

CONFLICT OF INTEREST

INTRODUCTION

It is Royal's policy to avoid placing its own interest or that of its employees or authorised representatives in a position where there is a material conflict between their interests and that of Royal's clients.

The Compliance Officer will be responsible for assessing and evaluating any conflicts or potential conflicts that may arise and will advise the Board accordingly.

The directors and Responsible Officers of Royal, its employees and representatives will be made aware of their obligations under the Corporations Act and ASIC Policy to disclose any interests that they or their associates have; and any potential conflicts of interest that may arise.

The Compliance Officer will be advised of the actual or potential conflict of interest and together with the Board will be responsible for deciding upon, and implementing, an appropriate response to the actual or potential conflict of interest. The Compliance Officer may also obtain external legal advice in order to resolve the conflict and determine whether and if so what action it should take.

The Compliance Officer will establish and maintain a register recording all reported conflicts and potential conflicts of interest. This register will be updated on a quarterly basis, reported to the board and retained for a period of seven (7) years.

Upon discovery of an actual or potential conflict of interest, the Compliance Officer may recommend and the Board may implement measures which may include:

- Disclosure of interests to clients;
- Relying on a policy of independence;
- Allocate another representative to provide the service to the client;
- Establishing internal arrangements;
- Declining to act for a customer' meeting with affected clients; and
- Requiring that the directors give certain undertakings where necessary

DISCLOSURE OF INTERESTS TO A CUSTOMER

The following conflicts of interest have been identified and disclosed in Royal's Financial Services Guide (FSG), Product Disclosure Statement (PDS) for its financial products and in Statement of Advice (SOA) issued when providing personal advice:

- Royal may deal as principal in the security recommended and may engage in transactions inconsistent with advice/recommendation provided;
- Royal may be the issuer of financial product or linked to the product recommended;
- Royal may be a market maker in the products it recommends;

- Royal may provide a recommendation to buy or sell a security or derivative in which one of Royal's clients has given instructions to buy or sell;
- Royal may provide a recommendation that is in conflict with a client's own interest.

It is Royal's policy to disclose all material interests or conflicts of interest to a client whether generally or in relation to a specific transaction before it deals with the customer. The fact that Royal could have an interest or conflict of interest in relation to transaction which it either trades or advises a client in is outlined in Royal's disclosure documentation FSG, PDS in the event of a financial product and SOA in the event of personal advice. This is also outlined in a disclaimer on third party research reports if provided.

At all times Royal is able to demonstrate that it has taken reasonable steps to ensure that the client does not object to the material interest or conflict of interest and, this is evidenced in writing upon receipt of a signed client declaration issued with Royal's account opening documentation.

In the event of advice being provided clients are made aware of any potential conflicts in the disclosure documents (FSG's and SOA's), any objections are recorded in writing on in file notes and stored on client's files and action take accordingly.

RELYING ON A POLICY OF INDEPENDENCE

In exceptional circumstances when it is not practical to act in accordance with Royal's disclosure policy, Royal ensures fair treatment of its clients by relying on a policy of independence. The policy of independence:

- Requires the relevant employee or authorised representative to disregard any material conflict of interest, either corporate or personal, when advising a client or dealing for a customer;
- Has been made know to all employees of Royal
- Is disclosed to all retail and wholesale clients in Royal's disclosure documents that Royal may have a material conflict of interest relating to the transaction or service concerned.

ALLOCATE ANOTHER REPRESENTATIVE TO PROVIDE THE SERVICE TO THE CUSTOMER

In the event of an employee or representative being unable to act for a client due to a conflict of interest the authorised representative must either decline to act for the client or refer the customer to another employee or representative.

ESTABLISHING INTERNAL ARRANGEMENTS

Royal separates its risk management function which is responsible for derivatives market making from its dealing functions responsible for advising retail clients with respect to derivatives and securities. Royal also separates its back office functions from its dealing and market making functions. Departmental separation is to prevent free flow of information between divisions. The Head of Risk Management, Head of Dealing and Financial Controller along with the Compliance Officer are responsible for policing their own areas and ensuring that procedures are correctly and properly followed. Royal's research function is outsourced thus a natural separation exists.

