

A yellow line graphic that starts from the left edge, dips down, and then rises diagonally towards the top right corner of the page.

Recommendations

on the handling
of conflicts of interest
within investment banks

INTRODUCTION

The Danish Securities Dealers Association has decided to issue revised recommendations on the handling of conflicts of interest within investment banks. The term investment bank is used to define financial institutions or departments or divisions of such institutions which are engaged mainly in facilitating securities trading and in providing financial advisory services and other related services, targeting primarily the institutional market.

The recommendations will take effect on 1 April 2005 and replace the recommendations for regulation of corporate finance, equity research and staff trading, issued on 1 July 2002. In the future, the recommendations will also include corporate bonds because these securities may also cause conflicts of interest which need to be identified and addressed. The recommendations are accompanied by the new requirements for information disclosed in research reports, resulting from the EU directive on market abuse, specified and implemented in the Danish Financial Supervisory Authority's executive order on the preparation and publication of certain investment reports. The executive order will take effect on 1 April 2005.

The revision was brought about with the overall purpose of creating common guidelines and matching best practice internationally. Substantial changes have been implemented in the US and the EU, and the revised rules governing conflicts of interest have become rigorous. In addition, a general review and adjustments to the recommendations have been called for to enhance usability. This has been achieved, by ensuring that the recommendations are defined and formulated in such a manner, that they are relatively simple to implement by investment banks.

COMPLIANCE DEPARTMENT

- 1) Investment banks are required to have an independent compliance function to assist the management in ensuring observance of applicable law, regulations and ethical standards. The compliance function may be carried out by a Compliance Officer who reports to the senior management of the bank in question. Depending on the size of the investment bank and its business activities, the compliance function may alternatively be carried out by the management of the investment bank. Compliance responsibilities include:

- a. Preparing and maintaining internal compliance regulations and procedures for the investment bank
- b. Advising management and staff on issues concerning compliance
- c. Monitoring compliance with applicable legislation and other regulations, including good practice, Chinese wall requirements, etc. that apply to the business activities of the investment bank.

CHINESE WALLS

Chinese walls required

- 2) Investment banks are required to prepare written guidelines and business procedures to ensure that confidential and inside information is available only to those people who have a justified need to access this information (Chinese walls regulations). To that end, clear rules must be established for recipients of inside or confidential information and for the conditions for passing on such information, including wall-crossing rules and rules governing physical and organisational separation of areas. Investment banks must also inform the staff in such a way that they always have sufficient knowledge and understanding of the above procedures. Finally, investment banks must check that they comply with the procedures on a regular basis.
- 3) Investment banks must prepare guidelines on how to involve staff outside Corporate Finance and Debt Capital departments in specific corporate finance/debt capital activities and how they should act. Moreover, guidelines must be established, for how staff members who have crossed the walls may resume their research work and/or other ordinary activities involving the securities affected by the transactions in question.

Watch list

- 4) Investment banks engaged in corporate finance or debt capital activities must keep a confidential watch list of the companies that have either entered into a mandate agreement or are highly likely to enter into a mandate agreement with the investment bank on corporate finance or debt capital transactions not yet published. The list forms part of the monitoring of the bank's research activities, securities trading conducted by the investment bank or its staff on their own account and of the handling of conflicts of interest that may arise.

Restricted list

- 5) Investment banks engaged in corporate finance or debt capital activities must keep a restricted list of the companies with which the bank has made agreements on announced capital market transactions and with those companies whose shares or other securities are likely to see a direct effect on their prices of the announced transaction. Affected companies must remain on the list until the transactions have been completed. The term announced means that the relationship has been made public, for example in a stock exchange announcement. The purpose of the registration is to avoid and limit the effects of possible conflicts of interest when advising customers. The list is used to:
 - a. provide information to customers on possible conflicts of interest
 - b. impose restrictions, if necessary, on own account trading by the investment bank or its staff
 - c. impose restrictions, if necessary, on research reports published by the investment bank.

