

# Conflicts of Interest – Investment 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

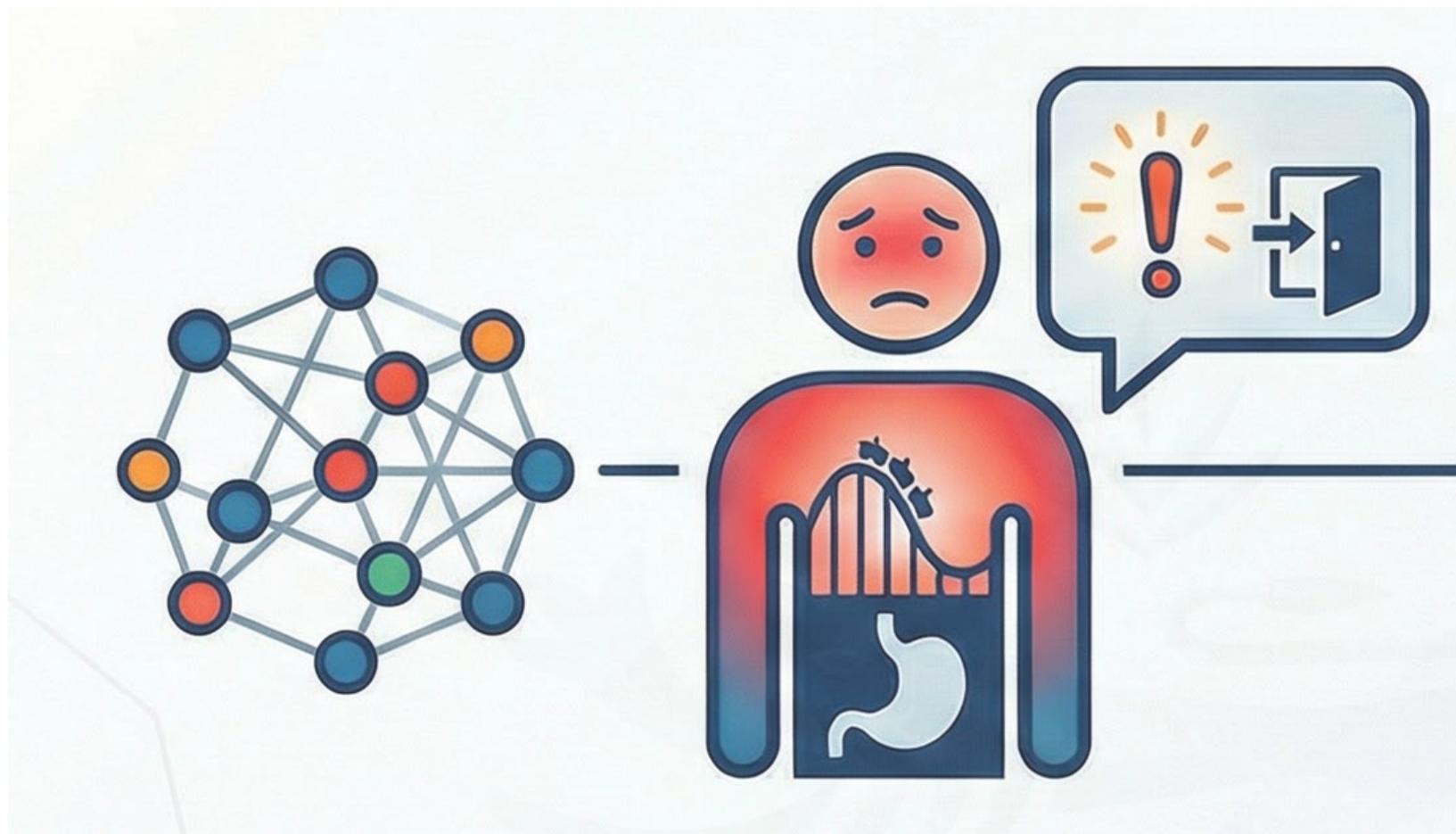


# Mentimeter Question

*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



- Reviewed international standards (IOSCO) and our legislation.



- Held meetings with industry representatives and regulators.



- Sent questionnaires to 33 investment licensees.



- Analysed questionnaire responses.



- Met with selected licensees to discuss conflict management.

