

**AFEI - FBF
CODE OF CONDUCT
ON MANAGING
CONFLICTS OF INTEREST
IN THE FIELD OF
INVESTMENT RESEARCH**

Foreword

This code of conduct for managing conflicts of interest in the field of [investment research](#) has been prepared by the French Association of [Investment Firms \(AFEI\)](#) and the French Banking Federation ([FBF](#)). It sets out the rules to be followed by [investment service providers](#) and their employees in order to identify, prevent or, where necessary, deal with potential [conflicts of interest](#) faced by securities [analysts](#) working for financial firms.

Ensuring that [analysts](#) have the necessary independence to formulate unbiased opinions is key to market integrity and investor confidence. French firms have long abided by stringent rules in this sphere, reflecting the high quality of France's regulatory framework. Building on this, AFEI and FBF have established a market-wide benchmark based on the combined best practices of their members. The AFEI-FBF Code is a comprehensive and practical tool that sets exacting standards for impartiality and transparency.

The AFEI-FBF Code incorporates material from directive 2003/6/EC on insider dealing and market manipulation (Market Abuse Directive), together with its implementing directives, most notably directive 2003/125/EC of 22 December 2003 on fair presentation of investment [recommendations](#) and the disclosure of [conflicts of interest](#) (these directives are all due to be transposed into national law shortly). The Code should also make it possible to limit the extent of subsequent modifications that firms will be required to make in the light of directive 2004/39/EC on markets in financial instruments (Financial Instruments Markets Directive). The implementing measures for this text are currently in preparation.

A glossary of key terms is included.

Objectives

This AFEI-FBF Code aims to:

- establish a market-wide standard that will permit joint action to emphasise the high-level principles followed by [investment firms](#) and credit institutions in France
- promote ethical behaviour in the relationship between [investment service providers](#), [financial analysts](#), securities [issuers](#) and customers, based on the highest principles of impartiality, integrity and transparency
- draw the attention of all interested parties, most notably investors, to the principles developed and applied by [investment firms](#) and credit institutions in France

Key concepts¹

"**Client**²" means any natural or legal person to whom an **investment firm** provides investment and/or ancillary services

"**Conflict of interest**" means any situation in which a **financial analyst** or his employer has an interest of a material, professional, commercial, financial or personal nature that conflicts with the interest of investors. Investors' interest must take absolute precedence

"**Financial analyst**³" means a natural or legal person producing or disseminating **recommendations** in the exercise of his profession or the conduct of his business

"**Issuer**⁴" means the **issuer** of a financial instrument to which a **recommendation** relates, directly or indirectly

"**Recommendation**⁵" means research or other information recommending or suggesting an investment strategy, explicitly or implicitly, concerning one or several financial instruments or the **issuers** of financial instruments, including any opinion as to the present or future value or price of such instruments, intended for distribution channels or for the public

"**Research or other information recommending or suggesting investment strategy**⁶" means information produced by an independent analyst, an **investment firm**, a credit institution, any other person whose main business is to produce **recommendations** or a natural person working for them under a contract of employment or otherwise, that directly or indirectly expresses a particular investment **recommendation** in respect of a financial instrument or an **issuer** of financial instruments

"**Service provider**" means a provider of **investment services**, that is to say a credit institution or **investment firm** within the meaning of Articles L. 531-1 to 531-9 of the Financial and Monetary Code, which produces or disseminates **investment research**

NB: see Glossary for the full set of definitions.

¹ The use of the masculine gender in this Code includes the feminine gender, and when the context requires, the use of the singular includes the plural.

² Definition extracted from Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC.

³ Definition extracted from Directive 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest (article 1 § 5).

⁴ Definition extracted from Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest (article 1 §6).

⁵ *Ibid.* (article 1 §3).

⁶ *Ibid.* (article 1 §4).

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General principles

Rule of conduct for investment service providers

principle
1 **Investment service providers** ("service providers") shall put in place the procedures and resources needed to detect and deal with possible conflicts of interest in the field of **investment research**.

