



# ETHICAL AND RESPONSIBLE BEHAVIOUR

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## MANAGEMENT APPROACH<sup>1</sup>

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### Introduction

The reference document for managing Business Ethics and Compliance-related issues is the Edmond de Rothschild Group Code of Ethics, which was created in 2015. This Code was approved by the Edmond de Rothschild Holding S.A. Board of Directors and by the Group's Executive Committee. It applies to all Group entity bodies and employees at any site. [GRI 103-1 / 103-2 / 103-3](#)

The Group's global commitment in this area is in line with:

- Circular 2017/1 on corporate governance for banks published by the Swiss regulator (Autorité fédérale de surveillance des marchés financiers, FINMA), in September 2016;
- Circular 2008/21 («Operational Risks – banks»), amended in 2016;
- Circular CSSF 12/552, published by the Commission de Surveillance du Secteur Financier (the Luxembourg regulator);
- MIFID II - Markets in Financial Instruments Directive, II, European Directive;
- PRIIPS - Regulation on Packaged Retail Investment Products;
- DIA 2 - European Directive on Insurance intermediation;
- LFin & LSFIn - Swiss laws on financial services and financial institutions;
- EAI - Automatic Exchange of Information.

### [GRI 103-2](#)

### Sustainability context

The banking sector is currently facing three main challenges:

- banks have a responsibility to ensure the stability, longevity and integrity of the financial sector through applying numerous regulatory changes;
- banks must regain public trust;
- banks must continue to provide the financing for a sustainable economy and to find solutions to the global issues that affect us all.

This last point seems paradoxical, as innovation and the ability to take risks need to be balanced within the confines of a fast-moving and challenging regulatory environment which has a definite impact on the business models of banks and financial institutions.

The Edmond de Rothschild Group is convinced that this can be done by adopting a long-term view which takes into account the financial and societal needs rather than a short-term approach that is potentially damaging to collective well-being. [GRI 103-1](#)

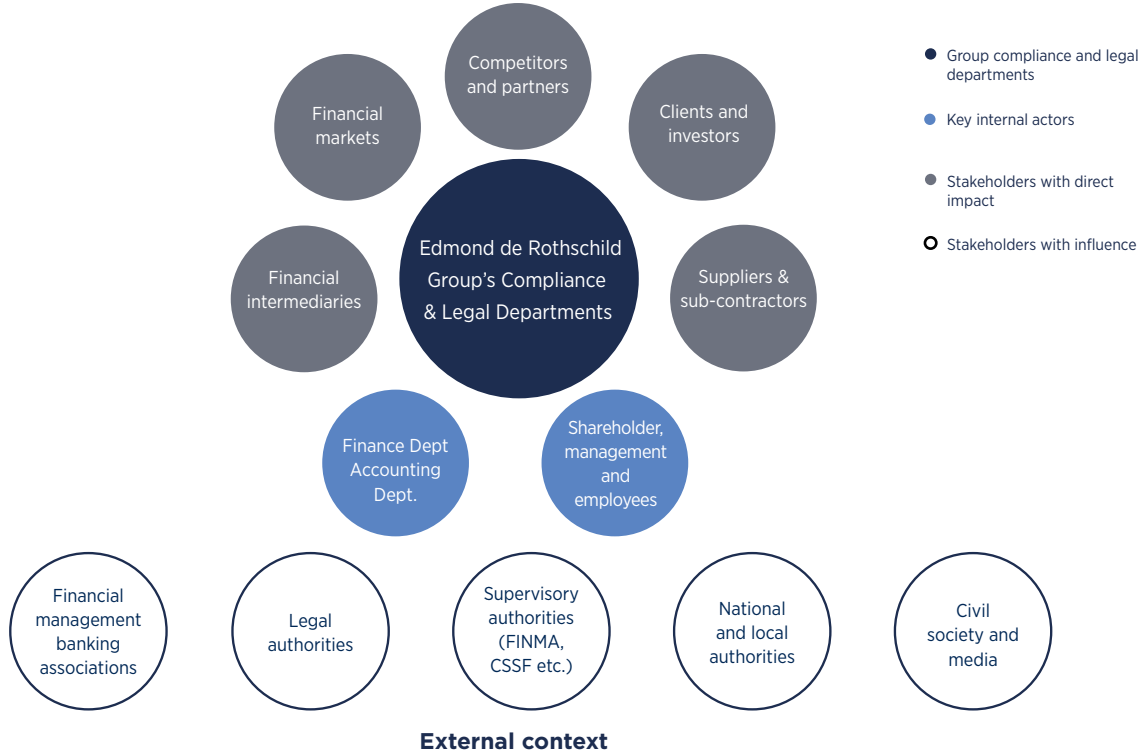
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<sup>1</sup> The information provided here is in line with the recommendations of the GRI standards (Global Reporting Initiative)



