



CAPITAL MARKET
DENMARK
FINANCE DENMARK

Recommendations on how to deal with conflicts of interest in investment banks

March 2022

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Scope of recommendations

Capital Market Denmark has issued these recommendations on how to deal with conflicts of interest in relation to the capital markets operations of investment banks. One purpose of the recommendations is to ensure better and more efficient markets, driven by a common understanding of the conflicts of interest inherent in investment banks.

Capital Market Denmark is aware of the requirements of the three lines of defence, in particular the separation between the first and second lines of defence and the requirement of an independent Compliance function as part of the second line of defence. However, according to Article 22[2][b] of Commission Delegated Regulation [EU] 2017/565 as regards organisational requirements, the Compliance function is also responsible for advising and assisting the relevant persons responsible for carrying out investment services and activities in ensuring compliance with the institution's obligations in this area.

Where in these recommendations Capital Market Denmark recommends that the Compliance function be involved in, or receive or approve activities in the investment area, it is the view of Capital Market Denmark that these actions are covered by the requirement of the Compliance function's advice and assistance in the investment area. At the same time, however, Capital Market Denmark emphasises that it is up to the management of each institution to implement the recommendations in accordance with the institution's size, organisation and investment activities.

If conflicts of interest are not identified or managed appropriately, it may have a significant impact on the confidence in and efficiency of capital markets. Also, it is important that management and employees alike are consistently aware of the different interests existing in an investment bank, potentially causing conflicts of interest, and that they nurture a culture to support this and create confidence among stakeholders.

These recommendations aim to describe the measures that investment banks are recommended to implement to deal with conflicts of interest. The recommendations are not binding but should be seen as best practice, and it is up to each investment bank, based on its business model, to implement the recommendations so as to ensure the most appropriate management of conflicts of interest.



For the purpose of these recommendations, inspiration has been taken from the recommendations of Nordic and international organisations, such as Verdivapirforetakenes Forbund [Norway], Svenska Fondhandlareföreningen [Sweden] and IOSCO, on how to manage conflicts of interest. Plesner Advokatpartnerselskab has assisted Capital Market Denmark with the section on research in connection with corporate finance activities and related appendices. In addition, Nordic and international investment banks have provided input to that section to ensure that the recommendations are applicable to cross-border activities.

The recommendations will enter into force on 1 March 2022, replacing previous recommendations dated 1 December 2012.

The recommendations will apply to conflicts of interest arising from activities carried out by investment banks in relation to MiFID II rules and market abuse rules. In Capital Market Denmark's opinion, the principles of the recommendations may also serve as inspiration in connection with other business activities.

Definition of conflicts of interest and examples

It is a well-known fact that conflicts of interest are inherent in investment bank activities. It follows from Commission Delegated Regulation [EU] 2017/565 that investment banks should endeavour to identify and prevent or manage the conflicts of interest arising in relation to their various business activities.

Appropriate management of conflicts of interest, whether permanent or temporary, is essential to protect clients as well as investment banks and to preserve confidence in investment banks and capital markets.

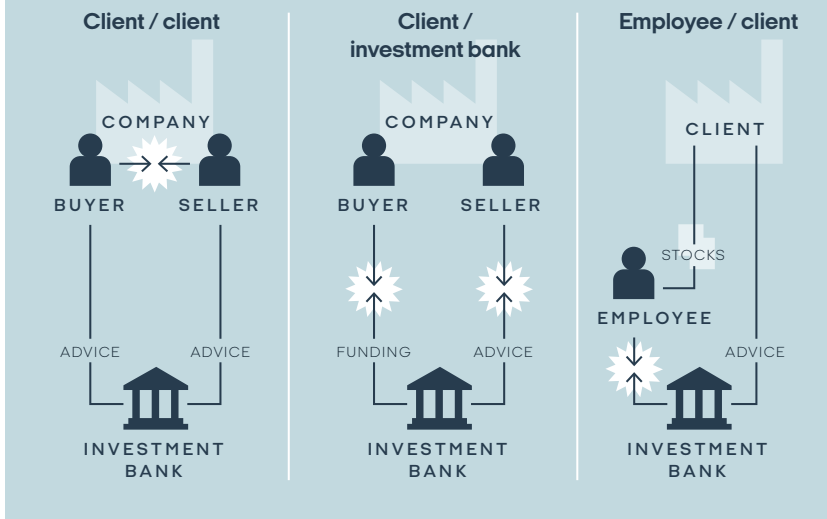
A conflict of interest is characterised by the presence of conflicting interests between the relevant parties to a task/activity and investment banks may therefore face potential conflicts of interest. Conflicts of interest may occur in many different situations and between different stakeholders, for instance between:

- Different functions of an investment bank
- Clients of an investment bank
- An investment bank and its clients
- Investment bank employees and the investment bank/its clients

Considerations in the assessment of whether or not a conflict of interest exists include:

- Whether one party is likely to make a financial gain or avoid a financial loss at the expense of another
- Whether the investment bank has an interest in the outcome of an investment service which is distinct from the client's interest in that outcome
- Whether the investment bank has a financial or other incentive to favour the interests of one or more clients over the interests of other clients.

Examples of conflicts of interest



Below is listed specific examples of conflicts of interest between:

Clients

- An investment bank offers financing to several potential buyers of the same company.
- A conflict of interest exists between the buyers of the company.
- Several investment bank clients want to subscribe for shares in a company in connection with its admission to trading on a regulated market.
- A conflict of interest exists between the clients in connection with the allocation of shares.

