

# Conflicts of Interest Arrangements Covering the Production of Investment Research

## Purpose

This document sets out the arrangements adopted by VTB Capital ZAO, VTB Capital Plc, VTB Capital Inc. and their affiliates (“VTBC” or “the Bank”) for the identification and management of potential conflicts of interest that may arise in connection with the publication of Research. These arrangements are not intended to act as a complete account of the Bank’s conflict management protocols for each and every area of the Bank’s business, and should be viewed in the context of the full range of the Bank’s policies.

A conflict of interest is a situation where an individual’s or the Bank’s course of action could be influenced by its involvement in a competing interest or activity such that the individual’s or Bank’s involvement in one or more activities may no longer be considered to be impartial.

Conflicts of interest may arise when there are competing interests between:

- the Bank and a past, current or prospective client;
- employees, agents, contractors of the Bank and past, current or prospective clients;
- two or more clients in respect of the services that the bank provides to them.

Conflicts of interest can be real or perceived (i.e. external parties perceive the actions of the Bank not to be in the best interest of the client).

## Identification of Conflicts

Depending on the applicable jurisdiction, conflicts of interest can arise at both the macro (or strategic) level, where the different types of business undertaken by the Bank can give rise to the potential for conflict, and the micro (or transactional level), where a specific mandate to be carried out by VTBC may potentially conflict with an assignment for another client.

## Investment Research

In certain jurisdictions, investment research can be defined as information that recommends or suggests an investment strategy, explicitly or implicitly, concerning one or several financial instruments or issuers, including any opinion as to the present or future value or price of such instruments, intended for distribution channels, or for the public.

Investment research may only be produced and published by the Research Department.

### **Editorial Control of Investment Research**

Responsibility for the supervision and management of analysts rests with the Head of Research.

Editorial control rests with the Research Department and no other areas of the Bank (or third parties) are permitted to comment or review research reports before publication, with the exception of Compliance to ensure they adhere to the Bank’s policies and regulatory obligations, or as otherwise may be authorised by Compliance. For example, where there might be potential legal or regulatory issues involved, there might be a need for Compliance to show reports to the Legal Department or other Senior Management as necessary.

All decisions on research content rest with Research. The research programme will be devised in consultation with the GCEO and the Head of Global Markets and approved by the GCEO.

### **Restrictions on Publishing Investment Research**

The Research Department may not publish investment research where the publication of such research would be in violation of any applicable law or regulation, or where the Compliance Department determines that, notwithstanding the conflicts management measures applied by the Bank the publication of such research could create a perception of conflict of interest such that the most appropriate course of action would be to prevent publication.

Depending on the jurisdiction, a conflict of interest could also arise where the Bank is involved in a significant transaction involving any Investment Banking services and the Research Department wishes to issue research. In such situations, the Research Department must follow the standard procedure set out in Appendix A (General Principles) below. It should be noted that a number of factors may restrict the publication of investment research in such situations, such as black-out periods and/or advice from the legal advisors involved in an Investment Banking transaction.

At all times, the Research Department must be transparent in the source of its information and data. Reports prepared for external publication may not be distributed internally ahead of distribution to clients. Research may be distributed internally at the same time as distribution to clients. Any dissemination of new research material must be done on a broad basis and must not be to select clients only.

### **Chinese Wall / Information Barrier Arrangements**

VTBC's Research Department operates on the 'public side' of the Chinese Wall. However, in addition to the Chinese Wall separating the public and private sides of VTBC, an additional information barrier is in force to separate the Research function from other parts of the Global Markets function. This does not limit necessary interaction between analysts and sales/trading personnel designed to assist the analysts in their work, but the analysts must take reasonable care that they do not intimate the timing or content of any research publication.

### **Involvement of Analysts in Other Activities**

Research Department members may only become involved in activities other than the preparation of investment research if authorised by the Head of Research. This approval will only be granted if the Head of Research is satisfied that such non-investment research activities do not conflict with current or future investment research activities, or otherwise could give rise to a potential conflict of interests on the part of the analyst.

As applicable, research analysts are forbidden from taking part in the following:

- Efforts to solicit business for Investment Banking services and should not participate in any corporate finance proposals to current or prospective clients for Investment Banking business, nor have any other communications with issuers for the specific purpose of soliciting Investment Banking business, unless expressly approved to do so by the Compliance Department and, where appropriate, the relevant analyst has been brought over the Chinese Wall;
- Actively participating in issuer or Investment Banking roadshows; and

- Roles that could prejudice, or may appear to prejudice, the independence of their research or conflict with their duties to the recipients of their research.

Analysts are allowed to participate in internal meetings or discussions in order to assist in researching possible business opportunities (but may not participate once a deal is initiated, save in certain circumstances). They may also provide ideas to sales and trading staff, enter into discussions with the Bank's investment clients, participate in investor education meetings with investor clients, and share their views with Investment Banking colleagues on market sentiment and the likely reception of an offering. It is also acceptable to use an investment analyst's knowledge and information to assist in researching corporate finance business opportunities, and to provide ideas to sales staff or non-proprietary trading staff. See below for details regarding the permissible interaction with Global Markets.

