Conflicts of Interest in Investment Services Policy

BOV
Bank of Valletta

1. Statement of Principle

Bank of Valletta p.l.c. ("BOV" or "the Bank") conducts its business according to the principle that it must mitigate Conflicts of Interest to the best of its abilities. In situations where Conflicts of Interest exist or may be perceived to exist the Bank will manage these Conflicts of Interest fairly, both between itself and its Clients and between one Client and another.

2. Objective of the Policy

Bank of Valletta provides a full spectrum of financial services including investment banking, bancassurance and stockbroking to both individuals and corporations. Due to the nature of BOV's business a number of situations may arise in which a Client`s interests could conflict (or be perceived to conflict) with those of the Bank or those of other BOV's Clients. The Bank therefore has established and maintains an effective Conflicts of Interest Policy in order to identify and manage such or perceived conflicts.

This document is designed to provide Clients with a high level summary of the underlying Conflicts of Interest policy and arrangements within BOV to manage Conflicts of Interest.

The Board of Directors and the Chief Executive Officer are responsible for the administration of the Conflicts of Interest Policy.

3. Scope

This Policy applies to those Conflicts of Interest that may give rise to a risk of damage to the interests of a Client in the course of the Bank providing any Investment Service, an Ancillary Service or a combination of both. Conflicts of Interest may arise between:

a. the Bank and a Client;

b. two or more Clients of the Bank in the context of the provision of Services by the Bank to those Clients; and

c. the Bank and its employees.

A non-exhaustive list of possible Conflicts of Interest that might arise are included in Section 6. For the purposes of this Policy:

"**Group**" means Bank of Valletta p.l.c. and any of its subsidiaries and associates;

"**Clients**" include existing Clients of the Bank and potential Clients of the Bank, regardless of category;

"Investment Services" and **"Ancillary Services"** or **"Services"** means any of the services and activities as specified in Schedule 2 to the Investment Services Act (Chapter 370, Laws of Malta) which, among other things, transposes Directive 2014/65/EU of the European Parliament and of the Council on Markets in Financial Instruments (MiFID II) when provided in respect of any of the instruments listed in Schedule 1 to the IS Act and includes the ancillary services in Schedule 3 to the IS Act, as well as with respect to the sale of insurance products which is regulated by Directive (EU) 2016/97 – the Insurance Distribution Directive (IDD).

"**Relevant Person**" means any director or employee of the Bank.

4. Rules and Guidance Notes

This Policy is being adopted in terms of the requirements of the Malta Financial Services Authority. The MFSA has issued a Conduct of Business Rulebook (the "**COBS Rulebook**") which can be accessed from **www.mfsa.com.mt**. This Policy outlines the minimum standards that the Bank will meet to comply with such COBS Rulebook and other applicable rules. However, this Policy does not substitute the Bank's requirement to observe any additional regulatory requirements when identifying and managing Conflicts of Interest.

5. General Guidance

For the purposes of identifying the types of Conflicts of Interest that arise or might potentially arise in the course of providing Investment Services, Ancillary Services or a combination thereof, and that may materially damage the interests of a Client, the Bank shall take into account, the question of whether itself or a Relevant Person, or a person directly or indirectly linked by control to the Bank, is in any of the following situations, whether as a result of providing Investment Services or Ancillary Services or otherwise:

a. has made or is likely to make a financial gain, or has avoided or is likely to avoid a financial loss at the expense of the Client;

b. has an interest in the outcome of a service provided to the Client or of a transaction carried out on behalf of the Client, which is distinct from the Client's interest in that outcome;

c. has a financial or other incentive to favour the interests of one Client or group of Clients over the interests of another Client or Clients;

d. carries on the same business as the Client;

e. receives or will receive from a person other than the Client, an inducement, incentive or other solicitation in relation to a Service provided to the Client, in the form of monies, goods or services, other than the standard commission or fee for that Service. Please refer also to section 7.6.

6. Identification of Potential Conflicts of Interest

Where a wide range of financial services are provided, Conflicts of Interest may arise in a variety of scenarios. A conflict of interest may arise when the Bank performs the following functions:

a. Provision of investment advice;

b. Trading in instruments on the account of the Bank or of the Bank's employees;

c. Trading in instruments on the Client's account;

d. Management of the Client's portfolio.

Hereunder is a non-exhaustive list of examples of what may be considered typical Conflicts of Interest that may arise in relation to Investment Services and/or Ancillary Services provided by the Bank:

a. The Bank may wish to make investments for its own account in securities in which Clients are also seeking to invest;

b. The Bank may recommend or sell products issued by the Group as part of its Investment Services or Ancillary Services;

c. The Bank may provide Investment Services and/or Ancillary Services to Clients in relation to securities of the Group, the securities of an issuer of a security in the same business sector or industry in Malta as the Bank and the securities of an issuer which has a close business relationship with the Group;

d. A Unit of the Bank may be carrying out research or assessments of instruments while operating together with a Unit providing investment advice or recommendations;

e. The Bank may provide investment research in relation to an entity or group to which it also provides investment banking services or other banking services, including lending or credit facilities;

f. The Bank may produce research material which shall be used to support the Group's sales, advisory and trading activities and may at the same time be distributed to the Bank's Clients and to the Bank's associates or some other person connected to the Group;

g. The Bank is the discretionary portfolio manager for more than one Client – in particular in respect of issues related to allocation;

h. The Bank links the Client's transaction to a counterparty, who is also the Bank's Client, and then acts for the benefit of both Clients;

i. The Bank may purchase a financial instrument for a Client and then sell it immediately to one of its other Clients or vice-versa; or

j. The Bank trades for its own account in an instrument which is issued by the Client.