RESEARCH REPORTS

Independence and integrity

- 6) Research reports must reflect the personal opinion of the analyst, and the conclusions may not be affected by commercial interests. Publication must not be made conditional on the approval by the Corporate Finance or Debt Capital departments or the company analysed. On the other hand, the company analysed may see and confirm factual information disclosed in the document. In such cases, the Compliance department must receive a copy of the documents sent to the company.
- 7) Investment banks must prepare internal rules to ensure the independence and integrity of their analysts. The rules must prevent that conflicts of interest arise from the preparation and publication of research reports.
- 8) The department preparing the research reports must not be an organisational unit of the Corporate Finance or Debt Capital departments.
- 9) Bonus schemes and other types of compensation may not be tied to specific corporate finance or debt capital activities.

Research reports involving corporate finance transactions

- 10) The Compliance department should review research reports on companies listed on the investment bank's watch list before publication to ensure that the reports are unbiased and do not appear to be subject to conflicts of interests.
- 11) The Compliance department must approve research reports on companies listed on the restricted list. The reports
 - a. must be unbiased
 - b. must not contain recommendations and price targets.
- 12) Investment banks that participate in capital market transactions with a listed company may not publish research reports on that company less than seven days before the publication of the prospectus and less than 30 days after the commencement of trading in the equities involved in the transactions. This period, termed the research blackout period, may be determined in another way if the investment bank works with one or several foreign investment banks and if such a period is in accordance with international practice.
- 13) Notwithstanding item 12, previously published reports may still be distributed provided that the reports clearly indicate that they are historical reports and that the bank is involved in capital market transactions with the company analysed.
- 14) New reports may, in exceptional cases, be published during the research blackout period if events of material importance to the company occur and provided that:
 - a. publication has been approved by the Compliance department (see item 11)
 - b. the report does not include recommendations or price targets.
- 15) The limitations in item 12 do not prevent the analyst from discussing factual information available to the public with customers, including information about transactions and their effect on the industry, provided that the statements made are unbiased and do not include trading recommendations. If specifically asked for his or her opinion about the transaction, the analyst must refrain from commenting, referring to the restrictions applying due to the investment bank's part in the transaction.

- 16) Analysts may not participate in marketing activities, including pitches and roadshows, if such activities may leave the impression that the analyst promotes the corporate finance interests of the investment bank and/or the interests of the company, or the relationship between the investment bank and the company is suited to affect the analyst's independence and objectivity. Participation in pitches and roadshows is allowed only with the approval of the investment bank's Compliance department.
- 17) Analysts may participate in corporate finance activities as described below with the approval of the investment bank's Compliance department:
- a. Analysts may provide the Corporate Finance department with suggestions for possible transactions provided that communication is one way in nature from the analysts to the Corporate Finance department.
 - b. Analysts may advise the Corporate Finance department about the pricing and structuring of capital market transactions and the expected investor interest.
 - c. Analysts may participate in investor meetings provided that they do not appear as sales representatives of the investment bank.

Research reports involving debt capital transactions

- 18) Recommendations 10, 11 (except 11.b), 16 and 17 also apply to debt capital transactions.

Prohibition against front running

- 19) Investment banks that publish research reports may not position themselves on the basis of these reports prior to their publication.

TRADING IN EQUITIES AND CORPORATE BONDS

- 20) During the period beginning at the announcement of the capital market transaction and ending on the completion of the transaction, equity and corporate bond traders at the investment bank must, as part of their selling efforts, inform investors of how the investment bank is involved in the transaction.

- 21) Trading memos or trading recommendations must clearly state that the documents are not research reports prepared by the independent research unit of the investment bank.

EMPLOYEE TRADING

- 22) Employees of the investment bank are generally expected to manage their personal finances in a cautious manner. Employees should not engage in short-term speculative transactions of a nature and volume that may cause financial difficulties for them.
- 23) Employees of the investment bank may not buy, sell, or encourage the purchase or sale of securities if they have inside information about the securities in question.
- 24) Employees of the investment bank with access to the Watch List may not trade in securities issued by the companies on the list.
- 25) Employees of the investment bank may not buy or sell securities if they have information about a not yet exercised, price-sensitive order by a customer concerning the securities in question.
- 26) Employees of the investment bank may not trade in securities issued by a company if they have information about a not yet published research report about the company in question in case the report constitutes the first step of research coverage, or the report contains revised recommendations, substantially revised estimates or prices targets.
- 27) Employees of the investment bank should not trade on their own account in securities issued by the company analysed from the time of the publication of the report and for the rest of that day. If the report is published after 12.00 noon, the staff may not trade on their own account in those securities for the rest of the day and the following trading day. The recommendation applies only to employees engaged in trading or researching of equities and/or corporate bonds.
- 28) Employees of the investment bank should not sell securities until 30 days after they made the purchase and should not buy securities until 30 days after they last sold such securities. However, the Compliance department may grant exemptions from this rule in special

circumstances.