DECLINING TO ACT FOR A CLIENT

In the event of Royal determining that it is unable to manage a conflict of interest using one of the methods described above, Royal will decline to act on behalf of a client. The decision to do so should be made by the Head of Dealing in consultation with the Compliance Officer.

MEETING WITH EFFECTED CLIENTS

Meetings may be held with clients to discuss any conflict or potential conflict of interest like to affect the client(s).

REQUIRING THAT THE DIRECTORS GIVE CERTAIN UNDERTAKINGS WHERE NECESSARY

The Compliance Officer may require that the board provide certain undertakings where necessary to ensure conflicts of interest are dealt with appropriately.

In identifying possible conflicts of interests Royal considers the following:

- Conflicts of interest may exist between Royal and its clients;
- Conflicts of interest may exist between Royal's officers and employees and its clients; and
- Conflicts of interest may exist between clients.

Royal employs the following mechanism to identify and manage conflicts:

- Internal guidance and training of all staff in the identification of possible issues of conflict as they arise;
- Escalation of procedures for ensuring that issues identified are referred to and considered at the appropriate level within the firm;
- Appropriate internal arrangements for regulating the flow of information between and within the business areas; and
- Guidelines and procedures for supervisory and compliance review of research and recommendations from third party providers prior to publication.

Royal's Compliance officer will, on an ongoing basis, review operations to identify actual or potential conflicts of interest. Measures will include:

- Periodically engaging an independent auditor to review operations;
- Periodically reviewing client files and services provided; and
- Periodically reviewing the terms and arrangements of agreements, in particular, those agreements with associated entities or entities with which the directors or representatives are associated.
- The Compliance Officer will review these measures on an ongoing basis.

Royal's monitoring and supervision procedures take conflicts of interest management issues into account.

In the event of the Sales Manager, Risk Manager, Finance Director or other senior manager being affected in any way by a conflict of interest, the Compliance Officer will have ultimate responsibility for determining the appropriate action to resolve

the matter at hand.

Royal has a **clear reporting and supervisory structure with respect to Conflicts management**. The Directors, Employees and responsible Officers report to the Compliance Officer with respect to Conflicts Management, all are responsible for overseeing compliance with Royal's Conflicts management policy, with the Compliance Officer ultimately responsible. The Compliance Officer reports all conflicts to the CEO and Board monthly or on a needs basis.

Where conflicts appear to be recurring or systemic, the Compliance Officer will report these issues directly to the Board of Directors with a recommendation as to what action should be taken to prevent these issues from arising. If the Compliance Officer believes that Royal's Conflicts management policy and procedures can be further improved, the improvements must be reported directly.

All Royal employees and representatives are trained and understand their obligations relating to compliance with Royal's Conflicts management policy.

Royal's Conflicts management policy and procedures are addressed in Royal's Compliance Manual and Plan which is provided to all employees upon commencement of employment and during in-house training, upon induction and on an ongoing, as needs, basis. The Head of Dealing and the Compliance Officer are responsible for the provision of initial and ongoing training where necessary. All employees are required to sign and return a declaration upon receipt of Royal's Compliance Manual and Plan to the Compliance Officer.

EMPLOYEE TRAINING

Employees and Authorised Representatives responsible for providing financial product advice are required to undergo further training prior to providing financial product advice on behalf of Royal.

The financial product advice and conflicts management training will include, amongst other things, examination of:

- What constitutes financial product advice;
- General versus personal advice
- Managing conflicts of interest
 - Identifying assessing and evaluating conflicts;
 - Managing conflicts;
 - Controlling, avoiding and disclosing conflicts
- PDS's
 - When they are required;
 - Timing of giving a PDS;
 - Content requirements;
- FSG's:
 - When they are required;
 - The timing of giving an FSG;

- Content requirements;
- SOA's
 - When they are required;
 - Timing of giving an SOA;
 - Content requirements;
- Suitable Personal Advice:
 - The requirement to have a reasonable basis for the advice;
 - What client inquiries are required?
 - What is appropriate advice?
- Gifts and Inducements;
 - Royal has in place a gifts and inducements policy and must not offer any inducements to conduct business, nor seek them from others. Although it is recognised that gifts and entertainment may be offered in the normal course of business, Royal has established procedures for dealing with them in order to avoid conflicts of interest.
- Improper payments;
 - Royal ensures that representatives do not use their positions to seek personal gain (including a benefit to family members or other associates) from clients or potential clients, nor should they engage in any act that could be interpreted as seeking or receiving a bribe, secret commission or questionable payment.
- Personal Account Trading.
 - Royal has in place a Personal account trading policy and applies strict controls to prevent representatives trading on their own account, especially in products which Royal offers. Such personal trading can be perceived conflicts of interest.