Potential critical issues GRI 102-33

- Cross-border activities
- Market abuse
- Money laundering
- Conflicts of interest
- Limitation of banking secrecy
- Internal and external fraud
- Data protection



- Pressure from media and public opinion regarding the ethical behaviour of the financial sector, transparency and mechanisms to ensure effective markets
- Increasingly demanding and stringent laws and regulations.

In 2016, the Group's monitoring of the evolution of sustainability regulations and standards highlighted a wide range of subjects linked to social and environmental impact that are coming to bear on companies and financial institutions in Europe. Climate change and the integration of ESG (environmental, social and governance) criteria in investments have come to the forefront with the entry into force of the law on Energy Transition for Green Growth Act (Art. 173) in France. This law raises the bar on standards in the financial sector beyond France and has in all probability a snowball effect (a European directive is already being considered).

Non-financial reporting is also becoming the norm for companies and financial institutions:

- Replacement of the CSR reporting in France (Article 225 of the Grenelle II law) by and Extra Financial Performance Declaration (DPEF) pursuant to Ordinance N° 2017-1180;
- European directive on the disclosure of non-financial information and information on diversity (transposed into national Luxembourg legislation in 2016);
- the work of the Financial Stability Board (FSB) in the form of recommendations for the reporting of material risks linked to climate change, with a view to becoming an obligation for G20 countries.

We have also noted an acceleration of legislative initiatives supported or initiated by civil society on subjects such as the implementation of the UN Guiding Principles on Business and Human Rights in the national legislation and action plans of various countries (e.g. the Swiss and French action plans), or on ESG risk management in the supply chain. The recent promulgation of the French Law n° 2017-399 of 27 March 2017 on the Due Diligence Duty of Parent and Contracting Companies shows that these initiatives are not destined to remain in the background; it is only a matter of time before they are enshrined in legislation.



## Main obligations of financial institutions to their stakeholders

CLIENTS	FINANCIAL INTERMEDIARIES AND PARTNERS	STATES	EMPLOYEES
<ul style="list-style-type: none"> <li>• Transparency regarding the costs and charges of products and services (according to rules which could be harmonised with PRIIPS and DIA 2).</li> <li>• Standardised product information (notably on funds, structured products and OTC derivatives) provided to clients in a comprehensible, comparable format.</li> <li>• More stringent requirements regarding the information provided to clients before and after transactions, notably regarding the suitability of products and services in light of the client profile and the provision of the products and services.</li> <li>• Prohibition on receiving retrocessions in the case of discretionary management or independent consultancy (or payout of retrocessions to clients).</li> <li>• Rules and procedures to prevent conflicts of interest (transparency and justification of choices).</li> <li>• Transparency regarding the purpose of and methods used for personal data processing, strengthened right of access, appointment of a person responsible for data protection.</li> </ul>	<ul style="list-style-type: none"> <li>• Rules on the relationships between producers and distributors regarding the product information exchanged (product costs/ target markets).</li> <li>• Review of the bank's business relationship with independent intermediaries and wealth managers in response to new rules on retrocessions.</li> </ul>	<ul style="list-style-type: none"> <li>• Daily reporting on all transactions to increase surveillance of market players.</li> <li>• Information submitted annually to the national tax authority on accounts held by clients non-resident in the state where their assets are deposited (clients' personal data, account balances and funds received in the accounts). The national authority then sends this information to the tax authorities of the country in which the client is resident for tax purposes (if an AEI agreement has been signed).</li> </ul>	<ul style="list-style-type: none"> <li>• Transparency regarding the purpose of and methods used for personal data processing, strengthened right of access, appointment of a person responsible for data protection.</li> </ul>