- 29) Employees of the investment bank are not allowed to trade in securities issued by companies on the investment bank's Restricted List. However, the Compliance department may grant exemptions from this rule in special circumstances.
- 30) Trading in securities by the employees listed below must be approved in advance by the Compliance department:
- a. Employees with access to confidential information concerning not yet published corporate finance or debt capital transactions
 - b. Employees engaged in equity trading or equity research
 - c. Employees engaged in corporate bond trading or credit research.

Advance approvals should be valid only for a short period of time.

- 31) Employees of the investment bank and the investment bank must ensure that the Compliance department have full access to all securities trades effected by the employees.
- 32) Employees of the investment bank may establish individual, discretionary accounts only with the approval of the Compliance department.
- 33) The investment bank must prepare guidelines specifying if and when the analyst may trade securities covered by the analyst.
- 34) Generally, analysts may not trade against their own recommendations. However, the Compliance department may grant exemptions for this rule in special circumstances.
- 35) The investment bank must prepare guidelines specifying the extent to which the employees and their associates may participate in subscriptions for equities and corporate bonds that involve the investment bank.

DEFINITIONS

The recommendations include a number of technical terms. The list below explains these terms with relevant examples. The list is not a comprehensive collection of all terms, and the explanations are not exact, theoretical definitions.

Unbiased

For the purpose of these recommendations, an unbiased written or oral presentation is a presentation which is:

- Objective and only concerned with factual information. The language and the graphic presentation may not be emotional, excessive, characterised by superlatives, flamboyant, subjective, or leave a false impression, etc. Moreover, authors must take a cautious attitude when it comes to commenting on rumours. Furthermore, investments and returns may not be described as guaranteed, unless a third party guarantees claims from investors, and this third party is described to such an extent as to allow investors to assess the value of the guarantee.

Research reports

For the purpose of these recommendations, research reports are defined as reports, articles and other similar documents prepared by an independent analyst, that are communicated in printed or electronic form to the customers or the public and that contain:

- an assessment of one or several securities or markets, or
- a recommendation of such securities or markets.

Please note the difference between equity research and fixed-income research: opinions published in equity research reports may have a direct effect on the price of the equities in question, whereas bond prices are less sensitive to opinions voiced by individual analysts. This difference is due primarily to the fact that the pricing of debt securities relies on more objective factors and depends heavily on macroeconomic variables, such as interest rates, the credit quality of the issuer, the coupon or return on the specific instruments, historical spreads and the existing or expected supply of “identical” debt securities. Debt securities with uniform terms issued by issuers with the same credit quality are, to a certain extent, considered “identical” and often priced against benchmark bonds or yield targets. Furthermore, issuer fundamentals play a less significant role in fixed-income research than in equity research.

Chinese walls

To prevent diffusion of confidential/inside information to unauthorised persons and avoid insider trading, investment banks must have “Chinese walls”. Chinese walls consist of regulations and procedures that under normal circumstances will prevent the diffusion of inside information held by staff of the Corporate Finance and Debt Capital departments or other departments to unauthorised persons, including staff at departments in charge of advisory services, securities trading and research activities. The regulations must specify requirements for physical separation of staff, restrictions on access to IT systems and printed material, and communication between insiders and outsiders. Chinese walls also rely on a number of controls established by the management and the Compliance department.

Corporate finance activities

Corporate finance activities consist of assistance provided by an investment bank regarding to or in connection with:

- The listing and placement of equities and equity-related securities on stock exchanges or other authorised market places
- Private placements of unlisted equities
- Large secondary equity placements through stock exchanges or other authorised market places
- Buying and delisting of listed equities and equity-related securities
- Advisory services in connection with mergers and acquisitions (M&As)
- Other financial services in connection with the above activities.

