

# Recommendations

to counter investment bank  
conflicts of interest

## INTRODUCTION

The Danish Securities Dealers Association has issued revised recommendations to counter conflicts of interest, which investment banks are recommended to implement.

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

The recommendations take effect on 1 December 2012 and replace the recommendations previously issued on 1 August 2008. Guidelines for the recommendations appear from Appendix 1, and Appendix 2 contains definitions of the technical terms used in the recommendations.

### Chinese Walls

1. Investment banks must prepare written guidelines for Chinese Walls, including Wall crossing.

### Watch List

2. Investment banks engaged in corporate finance or debt capital activities must keep a confidential Watch List of the companies with which they have either entered into a mandate agreement or are highly likely to enter into an agreement on capital market transactions not yet made public.

The list can be used for

- monitoring of the investment bank’s trading in securities issued by companies on the Watch List
- monitoring of employees’ personal account dealing in securities issued by companies on the Watch List
- monitoring of research activities through the review of research material on companies/securities on the Watch List to ensure that inside information has not been leaked.

### Restricted List

3. Investment banks engaged in corporate finance or debt capital activities must keep a Restricted List of the companies with which the investment bank has entered into agreements on capital market transactions and of the companies whose share prices or other securities prices are likely

to be directly affected by the transaction. Affected companies must be entered on the list when the transaction and the role of the investment bank in the transaction have been made public and must remain on the list until the transaction has been completed. "Made public" means that the transaction has been made public in accordance with the rules of the Danish Securities Trading Act. The list can be used to

- a) limit the effects of possible conflicts of interest in connection with advisory services provided to customers
- b) impose restrictions, if necessary, on personal account dealing by the investment bank or its employees
- c) impose restrictions, if necessary, on research material published by the investment bank

### **Independence and integrity of research material**

4. Corporate Finance or Debt Capital must not have organisational responsibility for Research.
5. The analyst must always act properly and with the professionalism, credibility and integrity necessary towards all parties involved. Furthermore, the analyst must endeavour to ensure that conflicts of interest do not arise and when such conflicts of interest are unavoidable, the analyst must ensure that the parties involved are treated properly.
6. Research material must reflect the personal opinion of the analyst, and the conclusions may not be affected by any commercial interests. Publication must not be made conditional on prior approval by Corporate Finance or Debt Capital or the company being researched. However, Corporate Finance and Debt Capital can see the research material, and the company being researched can be presented with the research material and confirm factual information disclosed in the material. In advance, the compliance function must be informed of and receive a copy of research material sent to Corporate Finance, Debt Capital and the company.

### **Research material in connection with corporate finance activities**

7. The compliance function or other similar independent functions of the investment bank must review research material on companies entered on the investment bank's Watch List prior to publication to ensure that

the research material is unbiased and does not appear to be influenced by conflicts of interest.

8. The compliance function or other similar independent functions must approve research material on companies entered on the investment bank's Restricted List prior to publication. Research material
  - a) must be unbiased
  - b) must not include recommendations and price targets.
  - c) may not include valuations, unless provided in a wide range.
  
9. An investment bank involved in capital market transactions concerning equities with a listed company may not publish research material on that company for a period running from at least seven days before the publication of the prospectus until not less than 30 days after the commencement of trading in the equities involved in the transaction. This period, designated the Blackout Period, may be determined in another way if the investment bank cooperates with one or more foreign investment banks and if this is in accordance with international practice.
  
10. Notwithstanding clause 9, previously published research material may still be distributed provided that the research material clearly indicates that the material has previously been published and that the investment bank is involved in a capital market transaction concerning the shares of the company being researched.
  
11. New research material may, in exceptional cases, be published during the Blackout Period if events of material importance to the company occur and provided that:
  - a) Publication has been approved by the compliance function.
  - b) The research material is unbiased.
  - c) The research material does not include recommendations or price targets.
  - d) The research material does not include valuations, unless provided in a wide range.
  
12. The restrictions in clause 9 do not preclude the analyst from discussing factual information available to the public with customers, including information about transactions and their effects on the industry,

provided that such statements are unbiased and do not include recommendations, price targets or valuations unless provided in a wide range. If specifically asked for an opinion on a transaction, an analyst must refrain from commenting, with reference to the restrictions applying due to the investment bank's role in the transaction.