An investment bank and its clients

- Corporate Finance advises a client in relation to a potential company sale, and at the same time the investment bank offers financing to one or more potential buyers of the company. A conflict of interest exists between the client, wanting to sell at the highest possible price, and the investment bank, wanting to secure the most favourable terms for the buyers.

Employees and the investment bank/its clients

- Corporate Finance employees hold shares in a company advised by Corporate Finance. A conflict of interest exists between the employees and the client/ the investment bank.

Governance

This section describes the framework that an investment bank should have in place in relation to conflicts of interest, comprising the investment bank's governance documents, organisation, including roles and responsibilities, as well as training of employees.

Governance documents and contents

Investment banks should have policies, procedures and controls ("internal guidelines") targeted at the individual functions for the purpose of identifying and managing conflicts of interest. Internal guidelines should include examples of inherent conflicts of interest as mentioned above in section 2. They should also include examples of ad-hoc transaction-based conflicts of interest.

Examples of conflicts of interest should cover the activities offered by the investment bank. The purpose of examples is to raise awareness among employees and enable them to identify and manage existing and potential conflicts of interest. The examples should be designed to reflect typical conflicts of interest that employees of the investment bank may encounter.

The internal guidelines should also address the following issues:

- What information can and cannot be shared between units and functions (information barriers)
- Employees engaging in secondary occupation or employment
- Financial interests of employees in clients of the investment bank
- Employment of related parties with clients or potential clients
- Remuneration
- Preventing employees from being able to influence the activities of other employees in a way that could cause a conflict

For investment banks producing investment research, it is important that the internal guidelines cover conflicts relating to:

- The preparation of investment research in relation to the investment bank's clients' desire to issue financial instruments at the best possible price
- The investment bank's proprietary trading
- The timing of research publication, which should ensure that all stakeholders receive and can act on the research at the same time



The internal guidelines should also cover:

- Sales and Trading as well as Corporate Relationship Management, including in relation to different clients' interests in the same instruments
- The investment bank's proprietary trading and employees' personal account dealing
- The Corporate Finance, Debt Capital Markets and Loan Capital Markets units, including conflicts in relation to other clients of the investment bank, investors or competitors to the client, the investment bank's production of investment research, the investment bank's proprietary trading and employees' personal account dealing

Internal guidelines should be reviewed regularly and at least once a year, and the documents should be approved in accordance with the investment bank's governance structure.

Organisation

As part of their response to conflicts of interest, investment banks should ensure that they are organised so as to prevent conflicts of interest from affecting clients' interests.

Even though senior management is responsible for the identification and management of conflicts of interest, all employees have a duty to be aware of conflicts of interest and see that they are managed. But since the individual functions of an investment bank have specific knowledge of their own field, they own the conflicts of interest arising from their activities.

The responsibility for identifying and documenting the mitigation of conflicts of interest should be assigned either to a central unit or to the individual functions. A clear division of responsibilities is essential to avoid situations where a conflict of interest is not identified and managed.

Depending on the size and activities of an investment bank, it may be relevant to establish a committee or similar forum for decisions or provide for escalation to a higher management level responsible for addressing and managing conflicts of interest. Such independent committee could also maintain the register of inherent and ad-hoc conflicts of interest following from Commission Delegated Regulation (EU) 2017/565 and perform the annual review of the register. Compliance should participate in this process.

Investment banks should have internal procedures and controls related to the register of conflicts of interest. The procedures in connection with the register should ensure that employees are not in doubt about how to manage and record an identified conflict and how to escalate a conflict to a higher level if necessary. The internal guidelines and procedures should also make it clear to employees how to manage conflicts of interest that cannot be mitigated. When a conflict of interest materialises, the investment bank should have systems, such as a register of operational risk events, for recording conflicts of interest, allowing the investment bank to identify and document its conflicts of interest, thereby ensuring their appropriate management.

Training of employees

In addition to an annual review, investment banks should maintain a high level of knowledge about conflicts of interest in the organisation. Factors contributing to a high level of knowledge include training of employees and ongoing dialogue between control functions, legal functions and the business.



Measures to identify and prevent or manage conflicts of interest

It follows from Commission Delegated Regulation [EU] 2017/565 that investment banks should establish effective measures to identify and prevent or manage identified conflicts of interest.

Examples of such measures are given below.

Information barriers minimising the risk of inappropriate disclosure of information

The use of information barriers is particularly relevant in the management of the risks of market abuse and conflicts of interest, and classical examples of information barriers include the physical separation of Research and Corporate Finance units.

The use of information barriers is well-known in the financial sector, reflecting a legal standard subject to ongoing development in accordance with industry practice. Consequently, legislation does not clearly define the requirements concerning the use of information barriers. The development of requirements is also driven by regulatory and client requirements.

Units that regularly deal with inside information, or information that could give rise to material conflicts of interest, should be behind information barriers. Such units are often referred to as "private side" (eg Corporate Finance). Units not behind information barriers are often referred to as "public side" (eg Sales, Trading and Research).

