

Code of Ethics

of the Association of International Wealth Management (AIWM)

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Contents

INTRODUCTION	3
RULE 1 PRINCIPLES OF PROFESSIONAL ETHICS	3
1. INDEPENDENCE	4
2. INTEGRITY	5
3. PROFESSIONALISM AND DILIGENCE	5
4. LOYALTY AND PRIORITY OF THE CLIENTS' INTERESTS	6
RULE 2 COMPLIANCE WITH APPLICABLE RULES	6
1. COMPLIANCE WITH REGULATIONS	6
2. COMPLIANCE WITH SELF-REGULATORY RULES	7
3. COMPLIANCE WITH INTERNAL RULES OF THEIR EMPLOYERS	7
RULE 3 DUTY OF INFORMATION	7
1. QUALITY OF THE INFORMATION TO BE PROVIDED	8
A. <i>In General</i>	8
B. <i>Wealth managers</i>	8
2. NO GUARANTEE OF RETURN	9
3. DUTY TO UPDATE INFORMATION IN CERTAIN SITUATIONS	10
4. COMMUNICATION OF INFORMATION TO CLIENTS AND INVESTORS	10
RULE 4 CONFLICTS OF INTERESTS	10
1. DUTY TO AVOID CONFLICTS OF INTERESTS	11
2. PRIORITY OF THE CLIENTS' INTERESTS	11
3. EQUAL TREATMENT OF CLIENTS AND INVESTORS	12
4. TRANSPARENCY	12
RULE 5 PERSONAL INVESTMENT TRANSACTIONS OF MEMBERS	13
1. MEMBERS' DUTY OF LOYALTY TOWARDS THE CLIENTS	13
2. MEMBERS' ALLOCATION OF TIME AND FINANCIAL RESOURCES TO PERSONAL INVESTMENT TRANSACTIONS	14
A. <i>Allocation of Time</i>	14
B. <i>Allocation of Financial Resources</i>	14
3. COMPLIANCE WITH APPLICABLE RULES	14
RULE 6 DUTY TO INFORM THE EMPLOYER	14
RULE 7 SANCTIONS	15

Introduction

The AIWM objectives seek to ensure the highest ethical conduct of its members and thus contribute to the integrity of global capital markets.

To fulfil the responsibilities resulting from their activities as Wealth management/Private banking¹ professionals, certain standards must be met. To encourage the independent, diligent, professional and ethical behaviour of Wealth management professionals, the AIWM has established a Code of Ethics, defining globally accepted standards for the professional conduct of Wealth managers world wide.

All members of the AIWM accept the obligation to uphold and abide by the association's Code of Ethics.

Rule 1 Principles of Professional Ethics

Members shall exercise their profession in an independent, integer, diligent and professional as well as ethical manner. They undertake in all cases to give priority to the interests of the clients and commit to treat them fairly.

The principles of professional ethics can be divided into four fundamental principles:

- **Independence:** Members must exercise independent and objective judgement in their professional activities.
- **Integrity:** Members must preserve their professional and personal integrity.
- **Professionalism and diligence:** Members must always act as qualified professionals and perform their activities with the diligence required from qualified professionals.
- **Loyalty and priority of the clients' interests:** Members owe a duty of loyalty to the clients. They must under all circumstances give priority to the clients' interests and ensure that they are treated fairly and equitably.

¹ Wealth management/Wealth managers and Private banking/Private bankers are both used as synonyms in this publication

These four fundamental principles, which are to a large extent intertwined, constitute the core of the professional conduct of members. They form the pillars on which the profession relies to carry out its activities in an ethical manner.

These general principles are to a certain extent implemented by the more specific Rules of conduct set out hereafter.

1. Independence

Members must at all times and under all circumstances exercise an independent judgement. They must exercise their professional activities in a manner independent from their own personal interests and the interests of their employer.

The independence from the members' own interests requires that the members shall at all times exercise their profession in an objective and impartial manner and shall not permit personal relationships or other personal considerations (such as personal investment transactions, see Rule 5) to affect the objectivity of their judgement or actions. Specifically, this means that an investment advisor must not invest or recommend an investment if he does not believe the investment to be appropriate and to correspond to the client's interest.