# 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.

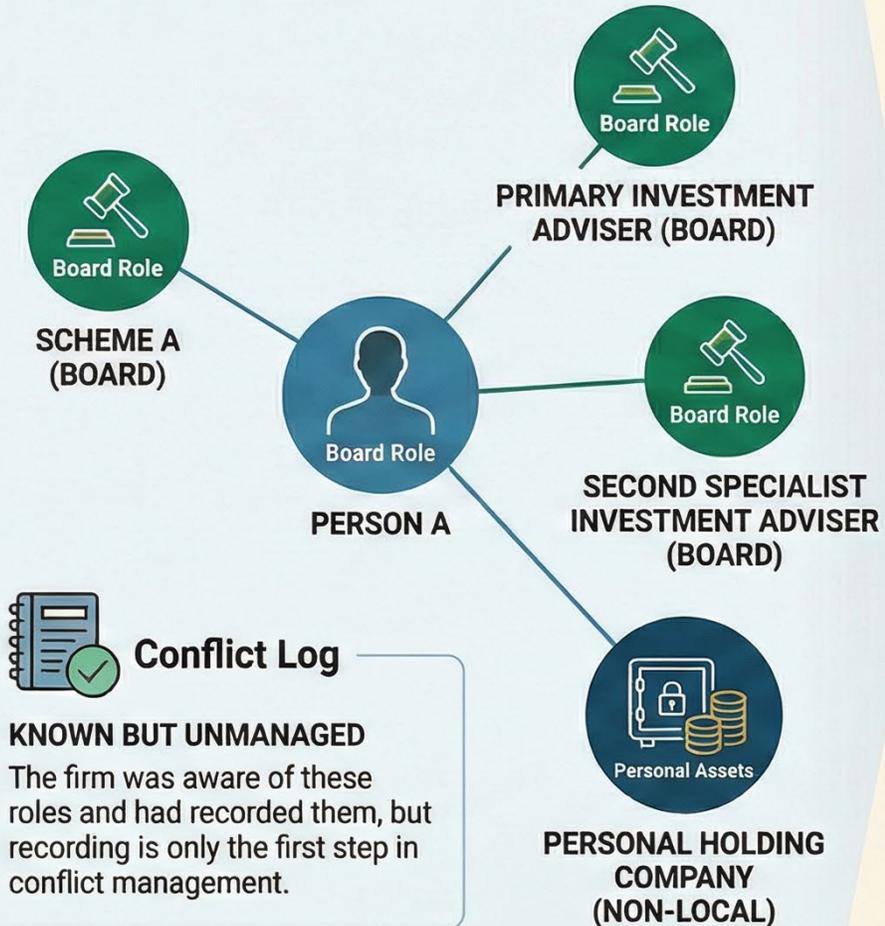


## Structural & Governance

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

# Case study – Louvre Fund Services

## THE WEB OF INFLUENCE



## THE POLICY BREAKDOWN Ineffective Conflict Policy



The Commission determined the firm's **policy was not effective** because it failed to introduce actual measures to counter Person A's influence.

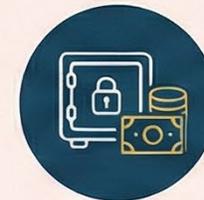


### Failure to Mitigate Linked Directorships

The policy lacked specific controls to address the unique risks posed by an individual holding multiple, overlapping decision-making roles.

## THE RESULTING GOVERNANCE FAILURE

### Unauthorised self-dealing



**PERSONAL HOLDING COMPANY (NON-LOCAL)**



**PERSONAL ASSETS**



### Bypassing Critical Controls

- Sale completed without independent valuation.
- Without prior formal approval from the board of Scheme A.



### Material Impact on the Scheme

These unvetted personal assets ultimately formed the majority of the assets purchased by the scheme.

