



NZX Participant Guidance Note

Conflict Management

December 2020



This Guidance Note replaces the previous Conflict Management Procedures Guidance Note issued by NZX in January 2018.

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This Guidance Note has been issued by NZX Limited (**NZX**) to promote market certainty and assist NZX Participants. This Guidance Note sets out NZX's general approach to the subject, but is not to be regarded as a definitive statement of the application of the Participant Rules or Derivatives Market Rules in every situation. Examples set out in this Guidance Note are limited and are not designed to cover all eventualities. NZX may replace Guidance Notes and Practice Notes at any time and an NZX Participant should ensure it has the most recent versions of these documents. Guidance Notes do not constitute legal advice. NZX recommends that NZX Participants take advice from qualified persons.



1. Introduction

The purpose of this Guidance Note is to provide information for NZX Participants in respect of conflict management, including:

- outlining the key principles for conflict management in relation to the NZX markets;
- describing acceptable market practices, best practice and recommendations on procedures relevant to conflict management; and
- detailing some of the specific business activities that require particular consideration within an NZX Participant's conflicts management arrangements.

1.1 Scope of this Guidance Note

This Guidance Note provides NZX Participants with guidelines on what to consider when establishing and operating conflict management arrangements to appropriately identify and manage conflicts of interest that NZX Participants may face, or appear to face, in the course of their business activities in accordance with both the Participant Rules and the Derivatives Market Rules (the **Rules**).

Parts of this Guidance Note relate to areas where NZX and the Financial Markets Authority (**FMA**) have overlapping regulatory roles. Where there are areas of overlap, NZX and the FMA work cooperatively and will, where possible, endeavour to jointly engage with NZX Participants.

Where relevant, examples of conduct are set out in this guidance. Please note that the examples set out in this Guidance Note have been provided for illustrative purposes, are limited, and are not designed to cover all eventualities. All investigations by NZX in relation to compliance with obligations under the Rules relating to conflict management arrangements are considered on a case-by-case basis, and determined based on their particular facts.

References to NZX Participants in this Guidance Note include:

- Participants, NZX Derivatives Advisers and Dealers as defined in the Derivatives Market Rules; and
- Market Participants, NZX Advisers and Dealers as defined in the Participant Rules,

as specified in each relevant Rule.

Capitalised terms which are not defined in this Guidance Note have the same meanings given to them in the Rules.

Under Participant Rule 21.4.1 and Derivatives Market Rule 14.14.1, NZX may act by and through NZX Regulation Limited (**NZ RegCo**) in performing any function or discharging any power set out in the Rules. References in this Guidance Note to NZX therefore also include NZ RegCo in relation to any regulatory activity or discretion.

2. Key Principles

Good conflict management arrangements help minimise the potential impact of conflicts of interest on clients and therefore help to promote client protection and maintain market integrity, which increases public confidence in the operation of NZX's markets.

The key principles in relation to conflict management are:

- conflicts of interest must be identified and appropriately managed;
- NZX Participants should always place the interests of their clients before their own interests;
- markets should be fair, orderly and transparent;
- NZX Participants must take reasonable steps to train their Employees in relation to conflict management; and
- where, in relation to a transaction, a conflict cannot be effectively managed, an NZX Participant must not act in relation to that transaction.

2.1 Rule Obligations

NZX Participant Rule 15.10 and Derivatives Market Rule 4.22 require that NZX Participants have adequate arrangements for the management of conflicts of interest that may arise in relation to their business and have written conflict management procedures in place to identify and manage any conflicts of interest which may arise.

3. What is a Conflict of Interest?

A conflict of interest or potential conflict of interest can arise where the interest or activities of an Employee and/or the NZX Participant are contrary to those of a client or where the interests of two different clients of an NZX Participant are opposed, or where the interests can be perceived to be in conflict.

