HANDBOOK OF BEST PRACTICE

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Part 1: Preface and Acknowledgments

Preface by President of Association

Financial markets form a central element of modern economies; they are, so to speak, the cardio-vascular system of highly developed countries. This was once again confirmed in the financial crisis of 2008, when the near-collapse of the financial markets directly caused a standstill of the real economy. Investment professionals like those organized in the SFAA are vital players in the financial markets, taking important decisions in investment banking, private banking, asset management or risk management every day. Their actions are highly significant not only for the financial sector but actually for the entire economy. Accordingly they carry a great responsibility towards not only their employers and clients but also towards the general public and the entire economy.

This responsibility is not limited to the technical, professional aspect but extends to the ethical component of investment professionals' activities as well. Ethics is a key requirement for those working in the investment business. The trust clients place in their financial advisers is based on the ethical behavior demonstrated by the latter. It is a reflection of strong ethics when investment professionals voluntarily adapt a code of ethics without being forced to do so by outside influences. Self-regulation implies the commitment of those who are actively involved in the financial markets and therefore taps resources not readily available to governments. It works because the financial industry understands that market integrity leads to investor confidence. At present many people are calling for massive regulations to be set by the government. It is legitimate that a government should set general conditions, but only as far as strictly necessary. Yet in particular with regard to ethical standards it would be preferable if we set our own austere rules for our actions. We consider our having a reputation for high ethical standards a necessity in a competitive industry. This handbook documents the self-regulation that the Swiss Financial Analyst Association (SFAA) has embraced.

Possible conflicts of interests count among the main ethical issues concerning the activities of financial analysts. Analysts are usually employed by banks or brokers, which give advice to investment clients while at the same time helping companies go public, trading the bonds and equities of these same companies and lending them their support in carrying out mergers and acquisitions. These potential conflicts of interests are troublesome most of all because in the past they were not disclosed to the investors, which prevented investors from considering them in evaluating the objectivity of the analysts' recommendations. One of the goals of the SFAA rules is to help ensure that there is transparency for investors and that investors are aware of situations that may pose conflicts of interests.

This handbook is, contrary to its name, not a book but rather a binder. This is "physical proof" that ethics is "a work in progress". Every SFAA member will receive our Handbook of Best Practice and is bound by the articles of our Association to adhere to the rules contained therein. We will also provide members with updates to the Handbook on a regular basis.

Article 2 of the SFAA statutes reads as follows:

The Association has the following objectives:

- to establish rules of conduct;
    - to organize and promote the training of its members;
    - to assure the promotion of the interests of the profession;
    - to promote improvement in transparency and in the structure of the Swiss financial markets;
    - to facilitate contact between members through professional meetings

The Association aims to develop strong ties with comparable organizations worldwide.

The first objective, as mentioned above, has always been to establish rules of conduct for its members. Our Association has always had a Code of Conduct. However, this Handbook is a very important step forward in strengthening the guidance that the Association provides to its members in the field of ethics.

Apart from professional ethics, the SFAA is very active in the field of education. Our Association is one of 30 members of the Association of Certified International Investment Analysts (ACIIA) and the Association of International Wealth Managers responsible for admitting candidates to the CIIA® and CIWM® exams respectively. The members also organize the training, arrange the examination venues, set and mark the nation-specific papers and, not least, remain responsible for monitoring ethics. To retain the qualification, graduates of the CIIA® or the CIWM® examinations must hold membership of the National Society to ensure compliance with the highest standards of professional conduct. Managed by the Training Center for Investment Professionals AZEK, the SFAA offers a renowned training for investment professionals in Switzerland. This Handbook of Best Practice is a core element of the courses offered by AZEK. It forms an integral part of the exams as well.

A U.S. Supreme Court Justice once made the famous remark that ethics is 'knowing the difference between what you have a right to do, and what is the right thing to do.' In other words, even if something is legal, it may not be ethical. This Handbook should provide our members with guidance on the subtle difference embodied in this remark.

Marco Curti
President SFAA, June 2009

Part 2: Introduction

Chapter 1: Ethics through the Ages

The rules governing conduct and the instructions which compel mankind to adjust and harmonise its behaviour date from the very origins of human history. Before the invention of writing, moral standards were handed down by oral tradition in the many tales, myths and legends in which models of behaviour abound.

Nowadays, professional deontology is a part of such rules. The recognition of the rules of professional deontology poses a problem of their compatibility with two other behaviour reference sources: the law and ethics, understood as being general morality (Hubert de la Bruslerie, *Ethics, Deontology and Business Management*[1], Paris 1992, p.245).

Merriam-Webster's New International Dictionary of the English Language defines ethics as the "science of moral duty or, more broadly, the science of the ideal human character and the ideal ends of human action". However, according to Aristotle (384-322 B.C.), originally, ethics was one of the principal areas of philosophical thought and included politics and economics. Then, in the Middle Ages, all-powerful religion imposed a single, universal morality: Man lived in fear of God. It was not until the Reformation and the emergence of a lay humanism that ethical decision-making fell to the individual. From then on, ethics dealt with the pursuit of the just and right action in relation to the individual, and with the conditions of human action in relation to the others. Free thought was making its way into the minds of the men of the Renaissance.

Although the adjectives *ethical* (from the Greek *èthikos*) and *moral* (from the Latin *mors*) both relate to morals, the latter term also relates to social convention and custom; modern usage, however, tends to differentiate between them. Morals are indeed defined as a set of rules relating to actions that are permitted or prohibited in a society, whether enshrined in the law or not. They are a set of precepts at a given time in a given society. Morals are relative by nature: set in one time and in one place, they evolve with the changes in mentality and custom. Morals perform a regulatory function within a society.

"*You may be mighty, but we still have the law*" [2]. The Law is a set of rules in force in any one State (or in more than one) which apply to particular social groups or deal with particular areas of social or business life. It is a complex construction: international treaties override domestic law, laws must correspond to a framework fixed by the constitution, and implementing regulations may be enacted only within the framework provided by the law. Yet, even here, not everything is written down: article 1, para. 2 of the Swiss Civil Code refers a judge to customary law when delivering a judgment if there are no provisions applicable under the codified law. Yet custom is a collection of practices followed generally in certain situations of legal life: all the interested parties comply uniformly with a determined pattern of behaviour (Descheneaux, *Preliminary Section of the Civil Code, Treatise on Swiss private law*, Fribourg, 1969, p. 96)[3]. Finally, if custom makes no provision either, a judge

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1 TN: " *Ethique, Déontologie et Gestion de l'Entreprise*", Hubert de la Bruslerie, Paris 1992.

2 TN: "*Si vous avez la force, il nous reste le droit*" – from "Cromwell", by Victor Hugo. Translator's rendering.

3 TN: "*Le Titre préliminaire du code civil, Traité de droit privé suisse*".

must refer to the rules which would apply were he acting as a legislator, in making his judgment.

Derived from the Greek *deon, deontos,* "duty", and *logos*, "science, doctrine", deontology is a set of rules of good conduct or applied morals. For Aristotle, deontology really existed: there are things which "must" be done and they must be done solely because they are required to achieve a particular end. The term *deontology* is generally used in connection with professional morality and thus refers to a set of moral rules governing the practice of a profession.

"Deontological standards are formed from the bottom up. They are of the same nature as usages and share an application that is local and restricted to certain players or certain activities. They often take the same form, in that they do not stem from any written code". (La Bruslerie, p. 246). *"Deontology (or professional ethics) contributes something more which a set of external written rules cannot always capture: that is, the internalisation (by the players involved) of professional constraints on conduct and behaviour."* (ibid, p. 219)[4]

Thus when we decide to verify that our actions are compatible or not with the dominant values shared within a society, we turn to prevailing morals. In the same way, if we want to verify that an act in our professional practice is approved by our profession, we may refer to its code of ethics. The questions we ask ourselves may be formulated as follows: in what name and according to what precepts should we be acting thus?

As soon as we ask ourselves about the rightness of the morals which govern our actions, we are into an ethical problematic which may be formulated as follows: to what ends are we acting this way? Ethics, which are destined for the individual, play a legitimising role. There is no denying that the ethical problematic often assumes the appearance of internal conflict. The right decision, or at least the one which we finally approve of, is the result of a lengthy process of deliberation during which the – often contradictory – interests at stake are carefully weighed and compared. Ethics therefore develop from revealing the values which enter into the decision-making process.

"Any action directed in accordance with ethics may be subordinate to two totally opposed maxims. It may be directed according to the ethic of responsibility or the ethic of ultimate ends". (Max Weber, *Politics as a Vocation & Science as a Vocation*)[5]. Yet if one agrees that the return in force of the ethical into the heart of our societies and our businesses may be put down to the loss of influence of the great religions, to the lack of credibility of political institutions and to fears about the environment, security or bio-genetics, one can see that the ethic which seems the most suitable for implementation in our societies is that of responsibility, or liability. In this case, again according to Weber, *"we must be answerable for the foreseeable consequences of our actions"*. It is indeed this latter ethic which is called into play when, for example, certain principles such as "the polluter pays" have been laid down in

[4] TN: *"Les normes déontologiques procèdent par le bas, elles sont de même nature que les usages. Elles partagent avec ces derniers une application locale et restreinte à certains intervenants où à certaines activités. Elles ont souvent la même forme, en ce sens qu'elles ne procèdent pas forcément d'une codification écrite". "La déontologie apporte quelque chose de plus qu'une réglementation écrite externe ne peut pas toujours bien saisir: l'intériorisation des contraintes professionnelles dans le comportement des acteurs"*. Translator's rendering.

[5] *"Toute activité orientée selon l'éthique peut être subordonnée à deux maximes totalement opposées. Elle peut s'orienter selon une éthique de la responsabilité ou selon une éthique de la conviction". Le Savant et le Politique.*

the context of sustainable development. A figure can be put to contingent corporate liability and it can be measured, independently of any ultimate ends.

"So act that you treat humanity in your own person and in the person of everyone else always at the same time as an end and never merely as a means" (Immanuel Kant, *Fundamental Principles of the Metaphysic of Morals*, 1785). This categorical imperative urges us in particular never to consider our fellow man as a means, an instrument or a thing, but as an end in himself. In other words, we see that ethics demands of us that our own personal liberty does not encroach on the liberty of others. We find here a value that is essential in ethics, as are those of liberty, equality and fraternity which were given prominence in the 1789 French Revolution, and that is the value of respect for the other person.