13. An analyst can participate in marketing activities, including pitches and roadshows, if such activities do not leave the impression that the analyst represents the corporate finance interests of the investment bank and/or the interests of the company. The investment bank must have internal guidelines specifying when the analyst may participate in marketing activities, including pitches and roadshows.
14. The analyst may participate in corporate finance activities as described below subject to prior consultation with the investment bank's compliance function:
  - a) The analyst may suggest possible corporate finance activities to Corporate Finance provided that communication is of a one-way nature from the analyst to Corporate Finance.
  - b) The analyst may advise Corporate Finance on the pricing and structuring of capital market transactions and the expected investor interest.
  - c) The analyst may participate in investor meetings provided that they do not appear as sales representatives of the investment bank.

### **Research material in connection with debt capital activities**

15. Recommendations 7, 8, 13 and 14 also apply to debt capital activities.

### **Prohibition against front-running**

16. Investment banks that publish research material may not position themselves or others on the basis of such material prior to its publication.

### **Trading in equities and corporate bonds**

17. In the period from the publication date of a capital market transaction to the completion date of the transaction, equity and corporate bond traders of an investment bank must, as part of their selling efforts, inform investors of the investment bank's role in the transaction.

### **Personal account dealing**

18. Investment bank employees are generally expected to manage their personal finances prudently. Employees may not engage in short-term speculative transactions of a nature and volume that may cause them financial difficulties.
19. Employees with access to the Watch List may not trade in securities issued by the companies on the list.
20. Employees may not sell a given security within 30 days of its purchase and may not buy the same security within 30 days of its sale. The period runs from the last day of trading of the security in question. However, the compliance function may grant exemptions from this rule under special circumstances.
21. Employees may not trade in securities issued by a company if they have knowledge of as yet unpublished research material on the company in question.
22. Employees engaged in trading in or research on equities and/or corporate bonds may not deal on personal account in securities issued by the company being researched on the date of the publication of the research material. If research material is published after 04:00 p.m., the prohibition against employees' personal account dealing should also apply to the following trading day.
23. Trading in securities by the employees listed below must be subject to prior approval by the compliance function:
  - a) Employees with access to confidential information about corporate finance or debt capital activities.
  - b) Employees engaged in equity trading or research.
  - c) Employees engaged in corporate bond trading or research. Prior approvals must only be valid for a short period of time.

Prior approvals must only be valid for a short period of time.

24. Employees and the investment bank must ensure that the compliance function has full insight into all securities trades executed by the employees.

25. The investment bank must have drawn up guidelines for employees trading in securities issued by companies on the investment bank's Restricted List.
26. The investment bank must have guidelines specifying if and when the analyst may trade in securities covered by the analyst.
27. The investment bank must have guidelines specifying the extent to which employees may participate in subscription for equities or corporate bonds in connection with offerings in which the investment bank is involved.

## APPENDIX 1

### Guidelines for specific recommendations

#### Introduction

These recommendations are best practice guidelines recommended for implementation at investment banks. To suit organisational issues as well as the nature and volume of the individual investment bank's activities, investment banks may, however, decide to implement other adequate solutions, including controls.

The recommendations are targeted at employees of investment banks.

#### Recommendation 1. Chinese Walls

Investment banks must have guidelines for Chinese Walls, including Wall crossing. Chinese Walls basically concern procedures for controlling information. These procedures must ensure that inside information is confined to authorised areas and does not flow to other areas of an investment bank. The purpose is to prevent misuse of information and to minimise the number of persons on whom restrictions must be imposed if they have obtained inside information (see also the section Wall crossing). Chinese Walls may for example include rules on the physical segregation of employees, limited access to IT systems and physical material and rules on communication between insiders and non-insiders. The guidelines must be specific, detailed and clear.

The guidelines must specifically state that inside information is only distributed or made accessible to persons on a need-to-know basis.