# FCA – review of private market valuation practices (2025)

The screenshot shows the FCA website interface. At the top left is the FCA logo (Financial Conduct Authority). A search bar is located at the top right. Below the logo is a navigation menu with buttons for 'About us', 'Firms', 'Markets', 'Consumers', 'News', and 'Publications'. The breadcrumb trail reads 'Home > Publications > Private market valuation practices'. The main heading is 'Private market valuation practices'. Below this, it says 'Multi-firm reviews | Published: 05/03/2025 | Last updated: 05/03/2025' and a 'Print this page' button. The main content area starts with the text: 'We set out detailed findings from our multi-firm review of valuation processes for private market assets.' Below this is a section titled '1. Introduction' with a sub-section '1.1. Who this applies to'. Under '1.1. Who this applies to', it states 'This multi-firm review will be of interest to:' followed by a bulleted list: 'asset managers', 'alternative investment fund managers (AIFMs)', 'investment and portfolio managers', and 'investment advisers'. A note at the bottom of this section says 'The findings may also be of interest to other stakeholders in the sector, including investors, service providers, trade bodies and other regulators.' On the right side of the page, there is a 'Share' section with a 'Quick tip' (Highlight content for instant share) and social media icons for X, LinkedIn, and Email. Below the share section is a table of contents for 'Private market valuation practices' with three items: '1. Introduction', '2. Detailed findings', and '3. Next steps', each with a plus sign. Below that is a 'Related content' section with a minus sign, listing 'Portfolio letter: Asset management and alternatives supervisory strategy'.



<https://www.fca.org.uk/publications/multi-firm-reviews/private-market-valuation-practices>

# 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

## Identifying a wide variety of conflicts



## Taking appropriate steps to manage risks



## Using different approaches to recording



## Implementing effective control frameworks



# Good practice examples

## Governance and board oversight



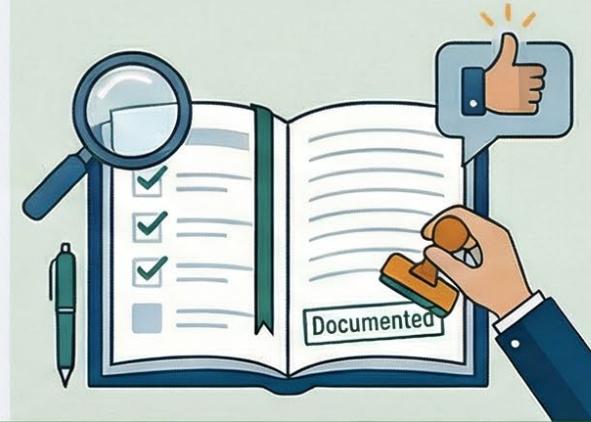
## Management of staff and roles



## Transactional and client-related controls

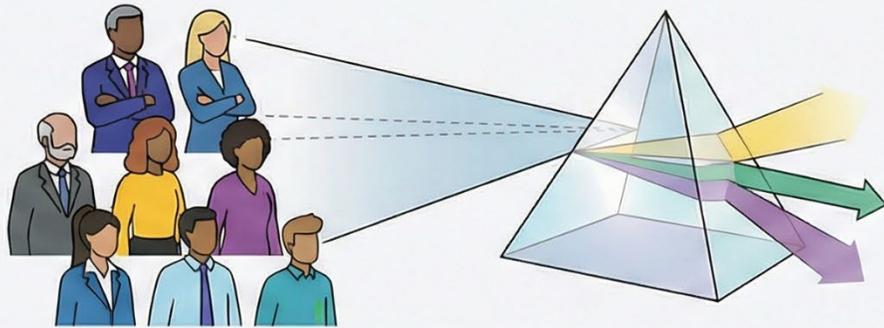


## Identification and record keeping



# Areas to consider

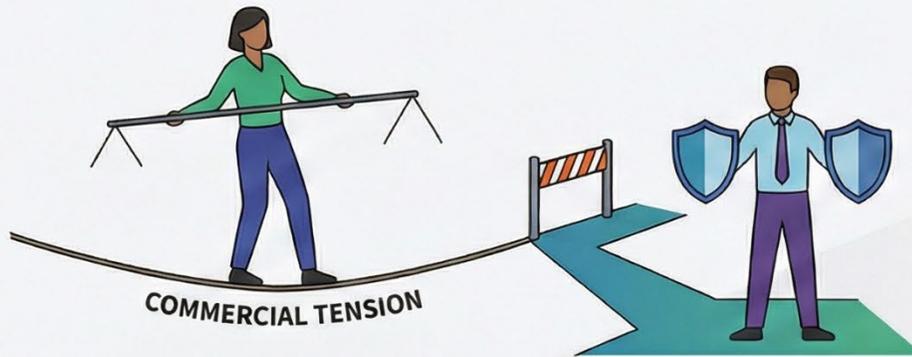
## 1. Identification and scope of conflicts



## 2. Record keeping and registers



## 3. Structural and operational risks



## 4. Policies and training



# 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?