Activities typically include:

- Advisory services regarding the planning and coordination of individual corporate finance transactions, including transaction structure and timing
- Strategic advisory services
- Market assessments
- Preparation of financial research and valuation of the companies involved in the individual transactions
- Assistance with preparation of prospectus/information
- Planning and contact to investors and strategic partners
- Coordination of and participation in M&A negotiations
- Overall coordination of due diligence activities

Debt capital activities

Debt capital activities comprise participation by the investment bank in the provision of advisory services, planning and execution of offerings, placement, syndication and sale in the primary market of bonds, other debt instruments, derivatives and other underlying instruments.

Activities include:

- Advice on the composition of capital structure and debt capital
- Pricing of bonds and instruments
- Identification of, and negotiation with investors and lenders
- Assistance with credit ratings
- Advice on and assistance with securitisation
- Market assessments

These recommendations do not apply to investment banks exclusively engaged in the above activities on behalf of governments, regional authorities, local authorities or other public institutions.

Discretionary account

An account opened by the staff member with an asset manager or a bank in which the staff member places funds. The asset manager or bank is authorised to trade securities at their discretion on the account of the staff member according to specified guidelines.

Distribution channel

Channels through which information is likely to become publicly available, as information is diffused to a large number of persons.

Trading memo or trading recommendation

Memos and similar documents not prepared by an independent analyst and sent to customers or the public in printed or electronic form containing:

- an assessment of one or several securities or markets, or
- a recommendation of such securities or markets.

(See also item 21.)

Insider

A person with confidential or inside information or access to such information.

Inside information

Pursuant to section 34(2) of the Danish Securities Trading Act, the following definition applies:

§ 34 (2) “Inside information” shall mean non-published specific information on issuers of securities, securities or market conditions with respect to such securities, which would be likely to have a significant effect on the pricing of one or more securities if such information was to be made public. Information shall be considered to be made public when a relevant and general conveyance of such information has been made to the market. Information submitted to a stock exchange, authorised market place or similarly regulated market shall be considered to be made public once such information has been disseminated.

(3) The terms set out in (2) shall mean the following:

1) *Specific information:*

information

- a) pertaining to matters existing or which may reasonably be expected to exist, or an event that has occurred or which may reasonably be expected to occur and
 - b) that is sufficiently precise to enable a conclusion to be drawn as to the expected impact of the events or matters on the pricing of the securities in question.
- 2) Information which would be likely to have a significant effect on the pricing of one or more securities:
Information that a reasonable investor must be assumed to use as part of his or her investment decisions.

- (4) As far as securities dealers and their staff are concerned, inside information includes also information disclosed by a client pertaining to his or her outstanding orders, provided that this information furthermore meets the requirements specified in (2) and (3).
- (5) In trading with commodity instruments, inside information comprises information which has not been published, but which, directly or indirectly, pertains to one or more such instruments, and in which players in markets where such instruments are traded, expect to receive in accordance with accepted market practices for these markets. Players in commodity instrument markets expect to receive information which:
- 1) is usually made available to players in the market in question, or
 - 2) must be published pursuant to an act, an executive order, a body of rules, a contract or a custom in the market for trading in commodity

instruments, or the underlying market for trading in commodities.

Investment bank

The term investment bank is used to define financial institutions or departments or divisions of such institutions, which are engaged mainly in facilitating securities trading and in providing financial advisory services and other related services, targeting primarily the institutional market.

Capital market transaction

In this context, a capital market transaction is defined as a transaction for which a prospectus has been or will be prepared, or a transaction whose execution is conditional on the preparation of a prospectus. Moreover, one or more of the following conditions are met:

- New securities will be issued or existing securities will be sold
- A public offer will be made for securities in a listed company
- A purchase of securities is made on the basis of a public purchase offer
- The transaction, in itself, is likely to have an effect on the price of one or more listed securities

Employee trading

Unless otherwise specified in the individual recommendations, the recommendations on employee trading generally pertain to all Employees of the investment bank.

The recommendations apply to purchase and sale, including purchase and sale of warrants and exercise of derivatives.

The recommendations do not apply, however, to subscriptions based on allocated warrants, subscriptions for bonus shares, new issues following changes in the nominal share capital, etc., and transactions by the investment manager as part of the staff member's participation in a collective pension scheme or unit trust.