Rules of conduct for financial analysts

Financial analysts shall be guided in their behaviour by three general principles:

principle
2 **Analysts will maintain the integrity of the markets and respect the rules that govern them.**

Analysts will ensure the primacy of clients' interests:

- analysts shall serve their **clients** truthfully, honestly and fairly
 - analysts must base their opinions on objective criteria
 - analysis and advice must be clearly expressed and must reflect the analyst's independent judgment
- principle
3
- analysis and advice shall not be influenced by the business activities of the analyst's employer
 - analysts shall not put their own interests, or those of their employer or an **issuer**, before their **clients'** interests
 - analysts shall, where possible, adapt their message to the level of knowledge and skill of the persons to whom their research is sent (i.e. retail or institutional **clients**)
 - analyst must clearly distinguish facts from interpretations, estimates, opinions and other non-factual information. Earnings assumptions must derive from the analyst's own assessments

principle
4 **Analysts will be loyal to their employer and comply with the firm's internal ethical rules.**

Role of the compliance officer in managing conflicts of interest in the field of investment research

principle
5

The role of the **compliance officer** consists, inter alia, in:

- dealing with conflicts of interest
- assisting and guiding the service provider's employees in enforcing the rules of conduct, and this in addition to his oversight role. In particular, the **compliance officer** ensures that analysts are aware of the regulations on **inside information**

principle
6

The **compliance officer** is one of the guarantors of **financial analysts'** independence.

principle
7

A **compliance officer** may delegate some of his functions to one or more line managers.

Role of the head of research in dealing with conflicts of interest in the field of investment research

principle
8

The head of research is responsible, inter alia, for:

- drafting and enforcing rules on the dissemination of **investment research**
- ensuring that analysts comply with the rules of conduct prepared in conjunction with the **compliance officer**

principle
9

The head of research, along with the **compliance officer**, is one of the guarantors of **financial analysts'** independence.

Financial analysts' personal account dealing

principle
10

Analysts may not place own-account orders for the financial instrument(s) of an **issuer** that is the subject of their research. The same prohibition applies to all financial instruments from the sector in which the **issuer** operates.

principle
11

If, due to circumstances beyond his control (e.g. an inheritance, or shares owned prior to entering the profession), an analyst holds securities, or if he changes sectors, he must inform the **compliance officer** in order to find an appropriate solution.

Remuneration of financial analysts

principle
12

Under no circumstances can an analyst's remuneration be specifically tied to an **investment banking** transaction in which he is involved.

principle
13

If an **issuer** or a third party offers an analyst a gift or benefit in kind that might impair his independence and judgment in the performance of his duties, the analyst must inform the **compliance officer**, who will decide how to act.

Introducing Chinese walls

principle
14

To prevent the undue circulation of **confidential** and/or **inside information** and thus contribute to the objective of managing situations in which **conflicts of interest** may arise, the service provider must introduce conflict management procedures known collectively as **Chinese walls**.

principle
15

Information of any kind is not disclosed to employees unless it is necessary for the conduct of their professional activities and/or to secure the completion of a transaction. This is the "**need-to-know**" principle.

Breaches of Chinese walls

Circumstances in which a Chinese wall may be breached

principle
16

Analysts cannot **breach a Chinese wall** except in the following circumstances:

- with the agreement and under the joint supervision of the compliance officer and the head of research
- to effect the secure completion of a specific transaction, provided the department requesting the analyst's involvement can demonstrate why his services are required

principle
17

The **compliance officer** keeps a list of analysts who have **breached a Chinese wall**.

Consequences of breaching Chinese walls

principle
18

Analysts who **breach a Chinese wall**:

- are personally informed of their situation by the **compliance officer**
- are deemed to possess confidential and/or **inside information**
- cannot publish research without the express consent of the **compliance officer**
- cannot recover their freedom of action without the joint agreement of the head of research and the **compliance officer** who authorised the breach

Inside information

principle
19

The use or disclosure of **inside information** is punishable by administrative and/or legal sanctions. Accordingly, analysts may not use or divulge such information, either within or outside the company for which they work.

principle
20

Where an analyst acquires **inside information** otherwise than by **breaching a Chinese wall**, he must inform the **compliance officer** immediately. Furthermore, where a doubt exists as to the nature of information, the analyst must contact the **compliance officer** as quickly as possible.

Communication by financial analysts

General rules

principle
21

Analysts may not communicate with employees of **investment banking** departments except with regard to publicly available information, and provided they follow a procedure defined by the **compliance officer**.

principle
22

Participation by an analyst in roadshows or other marketing events relating to a specific transaction is subject to a procedure defined by the **compliance officer**.

principle
23

Investment banking departments may not receive draft research reports except to check certain financial data under the joint supervision of the head of research and the **compliance officer**.

principle
24

All communications with the media are governed by internal procedures.