To protect inside information and avoid conflicts of interest, corporate finance activities must be organisationally segregated from equity trading and equity research. Furthermore, debt capital activities must be organisationally segregated from corporate bond trading and corporate bond research. The day-to-day head of equity trading may for example not be head of corporate finance at the same time. The organisational segregation must also include IT restrictions, for example preventing Trading and/or Research from accessing confidential information on corporate finance or debt capital activities.

Investment banks carrying out corporate finance and/or debt capital activities must have appropriate internal controls to assess efficiency of the required Chinese Walls.

*Wall crossing*

If an employee obtains inside information (whether intentionally or unintentionally), the employee must be “wall crossed” (cross the Chinese Walls). The employee becomes a temporary insider and is by virtue thereof subject to a number of restrictions (Wall crossing process). An employee is no longer a temporary insider when the inside information is published or is no longer significant to the market. The employee no longer has to be “wall crossed”, and the imposed restrictions may be lifted.

The investment bank must have guidelines specifying when employees outside Corporate Finance and Debt Capital may be involved in actual corporate finance and debt capital activities. Moreover, the investment bank must have guidelines specifying how employees should act if they obtain inside information in that regard (prepare procedures for Wall crossing). The investment bank must also have guidelines as to when a “wall crossed” employee may resume his research work and/or other ordinary tasks involving the securities affected by the corporate finance/debt capital activities in question.

In general, employees inside and outside Corporate Finance and Debt Capital may discuss general topics with each other (e.g. the economic development, industrial trends, company results, etc.) where Wall crossing is not necessary. Whether an employee outside Corporate Finance or Debt Capital must be “wall crossed” depends on whether the employee in question has inside information on for example a future transaction or a company. Wall crossing will also be required if information is disclosed enabling an employee outside Corporate Finance or Debt Capital to identify a transaction not made public.

Corporate Finance and Debt Capital must therefore be cautious when communicating with employees outside Corporate Finance and Debt Capital.

Employees outside Corporate Finance/Debt Capital, e.g. analysts, may from time to time be asked to assist Corporate Finance/Debt Capital in obtaining capital market transactions. Under such circumstances, communication

should only be of a one-way nature, i.e. disclosure of information from an analyst to Corporate Finance/Debt Capital employees and not vice versa.

Wall crossing may for example be used in connection with a capital market transaction not yet made public where the process would benefit from:

- Company or industry knowledge of an analyst from the trading department.
- An equity and corporate bond trader's uncovering of the potential demand for specific securities in connection with a capital market transaction.

The investment bank must have a procedure for ensuring that a "wall crossed" employee is registered and informed of the consequences thereof, including information on the obligations and restrictions imposed on an insider.

### **Recommendation 2. Watch List**

Investment banks must keep a Watch List of the companies that have entered into or are highly likely to enter into a mandate agreement with the investment bank regarding a capital market transaction not yet made public. The list is part of the controls necessary for the investment bank to assess the efficiency of the Chinese Walls.

The Watch List may form the basis of the investment bank's monitoring of trading in securities issued by the companies on the Watch List. The list may also form the basis of the investment bank's review of research material on companies/securities on the Watch List to ensure that confidential/ inside information has not been leaked.

### **Recommendation 3. Restricted List**

Investment banks must keep a Restricted List of the companies with which the investment bank has made agreements on a capital market transaction made public and companies whose share prices or other securities prices are likely to be directly affected by the transaction now made public. The list is used to inform employees whether specific companies/securities are subject to restrictions (e.g. a Blackout Period). A company must remain on the list until the transaction is completed. Transactions regarding equities are completed when the Blackout Period has expired. Transactions regarding corporate bonds are completed when trading in the company has been initiated.

### **Recommendations 7 to 14. Research material in connection with corporate finance activities**

Recommendations 7 to 14 relate to the investment bank's possibility of publishing research material, while also being involved in a capital market transaction. The companies involved in the capital market transaction will appear from the investment bank's Watch List or Restricted List.

In simplified terms, when the company is on the Watch List, research material may be published as usual (however, only after an assessment of the research material, cf. recommendation 7), whereas distribution of research material will be subject to various restrictions after publication of the transaction if the company is on the Restricted List of an investment bank (recommendations 8 and 9).