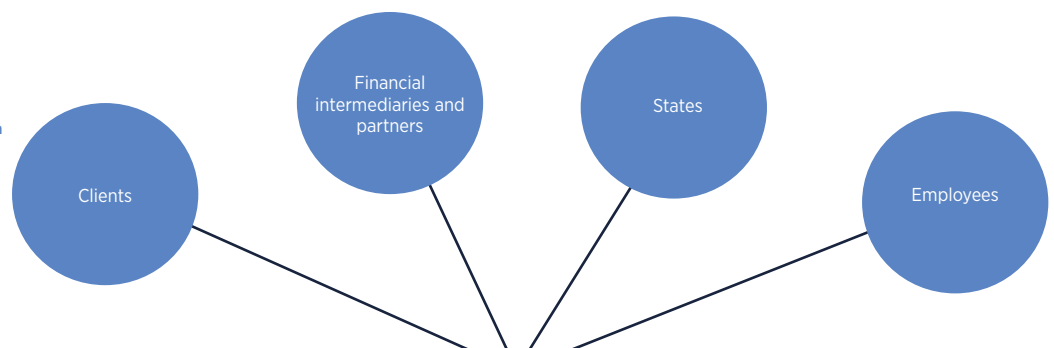
MiFID II<sup>1</sup>

PRIIPS<sup>2</sup>

DIA 2<sup>3</sup>

Automatic Exchange of Information (AEI)

EU Regulation on General Data Protection<sup>4</sup>



### Financial institutions

- Review of business model (products and services offered, pricing, distribution).
- Alignment of a range of internal processes to ensure compliance.
- Improved positioning to differentiate the institution from the competition (against a backdrop of pricing transparency).
- Better risk management regarding clients' tax compliance.
- Increased legal risk as a result of greater transparency across all financial activities.

### Implications for the financial institutions (such as asset managers and private banks)

1. The Markets in Financial Instruments Directive II, a European directive that includes a section on client protection and another on market infrastructure and transparency.
2. «Packaged Retail Investment Products» regulation, intended to provide individuals with comparable, standardised, clear information on savings products.
3. European Directive on Insurance Intermediation, which reorganises the way insurance products are sold.
4. Applicable as of 25 May 2018 in the member states (Swiss companies processing personal data as part of the offering of goods or services to persons located in the European Union must also apply these new rules).



## The Company's values and commitments

In an extremely unstable and demanding international context, which requires constant anticipation, training and adaptation, the Group is continuing to make progress and to promote innovation while adhering to the most stringent ethical and governance standards.

To frame this set of internal rules at Group level in terms of Business Ethics & Compliance, the Code of Ethics sets out the guiding principles that Edmond de Rothschild Group wishes to be applied to the conduct of its operations, and forms a common base for all of its employees. Employees deepen their knowledge of all of these principles via directives, procedures and/or dedicated training sessions. Continuing training is a key component of Business Ethics and Compliance. [GRI 103-1](#)

## Material issues

The five material issues identified by the Edmond de Rothschild Group in its sustainability strategy, under the «Ethical and responsible behaviour» pillar, are intrinsically linked to its sense of responsibility and commitment, as described above.

### 1. Corporate governance [GRI 102-18 / 102-19 / 102-22](#)

In March 2019, the Group announced that it was simplifying its organization. As a result, Group management and oversight was delegated, in its entirety, to Edmond de Rothschild (Suisse) S.A. Its Board of Directors is the body responsible for high-level management, oversight and control of the Group. The Edmond de Rothschild (Suisse) S.A. Executive Committee is in charge of the Group's operations.

In addition to its non-transferable and inalienable roles, pursuant to the law, the Board of Directors ("Board") also makes all useful decisions as regards setting objectives and methods of applying the Group's general policy.

The authority and tasks as well as the organisation of the Board and its committees - to which certain tasks and powers have been delegated (see hereinafter) - are set out in the "Company, Group and consolidated Group Supervisory Regulations" approved by the FINMA.

The Board has set up three committees. Their main tasks and duties are:

**Risk and Audit Committee:** assesses how well the internal control system of the company and the Group's entities is operating, factoring in risk management as well as observation of legal, regulatory, and internal standards applicable to the Group. Its main missions are to:

- monitor and evaluate all financial closing;
- monitor and evaluate internal control in terms of preparing accounts and financial reports;
- monitor and evaluate the effectiveness of the Group's external auditors and their cooperation with the Internal Audit;
- evaluate internal control outside the area of preparing financial reports and internal review;
- review the Internal Audit charter and the planning of its missions.

**Appointments and Remuneration Committee:** assists the Board of Directors in defining and implementing the Group's policy on remuneration and appointments, drafting the principles for selecting members of Management, and the succession plan.