Communication between analysts and issuers

principle
25

Any initiatives by an **issuer** that may impair an analyst's independent judgment must be reported to the **compliance officer**.

principle
26

Analysts may submit their research to the **issuer** or its advisor(s) for review prior to dissemination. Such review concerns only the factual aspects of the research. Under no circumstances is an analyst bound by the comments made by the **issuer** or its advisor(s) at this time. The fact that research has been reviewed must be mentioned in the mandatory disclosures accompanying the analyst's **recommendation**.

Quiet periods

principle
27

When a service provider takes part in a public offer, restrictions on the production and dissemination of research concerning the **issuer** are put in place as soon as the offer is publicly announced. This is to ensure that such research contains no **recommendations** or investment strategies.

principle
28

Research concerning the **issuer** and relating to events having no direct or indirect bearing on the offer may still be published during the offer period, under the joint supervision of the head of research and the **compliance officer**, provided there are no additional contractual restrictions.

Mandatory disclosures to be published in research documents

principle
29

A full list of disclosures is appended to this document.

Dissemination of investment research

principle
30

Research must be disseminated in a manner consistent with the principle of equal treatment for all **clients in the same category**. In particular, analysts must avoid giving one or more **clients** priority access to their research or **recommendations**, or any material changes to those **recommendations**, until this information has been disseminated to all the service provider's **clients**.

principle
31

The service provider shall establish a procedure to govern the way in which analysts' research and **recommendations** are disseminated to in-house departments and outside **clients**. Under no circumstances shall the provider's departments have priority.

principle
32

Recommendation changes, as well as new forecasts and **recommendations**, must remain confidential until they are disseminated.

principle
33

Recommendation changes must be made in writing and comply with internal rules.

Retention of preparatory materials

principle
34

All documents used to prepare the publications disseminated under the auspices of a research department must be kept for a period of three years and must be held at the disposal of the Autorité des Marchés Financiers.

ANNEX – Mandatory disclosures to be published in research documents in the event of a conflict of interest

1. The following list contains the obligatory details to be published on all **investment research** documents. It is taken from the EU directive of 22 December 2003⁷, which sets out the standards for the fair presentation of investment **recommendations** and the disclosure of conflicts of interest. This text, one of the implementing measures of the Market Abuse Directive, is due to be transposed into French law before 12 October 2004.
2. Under the directive, service providers and analysts are required to publish detailed disclosures concerning their investment **recommendations**.

The following list relies on the distinction made in the directive between:

- producers of investment **recommendations** (subject to stringent requirements), and
- disseminators of **recommendations** produced by third parties, who are subject to less strict rules

General principles

- **Regarding non-written **recommendations** (e.g. those given by radio, TV, etc.):** "Member States shall ensure that there is appropriate regulation in place to ensure that the requirements [...] are adapted in order not to be disproportionate"⁸.
- **Regarding **recommendations** in general, except those produced by a third party:** "Member States shall ensure that there is appropriate regulation in place to ensure that the **recommendation** itself shall include the [relevant] disclosures [...]. Where such disclosures would be disproportionate in relation to the length of the **recommendation** distributed, it shall suffice to make clear and prominent reference in the **recommendation** itself to the place where such disclosures can be directly and easily accessed by the public, such as a direct Internet link to the disclosure on an appropriate Internet site of the relevant person"⁹.

⁷ Directive 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment **recommendations** and the disclosure of conflicts of interest.

⁸ Extracted from directive 2003/125/EC of 22 December 2003.

⁹ Extracted from directive 2003/125/EC of 22 December 2003.

General standard for mandatory disclosures in investment research

■ **The following information must be displayed clearly and prominently on all recommendations:**

- the identity of the person responsible for producing the research
- the identity of the person who prepared the **recommendation**, in particular his name and job title
- the identity of the relevant competent authority

