



# Managing Conflicts of Interest Policy

## Stratos Europe Limited



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# 1. Background

Stratos Europe Limited (trading as “Tradu”) (“we”, “us” or “the Firm”) is a Cyprus Investment Firm (“CIF”) registered with the Cyprus Department of Registrar of Companies (HE 405643) and authorised and regulated by the Cyprus Securities and Exchange Commission (“CySEC”) under license number 392/20.

The Firm is responsible for taking all appropriate steps to identify and manage any conflicts of interest in its business that might arise between itself and its Clients, between one Client and another and between itself and the Stratos Group LLC and its subsidiaries (collectively, the “Stratos Group”). This document (the Stratos Europe Limited’s “Conflicts of Interest Policy”) identifies the potential conflicts of interest that may arise in the Firm’s business and summarises the controls implemented by us to manage any such conflicts of interest. The Firm is deeply committed to maintaining the highest ethical standards and complying fully with its regulatory and legal obligations. Compliance with this Conflicts Policy is a requirement of the employment contract of every employee and any breach may lead to disciplinary proceedings, up to and including dismissal.

The Firm is licensed by CySEC, to offer services in relation to both Contracts for Difference (CFDs) and Transferable Securities (“Stocks”).

In the case of Transferable Securities specifically, the Firm only receives and transmits Clients’ orders to a third party Broker for execution, Alpaca Securities LLC (“Alpaca” or “Execution Broker”). Thus, the Firm does not execute Client orders in relation to Transferable Securities, but remains under an obligation to take all sufficient steps in order to obtain the best possible result for them and act in their best interest.

The Firm has no association or common ownership links with its Execution Broker, does not engage in principal (own account) trading in relation to Transferable Securities and therefore will not be in a conflict of interest with its Clients as a result of this specific model. The order handling arrangements for Transferable Securities are the following:

Orders for execution in US-listed securities on the New York Stock Exchange (“NYSE”) or the National Association of Securities Dealers Automated Quotations (“NASDAQ”) are received and transmitted to the Execution Broker in the following manner:

- Orders for full Transferable Securities will be executed by the Execution broker, as agent, through any of their third party execution brokers or venues they have relationships with.
- Orders for fractions of a Transferable Securities will be executed by the Execution broker, as principal. Where the order placed by the Client contains both a whole Stock and fraction of a Stock, it will be executed in a mixed capacity by the Execution broker. The latter has a system in place with regards to its fractional stocks and listed securities arrangements that aims to ensure that its customers obtain best execution and/or benefits from price improvements.

In the case of CFDs, the Firm uses a Matched Principal Trading model. This model materialises where three elements are simultaneously fulfilled:

- a) The Firm interposes between the buyer and seller to the transaction in such a way that it is never exposed to market risk throughout the execution of the transaction (no-risk exposition component);
- b) Both sides are executed simultaneously (timing component); and
- c) The transaction is concluded at a price where the Firm makes no profit or loss, other than a previously disclosed commission, fee or charge for the transaction.

For CFD transactions, the Firm acts as principal (and not as agent on the Client’s behalf) and therefore the Firm is the sole Execution Venue for the execution of Client orders.

## 2. Legal Basis

In compliance with Cyprus Law L. 87(I)/2017 and EU Commission Regulation (EU) 2017/565 on the organisational requirements and operating conditions for Investment Firms, the Firm is required to take all reasonable steps to identify and prevent conflicts of interest between, on one hand, itself (including its directorship, employees, tied agents, affiliates or other Relevant Persons, as well as any person directly or indirectly linked to them by control) and its Clients and on the other - between two distinct Clients of the Firm, that arise in the course of providing any investment and ancillary services, including those caused by the receipt of inducements from third parties or by the Firm's own remuneration and other incentive structures.

Furthermore, the Firm takes into consideration the ESMA Questions and Answers relating to the provision of CFDs and other speculative products to retail investors under MiFID and any other circular, announcements or guidelines issued by CySEC or ESMA, or any other supervisory authority.

## 3. Relevant Persons

- A director, partner or equivalent, manager or tied agent of the Firm;
- A director, partner or equivalent, or manager of any tied agent of the Firm;
- An employee of the Firm or of a tied agent of the firm, as well as any other natural person whose services are placed at the disposal and under the control of the Firm or a tied agent of the Firm and who is involved in the provision by the Firm of investment services and activities;
- A natural person who is directly involved in the provision of services to the investment Firm or to its tied agent under an outsourcing arrangement for the purpose of the provision by the Firm of investment services and activities.