Advisers will be required to read:

- [RG 175] Licensing: Financial product advisers – Conduct and disclosure; and
- [RG 181] Licensing: Managing Conflicts of Interest
- [RG 36] Licensing: Financial product advice and dealing

Royal's Compliance Culture and encouragement of 'Whistle Blowing' ensures compliance with the above policies. Ongoing monitoring also occurs through direct supervision and appropriate staff recruitment.

POLICY AND PROCESS REVIEW

Royal's conflicts management policy is internally reviewed and updated regularly by Royal's Compliance Officer to ensure changes in statutory requirements and obligations are incorporated, and the policy is in line with industry standards.

A formal annual review is also conducted by Royal's Compliance Officer who is also responsible for implementing, reviewing and updating Royal conflicts management policy.

Royal's external auditors review its conflicts management policy annually.

Recommendations resulting from internal and external audits and routine reviews are submitted by the Compliance Officer to the CEO and Board for review, acknowledgment and confirmation to implement the proposed changes. The changes are then communicated to the relevant departmental manager.

Royal must ensure that its Conflicts management policy is being adhered to and it has procedures in place for identifying and dealing with instances of non-compliance with its conflicts managements arrangements.

Royal fosters a "compliance culture", encourages Whistle Blowing and has internal supervision, monitoring and reporting systems in place.

Employees and representatives are trained in recognising conflicts of interest and are required to report any conflicts of interest to the Compliance Officer or departmental manager as they arise.

The Head of Dealing conducts daily supervisory monitoring of employees and authorised representative as well as random audits of client files, records, SOA's, and disclosure documents to ensure clients have not been treated unfairly, appropriate disclosures have been provided and conflicts have been dealt with in accordance with Royal's Conflicts management policy. All audits are supervised by the Compliance Officer.

BREACHES

Any breaches are reported to the Compliance Officer who will liaise with the CEO to determine appropriate action which may require meetings with effected staff or clients or the CEO referring the matter to ASIC. Serious breaches will lead to the termination of a director/employee's services.

Where material, systematic and/or repeated braches of Royal's Conflicts Management policy have been the result of action(s) of employees or representatives, Royal applied the following disciplinary policy:

1. Informal warning and counselling
2. Formal Warning – Disciplinary interview with verbal warning and counselling
3. Written warning – Disciplinary interview and possibly external training
4. Final written warning – Senior management consultation
5. Dismissal

This policy is applied rigorously and ensures, amongst other things, that employees are not rewarded in any shape or form, particularly financially, as a result of any policy breaches occurring.

DOCUMENTATION OF POLICY

Royal's Conflicts management policy has been tailored according to the nature, scale and complexity of Royal's business and is clearly documented in Royal's Compliance Manual and Plan which outlines procedures to ensure conflicts are effectively management to meet regulatory and company policy. The Board has approved all documented procedures.

Both the Compliance Manual and this Compliance Plan have been issued to all directors, employees and representatives, with the requirement that they acknowledge receipt and return those acknowledgements to the Compliance Department.

All Manuals will also be made available electronically with easy access by all Royal personnel. Conflicts management measures are integrated into these manuals in an easy to read format.

COMPLIANCE RECORDS

The Compliance Officer will establish and maintain a register recording all reported conflicts and potential conflicts of interest. This register will be updated on an ongoing basis and reported to the board of directors quarterly.

In addition to the following the database will contain records from audits and other monitoring conducted to ensure compliance with Royal's Conflicts management arrangements. All records are retained for a period of seven (7) years.