■ **The analyst must take reasonable care to ensure that:**

- facts are clearly distinguished from interpretations, estimates, opinions and other types of non-factual information
- all sources are reliable or, where there is any doubt as to reliability, this is clearly indicated
- all substantially material sources are indicated, as appropriate, including the relevant **issuer**, together with the fact whether the **recommendation** has been disclosed to that **issuer** and amended following this disclosure before its dissemination
- all projections, forecasts and price targets must be clearly indicated as such, and the main assumptions for establishing and using these data must be disclosed
- at the request of the competent authorities, the analyst must be able to demonstrate that a **recommendation** is reasonable
- any basis of valuation or methodology used to evaluate a financial instrument or an **issuer** of a financial instrument, or to set a price target for a financial instrument, is adequately summarised
- the meaning of any **recommendation** made, such as Buy, Sell or Hold, which may include the time horizon of the investment to which the **recommendation** relates, is adequately explained
- any appropriate risk warning, including a sensitivity analysis of the relevant assumptions, are indicated
- reference is made to the planned frequency, if any, of updates of the **recommendation** and to any major changes in the coverage policy previously announced
- the date at which the **recommendation** was first released for distribution is indicated clearly and prominently, as well as the relevant date and time for any financial instrument price mentioned
- where a **recommendation** differs from a **recommendation** concerning the same financial instrument or **issuer**, issued during the 12-month period immediately preceding its release, this change and the date of the earlier **recommendation** are indicated clearly and prominently

Disclosure of conflicts of interest

■ Analysts must disclose the following information in their recommendations:

- the administrative and organisational arrangements set up by the service provider to prevent and avoid conflicts of interest
- the relationships and circumstances that may impair the objectivity of a recommendation, most notably:
 - where the service provider or analyst has a significant financial interest in one or more of the financial instruments which are the subject of the recommendation, or
 - where there is a significant conflict of interest with respect to an issuer to which the recommendation relates
- any interests or conflicts of interest involving:
 - the analyst
 - the service provider, and/or
 - related legal persons

where such persons are aware or may be aware of interests or conflicts of interest

- major holdings by the service provider, analyst or related legal person, in the share capital of the issuer, and in particular:
 - where the service provider, analyst or related person holds more than 5% of the total issued share capital in the issuer
 - where the issuer holds more than 5% of the total issued share capital of the service provider or a related legal person

In both the above cases, Member States may provide for a threshold lower than 5%.

[NB: Directive 2003/125/EC of 22 December 2003, on which this provision is based, has not yet been transposed into national law. At this writing, therefore, it is not certain that 5% will be the actual threshold adopted under French law when the directive is transposed at end 2004.]

- other significant financial interests held by the service provider, the analyst or related legal person in relation to the issuer.

Disclosure of conflicts of interest (cont.)

■ Where applicable, the following should be disclosed in a statement:

- where the service provider or any related legal person is a market maker or liquidity provider in the financial instruments of the **issuer**
- where the service provider or any related legal person has been lead manager or co-lead manager over the previous 12 months of any publicly disclosed offer of financial instruments of the **issuer**
- where the service provider or any related legal person is party to any other agreement with the **issuer** relating to the provision of **investment banking** services, provided that this would not entail the disclosure of any confidential commercial information and that the agreement has been in effect over the previous 12 months or has given rise during the same period to the payment of a compensation or to the promise to get a compensation paid
- where the service provider or any related legal person is party to an agreement with the **issuer** relating to the production of the **recommendation**

■ Regarding natural or legal persons working for the service provider, under a contract of employment or otherwise, and who were involved in preparing the **recommendation, it must be disclosed whether the remuneration of such persons is tied to **investment banking** transactions performed by service provider or any related legal person.**

*[NB: This disclosure is taken from directive 2003/125/EC of 22 December 2003. Under French law, the remuneration of an analyst may not be specifically tied to an **investment banking** transaction in which he is involved (CMF Decision 2002-01, Art. 3). For this reason, the following disclosure is not relevant to research produced by service providers subject to French law.]*

■ receive or purchase the shares of the **issuer prior to a public offering of such shares, the price at which the shares were acquired and the date of acquisition must also be disclosed.**

■ The service provider must disclose the following information quarterly:

- the proportion of all **recommendations** that are Buy, Hold, Sell or equivalent terms
- the proportion of **issuers** corresponding to each of these categories to which the service provider has supplied material **investment banking** services over the previous 12 months

Recommendations produced by third parties

- **A service provider or analyst that disseminates a [recommendation](#) produced by a third party is required to:**
 - prominently indicate its identity
 - prominently indicate the name of the relevant competent authority of the service provider
 - comply with the requirements applicable to the producer of the [recommendation](#)