Its main missions are to:

- ensure that the Group is offering its employees benefits in line with market conditions to attract and retain people with the skills and qualities necessary to ensure the Group's long-term competitiveness and success;
- examine and submit to the Board the Group's appointment and remuneration policy as proposed by the Executive Committee. To do this, it ensures that the different modes of appointment and remuneration in the Group companies lead to a harmonised result taking into account local factors;
- approve the overall budget for salaries and variable remuneration for Group employees proposed by the Executive Committee.



**Executive Committee:** set up by the Board, the Executive Committee is the Group's operational management and oversight body. The main tasks and responsibilities of the Executive Committee are outlined below:

- manage the Group and its holdings in companies, ensuring permanent adherence on a consolidated basis to applicable laws, by-laws, enforcement orders, circulars and directives issued by the FINMA, BNS and the professional organisations, including the ASB, as well as the rules of conduct, regulations and circulars of the Group, including the decisions and directives of its bodies. To do this, it sends to the Group companies, without harming their legal independence and according to the laws and customs which govern them, the directives and recommendations necessary for the smooth running of the Group, harmonisation and rationalisation of its activities and its organisation, protecting its financial longevity, its reputation, its image and its name and, more generally, the development of a Group dynamic and spirit;
- ensure the decisions taken by the Board are properly implemented;
- establish, monitor and regularly validate the Group's internal control system, and suggest all necessary measures in this regard;
- introduce a Risk Control function and a Compliance function, the organisation, hierarchy, tasks, responsibilities and reporting obligations of which are outlined in the charters approved by the Board. These functions, each of which report to a member of the Executive Committee, are included in the Group's overall organisation and are independent of the Group's income-generating activities;
- implement appropriate internal systems and processes to ensure compliance within the Group;
- establish, prepare and submit to the Audit Committee the Group's yearly and interim accounts, in accordance with legal and regulatory prescriptions.

The Executive Committee has also set up the following two committees:

- **the Group's Assets and Liabilities Management Committee**, whose main responsibility is to define the rules on managing equity, and risks relating to interest rates, liquidities, and foreign exchange for the Group and to monitor their implementation;
- **the Group's Compliance and Reputation Committee** whose main responsibility is to ensure compliance with laws and regulations generally, and to assess the compliance risk and the legal and regulatory reputational risk for the Group.

The Board put in place an **Internal Audit channel** independent of the activities and functions it controls. It is subordinate to the Board and its Audit Committee, reporting to them directly. The Head of the Internal Audit department is appointed by the Board, after notice by the Audit Committee. For its day-to-day management, the Internal Audit channel is linked to the Executive Committee. It keeps the Audit Committee and the Executive Committee notified of its relevant recommendations at Group level and the quality of their implementation and notifies them without delay of any major malfunction. The remuneration system for Internal Audit employees does not include components that could generate conflicts of interest.

The Group's governance also takes place via the participation of certain members of the Executive Committee and the Board in the boards of directors/supervisory boards of the Group's main entities.

### **Governance for sustainability issues: GRI 102-20 / 102-21 / 102-29 / 102-31**

Sustainability-related decisions are taken directly at the monthly meetings of the Group's Executive Committee, who especially approved the sustainability objectives for 2020. The Sustainability Department reports directly to the member of the Executive Committee responsible for Human Resources.