The independence from the interests of their employer requires that the members avoid that their objective and impartial judgement be subject to undue influence from their employer or the latter's activities. They must among other things refuse any form of remuneration which might have an influence on their independence, such as a remuneration based on the results or profitability of specific activities of their employer (e.g. issuance commissions, trading volume, credits) if such a remuneration may compromise their independent judgement.

An investment advisor may recommend investments in securities issued or sponsored by his employer provided that such investments are appropriate and in the best interest of the client and that the remuneration of the investment advisor is not specifically tied to such investment or recommendation.

Finally, the duty of independence requires the members to prevent conflicts of interests, to disclose potential conflicts of interests in certain situations and to take appropriate measures to prevent any adverse effects of a conflict of interests, including vis-à-vis the companies whose securities the members are considering for investment (see Rules 4 and 5).

2. Integrity

Members must always uphold the highest standards of moral, intellectual and ethical integrity. They must not let their professional activities be influenced by any undue cause and must not use their position for purposes other than an objective and diligent performance of their duties.

Integrity further requires the members to maintain their activities focused on carrying out objective investment recommendations or investment decisions. The activities of a member should not be performed or used for any other purpose than serving the best interests of clients.

This principle also requires the members to carry out their professional activities in an honest and trustworthy manner, so as to inspire confidence and reliability vis-à-vis clients and colleagues. In particular, they shall not engage in any conduct which may involve fraud, misrepresentations or other breaches of applicable rules or regulations (see Rule 2).

Members may not promise or guarantee a specific performance or result (see Rule 3).

Finally, the principle of integrity extends beyond the scope of the members' professional activities to prohibit them from committing any act which would reflect adversely on their integrity, honesty, trustworthiness or which would undermine the confidence which the public in general and clients in particular may legitimately place in the members.

3. Professionalism and Diligence

Members shall exercise due diligence and follow the rules of the art in making investment recommendations or in taking investment actions. In particular, members must apply the recognised professional methods in the performance of their professional activities, use accurate and reliable information in making investment decisions or investment recommendations. They shall only issue an investment recommendation or make an investment decision on the basis of appropriate prior investigation.

In order to exercise the appropriate diligence expected from a qualified professional, members must ensure that they maintain their knowledge and skills up-to-date through continuing education.

4. Loyalty and Priority of the Clients' Interests

Members must be loyal to clients and carry out their professional activities in the clients' best interest. This duty of loyalty requires the members, in all cases involving a potential conflict of interests, to give priority to the clients' interests over their personal interests or the interests of their employer (see Rules 4 and 5).

This principle also requires the members to always treat clients fairly and equitably. In particular, they may not without legitimate grounds favour one client to the detriment of another. The duty of equal treatment is applicable to the communication of investment recommendations and to the taking of investment actions (see Rule 3).

Rule 2 Compliance with Applicable Rules

Members shall know and comply with the provisions of the laws, regulations and self-regulatory rules as well as all internal rules of their employer that are applicable to their activities.

Members must comply with the provisions of laws, regulations and rules enacted by self-regulatory bodies. They must also abide with the internal guidelines issued by their employer. Breaches of the applicable rules may result in different consequences, such as termination of employment, barring from exercising regulated activities, civil liability, fines and imprisonment.

It is the duty of each member to maintain knowledge of the legal framework applicable to his professional activities; when a member is in doubt in a particular case, he must seek legal advice concerning the applicable rules and requirements.

1. Compliance with Regulations

Members must know and comply with all applicable statutory laws, regulations and rules of any government and/or regulatory organisation that are applicable to their activities.

2. Compliance with Self-regulatory Rules

In order to implement the statutory provisions and to codify the best practices of the relevant professions, several self-regulatory bodies have adopted rules directly applicable to their members. Most of these rules are also indirectly applicable beyond the scope of their members because they state best practices with which diligent professionals must comply.

