A Code of Conduct

for the European Investment Management Industry

High Level Principles &

Best Practice Recommendations

[A Discussion Paper]

European Fund and Asset Management Association

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I. INTRODUCTION, OBJECTIVES, SCOPE AND APPLICABILITY

The EFAMA Code and Best Practice Recommendations represent an initiative by the European investment management industry to build up its leadership role and aims to preserve and strengthen:

- The integrity of the European marketplace for investment management and its worldwide reputation;

- The confidence of investors in the "investment management service" and the existing high level of investor protection;

- The existing high standards for authorised investment managers – so that they are best equipped to manage money on a fiduciary basis.

- The integration of the European Investment Management industry and the single market for financial services.

The current text is the result of a long and thorough discussion among EFAMA Members and should serve as a basis for discussion with the Commission and CESR. The Code sets forth high-level principles, which EFAMA regards as key elements of proper business conduct. Such principles are complemented and interpreted by best practice recommendations. In addition to this Code, EFAMA may issue detailed guidelines on specific issues that require more technical regulation (See Annex). Such guidelines may be modified and deleted as required.

This Code of Conduct applies to all types of Investment Management:

- Management of mandate-based segregated accounts for retail and professional clients, unless contractual arrangements with the client provide otherwise (in such cases contractual arrangements shall prevail).
- Management of Collective Investment Schemes, in particular investment funds (including their administration and distribution) offered to retail and professional clients.

Therefore, this Code refers to the core principles of both the UCITS Directive – in particular the rules of conduct as called for in its Article 5h – and the Markets in Financial Instruments Directive – in particular the rules relating to conduct of business, advice and best execution.

Industry standards are by nature living documents, and the provisions of this Code will consequently be updated following the evolution of applicable EU legislation and regulation.

Self-regulatory approaches by national investment management associations or companies are expected to comply with these principles. In particular, both high-level principles and best practice recommendations should serve as guidelines for Members without a Code of Conduct or wishing to update an existing one. However, the EFAMA Code is not designed to supersede applicable national law and regulations.

DEFINITIONS

The key notions in this Code are defined as follows:

- ***Investment Management Industry*** comprises entities conducting collective portfolio management and/or segregated account management on a discretionary basis as a main business.
- ***Investment Management Company (IMC)*** provides Investment Management services as defined above and illustrated in the table on page 6. It is the legal entity that constitutes the primary addressee of the present Code of Conduct. Where the legal entity provides services other than Investment Management, only Investment Management is subject to this Code of Conduct, and under no circumstances shall other services be affected.
- ***Directors*** – executive or non-executive - are members of the Board of an Investment Management Company.
- ***Investment Fund (or Fund)*** is a Collective Investment Scheme (CIS) either in corporate or in contractual type form.
- ***Portfolio*** is a pool of assets managed on a discretionary basis by an Investment Management Company.
- ***Portfolio/fund holdings*** are the individual assets – for example, shares or fixed income securities – that are held in a portfolio/fund.
- ***Portfolio Management Company*** is the company mandated to manage a specific portfolio/fund by retail or professional clients, or by a CIS.
- ***Portfolio manager*** is any employee of a Portfolio Management Company charged with the decisions related to the management of portfolios or funds.
- ***Shareholders of the IMC*** are the owners of a Portfolio Management Company (under MiFID) and could also be the owners of a Fund Management Company (under UCITS). Unit holders of a self-directed corporate Fund are not shareholders of the IMC in this sense.
- ***Service providers*** provide services to the IMC under delegation or contractual arrangements. Such services may relate to portfolio management, transfer agency and brokerage, accountancy, as well as reporting and custody (for certain types of funds only). The service provider can be independent of the IMC or a related party.
- ***Related parties*** are parties that have a sufficiently close relationship to the Investment Management Company or belong to the same group.
- ***Client/Investor*** means any natural or legal person to whom an IMC provides investment management services. This definition includes also unit holders of contractual type investment funds, or shareholders of corporate type investment funds.
- ***Professional Client*** is a client meeting the criteria in Annex II of MiFID,[1] to whom an IMC provides investment management services.
- ***Retail Client*** is any non-professional client as defined in MiFID Art. 4(12), to whom an IMC provides investment management services.

[1] Directive 2004/39/EC of 21 April 2004

INVESTMENT MANAGEMENT AND INVESTMENT MANAGEMENT COMPANY

Applicable Regulation	The **Investment Management (IM**) function comprises:	The **Investment Management Company (IMC**) definition includes the following legal entities:
MiFID	Mandate-based management of segregated assets for retail and professional clients; defined as **"Portfolio Management"**	• **"Investment Firms"**, defined as financial institutions (part of a group or not) providing Portfolio Management services to retail and professional clients under MiFID. They can also be delegated by the Fund Management Company to manage Fund assets.
UCITS	Management of Collective Investment Schemes (CIS), offered to retail and/or professional clients; defined as **"Fund Management"**	• **„Fund Management Companies"**[2] that manage: o Funds in contractual form (i.e. Société de gestion, Kapital-anlagegesellschaft, Fondsleitung); and o Funds in corporate form with a "designated" management company • **Self-directed Funds in corporate form**

It is understood that the rules of this Code of Conduct shall apply at the level of Investment Firms, Fund Management Companies and Self-directed Funds in corporate form.

[2] Under the UCITS Directive, Fund Management Companies may provide mandate-based management of segregated assets, and for this activity they are subject to MiFID and should abide by the pertinent principles of this Code.

II. HIGH LEVEL PRINCIPLES AND BEST PRACTICE RECOMMENDATIONS

1. Fiduciary Duty

In its activity of managing a portfolio of assets for investors on a discretionary basis and in the form of funds, the Investment Management Company recognizes and accepts a fiduciary duty to the investor. Therefore the Investment Management Company must always act in the best interest of the investor and in line with the integrity of the markets. All individuals and responsible bodies of an Investment Management Company must be guided by these Principles.

2. Governance

The Board, its members and the senior management of an Investment Management Company shall be accountable that the Investment Management Company acts in the best interest of investors. They shall ensure that investors receive the benefits and services to which they are entitled as a matter of law, in accordance with contracts and prospectuses or in accordance with specific instructions clients may give.

All Directors must have a good professional standing and they must be experienced with regard to their assigned function. The Board must collectively be competent to fulfil its responsibilities. All necessary qualifications and resources needed to effectively provide the types of products and services offered must be available.

In order to fulfil efficiently its responsibility towards investors and to resolve any conflicts of interests that arise the Board and senior management must act in sufficient autonomy and independence of shareholders, service providers and other related parties. The principles and rules for the governance of the Investment Management Company must provide safeguards that ensure this independence.

Best Practice Recommendations

Independent oversight for fund management

The governance structure of the Fund Management Company and/or of the Fund shall provide for independent oversight of the management company and of fund operations through entities that can take different forms (i.e. auditor, depositary or a number of independent directors on the Board). Such entities can either be independent of management, shareholders of the Fund Management Company and service providers, or be related parties. In order to provide effective independent oversight and fulfil their fiduciary duty to protect investors' interests, related parties shall take all necessary measures to minimize conflicts of interest and maintain a functional and economical separation of group entities.

The independent oversight shall ensure that the Fund Management Company and/or the Fund respect applicable rules, contractual obligations and duties and protect the interests of investors.

The Board and the compliance organization of the Fund Management Company and/or of the Fund shall closely cooperate with the independent entity and support it in the exercise of its functions.

3. Conflicts of Interest

The Investment Management Company shall identify areas where the interests of investors may conflict with those of other parties such as the management company, its staff, the service providers, in particular related parties, or other investors. It shall define rules and procedures for such cases to avoid, manage or disclose such conflicts of interest and to assure that the interests of investors are protected and all investors are treated equally.

Best Practice Recommendations

Managing conflicts of interest

An IMC shall establish organisational and administrative arrangements for identifying, preventing, managing or disclosing conflicts of interest in order to prevent any damage to the interests of its investors.

- **Identification of conflicts of interest**

An IMC shall take adequate measures to avoid, manage or disclose potential conflicts of interest that arise in connection with the management of assets, order allocation and execution, relationships with service providers and distributors, pricing and incentive policies.

The IMC shall identify the categories of interested persons, areas of business, types of financial instruments and transactions, service providers that can represent potential sources of conflicts of interest.

- **Conflicts policy**

The IMC's conflicts policy shall be appropriate to the nature, scale and complexity of its business. The arrangements set out in the IMC's conflicts policy shall include internal policies to mitigate conflicts of interest. In particular, the Investment Management Company shall have:

- A compensation policy for Directors, senior management functions and employees – in particular portfolio managers- that avoids incentives to act against investors' interests;
- A policy regarding personal transactions ensuring that employees cannot derive undue personal advantages;

- A policy with respect to confidentiality of information and protection of proprietary data;
- A policy regarding inducements.

The Investment Management Company shall obtain a formal commitment from its employees and directors to adhere to the policies in place.

- **Policy regarding dealings with related parties**

When functions or tasks are delegated to related parties or business transactions are carried out on behalf of investors or portfolios with related service providers, the terms of business shall always be "at arms length" and in line with market conditions.

4. Organisation and procedures

The Investment Management Company shall have the necessary means, resources and expertise to properly carry out its activities and which shall correspond to the business lines and the complexity of financial instruments and portfolio types that are managed. It shall act with due skill, care and diligence to manage its business in a responsible manner, in particular with regard to the protection of the rights and interests of investors.

It shall have appropriate written policies, procedures and controls for its operations and apply the "four-eyes" principle. It shall apply an appropriate segregation of business areas and duties (decision making, execution, administration and compliance) and control systems. It shall have an appropriate corporate risk management system.

Best Practice Recommendations

General Requirements relating to Organisation & Procedures

The IMC is free in its choice of organizational structures, policies, procedures and controls, according to the nature, scale and complexity of its business. A clear separation between investment decisions (e.g. management of portfolios/funds assets) and administration (e.g. valuation of portfolios/funds assets and reporting) must be guaranteed. The separation between investment decisions (e.g. management of portfolios/funds assets) and assignment of orders should be ensured, if appropriate to the nature, scale and complexity of the business.

The following comprise best practice guidelines:

- **Policies**: should include explicit written policies with regard to: accounting, risk management and control, decision making, management of conflicts of interest (see 3), obligations towards clients (including marketing, advice where it is given, custody of client information and assets where relevant, valuation of assets and performance reporting), compliance with regulations including self regulation (see 5), employee standards of behaviour and compensation.

- **Procedures**: the IMC shall have procedures in place to implement the policies described above. Such procedures should be documented, communicated throughout the firm and updated regularly.

- **Controls**: Internal control mechanisms shall ensure compliance with policies and procedures at all levels of the IMC and be adequately independent. The control functions and the staff members charged with them shall be clearly defined. The staff should be adequately trained and have clear reporting lines.

- **Complaint handling:** the IMC shall have in place and communicate effective procedures for handling complaints received from clients/investors in a satisfactory and timely way. Records of the complaints received and action taken shall be kept for the period stipulated by applicable regulations.

5. Compliance

The Investment Management Company shall constantly monitor compliance with the Law, regulation and other rules, in particular those that protect the interests of investors and mitigate conflicts of interest.

The compliance function shall be independent from operative functions, be equipped with adequate resources and report regularly to the Board of Directors. Persons conducting the compliance function must have the necessary expertise and authority, as well as full access to all information enabling them to perform their duties.

Best Practice Recommendations

The compliance function shall be independent but must not be necessarily exercised by a separate unit. However, the compliance function shall dispose of adequate resources, its tasks and reporting lines shall be clearly defined, and its staff members shall be adequately trained.

6. Delegation/outsourcing and service providers

When delegating/outsourcing functions to third parties and carrying out business transactions on behalf of investors or portfolios, the Investment Management Company must have a clearly defined policy with respect to the selection of service providers. It shall monitor the services provided, their quality and price. Particular diligence is required when transactions or delegated functions involve related parties.

The delegation of functions does in no way reduce the responsibility of the Investment Management Company to the investor. It must maintain control over delegated functions and the supervision of risk management.

Best Practice Recommendations

Delegation/outsourcing and Service Providers

- **Policy regarding selection and oversight of service providers**

IMC choices regarding delegation and outsourcing to service providers should be made independently and in the best interest of investors. All decisions in this regard shall be documented.

The IMC shall:

- exercise due skill, care and diligence in planning, entering into, instructing, supervising and exiting from an outsourcing arrangement
- only delegate such tasks to third parties that have the ability and capacity to perform the outsourced functions reliably, professionally and in the best interest of the IMC's clients/ investors
- retain the required expertise to effectively supervise the outsourced functions and manage the risk associated with the outsourcing
- clearly allocate the parties' respective responsibilities in a written agreement
- ensure that unwinding is possible at the discretion of the IMC
- have complete access to its data in an outsourcing agreement and provide such access also to the firm's compliance function, as well as to internal and external auditors
- disclose to investors the outsourcing of critical functions

7. Investment decisions

When the portfolio management function is delegated to a third party the Investment Management Company shall closely monitor the portfolio and its risk profile to ensure that the outside manager abides by all objectives and policies relevant to the portfolio.

