



Guernsey Financial  
Services Commission

# Conflicts of Interest – Fiduciary Thematic Review

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# Agenda

- What is a “conflict of interest”
  - What do the Rules require?
  - Types of conflicts
  - Case study – lessons from Enforcement
- Key findings
- Good practice
- Areas to consider
- Questions

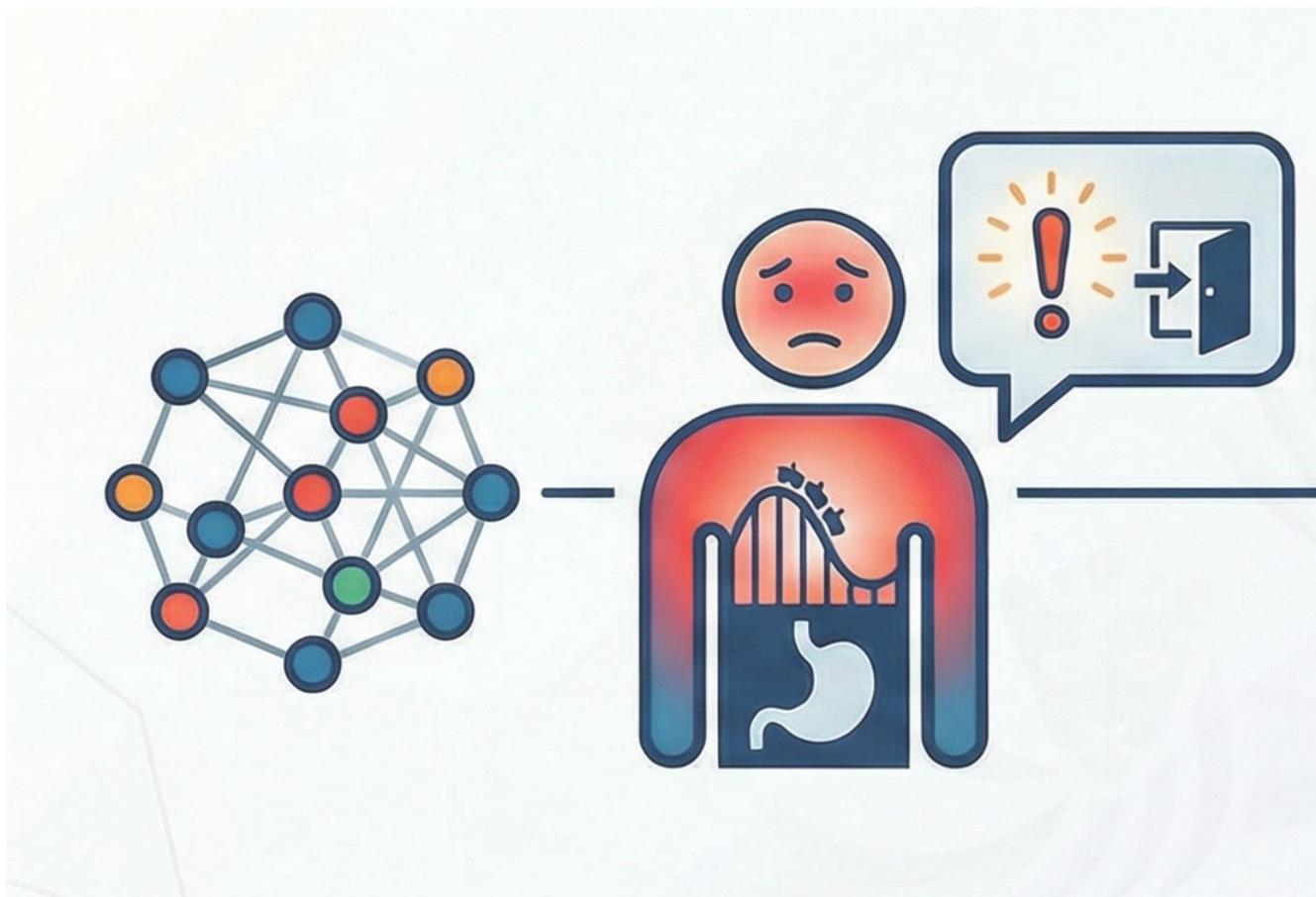


# Mentimeter Question

*When I say the word conflict,  
what word or short phrase  
immediately comes to mind?*



# Conflicts of Interest – what are they and why do they need to be managed?



# What does this mean in practice?



# Our approach – five steps



- Consideration of standards



- Industry meetings



- Questionnaire distribution



- Response analysis



- Licensee selection

# Types of conflicts encountered by Firms



## Role & Duty

Conflicts arising from competing loyalties when individuals or entities hold multiple conflicting roles.