3. Compliance with Internal Rules of their Employers

It is a common practice within the securities industry for institutions to have extensive internal rules and guidelines setting out the manner in which business should be conducted. Members should be informed of the contents of any such rules and comply with the latter.

Should such internal rules be contrary to any of the present Rules of conduct and fundamental principles of professional ethics, members should draw the attention of their employer and suggest to their employer to modify the internal rules in order to comply with the present Rules of conduct and fundamental principles of professional ethics.

Should the internal rules of an employer be less stringent than the present Rules of conduct and fundamental principles of professional ethics, the member must nevertheless comply with the latter.

Rule 3 Duty of Information

Members must ensure that the information they provide to clients and investors is clear and accurate. They are prohibited from promising a given return. They must communicate information to investors and clients on an equal basis.

Information is one of the core aspects of the activities of wealth managers. Thus, it is of essence that the information communicated by members to clients and investors be:

- clear, i.e. understandable by the recipients of the information and not misleading;
- accurate, i.e. the information provided must be correct and reliable and must include all disclosable elements that are necessary for the recipients to understand and make use of the information;

- well suited, i.e. the information must to the extent possible be adapted to the needs, financial situation and objectives of the recipients and must not contain elements which are not relevant or misleading for the recipients or omit elements which are decisive for the potential decisions of clients and investors;
- provided on a timely basis and in compliance with the general principle of equal treatment of investors.

In addition, the duty of loyalty may require the disclosure of potential conflicts of interests (see Rule 4).

1. Quality of the Information to be provided

A. In General

As a general rule, the information provided by members must be clear and understandable for the intended recipients. The quality, scope and depth of the information to be provided will, however, necessarily vary depending on the nature of each member's activities. The members must nevertheless in all cases ensure that the information provided is neither misleading nor otherwise unclear.

Furthermore, the information must be adapted, including with respect of the words used, to take into account the knowledge and experience of the intended recipients. In case of doubt, information should in all cases be prepared and communicated taking into account the knowledge and experience of the least experienced intended recipient.

B. Wealth managers/Private bankers

Prior to providing financial advice to a client or taking investment actions, wealth managers must make a reasonable inquiry into the client's financial situation, investment experience and investment objectives; they must also update such information regularly. On the basis of such information, they must inform the client of the general risks of the contemplated investment strategies and types of transactions. When recommending a specific transaction, wealth managers must also inform the client of the specific risks related to such transaction.

Wealth managers must consider the appropriateness and suitability of investment recommendations or actions for the portfolio of the client. Should a client give specific instructions which entail a particular risk, the wealth manager must inform the client of such risk to the extent necessary.

Wealth managers must inform the client on a timely basis so as to ensure that the client is aware of the risks when he decides to carry out a certain type of transaction or a specific transaction with particular risks. In principle, such information must be provided for the first time at the beginning of the relationship and, thereafter, whenever the client decides to carry out a new investment strategy or a new type of transactions with specific risks. Furthermore, in case of an ongoing relationship, such information must be updated to the extent necessary.

The extent of the information to be provided varies depending on the experience of the clients and their specific knowledge. In principle, wealth managers may rely on standardised documents of their employer (e.g. Risk Disclosure Statements), provided such documents may be understood by the client. Should they decide to inform their client in a more personalised manner, the wealth managers shall determine the scope of the information to be provided in function of the experience and specific knowledge of the client. Such personalised information must be appropriately documented.

The information provided to clients must be accurate. Wealth managers must ensure that they use reliable information to carry out their activity and, where applicable, mention their sources in their investment recommendations.

In order to ensure that the information is adapted to the needs of clients, wealth managers must avoid using a jargon or excessively technical concepts or terms that prevent the recipients of the relevant information from properly understanding the information.

Finally, wealth managers must inform clients of the situation and the performance of the portfolio on a regular basis in accordance with the terms of the contract between their employer and the client.

2. No Guarantee of Return

Members may not promise a guaranteed return on investments. Members cannot guarantee the result of their activity; for instance, a wealth manager cannot guarantee that investment recommendations, if followed, will yield a given return.