Investment decisions require a high level of diligence. Only portfolio managers with the appropriate professional expertise shall be responsible for taking investment decisions. They must have sufficient analytical and research capacities at their disposal.

The necessary procedures and techniques to manage the risk profile of each portfolio have to be in place. The risk management process shall be appropriate with regard to investment instruments and techniques and portfolio strategies applied.
Investment decisions shall be in line with the objectives and guidelines that are relevant for the portfolio. Rules and safeguards shall be in place to ensure that the investment policy complies at all times with the portfolio objectives and guidelines.

Best Practice Recommendations

Investment Decisions

The IMC shall take all investment decisions in the best interest of the investor, and not for the prime benefit of the IMC. Investment decisions shall always be in line with investment guidelines and objectives, as laid down in the client agreement (see HLP 14) or in the fund prospectus and marketing material.

Responsibility for investment decisions shall be assigned to experienced staff disposing of adequate tools and resources, among them internal and/or external research. Portfolio management staff shall be adequately supervised.

Delegation of Investment Decisions

For mandate-based segregated accounts investment decisions may be delegated to third parties only with the investors' explicit consent.

Fund Management Companies shall delegate investment decisions only to Investment Firms with sufficient qualifications and which are subject to this Code of Conduct, equivalent standards, or equivalent internal regulations.

Fund Management Companies shall properly instruct the external Investment Firm, as well as ensure appropriate supervision and performance monitoring. Written contracts shall define the functions delegated to the Investment Firm, as well as the rights of the Fund Management Company to have unrestricted access to records, to modify the investment directives or other contractual provisions, or to terminate the contract.

8. Best execution

The Investment Management Company shall set up and implement effective arrangements to achieve the best possible execution of investment decisions, taking into account price, costs, speed, likelihood of execution and settlement, and any other consideration relevant to the execution of the order.

Best Practice Recommendations

Execution policy

The IMC shall establish and implement an order execution policy. As criteria to design the execution policy and assess execution quality, the IMC should consider price, costs, speed and likelihood of execution and settlement as relevant criteria. Costs should include implicit costs such as market impact and opportunity cost.

The policy and the relative importance of the criteria may depend on circumstances like order size, instruments traded, etc.

The IMC's order execution process should define staff responsibilities at each stage of the process. The execution of transactions demands staff with specialized skills. A transparent process to account for execution errors should be an integral part of the order management system and should be regularly monitored by senior management.

Best Execution

When directing or executing orders on behalf of portfolios the IMC shall take all reasonable steps to obtain best execution, that is the best possible results for the clients, on a consistent basis. Specifically, the IMC shall make reasonable efforts to optimize net execution price considering available markets and venues as well as counterparties, while minimising opportunity cost and other transaction costs.

The IMC should make a considered choice whether to execute orders directly or via brokers.

Client instructions as regards selection of brokers, or constraints on broker selection arising from the client's choice of custodian, mitigate the duty of best execution to the extent of the constraints imposed.

All investors, investor groups and/or collective portfolios shall be treated equally. Particular care shall be taken when allocating and executing aggregated orders for multiple portfolios.

Even if the portfolio management is delegated to a third party asset manager the IMC remains responsible for the compliance with the best execution obligation by the third party manager.

9. Broker relations

The Investment Management Company shall select counterparties for trade execution (brokers) according to defined procedures and criteria, taking into account execution capability and – in the case of bundled services – quality of research.

Transaction-related commissions paid to brokers may be used to compensate execution and research or other services that improve the activities of the Investment Management Company to the benefit of investors.

The Investment Management Company should disclose its policy regarding broker relations.

Best Practice Recommendations

Brokerage policy/Broker list

In selecting counterparties for portfolio/fund transactions, the IMC shall base its decision on objective criteria and act solely in the interest of the investors. Criteria to be taken into account may include reputation, commissions and fees, ability to avoid market impact, quality of service, financial strength, efficiency of settlement, quality of research, etc. The selection of counterparties should be reviewed at regular intervals.

The IMC should not enter into agreements restricting its decisions in this regard.

Soft commissions

The IMC may enter into soft commission arrangements only if:

- this does not prevent seeking best possible order execution
- the additional goods and services improve the activities to the benefit of the investors
- any conflicts of interest are managed properly and do not impact investors negatively.

Cash retrocessions (hard commissions) are not allowed unless they are transferred to the client/fund.

Review and monitoring

The order execution process should always generate a comprehensive audit trail.

The IMC should regularly review execution arrangements, monitor order execution performance and, if necessary, correct deficiencies. It should use appropriate methods and data to assess whether the best possible execution quality is achieved on a consistent basis.

In case of indirect execution, the quality of execution by brokers should be monitored on a continuous basis and the allocations reviewed regularly in the light of such monitoring.

Disclosure

The IMC shall disclose in a way it deems appropriate to current and prospective clients/investors general information regarding its trading and brokerage policy, as well as measures in place to achieve best execution.

10. Asset valuation

The portfolio must reflect the fair value of the assets. Whenever possible it must be priced according to the "mark to market" principle applying predetermined criteria (e.g. by utilising independent pricing sources or predetermined pricing models)." As a basic rule the valuation of assets must be performed independently from the portfolio management function.

Best Practice Recommendations

Organisational measures

The unit in charge of asset valuation shall be independent from portfolio management and trading functions.

The prices used for the valuation shall be drawn from an independent, reputable source. Once selected, the price source should only be changed in exceptional cases, when such change is clearly justified. Any deviations from the price source shall be readily verifiable at all times and officially documented.

Valuation principles

Assets traded on a stock exchange or another regulated market open to the public (hereinafter collectively referred to as "exchanges") shall be valued at their most recent trading price.

When there is no reliable price, or the assets are not traded on an exchange, the IMC shall use a generally accepted valuation method to calculate the price that would probably be obtained if the assets were sold with due diligence.

Procedures in case of valuation errors (for investment funds only)

The Fund Management Company shall issue internal directives describing the principles and the operational procedures to value the fund's assets and correct calculation mistakes, should they occur.

Effective organizational measures should be implemented to identify as quickly as possible errors in the valuation of the fund's assets and in the calculation of net asset value, issue and redemption prices, and to rectify the causes of such errors.

The Fund Management Company shall keep a record of all errors directly connected with the calculation of the net asset value, as well as the measures implemented to prevent their recurrence. The fund's depositary and auditors should be able to inspect this error report at any time.

11. Custody of portfolio assets

Portfolio assets shall be kept segregated from those of the Investment Management Company.
In the case of a collective investment schemes, a depositary shall hold the assets in custody in the interest of the investors. The depositary must fulfill professional standards and be selected on the basis of the general principle that the Investment Management Company and the depositary are separate entities or sufficiently independent.

Best Practice Recommendations

Custody Arrangements

The IMC is usually not responsible for the selection of a third-party custodian for mandate-based, segregated accounts, which is directly nominated by the client.

Where the custodian/depositary is selected by the IMC, the latter shall exercise great care and diligence in the selection, supervision and periodic review of the custody arrangements for the investor's/fund's assets. Selection criteria for the custodian/depositary shall include expertise, reputation, financial strength and compliance with legal requirements.

12. Fund unit trading

The Investment Management Company shall establish procedures to discourage frequent unit trading and other practices that may harm the interests of long-term investors.

The Investment Management Company shall disclose its policy with regard to fund unit trading and any potentially remaining risks for long-term investors.

Best Practice Recommendations

The IMC shall take adequate measures to prevent late trading in units of its funds and protect investors from the negative impact of market timing transactions. Such measures may include: strict observance of forward pricing and cut-off times, measures to discourage arbitrage activity and 'active traders' (i.e. transaction charges, dilution levies), review of pricing and valuation of the fund to minimize 'stale prices'.

13. Shareholder and creditor rights

Investment Management Companies shall use shareholder and creditor rights attached to portfolio holdings in a considered way, in the best interest of investors and to enhance the portfolio value. When making use of shareholder and creditor rights, the Investment Management Company shall support the aim that portfolio companies comply with recognised standards of good corporate governance.

Investment Management Companies shall define and document their policy with regard to the use of shareholder and creditor rights, in particular on how to exercise voting rights attached to portfolio company holdings. Particular attention must be given to potential conflicts of interest in the case of related companies.

The policies regarding the use of shareholder and creditor rights must be disclosed to investors.

Best Practice Recommendations

Shareholder and creditor rights

IMCs shall adopt a clear and considered policy regarding their responsibility as shareholders and creditors that takes into consideration widely differing corporate cultures, company law requirement and industry structures.

In case of important decisions pertaining to significant portfolio holdings the IMC should exercise its voting rights. Voting rights shall be exercised independently and solely in the interest of investors.

14. Investor Information

All information about products and services that is directed to investors or the public must be true, fair and not misleading, in particular with regard to investment objectives and policy, potential returns and risks, and costs to be borne by the investor. If performance data on managed portfolios is published, the Investment Management Company shall comply with recognised standards with regard to calculation methods, periods of reference and the application of benchmarks.

All information provided shall in particular comply with the information and disclosure requirements for the types of products and services offered.

All information shall be provided in a consistent format to allow comparability across different products and consistency between different types of publications including prospectuses, standard agreements and periodic reports.

Best Practice Recommendations

Information on services and products targeted at existing and future Retail Clients

- Shall contain an accurate, balanced and comprehensive description of potential benefits and risks involved/associated with the service or product.
- Shall be presented in a way and language that is readily understood by the persons to whom it is directed.
- Shall contain information on all costs.
- Shall refrain from promises of future returns (unless guaranteed) and misleading performance comparisons

When referring to past performance, the IMC shall mention that historical results are no guarantee of future performance and whether the performance data takes costs into account.

Marketing materials shall be objective, avoid raising unreasonable performance expectations, and give a balanced picture of potential benefits and risks.

Reporting to Retail Clients

Reporting to investors shall contain true and fair information about the policy followed during the reporting period, as well as the results achieved. Information shall be presented in a form and language that is readily understandable for the investors to whom the reporting is primarily addressed.

Statements on portfolio assets prepared by the custodian or by a unit independent from portfolio management shall be regularly provided to the client.

Asset valuation shall be based on independent sources (see HLP/BPR 11). In reporting and publishing performance data on the portfolios/funds it manages, the IMC shall observe generally accepted professional standards with regards to:

- calculation methods
- appropriate reference periods (e.g. 1, 3 and 5 years)
- the selection of suitable benchmarks (if applicable)

IMC shall openly disclose all costs incurred in the management and administration of the portfolio/fund. It shall provide this information in line with generally accepted professional standards.

Reporting for Investment Funds primarily offered to retail clients shall take into account all applicable legal requirements, as well professional standards/guidelines, and be presented in a language and form readily understandable for the investors.

Reporting requirements for Professional Clients will be set by contractual agreements.

Use of the Internet for marketing and advertising purposes

On their websites, Investment Management Companies should provide information on products and services according to high quality and integrity standards, taking the following into account:

Consistency

- Full consistency between information on the website and corresponding information in documents in paper form.

Privacy

- Enforcement of all appropriate safety measures in order to protect the confidentiality of the data accessed or provided by the users.
- The use of the data collected should be stated.
- All applicable privacy policies and regulations shall be complied with.

Marketing services

- Investors should have access in downloadable form to all information documents usually disclosed prior to any sale.
- Adequate records of all modifications to website documentation should be maintained.
- Sites should be designed to ensure a high degree of security against intrusion. Investor identification and personal data should be encrypted when transmitted.

Hyperlinks

If hyperlinks are provided, a clear warning should be shown upon leaving the fund provider site.

15. Clients & intermediaries

Where the Investment Management Company provides advice, it shall obtain information about the customer and provide information in order to ensure the suitability of the advice and the appropriateness of the products for that particular investor.

Where Investment Management Companies appoint distributors, they shall have policies and procedures for their selection, use and monitoring.

Where such distributors provide advice to the investor, the Investment Management Company shall take reasonable care to ensure that the appointed intermediary obtains all necessary product information and support in order to comply with recognised advice and service standards.

Best Practice Recommendations

Special Requirements for Retail Clients

Where the IMC provides portfolio management services or direct advice to retail clients, it shall in particular seek information about the client's risk tolerance, investment objectives, time horizon of investments, and dependence on regular income and liquidity, and it shall maintain a written client profile.

The IMC shall also maintain written records of contacts with clients, including advice given and investment results presented.