Information barriers can take different forms, but will – depending on the size, activities and organisation of the investment bank – include all or several of the barriers below:

a. Physical information barriers

Physical barriers preventing immediate access to private-side units or the Research unit. Separate premises with access control in the form of coded access locks etc.

b. Procedural information barriers

Information barriers do not necessarily provide permanent physical separation but may also be in the form of procedures dictating ad-hoc separation, for example separation into deal teams, or procedures specifying standards for the exchange of information between units, for instance "need-to-know".

c. IT information barriers

Barriers preventing access via IT systems to private-side units or to client data except as required for individual employees to service clients.

d. Reporting lines [matrix, staff and professional]

A clear separation of functions between units, ensuring that employee interests cannot be called into question. If, for instance, analysts and trading unit staff report to the same manager, their independence from selling interests can be called into question.

e. "Wall crossing" and "above the wall"

From time to time, private-side units may have to involve public-side employees. This should be in the form of a "wall crossing" where the relevant employee is brought "over the wall". All wall crossings should be subject to a prior thorough assessment of any existing conflicts of interest and any restrictions that may be imposed on the employee who is brought over the wall. See section 6 The re-search unit for an example of an analyst being wall-crossed.

It may be necessary for a few persons in an investment bank to have access to both private-side and public-side information due to their management ranking. These persons are considered to be "above the wall" and must be limited to very few persons, such as senior executives responsible for the investment banking area, designated Compliance officers etc.

Even though effective information barriers seem very administration-intensive, it is worth noting their benefits to business, such as:

- The possibility of entering into transactions that would otherwise be conflicting
- A defence against suspicions and accusations of market abuse or misuse of confidential client information.

Information barriers also help protect employees.

A committee or similar to assess conflicts of



interest in potential transactions or activities

Depending on its size, activities and organisation, an investment bank may set up a committee or similar to screen potential transactions or business activities. This should include considering the implementation of specific measures, or whether the investment bank should refrain from the activity or decline the transaction altogether.

Investment banks that find they are able to ensure sufficient data segregation can work with clients in separate tracks, and in case of large transactions they can set up "trees"¹ letting different clients involved in the transaction be managed by separate unit teams, thereby ensuring that confidential information is not disclosed unnecessarily, for instance in connection with competing takeover bids. Depending on the circumstances of a case, and subject to compliance with the bank secrecy rules, the clients involved will not know about other units' dealings with clients that may have opposite interests.

Where an investment bank sets up a committee, it is recommended that the committee includes not only management representatives in relevant functions but also a Compliance officer as observer.

¹ Denne praksis ses ikke i Corporate Finance transaktioner.

Incentive structures based on objective criteria that do not give rise to conflicts of interest

Incentive structures must not cause employees to set client interests aside or to expose the investment bank to unauthorised risk.

Procedures to prevent or manage, in connection with personal conflicts of interest, the risk of employees being influenced by non-objective considerations

Investment banks should introduce rules governing employees' personal transactions in financial instruments (see section 5 Personal account dealing) and employees engaging in secondary occupation.

Use of technological solutions to analyse business transactions

Investment banks should consider the use of technological solutions, such as artificial intelligence to monitor transactions across units, in order to detect behavioural patterns indicating a conflict of interest at an early stage.

For the measures to be effective, they must be supported by controls. An effective control environment must be systematic and operational, for instance by being organised by a control unit assessing each report and event.



Personal account dealing

It follows from Article 29 of Commission Delegated Regulation (EU) 2017/565 that investment banks shall establish, implement and maintain adequate arrangements aimed at preventing personal transactions of employees from giving rise to conflicts of interest.

Investment banks should consider carefully how risks of insider trading as well as potential and actual conflicts of interest can most efficiently be mitigated in relation to personal account dealing.

In this section, personal account dealing is defined as buying or selling financial instruments within the scope of the investment bank's policy governing personal account dealing/personal transactions. An investment bank's guidelines on personal account dealing may cover financial instruments subject to restrictions as well as financial instruments not subject to restrictions.

Financial instruments subject to restrictions may be defined as financial instruments traded on a trading venue, such as shares, bonds, certain funds, options, futures, swaps, other derivatives related to, for instance, negotiable instruments, currencies, cryptocurrencies and commodities.

Financial instruments not subject to restrictions may be, for example, UCITS and certain balanced investment funds. Also, personal transactions executed under a discretionary investment management agreement may under certain circumstances be considered to be not subject to restrictions, see below for more details.

General principles and information barriers

Investment bank employees are generally expected to manage their personal finances prudently, avoiding short-term speculative transactions of a nature or volume that could cause them financial difficulties.

It is essential that employees are not able to exploit their position and do not have an advantage over clients in connection with trading in financial instruments.

Investment banks should have procedures in place to ensure that they are always fully informed of any personal transactions of employees, ie they should either be