In economies, work is grounded on a functionalist or business ethic, based on the principle whereby the right ethic leads to good business. Thus, the economic sanction of the market is by nature right insofar as the rules of institutional, economic and professional ethics are concerned (La Bruslerie, p.262).

But that is not enough. The effectiveness of regulating professional conduct by a system of professional standards arises in effect from the existence of efficient penalties, recognised as such by and in the profession. Thus, while the rules of law impose behaviour from outside, and ethics and morals impose themselves on everyone as the result of internal deliberations private to every individual – ethic of responsibility or ethic of ultimate ends – deontology specifically consists of rules devised, accepted and applied by the members of a profession, as much in the interests of that profession as in the interests of preserving its image and credibility in the minds of clients and the public.

Chapter 2: Corporate Governance and its Connection to Financial Analysts

1. Corporate Governance

a) Importance to SFAA

The talents and behaviour of the many different participants in financial markets determine the quality and performance, and thus the competitiveness of financial markets. The behaviour of participants and the connections among them are written down in a set of laws and mandatory regulations as well as in voluntary codes of conduct. In addition, the attitude of the participants to comply with the essence of laws and codes (substance over form) also belongs to this set, which can be called the corporate governance framework.

Financial analysts are important participants in financial markets, and thus the corporate governance framework is also of the utmost importance to the SFAA and all its members.

b) Corporate Governance is not a Buzzword

Only a few years ago, corporate governance was neither worth a headline in any newspaper, nor was it on the agenda of directors' meetings, nor was it a key element for investors. Financial analysts were not keen to integrate aspects of corporate governance into their daily work, and they had only few incentives to do so. Today, there is almost no economic news that is not commented on in the context of corporate governance. Corporate governance has become an issue of world-wide importance for all participants in financial markets, for the simple reason that good corporate governance is an imperative ingredient for the functioning of a social market economy, and thus for efficient financial markets.

Corporate governance is by no means a new subject. It became apparent as far back as in the 1930s (with the decline and fall of various family business dynasties) that increasing the division between ownership (possession of the company) and control (management of the company) produces problems (Berle and Means, 1932). What is new, however, is the forcefulness with which it was flushed to the surface in some countries. There are a variety of different reasons for this.

In Switzerland, for example, institutionalised saving (pension funds) has led to further anonymity in the ownership of shares, and therefore to a widespread separation between ownership and control. This imbalance between power and control (checks and balances and incentives) has been further accentuated. As seen in a few cases, some managers have not missed the opportunity to accumulate power, which has proved, in the long-term, to be damaging to the company and society as a whole. There also are few cases where investment professionals and financial analysts have not followed appropriate procedures to ensure a high level of independence of judgement. A passive attitude of institutional shareholders expressly in the abstention from voting is in accordance with the law but however does not embrace the fiduciary responsibility of the management of these institutions. In view of the ongoing discussion about the rights to participate in the corporate governance, the SFAA encourages the active exercise of voting rights.

The problems have been recognised and the most effective strategy to rectify the situation is the introduction of codes (codes of best practice). In this way, a remedy can be found using voluntary recommendations without having to resort to the drafting, implementing and enforcing of new, frequently inflexible legislation. A large number of different codes have already been drafted. This is a consequence of the fact that, on one hand, the corporate governance debate involves many different stakeholders and, on the other hand, that each group of stakeholders champions the code which addresses their particular concerns. The codes deal with the entire spectrum of subjects, which are relevant within the framework of the corporate governance debate.

The codes may be divided into supranational, national or institutional codes, depending on the author. A selected example of a supranational code is the “OECD Framework for Corporate Governance”. The SFAA Handbook of Best Practice integrates various national codes such as the “SIX-Directive Governing Information on Corporate Governance” (2002/2006)(see chapter 10) and the “Swiss Code of Best Practice” (2008)(see chapter 11). Part 4 of the Handbook is devoted to the “SFAA Rules of Conduct and Fundamental Principles of Professional Ethics” (revised in 2009), which is an institutional code. Other selected institutional codes or rules contained in this Handbook are the codes of the Swiss Funds Association (SFA, 2000), “ASIP Charta and Professional Guidelines” (2008), the Swiss Bankers’ Association (“Code of Conduct for Securities Dealers” (2008) and “Portfolio Management Guidelines” (2005)) as well as the “Directive to Ensure the Independence of Financial Analysts”.

2. Corporate Governance as a Concept

Corporate governance is not an individual instrument; it is a comprehensive concept including many topics and the interplay between different topics. The motives and the scope for the serious integration of corporate governance postulates in their dealings vary depending on the participant concerned. The focal subjects vary accordingly. This makes it difficult to find one definition to which a vast majority would agree.

There are uncontested elements as well as very controversial ones. Uncontested is the fact that corporate governance includes the debate on the appropriate management and control structures of an entity, and the rules relating to the power relations between important stakeholders of the entity. Moreover, there is consensus that the aim of “good corporate governance” is to enhance the long-term value of an entity.

The most controversial element is the question of the realm of stakeholders: Does the definition embrace all, or only a few selected stakeholders? The adherents of a narrow definition focus on a limited number of stakeholders (inner circle), whereas the promoters of a broad approach include all stakeholders (inner and outer circle).[6]

Based on a definition with a limited scope (inner circle), corporate governance includes the debate on the appropriate management and control structures of a company and the rules relating to the power relations between owners, the board of directors, management, and auditors. The “Swiss Code of Best Practice” (first published in 2002) is based on this definition, which takes account of the corporate governance postulates aimed at shareholder

[6] Compare: Prof. Böckli P; Corporate Governance auf Schnellstrassen und Holzwegen in: Der Schweizer Treuhänder 3/00. Prof. Böckli uses the terms “inner and outer triangle”.

interests. Accordingly, important topics are: Improving the publication of important information, the protection of shareholders' rights, the promotion of the balance of interests between managers, shareholders, the independence of the board of directors, internal controls (committees of the board of directors) and the function of audits.

If a broader scope is envisaged (inner and outer circle), corporate governance not only includes the debate on the appropriate management and control structures of a company and the rules relating to the power relations between owners, the board of directors, management, and auditors; but it also includes all other stakeholders such as employees, suppliers, customers, and the public at large. Here, the aim of "good corporate governance" is to enhance the long-term value of the company for its shareholders and all other partners. This definition takes account of the corporate governance postulates aimed at shareholder and stakeholders interests. Prerequisite for the inclusion of other stakeholders is a balance between economic and social objectives and the reconciliation of the interests of the individual, the company and society. Many examples have shown the negative effects of inadequate corporate governance not only for shareholders and bondholders, but also for employees, suppliers, customers, and taxpayers as well as for society at large.

3. Corporate Governance and Financial Analysts

Investment professionals in general and financial analysts in particular basically have three main motives to adopt corporate governance postulates. Firstly, they are confronted with the corporate governance structure and postulates of the entity SFAA of which they are members. Secondly, they analyse companies, and this requires an analysis of the corporate governance structure of analysed companies. And thirdly, the topic is linked to the political framework. The opinion of investment professionals is required when laws, regulation, and voluntary codes relevant to financial analysts are debated.

a) Corporate Governance of SFAA

The Swiss Financial Analysts Association (SFAA) is an entity too. Like all entities, the SFAA needs appropriate management and control structures in order to be able to best cater to the needs of the Association, and respectively of their members. This implies the debate on rules relating to power relations between members of SFAA, their employers, analysed enterprises and, last but not least, the board members of the Association. Moreover, the public at large should not be ignored. Many newspaper articles have shown that financial analysts, their working method, and the subsequent recommendations are increasingly under critical public scrutiny.

Therefore, one of the main challenges facing the association is to establish a modern corporate governance structure. It is not by chance that the board of the SFAA has been dealing intensively with this issue. Thereby, different fields of activity for concrete and seriously intended action have been identified and developed. The existing legislation and regulations (stock exchange) include various binding directions for action and form a mandatory basis. They serve as a starting point. However, effective corporate governance structures require additional measures, such as voluntary codes with voluntary recommendations. These codes extend far beyond the minimum statutory framework. The SFAA is clearly guided by the spirit to go beyond the minimum. Therefore, the Association has developed a set of tools aimed at achieving a corporate governance structure appropriate to selected challenges. The "Statutes", the "Rules of Conduct and Fundamental Principles of Professional Ethics", the "Handbook of Best Practice" are such tools. Furthermore, SFAA has different bodies which guarantee a system of "checks and balances", e.g. the general assembly, the board and the control commission, which is independent from the board of SFAA. All of these structures comprise elements that together shape the power relations and the behaviour of the members. Another key element of a modern corporate governance structure of an association is its accounting system with the objective of improving the publication of important quantitative and qualitative information and thus ensuring its accountability.

The best intentions and the best set of tools do not really get us anywhere yet. The decisive factor is the attitude and conduct of members. Visible and measurable progress can only be achieved if the main participants actively apply corporate governance postulates. In doing so, they can only discharge that area of responsibility which lies within their scope of action. To underline their serious commitment to the ethical guidelines of SFAA, members are required to sign at regular intervals a declaration of adherence to this Handbook of Best Practice. Members who refuse to sign the Declaration are expelled from SFAA.

b) Corporate Governance Analysis

The second topic in the cross-wires of corporate governance and financial analysis is the fact that for shareholders, effective corporate governance structures have become important criteria for selecting the companies in which they wish to invest. The fundamental value of the company is important information. Since the aim of "good corporate governance" is to enhance the long-term value of the company, modern financial analysis cannot ignore the information embodied in corporate governance structures.