- The conflicts identified and action taken;
- Any oral disclosure scripts;
- Reports given to Royal's CEO and Board about conflicts of interest matters and copies of written conflicts of interest disclosures given to clients and the public.

REMUNERATION PRACTICES

Royal has considered its remuneration practices (including non-monetary benefits) as part of ensuring that Royal operated efficiently, honestly and fairly, and has in place adequate conflicts management arrangements.

Royal ensures all remuneration practices are fully disclosed to clients to ensure efficient, honest and fair provision of financial services. Royal avoids all remuneration practices that place the interests of Royal and representatives in direct and significant conflict with those of Royal's clients.

All employees and authorised representatives receive a fixed salary that is subject to a yearly review by the CEO. Royal may at its own discretion remunerate employees or authorised representatives on a commission basis.

Royal has in place a gifts and inducements policy to ensure that employees and authorised representatives are not induced by the provision of soft dollar benefits from clients or other associated parties in exchange for preferential treatment. All employees and authorised representative are familiar with Royal's gifts and inducements policy and are responsible for declaring any gifts or inducements to the Compliance Officer upon receipt. The Compliance Officer will determine the intention of the gift or inducements and take appropriate action which may result in the confiscation of the gift or inducement. Failure to comply with this policy will result in disciplinary action which may require meetings with effected staff or clients. Serious breaches will lead to the termination of a director/employee's services.

GENERAL AND PERSONAL ADVICE

Royal ensures that when providing personal advice to Retail Clients, advisers are obliged to ensure that the advice is appropriate.

Royal has a number of obligations when providing general or personal advice to retail clients.

These are:

- Royal must ensure that representatives have a reasonable basis for the advice, they must make reasonable inquiries and consider the personal circumstances of the client including their objectives, financial situation and needs and determine the suitability of the advice;
- Royal must ensure that representatives warn the client if the advice is based on incomplete or inaccurate information, the client should be given an opportunity to consider the appropriateness of the advice before acting;
- Royal must provide the client with an SOA when providing personal advice to the client.

The Compliance Officer conducts random audits of client files and to ensure that the advice provided is appropriate, warning are provided if the advice is incomplete and SOA's have been provided to the client.

ROYAL ENSURES THAT CLIENTS ARE TREATED FAIRLY

Royal ensures that all clients are treated fairly and receive the same service, in doing so Royal ensures the following:

- a. Royal provides financial services in a manner that does not put the interest of Royal's employees and authorised representatives ahead of its clients;
- b. Royal provides financial services in a way that does not put the interest of one client ahead of other clients; and
- c. Royal does not use knowledge about its clients in a way that is likely to advance its own interests without sufficient disclosure to affected clients.

Royal conducts in-house training, upon induction and on an ongoing and on an ongoing, as needs, basis on conflicts management. The Head of Dealing and the Compliance Officer are responsible for the provision of initial and ongoing training where necessary.

Royal ensures that there is no conflict between employees/representatives and clients arising from personal trading positions. Royal has in place a Personal Account trading policy. All employees are made aware of this policy prior to employment and once again during induction. All of Royal's employees/representatives are of good fame and character and are expected to adhere to this policy. Royal's Compliance Officer relies on an honesty system to ensure compliance with Royal's Personal Trading policy, a breach of Royal's policy will lead to termination of the employee/representatives services.

Remuneration practices and benefits are fully disclosed in all disclosure documentation including PDS, FSG, and SOA's. The head of Dealing conducts along with the Compliance Officer random audits of client files to ensure appropriate disclosures relating to conflicts have been made to clients and recorded on client files in file notes or SOA's. In the event of a breach the Compliance Officer will liaise with the CEO to determine appropriate action.

Royal provides disclosures to all clients. Royal's Compliance Officer and CEO liaise with Royal's legal advisers to ensure all appropriate disclosures are provided in the PDS, FSG and SOA's. PDS's and FSG's are only issued once approved by the CEO and legal signoff has been obtained from external legal advisors.

Royal's Conflicts Management arrangements must enable Royal, its employees and representatives to identify those Conflicts that must be avoided

Having undergone training in Conflicts Management, employees and representatives will be skilled in recognising and in identifying conflicts that must be avoided. In the event of the employee or representative being unable to make a determination as to whether the conflict should be avoided the employee or representative will seek the advice of the Compliance Officer who will make a final determination.