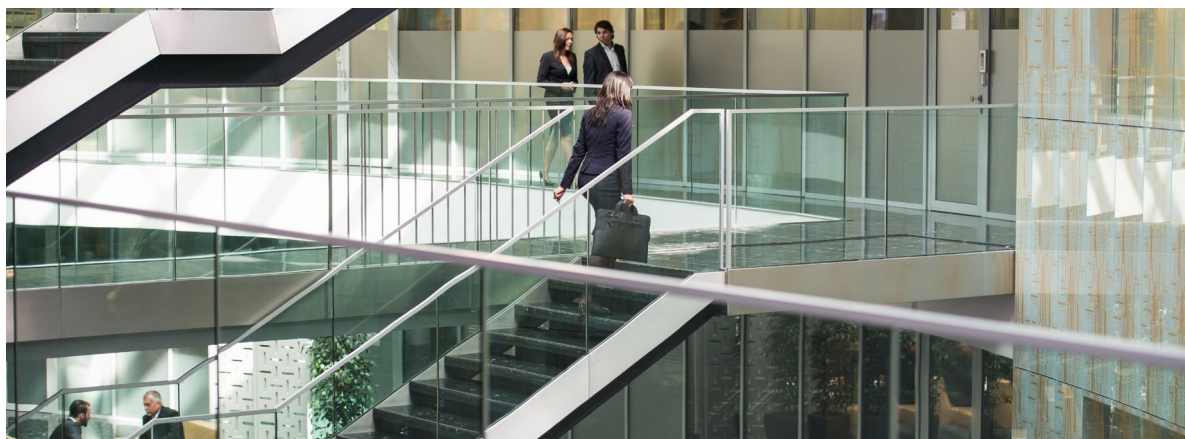
notified immediately of each personal transaction or otherwise have procedures enabling them to identify such transactions. At the start of an employment relationship, investment banks could consider requesting a statement of the employee's holding of financial instruments, provided that the employee is subject to the investment bank's rules on personal account dealing.

Investment banks should observe the following principles in relation to restrictions on personal account dealing:

- Employees with access to the investment bank's watch list must not trade in financial instruments issued by a company on that list, or in financial instruments whose value may be directly or indirectly linked to the value of that company
- Employees must not trade in the financial instruments of a company if they have knowledge of research about that company that is not yet published
- Employees engaged in trading in, or investment research of, shares and/or corporate bonds must not, for their own account, trade in financial instruments of a company under research coverage from the date of publication of the investment research and for a specified period after that date. It is recommended that investment banks also consider whether commentaries and updates etc produced by analysts should be covered by the restrictions relating to personal account dealing
- Guidelines should be in place specifying when employees can trade in financial instruments issued by companies on the restricted list of the investment bank
- Guidelines should be in place specifying to what extent employees can participate in a subscription for shares or corporate bonds issued in connection with a capital market transaction participated in by the investment bank
- Guidelines should be in place specifying that analysts are prohibited from trading in financial instruments covered by the analyst and that investment banks should consider whether analysts should be allowed to trade in companies within the same sector
- Guidelines should be in place specifying whether employees can participate in stock market games

These recommendations also apply to the buying and selling of subscription rights and exercise of derivatives linked to financial instruments.

The recommendations do not apply to subscription on the basis of allotted subscription rights, subscription for bonus shares, new subscription in connection with a change in nominal share capital etc, and transactions by investment managers in relation to employees' participation in collective pension schemes or investment funds. Where employees have entered into discretionary management agree-



ments, such as discretionary management, may be exempt from the requirements applicable to personal account dealing. It is recommended that investment banks request copies of such discretionary management agreements to ensure that the relevant employee has no influence on investments under the agreement.

Distinctions may be made between different groups of employees, making some employees subject to additional requirements, for instance based on order types. For other groups of employees, it is also recommended that, where the investment bank has an approval process, this process involves their immediate manager to prevent the risk of conflicts of interest (front running). In case of pre-approvals, the investment bank must define a validity period for the pre-approval. Such period must be short.

It is recommended that employees should be prevented from selling a given financial instrument within 30 days of acquiring it and from repurchasing the same financial instrument within 30 days of selling it. This period runs from the last trade in the financial instrument concerned.

Where an employee is trading on behalf of a relevant person (e.g., a spouse, co-habitant or child), such trades must be in compliance with the investment bank's procedures for personal account dealing.

Controls regarding personal account dealing

Investment banks must have an adequate control environment for the management of conflicts of interest in relation to personal account dealing. This could be in the form of an annual declaration by the employees of compliance with the investment bank's personal account dealing rules as well as control of holding periods, that pre-approval has been obtained where required and that a register of employees' personal transactions etc is maintained.

The research unit

This section deals with the main conflicts of interest arising in connection with investment research relating to corporate finance activities. Investment research produced in connection with debt capital market activities differs in several ways,² and complying with the recommendations below will therefore not always be an advantage.

Capital Market Denmark recommends that the management of conflicts of interest and assessment of potential restrictions in relation to debt capital market transactions should be based on the same fundamental principles that apply to corporate finance activities. Due regard should be given to the differences between the two types of investment research, which will either increase or reduce potential conflicts of interest. In addition to these recommendations, Capital Market Denmark will publish more detailed recommendations for corporate finance activities and debt capital market activities, respectively.

A research unit must be independent from other units of the investment bank and from the issuers to which their investment research relates. Generally, this means that staff outside the research unit will not be able to influence an analyst's decision to publish research, nor influence or dictate the analyst's opinion, commentaries or recommendations, and that analysts do not report to any other unit, e.g., the trading unit.

Analysts should always act properly and with the required professionalism, credibility and integrity in relation to all parties involved. Analysts should also seek to ensure that conflicts of interest do not arise and, where they cannot be avoided, ensure that the parties involved are treated correctly and that relevant parties are informed of the conflict.

Investment research should reflect the analyst's personal view, and research conclusions must not be affected by business interests of any kind. The publication of investment research must not be subject to prior approval by Corporate Finance, Debt Capital Markets, Equity Capital Markets, Sales and Trading or by the company under research coverage. However, nothing prevents Corporate Finance, Debt

² For instance, bond prices will be less sensitive to an analyst's opinion in credit research, as prices are more driven by objective macroeconomic factors such as interest rate developments, historical spreads, the credit quality of the issuer, the coupon and yield-to-maturity of the bond and alternative investment opportunities offered by equivalent and comparable bonds. The type of issuer is also of relevance to potential conflicts of interest. For instance, the probability of conflicts of interest is lower for government bond issues than for corporate bond issues.