Basically, there are two approaches. The first focuses on the analysis of corporate governance structures by examining the extent to which a company has implemented the recommendations contained in the most important codes. This analysis is the starting point for a comparison of various companies regarding "good corporate governance". The test results influence investment decisions. Companies with poor structures are avoided. The German Society of Investment Analysis and Asset Management (DVFA) issued a standard DVFA Evaluation Method for Corporate Governance in 2000 and have updated the paper regularly, the last time being in 2006. It is now based on the "Deutscher Corporate Governance Kodex" from 2005. The DVFA argues that, "the modern corporate governance analysis can compensate for current deficits in traditional valuation methods, especially regarding the valuation of growth companies". Therefore, the DVFA designed the Scorecard for German Corporate Governance© as an analytical tool to improve the quality of analysis. The Scorecard evaluates a company based on the examination of five topics, which are measured with different sub-criteria. Topics are the Corporate Governance Commitment of a company, the state of Shareholders Rights, Transparency, Company Management, Supervisory Board and Auditing.[7]

The second approach consists of supporting active shareholders that wish to carry out their proprietary and other rights. Shareholders have the right to demand information from the

[7] for details see: Scorecard for German Corporate Governance; Standard DVFA Evaluation Method for Corporate Governance; the German Society of Investment Analysis and Asset Management (DVFA); http://www.dvfa.de/die_dvfa/standards/corporate_governance/dok/35333.php; 2006

company at any time about important questions in connection with the management. However, they also have the right to participate in the shareholders' general meeting, to propose a resolution for the agenda, to speak, and, last but not least, they have the obligation to take a stand and vote accordingly. In this context, analysts have to analyse carefully the rights given to shareholders and bondholders. A solid and comprehensive analysis of corporate governance structures is required, since the scope of future strategies for both the enterprise and its owner, is substantially dependent on the rules relating to the power relations between these stakeholders. In the case of shareholders resolutions, an in-depth analysis has to be conducted with the utmost care.

An additional dimension and field for analysis is added if one accepts that long-term safeguarding of the value of a company for the owners is not feasible, if transient success is gained at the cost of other stakeholders. The inclusion of different stakeholders is an important precondition in order to permanently integrate an economy in a global setting based on fair rules. Corporate governance permeates the economic transactions of companies and investors everywhere, extending far beyond the narrow business framework within which certain circles would like to see it limited. Investors should be are aware that their actions can have an enormous effect on many different stakeholders. A decisive factor in this is not only the distribution of the financial value created, but also how the financial value is created. Therefore, financial analysts should carefully analyse the relationship of the effects of their planned investment within the framework of the investment process: Is the desired and possible increase in the market value of a company linked to a severe violation of human rights? Are the rules governing occupational safety infringed? Will a health risk be created through contaminated water? Are unfair trade relations the basis of success? And so on. In other words: investors, who actively apply their responsibility in the globalisation process, recognise and acknowledge the concerns of other stakeholders as long-term value drivers.

c) The ESG Approach

The latest approach is to integrate all "non-financial" or "extra-financial" criteria in the ESG Approach (E = Environment, S = Social and Ethics, G = Governance). EFFAS has outlined the basics of this view in a recent paper[8]. The emergence of Environmental, Social and Governance issues (ESG) has been a prominent phenomenon in international capital markets for years. Especially in Anglo-Saxon markets the pros and cons of integrating ESG issues into the investment chain has been much discussed, sometimes controversially. Companies around the globe, nevertheless, produce vast reports on their ESG activities. Typically, these activities are referred to as Corporate Social Responsibility (CSR). ESG topics can be defined as issues concerning the environmental risks of companies, social issues such as a company's relationship to its workforce and local communities, and governance issues comprising Corporate Governance and management systems. Accordingly, CSR may be summarized as the reporting of companies in response to issues arising out of ESG concerns. For years, ESG and CSR were commonly regarded as a topic for investors with sustainability-driven investment styles only. However, in recent years initiatives of political entities and non-governmental organizations (NGOs) have caused the capital markets to recognize the importance of ESG and have furthered the active integration of ESG issues into investment decisions.

[8] http://www.effas.com/pdf/CESG_Brochure_Final_Aug08.pdf

Prominent campaigns include:

- the PRI Principles for Responsible Investments, which were developed at the invitation of the United Nations Secretary-General by a group of the world's largest institutional investors;
- the Global Compact, which brought companies together with UN agencies as well as labour and civil society representatives to support universal environmental and social principles; and
- the United Nations Environment Program Finance Initiative (UNEP FI), a global partnership between the United Nations Environment Program (UNEP) and the private financial sector, cooperating closely with over 160 financial institutions.

By and large equity and bond investors have been paying greater attention to risks resulting from corporate performance in areas in which traditionally the capital markets were less interested, such as sustainability management, human rights or human capital management.

A growing number of investment professionals believe that if a company's management deals badly with ESG issues, this may affect the performance of investment portfolios. ESG is increasingly becoming an integral part of investment analysis ("mainstreaming"). Investors fulfilling their fiduciary (or equivalent) duties thus realize that they should give appropriate consideration to these issues, but to date have lacked a framework for doing so. Capital markets understand the sensitivity of corporate reputation *en principe*. However, new issues arise: How do you measure concepts like sustainable management, the fair treatment of employees or the responsible management of greenhouse gases, in order to integrate these aspects into investment decisions in general and financial analysis in particular? What is the measureable and benchmarkable impact of good ESG practice on corporate success and how can capital markets model the underlying correlations between a good performance in ESG and a good performance, bottom line?

d) Swiss Laws, Regulations and Voluntary Codes

The financial markets framework is undergoing substantial change world-wide. This in turn will lead to legislative change and also new voluntary codes of conducts. In the recent past, many such regulations and codes have been designed. This process needs the active involvement of investment professionals.

In Switzerland, the SFAA has always been involved and defended its point of view. The SFAA, through a working group of the board of the association, has actively contributed to the "Swiss Code of Best Practice" including the "SIX-Directive Governing Information on Corporate Governance" and to the "Directive to Ensure the Independence of Financial Analysts" drafted by the SBA. These codes are described in more detail in the later chapters of these handbooks.

Attention has to be drawn to the fact that good corporate governance is a source of competitiveness. There is an increasing international competition between financial markets to attract capital. Therefore, all participants in financial markets should actively contribute to a constant improvement of national corporate governance structures and promulgate the achievements. Thereby, the SFAA and its members also have to carry their part of the common responsibility.

4. Future Challenges for Financial Analysts

a) The Interplay of Stakeholders as a Source of Improved Independence

Various types of conflicts for financial analysts form the main theme of many articles of this Handbook. A key element is the independence of judgement, which remains threatened for various reasons. Therefore, financial analysts have to continue to actively question their independence of judgement. Constant improvement is required. Financial analysts carry the main responsibility. Yet, the interplay between different stakeholders will increasingly become a decisive factor for the quality and degree of financial analyst's independence. Therefore, other stakeholders too should deal with the question of which environment guarantees the independence of financial analysts. The Swiss Bankers' Association (SBVg) issued a directive aimed to improve and protect the independence of financial analysts. As the next step, company directors and their association should also tackle the issue and define best practice behaviour for company directors in the interplay with financial analysts and their recommendations. One recommendation in such a code could be that company directors should not try to force positive recommendations, or to stop selling proposals by bringing all different business relations between a bank and a company to bear. Such cases happen; they stress the independence of analysts too.

b) Independence is crucial

The analysis of corporate governance structures adds the question of checks and balances to the work of analysts. In other words, financial analysts will also investigate the power, and accumulation of power, of different stakeholders. Forensic skills are not required to predict that on one hand, the integration of corporate governance postulates into the analytical work will improve the quality and the excitement of financial analysts work. On the other hand, new fields of conflicts with other stakeholders could arise since the debate about power is always one of the most difficult ones.

Adding corporate governance aspects further increases the responsibility of financial analysts. It is in the genuine interest of financial analysts to act in a proactive way that avoids or minimises possible conflicts. This can be achieved through special education in the subject, a very careful analysis and an ongoing discussion with all stakeholders involved.

As a consequence, it has to be clearly pinpointed - the independence of financial analysts becomes even more important.

Part 3: Legal Framework

Chapter 3: The Swiss Legal Framework

Like all professional services, services typically performed by financial analysts, investment advisors and portfolio managers are governed by a number of general statutes such as the Code of Obligations (contracts, torts), the Unfair Competition Act, the Criminal Code (insider dealing, market manipulation, etc.), the Money Laundering Act, etc.

However, the creation and distribution of financial analysis *as such* is not regulated. A firm that only advises individual clients on their investments or publishes research reports need not be licensed, is not subject to any official supervision or to any specific regulations. In addition, firms which provide portfolio management and/or advisory services to clients without accepting money deposits or the custody of securities are still unregulated, though the Swiss government is presently considering their licensing and regulation.

Nevertheless, most financial analysts, investment advisors and portfolio managers are employed by (or partners of) regulated firms such as banks, securities dealers or investment funds. These firms are subject to licensing requirements, extensive regulation, and supervision by the Swiss Federal Banking Commission.[9] When working with such firms, these persons fall within the scope of the relevant legal, regulatory, and self-regulatory rules.

The regulation of financial services in Switzerland relies to a large extent on self-regulation. A number of rules, guidelines, codes of conduct and the like have been adopted by self-regulatory organisations such as SIX Swiss Exchange (applying to member securities dealers), the Swiss Bankers Association (binding upon its members, including banks and securities dealers as well), the Swiss Funds Association (regulating the activity of management companies and of distributors of investment funds), the Swiss Association of Portfolio Managers (whose members are unregulated firms managing their clients' assets deposited with other financial institutions), with a special mention for the SFAA, the publisher of the present Handbook.

This chapter is divided in three parts. The first summarises statutes generally relevant to the research and distribution of financial analysis. The second part shortly sets outs the regulatory framework of financial services in Switzerland. The third and last part gives a broad overview of self-regulatory rules that may apply to financial analysts, investment advisors and portfolio managers depending on their actual activity.

1. General Statutory Rules

Financial analysis and related services such as investment advice and portfolio management are typically provided under contractual arrangements. Most of those should probably be characterised as mandates (*mandat, Auftrag*)[10], i.e. a contract for independent services without the guarantee of specific results. The characteristic obligations of the provider of such services are a duty of care and loyalty to his clients. Negligent research, unsubstantiated

9 www.finma.ch

10 Art. 394 ff of the Code of Obligations.

advice, misleading information are considered as a breach of contract. They will result in damages, and possibly forfeiture of fees and expenses. This is also the case of breaches of the duty of loyalty such as those that may result from improperly managed conflicts of interests.