Intermediaries

Policies as to selection, use and monitoring of distributors

The Investment Management Company shall establish written policies complying with the following standards:

- **Selection of Distributors**

The Investment Management Company should take reasonable care that the funds it manages or represents are sold through distributors, who:

- Can ensure a high standard of service and - in the case of a distribution channel with advice - meet recognised standards;
- Enjoy a good reputation in the market(s) of distribution;
- Have been duly authorised as a distributor of funds by the competent authority or body (if such authorization is required);
- Comply with all applicable governmental regulations, self-regulation rules and industry standards;
- Maintain a control structure to ensure that it:
  - Employs suitable salespeople with appropriate skills and knowledge who are – as the case may be – licensed and supervised in accordance with regulatory requirements;
  - Applies adequate anti-money laundering procedures;
  - Prevents or discloses conflicts of interest.

- **Provision of product information and training**

In the provision of product information and training the Investment Management Company should act according to the following standards:

- Require that the distributor provide its clients or potential clients with accurate and up to date product information designated for them at the point of sale;
- Maintain an appropriate framework for the provision of product information and knowledge, such that the distributor is able to meet its obligation to its clients;

If training is provided, it should support the appropriate use of product.

- **Monitoring**

During the lifetime of its relationship with a distributor the Investment Management Company should periodically verify that the selection criteria still apply.

Finally, the Investment Management Company should have procedures in place to ensure an appropriate follow-up in case of clients' complaints with respect to the distributor's behaviour.

- **Agreement between Investment Management Company and fund distributor**

The relationship between the Investment Management Company and the fund distributor shall be established in a written agreement defining the mutual rights and duties of the parties and accompanied (if applicable) by an agreement including compliance with all applicable laws, regulations, rules and standards.

- **Written Policies**

The Investment Management Company maintains in written form its policies regarding selection, use and monitoring of distributors.

III. OTHER PROVISIONS

Implementation / Enforcement

Member Associations of EFAMA shall implement the High Level Principles and Best Practice Recommendations in their self-regulatory framework, in coordination with national laws and legal requirements, and with the necessary national adjustments.

In cooperation with regulators, Member Associations shall seek effective/efficient ways to ensure implementation and compliance by the IMC. Such measures could include regular reviews by the independent compliance unit, depository or auditors.

ANNEX

EFAMA has already adopted in the past principles/guidelines on the following subjects:

- Simplified prospectus
- Transparency of fees (TER)
- Investment fund managers as shareholders
- Investment policy principles
- Performance
- Fund unit trading

July 20, 2004

INVESTMENT ADVISER ASSOCIATION

BEST PRACTICES FOR INVESTMENT ADVISER CODES OF ETHICS

On July 2, 2004, the Securities and Exchange Commission adopted a new rule and rule amendments under Section 204 of the Investment Advisers Act of 1940 that require all registered investment advisers to adopt codes of ethics. The codes of ethics must set forth standards of conduct expected of advisory personnel and address conflicts that arise from personal trading by advisory personnel. The rule and rule amendments are intended to promote compliance with fiduciary standards by advisers and their personnel. The SEC also adopted conforming amendments to rule 17j-1 under the Investment Company Act.

The IAA strongly supports the fundamental requirement that all investment advisers adopt and implement written codes of ethics. Since 1937, the IAA has endorsed standards and principles that have emphasized an investment adviser's fiduciary duty. The IAA's current standards state that investment advisers are fiduciaries and thereby have the responsibility to render professional, continuous, and unbiased investment advice. Fiduciaries owe their clients a duty of honesty, good faith, and fair dealing. As a fiduciary, an adviser must act at all times in the client's best interests and must avoid or disclose conflicts of interests. Codes of ethics emphasize and implement these fundamental principles within each firm.

In 1995, the IAA encouraged its member firms to adopt a Code of Ethics that would address, among other things, personal trading, gifts, the prohibition against the use of inside information, and other situations where there is a possibility for conflicts of interest. At that time, the IAA issued guidelines to assist its members in addressing the personal trading aspects of such codes. Guidelines on Personal Investing (February 15, 1995). We understand that many of our members have followed these guidelines in establishing a code of ethics and personal trading policies and procedures.

In light of recent events, including the SEC's new rule and ongoing investigation of abusive practices involving advisers to mutual funds, the IAA has concluded that our guidelines should be expanded and updated. The IAA has prepared this Best Practices for Investment Adviser Codes of Ethics ("Best Practices") based on an extensive review of the current codes of ethics and policies and procedures of many investment advisers, and numerous discussions with IAA members and investment management professionals. These Best Practices are intended to provide guidelines and suggest best practices for an adviser seeking to update, revise or construct its own code of ethics appropriate to the nature and size of its particular advisory business and the types of clients it serves. The Best Practices also address all of the provisions required by the SEC's new rule.

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INTRODUCTION

An investment adviser's code of ethics should set the tone for the conduct and professionalism of the adviser's employees, officers, and directors. Because the ethical culture of a firm is of critical importance and must be supported at the highest levels of the firm, a firm's code of ethics should be approved or endorsed by senior management. For fund advisers, the code must also be approved by boards of funds advised by the firm. In addition, the president or chief executive of an adviser may wish to append a cover letter to the code when circulated to employees to emphasize his or her views regarding the importance of ethical conduct.

A code of ethics should be designed to:

- Protect the firm's clients by deterring misconduct;
- Educate employees regarding the firm's expectations and the laws governing their conduct;
- Remind employees that they are in a position of trust and must act with complete propriety at all times;
- Protect the reputation of the firm;
- Guard against violation of the securities laws; and
- Establish procedures for employees to follow so that advisers may determine whether their employees are complying with the firm's ethical principles.

Because of the educational component of a code of ethics, firms should strive to draft their codes in plain English. The more readable a code is, the more likely it is that employees will be able to understand and comply with its precepts. In addition, the firm should provide training and readily available resources for its employees to assist them in understanding what conduct is or is not permissible.

It is vitally important that firms tailor their codes of ethics to the business, structure, clientele, and nature of their own firms. No single "off-the-shelf" set of provisions will be appropriate for every adviser. In addition, the restrictions set forth in the code should be reasonable and not create an unnecessary burden on employees.

A code of ethics should establish the firm's expectations for its personnel and set forth principles and standards for them to follow. Specific procedures related to these standards may be included in the code itself or in a compliance manual. Some firms strongly prefer a short, simple code focused on core conduct, while other advisers prefer very comprehensive codes including or cross-referencing a wide range of compliance policies and procedures. Each firm should assess its own structure and compliance system in determining whether to include various policies and procedures in the code or in its compliance manual or other documents. While advisers may structure their codes of ethics to best fit their organizations, an adviser that puts various required provisions of the code into multiple documents should ensure that all parts are integrated and

understandable so that it is clear to employees that these documents together constitute the firm's code of ethics.

We set forth below the SEC's required topics for an adviser's code of ethics, additional IAA- recommended best practices for a code and related policies and procedures, and discussion of other provisions that firms may wish to consider including in their codes where appropriate. The required topics we cover focus solely on the requirements under Investment Advisers Act rule 204A-1 and Investment Company Act rule 17j-1. These provisions are indicated by a (**Required**) notation. This document does not, and is not intended to, cover code of ethics requirements imposed by the Sarbanes-Oxley Act of 2002.

We recognize that there is enormous diversity within the investment advisory profession and that every firm has unique characteristics and practices. Accordingly, this document is not intended to set forth a "one-size-fits-all" set of provisions that all firms should implement. Instead, this document should be used as a set of guidelines that firms may consider in crafting codes of ethics that serve their needs and fit their particular circumstances.

PART 1. GENERAL PRINCIPLES

The IAA recommends that an adviser's code of ethics include a general statement of principles or the firm's philosophy regarding ethics. These principles should emphasize the adviser's overarching fiduciary duty to clients and the obligation of firm personnel to uphold that fundamental duty.

The general principles should at a minimum include:

1. The duty at all times to place the interests of clients first;

2. The requirement that all personal securities transactions be conducted in such a manner as to be consistent with the code of ethics and to avoid any actual or potential conflict of interest or any abuse of an employee's position of trust and responsibility;

3. The principle that investment adviser personnel should not take inappropriate advantage of their positions;

4. The fiduciary principle that information concerning the identity of security holdings and financial circumstances of clients is confidential; and

5. The principle that independence in the investment decision-making process is paramount.

In addition, some firms use the general principles to discuss the importance of the firm's reputation, as well as principles of honesty, integrity, and professionalism. We

recommend that firms also emphasize to all directors, officers, and employees that the general principles discussed in this section govern all conduct, whether or not the conduct also is covered by more specific standards and procedures set forth below.

Advisers may also wish to emphasize at the outset that failure to comply with the firm's code of ethics may result in disciplinary action, including termination of employment.

PART 2. SCOPE OF THE CODE

Understanding which compliance-related topics will be included in an adviser's code and which of the adviser's officers, directors, and employees will be covered by all or part of the code is essential to developing an appropriately structured code of ethics.

A. **Topics Addressed in the Code**

In drafting its code of ethics, an adviser needs to decide which topics should be included in the code and which will be covered by other policies or procedures included in the firm compliance manual/policies, employee handbook, or elsewhere. In general, broad principle-based concepts addressed to the firm's employees and emphasizing fiduciary duty are appropriate for the code. In addition, the code is required to encourage employees to comply with applicable federal securities laws, while the requirements for an adviser's compliance procedures focus on the firm's compliance with the Investment Advisers Act and regulations thereunder.

The vast majority of codes that we reviewed address securities-related conduct and focus principally on fiduciary duty, personal securities transactions, insider trading, gifts, and conflicts of interest. Some of the other provisions that a few firms included are: antitrust; anti-money laundering; compliance with copyright laws; corporate responsibility; drug free workplace; employment of former government employees; employment practices; financial reporting; health and safety in the workplace; illegal payments (Foreign Corrupt Practices Act); NASD regulations (for dual registrants); past and current litigation; press and media dealings; Sarbanes-Oxley code of ethics; sexual harassment; speaking engagements; and termination of employment. We understand that most firms, however, address these non-securities-related issues in their employee handbooks or in other policy and procedure compilations.

B. **Persons Covered by the Code**

An investment adviser must designate the categories or sub-categories of persons covered by an adviser's code or portions of its code. Rule 204A-1 requires the code to cover an adviser's "supervised persons." A subset of these supervised persons, "access persons," are required to comply with specific reporting requirements. (**Required**)

Supervised Persons include:

- Directors, officers, and partners of the adviser (or other persons occupying a similar status or performing similar functions);
- Employees of the adviser; and
- Any other person who provides advice on behalf of the adviser and is subject to the adviser's supervision and control.

An adviser may wish to specify additional categories of persons as supervised persons or persons otherwise subject to the code, including:

- Temporary workers;
- Consultants;
- Independent contractors;
- Certain employees of affiliates; or
- Particular persons designated by the chief compliance officer.

Similarly, an adviser, where appropriate, may also wish to clarify which persons or types of persons are *not* subject to the code.

Access Person includes any supervised person who:

- has access to nonpublic information regarding any clients' purchase or sale of securities, or nonpublic information regarding the portfolio holdings of any fund the adviser or its control affiliates manage; or
- is involved in making securities recommendations to clients, or has access to such recommendations that are nonpublic.

If a firm's primary business is providing investment advice, all of the firm's directors, officers, and partners are presumed to be access persons.

Access Persons for Mutual Funds. A code of ethics for an adviser that manages a mutual fund must cover a slightly different universe of individuals, including:[1]

- Directors, officers, and general partners of the adviser; and
- "Advisory persons" – employees and certain control persons (and their employees) who make, participate in, or obtain information regarding fund securities transactions or whose functions relate to the making of recommendations with respect to fund transactions.
- Fund advisers may exempt from certain reporting provisions of the code fund directors who are not employees of the adviser and do not have access to confidential information regarding client securities transactions or recommendations.

[1] We have assumed for purposes of this code that the investment advisory firm is primarily in the business of providing investment advice. For fund advisers not primarily in the business of advising funds or advisory clients, "access persons" only include directors, officers, general partners, or advisory persons who make, participate in, or who obtain information regarding fund transactions or whose functions relate to the making of any recommendations with respect to a fund transaction.

Accordingly, fund advisers should determine which persons employed by control affiliates may have access to fund information and either designate those employees as access persons or develop policies that prevent such control affiliate employees from obtaining confidential fund information.

Some firms choose to treat all employees as access persons, particularly where the nature or philosophy of the firm tends to expose a large range of employees to client information. Firms may also consider extending compliance procedures to some group of employees broader than access persons, or to all employees.