Capital Markets, Equity Capital Markets or Sales and Trading from receiving the investment research, and the research may be presented to the company under research coverage for a verification of factual information. Investment research forwarded to other units of the investment bank or to the company under research coverage must not contain recommendations, target prices or assessments of issuer. Investment banks should have internal procedures in place to ensure that the Compliance function receives prior notice and a copy of any investment research forwarded to Corporate Finance, Debt Capital Markets, Equity Capital Markets, Sales and Trading or to the company under research coverage. Where investment research has been fact checked by an issuer, this should be stated in the disclosure of the investment research.

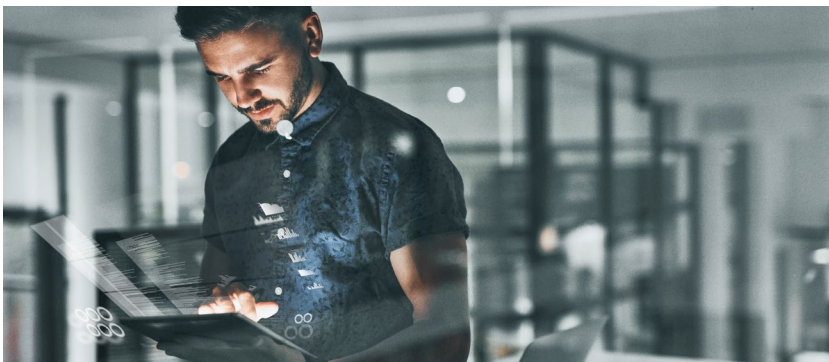
It is up to the research unit to decide which companies to cover. This means that other units (for instance Corporate Finance in connection with an IPO) of an investment bank cannot promise research coverage of a company to a client.

One difference between the Research and Corporate Finance units is that while Corporate Finance acts as adviser to an issuer (client/private side), seeking to ensure the best possible result for the client, a Research unit supports Trading and Sales, serving investors' interests (public side).

Since an analyst will typically communicate extensively with other investment bank units, with clients and with the issuers covered, internal guidelines on the scope and nature of such communication should be prepared. The following sections describe aspects that investment banks should be aware of.

Analysts' participation in morning meetings

One purpose of morning meetings is to prepare Sales and Trading teams to discuss publicly available investment research with clients. Such morning meetings





are therefore usually held before markets open. It is recommended that investment research discussed with Sales and Trading at morning meetings include only investment research already published.

Analysts' participation in marketing activities

Analysts participating in marketing activities, including pitches or roadshows, must not give the impression that they are representing the investment bank's corporate finance interests and/or the interests of a company. It is recommended that the investment bank's internal guidelines specify the situations in which analysts can participate in marketing activities, including pitches and roadshows, and whether such participation requires the approval or notification of, or participation by, a Compliance officer. In case of pitches, Corporate Finance must not participate in a meeting together with analysts, ie Corporate Finance must leave the room when an analyst talks to the potential client, and analysts should always inform the client of their independence. As an alternative to Corporate Finance leaving the room, an independent person, eg a Compliance officer, may participate in the meeting to ensure analyst independence. It is particularly important that analysts do not participate in the part of a meeting when Corporate Finance give their assessment of the company, including their valuation, and analysts should in no way endorse Corporate Finance's assessment. The interests of an investment bank's Corporate Finance unit in a future transaction must not cause an analyst to be pressured by the company or by Corporate Finance into presenting a particular view of the company. It should be clear that an analyst's view of a company is always the analyst's own view and that it is subject to change at any time.

Analysts' participation in corporate finance activities

Analysts may participate in corporate finance activities as described below subject to prior dialogue with the investment bank's Compliance function and subject to the analyst ensuring that such participation will not compromise analyst independence:

1. Analysts may assist Corporate Finance by suggesting possible corporate finance activities provided that such communication is of a one-way nature, i.e., from the analyst to Corporate Finance
2. Analysts may advise Corporate Finance on the pricing and structuring of capital market transactions and expected investor demand
3. Analysts may participate in investor meetings provided that they do not appear to represent the sell side of the investment bank.

Analysts involved in IPOs [initial public offering] will prepare a so-called IPO report, presenting the analyst's independent view of the issuer. The structure of an IPO report is typically governed by a set of research guidelines. An IPO report does not constitute investment research, as it does not contain a recommendation or price targets. For an analyst to have time to prepare an independent and sufficiently elaborated IPO report, it is recommended that the presentation prepared by the issuer [client] for the analysts [analyst presentation] is made not later than 3-4 weeks prior to publication of the transaction. This will give the analyst time to obtain independent input for the IPO report so that it will not be based exclusively on information provided by the issuer [client]. Investment banks must ensure that the independence of the analyst is not compromised by the influence of Corporate Finance in connection with the analyst's preparation of the IPO report, including the questions asked by the analyst to the issuer's [client's] management, as well as in subsequent dialogue with investors. However, the issuer and Corporate Finance may, to a greater extent than permitted in connection with already listed companies, review the report for the purpose of verifying facts.