In exceptional cases, publication of new research material may be exempted from the restrictions (recommendation 11). The exemption relates to events of material importance in the companies involved, which are subject to disclosure requirements. However, events relating to the transaction as such or events that trigger notification of major holdings will not be eligible for exemption. Events of material importance in recommendation 11 may for example be natural catastrophes, authority decisions, proceedings instituted, judgements or management resignations.

It may be expedient to distinguish between the following transactions:

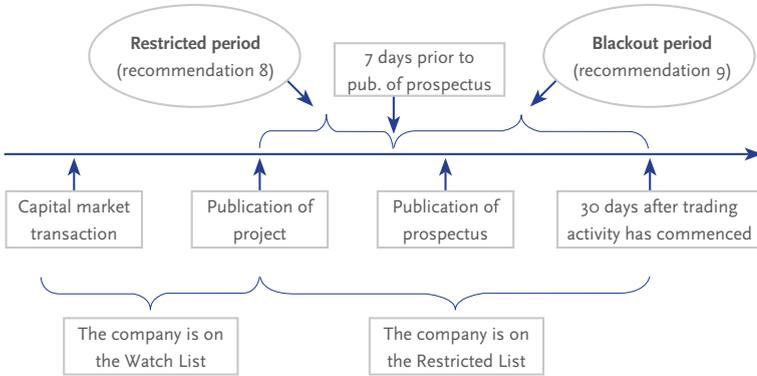
1. Publication of project prior to the publication of prospectus (Figure 1).
2. Publication of project simultaneously with the publication of prospectus (Figure 2).

#### *1. Publication of project prior to the publication of prospectus*

If a given capital market transaction activity is made public prior to the publication of the prospectus, both a Restricted Period and a Blackout Period apply.

The Restricted Period runs from the time when a project is made public (coincident with the time when the company is entered on the Restricted List) until seven days prior to the publication of the prospectus when the Blackout Period begins. Research material published in the Restricted Period must not include recommendations, price targets or valuations, unless provided in a wide range (recommendation 8).

FIGURE 1



Research material must consequently be published not later than seven days prior to the publication of a prospectus in connection with a capital market transaction. Subsequently, the Blackout Period begins during which research material may generally not be published. The Blackout Period ends not earlier than 30 days after commencement of trading in the equities involved in the transaction. The justification for imposing this Blackout Period is a possible conflict of interest if the independence of the investment bank's research analyst may be called into question. The analyst may at worst be suspected of conditioning the market for the prospective transaction.

Applying an actual Blackout Period, during which publication of new research material is basically restricted, helps distance research activities from the capital market transaction in question.

If an investment bank has been involved in a capital market transaction regarding equities, a Blackout Period applies for at least 30 days after commencement of trading in the equities involved in the transaction. This period may be determined in another way if the investment bank cooperates with one or more foreign investment banks and if this can be documented in accordance with international practice.

In case of an initial public offering, the investment bank will generally not have published previous research material on the company to be listed. Accordingly, it will be natural (and in accordance with international practice)

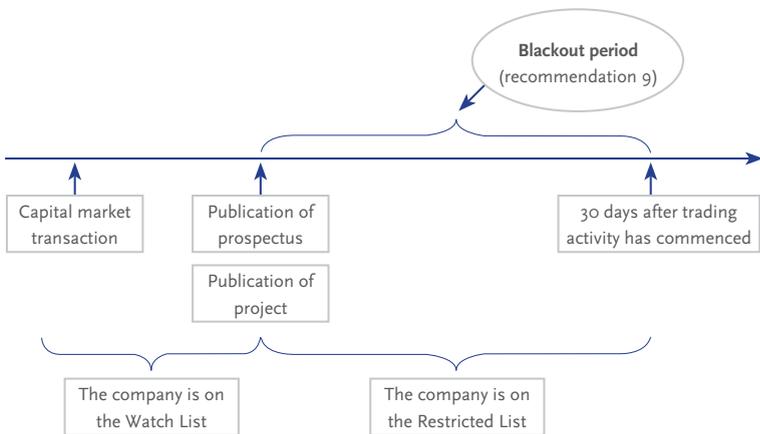
to ask the analyst to prepare research material in compliance with the time limits stipulated in recommendation 9. In this case, the investment bank must ensure that the analyst does not receive material, including forecasts or estimates, from the management which is not intended for publication as part of the offering documents.