Family Members. For purposes of personal securities reporting requirements, an adviser should ensure that terms such as "employee," "account," "supervised person," and "access person" are defined to also include the person's immediate family (including any relative by blood or marriage living in the employee's household), and any account in which he or she has a direct or indirect beneficial interest (such as a trust). Some firms also include any other individuals living in the employee's household. Advisers may wish to consider whether the scope of code provisions other than those related to personal securities transactions should extend beyond employees to their family members.

Investment Personnel. These Best Practices include a few provisions that would apply to a subset of access persons (*e.g.*, IPOs, private placements). Accordingly, we recommend that advisers define an additional category of personnel in their codes who make investment decisions for clients (*i.e.*, portfolio managers), who provide information or advice to portfolio managers, or who help execute and/or implement the portfolio manager's decision. Such "investment personnel" could include, for example, portfolio managers, portfolio assistants, securities analysts, and traders. This definition is needed only if the adviser chooses not to apply these more restrictive provisions to all access persons.

C. **Securities Covered by the Code**

The IAA recommends that firms include a definition of "covered securities" in their codes. The definition clarifies for employees what types of securities are covered by various provisions of the code. For example, the definition may read:

Covered Security means any stock, bond, future, investment contract or any other instrument that is considered a "security" under the Investment Advisers Act. The term "covered security" is very broad and includes items you might not ordinarily think of as "securities," such as:

- Options on securities, on indexes, and on currencies;
- All kinds of limited partnerships;
- Foreign unit trusts and foreign mutual funds; and
- Private investment funds, hedge funds, and investment clubs.

Covered Security does not include[2]:

- Direct obligations of the U.S. government (e.g., treasury securities);
- Bankers' acceptances, bank certificates of deposit, commercial paper, and high quality short-term debt obligations, including repurchase agreements;
- Shares issued by money market funds;
- Shares of open-end mutual funds that are not advised or sub-advised by the firm (or certain affiliates, where applicable); and
- Shares issued by unit investment trusts that are invested exclusively in one or more open-end funds, none of which are funds advised or sub-advised by the firm (or certain affiliates, where applicable).

Some firms may not want to use this definition of "covered security" with respect to every provision in the code because it includes within its scope funds advised or sub-advised by the firm. For example, the new rule requires that access persons submit reports with respect to transactions in mutual funds advised or sub-advised by the firm, but a firm that voluntarily requires pre-clearance of transactions may decide not to include shares of mutual funds it advises or sub-advises in such procedures. In that case, the firm should include two separate definitional terms in this section (*e.g.,* "covered securities," which would exclude all open-end mutual funds, and "reportable securities" or "reportable funds" for use in sections applicable to transactions in funds advised or sub-advised by the firm). Firms that advise many funds, or whose employees will have to report regarding funds advised by affiliates, may wish to attach a list of such funds to assist employees in understanding their obligations.

In addition, advisers often include in their codes a broader glossary of important terms used in the code, such as "accounts," "beneficial interest," "covered funds," "access persons," "supervised persons," "investment persons," and "investment control." Advisers that include such a broader glossary should consider placing it at the back of the code so that employees are not immediately confronted by a daunting list of legalistic terms. Finally, some firms include a provision in their code regarding application of the various personal securities transaction rules to the firm's own retirement plan, subject to any ERISA considerations.

PART 3. STANDARDS OF BUSINESS CONDUCT

The new rule 204A-1 requires codes to include standards of business conduct that the firm requires of its supervised persons, which must reflect the firm's and its supervised persons' fiduciary obligations. (**Required**) This section sets forth potential categories of topics that could be included in an adviser's business conduct standards. These categories combine legal requirements with suggested practices that may not be necessary or appropriate for all advisory firms. Firms should tailor any policies to their own unique characteristics and clientele.

[2] These exceptions from the term "covered security" are expressly excluded from the reporting requirements of new rule 204A-1. These exceptions are also permitted by Investment Company Act rule 17j-1.

A. **Compliance with Laws and Regulations.** The code should provide that supervised persons must comply with applicable federal securities laws. (**Required**)

1. As part of this requirement, the code should specify that supervised persons are not permitted, in connection with the purchase or sale, directly or indirectly, of a security held or to be acquired by a client:

    a. To defraud such client in any manner;

    b. To mislead such client, including by making a statement that omits material facts;

    c. To engage in any act, practice or course of conduct which operates or would operate as a fraud or deceit upon such client;

    d. To engage in any manipulative practice with respect to such client; or

    e. To engage in any manipulative practice with respect to securities, including price manipulation.

2. Advisers should consider whether to specifically discuss other federal securities laws that may be applicable to their supervised persons.

    a. *Note*. Regulation S-P (privacy requirements) and anti-money laundering requirements imposed on mutual funds and proposed for investment advisers are considered to be federal securities laws.

B. **Conflicts of Interest.** The code should provide that, as a fiduciary, the firm has an affirmative duty of care, loyalty, honesty, and good faith to act in the best interests of its clients. Compliance with this duty can be achieved by trying to avoid conflicts of interest and by fully disclosing all material facts concerning any conflict that does arise with respect to any client. In addition, firms may wish to impose a higher standard by providing that individuals subject to the code must try to avoid situations that have even the *appearance* of conflict or impropriety.

1. *Conflicts Among Client Interests*. Conflicts of interest may arise where the firm or its supervised persons have reason to favor the interests of one client over another client (*e.g.*, larger accounts over smaller accounts, accounts compensated by performance fees over accounts not so compensated, accounts in which employees have made material personal investments, accounts of close friends or relatives of supervised persons). The IAA recommends that the code specifically prohibit inappropriate favoritism of one client over another client that would constitute a breach of fiduciary duty. Advisers should include in the code or elsewhere procedures designed to address such conflicts.

2. *Competing with Client Trades*. The IAA recommends that the code prohibit access persons from using knowledge about pending or currently considered securities transactions for clients to profit personally, directly or indirectly, as a result of such transactions, including by purchasing or selling such securities. Conflicts raised by personal securities transactions also are addressed more specifically in section D below.

3. *Other Potential Conflicts Provisions.* Advisers may wish to consider the following additional types of conflicts provisions:

    a. *Disclosure of personal interest.* Many advisers prohibit investment personnel from recommending, implementing or considering any securities transaction for a client without having disclosed any material beneficial ownership, business or personal relationship, or other material interest in the issuer or its affiliates, to an appropriate designated person (*e.g.*, the chief investment officer or, with respect to the chief investment officer's interests, another designated senior officer). If such designated person deems the disclosed interest to present a material conflict, the investment personnel may not participate in any decision-making process regarding the securities of that issuer.

        1) *Note*. This provision would apply in addition to the firm's quarterly and annual personal securities reporting requirements.

        2) *Research Analysts*. If a research analyst has a material interest in an issuer, the firm may wish to assign a different analyst to cover the issuer.

    b. *Referrals/Brokerage*. Although already addressed in separate policies and procedures, advisers may wish to include in the code itself a provision requiring supervised persons to act in the best interests of the firm's clients regarding execution and other costs paid by clients for brokerage services. As part of this principle, the code would remind supervised persons to strictly adhere to the firm's policies and procedures regarding brokerage (including allocation, best execution, soft dollars, and directed brokerage). Such policies and procedures generally are too detailed to be included in the code, but may be cross-referenced.

    c. *Vendors and Suppliers.* Some advisers include a provision in their codes requiring supervised persons to disclose any personal investments or other interests in vendors or suppliers with respect to which the person negotiates or makes decisions on behalf of the firm. Firms with this type of provision in their code generally prohibit supervised persons with such interests from negotiating or making decisions regarding the firm's business with those companies.

d. *No Transactions with Clients.* A few advisers include a provision specifically stating that supervised persons are not permitted to knowingly sell to or purchase from a client any security or other property, except securities issued by the client.

C. **Insider Trading.** Codes of ethics should include a provision prohibiting supervised persons from trading, either personally or on behalf of others, while in possession of material, nonpublic information. The provision should also prohibit personnel from communicating material nonpublic information to others in violation of the law. The code should either include the firm's insider trading policies and procedures or cross-reference these policies and procedures.

1. *Penalties.* Advisers that have separate insider trading policies and procedures may wish to include a discussion of potential insider trading penalties in the code itself, including civil injunctions, permanent bars from employment in the securities industry, civil penalties up to three times the profits made or losses avoided, criminal fines, and jail sentences. Advisers may also wish to emphasize that although access persons are most likely to come in contact with material nonpublic information, the prohibition on insider trading and potential sanctions apply to all employees, officers, and directors.

2. *Special Procedures.* Advisers must tailor their insider trading policies to the circumstances of their firm, their employees, and their clients. For example, a firm that permits employees to serve on the boards of public companies or on creditors committees may require special procedures. Similarly, firms with clients that are publicly traded companies or clients who are insiders at public companies may need additional cautionary provisions in their codes. Advisers should consider information provided not only by insiders, but also by paid consultants and other third parties in drafting their policies and procedures.

3. *Material Nonpublic Information.* Advisers should note the SEC's position that the term "material nonpublic information" relates not only to issuers but also to the adviser's securities recommendations and client securities holdings and transactions.

D. **Personal Securities Transactions.** Codes of ethics should include a provision requiring all access persons strictly to comply with the firm's policies and procedures regarding personal securities transactions. Some firms maintain a separate personal securities transactions policy. Others include the policy within the code of ethics. The IAA recommends the following provisions for a firm's personal securities transactions policy:

1. *Initial Public Offerings – Prohibition*. The IAA recommends that codes of ethics prohibit *investment personnel* from acquiring any securities in an initial public offering, in order to preclude any possibility of their profiting improperly from their positions with an adviser.

    a. *Note*. The SEC's rule requires pre-clearance of an *access person's* participation in IPOs. (**Required**) For simplicity, a firm may wish to prohibit all access persons from participating in IPOs, rather than requiring pre-clearance for access persons who are not also investment personnel.

    b. *Sole Proprietors*. The SEC rule exempts firms with only one access person from the IPO pre-clearance requirement.

2. *Limited or Private Offerings – Pre-Clearance.* The rule mandates that codes of ethics require express prior approval of any acquisition of securities by access persons in a limited offering (*e.g.*, private placement). (**Required**) The IAA recommends that this prior approval take into account, among other factors, whether the investment opportunity should be reserved for clients, and whether the opportunity is being offered to an individual by virtue of his or her position with the adviser.

    a. The IAA further recommends that investment personnel who have been authorized to acquire securities in a private placement should be required to *disclose* that investment when they play a part in any client's subsequent consideration of an investment in the issuer; and

    b. In such circumstances, the decision to purchase securities of the issuer for the client should be made either by another employee or, at a minimum, should be subject to an independent review by investment personnel with no personal interest in the issuer.

    c. The new rule exempts firms with only one access person from the pre-clearance requirement for limited offerings.

3. *Blackout Periods.* The IAA recommends that codes of ethics prohibit any access person from executing a securities transaction on a day during which any client has a pending "buy" or "sell" order in the same (or a related) security until that order is executed or withdrawn. The IAA recommends that advisers consider an additional prohibition on purchase or sale by access persons or investment personnel of a security within a so-called "blackout" period, *i.e.*, a prescribed number of calendar days before and after a client trades in that security.

    a. The IAA recognizes that policies on "blackout" periods, the length of such periods, and the persons or categories of persons to whom they apply will vary to meet the particular nature and practices of individual firms.

b. Some firms provide exemptions from the blackout period for certain types of transactions that do not present the potential for conflicts of interest, including those set forth in Part 4, section A.3 below.

c. Some firms have a separate blackout period that applies when an analyst changes his or her recommendation.

4. *Short-Term Trading.* The IAA recommends that advisers restrict short-term trading by investment personnel. Any profits realized on prohibited short-term trades should be required to be disgorged.

   a. *Duration*. The duration of a ban on short-term trading is a policy matter for each firm. Common durations for non-fund advisers are 30 days and 60 days.

   b. *Persons Covered*. Depending on the size and nature of the firm, the adviser may wish to consider extending this prohibition to access persons or all supervised persons.

   c. *Securities Covered*. Some advisers prohibit short-term trading only with respect to securities held in client accounts.

   d. *Fund Advisers*. The IAA recommends that investment advisory firms that advise or sub-advise mutual funds either (a) define the securities transactions covered by the code to include transactions in mutual funds advised by the adviser or certain affiliates or sub-advised by the adviser; (b) expressly prohibit access persons from engaging in short-term trading in mutual funds advised by the firm or its affiliates or sub-advised by the firm; or (c) require pre-clearance of access persons' redemptions or exchanges of the adviser's funds or sub-advised funds within 30 days of purchase.

      1) *Note*. This type of provision is recommended to deter and/or monitor for any market timing by fund adviser employees, in addition to the reporting requirements set forth in Part 4.A below.

