



Association Luxembourgeoise
des Compliance Officers
du Secteur Financier

DRAFT

Luxembourg Association of Compliance Officers

Working Group N°7 Code of Ethics for the Luxembourg Mutual Funds Industry

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I. Background and objectives

I.1. Background

The ALFI recently updated their Code of Ethics for Luxembourg funds, based on the CSSF Circular 2000/15, which gives general code of conduct principles that Participants involved in the Luxembourg investment fund industry (the “Participants”) should follow.

Similarly the ALCO completed a comprehensive review of the CSSF Circular 2000/15 with the objective of sharing interpretations and practical experiences in the application of the Circular. With the forthcoming adoption of UCITS III into Luxembourg Law it is emphasized that a Code of Conduct will be drawn up for Management companies (Annex B: Draft Luxembourg Law & UCITS III art 5 H)

I.2. Objectives

With the purpose of complementing the work already carried out by ALFI, the ALCO members decided to set up a working group (Group n°7) with the objective of providing the Participants¹ with definitions and guidelines for the drafting of their own internal Code of Ethics, and the implementation of related internal rules and procedures.

It should be noted that the information herein acts only an incentive for reflection for Participants and has not in its current form been submitted to CSSF.

With regard to the content of a Code of Ethics, the Group considers that:

- a Code of Ethics should not be limited to setting general guidelines, but should also identify the following:
 - Affected persons and transactions,
 - Administrative and pre-clearance procedures.
- a Code of Ethics should namely deal with the following (“core concerns”), although it is understood that the Participants, depending on the nature of services provided, will be impacted in a distinct way by each of these concerns. For example, “insider trading” or “best execution” will not be treated in the same way by a registrar agent and the investment manager.

- | |
|---|
| <ul style="list-style-type: none">- Personal trading- Best execution- Gifts and invitations- Conflict of interests- Insider dealing information |
|---|

¹ Participants include **custodian banks**, **administrative agents** (fund accounting and NAV calculation), **registrar and transfer agents** (keeping the register of shareholders, processing of subscriptions and redemptions, sending of documents to investors), **asset managers**, **management companies**, **SICAV board of directors**.

The Group also stresses the importance of having effective “Chinese Walls” in place between people working in different departments, to avoid, to a certain extent, risks of insider trading or conflicts of interests.

It is important to note that this is not an exhaustive list of the core items that a Code of Ethics should deal with. The Group indeed considers items such as the KYC (Know Your Customer) principle or privacy as “core”, but resolved to concentrate on the 5 items listed above for the following reasons:

1. They appear to be recurring and increasing preoccupations for Participants both in Luxembourg and abroad,
2. They have not yet been dealt with extensively in either regulations or by former working groups.

The clarifications and guidelines, detailed in the current report, will consequently take into account the 5 above -mentioned concerns.

As a first step the working group reviewed the regulatory requirements with regard to the drafting of a Code of Ethics in the following countries: the USA, the UK, The Netherlands, Germany, France, Italy, Ireland and Switzerland. The details of this analysis are set out in Annex A. The main points arising from this review are detailed in the following sub-section.

I.3. Synopsis of the review of regulatory principles of the Code of Ethics in key competitor markets

The majority of the countries reviewed require that the FSPs (Financial Sector Professionals) put in place a Code of Ethics defining persons, transactions as well as administrative procedures implemented, to prevent any potential conflict of interest that may arise from personal account trading.

The implication is that the FSP should have internal procedures to proactively prevent insider trading and generally control staff trading, and to take appropriate sanctions regarding any infringement of these procedures.

In addition to the requirements on personal account dealing, the majority of regulators refer to some extent to the core items (including the set up of Chinese Walls) that the ALCO working group has identified and which are analysed hereunder.

We would like to point out that the various principles highlighted in these different jurisdictions are not exhaustive. It merely represents the aspects that our working group has in common with these different jurisdictions.