Wealth managers must inform clients of the risks which may affect an investment. Any information related to investments in fixed return products or structured products which have a “guaranteed” component or investment strategies which yield a similar result should also mention the risks relating to such investments, such as counter-party risk, exchange rate risk or political risk, as these risks may affect the effective return of such investments.

3. Duty to Update Information in Certain Situations

Wealth managers have a duty to update the information of a client regarding the risks related to a specific investment strategy or a certain type of transactions. However, wealth managers do not have a general duty to update or rectify any investment recommendation communicated previously if new matters arise. This principle may, however, be overruled by the terms of certain agreements with clients relating to the provision of investment advice.

4. Communication of Information to Clients and Investors

Members shall, as a rule, provide all clients and investors with investment recommendations on an equal basis. This rule prevents wealth managers from favouring certain clients or the trading operations of their employer by providing them either with more information than is provided to other clients or by giving them early access to their investment recommendations. This rule implies that members must take measures to ensure that the intended recipients have access to investment recommendations at the same time. However, it does not imply that members must ensure that all clients and investors effectively access the information at the same time.

This rule does not entail that all intended recipients should receive investment recommendations in the same form: certain clients may have a more customised treatment than others, provided such difference in treatment relies on reasonable grounds. However, all intended recipients must be treated equally with respect to the substance of the information.

This rule does not prohibit a member (or his employer) from limiting the access to investment recommendations to clients having subscribed to receive investment recommendations relating to specific securities, companies or industries.

Rule 4 Conflicts of Interests

Members shall avoid any situation of conflict with interests of clients and investors. If a conflict cannot be avoided, priority has to be given to the interests of the clients and investors. Members treat the interests of clients and investors in accordance with the principle of equal treatment.

Members have to disclose any fact affecting their objectivity and their independence.

Conflicts of interests arise in any situations where interests of clients and investors may clash with the personal interests of a member, his employer or other third parties.

In connection with conflicts of interests, the duty of loyalty entails the members to comply with the following principles:

1. Duty to Avoid Conflicts of Interests

This principle requires the member to remain independent from the companies whose securities he analyses, recommends or invests clients' assets in. A member is not allowed to receive directly or indirectly financial or material benefits from these companies. Only customary gifts can be accepted and all gifts have to be announced to the employer.

This principle also requires the member to preserve his independence from other activities carried out by his employer such as investment banking or credit activities (see Rule 1).

2. Priority of the Clients' Interests

In case of a conflict of interests that cannot be avoided, the interests of clients or investors have priority over a member's own interests (see Rule 5) and those of his employer.

Wealth managers shall invest or recommend an investment only if the investment is in the interest of the client.

Wealth managers must avoid front running (i.e. executing in priority for their own account or the account of their employer transactions similar to clients' transactions) or parallel running (i.e. executing their own transactions or those of their employer at the same time as clients' transactions). They shall not make use of their knowledge of clients' investment strategies (e.g. the intention of a client to increase a certain position) to execute certain transactions.

Wealth managers shall not issue recommendations or take investment actions which contradict their own convictions, in particular in order only to get rid of securities' lots, to place new issues or to support nursing activities. The client's interest must remain the member's priority even if the member's employer has granted the client a Lombard loan.

Furthermore, wealth managers must refrain from making any recommendations or investments for the sole purpose of generating commissions or brokerage fees (churning).

3. Equal Treatment of Clients and Investors

Members shall treat the clients and the investors' interests equally. They are not allowed to favour one client or investor to the detriment of another.

Wealth managers shall treat clients equally in respect of the allocation of securities. Equal treatment in the allocation of securities should be considered globally: compliance with this obligation should be considered over a given period and not on a transaction specific basis.

4. Transparency

When members become aware of potential conflicts of interests, they have to disclose them to the clients or investors concerned provided such disclosure does not breach professional or banking secrecy.

The principle of transparency should permit the clients or investors concerned to assess the extent of potential conflicts of interests. Communication must be clear, complete and on a timely basis (see Rule 3).