The preparation and release to the general public of research reports do not constitute contractual services. This does not exempt their author from all liability since the intentional provision of misleading information or advice may be a civil tort and result in damages.[11]

Insider dealing (including the use or transmission of privileged information by someone who is not a director of the listed company) is obviously a criminal offence. Such is the case of market manipulation as well.[12] It is a fact that the Swiss Criminal Code defines those felonies more restrictively than they are in a number of other financial centres. However, conducts which might not technically fall within these definitions are likely to be considered as violating general requirements applying to regulated firms such as banks, securities dealers, etc.

Defamatory information on a company may be a felony[13] and may also violate the Unfair Competition Act.

All financial intermediaries whether otherwise regulated or not, are subject to the Money Laundering Act of 1997. Non-regulated intermediaries must be affiliated with a self-regulatory organisation or register with a federal agency.[14] They are subject to extensive Know Your Customer-rules: they must identify their clients and the beneficial owner of the assets, as well as enquire regarding the origin of these assets. If a suspicion arises that assets are the products of some crime or felony, they must be blocked and the case reported to another federal agency.[15] A financial intermediary who intentionally participates in a money laundering transaction commits a felony, possibly even a crime.[16] Negligence in discharging Know Your Customer duties is a felony.[17]

2. Regulated Firms

Financial analysts, investment advisors and portfolio managers working for regulated firms such as banks, securities dealers, investment management companies, etc., are subject to all regulatory (and self-regulatory, see below) rules governing their firms and activities. What those specific rules are will depend not only on the type of firm, but even more on the type of activity within the firm. An individual providing advisory or management services to clients of the firm is subject to different rules from his or her colleagues working for the corporate finance department.

11 Art. 41 of the Code of Obligations.
12 Art. 161 and 161bis of the Criminal Code.
13 Art. 173 and 152 of the Criminal Code.
14 Autorité de contrôle en matière de lutte contre le blanchiment d'argent / Kontrollstelle zur Bekämpfung der Geldwäscherei, www.efv.admin.ch/efv/f/index_gwg.htm.
15 *Bureau de communication en matière de blanchiment d'argent / Meldestelle für Geldwäscherei,* www.bap.admin.ch/f/themen/geld/i_index.htm.
16 Art. 305*bis* of the Criminal Code.
17 Art. 305*ter* of the Criminal Code.

Swiss regulations are generally not very specific in terms of market behaviour. They state general principles and duties rather than detailed rules of conduct. Self-regulation may be more specific. In addition, regulated firms will often have their own rule-books, which are binding upon its employees.

a) Banks and Securities Firms

A compilation (in French and German original languages) of all legislation, regulation and self-regulatory rules applying to regulated financial intermediaries can be found in *BF 2007: Réglementation et autoréglementation des banques, bourses, négociants, fonds de placement et marchés financiers en Suisse / Regulierung und Selbstregulierung der Banken, Börsen, Effektenhändler, Anlagefonds und Finanzmärkte in der Schweiz* (L. Thévenoz & U. Zulauf, eds.).[18] The major statutes and ordinances have been translated into English and published, *inter alia*, by KPMG and SIX Swiss Exchange. Swiss laws, regulations and self-regulations apply to the following financial intermediaries when active in Switzerland.

Banking activities are subject to the Federal Act on Banks of 1934 and resulting regulation issued by the Federal Banking Commission. Banks must be licensed before starting their operation. Directors and top officers must have the required expertise and enjoy a good reputation. Banks are subject to a large number of requirements covering their structure and organisation, own funds and liquidity, risk diversification and risk management, internal controls and audits, etc.

Securities firms offering brokerage services, placing initial or secondary offerings with the public, or merely transacting for their own accounts on an extensive scale are generally subject to the Stock Exchange Act of 1995. The requirements are basically the same as for banks, except mostly for a lesser degree of own funds and some relaxation regarding organisation. Securities legislation is however more specific in certain areas. In particular, Article 11 of the Act imposes three fundamental duties on securities firms towards their clients, namely a duty of information, a duty of care, and a duty of loyalty.

Unlike other financial centres, Switzerland has never prohibited or hindered universal banking. Most securities firms are actually also licensed as banks and may offer a wide array of services, from retail and merchant banking to private banking and investment services.

Therefore, a typical bank or securities firm is likely to employ financial analysts in a number of different capacities, including in their loan department, in their investment and corporate finance departments or in their private or institutional asset management activity.

Diversified activities within the same firm entail inherent conflicts of interests which, when they cannot be avoided, must be managed so as not to detrimentally affect the clients' interests. One of the basic conflict avoidance measures relies on the creation of Chinese walls between departments. Basically, there should be no flow of information between the various departments or business units. Confidential information obtained by one department cannot be shared with and used by the others until it has been made public.

18 www.schulthess.com

The Swiss Banking Commission has issued a number of regulations, but most of these have no direct relevance to financial analysts, investment advisors or portfolio managers, except possibly for the 2002 Ordinance on Money Laundering, which applies to all financial advisors and portfolio managers working for banks and securities firms.

All directors and employees of banks or securities firms, as well as their auditors, agents, attorneys, etc., are bound by a strict professional secrecy.[19]

b) Investment Funds

The Federal Act on Collective Investment Schemes (Collective Investment Schemes Act, CISA) of 23rd June 2006 governs collective investment vehicles irrespective of their legal status as non-corporate managed portfolios, investment companies (like SICAV/SICAF) or structured investment product. This federal act also applies to the conduct of all persons who are responsible for the management and safekeeping of the scheme's assets. Investment schemes and responsible persons are subject to licensing, supervision and regulation by the Swiss Financial Market Supervisory Authority (FINMA), a financial authority with integrated supervisory approach replaced in 2009 the formerly specialised EBK.. Licensed management companies of collective investments as well as their agents may or may not employ financial analysts depending on whether or not they have out-sourced investment decisions to banks, securities firms and specialised managers. Since such companies are by law confined to managing clients' money and shall in correspondence to their duty of loyalty act only in the interest of investors, they run minimal risks of conflicts of interest, except possibly in the supervision of the services provided by, and remuneration paid to, companies within their own group.[20]

3. Self-Regulation

While regulations issued by the Swiss Financial Market Supervisory Authority mostly deal with organisation, control, auditing, risk management, reporting, etc., self-regulatory rules issued by various market associations contain a significant number of rules of conduct. Though these rules often explicitly purport not to govern the rights and obligations of firms under their contracts with clients, such rules are often recognised by civil courts as setting minimal contractual standards: their breach is likely to be deemed a breach of contract and result in the imposition of damages. In addition, the regulator may also deem such a breach to be a breach of licensing requirements and result in administrative measures and sanctions. The following financial markets services providers associations have issued self-regulatory rules that are in practice recognised as minimal standards:

a) Swiss Bankers Association (SBV)

The Swiss Bankers Association is the oldest and most influential self-regulatory market association.[21] Its membership extends to banks and securities houses.

Presently, three pieces of self-regulation are relevant to financial analysts, investment advisors and portfolio managers working with banks or securities firms.

[19] Art. 47 of the Banks Act and 43 of the Stock Exchange Act.
[20] Art. 21 of the Collective Investment Schemes Act.
[21] www.swissbanking.org

Beside organisational requirements, the 2005 edition of the Portfolio Management Directive sets specific duties upon the managers. Management contracts must be signed in the name of the firm, not in the personal name of the manager. Unless a broader scope of investments has been agreed with the client, discretionary management powers only extend to the so-called ordinary banking (and securities) transactions. The assets must be easily negotiable meaning that the securities concerned should be publicly listed or traded on a regular market. Financial products issued or sponsored by the firm may only be purchased for the client if they are available to the general public. Credit may not be extended to leverage the portfolio without the assent of the client. Options and futures are subject to special rules. Other duties however are not expressed in this directive, but result directly from court precedents. In particular, the investment strategy must be agreed with the client after sufficient disclosure of the risks entailed. It may not be altered without the client's consent.

The 1997 Rules of Conduct for Securities Dealers govern securities transactions for the account of clients. For the most part, they expand on the three basic duties of information, care and loyalty imposed by article 11 of the Stock Exchange Act (see above). Best execution is the rule. Orders must be executed in the order received. Specific provisions deal with conflicts of interests, and *inter alia* prohibit front running. The 1997 Rules are limited to the dealers' activities on the secondary market. While also covered by Article 11, primary market activities are not specifically dealt with by self-regulation.

The 2001 Swiss Performance Presentation Standards ("SPPS") are an important set of principles and methodologies, fully in line with international standards, requiring adherent firms to present in a consistent and transparent manner the past performance of portfolios they are managing according to any given investment policy in order to allow a reliable comparison with the relevant benchmarks. These SPPS are highly relevant both to the firms advertising their management services as well as to institutional investors trying to select such a firm.

The 2003 edition of the Due Diligence Convention supplements the Anti-Money Laundering Act and the 2002 Ordinance of the Swiss Financial Market Supervisory Authority. Violations result in fines up to CHF 10 million imposed upon the firm.