II. Recommendations and guidelines

II.1) Personal Trading

The purpose of such guidelines is the protection of the Participants and their clients. The rules however should avoid unnecessary burdens on the Participants and their employees.

a- Definitions

Guidelines covering personal account transactions carried out by employees of the Participants should fall under the scope of the Code of Ethics.

b- Guidelines and examples

The restrictions and the basis upon which the Participant's employees may undertake personal account transactions should be set out in a written notice drawn to the attention of each employee and the contents of such notice should be made a term of the contract of employment.

Procedures should be established and maintained by the Participants that are appropriate to its business to ensure that each employee does not undertake a personal transaction unless the company has given its permission.

Procedures could include the following:

1) Determine Categories of Access Persons:

All company personnel should be divided into various categories defined by the Participant according to their degree of access to information.

Examples:

- Non-Access Person
- General Access Person
- Investment Professionals
- Senior Executives

2) Reportable security

The following are examples of reportable securities

All shares, bonds and other securities unless exempt as per 3)

3) Non-Reportable Transactions:

The following transactions need not to be reported:

- Employee shares and stock options, although the selling should be done through an approved broker
- Transactions in open-ended collective investment schemes, including unit trusts (provided that the fund is not administered by the participant)
- Investments made in individual saving accounts such as Peps
- Dealing in government bonds as well as options and futures on government bonds and currencies
- In principal all commodities as well as options and futures on commodities
- Discretionary managed accounts

4) Non-Permitted Transactions:

The following transactions are not permitted:

Certain types of transactions are prohibited, whatever the circumstances under which they are carried out, and specifically the following :

- Placing an order that is liable to result in a conflict of interest ;
- Placing an order when the person placing the order is in possession of insider trading information;
- Placing an order on an option or a futures contract without being authorised to place an order on the underlying asset (except if especially authorised therefore);
- Selling equity without holding it (short sale);
- Purchasing « naked » sales options or selling « naked » put options on any market (i.e. if the underlying asset is not held);
- Purchasing equities in an initial public offering, in case of privatisations or at the time of a stock market launch; (unless explicitly permitted by a procedure)
- Buying or selling equities in any closed-end fund for which the employer handles either valuation or accounting services.

Are there times in which the employee may not place orders?

The employee may never place orders if in possession of insider trading information.

The employee may never place orders if the employee is using their knowledge about transactions in the fund, past or future, for their advantage in personal transactions. In a nutshell, the employee knows that fund A will buy or sell the asset B tomorrow and may therefore not place an order on the asset B -

In the case of investment funds the following areas should be considered as material and non-public information in the context of insider dealing, likely to have a substantial impact on the NAVPS of the Fund.

- A forthcoming corporate reorganization e.g. merger of funds
- A forthcoming dividend declaration
- A major purchase of a particular securities issue
- A default on loan commitments

5) Disclosure of transactions:²

The Participant should require all employees subject to the Code to disclose on a periodical basis (i.e. quarterly) the details of personal transactions done during the period covered. If the employee has not done any transactions during the period, he will acknowledge this in writing.

Examples: Discretionary Managed Accounts held with a non-authorised broker
 Trust Accounts managed by a non-authorised broker
 Regular Investment Account.

6) Pre-clearance:

Insofar as a transaction is not defined as a prohibited transaction by virtue of the Code, the employee must simply obtain prior authorisation in writing from the Compliance department. Once this prior authorisation is obtained, the employee may place their order with their authorised intermediary for the reportable transaction . Some transactions may not require pre-clearance, but still need to be reported.

Examples: Reportable securities received as a gift
 Options on pre-determined indices

The pre-clearance procedure should be determined by the Participant taking into account the access person and the type of transaction

² Especially Anglo Saxon participants often require of their employees subject to the Code to open a trading account with an approved broker. In that scenario all employees ought to conduct all permitted personal security transactions through an approved broker. The Participant should require the employee to sign an agreement to permit the FSP to receive copies of confirmations of personal transactions and statements. Certain exceptions may apply and should receive permission from the Compliance Department

If the Compliance department notices a constant and excessive increase in the transaction volumes, it has the possibility to request a reduction in the volume of personal transactions. Another reason for which the Compliance department may intervene is in case of transactions that would be contrary to the objective of the work contract and the client's interest.