## 4. Scenarios in which a Conflict of Interest Arises

The Firm considers the following scenarios, regardless of the context (provision of investment and/or ancillary services), as ones in which a conflict of interest materializes:

- The Firm or a Relevant Person is likely to make a financial gain, or avoid a financial loss, in detriment to the Client;
- The Firm or a Relevant Person has an interest in the outcome of a service provided to the Client or of a transaction carried out on behalf of the Client, which is distinct from the Client's interest in that outcome;
- The Firm or a Relevant Person has a financial or other incentive to favour the interest of another Client or group of Clients over the interests of the Client;
- The Firm or a Relevant Person may receive goods, services or other inducement in addition to standard commission/ fee charged in respect of a service provided to the Client;
- The Firm or a Relevant Person carries on the same business as the Client;
- The Firm hedges with another entity within the same group which potentially creates a link between the commercial interests of the Firm and the group;
- The Firm executes its hedging strategy in such a way that the Firm benefits when there are favourable market movements between the time the order is placed by the Client and the hedge is made by the liquidity provider,

whilst all or part of any losses as a result of unfavourable market movements are passed on to Clients (so-called asymmetric price slippage);

- The Firm executes Client orders using a trading platform (e.g. using a straight through processing (“STP”) model that connects the Firm to a liquidity provider at one end and the Client at the other). However, the Firm is not remunerated based on the profit and losses of the platform, therefore no conflict of interest exists.

## 5. Managing Conflicts of Interest

The Compliance Department is in charge of taking all reasonable steps for the identification and management of the conflicts arising in the aforementioned scenarios. In particular, the Compliance Department is also in charge of keeping up-to-date this Policy in order to ensure the compliance with relevant EU and Cypriot laws and regulations.

The Firm maintains and operates effective organizational and administrative procedures to manage the conflicts of interest that have been identified. Additionally, the Firm undertakes ongoing monitoring of its business activities to ensure that all internal controls are suitable and satisfactory.

### 5.1. Processes and Controls

The processes and controls that the Firm follows to manage the identified conflicts of interest include the following:

- Effective internal processes to prevent or control the exchange of information between Relevant Persons engaged in activities with an inherent risk of a conflict of interest, where the exchange of the said information could harm the Clients’ interests (A “need to know policy”);
- The separate supervision of Relevant Persons whose principal functions involve carrying out activities on behalf of, or providing services to, Clients whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the Firm. The Firm’s department whose interests may conflict with Clients is the Dealing on Own Account Department;
- The removal of any direct link between the remuneration of Relevant Persons principally engaged in one activity and the remuneration of, or revenues generated by, different Relevant Persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities;
- Measures to prevent or limit any person from exercising inappropriate influence over the way in which a Relevant Person carries out investment or ancillary services or activities;
- Measures to prevent or control the simultaneous or sequential involvement of a Relevant Person in separate investment or ancillary services or activities where such involvement may impair the proper management of conflict of interest;
- The appropriate disclosure(s) to the Client in a clear, fair and not misleading manner to enable the Client to make an informed decision;
- An annual review of the Firm’s execution arrangements;
- Chinese walls restricting the flow of confidential and inside information within the Firm, and physical separation of departments;
- Procedures governing access to electronic data;
- Segregation of duties that may give rise to conflicts of interest if carried on by the same individual;

- A Remuneration Policy that ensures remuneration methodologies do not compromise the Firm's duty to act in the best interest of its Clients;
- Dealing room employees do not relate their remuneration with Clients' performance;
- A Personal Transactions Policy containing the requirements applicable to Relevant Persons in relation to their own investments;
- A gifts and inducements log registering the solicitation, offer or receipt of certain benefits;
- Prohibition of external business interests conflicting with our interests as far as the Firm's officers and employees are concerned, unless Board of Directors approval is provided;
- Establishment of in-house Compliance Department to monitor and report on the above to the Firm's Board of Directors;
- Appointment of Internal Auditor to ensure that appropriate systems and controls are maintained and report to the Firm's Board of Directors;
- Establishment of the four-eyes principle in supervising the Firm's activities;
- The Firm also undertakes ongoing monitoring of business activities to ensure that internal controls are appropriate to manage any risks arising from the link between the commercial interests of the Firm and Stratos Group;
- The agreement between the Firm and the liquidity provider states that each trade the Firm accepts from its Clients as principal will be automatically and immediately matched on a principal to principal basis with the liquidity provider so that the liquidity provider effectively assumes the market risk associated with each trading position of the Firm's Clients;
- There are no conflicts of interest related to the products as all trades are hedged on a one-to-one basis and the Firm is compensated by a volume based commission, independent of customer profit or loss.