### **Remuneration of Analysts**

Remuneration is determined by Research senior management and is linked to objectives and performance relating to Research duties, such that analysts are not placed under any financial pressure that might impair their independence. Remuneration must not be linked to specific transactions or to recommendations contained in investment research. Analysts' remuneration may, however, be linked to the overall performance of the analyst and/or the Bank.

Performance appraisal reviews, hiring decisions and disciplinary proceedings for Research staff are subject to approval by the Head of Research.

### **Avoiding Inappropriate Influences**

VTBC's Research function is an independent function, established to produce independent views and opinions about the subjects under coverage. Additionally, Research publications must be fair, clear, and not misleading. Analysts must observe the highest standards of integrity and ethical behaviour and are required to ensure that they have a reasonable basis for their analysis and recommendations.

VTBC prohibits research analysts, or other persons connected with the publication of research, from offering inducements to issuers or others with a material interest in the subject matter of Investment Research, or accepting such inducements from them. Entertainment and hospitality will be recorded in the Gifts and Entertainment Register maintained by Compliance, and any proposed gifts, entertainment or hospitality outside the current guidelines of the Bank must be reported to Compliance in accordance with the Bank's Gifts and Entertainment Policy. The direct or indirect offering of favourable research coverage in return for inducements is prohibited.

Undue influence or coercion of a Research Analyst by any Bank to obtain a favourable outcome with regards to the publication of Investment Research is prohibited. Any such undue influence or coercion must be reported to the Compliance Officer.

### **Analysts Dealing in Securities**

Analysts are not permitted to deal in the securities of issuers covered by their research.

### **Information Sharing Between the Research Department and Global Markets**

Both Global Markets and Research are on the public side of the Chinese Wall. This means that neither area has access on a habitual basis to private side material non-public information and the

activities conducted by and views expressed by both divisions are based off publicly available information<sup>1</sup>.

However, Research and Global Markets are separated from each other by means of an information barrier designed to ensure that Global Markets are not able to access research reports ahead of their publication. Furthermore, in order to preserve objectivity and independence, Research must not receive from Global Markets any client specific information which could be potentially market or price sensitive, such as pending client orders.

### **Communications from Research to Global Markets**

Research may:

- hold conversations with Global Markets to discuss its published research and views expressed in that research, as would be held with clients;
- express views about future, current or past market events, save to the extent that such views comprise part of a yet to be published research report; and
- provide market colour, such as observed industry sector trends.

Research may not:

- allow Global Markets to view drafts or extracts of research material before it has been published;
- make selective disclosure of research analyst key opinions or changes in views; research material must be distributed to all clients at the same time and should not be distributed internally prior to such distribution;
- promise research coverage of any issuer or security.

### **Communications from Global Markets to Research**

Global Markets may:

- question the views of a research analyst;
- communicate market colour and customer flow<sup>2</sup> (as they would to clients); and

Global Markets may not:

- breach client confidentiality;
- request to see research material before it has been published / draft research
- ask Research to take a certain view or change a view or recommendation or alter any views with respect to the content of a research report;
- ask Research to publish at a certain time or to change or delay a publication time.

### **Physical Access**

Global Markets personnel are not permitted to access, visit or pass through the Research Department business area unless there is a legitimate and permissible reason for doing so. In

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<sup>1</sup> Exceptions to this are when individuals in both areas are wall-crossed by the private side in order to provide input or work on specific deals or projects.

<sup>2</sup> Customer flow information should be of a generic nature, such that the identity of any one client may not be determined. Therefore, flow should be described using broad industry categories and broad geographical location, respecting any asset classes and/or industries where there may be few participants and client identity could be deduced. General types of trading strategies observed may be described. Levels or prices seen may be described in generic terms e.g. "at around x.."

doing so, all necessary care should be taken that such personnel do not find themselves in a position where they unwittingly obtain access to as yet to be published research reports. In no circumstances should a member of Global Markets visit the Research Department business area without a member of the Research Department being present.

**Special Note to Research Regarding Conflicts of Interest**

Research analysts must ensure that they remain at all times independent and free from improper influence which may impair their objectivity. This includes knowledge of Bank or client positions relating to issuers or securities which they cover. Opinions and conclusions should be based off publicly available information. It is therefore imperative that should an analyst believe that his or her independence has been compromised in any way, the matter be immediately escalated to both the relevant manager and Compliance.

## **Appendix A: General Principles**

All areas of the Bank are required to ensure that their internal procedures include reasonable measures to identify any potential conflicts of interest. Further guidance is given below for specific areas of the Bank, but all areas must comply with the following general rules:

- All business areas must maintain procedures such that Senior Management is aware of all material business transaction in order that potential conflicts may be identified;
- Whenever a potential conflict of interest is identified, the business area must consider whether there is a material risk of damage to the interests of a client;
- If there is a potential risk of damage to the interests of a client, the business area must notify its departmental head and take all reasonable steps to ensure, with reasonable confidence, that the risk of damage to the interests of a client will be prevented. The business area must notify Compliance of the proposed measures to be taken.
- Compliance will advise whether the proposed resolution of the perceived conflict of interest is satisfactory. If the proposed solution is considered inadequate, Compliance will propose an alternative course of action. In case of dispute between Compliance and the relevant department head, the matter will be referred to the Board for resolution.

In addition to issues involving conflicts of interests, staff must also ensure that they are aware of any requirements imposed on their business by banking secrecy, data protection laws and/or duties of confidentiality.