The nature of the business undertaken by an NZX Participant can increase the potential for a conflict to arise, for example its physical layout, remuneration structure, or interests in companies held by the NZX Participant or its staff. Where conflicts are not adequately managed, they have the potential to undermine confidence in financial markets and can pose a threat to investor protection.

It is not possible to list all of the situations where a conflict of interest may arise. Some examples include:

- an NZX Participant has an interest in maximising the trading volume of a client in order to increase its commission revenue, which is inconsistent with a client's objective to minimise investment costs;
- an NZX Participant has an interest in encouraging a client to invest in higher risk Securities that result in higher commissions, where these higher risk investments may not be in the client's best interests;
- an NZX Adviser has an interest in a Security and encourages clients to purchase these Securities without disclosing the interest they hold in the Security; or
- an NZX Participant trades as principal, while knowing a client's intentions to trade in the same way.



3.1 Identifying Conflicts of Interest

There is no 'one size fits all' approach of how to identify the full range of potential conflicts that may arise in an NZX Participant's business. However, to effectively manage conflicts of interest (actual or perceived) it is necessary for each NZX Participant to develop formal policies and procedures to identify, manage and, where appropriate, report on conflicts of interest.

An NZX Participant needs to pay special attention in its policies and procedures to areas of its business where the potential for a conflict of interest to arise is greater as a result of a potential information imbalance, such as investment research and advice, principal trading, portfolio management and investment banking activities. The risk of a conflict of interest arising increases further where the NZX Participant or an Employee of the NZX Participant performs a combination of two or more of those activities.

NZX Participants must first identify that the potential exists for a conflict of interest to arise, so that it can apply its most suitable conflict management approach to that situation. NZX expects that NZX Participants' conflict management arrangements will:

- identify the potential conflicts of interest relating to their business;
- assess those conflicts;
- set out an appropriate response to each of those conflicts; and
- provide guidance for Employees on how to recognise when a conflict exists and where to go for assistance in managing it when they do.

4. Conflicts Management Obligations

NZX recognises that the provision of financial and broking services can give rise to various potential conflicts of interest. Although the potential for conflicts to arise is likely to be greater in organisations providing a wide range of financial services, even those NZX Participants offering a narrow range of services can have interests which conflict with those of their clients. It is therefore expected that NZX Participants will identify and manage such conflicts of interest appropriately.

Conflicts of interest present a real risk for NZX Participants, in respect of reputation, regulatory and financial (for example from client complaints) risks, and managing them should be approached as a fundamental part of each NZX Participant's business. Good practices in approaching conflict management include:

- engagement at the senior management level in conflict identification and management;
- taking an holistic view of conflict risk and conflict mitigation within the full range of business activities that the NZX Participant engages in;
- regular review of the NZX Participant's conflict management arrangements to consider the scope of business activities included and whether its procedures for managing those conflicts remain adequate; and
- a culture of identifying potential conflicts and managing them effectively.



4.1 Policies and Procedures

As required by Participant Rule 15.10.1 and Derivatives Market Rule 4.22.1, each NZX Participant must have written conflict management procedures in place to identify and manage any conflicts of interest which may arise between the NZX Participant, its Employees, Independent Directors, Prescribed Persons, and/or any client of the NZX Participant. An NZX Participant's conflict management policy and procedures should:

- set out its overall principles for approaching conflict management – for example treating clients fairly and with integrity and placing clients' interests before its own;
- identify conflicts of interest that Employees may have in respect of the NZX Participant;
- provide guidance to Employees that will assist them to recognise a potential conflict of interest;
- mandate certain actions to be taken by individuals or businesses of the NZX Participant where a conflict is identified;
- outline a framework for internally escalating and resolving conflicts of interest;
- set out the process and method for disclosing and recording disclosure of the conflict to clients of the NZX Participant, where this is the appropriate conflict management method;
- identify situations where specific disclosure is required to be made to clients rather than generic disclosure;
- set out the method for controlling a conflict of interest, including examples of where this is the appropriate conflict management method;
- set out the method for avoiding a conflict of interest and circumstances where this is the appropriate conflict management method;
- set out the relevant roles and responsibilities of individuals and/or management groups within the NZX Participant for conflict identification, management, reporting, disclosure and consequences for failure to disclose;
- include the procedures the NZX Participant will follow in the event an Employee fails to disclose their conflict of interest to the NZX Participant and/or clients, or to otherwise comply with the procedure;
- set appropriate thresholds above which the NZX Participant must maintain a register of Employees' Security holdings;
- set out how the NZX Participant manages the conflicts between agency and Principal Trading (including both facilitation and proprietary trading) or on behalf of any Prescribed Person, and include when such a conflict can be managed by effective disclosure and when avoidance (for example segregation) is necessary;
- be approved internally by persons with the appropriate delegated authority; and
- be subject to regular internal compliance review.



NZX recognises that some NZX Participants will adopt their parent company's conflicts management policy where this is appropriate to the business undertaken by the NZX Participant.

4.2 Employee Training

Compliance training supported by effective systems is important in embedding an appropriate culture. NZX expects that NZX Participants' conflict management arrangements will include guidance for Employees on how to recognise when a conflict exists, including conflicts that are not specifically covered by the procedures, and where to go for assistance in addressing the conflict when they do.

An NZX Participant should provide appropriate training about conflicts of interest and how to manage them to all Employees, which should be included as part of the immediate induction process for new Employees. This will ensure all Employees understand the NZX Participant's policies and procedures and how to apply them in the context of their work. NZX Participants should make sure that all Employees:

- are aware of their conflict management obligations;
- are trained in respect of the NZX Participant's conflict management arrangements; and
- are trained in respect of other policies and procedures that are relevant to conflict management – for example information barrier policies, trading conduct requirements, Employee trading policies, client order priority procedures and disclosure obligations.

The NZX Participant should also provide regular refresher training for Employees in relation to the NZX Participant's conflicts management policy and procedures, to ensure their understanding remains current.

An annual declaration of any possible conflicts that an Employee may have is also a useful tool to ensure that Employees continue to be aware of their responsibilities and obligations, and is required under Participant Rule 15.10.4(b) and Derivatives Market Rule 4.22.4(b).

5. Managing Conflicts of Interest

The requirement to have adequate arrangements for the management of conflicts of interest is not a general prohibition on having any conflicts of interest. Instead it requires that any conflicts of interest be adequately managed. Most conflicts of interest can be managed using a combination of internal controls and disclosure. However, conflicts that cannot be adequately managed in this way will need to be avoided.

NZX Participants may adopt different approaches to addressing conflicts that may arise. These may include establishing specific structures or procedures, disclosure, or refraining from engaging in certain conduct altogether. The three generally accepted approaches that NZX Participants can take to manage conflicts are:

- controlling the conflict of interest;
- disclosing the conflict of interest; and
- avoiding the conflict of interest.



Where one approach alone may not be sufficient, other conflicts management approaches can be used in tandem.

5.2 Controlling Conflicts of Interest

To demonstrate effective control of potential conflicts of interest, an NZX Participant should have identified the potential conflicts of interest relating to their business and assessed each one to determine an appropriate response that will allow them to suitably manage the conflict.

Each NZX Participant should ensure that its internal controls in respect of conflicts of interest are tailored to the nature, scale and complexity of its business. For example:

- an NZX Participant that also engages in proprietary trading may wish to consider segregation as a means of managing the conflict that arises between this area of its business and its agency business;¹
- an NZX Participant that also engages in Investment Banking Activity will need to have effective Information Barriers (also known as Chinese Walls).

An NZX Participant should have a process where Employees can report conflicts of interest that arise.