## 5.2. Allocation of Client Orders

Client orders must be dealt with sequentially and in accordance with the timing of their reception by the Firm. They must be accurately recorded and allocated. The Firm and its employees must not misuse information relating to Client orders. Unfair precedence should not be given to the Firm or to any particular Client.

Client orders are executed in line with the Firm's 'Order Execution Policy' which requires the Firm to take all reasonable steps to achieve best overall trading results for Clients.

The Firm does not provide any preferential treatment to any one Client or group of Clients and warrants that it ensures fair treatment to all Clients and their orders. The firm does not aggregate client orders with those of any other clients. However, the Execution Broker may, if they consider this necessary and if this is in the clients' best interests, aggregate clients orders. The latter may occur in exceptional circumstances at the discretion of the Execution Broker and as a consequence of aggregation the clients affected may not get the best price in comparison with the price they would get if aggregation did not occur.

## 5.3. Confidential Information and the "Need to Know" Policy

It is the policy of the Firm that all non-public information obtained from a Client or potential Client or other source which has been provided in the expectation that it will be kept confidential shall be treated as confidential and shall not be shared with any other company or individual. The Firm's employees may not disclose any such confidential information

to any person who is not an employee unless required by the terms of a transaction or relevant law or regulation. The dissemination of confidential information within the Firm is at all-time subject to established information barriers. Confidential information may only be disclosed to those persons who need it to serve the legitimate interests of the Firm and its Clients and who can be expected to keep it in confidence in accordance with the policy regarding information barriers.

The Firm has established and operates internal organisational arrangements to avoid conflicts of interest by controlling, managing or restricting as deemed appropriate the flow of information between different areas of business, divisions and departments. In particular, Chinese Walls involve separation of premises, reporting lines, electronic data access and IT-systems and controlled procedures for the movement of information between the Firm and any other part of the Stratos Group. Chinese Walls are a key tool for conflict of interest prevention avoiding insider dealing and market manipulation risks.

In case of any violation of the Chinese Walls, the relevant employee must report it to the Compliance officer of the Firm in order the latter to proceed and recommend where applicable to the senior management appropriate measures for remedying the deficiencies.

## **5.4. Measures in Relation to Inducements, Commissions, Remuneration and Gifts**

The Firm does not give or receive any monetary or non-monetary benefits from third parties in connection with the provision of services to the Clients, other than minor non-monetary benefits, or unless they are designed to enhance the quality of service provided to the Client. An example of an inducement arrangement designed to enhance the quality of service is the Firm's referring fees program.

It is noted that, in the case of Transferable Securities exclusively, the Firm only receives and transmits Clients' orders to the Execution Broker. The Firm pays a Broker-Commission per stock to the Execution Broker for its services. This commission is added in the price that the Client pays for the investment and is disclosed in the annual Cost and Charges notification sent to the Client.

In relation to CFDs, in order to provide the best possible service to Clients who would otherwise not have access to our services, the Firm shares commissions and charges with the third parties in connection with transactions carried out on their behalf. There are two ways these charges may be applied:

- a) Spread-based method – the Firm incorporates the charges to the Client in the spreads. Certain amount of the charged sum is then allocated to the third party in return for directing the Client to the Firm.
- b) Commission method – the Firm does not incorporate a charge in the spreads and provides the Client with the same spreads as those made available to the Firm by our Liquidity Providers (LPs). Instead, the Client is charged a commission based on the lots traded. A percentage of that commission is then allocated to the third party in return for directing the Client to the Firm.