- **Where a [recommendation](#) produced by a third party is substantially altered:**
 - that information clearly indicates the substantial alteration in detail. Where the substantial alteration consists of a change of the direction of the [recommendation](#) (such as changing a Buy [recommendation](#) into a Hold or Sell [recommendation](#) or vice versa), the disseminator must comply with all the requirements applicable to the producer of the [recommendation](#) (see above)
 - the service provider disseminating a substantially altered [recommendation](#) must have a formal written policy so that the persons receiving the information may be directed to where they can have access to the identity of the producer of the [recommendation](#), the [recommendation](#) itself and the disclosure of the producer's interests or conflicts of interest, provided that these elements are publicly available

- **In case of dissemination of a summary of a [recommendation](#) produced by a third party, the disseminating service provider or analyst must ensure that the summary:**
 - is clear
 - is not misleading
 - mentions the source document
 - indicates where the disclosures related to the source document can be directly and easily accessed by the public provided that they are publicly available

AFEI-FBF CODE OF CONDUCT ON MANAGING CONFLICTS OF INTEREST IN THE FIELD OF INVESTMENT RESEARCH

Glossary of Terms

A B C E F I N O Q R S T W

A

Ancillary service: One of seven services that may only be provided together with an [investment service](#) and/or activity.¹

1. Safekeeping and administration of financial instruments for the account of [clients](#), including custodianship and related services such as cash/collateral management;
2. Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
3. Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings;
4. Foreign exchange services where these are connected to the provision of [investment services](#);
5. [Investment research](#) and financial analysis or other forms of general [recommendation](#) relating to transactions in financial instruments;
6. Services related to underwriting.
7. [Investment services](#) and activities as well as [ancillary services](#) of the type included under Section A or B of Annex 1 related to the underlying of the derivatives included under Section C – 5, 6, 7 and 10 - where these are connected to the provision of investment or [ancillary services](#).

¹ See Directive 2004/39/EC of 21 April 2004 on markets in financial instruments: annex I (List of Services and Activities and Financial Instruments) Section B ([Ancillary services](#)).

B

Breach of a Chinese wall: see [Chinese wall](#)

Buy side analyst: Analyst who produces research that is not disseminated to end [clients](#), in contrast to a [sell side analyst](#) (q.v.), who both produces and disseminates research. Buy side analysts are employed by companies that use research to guide their own investment decisions, e.g. investment schemes, insurance companies, pension funds. They advise portfolio managers (individual and collective) and contribute to the development of asset allocation models.

C

Chinese wall: Set of internal organisational measures and procedures put in place by firms with multiple business lines, which thus erect a physical or virtual barrier between their departments in order to deal with potential conflicts of interest (conflict between the firm's interests and those of its [clients](#), conflicts between departments providing different services to the same [client](#), or conflicts between several [clients](#) of the same firm) and to prevent the undue disclosure of [confidential information](#).

Breach of a Chinese wall: A Chinese wall is "breached" when one of the firm's departments requires the assistance of a [staff](#) member from another department, from which it is separated by a Chinese wall. Such breaches may be physical (i.e. the [staff](#) member works in the offices of the host department, where he or she may come into regular contact with [confidential information](#)) and/or virtual (the [staff](#) member does not move to another office but simply exchanges information with his or her counterparts). Information is disclosed only where strictly necessary.

Client²: Any natural or legal person to whom an [investment firm](#) provides investment and/or [ancillary services](#).

Clients in the same category: Concept used in connection with the dissemination of [investment research](#), whereby all clients of the same type must be afforded equal treatment. Client categories can be based on different criteria. In most cases, a distinction is made between institutions and private clients, but other distinctions are possible, e.g. the country in which research is distributed or the language in which it is disseminated (the publication of research can be legitimately delayed for translation reasons).

² Definition extracted from Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC



Continued

Compliance officer³: Pursuant to Article 2.4.15, the head of compliance (hereafter "compliance officer") of an authorised provider is responsible for ensuring that it and its agents respect the rules of conduct applicable to **investment services** and assimilated or related services, as listed in Article 2.1.1. In addition, the compliance officer verifies that these rules are also respected by individuals acting under the authority or on behalf of the authorised provider in providing the services listed in Article 2.1.1.

Such individuals are hereafter called "**staff**".

The role of the compliance officer consists, inter alia, of the following:

1. Identifying the measures needed to ensure compliance with the rules of conduct;
2. Preparing a handbook outlining the rules and procedures applicable to the authorised provider, persons acting on its behalf or under its authority, and its agents, mentioned in item 1 of Article 2.1.3, acting within the scope of the **investment service** performed by the authorised provider;
3. Informing the authorised provider's **staff** and agents of some or all of the provisions mentioned in item 2 above;
4. Monitoring compliance by the authorised provider, its **staff** and its agents with all rules of conduct and ensuring that the appropriate measures are taken in the event of non-compliance;
5. Providing assistance and guidance, in addition to the monitoring procedures, to help the authorised provider's **staff** apply the rules of conduct.