The deadlines that are to be respected between purchases and sales may vary according to the type of access person.

7) Reporting:

Depending on the nature of its activities the Participant will define the types of forms, which will be required, and frequency of reporting of transactions in reportable securities, and request that the employee complete and sign the respective forms.

8) Administration and Record-keeping

The Participant will define procedures to process the documents

- Examples:
- Verification of trade confirmations received from employee in accordance with pre-clearance given.
 - Verification of trade dates to ensure that timeframes between buying and selling are respected.

9) Disciplinary procedures:

The Participant should define appropriate penalty measures to be imposed on staff acting in breach of the Code.

Example: non-respect of delays between buying and selling could result in the surrender of profits in favour of a charity.

II.2) Best Execution

(Sorting method for orders)

a - Definitions

The obligation of *best execution* in the context of a transaction carried out by a FSP for account of one of the clients is dealt with in the CSSF Circular 2000/15 as follows:

The professional must do his best for orders received and accepted to be executed **in the best possible way** while taking into account, for example, the requests made, the state of the market or markets concerned and the object of the orders received.

Furthermore it is understood that, always in accordance with the Circular, the professional will see to it that the orders received and accepted are carried out **within a reasonable period of time and respecting the chronological order of reception of these orders**. The execution of an order may be delayed if the professional estimates that it is in the interest of the person who placed the order; in this case, the professional will inform the principal as soon as possible if the latter has placed the order and indicated an execution deadline.

Moreover, FESCO proposes in its consultation document « *Standards and rules for harmonizing core conduct of business rules for investor protection* », the following definition for the obligation of '*best execution*':

An investment company which carries out a transaction for account of a client satisfies its obligation of '*best execution*' for this transaction if it takes all measures which could reasonably be expected to be taken by a professional in order to obtain **the best price available on the most appropriate market or markets**.

The most appropriate market is that which is not only accessible in consideration of the type and size of the transaction considered, but also the most interesting from the point of view of the financial conditions (costs), of transparency, liquidity, clearing and settlement.

If the investment company chooses to carry out the transaction on another market than the most appropriate market, it shall have to prove to the client that this was in the client's interest.

Exceptions to the obligation of best execution:

As to the exceptions applicable to best execution it is up to each Participant to define those exceptions according to their activity. It is interesting to note that the FSA (Financial Services Authority) defines the exceptions as follows:

- If the order bears on the purchase of a life insurance policy, or the subscription/sale of units of UCIs with the promoter of the UCI considered, or
- If a contractual discharge to deliver ‘best execution’ exists between the professional and the client, and finally,
- If the professional goes through an intermediary with whom he places the order for execution (but on the condition, however, that the professional has verified that the intermediary is also subject to an obligation of ‘best execution’).

b- Guidelines and examples

In markets where there exists a unique or central swap market, the price of comparison is the swap price available on such a market.

In particular, in the case of activities handled by an electronic transaction system (for example the *Stock Exchange Trading System* of the London stock exchange «SETS»), the professional shall carry out his obligation for *best execution* at the price level insofar as the price at which the transaction is carried out is comparable to the best price available on the electronic transaction system considered.

Concerning transactions for which there is no centralised exchange market, such as OTC transactions, practice demands that the professional get three different *market maker* prices and that he select the *market maker* offering the best price in order to fulfil his obligation of *best execution* in relation to best price.

In terms of *best execution* the professional is required to ensure that the orders received and accepted are executed within a reasonable period of time and in the respect of the chronological order in which the orders were received. In this context, the professional will execute the orders of his clients as quickly as possible, unless the postponement of the execution is in the interest of the client.

This may be the case, for example, if the professional postpones the transaction with the aim of joining it with several other transactions of the same type, thus allowing the execution of one single grouped operation (and which would result in the client’s advantage).