Associates

For the purpose of these recommendations, associates are defined as

- spouses
- common-law spouses
- children below the age of 18 living at home
- a legal entity in which one party, directly or indirectly, has a controlling

or significant interest in the other party. »Controlling interest« refers to the definition set out in section 34(3)(3) of the Danish Securities Trading Act (»allied companies or companies controlled by the same person or group of persons«). »Significant interest« pertains to other situations in which one party cannot in reality be expected to make wide-ranging decisions without obtaining the approval of the other party.

Pitch

A marketing activity under which an investment bank seeks to obtain a specific corporate finance assignment with an equity-issuing company.

Prospectus

A prospectus is an information document, prepared by the issuer/offeror in collaboration with the investment bank in connection with a securities offering.

Research blackout period

A research blackout period is a period, during which, the investment bank is not allowed to or has decided not to publish equity research.

Restricted list

A list containing the names of the companies that have hired the investment bank for a capital market transaction, as well as companies whose share prices are directly affected by the announced transaction. This list is to form the basis of the measures taken by the investment bank to avoid conflicts of interest.

Roadshow

A meeting activity in connection with a capital market transaction during which the company presents itself or during which the investment bank or others, with the participation of the company, present the company to one or more potential investors.

Securities

Securities are defined as:

- Shares and other securities equivalent to shares
- Corporate bonds
- Derivatives related to such instruments

In the Appendix (the executive order) the securities concept has been extended to include:

- 1) Securities, cf. paragraph 2 of the Danish Securities Trading Act, that are admitted for listing or trading on a stock exchange, an authorised market place or a similar, regulated market for securities,
- 2) Securities, cf. paragraph 2 of the Danish Securities Trading Act, for which a request has been made for admission for listing or trading on a stock exchange, an authorised market place or a similar, regulated market for securities,
- 3) Issuers of securities as set out in paragraphs 1-2.

The securities concept of the Danish Securities Trading Act includes the following securities:

1. Shares and other negotiable securities equivalent to shares
2. Bonds and other negotiable securities equivalent to bonds
3. Other negotiable securities by means of which securities as specified under items 1 or 2, may be acquired by subscription, exchange or cash payment
4. Units in unit trusts, special-purpose associations, closed associations, foreign investment institutions, and other collective investment schemes falling under the Danish Investment Associations and Special-Purpose Associations as well as Other Collective Investment Schemes, etc., Act
5. Money market instruments admitted for listing on a stock exchange, as well as certificates of deposit and commercial papers
6. Financial futures and similar instruments
7. Forward rate agreements (FRAs)
8. Interest-rate and currency swaps as well as swaps on equities and equity indices
9. Commodity instruments, etc., including similar instruments that are settled on a cash basis
10. Options to acquire or dispose of a security falling under items 1-9 and options on bond and equity indices, including similar instruments that are settled on a cash basis
11. Negotiable mortgages secured on real or personal property
12. Other instruments and contracts if decided by the Danish Securities Council.

Wall crossing

Wall crossing occurs when an insider legally discloses inside information to an outsider. The outsider temporarily becomes an insider (he or she crosses Chinese walls) and thus becomes subject to a number of restrictions. A staff member is no longer wall crossed when the confidential information/inside information is published or is no longer of significance to the market.

Watch list

A list containing the names of the companies that have either entered into a mandate agreement or have indicated their interest in entering into a business relationship with the investment bank on a corporate finance or debt capital transaction. As opposed to the “restricted list”, the watch list relates to non-published activities. The list also contains the names of other companies whose share prices may be affected by the probable transaction.

Independent analyst

An analyst who is not at the same time engaged in trading in equities and/or corporate bonds or in corporate finance/debt capital activities.

APPENDIX

Extract from the Danish Financial Supervisory Authority's executive order on the preparation and publication of certain investment reports.