7. Preventing and Managing Conflicts of Interest

The Bank endeavours to manage any Conflicts of Interest which may arise from time to time, promptly and fairly. In this respect, the Bank has in place internal policies, procedures and controls designed to prevent and manage Conflicts of Interest.

These policies, procedures and controls, as well as the content of this Policy, are designed to ensure that the persons involved in the different activities, which may give rise to a conflict of interest, as specified above, carry on those activities at an appropriate level of independence. These policies, procedures and controls as well as this Policy are subject to ongoing monitoring and review and will be reviewed at least annually.

7.1 Confidentiality and Information Barriers

There are effective controls in place to manage the exchange of information between Relevant Persons engaged in activities involving a risk of a conflict of interest. Information barriers also include separation of premises, personnel, reporting lines, files and IT-systems.

The Bank respects the confidentiality of Clients' information by operating a "Need to Know" approach such that access to Clients' information is restricted to those Relevant Persons who have a sincere requirement for the information consistent with the scope of their responsibilities. Additionally, the Bank is bound by applicable laws and regulations relating to the handling and processing of Clients' information.

Primarily, confidentiality and information barriers exist between employees who:

a. Are responsible for the Bank's own portfolio (Treasury Department) and the employees responsible for customer-oriented or market-oriented functions such as Capital Markets and Institutions and Investment Banking;

b. Prepare investment research reports (Wealth Management Research and Analysis Unit) and the employees in the Bank's trading functions (Treasury, Capital Markets and Institutions);

c. Prepare investment research reports (WM Research and Analysis Unit) and the employees responsible for investment advice and portfolio management (WM advisory and discretionary)

7.2 Separate Supervision and Segregation of Functions

The Bank also manages Conflicts of Interest by ensuring that the relevant persons engaged in different business activities involving a conflict of interest of the kind specified in section 6 carry on these activities at an independent level appropriate to the size of the Bank. This is achieved by:

a. Effective procedures that prevent or control the exchange of information between relevant persons engaged in activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more Clients;

b. The separate supervision of relevant persons whose principal functions involve carrying out activities on behalf of, or providing services to, Clients whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the firm;

c. The removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenue generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities;

d. No single employee is simultaneously or successively involved in two different Services when that poses a conflict of interest.

7.3 Training and Monitoring

The Bank insists that in its dealings with Clients its employees must use the highest standard of integrity in their actions at all times. The induction, ongoing training and monitoring are designed to ensure that all relevant staff is familiar with and observe, inter alia, all applicable rules and procedures in relation to the provision of the Service.

7.4 Own Account Dealing

Relevant Persons may not effect personal transactions which might impair their ability to service their Clients objectively and effectively or which might create a conflict between their interest and that of the Client or of the Bank.

In this regard, the Bank supervises the conducting of transactions by Relevant Persons for their own account. In addition, Relevant Persons are subject to rules relating to dealing on own account.

The Bank's policy on Own Account Dealing is embodied in the Bank's Code of Conduct for Securities Transactions in the Bank's following sensitive areas:

a. Treasury Department

b. Capital Markets and Institutions Unit

c. Wealth Management

d. Research and Analysis Unit

e. Any other Units as may be determined by the Bank's Compliance Unit from time to time

Each of the above Units must have appropriate procedures in place to manage any Conflicts of Interest. Such procedures must be approved upon inception by the Compliance Unit and reviewed periodically by the Unit Head. Any changes are to be communicated to the Compliance Unit immediately, for approval.

7.5 Clients' Orders

Clients' Orders shall be executed in compliance with the Client Order Execution Policy of the Bank. In order to ensure fair treatment on all Clients' orders, the Bank's Execution Policy requires the employee to take all reasonable steps to achieve the best overall trading result for Clients; to exercise consistent standards; and to operate the same processes across all markets, Clients and financial instruments in which it operates. No undue preference should be given to any Client when trades are aggregated.

The same types of Clients' orders shall be executed according to the sequence of their receipt.

When executing Clients' orders concerning the same instrument, the Clients' orders shall be given priority over the orders for the Bank's own account.

7.6 Inducements to the Bank or to Employees from Clients

The Bank, in providing Services, shall act honestly, fairly and professionally in accordance with the best interests of a Client.

In so doing, the Bank may (i) receive a fee, commission or a non-monetary benefit from the Client or a person acting on the Client's behalf or (ii) pay a fee, commission or other non-monetary benefit to a Client or a person acting on the Client's behalf.