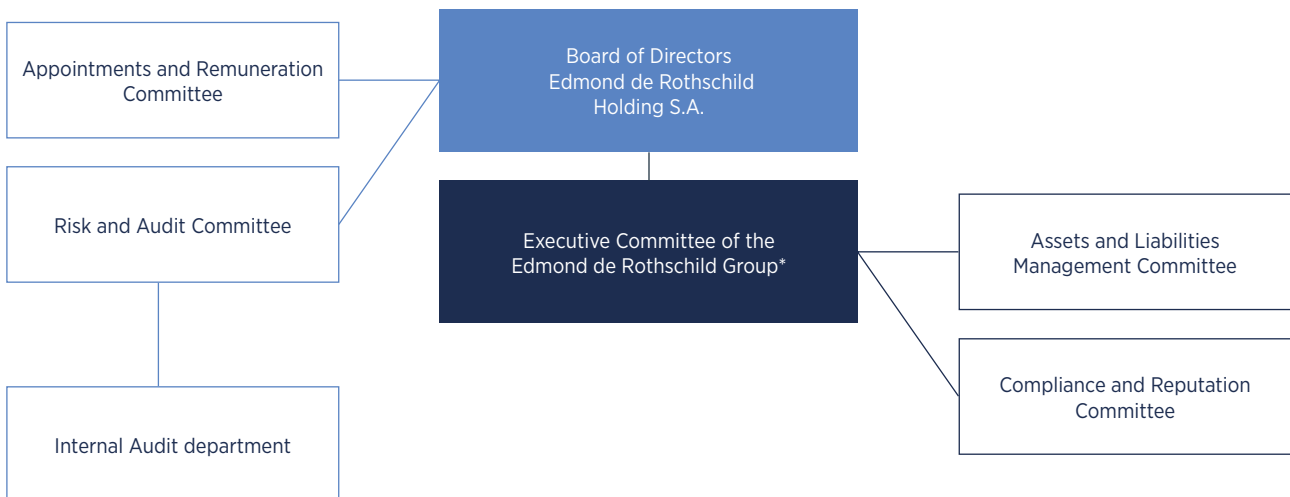
The Sustainability Department works closely with many internal stakeholders, including all the departments/organisations that have direct responsibility for (or which contribute to) the achievement of the Group's sustainability goals for 2020: Compliance, Legal, Risk Management, Human Resources, Communications, General Services, Asset Management, Private Equity, Private Banking, etc.



Decisions that do not require a formal opinion from the Group's Executive Committee are often taken directly with the departments in question or by dedicated committees, such as Edmond de Rothschild Asset Management's Responsible Investment Steering Committee, chaired by this entity's Chief Investment Officer. Members of the Group's Executive Committee are often asked for their opinion, their support and, where necessary, their decisions on specific issues.

Throughout the year, efforts are made to continue to raise awareness of sustainability issues across the different teams, including the diverse perspectives of external stakeholders, with the aim of gradually applying solutions and relevant actions. For example, raising the awareness of Asset Management, Private Equity and Private Banking investment teams about the issue of climate change or responsible investment in general, has gradually led to an increasingly strong commitment on the part of the entities in question and the creation of new product ranges for our clients. Decision-making in relation to these commitments takes place within existing committees of these organisations/entities. The Group's sustainability strategy and its understanding of material and important issues is steadily deepening and being formalised as collective awareness grows across the Group.

### Governance bodies of the Edmond de Rothschild Group



\* Sustainability-related decisions are taken at the monthly meetings of the Group's Executive Committee.

GRI 102-22



## 2. Compliance with regulations

Banks must comply with an increasing number of regulations aimed at protecting the integrity of the financial system and encouraging public trust in banks. Since 2016, several of these texts coming into force have been converging towards an unprecedented increase in transparency, notably vis-à-vis banks' two main stakeholders.

To manage the constantly increasing risks and regulatory constraints, Edmond de Rothschild has specialised teams for each activity and location, as well as a Group-wide function to ensure consolidated monitoring. These teams have implemented many directives, which are specific internal rules that help the Group and its entities comply with current regulations and adhere to the most stringent ethical standards. These documents are made available to employees on the intranet and classified by activity or line of business depending on their content. These directives are regularly updated. Since the end of 2016, via the Group's new training platform, each employee also has access to all the mandatory training sessions they must complete.

For Ethics & Compliance issues relevant to all employees, the Group's Compliance function sets out directives containing the minimum expected requirements; each entity is then responsible for adopting them in accordance with their locally-applicable legislation. In a context where business developments are frequently of an international nature, familiarity with regulations applicable in the target market and any associated risks and opportunities is of crucial importance and a differentiating factor.

## 3. Ethical behaviour

Within the Edmond de Rothschild Group, ethical behaviour is incorporated into the values, principles, directives, rules and training deployed to all employees throughout the year, across all its operations and in all the countries where the Group has a presence. The Edmond de Rothschild Group Code of Ethics is the main reference document for managing Business Ethics & Compliance-related issues.

## 4. Risk Management **GRI 102-30**

Risk management is at the heart of our approach and is a daily concern in the activity of our different entities. Risk management within the Group is understood as identifying, measuring, evaluating and managing the risks to which the various activities and entities are exposed. The Group's entities and their employees, at all hierarchical levels, must perform their duties in accordance with fundamental principles.

In the first place, it is a matter of strictly complying with all applicable legal, regulatory and statutory requirements, whether these are internal, professional or ethical. Therefore, the Group's risk management policy aims to very strictly define the way the various business activities are conducted – notably market and credit transactions – in line with the Group's risk tolerance level.

