to maintain some form of written record in order to address potential conflicts effectively.

persons responsible for ensuring compliance within each Group company need to determine whether or not the company is subject to these rules. If you are unsure whether these additional rules apply to your business area, you should check with Group Compliance.

3.2 The more detailed FSA rules elaborate on the general principles applied by the FSA (set out in section 2.2 above). They cover, in particular:

- (a) duties requiring firms to manage conflicts of interest;
- (b) rules on the payment or receipt of inducements;
- (c) rules on personal dealing;
- (d) rules on dealing on behalf of customers.

3.3 The description in this section 3 is no more than a summary. Companies to which this section is relevant must also refer to the FSA's rules applicable to their business area..

3.4 As a general matter, companies for whom this section 3 is relevant are required to take all other Group members into account in deciding whether they may have a conflict of interest and what they should do about it (see further below).

Identification of conflicts

3.5 Companies are required to identify conflicts as described at 2.5 above (including maintaining the written record referred to at 2.5(e)). Companies must take all reasonable steps to identify conflicts (i) between themselves and their customers or (ii) between one customer and another that arise in the course of their **regulated activities**² or **ancillary activities**³.

3.6 Conflicts of interest between a company and its customers include conflicts involving any of the following persons connected with the company:

- (a) any of the company's directors, managers or employees;
- (b) any of its appointed representatives or **tied agents**⁴ (and any of their directors, partners, managers or employees);

² **Regulated activities** are, broadly, the full range of activities regulated under the UK financial services regime.

³ **Ancillary activities** are activities that are not regulated activities but which are carried on in connection with regulated activities or held out as being for the purpose of regulated activities.

⁴ A **tied agent** is a person who under the full and unconditional responsibility of only one MIFID investment firm on whose behalf it acts, promotes investment services and/or ancillary services to customers or prospective customers, receives and transmits instructions or orders from the customer in respect of investment services or financial instruments (nb this does not include contracts of insurance), places financial instruments and/or provides investment advice to customers or prospective customers in respect of those financial instruments or investment services.

- (c) any individual involved in the conduct of investment services and activities by the company whose services are placed at the disposal of the company or of its tied agents (for example consultants)
- (d) any individual who is directly involved in the provision of services to the company (or its appointed representatives or tied agents) under an outsourcing agreement for the purpose of the provision by the company of investment services and activities; or
- (e) any person or legal entity directly or indirectly linked by control to the Group company.

3.7 The FSA's rules require firms to take 'reasonable' steps to identify conflicts. It is thought that what is reasonable should be assessed by reference to such factors as:

- (a) the level of risk that a particular conflict could adversely affect the interests of customers of the firm;
- (b) the nature, scale and complexity of the firm's business in the UK and internationally;
- (c) the nature and range of products and services offered in the course of the business; and
- (d) the type of customer the firm is dealing with (that is retail, professional or eligible counterparty).

Management of conflicts

3.8 Companies must maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps designed to prevent conflicts of interest from adversely affecting the interests of their customers. These arrangements should include:

- (a) creating a record of those services or activities carried on by the firm that give rise to a material risk of damage to customers; and
- (b) developing a policy for managing the conflicts.

Measures that can be taken to manage conflicts of interest (other than disclosure and informed customer consent)

3.9 Companies should consider what procedures and measures they can apply to manage any conflicts of interest they identify. The measures and procedures need to be designed to ensure that the company (and any **relevant persons** listed in section 3.6 above that are engaged in business activities that could give rise to conflicts of interest) carry on those activities at a level of independence appropriate to the size and activities of the firm and the Legal & General Group as a whole and the materiality of the risk of damage to customers' interests.

3.10 The measures that companies must consider adopting (where appropriate) under the detailed FSA rules can be summarised as follows:

- Effective procedures to prevent or control the exchange of information between persons where the exchange of information could harm the interests of one or more customers.
- The separate supervision of persons whose principal functions involve carrying out activities on behalf of, or providing services to, customers whose interests may conflict, or who otherwise represent different interests that may conflict (including those of the firm).
- The removal of any direct link between the remuneration of persons principally engaged in one activity and the remuneration of or revenues generated by different persons principally engaged in another activity where there could be a conflict of interest in relation to those activities.
- Measures to prevent or limit any person from exercising inappropriate influence over the way in which a person carries out investment or ancillary services or activities.
- Measures to prevent or control the simultaneous or sequential involvement of a person in separate investment or ancillary services or activities where such involvement may impair the proper management of conflicts of interest.

Maintaining a written policy on conflicts management

3.11 Companies must maintain a written statement as to how they manage conflicts of interest arising in the course of their business. The policy should be appropriate to the size of the company and the nature and complexity of its business. The written policy maintained by each company must:

- identify, with reference to specific regulated activities and ancillary activities carried out by the company or on its behalf, the circumstances that constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more customers (the written record compiled as a result of the identification process described above should be sufficient to do this); and
- specify the procedures to be followed and the measures to be adopted to manage those conflicts.

Disclosure of conflicts

3.12 Companies are required to disclose conflicts of interest that they cannot manage. The disclosure must be in a durable medium and include sufficient detail, taking account of the nature of the customer (that is retail or professional), to enable the customer to make an informed decision as to whether to do business with the firm regardless of the conflict.