5. *Miscellaneous Restrictions.* Advisers may wish to consider some of the following additional restrictions:

   a. *Margin Accounts.* Some advisers discourage or prohibit their personnel from purchasing securities on margin.

   b. *Short Sales.* Some advisers generally prohibit their personnel from selling any security short, except for short sales "against the box." Alternately, some advisers prohibit short sales in any security that is owned by any client of the firm.

   c. *Options and Futures.* Options and futures are covered securities subject to all sections of the code. Some advisers impose additional restrictions on

transactions involving puts, calls, straddles, options, or futures either generally or with respect to options or futures related to securities held by clients of the firm.

d. *Limit Orders.* Some firms prohibit access persons from placing a "good until cancelled" order or any limit order other than a "same-day" limit order.

e. *Significant Holdings.* A few firms prohibit their investment personnel from holding more than a specified percentage of the outstanding securities of one company without (a) disclosure; or (b) approval by the chief compliance officer or other designated person.

f. *Restricted List.* Some firms maintain a list of securities that the firm is analyzing or considering for client transactions, and prohibit their access persons from personal trading in those securities.

g. *Frequent Trading.* In addition to prohibiting short-term trading in the same security, some firms explicitly discourage frequent trading in general because it may be a potential distraction from servicing clients.

E. **Gifts and Entertainment.** The IAA recommends that codes of ethics contain the following types of provisions regarding gifts and entertainment.

1. *General Statement.* A conflict of interest occurs when the personal interests of employees interfere or could potentially interfere with their responsibilities to the firm and its clients. *The overriding principle is that supervised persons should not accept inappropriate gifts, favors, entertainment, special accommodations, or other things of material value that could influence their decision-making or make them feel beholden to a person or firm.* Similarly, supervised persons should not offer gifts, favors, entertainment or other things of value that could be viewed as overly generous or aimed at influencing decision-making or making a client feel beholden to the firm or the supervised person.

   a. *Note*. This general principle applies in addition to the more specific guidelines set forth below.

2. *Gifts.* No supervised person may receive any gift, service, or other thing of more than *de minimis* value from any person or entity that does business with or on behalf of the adviser. No supervised person may give or offer any gift of more than *de minimis* value to existing clients, prospective clients, or any entity that does business with or on behalf of the adviser without pre-approval by the chief compliance officer.

3. *Cash.* No supervised person may give or accept cash gifts or cash equivalents to or from a client, prospective client, or any entity that does business with or on behalf of the adviser.

4. *Entertainment.* No supervised person may provide or accept extravagant or excessive entertainment to or from a client, prospective client, or any person or entity that does or seeks to do business with or on behalf of the adviser. Supervised persons may provide or accept a business entertainment event, such as dinner or a sporting event, of reasonable value, if the person or entity providing the entertainment is present.

5. *Additional Provisions.* Some firms include provisions that provide additional specificity regarding gifts and entertainment. Firms may wish to consider including some of the following types of provisions in their code where appropriate:

    a. *Specific De Minimis.* Advisers may wish to delineate a *de minimis* value for gifts or entertainment in their codes of ethics. The specific amount may vary depending on the nature and location of the firm and its clients. Firms that are dual registrants sometimes use a $100 gift *de minimis* for all employees based on NASD rules.

    b. *Pre-Clearance.* Some firms require pre-clearance of business entertainment events exceeding a specified amount in value, or of a certain type (*e.g.*, offer of travel expenses or hotel accommodations), or to certain categories of persons (*e.g.*, government officials).

    c. *Reporting.* Some firms require quarterly reporting of gifts and entertainment received by certain categories of personnel. Some firms also keep logs of gifts and entertainment provided and received.

    d. *Solicited Gifts.* Some firms expressly prohibit employees from soliciting for themselves or the firm gifts or anything of value. Some policies express this concept in terms of a prohibition on a supervised person's using his or her position with the firm to obtain anything of value from a client, supplier, person to whom the employee refers business, or any other entity with which the firm does business.

    e. *Appropriate Circumstances.* Some firms specifically list acceptable types of gifts and entertainment and/or specify that receipt of entertainment is acceptable if the expenses would have been paid as a firm business expense. Some firms clarify that discounts and rebates on merchandise or services are appropriate only where they do not exceed those available for other customers.

    f. *Referrals.* Some policies include a provision that supervised persons may not make referrals to clients (*e.g.*, of accountants, attorneys, or the like) if the supervised person expects to benefit in any way.

    g. *Government Officials.* Firms that engage in certain types of business, such as managing state or municipal pension funds, may want to include special

provisions regarding government officials. For example, the code may make employees aware that certain laws or rules in various jurisdictions may prohibit or limit gifts or entertainment extended to public officials. *See also* subsection 5.b above.

F. **Political and Charitable Contributions.** The IAA recommends that any investment adviser that provides investment supervisory services to government entities, or that seeks to provide such services, prohibit employees from making political contributions for the purpose of obtaining or retaining advisory contracts with government entities. In addition, an adviser should prohibit its supervised persons from considering the adviser's current or anticipated business relationships as a factor in soliciting political or charitable donations. For more information, *see* IAA's *Best Practice Pay-to-Play Guidelines for Adviser Codes of Ethics* (May 15, 2000).

G. **Confidentiality.** All confidentiality provisions should start with the basic fiduciary premise that information concerning the identity of security holdings and financial circumstances of clients is confidential.

1. *Firm Duties.* The IAA recommends that codes include a provision stating that the adviser must keep all information about clients (including former clients) in strict confidence, including the client's identity (unless the client consents), the client's financial circumstances, the client's security holdings, and advice furnished to the client by the firm.

2. *Supervised Persons' Duties.* As part of or in addition to insider trading procedures, an adviser should prohibit supervised persons from disclosing to persons outside the firm any material nonpublic information about any client, the securities investments made by the firm on behalf of a client, information about contemplated securities transactions, or information regarding the firm's trading strategies, except as required to effectuate securities transactions on behalf of a client or for other legitimate business purposes.

    a. *Disclosure of Holdings.* Some firms include a provision in their code that governs the timing of the firm's disclosure of fund or model portfolio holdings to clients, consultants, or prospective clients upon request. Such a provision is designed to ensure that some clients are not able to receive such information earlier than other clients and to ensure that the information is no longer material in the sense of affecting the firm's trading strategies. A firm may also require consultants to abide by a confidentiality agreement and stipulation not to trade on the information provided.

3. *Internal Walls.* Depending on the size and nature of the firm, a firm may wish to prohibit access persons from disclosing nonpublic information concerning clients or securities transactions to non-access persons within the firm. Similarly, a firm with affiliates may include a provision prohibiting supervised persons from

sharing information with persons employed by affiliated entities, except for legitimate business purposes.

4. *Physical Security.* A few firms discuss the physical security of nonpublic information in this section. For example, a policy might state that files containing material nonpublic information should be sealed and access to computer files containing such information should be restricted.

5. *Regulation S-P.* A few firms also expressly cross-reference their Regulation S-P privacy policy under the confidentiality section. Such a provision would mandate that supervised persons comply with the firm's privacy policy, which the firm could attach to or reference in the code.

    a. *Note*. Regulation S-P covers only a subset of an adviser's confidentiality standards. Regulation S-P applies only to natural persons and only to personal information. An adviser's fiduciary duty to keep client information confidential extends to *all* of the firm's clients and information.

H. **Service on a Board of Directors.** The IAA recommends that codes of ethics set out the circumstances under which investment personnel may serve on boards of directors of publicly traded companies. Because of the high potential for conflicts of interest and insider trading problems, such situations should be carefully scrutinized and subject to prior approval. In the relatively small number of instances in which board service is authorized, investment personnel serving as directors normally should be isolated, through information barriers or other procedures, from those making investment decisions regarding the issuer.

1. *Ban.* Some advisers state more strongly that they prohibit supervised persons from serving as directors of public companies and state that exceptions will be made only when in the best interests of the firm and its clients.

2. *Private Company Going Public.* Some firms include a provision that a director of a private company may be required to resign, either immediately or at the end of the current term, if the company goes public during his or her term as director.

I. **Other Outside Activities.** In addition to addressing service on boards of publicly traded companies, many firms have provisions addressing the following issues:

1. *General.* The firm may discourage supervised persons from engaging in outside business or investment activities that may interfere with their duties with the firm. Some firms prohibit supervised persons from maintaining any outside business affiliations, including directorships of private companies, consulting engagements, or public/charitable positions, without the prior written approval of the appropriate officer at the firm.

2. *Fiduciary Appointments.* Firms often require that supervised persons obtain firm approval before accepting an executorship, trusteeship, or power of attorney, other than with respect to a family member. With respect to fiduciary appointments on behalf of family members, some firms require disclosure at the inception of the relationship.

3. *Creditors Committees.* Some firms prohibit a supervised person from serving on a creditors committee except as approved by the firm as part of the person's employment duties.

4. *Disclosure.* Regardless of whether an activity is specifically addressed in the code, supervised persons should disclose any personal interest that might present a conflict of interest or harm the reputation of the firm.

J. **Marketing and Promotional Activities.** The IAA recommends that the code include a provision reminding supervised persons that all oral and written statements, including those made to clients, prospective clients, their representatives, or the media, must be professional, accurate, balanced, and not misleading in any way. Firms may wish to cross-reference the advertising section of their compliance manuals. Many advisers also require pre-clearance for promotional materials, either in their codes or in separate compliance policies and procedures.

PART 4. COMPLIANCE PROCEDURES

The IAA suggests the following compliance procedures to implement firms' codes of ethics. Some firms may include these provisions in the code itself, while others may wish to include them in a separate compliance policies and procedures. Firms may wish to consider extending these procedures to some group of employees broader than access persons, or to all employees.

A. Personal Securities Transaction Procedures and Reporting.

1. *Pre-Clearance Procedures.* The IAA recommends that access persons be required to obtain pre-clearance for transactions in covered securities (as defined by the firm). The pre-clearance requirements and associated procedures should be reasonably designed to identify any prohibition or limitation applicable to a proposed investment. Pre-clearance procedures typically include:

   a. A standard form to be submitted by the requesting access persons, containing all relevant information about the proposed transaction;

   b. The time that pre-clearance expires (*e.g.*, same business day, 48 hours, etc.). Note that advisers with non-U.S. offices may find that pre-clearance needs to be extended to accommodate the different hours of non-U.S. markets;

c. Designation of chief compliance officer or other person to authorize requested transactions;

d. Designation of individual responsible for authorizing transactions of the chief compliance officer or other person that authorizes transactions; and

e. Documentation of the authorization, including time and signature of authorizing individual.

Procedures should include monitoring of personal investment activity of access persons and others who have been granted pre-clearance. For example, post-trade reports or duplicate confirmations should be checked against the log or file of pre-clearance approvals.

2. *Reporting Requirements.*

a. *Holdings Reports.* The code must require access persons to submit to the chief compliance officer (or other person designated in the code) a report of all holdings in covered/reportable securities within 10 days of becoming an access person and thereafter on an annual basis. (**Required**) The holdings report must include: (i) the title and exchange ticker symbol or CUSIP number, type of security, number of shares and principal amount (if applicable) of each reportable security in which the access person has any direct or indirect beneficial ownership; (ii) the name of any broker, dealer or bank with which the access person maintains an account in which any securities are held for the access person's direct or indirect benefit; and (iii) the date the report is submitted. (**Required**)

1) *Note*. Most firms supply their access persons with initial and annual holdings report forms indicating the information required, in lieu of specifying the content of the reports in the code itself. These forms often include certifications as to the completeness and accuracy of the information provided.

2) *Current information*. The information supplied must be current as of a date no more than 45 days before the annual report is submitted. For new access persons, the information must be current as of a date no more than 45 days before the person became an access person.

3) *Account identifier.* In addition to the required items listed above, some firms require their access persons to include specific account numbers or identifiers in their holdings reports.

b. *Quarterly Transaction Reports.* The code must require access persons to submit to the chief compliance officer (or other person designated in the code) transaction reports no later than 30 days after the end of each calendar quarter covering all transactions in covered/reportable securities during the quarter.

(**Required**) The transaction reports must include information about each transaction involving a reportable security in which the access person had, or as a result of the transaction acquired, any direct or indirect beneficial ownership. The reports must include: (i) the date of the transaction, the title and exchange ticker symbol or CUSIP number, the interest rate and maturity date (if applicable), the number of shares and the principal amount (if applicable) of each reportable security involved; (ii) the nature of the transaction (*e.g.*, purchase, sale); (iii) the price of the security at which the transaction was effected; (iv) the name of the broker, dealer, or bank with or through which the transaction was effected; and (v) the date the report is submitted. (**Required**)

1) *Note*. Again, most firms provide access persons with quarterly transaction report forms in lieu of listing the required content of the reports in the code. Some firms require this information on a monthly basis.

c. *Quarterly Brokerage Account Reports.* Fund advisers must include in their codes a provision requiring access persons to disclose the following information about any account opened during the quarter containing securities held for the direct or indirect benefit of the access person: (i) the name of the broker, dealer or bank with whom the access person established the account; (ii) the date the account was established; and (iii) the date the report is submitted. (**Required for fund advisers**).