The Swiss Bankers Association has adopted in 2008 a revised Directive on the Independence of Financial Research which applies to all analysts working for banks and securities firms. Members of the Swiss Financial Analysts Association working for such firms will thus be subject to that directive as well as to the present Rules of Conduct. Since both sets of rules are not identical, contradictions on any issue must be solved according to the higher standard or the stricter rule applicable.

b) Swiss Association of Portfolio Managers (VSV)

The Swiss Association of Portfolio Managers (VSV) comprises firms which perform management services on assets that their clients have deposited with banks or securities houses in their own name.[22] Its Code of Conduct expands upon the Portfolio Management Directive of the Swiss Bankers Association. The list of investment products authorised by default is somewhat more extensive. Remuneration of the manager by the client and, if any, by the depository institution ("retrocession") must be addressed in writing in the management

22 www.vsv-asg.ch

contract. Besides that the Swiss Association of Portfolio Managers is together with the Financial Services Standards Association described below one of the two major self-regulatory bodies committing its members also to anti money laundering issues.

c) *Financial Services Standards Association (VQF)*

The Financial Services Standards Association (VQF)[23] is the largest Swiss self-regulatory organization (while there are also a few minor ones dedicated to the same scope) of financial intermediaries in accordance with the Swiss Anti-Money Laundering Act and is certified by the Swiss Financial Market Supervisory Authority (FINMA). Members of the association are obligated to suitable and qualitatively high business ethics and to safeguard the interests related to the Swiss Anti Money Laundering Law (AMLA). As such the associations ensures adherence of its members to the provisions of the AMLA in order to prevent white-collar crime.

d) *Swiss Structured Products Association (SSPA)*

The Swiss Structured Products Association (SSPA) [24] comprising members who are issuers of structured investment products, maintain directly or indirectly a substantial presence in Switzerland, related to the issuance, listing and marketing of structured products, and maintains regular listings of a sizeable volume of structured products at SIX Swiss Exchange. Its internal rules are oriented to raising awareness of structured products and Association members in Switzerland and abroad, providing information and promoting acceptance of structured products and their place in asset management. As such the Swiss Structured Products Association has the role of monitoring the conditions in Switzerland which govern structured products in proposing solutions to members' concerns.

e) *Association for Swiss Institutes of Pensions (ASIP)*

The ASIP Association for Swiss Institutes of Pensions[25] is the strongest Swiss association defending the interests of pension fund institutions. Its goal is to enhance the maintenance of pension funds above the legal minimum standard, the management of pension funds by the social responsible stakeholders, the professional formation of directors and management and a long term and stable financial management of pension funds. The ASIP Association for Swiss Institutes of Pensions has established bylaws as well as a Charta ruling the conduct of its members.

c) *SIX Swiss Exchange*

Under a statutory power to issue binding self-regulation under the supervision of the Federal Banking Commission, SIX Swiss Exchange has laid out quite extensive rules of conduct applying to its members.[26] They are contained in the General Conditions of the membership

23 www.vqf.ch
24 www.svsp-verband.ch

25 www.asip.ch
26 http://www.six-swiss-exchange.com

contract as well as in a number of directives and circulars. The most important comprise the obligation for listed securities to execute all transactions (with notable exceptions) via the matching system of SIX, the duty to report very shortly block and other transactions not executed on that system, the prohibition of fictitious orders (including wash sales, matched orders, etc.), so-called "snake trading" and other disloyal market behaviour, etc.

d) Swiss Funds Association

The Swiss Funds Association[27] has issued a number of rules that are relevant to financial analysts and other professionals employed by management companies, and to a degree to persons working for firms providing services to investment funds, including their distribution.

The 2009 Rules of Conduct set out comprehensive organisation requirements and rules of conduct necessary to provide investors with diligent management, equal treatment, and transparency as to the investment policies and costs. They also require management companies to avoid conflicts of interests in regard of soft-commissions, personal transactions of officers, etc. A specific directive deals with computation of the net-asset value and the correcting of evaluation errors.

In 2001, the Association released a directive regulating the marketing and distribution of funds which was reviewed in the actual 2008 version, as well as model distribution agreements.

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27 www.sfa.ch

Chapter 4: International Regulatory Environment

The worldwide regulation of financial services is ever more influenced by the works and reports of groups and bodies such as the Basle Committee on Banking Supervision (hosted by the Bank for International Settlements), the International Organisation of Securities Commissions, the International Monetary Fund, the Financial Stability Forum, etc. However, it is only very recently that financial analysis as such has received specific attention.[28]

In the European Community, the provision of financial analysis is not *per se* a regulated service subject to the Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field. However, rules on insider dealing and market abuse have been achieved recently, as well as general standard for fair presentation of recommendations and disclosure of interests or conflicts of interest.[29]

A further regulation on financial services was established by the European Markets in Financial Instruments Directive (MiFID) and introduced on 1st November 2007, stating common requirements for the best execution of client trading orders. Under MiFID a securities firm must take all reasonable steps to obtain the best possible result for the client, taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order. Furthermore the application of MiFID requests a higher diligent care in relation to the suitability of investment guidelines established for a client. The portfolio manager has to establish in the beginning of his relationship detailed information on his client's investment goals and has to concretize an investment policy that fulfils the client's prerequisites also in volatile markets. As such MiFID intends to strengthen confidence on investment planning for investors.

National and international professional associations have however published significant codes of conduct, including:

- the European Federation of Financial Analyst Societies (EFFAS) which has published different positions papers on governance (www.effas.com/en/position.htm, www.effas.com/pdf/Speech_FHRau.pdf);
- the DVFA-Verhaltenskodex (last edition May 2007, http://www.dvfa.de/files/mitgliedschaft/dvfa-kodex/application/pdf/dvfa_verhaltenskodex.pdf)
- the Code de déontologie professionnelle of the Société française des analystes financiers (March 2002, www.sfaf.com);
- the Code of Ethics and the Standards of Professional Conduct of the CFA Institute (http://www.cfainstitute.org/);
- the ACIIA Principle of Ethical Conduct from 2005 (http://www.aciia.org/pages/ethics.asp).

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28 See the Final Communiqué of the XXVIIth Annual Conference (May 2002) of the International Organisation of Securities Commissions, www.iosco.org.

29 See www.cesr-eu.org (Commission Directive 2003/125/EC implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest.

National developments are under way in the US, where the Securities Exchange Commission as well as the New York Attorney General have reacted forcefully to recently publicised abuses. The National Securities Dealers Association (today Financial Industry Regulatory Authority) had applied its Rule 2711 stipulating that investment banking transactions be run separately from research analysis and trading to ensure trust in the public markets and to avoid conflicts of interests (www.finra.org). Germany has included a very short provision in its fourth financial services updating act, imposing a duty of care and a duty to disclose conflicts of interests.[30]

[30] § 34b of the *4. Finanzmarktförderungsgesetz.*

Part 4: Comments on the Rules of Conduct and Fundamental Principles of Professional Ethics (SFAA) [31]

Chapter 5: Definitions and Comments to the Rules of Conduct

Definitions

The following terms have the following meanings in the Rules of conduct as well as in this Handbook:

"Analyst" means a member who, as part of his professional activities, prepares the substance of research reports, i.e. the financial analysis of securities, upon which to base a decision to invest or not to invest in such securities, whether or not the result of such activity is communicated by means of a research report or any other written or oral communication. Analysts within the meaning of these Rules of Conduct means employees of banks or securities traders (hereinafter referred to as "banks") who are engaged in compiling and producing the bank's research reports (in particular investment and financial recommendations) which are destined for external publication. So called "buy-side" or "sell-side" analysts, in particular, fall within the scope of application of these Rules. The Rules apply to analysts who conduct primary and secondary research. Furthermore, they apply to both equities and fixed-income analysts as well as to business analysts working for different institutions, like insurance companies, mutual funds, rating agencies etc. A financial analyst may not circumvent the provisions contained in these Rules by conducting transactions through third parties, such as members of his/her family or other persons close to him/her.

"Client" means an investor with whom the member's employer has a contractual relationship such as an account relationship or a portfolio management mandate.

"Employer" means the person or entity who employs the member or, if the member acts in a capacity as an independent service provider for a financial intermediary, such financial intermediary.

"Investment advisor" means a member who, as part of his professional activities, provides clients with advice which is sufficient for the clients to base an investment decision without requiring any further advice or analysis.

"Investor" means any person who invests, directly or indirectly, his assets in the capital markets, whether or not such person is a client. Investors may be individuals investing their own assets or institutional investors investing either their own assets or assets of their clients.

"Member" means any member of the SFAA.

[31] Version 2, February 2004

"Portfolio manager" means a member who, as part of his professional activities, manages assets of clients on the basis of a specific portfolio management mandate granted to the employer.

"Price-sensitive facts" means facts that are not of public knowledge and which, because of their considerable effect on the issuer's assets and liabilities or financial position or on its general course of business, are likely to result in substantial movements in the price of the securities (see Art. 72 of the SIX Listing Rules). Typical examples include forthcoming mergers, divestitures, changes in capital structure, changes in the company's top management and the discovery of new technologies. Members shall be aware that the definition of price-sensitive facts as described here-above is broader than the scope of confidential information covered by the provision on insider trading (Art. 161 of the Swiss Criminal Code).

"Research report" means any written or electronic communication which is communicated to clients or investors and which includes a financial analysis of securities upon which to base a decision to invest or not invest in such securities. Investment and financial recommendations for bank-internal purposes only (such as portfolio and risk management, proprietary trading) that are not provided to clients or made accessible to a broader public (e.g. through publication on intranet or internet sites) do not fall within the scope of application of these Rules. In these Rules, any information which contains target prices for securities is also classified as a recommendation. The Rules also apply to in depth interviews of and statements by financial analysts in the print media.

"Securities" means any shares, bonds and other financial instruments and products such as investment funds, derivatives, whether materialised by a physical security or not, which can be acquired or sold in the context of the management of a portfolio of financial assets.

For simplification purposes, the words "he", "his", "him", etc. shall be understood as applying to both women and men.

Rule 1: Principles of Professional Ethics

Members shall exercise their profession in an independent, integer, diligent and professional, as well as ethical manner. They undertake in all cases to give priority to the interests of the clients and commit to treat them fairly.

The principles of professional ethics can be divided in four fundamental principles:

- *Independence*: Members must exercise independent and objective judgement in their professional activities.
- *Integrity*: Members must preserve their professional and personal integrity.
- *Professionalism and diligence*: Members must always act as qualified professionals and perform their activities with the diligence required from qualified professionals.
- *Loyalty and priority of the clients' interests*: Members owe a duty of loyalty to the clients. They must under all circumstances give priority to the clients' interests and ensure that they are treated fairly and equitably.

These four fundamental principles, which are to a large extent intertwined, constitute the core of the professional conduct of members. They form the pillars on which the profession relies to carry out its activities in an ethical manner.

These general principles are to a certain extent implemented by the more specific Rules of conduct set out hereafter.

1. Independence

Members must at all times and under all circumstances exercise an independent judgement. They must exercise their professional activities in a manner independent from their own personal interests, the interests of their employer and the interests of the issuer whose securities they are analysing or considering for investment.

The independence from the members' own interests requires that the members shall at all times exercise their profession in an objective and impartial manner and shall not permit personal relationships or other personal considerations (such as personal investment transactions, see Rule 5) to affect the objectivity of their analysis or judgement. Specifically, this means that:

- an analyst must refuse to issue any kind of research report or other statement which would not reflect the objective findings of his analysis;
- a portfolio manager and an investment advisor must not invest or recommend an investment if he does not believe the investment to be appropriate and to correspond to the client's interest.