In connection with an IPO, analysts also play a crucial role in relation to the dialogue with investors. The IPO report forms the basis of such dialogue. Investment banks should have internal guidelines in place specifying the framework of dialogue with investors, including the participation of analysts in pre-deal investor education activities and indications from those meetings to Corporate Finance for the purpose of fixing a price range.

Analysts' preparation and publication of investment research etc

Investment banks should have guidelines in place to ensure equal opportunities for clients in terms of responding to publicly available investment research etc. These

guidelines could specify, for instance, the channels used to publish investment research etc and that selected clients are not to be pre-informed of the contents of research etc not yet published, as that would be considered front running of research.

Analysts' communication with clients

Analysts' communication with clients should be based exclusively on facts already published in written investment research, commentaries etc, i.e., communication with clients should be consistent. Information from investment research not yet published must not be discussed with clients, and no indication of the contents of new investment research may be given to clients. It is recommended that investment banks have guidelines in place specifying how analysts may communicate with clients in the period up to the publication of investment research, updates, commentaries etc.

Analysts' dialogue with the press

It is recommended that investment banks have internal guidelines in place specifying the extent to which their analysts can talk to the press, including which parts of the press (written or TV), and that analysts should generally only discuss matters already published in investment research etc, whether company- specific, sector or macro research. It should also be considered whether analysts can only discuss investment research available to the public and not investment research distributed only to the investment bank's clients. It is also recommended that investment banks consider maintaining records of the dates on which analysts appeared in the public space (written press, TV, social media etc³) and the topics discussed.

Analysts' handling of market rumours

Rumours often emerge in capital markets. Some will be based on facts and may potentially be interesting to investors, while others will be unfounded and thus merely rumours. A rumour can be defined as information circulating in the market which has not been confirmed by persons directly related to the substance of the rumour, and it will remain a rumour until confirmed by an appropriate and reliable source. Whether a rumour is true or not, analysts spreading rumours may unintentionally become involved in market abuse, for instance if the rumour is based on a leakage or unlawful disclosure of inside information, or it was started deliberately to mislead the market. Analysts must never be involved in rumour spreading.

Analysts' relations with issuers

Investment banks should have guidelines in place governing how analysts engage with the issuers covered. It is recommended that in their internal guidelines invest-

³ It should be noted that the disclosure requirements in the market abuse regulation also should be adhered to.

ment banks specify the extent to which gifts and entertainment are acceptable. Factors to be considered include the degree of interaction with companies (lunch in connection with one-to-one meetings vs lunch in connection with multi-participant meetings), Christmas gifts etc. Investment banks should consider whether pre-approval should be required, when such pre-approval should be given, and whether internal reporting to, for example, the Compliance function is required.

Analysts are prohibited from accepting gifts or entertainment from issuers or other persons in return for a promise of specific recommendations etc.

Analysts should ensure that they do not give the impression of representing the management of companies they cover, for instance where the management is present at an event hosted by the investment bank and attended by the bank's clients.

Where an analyst refers to a statement made by an employee of an issuer, the contents of such statement should always be verified by the source. It is essential that analysts are not inadvertently involved in the disclosure of inside information about an issuer, regardless of whether such information originates from the issuer or another source. Even in situations where inside information has not been disclosed, analysts should refrain from reporting from one-to-one meetings with the management of an issuer to avoid giving the impression that inside information has been disclosed.

Wall crossing of analysts

Investment banks should have internal guidelines in place governing how and when analysts may be wall-crossed, including how to document the wall crossing of an analyst. It is recommended that where it is necessary to wall-cross an analyst, this should be done as late in the process as possible, based on a specific assessment of whether the analyst covers the relevant sector and not just the specific company. When an analyst has been wall-crossed, the analyst is prevented from writing about the company in question and from assisting others in preparing investment research about the company. It is recommended that analysts are only wall-crossed in exceptional cases.

For instance, an analyst will be wall-crossed by Corporate Finance immediately before the publication of a transaction in relation to which Corporate Finance has acted as adviser if the transaction concerns an issuer covered by the analyst.

Conflicts of interest and analysts

As a general rule, analysts may not hold financial instruments issued by companies they cover. It is recommended that investment banks consider whether this restric-



tion should be extended to include companies within the same sector but not covered by the analyst, and whether to introduce geographical delimitations. Where analysts initiate coverage of a new company and hold financial instruments issued by that company, it is recommended that guidelines governing such situations be prepared stipulating, for instance, that analysts are not allowed to trade against their own recommendations, that a closed period should be imposed from publication of the latest research, and how to deal with sales of the instruments or allocation of new ones, etc.

Other situations that could give rise to conflicts of interest should be addressed as well, for instance whether analysts may cover a company if a related party is in its senior management or on its board of directors. See also section 5 Personal account dealing.

Research in connection with corporate finance activities

In order to ensure that decisions concerning the timing of publication and the content of research are not made or inappropriately influenced by persons with interests which could conflict with those of the recipients of the research as well as in order to avoid any misconceptions between a research product and any prospectus or other offering or transactional documentation published in connection with an offering of financial instruments, an M&A transaction or in connection with other forms of corporate finance activities, an investment bank should have policies and procedures in place. This is to ensure that in situations where the investment bank has a significant role in transactions concerning issues of publicly traded financial



instruments, restrictions on the distribution or content of research relating to the issuer and its affiliates (and in certain situations other parties involved in a transaction) is imposed, for a specific period. The nature of, timing and length of such restrictions will depend on the nature and circumstances of the transaction in question.

