

# **Code of Ethics and Professional Conduct**

of the Association of Independent  
Asset Managers in Liechtenstein (VuVL)

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## **APPENDIX TO THE CODE OF ETHICS AND PROFESSIONAL CONDUCT**

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# MAIN SECTION

## I. INTRODUCTION

### 1. Purpose

The purpose of the present Code of Ethics and Professional Conduct is:

- a) to protect and to enhance the reputation of the profession of independent asset managers in the Principality of Liechtenstein
- b) to promote the confidence of the public and of business partners in independent asset management in general
- c) to make an additional contribution towards client protection
- d) to boost the quality of independent asset management services in the Principality of Liechtenstein
- e) to support independent asset managers in their endeavours to provide professional asset management services

### 2. Binding nature

The present Code of Ethics and Professional Conduct are to be seen as supplementing the statutory provisions (VVG, VVO, SPG). The FMA may declare the present Code of Ethics and Professional Conduct to be binding.

### 3. Validity

This Code of Ethics and Professional Conduct applies to

- a) all members of the VuVL
- b) all contractually-affiliated brokers of VuVL members

## II. INTEGRITY OF BUSINESS CONDUCT

### 4. Trading honesty and conscientiousness

Asset managers must act honestly, fairly and conscientiously in accordance with the principle of good faith.

### 5. Knowledge of and adherence to laws and regulations

Asset managers are familiar with and understand the laws, ordinances, directives, statutes and regulations issued by the state, the supervisory authority (FMA) and the industry association (VuVL) which are applicable to their activities, and adhere to these within the framework of their professional activities. Asset managers distance themselves from deeds and actions which breach these regulations.

### 6. Reliability

Asset managers must be reliable and must adhere to agreements. By this means they promote the confidence of clients in their person, in their companies as well as in the entire industry.

## **7. Behaviour vis-à-vis the competition**

Asset managers shall treat their competitors with respect and fairness. In the event of disputes amongst members, efforts shall be made to reach an amicable solution.

## **8. Safeguarding the integrity of capital markets**

Asset managers who are in possession of non-public information which could influence the value of a financial product may not pass this information on or actively respond thereto on their own behalf (prohibition of insider trading). By the same token, any market manipulation (prohibition of market abuse) which could cause market prices to be distorted, trading volumes to be artificially inflated and other market participants to be deceived is also prohibited.

# **III. INDEPENDENCE**

## **9. Principles**

Asset managers must strive at all times to perform their activities with the maximum possible independence and objectivity.

## **10. Acceptance and presentation of gifts**

The acceptance as well as the presentation of gifts must be refused if this would clearly undermine the independence and objectivity of the asset manager or of any other party. Asset managers should establish internal rules governing the acceptance and presentation of gifts.

## **11. Conflicts of interest**

Conflicts of interest between asset managers, their corporate officers, employees, brokers and clients must be avoided, particularly if these negatively influence client interests. If such conflicts of interest cannot be avoided, then they must be disclosed to the client before any actions are performed. This may generally be done in the form of a declaration of principle concerning the handling of conflicts of interest (conflict of interest policy). It is important to ensure that these conflicts of interest are communicated in a clear and comprehensible manner.

# **IV. ORGANISATION**

## **12. Ensuring continuity and proper business management**

Asset managers whose principal administration in Liechtenstein must provide their businesses with long-term structures and must ensure the proper management of their business operations.

## **13. Written form requirement**

Legal agreements with clients must be recorded in writing. Furthermore, asset managers must document client orders in a reasonable manner.

## **14. Archiving of documents**

The significant documents used in conjunction with transactions with financial instruments and the activities of asset managers must be archived for at least five years. The archiving may be performed on electronic data carriers, insofar as legibility is guaranteed. Reasonable data security must be ensured in respect of the archiving of documents.

## **15. Risk management**

Asset managers must ensure reasonable risk management. Taking account of the principle of proportionality, depending upon the number of employees and clients, the nature, scope and complexity of the transactions and depending upon the nature and spectrum of the associated services, although in all cases for enterprises with 15 or more employees or 1000 or more client relationships, the risk management function pursuant to Art. 10a Para. 3 VVO shall be created.

## **16. Compliance**

Asset managers must ensure reasonable compliance. Taking account of the principle of proportionality, depending upon the number of employees and clients, the nature, scope and complexity of the transactions and depending upon the nature and spectrum of the associated services, although in all cases for enterprises with 15 or more employees or 1000 or more client relationships, the compliance manager function pursuant to Art. 10a Para. 2 VVO shall be created.

## **17. Internal audit**

Taking account of the principle of proportionality, depending upon the number of employees and clients, the nature, scope and complexity of the transactions and depending upon the nature and spectrum of the associated services, although in all cases for enterprises with 15 or more employees or 1000 or more client relationships, the internal auditor function pursuant to Art. 10a Para. 4 VVO shall be created.

## **18. Client complaints section**

Asset managers must establish a client complaints section pursuant to Art. 10a Para. 5 VVO. Client complaints as well as the measures taken in response thereto must be recorded in writing.