Information in research reports on conflicts of interest

1. It should be ensured that the research report provides information on all conditions and relations that may reasonably be expected to affect the objectivity of the report, including:
 - a. The name(s) and position(s) of the person(s) preparing the research report and the name of the investment bank responsible for the report.
 - b. Information on the self-regulation standards or codes of conducts to which the analyst and the investment bank subscribe.
 - c. Information should be provided if the person presenting the research report holds significant financial interests in one or more of the securities included in the report.
 - d. Information should be provided if the person presenting the research report has significant conflicts of interest in relation to the issuer covered by the report.
 - e. If the research report is presented by the investment bank, the requirements specified in c. and d. also apply to a natural or legal person working for the investment bank under a contract of employment or similar contract, and who has been involved in preparing the report.
 - f. If the research report is presented by the investment bank, the requirements specified in c. and d. must as a minimum include information on interests and conflicts of interest relating to the investment bank or parties related to the investment bank, in case this information
 - i. was available to or could reasonably have been expected to be available to natural persons involved in preparing the research report, or
 - ii. was available to other natural persons who have had access to or could reasonably be expected to have had access to the research report before it was disseminated to clients or the public.
 - g. Information should be provided if the investment bank or related parties of the investment bank own equities in the issuer and the nominal value of the equities accounts for more than five per cent of the total issued share capital.
 - h. Information should be provided if the issuer or related parties of the

issuer own equities in the investment bank and the nominal value of the equities accounts for more than five per cent of the total issued share capital.

- i. Information should be provided if the investment bank or related parties of the investment bank have other significant conflicts of interest relative to the issuer.
- j. Information should be provided if the investment bank or related parties of the investment bank are market makers or liquidity providers in the issuer's securities.
- k. Information should be provided if the investment bank or related parties of the investment bank have in the preceding 12 months acted as lead manager or co-lead manager in connection with a public offering of the issuer's securities.
- l. Information should be provided if the investment bank or related parties of the investment bank have entered into other agreements with the issuer on provision of investment bank transactions, provided that:
 - i. Information on such agreements will not cause confidential information on business relationships to be disclosed and
 - ii. The agreement has been in force for the last 12 months or has resulted in payment of compensation or a promise of such payment during the same period.
- m. Information should be provided if the investment bank or related parties of the investment bank have entered into an agreement with the issuer on preparing the research report.

Item 1. c.-m. does not entail any obligation to breach Chinese Walls set up by the investment bank in order to avoid conflicts of interest between its departments.

- n. Information should be provided on all significant sources for the research report where appropriate, including also if the issuer has been used as a source.
- o. Information should be provided if the research report or parts of the report have been presented to the issuer and the recommendations of the report have subsequently been revised prior to the presentation.
- p. An appropriate overview should be provided of the assessment bases or methods used to assess the security or the issuer or used to establish a target for the price of the security.
- q. An adequate review should be provided of the significance of recommendations given in the research report, such as »buy«, »sell«

- or »hold«, including the time frame of the recommendations set out in the report.
- r. An appropriate warning should be provided as to the risk of the recommended investment, including a sensitivity analysis of the relevant assumptions.
 - s. The frequency of any planned updates of the research report and information on any major changes to the responsible legal person's previously announced guidelines for coverage of the security.
 - t. The date on which the research report was first released for distribution.
 - u. The date and time of any price of the security that may be specified in the research report.
 - v. Any revisions of the recommendations set out in the research report relative to previous reports on the same security or issuer and presented within the last 12 months prior to the presentation of the new report, as well as the date of the previous report.
 - w. Information on the investment bank's supervisory authority.
 - x. Information on the organisational and administrative systems introduced by the company or institution in order to prevent and avoiding conflicts of interest in the preparation of research reports, see (2) and (3) of the recommendations.
 - y. Information should be provided if a person working for the investment bank under a contract of employment or similar contract, and who has been involved in preparing the research report, receives remuneration for investment bank transactions carried out by the investment bank or associates.
 - z. The price and trading date of the issuer's equities if a person as outlined in 1. y. receives or purchases the issuer's equities prior to a public offering.
 - aa. The proportion of the investment bank's direct investment recommendations presented within the last quarter that is "buy", "sell" or "hold" or similar categories.
 - bb. The proportion of issuers, corresponding to each of the categories of 1.aa, on behalf of whom the company or the institution has carried out significant investment bank transactions during the past 12 months.
2. In case the information requirements set out in 1. c-bb would not be commensurate with the length of the research report presented, it is sufficient for the report to make a reference to where the public can gain access to such information, e.g. the website of the investment bank.

3. If a research report is presented orally, compliance with paragraph 1 may be obtained by making a reference, during the presentation, to where the public can access such information, e.g. the website of the investment bank.

RECOMMENDATIONS ON THE HANDLING OF CONFLICTS
OF INTEREST WITHIN INVESTMENT BANKS