5.3 Disclosure of Conflicts of Interest

To ensure clients are adequately informed about the relevant conflicts of interest that may affect the provision of the service and/or advice offered to them, an NZX Participant's conflict management procedures must account for the requirements of Participant Rule 15.10.2 and Derivatives Market Rule 4.22.2 in respect of disclosing conflicts of interest.

NZX Participants are expected to make disclosures to clients as part of the Rules and relevant securities legislation. By itself, this disclosure may not be sufficient depending on the nature of the potential conflict of interest identified.

Where disclosure is used to address conflicts, such disclosure should be sufficiently complete and timely so that it is meaningful and comprehensible to the client.

The NZX Participant must have policies for occasions where specific disclosure is required to clients rather than relying on a generic disclosure. Disclosure alone may not be enough to effectively address a conflict of interest; additional measures may be necessary or required.

An NZX Participant must disclose to the client:

- when it issues any communications relating to Securities (for example, but not limited to, research reports), any conflict of interest with respect to those Securities, as required by its written conflict management procedures referred to in Participant Rule 15.10.1 and Derivatives Market Rule 4.22.1;
- where there is a conflict of interest identified through the conflict management procedures required under Participant Rule 15.10 and Derivatives Market Rule 4.22, before providing advisory or dealing services in relation to a transaction for the client, as

¹ See also NZX Participant Guidance Note – Trading Conduct [here](#)

required by its written conflict management procedures referred to in Participant Rule 15.10.1 and Derivatives Market Rule 4.22.1;

- on a contract note when it is Acting as Principal in a transaction, in accordance with Participant Rule 10.3 and Derivatives Market Rule 9.9 (an NZX Participant must make a specific disclosure for each transaction and not rely only on a generic statement in its contract notes that it may Act as Principal); and
- on a contract note when it is acting as agent for the buyer and seller in a transaction and is earning income from both parties to that transaction, in accordance with Participant Rule 10.4 and Derivatives Market Rule 9.9 (an NZX Participant may rely on a generic statement in its contract notes that it may be acting for, and earning income from, both parties).

Disclosing a conflict of interest does not exempt an NZX Participant from the obligation to maintain and operate effective organisational and administrative arrangements. It is important to disclose a conflict and also to consider how that conflict should be managed, including whether disclosure is the best method of managing the conflict. An over-reliance on disclosure without adequate consideration as to how conflicts may appropriately be managed is insufficient.

Specific actions and disclosures will also be required in some situations. For example, a security may become “restricted” because of a NZX Participant’s involvement in a corporate transaction, in which case NZX Participants would be expected to consider whether they need to:

- disclose the conflict (where appropriate);
- refrain from proprietary/principal or Employee trading;
- not produce any research; and
- potentially, provide no advice about the merits or otherwise of a transaction.

This disclosure should focus on material conflicts not already covered under other legislation or regulations.

5.4 Avoiding Conflicts of Interest

Some conflicts of interest may have, or be perceived to have, such a serious potential impact that there is no adequate way for the NZX Participant to manage the conflict. In these situations, the mere disclosure and conflict management may not be adequate.

Policies and procedures should give clear guidance as to the circumstances in which a conflict cannot be effectively managed and where relevant persons should refrain from acting.

When deciding whether to refrain, relevant factors include (but are not limited to):

- the size and structure of the relevant parties;
- intermediary, fiduciary or statutory obligations; and
- the probability of harm or appearance of harm.

6. Record Keeping

An NZX Participant should be able to demonstrate compliance with its conflict management procedures through its internal record keeping. These records may be requested by NZX as part of its regulatory oversight.

NZX recommends that the NZX Participant's Compliance Manager be able to demonstrate that they, or their delegate, have independently reviewed compliance with conflicts management procedures. These reviews should be conducted at appropriate intervals based on:

- the nature and the underlying risks of the firm's activities; and
- the requirements of the conflict management policy.