# **V. COMBATING MONEY LAUNDERING**

## **19. Principle**

Asset managers undertake to comply with the provisions of the Liechtenstein Due Diligence Act [Sorgfaltspflichtgesetz ("SPG")] and the associated Ordinance ("SPV") concerning professional due diligence obligations pertaining to the combating of money laundering, organised crime and terrorism finance. Asset managers must take proper account of any signs of money laundering. They may not accept any assets from these clients, and may furthermore not maintain any settlement accounts for these clients. The assets which are entrusted to asset managers for asset management purposes shall be deposited with a bank and shall be managed in accordance with a written power of attorney whose scope is clearly defined.

## **VI. COMMUNICATIONS**

### **20. Providing clients with information**

Asset managers must draw the attention of their clients to the Code of Ethics and Professional Conduct of the Association of Independent Asset Managers in Liechtenstein, which are binding for them, as well as to the existence of out-of-court mediation for the settlement of disputes between clients and asset managers. All information given clients or potential clients must be fair, clear and not misleading.

### **21. Advertising**

Advertising or marketing communications must be fair and not misleading, and must be clearly recognisable as such. This requirement may be met with the following notice: "These documents have been compiled for marketing purposes with great diligence and specialist expertise." Advertising must be of a restrained and balanced nature.

## **VII. CLIENTS**

### **22. Loyalty to clients**

Asset managers must be loyal to their clients and must focus their activities on the respective client orders. In this conjunction, they need to be aware that their actions can have a significant influence on the economic circumstances of their clients. For this reason, client interests have priority over the interests of asset managers or the interests of employees. Investments and transactions shall be performed exclusively in the interest of the client, and in particular there shall be no churning, and all activities shall take account of the financial circumstances of the client, investment goals as well as their knowledge and experience of the investment field.

### **23. Fair treatment**

Asset managers must treat their clients fairly and objectively, whether when making recommendations, investing the assets or other professional actions.

### **24. Confidentiality**

Asset managers have a duty to maintain confidentiality in respect of their business activities, and must also take corresponding organisational precautions. This duty of confidentiality is unlimited and may only be breached in the cases stipulated by law in conjunction with the duty to bear witness and to provide information vis-à-vis supervisory authorities and criminal courts of law.

### **25. Client reporting**

Asset managers must provide their clients with regular comprehensive reports on the performances which they have rendered, at least once per annum, by means of a statement of assets and earnings showing the development of the investments and costs.

## **VIII. INVESTMENT POLICY AND ORDER EXECUTION**

### **26. Appropriate investment policy and instruments**

Asset managers are obliged to keep themselves informed about the financial circumstances of their clients, as well as about the investment objectives and experience in the investment field, in order to provide these with proper advice. They shall select the investment instruments (see Appendix 1) with care and taking consideration of the client profile and circumstances of the client.

### **27. Best-possible order execution**

Asset managers must strive to take all reasonable measures in order to achieve the best-possible result when executing orders on behalf of their clients. Insofar as the client does not specify the depositary bank or the broker, the asset manager shall select these with the greatest possible care in accordance with specific criteria (execution policy).

## **IX. FEES**

### **28. Transparency and written form requirement**

The fee charged by asset managers shall take account of the objective, the complexity and the size of the securities account. It shall be agreed with the client in writing, and must be fair, performance-related and transparent. The fee shall be calculated in a clear and unequivocal manner. As a rule, the fee shall be calculated as a percentage of the net assets under management on a specific date.

### **29. Schedule of fees**

Asset managers are free to set their own fee schedules. The following upper limits are recommended:

- for a fixed fee: maximum 1.5% p.a. of the assets under management
- for a performance-related fee: maximum 20% p.a. of the net capital growth
- combined: maximum 1% p.a. management fee on the assets under management and maximum 10% p.a. performance-related fee on the net capital growth

Depending upon the particular business model, there must be a reasonable relationship between the fee rates and the rendered services.

### **30. Inducements**

If asset managers receive inducements (reimbursements, retrocessions, portfolio commission, credit notices etc.) from third parties in conjunction with the management of client assets, then the utilisation thereof must be agreed with the client. Asset managers shall be entitled to the inducements if they inform the client thereof and if these are associated with an improvement of service, or if these are waived by the client in writing.

## **X. EMPLOYEES**

### **31. Selection**

Asset managers shall select their employees with the necessary care.

### **32. Fair remuneration**

Employees must be remunerated fairly in accordance with their capabilities and performance. Salary models may not trigger any conflicts of interest, nor may they damage client interests.

### **33. Personnel development**

Asset managers shall develop their employees on an ongoing basis, in particular in respect of the further training and acquisition of specialist expertise.

### **34. Transactions on own account**

Asset managers shall draw up regulations pursuant to Art. 12e/f VVO concerning company officer and employee transactions.

## **XI. RESPONSIBILITY**

### **35. Conduct as a member**

Members of the VuVL must behave in such a manner that the reputation and integrity of the VuVL as well as of the profession in general are preserved.