1) *Note*. The IAA recommends that non-fund advisers require access persons to disclose all securities accounts to the chief compliance officer or other designated person.

d. *Confidentiality of Reports.* Some firms include a provision assuring access persons that their transactions and holdings reports will be maintained in confidence, except to the extent necessary to implement and enforce the provisions of the code or to comply with requests for information from government agencies.

3. *Exempt Transactions*

a. *Reporting Exemptions.* Under the rule, an adviser's code need not require an access person to submit:

1) Any report with respect to securities held in accounts over which the access person has no direct or indirect influence or control;

a) *Note*. With respect to access persons who have accounts managed by investment advisers on a discretionary basis, firms may wish to require reporting (but not pre-clearance) for monitoring purposes.

2) A transaction report with respect to transactions effected pursuant to an automatic investment plan;

a) *Note*. This exemption includes dividend reinvestment plans.

3) A transaction report if the report would duplicate information contained in broker trade confirmations or account statements that the firm holds in its records so long as the firm receives the confirmations or statements no later than 30 days after the end of the applicable calendar quarter; and

4) Any transaction or holding report if the firm has only one access person, so long as the firm maintains records of the information otherwise required to be reported under the rule.

b. *Pre-Clearance Exemptions.* Firms that require pre-clearance of access persons' personal securities transactions include some or all of the following types of exemptions from pre-clearance (but not from reporting) requirements:

1) Purchases or sales over which an access person has no direct or indirect influence or control (the corollary of (a)(i) above);

2) Purchases or sales pursuant to an automatic investment plan (the corollary of (a)(ii) above);

3) Purchases effected upon exercise of rights issued by an issuer *pro rata* to all holders of a class of its securities, to the extent such rights were acquired from such issuers, and sales of such rights so acquired;

4) Acquisition of securities through stock dividends, dividend reinvestments, stock splits, reverse stock splits, mergers, consolidations, spin-offs, and other similar corporate reorganizations or distributions generally applicable to all holders of the same class of securities;

5) Open end investment company shares *other than* shares of investment companies advised by the firm or its affiliates or sub-advised by the firm;

6) Certain closed-end index funds;

7) Unit investment trusts;

8) Exchange traded funds that are based on a broad-based securities index;

9) Futures and options on currencies or an a broad-based securities index;

10) Transactions in certain types of debt securities (*e.g.*, municipal bonds) where the firm is an equity-only adviser or other similar circumstances where conflicts of interest would not arise;

11) Other non-volitional events, such as assignment of options or exercise of an option at expiration; or

12) *De minimis* transactions in large-cap securities.

a) The transaction parameters set forth by firms for these exemptions are varied. Most firms specify a market capitalization for issuers in conjunction with a specified limit on the number of shares involved in the transaction (*e.g.*, no more than 1,000 shares in a issuer with a market capitalization of $10 billion or greater, in a one-month period).

b) The *de minimis* parameters will vary depending on the size of the firm, the nature of its business, its investment strategy, and whether the size of client transactions involves market-moving potential.

c. *Other exemptions.* Many advisers use the pre-clearance exemptions listed above for other personal trading restrictions such as blackout periods and short-term trading restrictions. Some advisers that sponsor unregistered funds and that allow employees and principals to invest in those funds exempt trades in those unregistered funds from pre-clearance and other personal trading restrictions.

4. *Duplicate Brokerage Confirmations and Statements.* The IAA recommends that advisers' codes require access persons to direct their brokers to provide to the chief compliance officer or other designated compliance official, on a timely basis, duplicate copies of confirmations of all personal securities transactions and copies of periodic statements for all securities accounts. Firms may wish to permit their access persons to use such duplicate brokerage confirmations and account statements in lieu of submitting their quarterly transaction reports, provided that all of the required information is contained in those confirmations and statements.

5. *Designated Brokerage Accounts.* Some advisers, particularly larger firms, require their employees to maintain their personal brokerage and trading accounts with a firm-designated broker or limit the number of brokers employees may use. Other firms require employees to obtain permission or provide prior notice before opening a new account. Some fund advisers, where feasible, may wish to prohibit their access persons from buying shares of mutual funds advised or subadvised by

the adviser through omnibus accounts and requiring access persons to buy such shares directly from the fund's transfer agent.

6. *Monitoring of Personal Securities Transactions.* Advisers are required to review personal securities transactions and holdings reports periodically. (**Required**) The IAA recommends the following procedures to implement this requirement:

    a) The firm should designate an individual or position that is responsible for reviewing and monitoring personal securities transactions and trading patterns of access persons ("Reviewer").

    b) The firm should designate an individual or position that is responsible for reviewing and monitoring the personal securities transactions of the Reviewer and for taking on the responsibilities of the Reviewer in the Reviewer's absence.

    c) Advisers should consider including a written procedure for the Reviewer to follow should the Reviewer become aware of potential violations of the code.

    d) Advisers should consider excluding specific monitoring and reviewing procedures from the code itself. Overly specific detail regarding these procedures may provide an opportunity for wrongdoers to evade detection. However, the SEC has suggested that review of personal securities holding and transaction reports include:

        1) An assessment of whether the access person followed any required internal procedures, such as pre-clearance;

        2) Comparison of personal trading to any restricted lists;

        3) An assessment of whether the access person is trading for his or her own account in the same securities he or she is trading for clients, and if so, whether the clients are receiving terms as favorable as the access person takes for him or herself;

        4) Periodically analyzing the access person's trading for patterns that may indicate abuse, including market timing; and

        5) An investigation of any substantial disparities between the percentage of trades that are profitable when the access person trades for his or her own account and the percentage that are profitable when he or she places trades for clients.

B. **Pre-Clearance and Reporting of Gifts and Outside Activities.** Firms that choose to include pre-clearance procedures for gifts, entertainment, donations, outside directorships, or other activities should include procedures similar to those suggested

for personal securities transactions (*e.g.*, designation of authorizing individual/committee, documentation, and so forth). Similarly, firms that choose to require reporting of gifts, entertainment, and donations should provide forms or specifications for their employees, as well as guidance on frequency of reporting. Such firms should also set forth procedures for review and analysis of the reports received.

C. **Certification of Compliance**

1. *Initial Certification.* The firm is required to provide all supervised persons with a copy of the code. The IAA recommends that advisers require all supervised persons to certify in writing that they have: (a) received a copy of the code; (b) read and understand all provisions of the code; and (c) agreed to comply with the terms of the code. (**Acknowledgement of receipt of code required**)

2. *Acknowledgement of Amendments.* The advisory firm must provide supervised persons with any amendments to the code and supervised persons should submit a written acknowledgement that they have received, read, and understood the amendments to the code. (**Acknowledgement of receipt of amendments required**)

    a) *Note*. The SEC rule requires that supervised persons receive any amendments to the code. Accordingly, to avoid inundating employees, firms may wish to reserve technical amendments to include in the annual process or to include with any material amendments. In addition, firms may wish to use titles or positions instead of specific names in the code.

    b) *Attention to changes*. Rather than simply distribute the amended code, the adviser should bring important changes to the attention of employees.

3. *Annual Certification.* The IAA recommends that all supervised persons annually certify that they have read, understood, and complied with the code of ethics. In addition, firms may wish more specifically to require the certification to include a representation that the supervised person has made all of the reports required by the code and has not engaged in any prohibited conduct. Conversely, if the employee is unable to make such a representation, the firm should require the employee to self-report any violations.

    a) *Note*. As part of the annual code of ethics certification, a few firms also require supervised persons to certify annually that they are not subject to any of the disciplinary events listed in Item 11 of Form ADV, Part 1.

PART 5. RECORDKEEPING

Advisers may wish to include recordkeeping provisions relevant to the code in the code itself as well as in any separate recordkeeping policies and procedures in the firm's

compliance manual. If so, the code's recordkeeping provision should state that the firm will maintain the following records in a readily accessible place: (Required records)

1. A copy of each code that has been in effect at any time during the past five years;

2. A record of any violation of the code and any action taken as a result of such violation for five years from the end of the fiscal year in which the violation occurred;

3. A record of all written acknowledgements of receipt of the code and amendments for each person who is currently, or within the past five years was, a supervised person;

    a) These records must be kept for five years after the individual ceases to be a supervised person of the firm.

4. Holdings and transactions reports made pursuant to the code, including any brokerage confirmation and account statements made in lieu of these reports;

5. A list of the names of persons who are currently, or within the past five years were, access persons;

    a) Firms may wish to consider maintaining a list of investment personnel as well.

6. A record of any decision and supporting reasons for approving the acquisition of securities by access persons in limited offerings for at least five years after the end of the fiscal year in which approval was granted.

    a. *Note*. Firms that require pre-approval of access persons' investments in IPOs rather than prohibiting such investments would also be required to maintain records of such approvals.

    b. *Other approvals*. The IAA recommends that firms consider maintaining records of any decisions that grant employees or access persons a waiver from or exception to the code.

Fund advisers must also maintain:

1. A record of persons responsible for reviewing access persons' reports currently or during the last five years; and

2. A copy of reports provided to the fund's board of directors regarding the code.

PART 6. FORM ADV DISCLOSURE

The SEC's new rule requires advisers to include on Schedule F of Form ADV, Part II a description of the firm's code and to state that the firm will provide a copy of the code to any client or prospective client upon request. (**Required**) Advisers should take care to review and update the firm's Part II disclosure in connection with making amendments to the code.

PART 7. ADMINISTRATION AND ENFORCEMENT OF THE CODE

A. **Training and Education.** Advisers should consider designating the individual or position responsible for training and educating supervised persons regarding the code. Advisers should also consider stating in the code that training will occur periodically and that all supervised persons are required to attend any training sessions or read any applicable materials.

B. **Annual Review.** The code should require the chief compliance officer to review at least annually the adequacy of the code and the effectiveness of its implementation.

   1. *Note*. Because the code of ethics is part of a firm's overall compliance program, this review is required by Investment Advisers Act rule 206(4)-7 (the compliance program rule). Fund advisers should also coordinate this review with the compliance program review required by Investment Company Act rule 38a-1.

C. **Board Approval (Fund Advisers).** Fund advisers are required to have their codes approved by the board of directors of any mutual funds they advise or sub-advise. Any material amendments to the code must also be approved by the board. (**Required by Investment Company Act rule 17j-1**)

   1. *Note*. Fund advisers may wish to coordinate board approval of their codes with the compliance program approval required by Investment Company Act rule 38a-1.

D. **Report to Board (Fund Advisers).** Fund advisers are required to provide an annual written report to the board of the directors of the funds they advise or sub-advise that describes any issues arising under the code since the last report, including information about material violations of the code and sanctions imposed in response to such violations. The report must include discussion of whether any waivers that might be considered important by the board were granted during the period. The report must also certify that the adviser has adopted procedures reasonably necessary to prevent access persons from violating the code. (**Required by Investment Company Act rule 17j-1**)

   1. *Note*. Fund advisers may wish to coordinate this report with the annual compliance program report required by Investment Company Act rule 38a-1.

E. **Report to Senior Management (All Advisers).** Depending on the size and structure of the firm, an adviser should consider requiring the chief compliance officer to report to senior management regarding his or her annual review of the code and to bring material violations to the attention of senior management.

1. *Note*. If the chief compliance officer is a member of senior management, this provision may be less appropriate.

F. **Reporting Violations.** The code must require all supervised persons to report violations of the firm's code of ethics promptly to the chief compliance officer or other appropriate personnel designated in the code (provided the chief compliance officer also receives reports of all violations). (**Required**)

1. *Confidentiality.* Advisers may wish to state that such reports will be treated confidentially to the extent permitted by law and investigated promptly and appropriately. Similarly, advisers may permit reports to be submitted anonymously.

2. *Alternate Designee.* Advisers should consider designating an alternate person to whom employees may report violations in case the chief compliance officer or other primary designee is involved in the violation or is unreachable.

3. *Types of Reporting.* Advisers may also wish to illustrate for supervised persons the types of reporting required, such as: noncompliance with applicable laws, rules, and regulations; fraud or illegal acts involving any aspect of the firm's business; material misstatements in regulatory filings, internal books and records, clients records or reports; activity that is harmful to clients, including fund shareholders; and deviations from required controls and procedures that safeguard clients and the firm.