In the case that the Bank receives trailer fees when it is providing independent investment advice as defined by the Directive 2014/65/EU of the European Parliament and of the Council on Markets in Financial Instruments (MiFID II) or Discretionary portfolio management, these fees will be fully refunded to the Client. The Bank shall assume no responsibility or liability for any tax that may be owing in relation to such fees.

The Bank may also (i) receive a fee, commission or a non-monetary benefit, from a third party or a person acting on behalf of such third party; or (ii) pay a fee, commission or a non-monetary benefit to a third party or a person acting on behalf of such third party, if:

a. prior to providing the Service, the Bank discloses to the Client in a manner which is comprehensive, accurate and understandable, the existence, nature and amount of fee, commission or non-monetary benefit or where the amount cannot be ascertained, the method of calculating that amount. In this latter case the exact amount will be disclosed on an ex ante basis; and
b. the fee, commission or non-monetary benefit is designed to enhance the quality of the Service to the Client and does not impair compliance with the Bank's duty to act in the Client's best interests.

In addition, the Bank may pay or receive proper fees which are necessary for the Bank to be able to provide the Service and which by their very nature cannot give rise to conflicts with the Bank's duty to act honestly, fairly and professionally in the best interests of the Client such as custody fees, settlement and exchange fees, regulatory levies and legal fees.

Employees are further guided by the Bank's Ethics Policy which is maintained by the Bank's Human Resources Division.

Appropriate Procedures for monitoring Inducements

In monitoring its obligations under MiFID II and IDD, the Bank's Product Governance and Pricing Committee (PGPC) shall ensure, together with the appropriate business owners, that all relevant inducements have been identified and classified in relation to the Service being proposed and conform with all the above conditions.

Any changes to any inducements in relation to existing Services are to be communicated immediately to the Compliance Unit for its review and approval.

7.7 Remuneration Policy

The remuneration of Relevant Persons principally engaged in one Service is not directly linked to the remuneration or income of other Relevant Persons principally engaged in another Service.

7.8 Investment Research Policy

The Bank's Research and Analysis Unit is guided by a policy statement which states that Unit employees are expected to maintain a high level of ethics and integrity, and must declare any conflict of interest that may arise in executing their job duties.

An investment recommendation shall mean a research or other information which:

a. explicitly or presumably recommends or proposes an investment strategy concerning one or several instruments of one or more issuers, including an opinion on the current or future value or price of these instruments; and
b. is intended for distribution within the Bank or for the public.

The financial analyst and the employees participating in the preparation of an investment recommendation shall draw up and present such investment recommendation following the principle of conscientiousness and fairness and with due professional care and diligence required from the persons who draw up and submit recommendations within their professional competence. In arriving at investment recommendations, the Unit will as far as possible, rely on third party research limited to a small number of renowned foreign correspondents. It is the investment analysts' responsibility to arrive at a final recommendation based on the different opinions sourced.

Employees of the Unit are precluded under the COBS Rulebook, from accessing information from other sections of the Bank for the purposes of arriving at a recommendation on the local capital market. If a situation arises where this is inevitable, then the employee is immediately required to declare any possible conflict of interest that may arise to his/her line manager.

Employees of the Unit are also precluded from performing personal transactions or trading in financial instruments to which investment research refers, or with any related financial instruments, until such time as the said investment research is published or made available to the Clients or parties for whom this investment research is intended.

Furthermore, employees of this Unit shall not perform personal transactions related to such investment research or any other related financial instruments if this is in contradiction of current recommendations.

7.9 Disclosing the Conflicts of Interest

In the event that, notwithstanding that the Bank has taken measures to protect the Client's interests from conflicts that might arise, or where these measures are not considered sufficient to guarantee, with reasonable confidence, that risks of damage to Client interests will be prevented, the Bank shall disclose the nature and/or the sources of Conflicts of Interest to the Client before proceeding with the business transaction and acting on the Client's behalf.

When holding financial instruments belonging to Clients, the Bank makes adequate arrangements so as to safeguard the ownership rights of Clients and prevents the use of a Client's financial instruments on own account except in the case where the Client gives explicit instructions.

8. Declining to Act

Finally, where the Bank considers it is not able to manage the conflict of interest in any other way, it may decline to act for a Client.

9. Conflicts of Interest register

The Bank shall keep and regularly update a record of the kinds of investment or ancillary service or investment activity carried out by or on behalf of the bank in which a conflict of interest entailing a risk of damage to the interests of one or more Clients has arisen or, in the case of an ongoing service or activity, may arise. One of the purposes of this register is to facilitate effective identification, escalation and management of potential conflicts and to provide a basis for the training of Employees. Senior management shall receive at least annually, written reports on such instances.

It is the responsibility of each and every employee to familiarise themselves with this Policy and to immediately disclose Conflicts of Interest or potential Conflicts of Interest. Such disclosure is to be made to their line manager, who will in turn inform the Compliance Unit / Department. This conflict of interest will then be recorded in the appropriate register and the Compliance Unit Department will inform the Risk Management and Compliance and Crime Prevention Committee of the matter and of any action taken.

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