Royal has implemented effective measure to disclose conflicts of interest and to ensure that clients are adequately informed about any conflicts of interest that may affect Royal's provision of financial services to them.

DISCLOSING CONFLICTS OF INTEREST

Disclosure of a conflict of interest must be:

- Timely;
- Prominently communicated; and
- Meaningful to the client;

In keeping with these requirements, disclosures must be clear, concise and effective.

Disclosures must occur either prior to, or when Royal provides the financial service to the client; and Royal will provide the client with reasonable time to assess the effect of any conflict of interest.

In order to avoid generic disclosures, Royal has identified the following broad categories that will require specific disclosure as and when it provides financial products to clients:

- The extent to which Royal or an associated person has a legal or beneficial interest in a financial product or service the subject of, or recommended as a result of, the financial product advice;
- The extent to which Royal or an associated person is related to, or associated with the issuer of the financial product, or service the subject of the financial product advice; and
- The extent to which Royal or an associated person is likely to receive a financial or other benefit if the financial product advice is followed.

The Compliance Officer must ensure that disclosure is documents. When disclosing actual and/or potential conflicts to affected clients, the Compliance Officer will take into account the following factors:

- The level of financial sophistication of the client;
- How much the client already actually knows about the specific conflict;
- The complexity of the service; and
- The relevance of the information and whether the information is of a confidential nature.

The Compliance Officer will ensure that all benefits (monetary or non-monetary) will be properly and promptly disclosed in Royal's Financial Services Guide (FSG) and other disclosure documents, as appropriate. The Compliance Officer will regularly review the content of the FSG to ensure it is accurate and up to date prior to distribution.

Royal ensures that clients are adequately informed about any conflicts of interest that may affect the provision of the financial

services to them. Disclosures are provided in Royal's PDS, FSG and SOA's in the event of personal advice, further disclosure may be verbal, file notes or verbal disclosures are kept on the client's files.

All clients are provided with a copy of Royal's PDS and FSG prior to Royal providing any financial service to the client, these documents outline all conflicts and refer to the specific service to which they relate. Royal ensure that disclosures within these documents are specific and clear enough for the client to understand the conflict and its impact on the service being provided. Clients are given adequate time to read these document prior to dealing with Royal.

Should Conflicts arise after these documents have been issued Royal employees and representatives will provide further disclosure to clients, this will occur either in the form of written disclosure sent to the client via email or post, or verbal disclosure of which a file note is taken and store on the clients file. Royal employees and representative will confirm the receipt and understanding of the disclosure document prior to conducting any further dealings with client, file notes of all client conversations will be kept.

All disclosures will be kept on the clients file. The Head of Dealing and Compliance Officer will conduct random audits of all client files to ensure appropriate disclosures have been provided to clients.

DISCLOSURES FOR FINANCIAL PRODUCT ADVICE

Royal provides disclosure at or about the time of providing financial product advice. Disclosure will cover the following matters:

- a. The extent to which Royal or any associated person has a legal or beneficial interest in the financial products that are subject of the financial product advice;
- b. The extent to which Royal or any associated person is related to or associated with the issuer or provider of the financial products that are subject of the financial product advice;
- c. The extent to which Royal or any associated person is likely to receive financial or other benefits depending on whether the advice is followed.

Royal's Compliance Officer ensures appropriate disclosures are made on all documents containing financial advice including outsourced research reports. Disclosures are also provided in Royal's FSG before financial product advice is given, and in Royal's PDS prior to the client dealing in financial products to which Royal is the issuer, and when personal advice is given and an SOA issued.

Royal makes no distinction between retail and wholesale clients all clients are treated as retail and provides equivalent disclosure.

MECHANISMS TO DEAL IN CONFLICTS THAT ARE CONFIDENTIAL IN NATURE

In the event of conflict arising that are confidential in nature and may amount to 'inside information' Royal's Compliance Officer will assess whether disclosures can be given and the conflict managed through other mechanisms. Generally Royal will avoid such conflicts and decline to provide the effected service to the client