The independence from the interests of their employer requires that the members avoid that their objective and impartial judgement be subject to undue influence from their employer or the latter's activities. They must among other things refuse any form of remuneration which might have an influence on their independence, such as a remuneration based on the results or profitability of specific activities of their employer (e.g. issuance commissions, trading volume, credits) if such a remuneration may compromise their independent judgement.

An analyst may nevertheless analyse securities issued or sponsored by his employer and recommend investments in such securities provided that the analysis reflects the objective findings of the research, the relevant investment recommendation is appropriate and in the interest of the client and the analyst's remuneration is not specifically tied to such analysis or the performance of the relevant security. Similarly, an investment advisor may recommend investments in securities issued or sponsored by his employer and a portfolio manager may invest a client's assets in such securities provided that such investments are appropriate and in the best interest of the client and that the remuneration of the investment advisor or portfolio manager is not specifically tied to such investment or recommendation.

Finally, the duty of independence requires the members to prevent conflicts of interests, to disclose potential conflicts of interests in certain situations and to take appropriate measures to prevent any adverse effects of a conflict of interests, including vis-à-vis the companies whose securities the members are analysing or considering for investment (see Rules 4 and 5).

2. Integrity

Members must always uphold the highest standards of moral, intellectual and ethical integrity. They must not let their professional activities be influenced by any undue cause and must not use their position for purposes other than an objective and diligent performance of their duties.

Integrity further requires the members to maintain their activities focused on carrying out objective research, investment recommendations or investment decisions. The activities of a member should not be performed or used for any other purpose than serving the best interests of clients.

This principle also requires the members to carry out their professional activities in an honest and trustworthy manner, so as to inspire confidence and reliability vis-à-vis clients and colleagues. In particular, they shall not engage in any conduct which may involve fraud, misrepresentations or other breaches of applicable rules or regulations (see Rule 2).

Members may not promise or guarantee a specific performance or result (see Rule 3). Furthermore, an analyst may not, directly or indirectly, offer, promise or announce a favourable research report, a specific rating or a price target prior to having finished his analysis and in no case may such a result be offered or promised to an issuer or to his employer as compensation or as inducement for the receipt of business or compensation.

Finally, the principle of integrity extends beyond the scope of the members' professional activities to prohibit them from committing any act which would reflect adversely on their integrity, honesty, trustworthiness or which would undermine the confidence which the public in general and clients in particular may legitimately place in the members.

3. Professionalism and Diligence

Members shall exercise due diligence and follow the rules of the art in conducting and publishing research reports, in making investment recommendations or in taking investment actions. In particular, members must apply the recognised professional methods in the performance of their professional activities, use accurate and reliable information in preparing their research or making investment decisions or investment recommendations. They shall only issue a research report or an investment recommendation or make an investment decision on the basis of appropriate prior investigation.

Members may rely on indirect sources (including research reports by their employer or other institutions), provided there are no reasons to doubt of the accuracy of such sources and/or of the quality of the analysis that may be contained therein (see Rules 7 and 8).

An analyst may not copy or use any material prepared by another analyst or institution without acknowledging and disclosing the source of such material. In particular, an analyst should not refer to recommendations or estimates from other sources as the result of his own activities.

In order to exercise the appropriate diligence expected from a qualified professional, members must ensure that they maintain their knowledge and skills up-to-date through continuing education.

4. Loyalty and Priority of the Clients' Interests

Members must be loyal to clients and carry out their professional activities in the clients' best interest. This duty of loyalty requires the members, in all cases involving a potential conflict of interests, to give priority to the clients' interests over their personal interests or the interests of their employer (see Rules 4 and 5).

This principle also requires the members to always treat clients fairly and equitably. In particular, they may not without legitimate grounds favour one client to the detriment of another. The duty of equal treatment is applicable to the disclosure of research reports, to the communication of investment recommendations and of material changes to prior investment recommendations and to the taking of investment actions (see Rule 3).

Rule 2: Compliance with Applicable Rules

Members shall know and comply with the provisions of the laws, regulations and self-regulatory rules as well as all internal rules of their employer that are applicable to their activities.

Members must comply with the provisions of laws, regulations and rules enacted by self-regulatory bodies. They must also abide with the internal guidelines issued by their employer. Breaches of the applicable rules may result in different consequences, such as termination of employment, barring from exercising regulated activities, civil liability, fines and imprisonment.

It is the duty of each member to maintain knowledge of the legal framework applicable to his professional activities; when a member is in doubt in a particular case, he must seek legal advice concerning the applicable rules and requirements.

1. Compliance with Regulations

In a nutshell, the main Swiss statutory laws and regulations applicable to the activities of the members are:

- the Federal Act on Securities Exchanges and Securities Trading (“SESTA”), in particular Art. 11, 10 para. 2 and 43 SESTA;
- the Federal Act on Banks and Saving Banks, in particular Art. 3 para. 2 and Art. 47 thereof;
- the Collective Investment Schemes Act;
- the Federal Act on the Prevention of Money Laundering;
- Art. 394 et seq of the Code of Obligations governing the mandate contract;
- the Criminal Code, in particular Art. 161 of the Criminal Code on insider trading and Art. 161bis of the Criminal Code on market manipulations;
- the Federal Act on Unfair Competition;
- the ordinances of the Swiss government, the Swiss Financial Market Supervisory Authority and the Takeover Board implementing the SESTA, in particular the FINMA Ordinance on Money Laundering.

2. Compliance with Self-regulatory Rules

In order to implement the statutory provisions and to codify the best practices of the relevant professions, several self-regulatory bodies have adopted rules directly applicable to their members. Most of these rules are also indirectly applicable beyond the scope of their members because they state best practices with which diligent professionals must comply. These rules include in particular:

- the guidelines issued by the Swiss Bankers' Association, in particular the Rules of conduct for securities dealers, the Guidelines concerning portfolio management mandates and the due diligence convention;
- the code of conduct and other guidelines issued by the Swiss Fund Association;
- the codes of conduct issued by professional associations to which the member's employer is affiliated, in particular the Code of conduct of the Swiss Association of Portfolio Managers; and
- the codes of conduct issued by professional associations to which the member is affiliated, in particular the present Rules of Conduct and Fundamental Principles of Professional Ethics of the SFAA.

3. Compliance with Internal Rules of their Employers

It is a common practice within the securities industry for institutions to have extensive internal rules and guidelines setting out the manner in which business should be conducted. Members should be informed of the contents of any such rules and comply with the latter.

Should such internal rules be contrary to any of the present Rules of conduct and fundamental principles of professional ethics, members should draw the attention of their employer and suggest to their employer to modify the internal rules in order to comply with the present Rules of conduct and fundamental principles of professional ethics.

Should the internal rules of an employer be less stringent than the present Rules of conduct and fundamental principles of professional ethics, the member must nevertheless comply with the latter.

Rule 3: Duty of Information

Members must ensure that the information they provide to clients and investors is clear and accurate. They are prohibited from promising a given return. They must communicate information to investors and clients on an equal basis.

Information is one of the core aspects of the activities of analysts and investment advisors as well as an essential part of the activities of portfolio managers. Thus, it is of essence that the information communicated by members to clients and investors be:

- clear, i.e. understandable by the recipients of the information and not misleading;
- accurate, i.e. the information provided must be correct and reliable and must include all disclosable elements that are necessary for the recipients to understand and make use of the information;
- well suited, i.e. the information must to the extent possible be adapted to the needs, financial situation and objectives of the recipients and must not contain elements which are not relevant or misleading for the recipients or omit elements which are decisive for the potential decisions of clients and investors;
- provided on a timely basis and in compliance with the general principle of equal treatment of investors.

In addition, the duty of loyalty may require the disclosure of potential conflicts of interests (see Rule 4).

1. Quality of the Information to be Provided

A. In General

As a general rule, the information provided by members must be clear and understandable for the intended recipients. The quality, scope and depth of the information to be provided will, however, necessarily vary depending on the nature of each member's activities (financial analysis, investment advice or portfolio management). The members must nevertheless in all cases ensure that the information provided is neither misleading nor otherwise unclear.

Furthermore, the information must be adapted, including with respect of the words used, to take into account the knowledge and experience of the intended recipients. In case of doubt, information should in all cases be prepared and communicated taking into account the knowledge and experience of the least experienced intended recipient.

B. Analysts

The analyst must clearly explain his mandate. Firstly, he must indicate if his mandate is in absolute or relative terms.

A mandate in absolute terms means that a buy recommendation implies that the analyst expects an increase in the price of the stock and a sell recommendation implies that the analyst expects a drop in the price of the stock.

A mandate in relative terms means that a buy recommendation implies that the analyst expects an over-performance of the stock in comparison with the reference benchmark and a sell recommendation implies that the analyst expects an under-performance of the stock in comparison with the reference benchmark. In cases where the benchmark is not a standardized index, the list of the stocks which are included in the benchmark must be published with the recommendation.

The information provided to clients and to the public in research reports and other publications must be accurate. Analysts must ensure that it contains correct facts, statements and figures and that is based on reliable sources by carrying out the necessary verifications with the appropriate diligence. They must also mention their sources and the scope of their inquiries in their research reports (see Rules 7 and 8).

In order to ensure that the information is adapted, the concepts and words used in research reports must be familiar or understandable for the average recipient of the intended audience, and charts and figures must be presented as to enable an average recipient to properly assess the situation of the relevant issuer.

In principle, analysts cannot promise to provide a "complete" information (unlike the degree of information required from issuers by applicable securities laws), as they do not necessarily have access to all elements which are relevant for the price building of a given security (e.g. material undisclosed facts). Analysts must, however, ensure that any information communicated to clients and investors includes all disclosable elements that are necessary for the recipients to understand and make use of the information.

If, in the course of his activities, an analyst has access to price-sensitive facts (see Art. 72 of the SIX Listing Rules and the definition of such terms at the end of the present Rules) from an issuer or any other source, he must inform his contact at the company that they need to disclose the information to the public.

C. Portfolio Managers and Investment Advisors

Prior to providing financial advice to a client or taking investment actions, investment advisors or portfolio managers must make a reasonable inquiry into the client's financial situation, investment experience and investment objectives; they must also update such information regularly. On the basis of such information, they must inform the client of the general risks of the contemplated investment strategies and types of transactions. When recommending a specific transaction, investment advisors must also inform the client of the specific risks related to such transaction.