## Personal or Financial Incentive

Conflicts where individuals or firms could benefit financially or personally from decisions they influence.



## Relational

Conflicts where personal relationships (internal or external) could undermine professional objectivity or judgment.



## Client-Related

Conflicts that arise from competing interests between different clients, leading to unequal treatment.



## Structural & Governance

Conflicts stemming from a firm's ownership, group structure, or regulatory environment improperly influencing decisions.

# Case study – Fides Corporate Services



## Shares accepted in lieu of fees

Firm and directors received shares in a client entity as a reward for services.



**USD 315 million**

## Purported value per director (March 2021)

Estimated value of shares gifted to each director.



## UBO held power to remove shares

Client's ultimate beneficial owner could unilaterally remove shares, creating potential control.



## Failure to manage the direct conflict

Despite recording the gifts, the firm made no attempt to avoid or minimise the conflict of interest.

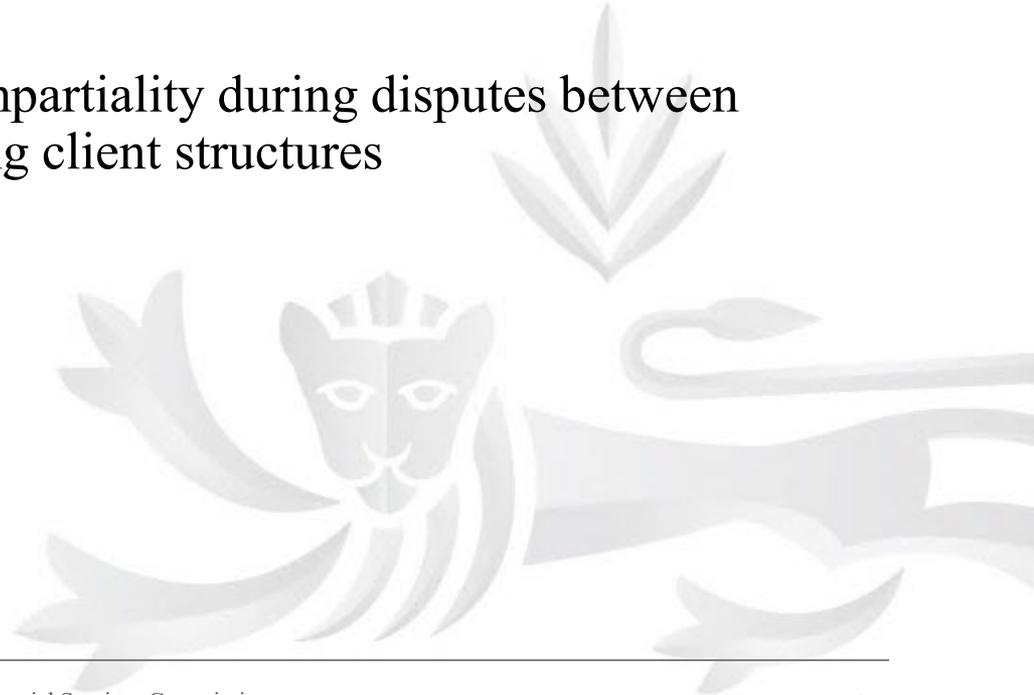
# Poll:

**Which of these material risks do you find most difficult to manage?**

A) **Role & Duty:** Individuals holding multiple supervised roles (e.g. Director and MLCO/MLRO).

B) **Relational:** Personal or familial relationships between colleagues, or with third-party service providers.

C) **Client-related:** Maintaining impartiality during disputes between multiple beneficiaries or competing client structures



# Key findings

1. Licensees reported a wide variety of types of potential and actual conflicts of interest



2. Licensees took appropriate steps to identify and manage conflicts of interest



3. Licensees used different approaches to recording actual and potential conflicts of interest



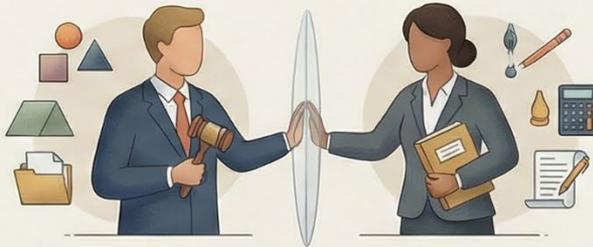
4. Overall, licensees had implemented a control framework to ensure conflicts of interest are identified and managed