II.3) Gifts and invitations

a- Definitions

Employees are encouraged not to give or receive gifts of value or make or receive invitations that would be too generous as this could lead to conflicts of interest. It is absolutely prohibited to submit the conclusion of a business to a Participant subject to a condition of receiving a gift or any other form of favour; the same applies to all affairs concluded by the Participant, be it concerning transactions with financial advisors or the purchase of material or other.

b- Guidelines and examples

Employees may neither give nor accept gifts or gratuities from a person or a company that exceed a certain value. The value should to be determined by each Participant. Both the frequency and value should be monitored by the Compliance department to ensures that the cumulative value is not subject to impropriety.

In respect of gifts:

The Compliance officer should keep a register of gifts received, as well as determine the procedures to follow regarding the declaration as well as the value of those gifts.

In respect of invitations:

For example, the employee should not accept tickets for sport or cultural events, except if

- There is a commercial reason for attending the event, which is to be determined by the Participant (such as the presence of representatives of industry) ; and
- The person having invited the employee is present at the event.

II.4) Conflicts of interest

a- Definition

A conflict of interests may arise where the Participant has a material interest in a transaction to be conducted with or for a client or where the Participant or the employees of the Participant have relationships that reasonably affect their independence and objectivity.

b- Guidelines and examples

The Participant may manage conflicts of interest by having in place adequate internal controls and procedures such as;

- Personal trading and directorships rules
The Participant may impose restrictions on personal trading and directorships to prevent situations that could give rise to a conflict of interest.
- Disclosure to employer
The Participant may require staff to disclose all matters, including beneficial ownership of securities and directorships that reasonably could be expected to interfere with the duty to their employer to act in the best interests of the clients. This disclosure allows the employer to assess the impact of the conflict and make a decision as to how it may be resolved e.g. declining to act for the client.
- Internal Rules of Confidentiality
The Participant may put in place Chinese Walls for the effective segregation of business units where conflicts of interest may arise.
- Fair treatment of clients
The Participant should ensure that it makes a reasonable effort to avoid conflicts of interests in all transactions and, when they cannot be avoided, ensures that clients are fairly treated.

II. 5) Insider Dealing Information

a- Definitions

Insider dealing information may be defined as follows: a piece of information which is not public and which, if rendered public, would substantially influence the price of a financial instrument . This could be, for example, information about an acquisition, an issue of rights or the signature of a new contract.

In most countries, purchases or sales on investments when in possession of insider trading information is prohibited by law. In certain countries, this is a criminal offence. This applies to personal transactions as well as to the transactions that are decided or handled with the employer. In case of a violation, it is important to realise that it is the employee who can be personally held liable, not the Participant.

b- Guidelines and examples

1) Insider Dealing Information

The ALCO proposes that each Participant based on their activity determines the persons to whom insider dealing information rules shall apply.

If an employee is in possession of an insider dealing information (from whatever origin), the employee may in no case:

- Place an order on this security,
- Tell anyone or encourage anyone to place an order on this security.

The employee must:

- First contact their Compliance department according to the rules defined in the Circular 2000/15,
- Obtain authorisation from the Compliance department before passing the information on to another employee.

In order to avoid all insider trading and conflicts of interest, the ALCO recommends that Participants put in place effective Chinese Walls.

2) Chinese Walls

It is essential that potential conflicts of interest are avoided and that confidential information is not allowed to circulate freely within a Participant. Chinese Walls are designed to ensure that certain areas within the Participant can control confidential information independently.

An information barrier or “Chinese Wall” is the most widely used approach to preventing insider dealing violations by employees. The “Chinese Wall” should be designed to prevent the communication of material non-public information, restricting the flow of and access to confidential information only to those employees who need to know the information to perform their jobs effectively.

ALCO therefore recommends that Chinese Walls should according to the activity of the Participant be implemented to restrict the flow of and access to inside information between the following departments:

- Fund Accounting / Fund Administration
- Asset Management
- Trading Floor

This list is not exhaustive and each Participant should define the departments affected according to their activity.