Portfolio managers and investment advisors must consider the appropriateness and suitability of investment recommendations or actions for the portfolio of the client. Should a client give specific instructions which entail a particular risk, the portfolio manager must inform the client of such risk to the extent necessary.

Investment advisors must inform the client on a timely basis so as to ensure that the client is aware of the risks when he decides to carry out a certain type of transaction or a specific transaction with particular risks. Similarly, portfolio managers must inform the client on a timely basis to ensure that the client is aware of the risks of a particular investment strategy or type of transactions. In principle, such information must be provided for the first time at the beginning of the relationship and, thereafter, whenever the client decides to carry out a new investment strategy or a new type of transactions with specific risks. Furthermore, in case of an ongoing relationship, such information must be updated to the extent necessary.

The extent of the information to be provided varies depending on the experience of the clients and their specific knowledge. In principle, portfolio managers and investment advisors may rely on standardised documents of their employer (e.g. Risk Disclosure Statements), provided such documents may be understood by the client. Should they decide to inform their client in a more personalised manner, the portfolio managers and the investment advisors shall determine the scope of the information to be provided in function of the experience and specific knowledge of the client. Such personalised information must be appropriately documented.

The information provided to clients must be accurate. Portfolio managers and investment advisors must ensure that they use reliable information to carry out their activity and, where applicable, mention their sources in their investment recommendations.

In order to ensure that the information is adapted to the needs of clients, investment advisors and portfolio managers must avoid using a jargon or excessively technical concepts or terms that prevent the recipients of the relevant information from properly understanding the information.

Finally, portfolio managers must inform clients of the situation and the performance of the portfolio on a regular basis in accordance with the terms of the contract between their employer and the client.

2. No Guarantee of Return

Members may not promise a guaranteed return on investments. Members cannot guarantee the result of their activity; for instance, an analyst cannot guarantee that the price of a security will correspond to his estimated price target; nor can an investment advisor or a portfolio manager guarantee that investment recommendations, if followed, will yield a given return.

Portfolio managers and investment advisors must inform clients of the risks which may affect an investment. Any information related to investments in fixed return products or structured products which have a “guaranteed” component or investment strategies which yield a similar result should also mention the risks relating to such investments, such as counter-party risk, exchange rate risk or political risk, as these risks may affect the effective return of such investments.

3. Duty to Update Information in Certain Situations

A. Analysts

In principle, an analyst has a duty to update research reports that he or his employer has issued, when a security is analysed on an ongoing basis and he or his employer regularly issues research reports on such security. In such a case, the analyst must at least update the research report to mention any material changes to the prior situation. In principle, the analyst will present his recommendations in the following way:

- if his recommendation must be interpreted in absolute terms, he will associate his recommendations with a graph or a spreadsheet including his past recommendations and the price of the stock;

- if his recommendation must be interpreted in relative terms, he will associate his recommendation with a graph or a spreadsheet including his past recommendations, the price of the stock as well as the graph of the appropriate benchmark.

Should an analyst or his employer no longer carry out an ongoing analysis, the recipients of prior research reports should be informed that the research will not be updated.

B. Portfolio Managers and Investment Advisors

Investment advisors and portfolio managers have a duty to update the information of a client regarding the risks related to a specific investment strategy or a certain type of transactions. However, investment advisors do not have a general duty to update or rectify any investment recommendation communicated previously if new matters arise. This principle may, however, be overruled by the terms of certain agreements with clients relating to the provision of investment advice.

4. Communication of Information to Clients and Investors

Members shall, as a rule, provide all clients and investors with research reports and investment recommendations on an equal basis. This rule prevents analysts or investment advisors from favouring certain clients or the trading operations of their employer by providing them either with more information than is provided to other clients or by giving them early access to their research reports and investment recommendations. This rule implies that members must take measures to ensure that the intended recipients have access to research reports and investment recommendations at the same time. However, it does not imply that members must ensure that all clients and investors effectively access the information at the same time.

This rule does not entail that all intended recipients should receive research reports and investment recommendations in the same form: certain clients may have a more customised treatment than others, provided such difference in treatment relies on reasonable grounds. However, all intended recipients must be treated equally with respect to the substance of the information.

This rule does not prohibit a member (or his employer) from limiting the access to research reports and investment recommendations to clients having subscribed to receive research reports or investment recommendations relating to specific securities, companies or industries.

Rule 4: Conflicts of Interests

Members shall avoid any situation of conflict with interests of clients and investors. If a conflict cannot be avoided, priority has to be given to the interests of the clients and investors. Members treat the interests of clients and investors in accordance with the principle of equal treatment.

Members have to disclose any fact affecting their objectivity and their independence.

Conflicts of interests arise in any situations where interests of clients and investors may clash with the personal interests of a member, his employer or other third parties.

In connection with conflicts of interests, the duty of loyalty entails the members to comply with the following principles:

1. Duty to Avoid Conflicts of Interests

This principle requires the member to remain independent from the companies whose securities he analyses, recommends or invests clients' assets in. A member is not allowed to receive directly or indirectly financial or material benefits from these companies. Only customary gifts can be accepted and all gifts have to be announced to the employer.

This principle also requires the member to preserve his independence from other activities carried out by his employer such as investment banking or credit activities (see Rule 1).

2. Priority of the Clients' Interests

A. In General

In case of a conflict of interests that cannot be avoided, the interests of clients or investors have priority over a member's own interests (see Rule 5) and those of his employer.

B. Analysts

This principle prohibits analysts from using their analyses for themselves or for their employer before having availed investors with a reasonable opportunity to act upon such analyses (see Rule 5).

Analysts shall not issue research reports which contradict their own convictions, in particular in order only to get rid of securities' lots, to place new issues or to support nursing activities.

C. Investment Advisors and Portfolio Managers

Investment advisors and portfolio managers shall invest or recommend an investment only if the investment is in the interest of the client.

Investment advisors and portfolio managers must avoid front running (i.e. executing in priority for their own account or the account of their employer transactions similar to clients' transactions) or parallel running (i.e. executing their own transactions or those of their employer at the same time as clients' transactions). They shall not make use of their knowledge of clients' investment strategies (e.g. the intention of a client to increase a certain position) to execute certain transactions.

Like analysts, investment advisors and portfolio managers shall not issue recommendations or take investment actions which contradict their own convictions, in particular in order only to get rid of securities' lots, to place new issues or to support nursing activities. The client's interest must remain the member's priority even if the member's employer has granted the client a Lombard loan.

Furthermore, investment advisors and portfolio managers must refrain from making any recommendations or investments for the sole purpose of generating commissions or brokerage fees (churning).

3. Equal Treatment of Clients and Investors

Members shall treat the clients and the investors' interests equally. They are not allowed to favour one client or investor to the detriment of another.

Analysts shall provide all clients and investors with research reports and investment recommendations on an equal basis (see Rule 3).

Investment advisors and portfolio managers shall treat clients equally in respect of the allocation of securities. Equal treatment in the allocation of securities should be considered globally: compliance with this obligation should be considered over a given period and not on a transaction specific basis.

4. Transparency

A. In General

When members become aware of potential conflicts of interests, they have to disclose them to the clients or investors concerned provided such disclosure does not breach professional or banking secrecy.

The principle of transparency should permit the clients or investors concerned to assess the extent of potential conflicts of interests. Communication must be clear, complete and on a timely basis (see Rule 2).

B. Analysts

Analysts shall disclose economical, personal or other relationships that they or their employer maintain with the analysed company. Such duty of disclosure is limited to the relationships that are known to the analyst.

Economical links include, in particular, substantial shareholdings. A duty of disclosure only arises if the economical links are sufficiently material to potentially affect the objectivity of the analyst. The materiality of the links shall be assessed by comparing the financial situation of the analysed company and of the analyst or his employer. In any event, substantial shareholdings of more than 3% of the share capital or voting rights in a company incorporated in Switzerland whose equity securities are listed in Switzerland have to be disclosed to the company and the stock exchange.

Personal links exist in particular when a member or a director or an executive of a member's employer also holds a position as director or executive in the company that is analysed. A duty of disclosure arises only when the person having a double position acts at least in one of the entities as an executive.

The other links to be disclosed include all other situations where a member or his employer have a specific relationship of a certain importance, that is neither economical nor personal, with the analysed company that may have an influence on the member's independence. Such situations may arise for example when the employer of a member leads the IPO of a company or has undertaken to act as market maker for the securities of a company.

C. Investment Advisors and Portfolio Managers

Like analysts, investment advisors and portfolio managers have to disclose to clients any situations that can potentially jeopardise the latter's interests.

The principles laid down under B. above are also applicable to investment advisors (with regard to securities they recommend) and portfolio managers (with regard to securities in which they invest clients' assets).

The disclosure can take place in the course of discussions with the client. The member shall then write a note summarising the contents of the discussions.

Investment advisors and portfolio managers can invest in or recommend securities issued by their employer if it is in the client's interest.

Rule 5: Personal Investment Transactions of Members

Members may not acquire for his/her own account any securities which he/she researches (securities, uncertificated securities, incl. derivatives).

Members shall observe all applicable Swiss and foreign rules, regulations and guidelines relating to securities dealing (insider trading, market manipulation, front running, etc.), which are applicable to them.

Members should as a general rule be prohibited from dealing in the securities they analyse and recommend. However, when making personal investment transactions, members shall observe the following principles. SFAA considers the rules deriving from the Swiss Banking Association as stringent, they are accepted as a standard in financial analysts' independence.

1. Members' Duty of Loyalty towards the Clients

Members have a duty of loyalty towards the clients and must act for the benefit of the clients and place the clients' interest before their own (see Rules 1 and 4).

The members' duty of loyalty can be divided in to three principles:

- Priority of clients' orders;
- Disclosure of personal investments; and
- Prohibition to use price-sensitive facts.

A. Priority of Clients' Orders

Members shall give absolute priority to the clients' orders. Members shall always execute the clients' orders first before undertaking any personal investment transaction in the same security. In addition, members shall always place the clients' orders separately from their personal orders. As a consequence, members may not regroup in the same order the clients' and their own orders. They are also prohibited from buying securities sold by clients for their own account (or vice versa).

B. Disclosure of personal investments

Analysts shall fully disclose all personal investments in the securities covered by a research report.

C. Prohibition to use Price-Sensitive Facts

Members shall not undertake any personal investment transaction based on price-sensitive facts.