In return for the on-going remuneration paid to third parties, they shall provide (including but not limited to) access, at a competitive price, to a wide range of financial instruments that are likely to meet the needs of the client, including an appropriate number of instruments from third party product providers having no close links with the investment firm, support and education to the corresponding Clients. Training and educational material and any other tools used for this purpose are subject to the supervision of the Firm, depending on the nature of support, the role and the types of tools/material used by the third party. The review is performed on a case by case basis, to ensure compliance with the relevant regulatory requirements.

On annual basis or at any time, upon a request by the Client, the Firm shall provide a detailed breakdown of the amounts paid to the respective third party.

Third parties are supervised by the Firm, while appropriate measures are applied by the Firm, towards the third party, whereas the last one is not acting in accordance with the applicable regulatory requirements and the best Clients' interests. In case an aggressive or deceptive marketing practice is identified, the third party's account shall be terminated.

The Firm has mechanisms and processes in place to ensure that in all cases, the Clients are treated fairly and professionally, in accordance with their best interests and without awarding any differentiated treatment to transactions caught by our referring fee program.

The Firm, does not compensate (through a bonus scheme) employees based on any factors that create a conflict of interest with the Clients they interact with. Employees are remunerated only based on their performance which is evaluated based on both quantitative and qualitative indicators.

The Firm does not offer, request or accept any means of remuneration that are different from the officially disclosed fees and commissions.

The Firm does not allow its staff and in particular Relevant Persons to accept any types of gifts or financial benefits of any type. Gifts of low value may be accepted, as long as the Firm is informed and approves such gifts (this does not apply to monetary gifts like cash). The Firm shall maintain a gifts and inducements log for low value gifts.

## **6. Disclosure of Conflict of Interest**

The Firm shall use all appropriate efforts to manage or otherwise prevent any conflict of interest, but if those efforts are not appropriate to ensure, with appropriate confidence, that the risk of damage to the interest of a Client will be prevented. The Firm shall, where appropriate, disclose the general nature and/or source of the conflict of interest in writing to the Client before undertaking business for the Client. When considering whether it is appropriate to disclose a conflict of interest to a Client, the Firm shall take into account the status of a particular Client and whether they are likely to understand the risks involved if they continue to deal with the Firm.

Any disclosure shall contain appropriate information to allow the Client to make an informed decision. It is the policy of the Firm to disclose all material interests or conflicts of interest to the Client whether generally or in relation to a specific transaction before it deals on behalf of a Client, through its Standard Terms of Business. This disclosure is made even where the Firm has employed other measures to manage conflicts and those measures have the effect that the risk of damage to a Client's interest is low.

The disclosure will be made in sufficient time and in a durable mean and shall include sufficient detail, taking into account the nature of the Client, to enable him to take an informed decision with respect to the investment or ancillary service in the context of which the conflict of interest arises.

Clients will be given the opportunity to decide on whether or not to continue their relationship with us with no unreasonable obstacles. If the Firm does not believe that disclosure is appropriate to manage the conflict, we may choose not to proceed with the transaction or matter giving rise to the conflict.

## **7. Declining to Act**

In the event that the Firm determines that it is unable to manage a conflict of interest using one or more of the methods described above it may decline to act on behalf of a Client.

## **8. Client's Consent**

By entering into a Client Agreement with the Firm for the provision of Investment Services, the Client is consenting to an application of this Policy to them.

In the event that the Firm is unable to deal with a conflict of interest situation it shall revert to the Client.

## 9. Record Keeping

The Firm keeps and regularly updates a record of the kinds of investment and ancillary service or investment activity carried out by or on behalf of the Firm in which a conflict of interest entailing a risk of damage to the interests of one or more Clients has arisen or, in the case of an ongoing service or activity, may arise. The documentation shall be maintained for a minimum period of five years.

Senior management shall receive on a frequent basis, and at least annually, written reports on activities and occurrences referred to in this section.

## 10. Amendment / Review

The Firm reserves the right to review and/or amend its conflict of interest policy and arrangements whenever it deems appropriate. The Firm's compliance function and the Board of Directors shall review and amend, if needed, this policy at least on an annual basis. The Firm maintains an updated copy of its conflicts of interest policy posted on its Website. The Firm shall assess and periodically review, on an at least annual basis, the conflicts of interest policy and shall take all appropriate measures to address any deficiencies. Over-reliance on disclosure of conflicts of interest shall be considered a deficiency in the Firm's conflicts of interest policy.