Examples of Chinese Walls are:

- Restricted employee access rights to computer networks and electronic information defined on a needs basis.
- Procedures manual documenting procedures to prevent the transfer and misuse of inside information.
- Permitted interdepartmental flows of information
- Clearance procedure through Compliance before any relevant inside information is distributed to another department

Annex A: Synopsis of regulatory / guiding principles of the Code of Ethics in key competitor markets

1. U.S.A.

The Securities and Exchange Commission ("SEC") is adopting amendments to the rule under the Investment Company Act of 1940 that addresses conflicts of interest that arise from personal trading activities of investment company personnel. The amendments will increase the oversight role of an investment company's board of directors with respect to codes of ethics, improve the manner in which investment company personnel report their personal securities holdings, and require prior approval of investments in initial public offerings and certain limited offerings by certain investment company personnel (including portfolio managers). Related amendments to disclosure forms will require investment companies to provide information about their policies concerning personal investment activities in their registration statements. The rule amendments are designed to enhance the board of directors' oversight of the policies governing personal transactions in securities by investment company personnel, help compliance personnel and the Commission's examinations staff in monitoring potential conflicts of interest and detecting potentially abusive activities, and make information about personal investment policies available to the public.

The following elements are included in the Personal Investment Activities of Investment Company Personnel section of the SEC rules:

Adoption and Approval of the Code of Ethics

- Access person
- Reportable Transactions
- Reporting requirements
- Record keeping & Administration (signed codes, pre-clearance requests, violations, etc...)

The process itself consists in a proactive and reactive control mechanism of the transactions. (Pre-clearance procedure, Annual report to be made to the Board of Directors of the Investment Company).

2. U.K.

The personal account dealing section of the Code of Conduct Handbook of the FSA is designed to ensure that a firm's customers are not disadvantaged by the personal dealings of the firm's employees. Firms should, therefore, ensure that appropriate controls and monitoring arrangements are implemented and maintained.

Identical principles issued by the FSA and the SEC require that procedures should be set up including the following elements:

- Definition of Access Person;
- Definition of Reportable Securities;
- Reporting;
- Record keeping.

3. The Netherlands

Article 23 of the STE Decree on the Supervision of the Securities Trade in respect of regulations regarding private investment transactions states the following:

“A securities institution shall introduce regulations providing for a code of conduct for private investment transactions by persons connected with the securities institution, to which such persons shall be bound by a written agreement. A securities institution shall as a minimum arrange for the appointment of a compliance officer for the purpose of checking compliance with the code of conduct”.

Implementation of the rules to be adopted by securities institutions should include:

- Definition of Insider Persons; Securities Transactions; Price-Sensitive Information
- Supervision of private securities transactions by members of the staff by Compliance
- Reporting requirements
- Penalties for non-compliance with the code
- Advice and Appeal

4. Germany

The attached joint press release by the Bakred and the BAWE of the 17 July 2000 is self-explanatory.

JOINT PRESS RELEASE

Bundesaufsichtsamt für das Kreditwesen

Bundesaufsichtsamt für den Wertpapierhandel

“ The Federal Banking Supervisory Office (Bundesaufsichtsamt für das Kreditwesen; BAKred) and the Federal Securities Supervisory Office (Bundesaufsichtsamt für den Wertpapierhandel; BAWe) have amended the "standards for the rules of conduct for employees of credit institutions and financial services institutions concerning personal transactions of employees " (guiding principles for personal transactions of employees). In their joint announcement published in the Federal Gazette (Bundesanzeiger) no. 131 on 15 July 2000, the authorities set up minimum standards for internal rules defining the scope for permitted personal transactions of employees. Originally published by the BAKred in 1993, the guiding principles had to be amended to take further account of investor protection, a responsibility incumbent upon the BAWe. Moreover, they had to take into account the financial services institutions, which have been regulated since the beginning of 1998.