Price-sensitive facts mean facts that are not of public knowledge and which, because of their considerable effect on the issuer's assets and liabilities or financial position or on its general course of business, are likely to result in substantial movements in the price of the securities (see Art. 72 of the SIX Listing Rules). The same caution is applicable in the avoidance of front running, e.g. entering into a trade while taking advantage of non-public knowledge of pending orders, or with the advance knowledge that a large order is or will be coming into the market from other clients, for a personal account or a preferred customer's account. As such a member shall not step in front of a client's trading order and buy securities for slightly more than the price offered by other investors to create an illegitimate or preferential profit. Typical examples include forthcoming mergers, divestitures, changes in capital structure, changes in the company's top management and the discovery of new technologies. Members shall be aware that the definition of price-sensitive facts as described here above is broader than the scope of confidential information covered by the provision on insider trading (Art. 161 of the Swiss Criminal Code).

2. Members' Allocation of Time and Financial Resources to Personal Investment Transactions

A. Allocation of Time

Members' personal investment transactions shall not interfere with their obligations and duties towards their employer. As such, members shall spend no more than a reasonable amount of their time on personal investment transactions. It is very common for employers to have specific internal rules in this respect.

B. Allocation of Financial Resources

Members shall ensure that their personal investment transactions are at all times in adequacy with their financial resources. They shall not engage in short-term trading and must be aware of the risks they are taking.

3. Compliance with Applicable Rules

It is very important for the reputation of the profession of analysts, investment advisors and portfolio managers that all members observe Swiss and foreign rules applicable to personal investment transactions (see Rule 2).

Examples of such rules are the "Directives on the Independence of Financial Resarch" (Art. 32), insider trading (Art. 161 of the Swiss Criminal Code), market manipulation (Art. 161bis of the Swiss Criminal Code) and front running (Art. 11 of the Swiss Stock Exchange Act). In addition, members shall respect self-regulatory and internal rules issued by associations or employers and which are applicable to them.

Rule 6: Duty to Inform the Employer

Members shall inform their employer that they have to comply with these Rules of Conduct and Fundamental Principles of Professional Ethics.

As a general rule, members should inform their employer that they are a member of the Swiss Financial Analysts Association and are therefore bound by these Rules of Conduct and Fundamental Principles of Professional Ethics.

Rule 7: <u>Sources</u>

Members shall establish their forecasts and recommendations objectively and in good faith, using reliable information.

Members shall be transparent regarding their sources.

1. Reliable Information

Members shall use reliable information, i.e. information whose origin has been validated and credibility verified. To ensure the validity of the sources, members will set up a reliable information network.

Furthermore, members will rely on information sources whose quality is generally recognised.

When members rely on forecasts developed by third parties (brokers, independent research companies, rating agencies, etc.), they shall carefully check the professional competence of these parties.

To verify the credibility of information, members will check its plausibility, if necessary and possible with another source. Members will show circumspection with respect to information published by the issuers and by entities that are economically related to issuers (investment banks, in particular).

2. Transparency

Transparency requires members to indicate their sources.

In all cases, members will not plagiarise the work of third parties and avoid any implication or claim that the forecasts and recommendations of third parties are the result of their own work.

Should a member have access to price-sensitive facts, he must, as a matter of principle, either include such facts in his research report (or other communication) or abstain from issuing any research report or recommendation until such facts have become public (see Rule 3).

Rule 8: Financial Estimates and Investment Recommendations

Members shall act professionally and diligently throughout the analytical process to reach their investment conclusions. Such conclusions must be communicated in a clear manner and shall furthermore reflect the members' own convictions.

1. Professional Methodology

Members shall use reliable and recognised analysis methods. Their investment recommendations shall rely on a synthesis of risk and return, assessed on both a quantitative and a qualitative basis.

To work out their forecasts and investment recommendations, members shall generally rely on the standard methodology used by the employer.

The recommendations must be based on a clear and non-ambiguous rating system, and be expressed in a coherent manner with regard to this system.

Members must encourage financial institutes to publish statistics in connection with the recommendations (distribution of ratings, added value, etc.).

Members shall avoid any excess confidence and preserve a critical sense in every circumstance even if they deviate from the consensus.

2. Clear and Understandable Investment Conclusions

Investment conclusions must be communicated in a clear and understandable way, regardless of whether they are communicated in writing, orally or by any other means.

In this respect, members shall clearly distinguish between facts, comments and opinions. Research reports may contain comparisons insofar as the latter rely on an adequate basis.

Members shall be as transparent as possible regarding their sources, working hypothesis and reasoning. They should explicitly describe the way in which they have estimated the expected return and assessed the risk incurred. Their forecasts and recommendations must be explained, so that the investors can understand the logical development from basic information to investment conclusions.

Members shall explain the meaning of the terms used. In particular, they shall inform the investors of the approach adopted (absolute or relative to a reference index) and of the investment horizon.

In addition, members shall be concise and communicate to investors only relevant information, i.e. information that is useful to make an informed investment decision.

3. Independence

Members shall resist any pressure likely to compromise their judgement, whether such pressure comes from the issuer of the analysed security or the member's employer (see Rule 1).

To avoid such pressure, members are only authorised to make their research reports available to the issuer before their publication for the correction of possible factual errors. Members shall not submit the section containing the investment conclusions to the issuer before publication.

4. Follow-up of the Investment Recommendations

Following a positive or neutral investment recommendation, members are obliged to monitor the concerned security for a reasonable period of time. Following negative investment recommendations, members are only obliged to make a temporary follow-up, within a timeframe during which investors can reasonably liquidate their positions.

Rule 9: Performance measurement of the recommendations and earnings per share forecasts

Members must encourage the processes aimed at ensuring the appropriate measure of:

- **the added value of the recommendations**
- **the accuracy of the earnings per share estimates**
- **the use of the ratings made by their financial institute.**

As far as this information is public, the members must encourage its dissemination to investors.

Each day, recommendations or earnings' estimates are issued by analysts, communicated to investors, are commented on or even highlighted by the media, copied in the publications of financial institutes or on their internet sites, recorded in databases, etc.

In this framework, it is extremely difficult even for a professional investor to judge the quality of the information provided and to know when it has been issued.

The SFAA has developed a standard of measurement for the performance of recommendations called «Information Standard for Analysts – ISfA »[32], which describes precisely how to measure the performance of analysts' recommendations.

In order to:

- improve market transparency and the reputation of analysts
- reduce conflicts of interest
- support the correct use of financial research results, which is essential for the satisfactory functioning of the markets,

it is fundamental that investors are well informed about the contribution of financial analysts to the investment process. In this regard, the members of the SFAA must contribute to the production of the relevant information needed by investors and to its dissemination to the circles concerned.

[32] Consult the internet site www.isfa.ch

Rule 10: Sanctions

The breach of rules exposed in this Handbook of Best Practice by inadequate conduct of a member may be penalised in accordance with the bylaws of the SFAA. The Executive Committee may decide and communicate penalties like admonishment, revocation of diplomas issued by the SFAA or exclusion from the SFAA to the defaulting member whereas the sanctions may be cumulated.

Sanctions of the Executive Committee may be appealed in front of the Board. The appeal has to be in written form and needs to be addressed within thirty days after receipt of the sanction decree. A pending appeal suspends the implementation of sanctions. After hearing of the appellant the Board renders its decision and communicates it in written form. The Board may confirm, mitigate or abolish sanctions expressed by the Executive Committee. The decision of the Board is final and does not need to be motivated.

SFAA
SWISS FINANCIAL ANALYSTS ASSOCIATION

Part 5: Other Rules of Conduct

Chapter 6: Swiss Bankers' Association - "Directives on the Independence of Financial Research" (2008) [33]

Please see:

- German version with French and English translation: http://www.swissbanking.org/12108.pdf

[33] www.swissbanking.org

Chapter 7: Swiss Bankers' Association - Code of Conduct for Securities Dealers (2008)[34]

Please see:

- for the English version:
  http://www.swissbanking.org/en/801908_e.pdf

- for the German version:
  http://www.swissbanking.org/801908_d.pdf

- for the French version:
  http://www.swissbanking.org/fr/801908_f.pdf

34 www.swissbanking.org

Chapter 8: Swiss Bankers' Association - Portfolio Management Guidelines (2005) [35], amended as per 1.1.2006

Please see:

- for the Italian and English version:
  http://www.swissbanking.org/en/999996_e.pdf

- for the German and French version:
  http://www.swissbanking.org/999996_d.pdf
  with amendments as per 1.1.2006:
  http://www.swissbanking.org/999996_d_mod.pdf

35 www.swissbanking.org

Chapter 9: SIX – Directive Governing Information on Corporate Governance (Directive Corporate Governance, DCG) (2002/2006) [36]

Please see:

- for the English version:
  http://www.six-swiss-exchange.com/admission/being_public/governance_en.html

- for the German version:
  http://www.six-swiss-exchange.com/admission/being_public/governance_de.html

- for the French version:
  http://www.six-swiss-exchange.com/admission/being_public/governance_fr.html

[36] http://www.six-swiss-exchange.com

Chapter 10: Economiesuisse – Corporate Governance Swiss Code of Best Practice (2008) [37]

Please see:

- for the English version: http://www.economiesuisse.ch/web/de/PDF%20Download%20Files/pospap_swiss-code_corp-govern_20080221_en.pdf
- for the German version: http://www.economiesuisse.ch/web/de/PDF%20Download%20Files/pospap_swiss-code_corp-govern_20080221_de.pdf
- for the French version: http://www.economiesuisse.ch/web/fr/PDF%20Download%20Files/pospap_swiss-code_corp-govern_20080221_fr.pdf

[37] www.economiesuisse.ch

Chapter 11: Swiss Funds Association SFA – Code of Conduct for the Swiss Fund Industry (2009) [38]

Please see:

- for the English version:
  http://www.sfa.ch/download.php?id=61
- for the German version:
  http://www.sfa.ch/download.php?id=24
- for the French version:
  http://www.sfa.ch/download.php?id=49

[38] www.sfa.ch

Chapter 12: ASIP - Charta and Professional Guidelines (2008)[39]

Please see:

- for the German version:
  http://www.asip.ch/files/news/?id=d14d22c9ec29af0920953d61cc700d26

[39] www.asip.ch