Wealth managers shall disclose economical, personal or other relationships that they or their employer maintain with the recommended company. Such duty of disclosure is limited to the relationships that are known to the wealth manager.

Economical links include, in particular, substantial shareholdings. A duty of disclosure only arises if the economical links are sufficiently material to potentially affect the objectivity of the wealth manager. In any event, substantial shareholdings of more than 3% of the share capital or voting rights of a company have to be disclosed.

Personal links exist in particular when a member or a director or an executive of a member's employer also holds a position as director or executive in the company that is recommended. A duty of disclosure arises only when the person having a double position acts at least in one of the entities as an executive.

The other links to be disclosed include all other situations where a member or his employer have a specific relationship of a certain importance, that is neither economical nor personal, with the recommended company that may have an influence on the member's independence.

The disclosure can take place a posteriori in the course of discussions with the client. The member shall then write a note summarising the contents of the discussions.

Wealth managers can invest in or recommend securities issued by their employer if it is in the client's interest.

Rule 5 Personal Investment Transactions of Members

Members have a duty of loyalty to clients and shall not cause prejudice to the clients' interests when making personal investment transactions.

Members shall not spend more than a reasonable amount of time on personal investment transactions, and their investments shall be in adequacy with their financial resources.

Members shall observe all applicable local and foreign rules, regulations and guidelines relating to securities dealing (insider trading, market manipulation, front running, etc.), which are applicable to them.

As a general rule, members should not be prohibited from dealing in the securities they recommend or in which they invest clients' assets. However, when making personal investment transactions, members shall observe the following principles.

1. Members' Duty of Loyalty towards the Clients

Members have a duty of loyalty towards the clients and must act for the benefit of the clients and place the clients interest before their own (see Rules 1 and 4).

The members' duty of loyalty can be divided into the following principles:

- Priority of clients' orders;
- Disclosure of personal investments
- Prohibition to use price-sensitive facts;
- Prohibition to subscribe to initial public offerings (IPOs); and
- Consistency.

Members shall give absolute priority to the clients' orders. Members shall always execute the clients' orders first before undertaking any personal investment transaction in the same security. In addition, members shall always place the clients' orders separately from their personal orders. As a consequence, members may not regroup in the same order the cli-

ents' and their own orders. They are also prohibited from buying securities sold by clients for their own account (or vice versa).

2. Members' Allocation of Time and Financial Resources to Personal Investment Transactions

A. Allocation of Time

Members' personal investment transactions shall not interfere with their obligations and duties towards their employer. As such, members shall spend no more than a reasonable amount of their time on personal investment transactions. It is very common for employers to have specific internal rules in this respect.

B. Allocation of Financial Resources

Members shall ensure that their personal investment transactions are at all times in adequacy with their financial resources. They shall not engage in short-term trading and must be aware of the risks they are taking.

3. Compliance with Applicable Rules

It is very important for the reputation of the profession of analysts, wealth managers and portfolio managers that all members observe local and foreign rules applicable to personal investment transactions (see Rule 2).

In addition, members shall respect self-regulatory and internal rules issued by associations or employers and which are applicable to them.

Rule 6 Duty to Inform the Employer

Members shall inform their employer that they have to comply with these Rules of Conduct and Fundamental Principles of Professional Ethics.

As a general rule, members should inform their employer that they are a member of the Association of International Wealth Management and are therefore bound by these Rules of Conduct and Fundamental Principles of Professional Ethics.

Rule 7 Sanctions

The effectiveness of regulating professional conduct by a system of professional standards arises from the existence of efficient penalties, recognised as such by and in the profession.

Thus, while the rules of law impose behaviour regulations from outside, deontology specifically consists of rules devised, accepted and applied by the members of a profession, as much in the interests of that profession as in the interests of preserving its image and credibility in the minds of clients and the public.

Because of the high degree of importance that the Association of International Wealth Management places on the present Rules of Conduct, the AIWM allows its Board to apply the following disciplinary procedures:

- a warning,
- the revocation of the diploma of Certified international Wealth Manager (CIWM®),
- the exclusion from the association.