In accordance with the new guiding principles, the respective enterprises are required to identify areas prone to conflicts of interest and to take appropriate measures. This increases the institutions' responsibility. In accordance with the principle of avoiding the "transparent employee", the rules shall be restricted to what is objectively necessary with regard to the protection of institutions and customers, in order to avoid unnecessary burdens on both the enterprises and their employees. Employees who do not have regular access to sensitive information (e.g. inside information) shall be required to disclose information relating to their accounts and securities accounts and to powers to attorneys over an account granted to them only upon request from their employer, who must have a legitimate interest in such disclosure. Particular requirements – such as the ongoing disclosure of securities transactions and compliance with certain holding periods and trading prohibitions – must be observed only by those employees who in fulfilling their respective activities have regular knowledge of facts which are likely to have a substantial effect on the market.

Credit institutions and financial services institutions must either draw up appropriate internal rules for personal transactions of employees on the basis of the new guiding principles or adjust existing rules accordingly, and monitor compliance with these rules. The BAKred and the BAWe will ensure the enterprises' compliance with the guiding principles for personal transactions of employees within the scope of their regular supervisory tasks”.

5. France

In France, any Investment Service Provider is requested by law to include the following items in its Company Regulations:

1. Conditions under which employees may negotiate financial instruments for their own account
2. Conditions under which employees shall inform their employer thereon
3. Conditions that apply to them to avoid prohibited circulation of confidential information.

The COB published in early 1997 Portfolio Management Regulations (96-03). Article 12 requests Financial Institutions to issue special Company Regulations for controlling their Portfolio Management specialised staff acting for their own account.

The Code of conduct for mutual funds and for individual Portfolio management has been edited by the "Association française de la gestion financière (AFG-ASFFI)" under the form of two "Codes of Conduct":

- Mutual Funds with an additional part for Employees Funds
- Individual Portfolio Management

The French Association also gave explanations on its Compliance and Ethics rules in a document dated November 30, 2000.

All French Mutual Funds, that are or not member of the Association, are obliged by the COB to abide by the Rules. Sanctions are taken by the "Conseil de discipline de la gestion financière".

In both texts, a distinction is made between the company (= "la société de gestion") and the staff (= "le gérant") in the compliance rules.

The individual shall first comply with the rules that apply to the company. In addition, some specific rules do concern employees.

A) STOCK EXCHANGE OPERATIONS OF THE STAFF

Any Company shall put in place its own internal regulations, control its implementation and be able to take appropriate sanctions regarding any breach of these rules.

The Company has to be able to control the operations of their staff even if an employee's account has been opened in another financial institution.

One of the primary tasks of these rules is to avoid any conflicts of interest that could arise between staff and the investment fund subscriber.

These rules also prohibit the use of Insider Information for the personal account transactions of the staff.

The Portfolio Managers and Traders should be considered as access persons.

It is the responsibility of the Directors to distinguish between access and non-access persons within the staff.

An obligation of transparency imposes on all employees to declare all accounts that they have opened in others institutions. It also eventually imposes the removal of banking secrecy to obtain requested information.

B) GIFTS

The ethical rules of the French Association states that a Portfolio Manager must refrain from requesting or accepting any gifts or benefits that could result in any biased decisions from any intermediaries or counterparts that he deals with.

For transparency purposes, the Portfolio Manager must inform his Senior Manager about any gifts received.

6. Italy

As to Assogestioni's guidelines they do not refer to staff transactions. However, there is a recommendation as to the Code of Conduct to be implemented for each Financial Sector Professional.