The compliance officer may delegate some of his functions to one or more persons in operational positions.

Confidential information: Non-public information concerning an **issuer** whose financial instruments are admitted to listing on a regulated market. Information is deemed confidential if it has not been made public.

Conflict of interest: Any situation in which a **financial analyst** or his employer has an interest of a material, professional, commercial, financial or personal nature that conflicts with the interest of investors. Investors' interest must take absolute precedence.

Corporate finance: Primary market activities (advice, placement by lead-managers or members of an underwriting group in connection with IPO's or capital increases), advice on capital structure, industrial strategy, advice on takeover bids, mergers and the purchase of undertakings.

³ Definition extracted from Article 3.1.3 of the General Regulations of the Conseil des Marchés Financiers.

C

Continued

Credit analyst: Person specialised in evaluating the solvency and creditworthiness of [issuers](#). Credit analysts assess whether companies will be able to meet their debt obligations at maturity and, more generally, whether they can make the mandatory payments required to carry on their business (taxes, welfare contributions, wages, etc.). Strictly speaking, credit analysts are specialists in counterparty risk who work for their employers' risk departments. They produce research but do not disseminate it.

E

External communication: All forms of communication with persons outside the firm (contacts with [clients](#), [issuers](#), the media, etc.).

F

Financial analyst⁴: Natural or legal person producing or disseminating [recommendations](#) in the exercise of his profession or the conduct of his business.

Fixed-income analyst: Person who issue opinions about the quality of debt instruments listed and traded on regulated markets. Fixed-income analysts produce and disseminate research. In some companies, they work alongside [credit analysts](#).

Fundamental analysis: Analytical method that consists in using companies' economic and accounting data to evaluate their prospects and share price. Industry analysts are fundamental analysts who follow companies in a particular sector (technology, automotive, luxury goods, etc.). They study competitive conditions, products and technological developments in that sector.

I

Inside information⁵: Information of a precise nature which has not been made public, relating, directly or indirectly, to one or more [issuers](#) of financial instruments or to one or more financial instruments and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments. In relation to derivatives on commodities, 'inside information' shall mean information of a precise nature which has not been made public, relating, directly or indirectly, to one or more such derivatives and which users of markets on which such derivatives are traded would expect to receive in accordance with accepted market practices on those markets.

⁴ Definition extracted from Directive 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment [recommendations](#) and the disclosure of conflicts of interest (§ 5, Article 1)

⁵ Definition extracted from Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse) (§1, Article 1)

For persons charged with the execution of orders concerning financial instruments, 'inside information' shall also mean information conveyed by a **client** and related to the **client's** pending orders, which is of a precise nature, which relates directly or indirectly to one or more **issuers** of financial instruments or to one or more financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments.

Internal communication: All forms of communication with persons inside the firm.

Investment advice⁶: The provision of personal **recommendations** to a **client**, either upon its request or at the initiative of the **investment firm**, in respect of one or more transactions relating to financial instruments.

Investment banking: **Corporate finance** activities (q.v.) plus secondary market activities in equities and/or fixed-income securities.

Investment firm⁷: Any legal person whose regular occupation or business is the provision of one or more **investment services** to third parties and/or the performance of one or more investment activities on a professional basis.

Investment research: see **Recommendation** and **Research or other information recommending or suggesting investment strategy**.

Investment research supervisor (or Head of research): Function established in France by Decision 2002-01 of the Conseil des Marchés Financiers issued on 27 March 2002 ("Provisions applicable to **investment service providers** producing and disseminating **investment research**"). Article 2 of the Decision states: "The function of investment research supervisor shall be performed by the natural person having authority over the production and dissemination of **investment research**".

⁶ Definition extracted from Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC (article 4).

⁷ Definition extracted from Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC (article 4).

Investment service: see [Investment service provider](#).