2. *Publication of project simultaneously with publication of prospectus*

In the event that publication of the project and publication of the prospectus coincide, the Blackout Period takes effect immediately. Prior to the publication of the project and the prospectus, the analyst may not publish research material on the capital market transaction, as the analyst will not have knowledge thereof. In this case, only a Blackout Period applies and not a Restricted Period. The investment bank may publish equity research only after the Blackout Period has expired.

Often, the investment bank has already published research material on a company when a company is entered in the Watch List, and the research coverage may basically proceed as usual until a Blackout Period commences. However, it must be ensured that the research material is unbiased and does not appear to have been influenced by any conflicts of interest (recommendation 7).

FIGURE 2



### **Recommendations 18 to 27. Personal account dealing**

The recommendations on employees personal account dealing basically apply to all investment bank employees, unless otherwise provided in the specific recommendations.

The recommendations apply to purchase and sale of securities, including purchase and sale of subscription rights and exercise of derivatives attached to these securities.

The recommendations do not apply to subscription on the basis of subscription rights allotted, subscription of bonus shares, new subscription in connection with any change of the nominal share capital etc., and transactions by investment managers as part of employees participating in collective pension schemes or investment funds.

## APPENDIX 2

### Glossary

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

### Unbiased research

Research material that 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 adopt a cautious approach when commenting on rumours.

### Research material

Research material is reports, articles and other similar material prepared by an independent analyst and communicated in printed or electronic form to customers or the public and includes:

- an assessment of one or more securities/issuers/markets, or
- a recommendation of the same.

### Recommendation

A recommendation to buy, sell, hold, etc.

### Corporate finance activities

Services provided by an investment bank for the purpose of (or in connection with):

- The listing and placement of equities and equityrelated securities by way of regulated market places.
- Private placements of unlisted equities.
- Large secondary equity placements through regulated market places.
- Buying and delisting of listed equities and equityrelated securities.
- Advisory services in connection with mergers and acquisitions (M&As).
- Other financial advisory services in connection with the above activities.

The activities typically include:

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

### **Debt capital activities**

An investment bank's participation in advising on, planning and executing of offerings, placements, syndications and sale in the primary market for bonds, other debt instruments, derivatives and other underlying instruments.

The activities include:

- Advice on capital structures and structuring of debt capital.
- Pricing of bonds and instruments.
- Identification of and negotiation with investors/lenders.
- Assistance with credit ratings.
- Advice on and assistance with securitisation.
- Market assessments.

### **Investment bank**

A financial institution or department or division of such which is mainly engaged in offering securities trading and financial advisory services and other related services in connection herewith, targeting primarily the institutional market.

### **Capital market transaction**

A transaction for which a prospectus or a programme has been or will be prepared in connection with or as a condition of the execution of the transaction. Moreover, one or more of the following conditions are met:

- New securities will be offered, 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 tender offer.
- The transaction is likely to have an effect on the price of one or more listed securities.

**Pitch**

A marketing activity under which an investment bank seeks to obtain a specific corporate finance or debt capital activity with an issuing company.

**Blackout Period**

A period during which an investment bank is not allowed to or has decided not to publish equity research.

**Restricted Period**

A period during which the compliance function of the investment bank approves research material on companies on the Restricted List. The period runs from the time when a project is made public (coincidentally with the time when the company is entered on the Restricted List) until seven days prior to the publication of the prospectus (where the Blackout Period begins).

**Roadshow**

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

**Securities**

For the purpose of these recommendations, securities are defined as:

- Equities and other securities equivalent to equities.
- Corporate bonds.
- Derivatives related to the above instruments.



DANISH SECURITIES DEALERS ASSOCIATION

Finansrådets Hus

Amaliegade 7

DK-1256 Copenhagen K

phone +45 3332 7411

[www.dbmf.dk](http://www.dbmf.dk)