In Appendix 2, specific recommendations for such periods and restrictions have been set out for various types of typical transactions involving issuers of publicly traded financial instruments.

Commissioned research

For investment banks that offer so-called commissioned research, it is recommended that their internal guidelines address the transition from commissioned research to independent research coverage of a company. For instance, a 1-month blackout period could be introduced, from the latest commissioned research to publication of the first independent research. Investment banks should also have guidelines on how to ensure that investors are able to distinguish between commissioned and independent research and that the content of commissioned research is independent, regardless of any payment made.

Protection of analysts

As analysts may come under pressure from other interests within the investment bank or from an issuer, it is recommended that investment banks have guidelines in place governing such situations, stating where analysts can go for support.

1. Definitions

Blackout period

A blackout period means a period during which an investment bank is not allowed to, or has decided not to, publish equity research, except in very special cases of extraordinary unforeseen events. The duration of such period may be determined jointly by the Corporate Finance and Compliance departments of the syndicate investment banks.

Capital market transaction

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

- New financial instruments are offered or existing financial instruments are sold.
- A public tender offer is made for financial instruments issued by a listed company.
- A purchase of financial instruments is made on the basis of a public tender offer.
- The transaction in itself is likely to affect the price of one or more listed financial instruments.

Commissioned research

Research that an investment bank is paid by a company to produce on financial instruments issued by that company.

Confidential information

Confidential information generally means all information that is not available to the public.

Corporate bonds

Bonds issued by non-public institutions.

Corporate finance activities

Assistance provided by an investment bank for the purpose of [or in connection with]

- the listing and placing of shares and share-related financial instruments via regulated markets
- private placements of unlisted shares
- major secondary share placements via regulated markets
- the buying and delisting of listed shares and share-related financial instruments
- advisory services in connection with mergers and acquisitions [M&A]

- other financial services in relation to the above activities

The activities typically include:

- advising on the arrangement and coordination of individual corporate finance activities, including transaction structure and timing
- strategic advisory services
- market assessments
- preparation of financial research and valuation of companies involved in the individual transactions
- assisting with the preparation of prospectus/information material
- planning and facilitating contact to investors and strategic business partners
- coordinating and participating in M&A negotiations
- overall coordination of due diligence activities.

Debt capital activities

An investment bank's participation in the process of advising on, arranging and executing an offering, placement, syndication or sale in the primary market for bonds, other debt instruments, derivatives and other underlying instruments.

The activities include:

- advising on the choice of capital structure and structuring of debt capital
- pricing of bonds and instruments
- identification of and negotiations with investors/lenders
- assisting with credit ratings
- advising on and assisting with securitisation
- market assessments.

Directed issue

The placing of financial instruments offered outside the open market by selling them directly to selected investors.

Financial instruments

For the purpose of these recommendations, financial instruments mean financial instruments as defined in Section C of Annex 1 of the MiFID II Directive.

Governance documents

Governance documents mean policies, business procedures and manuals.

Investment bank

A financial institution or unit/division of such which is mainly engaged in offering trading in financial instruments, financial advisory services and other related services, targeting primarily the institutional market.

Investment recommendation

As defined in point 35 of Article 3[1] of Regulation [EU] No 596/2014 of the European Parliament and of the Council.

IPO

An IPO [initial public offering] refers to the process of offering the shares of a company to the public through a stock exchange.

MiFID II

Directive 2014/65/EU of 15 May 2014 of the European Parliament and of the Council on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

Pitch

A marketing activity by which an investment bank seeks to be selected to perform a specific corporate finance or debt capital activity on behalf of an issuing company.

Relevant person

As defined in point 1 of Article 2[1] of Commission Delegated Regulation [EU] 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

Research

Research includes reports, articles and other similar material prepared by independent analysts and communicated in written/electronic form to clients or the public, providing

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

Restricted period

The period runs from the time when the project is initiated (coincidentally with the time when the company is entered on the restricted list) until the time of publication of the project and of research (when the blackout period begins).

Rights issue

Issue of new shares where existing shareholders are invited to buy additional shares on a pro-rata basis.

Roadshow

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

Secondary offering of existing shares

The selling of existing shares.

2. Recommendations concerning the timing and content of research in connection with corporate finance activities

The following recommendations are by Capital Market Denmark considered best practice procedures for the scenarios and transactions listed below where the investment bank participates as a member of the syndicate of investment banks managing or otherwise facilitating the transaction. It should, however, be noted that in certain situations, investment banks may decide to apply other adequate measures or practices which deviate from the recommendations below, including for specific transactions where investment banks from different jurisdictions participate in the syndicate or where other guidelines or regulations may apply.

In case of a leak of information concerning the transaction, it should be considered on a case-by-case basis whether, for the purpose of these recommendations, the transaction is to be considered to be publicly announced.

In general, if investment banks from different jurisdictions participate in the syndicate, it is recommended to have discussions early within the syndicate on the handling of research to permit any coordination to the extent possible.

Initial public offerings

For initial public offerings, it is recommended that the investment bank restricts the publication and distribution of research concerning the issuer conducting the initial public offering and its affiliates for a period commencing no less than seven days before the publication of the prospectus and ending 40 days after the commencement of trading of the issuer's shares [or other temporary instruments representing the issuer's shares] on the exchange or trading venue on which the issuer has applied, or have been approved, for having its shares admitted to trading. In practice, this means that all IPO research reports, including any translations into local languages, must be finalized and distributed no less than seven days before the publication of the prospectus.