Continued

Investment service provider: [Investment firm](#) or credit institution that has been licensed to provide investment services⁸. There are eight investment services and activities⁹:

1. Reception and transmission of orders in relation to one or more financial instruments
2. Execution of orders on behalf of [clients](#)
3. Dealing on own account
4. Portfolio management
5. [Investment advice](#)
6. Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
7. Placing of financial instruments without a firm commitment basis
8. Operation of Multilateral Trading Facilities

Issuer¹⁰: The issuer of a financial instrument to which a [recommendation](#) relates, directly or indirectly.

N

Need-to-know principle: Principle whereby a member of [staff](#) of a financial institution discloses information to other [staff](#) members solely if they need that information to perform their job. The same rule applies to [breaches of Chinese walls](#) (q.v.).

O

One-to-one: Private meeting between two persons, e.g. between an [investment service provider](#) and an [issuer](#) or between an [issuer](#) and an [analyst](#).

Q

Quiet period: Time period prior or subsequent to an offering of securities, an initial public offering or other such transaction during which analysts are prohibited from publishing [recommendations](#) regarding the [issuer](#) involved in the transaction.

⁸ The legal definition of an [investment service provider](#) is given in Article L. 531-1 of the Monetary and Financial Code.

⁹ See Directive 2004/39/EC of 21 April 2004 on markets in financial instruments: annex I (List of Services and Activities and Financial Instruments) Section A ([Investment services](#) and activities).

¹⁰ Definition extracted from Directive 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment [recommendations](#) and the disclosure of conflicts of interest (§ 6, Article 1).

R

Recommendation¹: Research or other information recommending or suggesting an investment strategy, explicitly or implicitly, concerning one or several financial instruments or the **issuers** of financial instruments, including any opinion as to the present or future value or price of such instruments, intended for distribution channels or for the public.

Research or other information recommending or suggesting investment strategy²:

Information produced by an independent analyst, an **investment firm**, a credit institution, any other person whose main business is to produce **recommendations** or a natural person working for them under a contract of employment or otherwise, that, directly or indirectly, expresses a particular investment **recommendation** in respect of a financial instrument or an **issuer** of financial instruments.

Restricted list³: List of financial instruments in respect of which the service provider undertakes not to trade for own account and/or to disseminate **investment research**, having regard to its other activities and transactions that could lead to conflicts of interest.

Road show: Series of meetings organised by an **investment firm** to allow an **issuer** to present itself to potential investors.

¹ Definition extracted from Directive 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment **recommendations** and the disclosure of conflicts of interest (§ 3, Article 1)

² Definition extracted from Directive 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment **recommendations** and the disclosure of conflicts of interest (§4, Article 1)

³ See Article 3.1.10 of the General Regulations of the Conseil des Marchés Financiers.

S

Sell side analyst: Analyst who produces research and disseminates it to [clients](#), unlike a [buy side analyst](#) (q.v.), who simply produces it. Sell side analysts advise sellers and [clients](#), and work for financial companies in the broad sense of the term ([investment firms](#), investment banks, etc.). Derivatives analysts are sell side analysts.

Staff¹⁴: Individuals acting under the authority or on behalf of an authorised provider in providing investment services, related services and [ancillary services](#).

Syndicate: Group of [investment service providers](#) that agree to jointly effect a securities transaction. Syndicates are often set up to handle issues of securities (company formation, capital increase, debt issue, etc.) and are known as issuing syndicates (they generally comprise three groups with different responsibilities: managers, underwriters and the selling group). Syndicates are also formed for other purposes, e.g. initial public offerings¹⁵.

T

Technical analysis (or Chart analysis): Method of analysis based on the assumption that financial assets follow patterns which can be detected through a detailed study of prices and trading volumes. Analysts therefore study price histories in order to identify how assets behave in particular situations and thus to predict future movements. Technical analysis consists in assessing the potential of a security or a market using charts and graphs that replicate movements over given periods of time.

W

Watch list¹⁶: List of financial instruments about which the service provider has sensitive information, such that the [compliance officer](#) must exercise particular vigilance.

The [compliance officer](#) assesses the consequences for the provider's investment analysts of a decision to place a financial instrument on the surveillance list.

Disclaimer: *This English translation is for the convenience of English-speaking readers. Consequently, the translation may not be relied upon to sustain any legal claim, nor should it be used as the basis of any legal opinion.*

¹⁴ Definition extracted from Article 3.1.3 of the General Regulations of the Conseil des Marchés Financiers

¹⁵ **NB:** In France, there are no specific laws governing [syndicates](#).

¹⁶ Definition extracted from Article 3.1.9 of the General Regulations of the Conseil des Marchés Financiers