4. *Advice of Counsel.* Advisers may wish to encourage their supervised persons to seek advice from the legal department with respect to any action or transaction which may violate the code and to refrain from any action or transaction with might lead to the appearance of a violation.

5. *Apparent Violations.* Advisers may consider requiring supervised persons to report "apparent" or "suspected" violations in addition to actual or known violations of the code.

6. *Retaliation.* Advisers may wish specifically to state that retaliation against an individual who reports a violation is prohibited and constitutes a further violation of the code.

G. **Sanctions.** The IAA recommends that the code warn supervised persons that any violation of the code may result in any disciplinary action that a designated person or group (*e.g.*, chief compliance officer, compliance committee) deems appropriate,

including but not limited to a warning, fines, disgorgement, suspension, demotion, or termination of employment. In addition to sanctions, violations may result in referral to civil or criminal authorities where appropriate.

H. **Further Information Regarding the Code.** The IAA suggests that the code provide information about where supervised persons may turn for additional information about the code or any other ethics-related questions. Advisers may wish to provide names and contact information of individuals, such as the chief compliance officer or members of an ethics or compliance committee, or information about written resources.

July 20, 2004

Corporate Governance Code for Collective Investment Schemes and Management Companies

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ifia
IRISH FUNDS INDUSTRY ASSOCIATION

Transitional Arrangements

Whilst this Code is voluntary in nature, its adoption is strongly recommended by the IFIA . This Code becomes effective from 1st January 2012, with a twelve month transitional period.

1. Background to Funds & Definitions

What is a Collective Investment Scheme?

1.1. A collective investment scheme ("CIS") is essentially a vehicle for pooling the investments of investors in order to obtain professional management for their pooled assets. The purpose of a CIS is to invest the pooled assets for the primary benefit of its investors in accordance with the terms of the relevant prospectus. The Shares of an open-ended CIS may at the request of the Shareholders be purchased by the CIS at such frequency as disclosed in the prospectus of the CIS. Alternatively, a CIS may be closed ended in that its Shares may not be purchased by the CIS at the request of the Shareholders throughout the life of the CIS, but instead will be redeemed by the CIS at the end of the investment term or earlier, as described in the prospectus. By investing in a CIS, investors are electing to have their money managed in accordance with the investment policy for that CIS. For retail CIS, this investment decision is usually taken following the receipt of advice from a regulated intermediary. For institutional CIS the investment decision is usually taken by investors with knowledge and experience of investing.

What is Corporate Governance

1.2. IOSCO defines governance of CIS as a "framework for the organisation and operation of CIS that seeks to ensure that CIS are organised and operated efficiently and exclusively in the interests of their investors, and not in the interest of CIS insiders."

1.3. The requirements in this Code are recommended by the IFIA as requirements that an Irish authorised CIS and Irish authorised Management Company ("ManCo") should meet in the interest of promoting strong and effective governance.

1.4. CIS may be structured as corporate CIS or non-corporate CIS such as unit trusts, common contractual funds and investment limited partnerships.

1.5. The Board of a corporate CIS is the focal point of the governance regime for that CIS and is therefore responsible for compliance with this Code if adopted. However it is recognised that the Board of a corporate CIS may delegate the management of the CIS to a ManCo.

1.6. Where non-corporate CIS are established and an Irish registered company is appointed as a ManCo or general partner (whichever is applicable), the Board of that company is accountable and responsible for the performance and conduct of the applicable CIS and falls within the remit of this Code.

1.7. In summary therefore, the Board retains primary responsibility for corporate governance within a CIS or ManCo at all times.

1.8. The governance structure put in place by a Board should be sufficiently

sophisticated to ensure that there is effective oversight of the activities of the CIS or ManCo taking into consideration the authorisation process for a CIS which has two parts, one dealing with the promoter of, and service providers to, the CIS and the second dealing with the CIS itself. In addition to a ManCo (which is compulsory for a unit trust fund and common contractual fund, and optional for a corporate fund) and a general partner of an investment limited partnership, the principal service providers to a CIS are the investment manager, administrator and the trustee/custodian. These entities are generally selected by the Promoter of the CIS prior to authorisation of the CIS by the Central Bank and therefore in many cases prior to the Board being finalised. The first directors of a CIS are usually selected by the promoter.

1.9. **Promoter** - Before an application for authorisation of a CIS may be considered by the Central Bank, the latter must be satisfied as to the promoter's expertise, integrity and adequacy of financial resources.

1.10. **Investment Manager** - Where the asset management of a CIS is, as is usual, delegated to a third party Investment Manager, the Central Bank imposes two principal requirements. Firstly, only investment managers, who are authorised or registered for the purpose of investment management and who are subject to prudential supervision equivalent to that under EU laws may be appointed. Secondly, generally where a non-EU investment manager is appointed, there must be a form of co-operation in place between the Central Bank and the supervisory authorities of the third country investment manager. Further,the investment manager must apply to the Central Bank in accordance with its requirements and the Central Bank must confirm that it has no objection to such an appointment,

1.11. **Administrator** – While there is no requirement to appoint an administrator, most CIS do not have the resources to perform the administration functions, and such functions are usually delegated to an administrator to provide administration services, such as the calculation of the net asset value, fund accounting, transfer agency and registrar services.

1.12. **Custodian/ Trustee** - Under the Irish regulatory regime a custodian/trustee must be appointed to a CIS to perform certain independent functions. The custodian/trustee of a CIS must be a credit institution authorised in Ireland, an Irish branch of an EU credit institution or an Irish incorporated company which is wholly owned by an EU credit institution (or equivalent from a non-EU jurisdiction) provided that the liabilities of the Irish company are guaranteed by its parent. A custodian / trustee of a CIS has a dual role (i) to "oversee" the manner in which the CIS is managed and (ii) to safe-keep the assets of the CIS, in each case in accordance with the requirements set down by the Central Bank. The custodian /trustee performs an independent oversight function.

Definitions

The following is a list of definitions of terms used in the Code:

Board: The board of directors of a corporate fund, the board of directors of a ManCo in the case of a unit trust or common contractual fund, or the board of directors of the general partner in the case of an investment limited partnership, where the general partner has its registered office and its head office in the State and is subject to the supervisory requirements of the Central Bank (as the case maybe).

CIS: A collective investment scheme authorised by the Central Bank which may present in the form of a unit trust, a common contractual fund, an investment limited partnership or a corporate fund

(either self managed or with an appointed ManCo).

ManCo: A management company authorised by the Central Bank to act as a manager of a unit trust or common contractual fund. In addition the term "ManCo" shall include, where the context does not suggest otherwise, a general partner of an investment limited partnership where the general partner has its registered office and its head office in the State and is subject to the supervisory requirements of the Central Bank.

Promoter: As defined in Guidance Note 2/96, the Central Bank considers the Promoter to be the entity which is the driving force in establishing and creating a CIS. It decides, initially, what legal structure a CIS will take, the proposed investment policy of the CIS, where it invests and in what jurisdictions it will be sold. The directors, however, at all times remain responsible for the functions and activities of the CIS.

Shares: Shares or units or partnership interests (whichever is applicable in a CIS)

Shareholder: A holder of shares or units or partnership interests (whichever is applicable) in a CIS and who appears on the register of members of the CIS.

Non-executive director: A director who is not directly involved in the day to day discretionary investment management of the CIS.

Independence: Independence is defined as the ability to exercise sound judgement and decision making independent of the views of the promoter, the service provider(s), political interests or inappropriate outside interests.

Independent Directors: The following criteria shall be considered by the Board, and given reasonable weight when determining if a director is independent

- any financial or other obligation the individual may have to the authorised CIS , ManCo, its promoter, or its directors;
- whether the individual is, or has been employed by the promoter, investment manager, or their affiliates in the past 3 years, and the post(s) so held;
- whether the individual represents a significant shareholder of the CIS or ManCo, its promoter or its investment manager.
- any remuneration received directly or indirectly, by the Director in the course of providing non director services to the CIS or ManCo.

2. Legal Basis

2.1. This is a Voluntary Code .

2.2. Where a Board adopts the Code but decides not to apply any provision of the code, it should set out its reasons why in The Directors' Report accompanying the annual audited accounts, or alternatively publish the information through a publicly available medium (e.g. website) detailed in the annual report.

3. General Requirements

3.1. The Requirements are the minimum recommended requirements that a CIS or ManCo should meet in the interest of promoting strong and effective governance.

3.2. The Board retains primary responsibility for corporate governance of the CIS or ManCo at all times.

3.3. The governance structure put in place by each CIS or ManCo shall be sufficiently sophisticated to ensure that there is effective oversight of the activities of the CIS or ManCo taking into consideration the nature, scale, complexity and outsourcing arrangements of the activities being conducted.

3.4. No one individual may have unfettered powers of decision.

4. Composition of the Board

4.1. The Board shall be of sufficient size and expertise to oversee adequately the operations of the CIS or ManCo. Three Directors is recommended as the minimum size for the Board. It is recommended that the Board comprise a majority of non-executive directors, and at least one independent director who would not be an employee, partner, significant shareholder or director of a service provider firm, or provider personally of services receiving professional fees (other than directorships fees) from the CIS or ManCo.

4.2. It is important that there is a good balance of skills and expertise on the Board, and it is strongly recommended that at least one director be an employee, partner or director of the promoter or investment manager. However it should be noted that it is not normally appropriate for an employee, partner or director of a promoter to act as a director of a ManCo where that ManCo is acting as a ManCo to more than one promoter.

4.3. At least two of its directors (one of which must be an independent non-executive director) are reasonably available to meet the Central Bank at short notice, if so required.

4.4. A minimum of two directors on the Board must be Irish resident.

4.5. Each member of the Board shall have sufficient time to devote to the role of director and associated responsibilities. Each CIS or ManCo should specify and document at the outset and, on a periodic basis, as appropriate (particularly where umbrella funds establish additional sub-funds), the time commitment it expects from each director. In specifying the time commitment, the CIS or ManCo should have regard to the possibility that meetings in excess of the recommended four meetings of the Board may be required from time to time to deal with items at short notice, and should ensure that a sufficient buffer is included in the designated time commitment to allow for this. The Board shall document the time commitment expected from each director in a letter of appointment.

4.6. Directors are required to disclose in writing to the Board their other time commitments, including time devoted to the role of directors of collective investment schemes domiciled in foreign jurisdictions ("Foreign CIS"). The Board must satisfy itself that the directors have sufficient time to fully discharge their duties and in proposing to appoint directors who otherwise have fulltime jobs, the CIS or ManCo should be required to take fully into account the time constraints associated with the full time job (and also from other directorships held).

4.7. In the event that exceptional or extraordinary items arise during the term of a directors appointment which require directors to dedicate significant unexpected additional time to the affairs of the relevant CIS or ManCo, each

board member shall have a duty to re-evaluate his or her aggregate time commitments and make any adjustments thereto as are necessary to ensure that the affairs of the CIS or ManCo receive adequate attention.

4.8. Where directorships are held outside CIS, Foreign CIS or ManCos ("non fund directorships"), there shall be a rebuttable presumption that a maximum of eight non-fund directorships may be held without impacting the Director's time available to fulfil his or her role and functions as a director of a CIS or ManCo. Any non-fund directorships in excess of eight will be explained in the comply or explain statement as detailed in section 13.1 of this Code. For the purposes of this requirement, non-fund directorships shall not include:

- **a** Other directorships of entities with which the director is deemed to be affiliated i.e. group directorships
- **b** Directorships of any company, subsidiary or other non-fund entity established or promoted by a promoter of Irish and/or Foreign CIS, or any affiliated company of a promoter of Irish and/or Foreign CIS
- **c** Directorships held in a body engaged in public interest, community or charitable purposes
- **d** Directorships to facilitate the incorporation of companies.
- **e** Directorships in companies not actively trading

4.9. In considering director appointments, the Board shall assess and document its consideration of possible conflicts of interest. The Board shall also document its procedures for dealing with such conflicts and shall review compliance with those procedures at least annually.

4.10. In any matter for consideration before the Board where a Director believes that a conflict may arise affecting him/her personally unless otherwise generally disclosed in accordance with the provisions of Section 194 of the Companies Act 1963 he/she shall disclose such conflict to the Board before the issue is considered by the Board.

4.11. CIS and ManCos shall formally review Board membership at least once every three years.

4.12. Appointments to the office of director of a CIS or ManCo require the prior approval of the Central Bank. Any departure from the office of director must be immediately made known to the Central Bank together with reasons for the departure and confirmation that the departure is not linked to issues with the CIS or ManCo.

4.13. The Board must not have directors in common with the board of directors of the trustee/custodian of the CIS.

4.14. Directors are required to disclose to their Board any concurrent directorships which they hold on the Boards of CIS, ManCos and/or related entities which supply services to such schemes.

