



association of the  
luxembourg fund industry



Institut Luxembourgeois  
des Administrateurs

# CONFLICTS OF INTEREST

# Conflicts of Interest

## ALFI Code of Conduct for Luxembourg Investment Funds

### Principle VIII

The Board should identify and manage fairly and effectively, to the best of its ability, any actual, potential or apparent conflicts of interest and ensure appropriate disclosure.

### Recommendations

1. The Board should identify the circumstances which constitute or may give rise to a conflict of interest which may entail a material risk of damage to the interests of investors.
2. The Board should establish, implement and maintain an effective conflict of interest policy (i) to identify such conflicts of interest and (ii) to provide for procedures to be followed and measures to be adopted in order to prevent them where possible and to manage such conflicts in an independent manner.
3. The Board should make all reasonable efforts to resolve conflicts of interest but in cases where a conflict of interest is unavoidable, the Board should seek to address it on an arm's length basis and to disclose it adequately to interested parties.
4. The Board should keep an updated record of the situations where conflicts of interest entailing a material risk of damage to investors may arise, have arisen and how they have been addressed.

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## Introduction

It is inevitable that potential, and actual, conflicts of interest will arise in the management of investment funds. It is the responsibility of each Board to recognise these situations and to actively identify and manage conflicts, and to ensure appropriate disclosure.

Particular consideration should be given to transactions with related entities and where the depository to a Fund is part of the same group as the Management Company.

Disclosure of potential conflicts may be provided in the prospectus of the Fund and on the website of the Fund or the Management Company. Consideration should be given to disclosing specific situations where an actual conflict has arisen in the annual report and accounts of the Fund.

## Guidelines for identifying and managing conflicts of interest

Potential conflicts of interest may arise at the level of the Board and the individual directors and within the day to day business of the Fund/Management Company.

### 1. Board Process

It is best practice that all directors provide a full list of their mandates and that this be kept up to date with any changes. The Board should consider the lists and be satisfied that no material conflicts of interest exist.

## 2. Board Meetings

In relation to the Agenda of each Board meeting, Directors should at the beginning of the meeting advise the Board of any conflicts of interest that they may have in relation to any items due to be discussed during the meeting. It is best practice to include a standing point on the Agenda to ensure this item is reflected on at the beginning of each meeting,

According to the provisions of most Articles ("*statuts*"), the Director(s) involved should not engage in the discussions and voting on these items, and this abstention should be noted in the Minutes. The Articles should also be carefully read to ensure the Board maintains sufficient quorum in the event that several Directors are conflicted on the same topic.

In certain circumstances, the Luxembourg company law also requires the conflict to be reported to the next shareholders meeting.

## 3. Conflicts of Interest Policy

The Board should ensure that an appropriate written conflicts of interest policy is established which is proportional to the size and organisation for the Fund/Management Company for which they are responsible. The policy should be approved by the Board and reviewed on an annual basis.

The Board should ensure that the policy and treatment of conflicts are handled with consideration to CSSF Regulation 10-4 which includes the requirements to:

### *i. Identify potential conflicts of interest*

This may include situations where the Fund/Management Company;

- a. is likely to make a financial gain at the expense of the fund or investors
- b. has an interest in the outcome of a service/activity that is distinct from the fund or investors
- c. has a financial or other incentive to favour another client/fund over the interests of the fund or investors
- d. receives an inducement in relation to the services provided to the fund or investors

### *ii. Identify the circumstances which constitute, or may give rise to, a conflict of interest entailing a material risk of damages to the interest of the fund or investors*

### *iii. Detail procedures to be followed in order to manage such conflicts*

This may include;

- a. effective procedures to prevent or control the exchange of information where such exchange may harm the interest of the fund or investors
- b. the supervision of persons carrying out portfolio management, or providing services, to other clients whose interest may conflict with the fund or investors
- c. the removal of any direct link between remuneration of persons engaged in different activities, or revenues generated by different activities, where a conflict of interest may arise in relation to those activities
- d. measures to prevent or limit any person from exercising inappropriate influence over persons carrying out portfolio management

The Board should ensure that the Fund/Management Company keeps a regularly updated record of the types of collective portfolio management activities in which a conflict of interest entailing a material risk of damage to the interests of the fund or investors has arisen, or may arise.

The Board should ensure that where the arrangements made by the Fund/Management Company for the management of conflicts of interest are not sufficient to ensure that the risks of damage to the fund or investors will be prevented the Conducting Officers of the Fund/Management Company have been informed to ensure that the Fund/Management Company acts in the best interest of the fund or investors, and that any such situations have been appropriately disclosed to investors.



**The Association of the Luxembourg Fund Industry (ALFI)**, the representative body for the Luxembourg investment fund community, was founded in 1988. Today it represents more than 1,500 Luxembourg-domiciled investment funds, asset management companies and a wide variety of service providers including depository banks, fund administrators, transfer agents, distributors, law firms, consultants, tax advisers, auditors and accountants, specialist IT providers and communications agencies.

Luxembourg is the largest fund domicile in Europe and its investment fund industry is a worldwide leader in cross-border fund distribution. Luxembourg-domiciled investment structures are distributed in more than 70 countries around the globe, with a particular focus on Europe, Asia, Latin America and the Middle East.

ALFI defines its mission as to **“Lead industry efforts to make Luxembourg the most attractive international investment fund centre”**.

Its main objectives are to:

### **Help members capitalise on industry trends**

ALFI’s many technical committees and working groups constantly review and analyse developments worldwide, as well as legal and regulatory changes in Luxembourg, the EU and beyond to identify threats and opportunities for the Luxembourg fund industry.

### **Shape regulation**

An up-to-date, innovative legal and fiscal environment is critical to defend and improve Luxembourg’s competitive position as a centre for the domiciliation, administration and distribution of investment funds. Strong relationships with regulatory authorities, the government and the legislative body enable ALFI to make an effective contribution to decision-making through relevant input for changes to the regulatory framework, the implementation of European directives and the regulation of new products or services.

### **Foster dedication to professional standards, integrity and quality**

Investor trust is essential for success in collective investment services and ALFI thus does all it can to promote high professional standards, quality products and services, and integrity. Action in this area includes organizing training at all levels, defining codes of conduct, transparency and good corporate governance and supporting initiatives to combat money laundering.

### **Promote the Luxembourg investment fund industry**

ALFI actively promotes the Luxembourg investment fund industry, its products and services. It represents the sector in financial and economic missions organised by the Luxembourg government around the world and takes an active part in meetings of the global fund industry.

ALFI is an active member of the European Fund and Asset Management Association, of the International Investment Funds Association, of Pensions Europe, of the International Association of Pension Funds Administrators and of the Global Impact Investing Network.

For more information, visit our website at [www.alfi.lu](http://www.alfi.lu) and follow ALFI on



## about ila

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The mission of ILA is to promote the profession of Directors by developing its members into highly qualified, effective and respected Directors.

In parallel, it will promote best practices in Luxembourg in the field of Corporate Governance of companies and institutions by actively engaging with those institutions charged with the introduction, application and oversight of those Corporate Governance rules and practices. It will achieve this through high quality training, forum discussions, research, publications and conferences.

ILA aims to be the premier interlocutor in Luxembourg on issues affecting Directors.

For more information, visit our website at [www.ila.lu](http://www.ila.lu) and follow ILA on:



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**Code of Conduct - Guidance on  
Conflicts of interest**