## **XII. SANCTIONS**

### **36. Sanctions**

In the event of breaches of the Code of Ethics and Professional Conduct, the board may order an expulsion from the VuVL in accordance with Art. 7 lit. c of the articles of the association, depending upon the number and seriousness of the breaches.

## **XIII. COMING INTO FORCE**

### **37. Coming into force**

The Code of Ethics and Professional Conduct were approved at the extraordinary meeting of members of 30 November 2010 and came into force on 1 January 2011.

## **APPENDIX TO THE CODE OF ETHICS AND PROFESSIONAL CONDUCT**

### **APPENDIX 1: Investment instruments in the case of discretionary asset management**

The investment instruments specified below are considered normal asset management instruments subject to absolute discretion. They may be deployed even if the written asset management agreement does not expressly make provision for their deployment. The use of other financial instruments pursuant to the provisions of the individual asset management agreement remains reserved.

#### **1. Fixed-term investments, fiduciary investments and securities lending**

Fiduciary investments must be limited to first-class counterparties.

In the case of securities lending, account must be taken of the counterparty risk, either by means of collateral or restriction to first-class counterparties.

#### **2. Precious metals, securities and book-entry securities**

Investments in precious metals or money and capital market investments in the form of securities and book-entry securities (e.g. equities, bonds, notes, money market book-entry claims), products derived therefrom as well the combination thereof (in particular derivatives, hybrids or structured financial products etc.) must be easily tradable under normal market conditions, i.e. they must either be listed on an approved securities exchange in Liechtenstein or abroad, or a representative market for these must exist.

To a limited extent – in derogation of this rule – investments may also be made in prevalent securities and book-entry securities of limited marketability. Such securities include e.g. public notes and OTC (over-the-counter) products. In the case of OTC products, however, the issuer must enjoy a recognised credit rating, and market-compliant prices must be available for the products.

The following provisions apply to individual categories of money market and capital market investments:

#### **3. Instruments of collective investment**

Investments in instruments of collective investment (investment funds, investment companies, internal bank special assets, unit trusts, etc.) is permitted – subject to the conditions pertaining to non-traditional investments – insofar and to the extent that these for their part invest in investment instruments approved under the present Appendix C.

Investments may also be made in collective capital investment instruments which are licensed for public sale in accordance with Liechtenstein, Swiss or EU regulations, even if these loan their assets to a limited extent and are permitted to leverage their assets.

Easy tradability is equivalent to reasonable terminability by the investor.

#### **4. Non-traditional investments**

Non-traditional investments are those made in hedge funds, private equity and real estate. Such investments are not necessarily limited to instruments which are permitted and/or easily tradable in accordance with this Appendix.

Non-traditional investments may be deployed for the purpose of diversifying the overall portfolio, provided that these are structured in accordance with the fund of funds principle or otherwise guarantee an equivalent diversification. Easy tradability or reasonable terminability must also be guaranteed in the case of non-traditional investments.

The asset manager must record the use of non-traditional investments in a written investment policy, and must take suitable organisational measures to ensure the diligent and professional application thereof.

#### **5. Standardised option transactions (traded options)**

Option transactions on securities, foreign exchange, precious metals, interest rate instruments and stockmarket indices which are traded on an organised market and which are settled via a recognised clearing office are only permitted if these do not exercise leverage on the overall portfolio.

No leverage shall be deemed to be exercised if the portfolio:

- in the event of the sale of calls and the purchase of puts, shows an underlying security position or, insofar as this represents a stockmarket index or interest rate option, shows a corresponding position in securities which adequately represent the underlying security;
- in the event of the sale of puts, shows a level of liquidity at the time of the conclusion of the transaction which makes it possible to fulfill the contract that has been entered into at any time;

Asset managers must ensure that the portfolio corresponds to the investment policy agreed with the client, even after the possible exercising of the option.

The liquidation of open call and put positions is permitted at all times.

#### **6. Non-standardised option transactions**

The principles pertaining to standardised option transactions also apply to transactions in option instruments which are not standardised, such as OTC (over-the-counter) options, warrants, writer options (this list is not definitive). In the case of OTC products, however, the issuer must enjoy a recognised credit rating and market-compliant prices must be available for the products.

Writer options are subject to the express consent of the client, insofar as these do not remain within the credit limits granted to the client.

## **7. Financial futures**

In the case of the sale of financial futures, a corresponding position in underlying securities must be available. If these constitute stockmarket index, foreign exchange or interest rate futures, then it shall suffice if the underlying security is adequately represented.

In the case of the purchase of financial futures, the necessary liquidity must already be available in full at the time of the conclusion of the purchase.

## **8. Hybrid and structured products**

Investments in hybrid and structured financial products (e.g. PIP, PEP, GROI, IGLU, VIU or PERLES) are permitted if the financial product corresponds to one of the aforementioned, approved financial products in terms of the risk profile. If the risk profile is multi-layered, then all risk levels must correspond to an investment instrument permitted under the present Appendix C.

In the case of non-listed hybrid and structured financial products, however, the issuer must enjoy a recognised credit rating and market-compliant prices must be available for the products.