"The CONSOB Regulation 11522 of 1 July 1998 provides under Book III "Provision of investment and collective asset management services", Part III "Internal organization and procedures", Article 58 "Internal code of conduct" amongst others the following:

Authorized intermediaries, asset management companies and SICAVs shall adopt and comply with a self regulatory code of conduct, inter alia by referring to those of the professional associations connected with the services supplied. Such code, in accordance with the consolidated law on financial intermediation, shall establish the rules of conduct for the members of the administrative and central bodies, employees, financial salesmen and collaborators, with reference to at least:

- The obligation to protect data of confidential nature obtained from investors or which such persons possess in view of their functions;
- The procedures established for carrying out personal transactions involving financial instruments;
- The procedures for handling relationship with the investors who intent to employ agents or appointees for the purpose of concluding contracts or executing transactions where such persons are directors, members of the board of auditors, employees, collaborators or financial salesmen of the intermediary;
- The prohibition to receive benefits form third parties that could lead to conduct contrary to the interests of investors or of the person on whose behalf they act.

Authorized intermediaries, asset management companies and SICAVs shall comply with the self-regulatory codes adopted by the professional associations to which they belong.

Authorized intermediaries, asset management companies and SICAVs shall refrain from behaving and shall control that their employees, financial salesmen and collaborators do not behave in a way that endangers, is deemed to endanger or is indicative of a situation that endangers the savings of the public or the market."

7. Ireland

In November 2000 the Irish Regulator (Central Bank of Ireland) issued a "Handbook for Investment and Stockbroking Firms" containing a Code of Conduct based on the requirements of the Investment Intermediaries Act (IIA) 1995. Fund administrators, transfer agents, depositaries, custodians, managers are authorized under the IIA and therefore are required to comply with the Code of Conduct.

The Code of Conduct covers client rights & documentation, client's best advantage, KYC, contract notes and confirmation notes, client transaction priority, timely execution, excessive dealing, complaints, creation of a false market, etc...

In addition, of interest to the ALCO/ALFI project is that the code also includes paragraphs as summarised below:

- Personal Account Transactions

As part of their contract of employment all officers and employees have to sign an undertaking declaring that they have read and understand the provisions of Part V of the Companies Act 1990 and shall comply with these provisions.

Firms are required to have written rules governing "insider dealing" and procedures for the recording and monitoring of dealing by any person connected with the firm as defined in Section 108 (11) of the Companies Act, 1990.

- Inducements

A firm must take reasonable steps to ensure that neither it nor any of its officers or employees

1. Offers or gives
2. Solicits or accepts

Any inducement that is likely to conflict with any duties of the recipient.

- Chinese Walls

A firm shall ensure that effective Chinese Walls are in place and that all procedures must be in writing and notified to all relevant officers/employees of the firm."

8. Switzerland

The Swiss Fund Association (SFA) has issued a code of conduct that entered into force in January 2001 to preserve and promote the reputation of the Swiss fund industry. The code regulates the applicable duties of diligence, loyalty and disclosure and applies to financial service providers.

- 1) Diligence affects the internal organization of the investment management firm, and its cooperation with the custodian bank and other third parties.
- 2) Loyalty requires clear information to ensure the proper conduct of business in matters such as pricing, conduct of securities trading, payment of retrocessions, and compensation of employees.
- 3) Disclosure requires transparency for investors concerning risks, performance and costs. When publishing performance data, the investment manager must adhere to internationally accepted standards.

The code of conduct entered into force on January 2001. Requirements must be put into practice within twelve months, with compliance reviewed by the external auditor.

Annex B: Extract from draft Luxembourg Law & UCITS III
art. 5h

Each Member State shall draw up rules of conduct which management companies authorised in that Member State shall observe at all times. Such rules must implement at least the principles set out in the following indents. These principles shall ensure that a management company:

- (a) acts honestly and fairly in conducting its business activities in the best interests of the UCITS it manages and the integrity of the market;
- (b) acts with due skill, care and diligence, in the best interests of the UCITS it manages and the integrity of the market;
- (c) has and employs effectively the resources and procedures that are necessary for the proper performance of its business activities
- (d) tries to avoid conflicts of interests and, when they cannot be avoided, ensures that the UCITS it manages are fairly treated, and
- (e) complies with all regulatory requirements applicable to the conduct of its business activities so as to promote the best interests of its investors and the integrity of the market.