At a minimum, an NZX Participant's conflict management records should be sufficient to capture:

- the nature of the conflict;
- the person or persons associated with the conflict;
- what action was taken;
- a copy of any reports provided to the NZX Participant's senior management or Board regarding the conflict; and
- a copy of any written disclosure of a conflict of interest as provided to clients or the public.

These records may take a number of different forms and do not need to be contained in a separate "conflicts of interest file". The form and location of these records will depend on the nature of the activity and what is most relevant in the particular circumstances – for example: the records may be included as part of the Order and Contract Note records, and the conflicts management assessment of these incorporated into the regular review of these records already covered in the NZX Participant's compliance monitoring plan.

7. Conflict Management Procedures

To be adequate, conflicts management arrangements must successfully identify conflicts of interest and set out methods to control and/or manage the effects of those conflicts on the provision of financial services. NZX Participants should monitor whether their conflict management arrangements successfully do this.

A written policy statement should be developed outlining the NZX Participant's stance on conflicts of interest including:

- the principles behind the conflict of interest management requirements;
- relevant rules and securities legislation;
- identification of conflicts;
- ongoing monitoring of conflicts;
- reporting conflicts;
- addressing conflicts;
- disclosure of conflicts including when specific disclosure is appropriate;



- record keeping; and
- consequences for not complying with the conflict management procedures.

As required by Rule 15.10.4 and Derivatives Market Rule 4.22.4, all staff members must acknowledge annually that they have read, understood and have agreed to comply with the NZX Participant's written policy on conflicts of interest. The NZX Participant must retain these acknowledgements.

NZX recognises that potential conflicts, both actual and perceived, may arise both internally within NZX Participants and externally from their corporate and investor clients. It is the responsibility of NZX Participants to acknowledge and manage those conflicts in a way that protects their clients and the NZX Participant's reputation. Some specific areas for consideration are set out below:

7.1 Employee Holding Thresholds

As required by Rule 15.10.2(d) and Derivatives Market Rule 4.22.2(d), NZX Participants are required to maintain a register of Employees' interests in Securities and Derivatives Contracts, where such holdings exceed an appropriate threshold established within the conflict management procedures.

When setting the relevant appropriate threshold for a Security or Derivatives Contract, the NZX Participant should consider:

- the Security's liquidity;
- the Market Capitalisation of the Issuer, and the relevant series of Quoted financial products;
- the type, scope and availability of any published research on the Issuer; and
- the nature of the NZX Participant's clients, including whether they are Retail or Wholesale or are advisory or Execution-Only clients.

7.2 Information Barriers

Robust information barriers can assist NZX Participants to manage conflicts of interest, particularly where some Employees may receive, or be provided with, material, non-public information (**MNPI**).

For example, Employees in an NZX Participant's Investment Banking area regularly come into possession of MNPI. Physical and technological barriers usually separate these areas from the public or trading side of the firm (including research and sales). MNPI may also include information regarding client's trading intentions where that trading activity is likely to have a material impact on the price or market for that financial product.

Where Employees are exposed to MNPI, the NZX Participant needs to have processes and procedures to prevent others in the NZX Participant's business from being exposed to that MNPI and for ensuring that client related information remains confidential.

This is often done by placing restrictions on the Employee's activities to minimise the risk that the MNPI is inappropriately passed to others or acted on. These arrangements are only effective if they are in place, followed and monitored.

Poor practices in the handling of information can threaten market integrity and increase the risk of insider trading. The proper handling of MNPI and the management of conflicts of interest promotes market integrity, improves market efficiency and increases investor confidence.

NZX Participants should consider whether their controls, including policies, procedures, training and monitoring are appropriate to meet legal and regulatory requirements. NZX Participants should give careful consideration to the handling of MNPI and conflicts to ensure they are adequately managing the risk of insider trading.