Furthermore, the Group takes care to ensure a liquid financial structure with circulating assets and also maintains heightened and detailed vigilance over operational matters relating to its asset management activity, with the greatest respect for its clients, employees, rules and legislation. The Group ensures that all the monitoring systems in place have suitable human, organisational and technical resources. In addition, the increased level of collaboration between the Group entities enables better understanding and monitoring of the concentration risk of the Group's risk exposure as a whole.

The Edmond de Rothschild Group determines, limits and manages legal, compliance and reputational risks. Money laundering is a critical issue that our Group is committed to identifying and preventing. Dedicated processes have been implemented within each entity to identify, manage and disclose, if applicable, «suspicions of money laundering», in accordance with the respective legislation for the Group's entities.



Risk management within the Group focuses on the following types of risk:

- Strategic risk
- Credit/counterparty risk
- Market risk
- Liquidity risk
- Operational risk (including information systems and third-party account management)
- Non-compliance risk
- Reputational risk
- Legal risk

The Edmond de Rothschild Holding S.A. Board of Directors defines the level of risk the Group is willing to take for each of these risk types, and quantitative limits are placed on some of them at Group level, allocated to the main operational entities.

The role of Information Systems Security Manager (RSSI) at Group level was created so as to better guide and develop the actions of the RSSIs of the operational units. [GRI 102-15 / 102-17](#)

## 5. Transparency and reporting

Every year, the main Edmond de Rothschild Group entities, Edmond de Rothschild (Switzerland), Edmond de Rothschild (France), and Edmond de Rothschild (Europe), publish a consolidated annual report of all their activities. Since 2012, the Edmond de Rothschild (France) annual report has included a section on sustainability, in line with the obligations of the Grenelle law.

In 2014, the Edmond de Rothschild Group published its first sustainability report on a voluntary basis. Since 2017, this report has also covered the non-financial reporting obligations of its Luxembourg entity, Edmond de Rothschild (Europe), in line with the European Directive on the publication of non-financial and diversity-related information.

To do so, the Group conducted a materiality review which made it possible to formalise its ambitions in this area and focus on issues that are material for the Group as well as to define the strategic areas and key indicators enabling future progress to be measured.

The Group has been supported with its materiality review by the independent non-profit organisation, BSR – Business for Social Responsibility.

The Group now publishes an annual report, in line with the rules of the GRI (Global Reporting Initiative) standards and outlines the progress that it has made in relation to the objectives set for 2020 in relation to all the material and important issues identified.

## Responsibilities

At Group level, the Compliance & Legal functions and the Risk Management function play a key role in creating and updating the framework of internal rules required to meet the Group's needs and respond to regulatory changes. As for managing processes linked to Ethics & Compliance training, the Learning & Development teams within the Human Resources Department are the key players. When it comes to risk management, the key players in terms of managing risk are private bankers, portfolio managers or traders (first line of defence). The second line of defence, consisting mainly of the Compliance and Risk functions, subsequently control the risks in an independent way.

Employees are accountable for ensuring that their conduct is in line with regulations to be taken into account in their duties. [GRI 103-2](#)





### **Complaints management mechanism**

The Edmond de Rothschild Group Code of Ethics is the reference text which specifies what is expected of all employees in terms of integrity, loyalty, diligence or the prevention of conflicts of interest.

The Group and its entities promote a constructive dialogue culture when a problem is identified, to quickly identify a suitable solution. When specific information leads to suspicions of a breach of the Code of Ethics, a regulation or an applicable internal rule, any Group employee aware of such a situation may report it to the contact persons or department specified in the internal rules of their entity. In the absence of local regulations or internal rules designating a specific contact person, the entity's legal officer or compliance officer may be contacted, who, after examining the information received, will decide on the steps to be taken, while taking all measures possible to protect the identity of the person who reported the information. If the information has been passed on in good faith, each Group entity ensures that the person disclosing this information is not subject to any reprisals. **GRI 103-2**

### **Evaluation of the Management Approach**

The Management Approach for Business Ethics & Compliance-related issues is constantly being improved based on (1) the Group's vision and strategy, (2) regulatory and market changes and (3) good industry practice. The adjustments necessary to respond to this «organic» evolution in management processes are made incrementally.

Some of the Group's operations enable the relevance of its Management Approach to be evaluated with more distance, so that adjustments can be made on the basis of various perspectives. These include the checks performed by the Group's Internal Audit Department or as part of the external audit when the annual reports are being prepared.