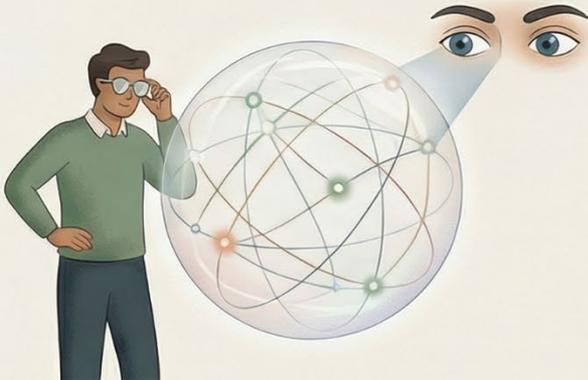
# Good practice examples

## Governance and individual responsibility

Management of roles and duties



Identification and awareness

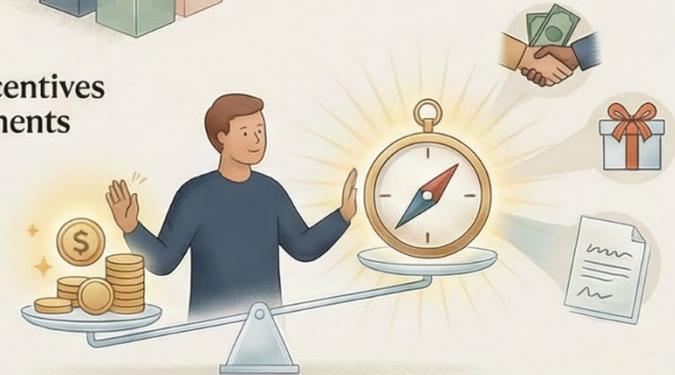


## Commercial and client integrity

Client and structure management



Financial incentives and inducements



# Areas to consider

## 1. Broadening the scope of identification



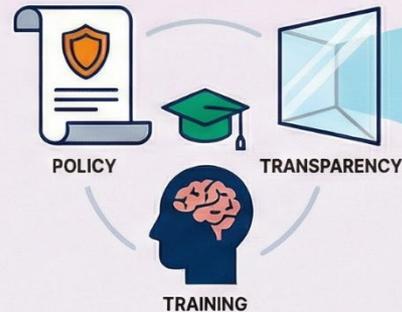
## 2. Improving record-keeping and registers



## 3. Managing fiduciary duty and structure viability



## 4. Policy, training, and transparency



# Expectations on firms

<b>Role &amp; Duty</b> 	<b>Personal or Financial Incentive</b> 	<b>Relational</b> 	<b>Client-related</b> 	<b>Structural and Governance</b> 
<ul style="list-style-type: none"> <li> Individuals or corporate entities acting in roles within client structures</li> <li> An individual holding multiple supervised roles within a licensee or its group</li> <li> Multiple services provided to the same client (by licensee or group)</li> <li> Vested interest of director/employee in a competitor of the licensee</li> <li> External commitments (e.g., an individual holding directorships unrelated to a licensee or acting for industry bodies)</li> <li> Legal action brought against the licensee by a client</li> <li> Dual representation by a licensee in transactions (e.g., a representative of the licensee signing an agreement on behalf of the licensee and one of its clients)</li> </ul>	<ul style="list-style-type: none"> <li>• Vested interest of director/employee in a client</li> <li>• Vested interest of director/employee in a service provider to the licensee</li> <li>• <b>Revenue generation:</b> <ul style="list-style-type: none"> <li>• Onboarding unsuitable clients</li> <li>• Prolonging the life of an unviable structure to continue to attract fees</li> <li>• "Churning"</li> </ul> </li> <li>• <b>Financial gain:</b> <ul style="list-style-type: none"> <li>• "Personal account dealing" by an employee or the licensee</li> <li>• Inappropriate use of sensitive information by a licensee or employee</li> <li>• Diversion of investment opportunities from a client to a licensee or employee</li> <li>• Remuneration influencing decision-making (e.g., revenue-linked bonuses)</li> </ul> </li> <li>• <b>Inducements:</b> <ul style="list-style-type: none"> <li>• Gifts or hospitality</li> <li>• Retrocessions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Personal relationships with external third parties (e.g., service providers, clients or competitors)</li> <li>• Personal relationships within the licensee (e.g., between colleagues)</li> <li>• Personal relationships leading to access to private or sensitive information</li> </ul>	<ul style="list-style-type: none"> <li>• Balancing the interests of clients that are invested in the same assets</li> <li>• <b>Competing client interests:</b> <ul style="list-style-type: none"> <li>• Clients that are competitors</li> <li>• Clients that are party to the same transaction</li> <li>• Clients that are in commercial or legal dispute with each other</li> <li>• Prioritisation and allocation of investment opportunities and resources between clients</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Intragroup influence (e.g., parent company exerting pressure)</li> <li>• Shareholder-director influence</li> <li>• Conflicts arising from overlapping or conflicting legal and regulatory obligations</li> </ul>

# Any questions?