While each NZX Participant will have controls that are specific to its business, below are some general areas that should be considered when establishing controls and practices with respect to MNPI:

- policies, procedures and training on the identification and handling of MNPI, including clear escalation paths for Employees who identify an exposure to MNPI;
- effective physical and technological segregation to prevent MNPI from flowing between areas of the business, except where it is necessary and appropriate for this to occur;
- processes to document and retain records of meetings between Employees on the public side of the firm and corporate clients or Employees from the non-public side of the firm where MNPI may be discussed;
- effective monitoring and supervision by the compliance team of how the policies and procedures are being followed;
- effective arrangements (managed by the compliance team) for the wall-crossing of Employees who receive MNPI, including a wall-crossing register and appropriate monitoring activities; and
- a process where Employees acknowledge, in writing, that they have been wall-crossed and provided with guidance about what they can and cannot do in the period leading up to the MNPI becoming public.

7.3 Remuneration and incentives

NZX Participants should consider also whether the structure and funding of Employee remuneration could itself create a potential conflict. For example, an NZX Participant's research analysts' remuneration should not be tied to the views expressed in the analysts' research reports. Similarly, the remuneration of the NZX Participant's facilitation traders should not be dependent on any direct profit made on the facilitation trades undertaken.

These considerations should not preclude an NZX Participant from paying performance bonuses that are determined based on a range of criteria, such as the:

- overall performance of the NZX Participant;
- Employee's individual performance and productivity;
- Employee's compliance with regulatory and internal requirements; and
- market for hiring and retaining Employees.

While the acceptance of reasonable corporate hospitality could create a perceived conflict, this could be managed by dealing with them in accordance with the NZX Participant's general policies

regarding gifts and entertainment. However, Employees accepting any remuneration, inducement or other direct benefit from a client or any other party, such as an Issuer, in respect of the performance of their role would create a conflict that would need to be specifically managed.

7.4 Trading as Principal

Principal Trading refers to an NZX Participant trading on its own behalf. Principal Trading can take several different forms, although it primarily falls into two broad categories:

- proprietary trading; and
- client facilitation.

For more information about these different categories, refer to NZX Trading Conduct Guidance Note [here](#).

Whichever category it falls into, Principal Trading introduces additional risks of actual or perceived conflicts of interest for NZX Participants. Controls and procedures are required to manage these risks.

In all cases where an NZX Participant is Acting as Principal with one of its clients, this should be disclosed to the client as required by the Rules, and where possible before execution of the transaction.

When Acting as Principal, an NZX Participant may be competing with its clients to acquire or dispose of financial products. It is therefore necessary for NZX Participants to consider carefully the nature of any potential conflict and manage it accordingly.

For example, it is inappropriate for the individuals conducting proprietary trading on behalf of the NZX Participant to also have visibility of client trading information in relation to the same financial products.

In these situations, the NZX Participant's interests have the greatest potential to conflict with those of its clients. As a result, stricter controls, oversight, monitoring and clearly documented procedures are expected. It is not a mandatory requirement under the Rules for an NZX Participant's proprietary trading function to be segregated from the client facing areas of the NZX Participant's business, but NZX considers that this is best practice. NZX considers that such segregation should include access to systems and information (such as directories, and any form of meeting or electronic communication used to discuss client Orders and trade ideas), as well as physical separation (with no access to trading areas occupied by client traders).

When undertaking passive facilitation to assist with a specific client request, the NZX Participant's interest have less potential to conflict with those of its client. As a result, disclosure alone will be sufficient in these cases.

When engaging in active facilitation, there is an increased risk that the NZX Participant may be competing with clients to buy or sell a financial product. NZX Participants will need to consider what additional controls and monitoring are necessary in respect of active facilitation to manage this increased risk. These considerations could include, among other things:

- mandatory disclosure to the affected client that the NZX Participant is Acting as Principal (in accordance with the Rules);
- keeping contemporaneous records of the basis for anticipating receipt of an Order;
- additional mechanisms for managing client Order priority requirements;

- ensuring access to any information regarding Retail Client Orders is appropriate;
- having a clear facilitation policy with limits applied and monitored; and
- conducting regular reviews of facilitation trading to ensure client interests remain the purpose of the trading.