However, notwithstanding the foregoing, at the discretion of the investment bank, any research issued prior to the blackout period may be corrected in respect of factual errors which become apparent upon publication of the prospectus.

In addition, it may, subject to approval from the investment bank's compliance department, also be appropriate to publish and/or distribute research following the receipt of significant news or in the case of a significant event which is expected to have a material impact on, or which is expected to cause a material change to, the issuer's operations, earnings, financial condition or prospects.

In the event the investment bank has purchased or subscribed for shares as a consequence of its underwriting obligation and a subsequent placing of such shares has not yet been completed, the investment bank should have procedures in place, including a consultation with the Compliance department, when assessing and deciding whether the restricted period should be extended beyond the period referenced above.

Rights issues

For rights issues, it is recommended that the investment bank restricts the content of research to include factual information only and exclude investment recommendations, price targets, valuation discussions and other commentary of a similar nature on the issuer and its affiliates, for a period commencing when the rights issue is publicly announced and the name of the syndicate investment bank is disclosed and ending upon registration of the capital increase related to the rights issue with the Danish Business Authority.

In the event the investment bank has purchased or subscribed for shares as a consequence of its underwriting obligation and a subsequent placing of such shares has not yet been completed, the investment bank should have procedures in place, including a consultation with the Compliance department, when assessing and deciding whether the restricted period should be extended beyond the period referenced above.

Directed issues of new shares [without a prospectus]

For directed issues of new shares without a prospectus, which are not materially insignificant by nature, it is recommended that the investment bank restricts the content of research to include factual information only and exclude investment recommendations, price targets, valuation discussions and other commentary of a similar nature on the issuer and its affiliates, for a period commencing on the earlier of [a] when the

directed issue is publicly announced [irrespective of whether such announcement occurs via Bloomberg, as a company announcement or otherwise] and the name of the syndicate investment bank is disclosed or (b) the commencement of book building and ending no earlier than upon announcement of registration of the capital increase related to the directed issue with the Danish Business Authority.

Secondary offerings of existing shares (without a prospectus)

For secondary offerings of existing shares which are offered without a prospectus and which are not materially insignificant by nature, it is recommended that the investment bank restricts the content of research to include factual information only and exclude investment recommendations, price targets, valuation discussions and other commentary of a similar nature on the issuer and its affiliates, for a period commencing on the earlier of (a) when the secondary offering of existing shares is publicly announced [irrespective of whether such announcement occurs via Bloomberg, as a company announcement or otherwise] and the name of the syndicate investment bank is disclosed or (b) the commencement of book building and ending no earlier than upon announcement of the result of the secondary offering of existing shares.

Mergers, acquisitions, spin-offs, divestments and other M&A transactions

For mergers, acquisitions and similar transactions, it is recommended that the investment bank restricts the content of research to include factual information only and exclude investment recommendations, price targets, valuation discussions and other commentary of a similar nature on both the acquirer and the target [to the extent both are issuers of publicly traded securities] and their affiliates, for a period commencing when the merger, acquisition or other similar transaction is publicly announced and the name of the syndicate investment bank is disclosed and ending upon the merger, acquisition or other similar transaction becoming unconditional.

For divestments, it is recommended that the investment bank restricts the content of research to include objective and factual commentary only and exclude investment recommendations, price targets, valuation discussions and other commentary of a similar nature on the issuer conducting the divestment and its affiliates, for a period commencing when the divestment is publicly announced and the name of the syndicate investment bank is disclosed and ending upon the divestment becoming unconditional.

Notwithstanding the above and given that mergers, acquisitions, divestments and other M&A transactions can be structured in many different ways, it is recognized that in certain situations the investment bank, depending on their role or whether international investment banks are a part of the syndicate, may deem other restric-

tions and periods (which deviate from the recommendation above) more suitable for a specific transaction.

As for spin-offs, given that such transactions can be structured in a variety of ways, including in combination with or without simultaneous securities offerings, no specific recommendations are included for such transactions and it is recognized that the appropriate measures for research conflict management will depend on the nature of and the circumstances surrounding the transaction. However, notwithstanding the above, it is recommended that the investment bank considers to restrict the content of research to include objective and factual commentary only and exclude investment recommendations, price targets, valuation discussions and other commentary of a similar nature, on the parent company as well as restrict the publication and distribution of research concerning the spun-out entity for a certain period.

Prior significant commitments, relations and other special circumstances

In addition to the recommendations listed above, there may be special circumstances where an investment bank has been mandated on non-public transaction and the investment bank has undertaken a significant commitment towards the issuer or another relevant entity participating in the transaction, e.g. a standby underwriting commitment, or if it is otherwise deemed appropriate given the syndicate investment bank's relationship with the issuer or other relevant entity participating in the transaction, it is recommended to consider whether the restricted periods outlined above should commence earlier than otherwise applicable.

Initiation of new research coverage

Notwithstanding the foregoing, if the investment bank does not have research coverage on the issuer conducting or, in respect of M&A transactions, a company subject to any of the transactions listed above [other than an initial public offering] at the time when the transaction is publicly announced, it is recommended that the investment bank does not initiate research coverage on the company in question for a period commencing when the transaction in question is publicly announced and ending 40 calendar days after the completion of the transaction.





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