4.15. Before being appointed, a new Director needs to demonstrate to the satisfaction of the Board that he or she meets the Central Bank's fit and proper standards.

4.16. A proposed Director should be aware of the obligations and the duties of a director of a company under the Companies Acts and be aware of his / her

responsibilities arising from legislation, regulations, codes of practice, guidance notes, guidelines and any other rules or directives, which are of relevance to the proposed position.

5. Chairman

5.1. There shall be a non-executive Chairman appointed to the Board of the CIS or ManCo.

5.2. The Chairman shall lead the Board, encourage critical discussions and challenge mindsets. In addition, the Chairman shall promote effective communication between all directors.

5.3. The Chairman shall attend and chair Board meetings. A deputy chair should be appointed as required.

5.4. The Chairman of the Board should be reviewed at least once every 3 years.

6. Independent Directors

6.1. While at law all directors owe a duty to act independently having regard to the interests of the CIS and its investors collectively, independent directors represent an additional layer of oversight of the activities of a CIS or ManCo.

6.2. Independent directors shall be identified clearly in the annual report.

6.3. The independent directors shall have a knowledge and understanding of the investment objectives, the regulation of collective investment schemes, policies and outsourcing arrangements to enable them to contribute effectively.

7. Role of the Board

7.1. The Board of each CIS or ManCo is responsible for the effective and prudent oversight of the CIS or ManCo and is ultimately responsible for ensuring that risk and compliance is properly managed on behalf of the CIS or ManCo.

7.2. Key/strategic decisions relating to a CIS or ManCo shall be considered by the Board, including, but not limited to:

a creation/termination of new sub-funds and classes of Shares;

b changes in investment objectives, policies and restrictions;

c temporary suspension in the calculation of net asset value;

d approval of dividends, fees and expenses of the applicant firm;

e appointment and removal of service providers;

f anti-money laundering and counter-financing of terrorism risks of the CIS or ManCo

g approval of financial statements of the CIS or ManCo; and

h any other decisions of a strategic nature.

7.3. The Board may delegate authority to sub-committees or third parties to act on behalf of the Board in respect to certain matters but, where the Board does so, it shall have mechanisms in place for monitoring the exercise of delegated functions. The Board cannot abrogate its overall responsibility.

7.4. The Board should be in a position to explain its decisions to the Central Bank.

7.5. The Directors shall ensure a CIS or ManCo is run in compliance with legislation, regulations, codes of practice, guidance notes, guidelines and any other rules or directives, which are of relevance to their position as directors.

7.6. The Directors have certain statutory duties including, inter alia, the duty to maintain proper books of account, duty to ensure the requirements of the Companies Act are complied with, duty to prepare annual accounts, duty to have an annual audit performed, duty to maintain certain registers and other documents, duty to file certain documents with the Registrar of Companies, duty of disclosure, duty to convene general meetings of the company, duties regarding transactions between the Directors and the company, etc.

7.7. The Directors have certain common law duties including, inter alia, the duty to act with due skill, care and diligence, duty to act honestly in the best interests of the company, etc.

7.8. The Board is responsible for appointing a Custodian to safeguard the assets of the CIS. This cannot be interpreted by the Board of the fund as in any way limiting its responsibilities regarding the Custodian.

7.9. The Board is ultimately responsible for the valuation of the assets of the CIS . In this regard, the Board should ensure a valuation policy is in place in accordance with the Central Bank's requirements set out in Guidance Note 1/100.

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8. Appointments

8.1. The Board (and where applicable shareholders) shall be responsible for appointing all directors, and the Board shall ensure that directors are aware of the relevant policies and procedures and have received adequate and sufficient training to enable them to discharge their duties.

8.2. The Board shall review the overall Board's performance and that of individual directors annually with a formal documented review taking place at least once every three years.

9. Meetings

9.1. The Board shall meet as often as is appropriate to fulfill its responsibilities effectively and prudently, reflective of the nature, scale and complexity of the CIS or ManCo. In any event, the Board shall normally meet quarterly. For non-UCITS funds, the Board could meet less frequently if they believe it is justified but this must be disclosed in the "comply or explain" statement as per 13.1.

9.2. A detailed agenda of items for consideration at each Board meeting together with minutes of the previous Board meeting, sufficient and clear supporting information and papers shall be circulated in advance of the meeting to allow all Directors adequate time to consider the material.

9.3. Detailed minutes of all Board meetings shall be prepared with decisions, discussions and points for further actions being documented. The minutes of meetings shall provide sufficient detail to evidence appropriate Board attention where necessary and shall be approved at a subsequent Board meeting.

9.4. All Directors are expected to attend and participate. An attendance schedule should form a part of the annual informal Board performance review process.

9.5. The Board shall establish a documented 'conflict of interest' policy for its members and where conflict of interests arise the Board shall ensure that they are noted in the minutes.

9.6. If ongoing conflicts of interest arise, which are considered by the Board to be impacting the ability of the Board to act in the best interests of the Shareholders, consideration shall be given to changing the membership of the Board.

10. Reserved Powers

10.1. The Board shall establish a formal schedule of matters specifically reserved to it for decision. This schedule shall be documented and updated in a timely manner.

11. Committees of the Board

11.1. The Board may establish committees comprising one or more persons provided it has the authority to do so pursuant to the applicable constitutional documents.

11.2. Committees shall have documented terms of reference evidencing all delegated authorities given to them.

11.3. When appointing committee members, the Board shall review and satisfy itself as to the relevant expertise, skill of members and their ability to commit appropriate time to the committee. The Board will also consider carefully, the role, if any, independent directors should play on any sub-committee.

11.4. Agendas and all relevant material for meetings shall be circulated to all committee members in a timely manner in advance of the meetings.

11.5. Detailed minutes of all committee meetings shall be prepared recording time of meeting, location held, attendees, all key decisions and discussions.

11.6. Committees shall report regularly to the Board.

11.7. A CIS or ManCo which constitutes a "public interest entity" within the meaning of, and does not come within an exemption in, the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 is obliged to establish an Audit Committee in accordance with the criteria set out therein.

11.8. Committee members shall attend committee meetings regularly. Where a member is unable to provide sufficient time to attend over the medium to long term, the Board shall remove such member from the committee and replace them with a member with appropriate availability, experience and expertise

12. Terms of Reference of Committees of the Board

12.1. The authority, functions, membership and reporting lines of the committees as well as meeting frequency, voting rights and quorums shall be clearly outlined in written terms of reference established by the Board.

12.2. The terms of reference shall be reviewed regularly by the committees to ensure continuing appropriateness and recommendations on revisions shall be provided to the Board, where necessary. Such reviews shall be documented and shall take place at least annually.

13. Compliance

13.1. Where a Board adopts the Code but decides not to apply any provision of the code, it should set out its reasons why in The Directors' Report accompanying the annual audited accounts, or alternatively publish the information through a publicly available medium (e.g. website) detailed in the annual report.

14. Delegates

14.1. The Board may delegate all or part of the management of a CIS or ManCo to third parties for example, investment management, administration, distribution.

14.2. Where the Board delegates all or part of the management of a CIS or ManCo, the Board shall have mechanisms in place for monitoring the exercise of such delegated functions. The Board cannot abrogate its overall responsibility.

14.3. The CIS' or ManCo's delegate service providers shall be appointed in accordance with the requirements of the Central Bank and pursuant to agreements evidencing all delegated authorities given to them.

14.4. The Board shall be responsible for the appointment of the delegate service providers.

14.5. The Board shall be responsible for monitoring the performance of its delegate service providers including, inter alia, the monitoring of investment performance.

14.6. The Board shall receive reports on a regular basis, and subject to paragraph 9.1, at least at each quarterly board meeting, from each of its delegate service providers which will enable the Board to assess performance of the delegate service providers and the applicable CIS or ManCo.

15. Risk Management, Audit, Control & Compliance

15.1. The Board shall ensure that internal control procedures of service providers are being monitored to ensure that they are effective.

External Audit

15.2. The Board is responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the CIS or ManCo and to enable it to ensure that the financial statements comply with the Companies Acts. The board may delegate these duties to the administrator provided that it reviews the performance by the administrator of these functions.

15.3. The Board shall ensure that all relevant accounting records are properly maintained and are readily available, including production of annual financial statements and, where applicable, half-yearly financial statements.

15.4. The Board shall ensure that the accounting information given in the annual report of a CIS or ManCo is audited by one or more persons empowered to audit accounts under S.I. 220 the European Communities (Statutory Audits) Regulations 2010 and ensure that the auditor's report to Shareholders, including any qualifications, is reproduced in full in the annual report.

15.5. The Board shall be responsible for preparing the annual audited financial statements prior to the Shareholders being requested to adopt same. The Board may delegate these duties to the administrator provided that it reviews the performance by the administrator of these functions.

15.6. In preparing the annual financial statements, the Board is required to:

a select suitable accounting policies and apply them consistently;

b make judgements and estimates that are reasonable and prudent; and

c prepare the financial statements on a going concern basis unless it is appropriate to presume that the CIS or ManCo will not continue in business.

15.7. The Board is responsible for preparing a Directors' Report which is required annually in connection with the annual financial statements and which must comply with the requirements of the Companies Acts.

15.8. The Board shall ensure that the annual and half-yearly report (if any) of a CIS or ManCo is published within the following time-limits, with effect from the ends of the periods to which they relate or such other time-limits as may be permitted by the Central Bank on a case-by-case basis and notified to Shareholders of the CIS or ManCo:

a four months in the case of the annual report

b two months in the case of the half-yearly report.

15.9. The Board shall ensure that the annual report and half-yearly report (if any) of a CIS or ManCo contains the information outlined in the Central Bank's Notices.

15.10. The Board shall ensure that the annual and half-yearly reports (if any) of a CIS or ManCo are sent to the Central Bank.

15.11. The Board shall ensure that the latest annual report and any subsequent half-yearly report of a CIS are made available to the public at the places specified in the prospectus, are offered to investors free of charge before the conclusion of a contract and supplied to Shareholders free of charge on request.

15.12. The Board shall notify the Central Bank in advance, of any proposed change of auditor, and of the reasons for the proposed change.

Compliance Function

15.13. The Board is responsible for compliance with legislation and applicable regulatory requirements and for compliance with provisions of the prospectus and constitutional documents of the applicable CIS or ManCo. The Board may

delegate the monitoring of the compliance function but the Board cannot abrogate its responsibility for the compliance function.

15.14. The Board shall ensure that appropriate internal control mechanisms are in place in order that the CIS or ManCo is in a position to satisfy the Central Bank's supervisory and reporting requirements and to comply with applicable laws and regulations.

15.15. The Board shall require direct and prompt reporting of material compliance issues from service providers and from any person appointed to monitor the compliance function.

15.16. The Board shall receive on a regular basis, and at least at each quarterly board meeting, reports from any person or firm appointed to monitor the compliance function.

Identification, Monitoring and Management of Risks

15.17. The Board shall be responsible for ensuring that all applicable risks pertaining to the CIS or ManCo(including inter alia risks relating to the use of derivatives and /or other investments, general risks such as static security prices, stock reconciliation, failed trades, market timing, late trading etc and all operational risks pertinent to the collective investment scheme) can be identified, monitored and managed at all times.

15.18. The Board shall ensure the risks applicable to investing in the CIS are identified and described in a comprehensive manner in the prospectus of the CIS.

15.19. The Board shall ensure that there are appropriate processes and systems in place to monitor and manage risks identified by the Board or its service providers at all times.

15.20. The Board shall require that it receives regular reports from applicable service providers in relation to the risks identified in order that they can be monitored and managed on an ongoing basis.

15.21. The Board shall require that it is notified promptly by applicable service providers of any breaches in risk limits as determined by the Board in order that immediate action can be taken.

Internal Control

15.22. The Board shall ensure that appropriate internal control mechanisms are in place in order that the CIS or ManCo is in a position to identify, monitor and manage risks which it is exposed to.

15.23. The Board shall ensure that there are sound administrative and accounting procedures in place.

15.24. The Board shall ensure that there are control and safeguard arrangements for electronic data processing.

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The Irish Funds Industry Association (IFIA) is the representative body for the funds industry in Ireland with administrators, custodians, managers, transfer agents, fund promoters and professional advisory firms involved in the international fund services industry in Ireland, amongst its members.

The objective of the IFIA is to support and complement the development of the international funds industry in Ireland, ensuring it continues to be the location of choice for the domiciling and servicing of investment funds. Through its work with governmental and industry committees and working groups, the IFIA contributes to and influences the development of Ireland's regulatory and legislative framework. The IFIA is also involved in defining market practice through the development of policy and guidance papers and the promotion of industry-specific training.

For further information and a full list of IFIA members' contact details and services provided, please log onto **www.irishfunds.ie**

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