

CONFLICTS OF INTEREST AS RELATING TO RESEARCH

On June 4, 2012 the CFTC promulgated regulation 1.71 governing conflicts of interest policies for introducing brokers that maintain research departments that develop research reports.

M.J. Nugent routinely develops research reports. M.J. Nugent has established a policy requiring structural partitions to separate the activities of research persons from the review, pressure, or oversight of any person involved in trading activities. Additionally, M.J. Nugent shall disclose to its customers any material incentive and any material conflict of interest regarding the decision of a customer as to the trade execution and/or clearing of a derivatives transaction.

- Trading activities include pricing (excluding price verification for risk management purposes), trading, sales, marketing, advertising, solicitation, structuring, and brokerage activities.
- Research reports would encompass any written communication (including electronic) that includes an analysis of the price or market for any derivative, and that provides information reasonably sufficient upon which to base a decision to enter into a derivatives transaction.
 - Research reports do not include:
 - § communications to fewer than 15 persons;
 - § commentaries on economic, political, or market conditions;
 - § statistical summaries of multiple companies' financial data;
 - § periodic reports prepared for commodity pool participants discussing positions in the context of the fund's past performance;
 - § communication generated by an employee of the business trading unit that is conveyed as a solicitation for entering into a derivatives transaction; and
 - § internal communications.

M.J. Nugent may at times distribute promotional material/correspondence to existing or prospective customers which could be conveyed as a solicitation. M.J. Nugent requires that all materials prepared by a sales or trading employee that is, or is in the nature of a solicitation, include the following disclaimer:

“THIS MATERIAL HAS BEEN PREPARED BY A SALES OR TRADING EMPLOYEE OR AGENT OF M.J. NUGENT AND IS A SOLICITATION FOR ENTERING INTO A DERIVATIVES TRANSACTION. THIS MATERIAL IS NOT A RESEARCH REPORT PREPARED BY M.J. NUGENT. IF YOU ARE NOT AN EXPERIENCED USER OF THE DERIVATIVES MARKETS, CAPABLE OF MAKING INDEPENDENT TRADING DECISIONS, THEN YOU SHOULD NOT RELY SOLELY ON THIS COMMUNICATION IN MAKING TRADING DECISIONS.”



M.J. Nugent relies upon the exemption provided in CFTC Regulation 1.71(c)(7) that exempts a small introducing broker from the requirements under section (c) governing research analysts and research reports. M.J. Nugent meets the exemption as it has not generated more than \$5,000,000 in aggregate gross revenue from its introducing broker activities during the preceding 3 years. M.J. Nugent will monitor the exemption requirement on a periodic basis.

In the event M.J. Nugent does not meet the exemption outlined in the preceding paragraph, M.J. Nugent would comply as follows:

1. The following restrictions shall be placed upon relationships with the research department.
 - a. Non-research personnel (any employee of a business trading unit or any other employee, other than an employee performing legal or compliance functions, who is not directly involved in, research or analysis intended for inclusion in a research report) shall not direct a research analyst’s decision to publish a research report, and non-research personnel shall not direct the views or opinions expressed in a research report.
 - b. Research analysts (employees, or any employee that reports directly to such employees, primarily responsible for preparing the substance of a research report) may not be subject to the supervision or control of any non-research personnel.
 - c. Non-research employees may not have influence or control over the evaluation or compensation of a research analyst.
 - d. Non-research personnel shall not review or approve a research report before its publication, unless it is solely to verify the factual accuracy of information, to provide for non-substantive editing, to format the layout or style of the report, or to identify any potential conflicts of interest, provided that written communication between non-research personnel and research personnel will be made through authorized legal or compliance personnel or in a transmission copied to such personnel, and provided that oral communication between non-research personnel and research personnel will be documented and made either through authorized legal or compliance personnel or the conversation must take place in the presence of such personnel.

2. The following restriction shall be placed upon communications.
 - a. Any written or oral communication made by a research analyst will not omit any material fact or qualification that would cause the communication to be misleading.

3. The following restriction shall be placed upon research analyst’s compensation.
 - a. When reviewing or approving a research analyst’s compensation, M.J. Nugent will not consider as a factor the research analyst’s contributions to the trading business.



4. The following restriction shall be placed upon promising favorable research.
 - a. M.J. Nugent will not directly or indirectly offer favorable research or threaten to change research to an existing or prospective customer as consideration or inducement for the receipt of business or compensation.

5. The following disclosure requirements will be required.
 - a. Research reports and research analysts engaging in public appearances must disclose whether or not the research analyst maintains a financial interest in any derivative followed and the general nature of the financial interest.
 - b. All disclosures must be clear, comprehensive, and prominent.
 - c. M.J. Nugent shall maintain records of public appearances by research analysts sufficient to demonstrate compliance with applicable disclosure requirements.
 - d. If M.J. Nugent uses third party research reports, then the reports must be accompanied by or provide a web address that directs the recipient to, the current applicable disclosures, as they pertain to M.J. Nugent. This shall not apply to independent third party research made available to customers upon request, or through a web site maintained by the IB.

6. Retaliation against research analysts shall be prohibited.
 - a. M.J. Nugent shall not allow any employee involved with trading activities to directly or indirectly retaliate against any research analyst employed by M.J. Nugent as a result of an adverse, negative, or otherwise unfavorable research report or public appearance written or made in good faith by the research analyst.