When offering facilitation services to clients, NZX Participants need to have suitable arrangements in place to manage the confidentiality of information surrounding clients' trading intentions.

One situation where this is particularly relevant is where the NZX Participant has agreed to facilitate a client Order at a price that will be determined based on traded market data generally rather than the prices traded for the client in the market, for example a guaranteed "market on close" or "Volume Weighted Average Price (**VWAP**)" Order. NZX Participants may agree to these in order to provide execution and/or price certainty for clients wanting to execute large transactions in their entirety.

These guaranteed Orders can create a perceived or actual conflict of interest as the NZX Participant is potentially incentivised to manipulate the benchmark price in order to benefit their own account.

For example, an NZX Participant may be able to benefit from purchasing securities at a lower price (or selling at a higher price) during the day with the knowledge that it has a guaranteed order in the opposite direction at the end of the day.

The counterparty on risk when a guaranteed Order is executed in the market differs from a best-efforts or target order. In a guaranteed Order, the NZX Participant accepting the order executes on-market trading in a principal capacity, then reports an off-market transaction with the client (on the other side of the market) once the reference price is known.

This contrasts with circumstances where an NZX Participant acts on a best-efforts basis or targets the benchmark window. In these circumstances the risk is borne by the client and market executions by the NZX Participant are in an agency capacity.

In the case of a guaranteed Order the NZX Participant would need to balance its own trading to manage the risk associated with the order with its duty to place the interests of clients above its own interests and take steps to ensure it does not adversely affect the client outcome.

Another example is when an NZX Participant has a large Order from a client that is volume restricted. In this case, the NZX Participant has an interest in seeing higher volume traded in the stock that is sufficient to allow the Order to be completed. Where an NZX Participant uses its facilitation account to increase the volume traded on market, this creates a conflict for the NZX Participant that must be managed and increases the risk of a client order priority issue arising.

It is essential that conflicts and risks are disclosed to and understood by the client placing the guaranteed Order and that there is oversight and review of trading activity to ensure any internal protocols about disclosures, order handling and execution have been followed.

See also [NZX Trading Conduct Guidance Note](#).



7.5 Monitoring conflicts of interest

NZX expects NZX Participants to appropriately monitor adherence to its conflict management policy and other procedures. For example, monitoring:

- the effectiveness of formal information barrier / Chinese Walls arrangements;
- trading – whether it is proprietary or agency trading;
- compliance with documented procedures and record keeping;
- the appropriateness of generic and specific disclosures in use and where specific disclosure of conflicts are required to be made;
- internal reporting structures – for example business review groups or conflict clearance committees or appropriate escalation of matters to senior management;
- related policies, for example personal account dealing, handling sales and trading conflicts, material interests, and disclosure of conflicts in research and other written material; and
- the sequence of order receipt through to the trades occurring to detect front running research or other orders.

The conflicts of interest policy is not expected to replicate all relevant procedures that exist within an NZX Participant to manage conflicts, for example any:

- information barrier procedures required under Rule 3.24;
- employee trading obligations under Participant Rule 10.5 or Derivatives Market Rule 4.18;
- breach reporting to NZX under Participant Rule 21.7 or Derivatives Market Rule 14.6; and
- the specific and generic disclosures already separately provided for elsewhere in the Rules and other Guidance Notes.

However, it would be appropriate to reference these procedures as part of the overall conflicts management policy.

It is expected that an NZX Participant would establish a framework to be applied where specific instances of possible conflicts arise. The framework would most likely be used to determine how to handle potential or actual conflicts of interest.

In some less common circumstances, other specific measures will be needed to deal with a particular conflict. For example, a situation may arise where informed consent given by a client, or other mitigation measures which ensure the conflict is addressed, for the NZX Participant to act despite the existence of the potential conflict or where it is necessary to decline to act.

