



MHEU Conflicts of Interest Policy

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1. Document Control

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1.1 Document Signoff

Nature of Signoff	Person	Signature	Date	Role
Author	Andreas Rieth	<i>Andreas Rieth</i>	21.03.2019	General Counsel
Approver	Wolfgang Koehler	<i>W. Koehler</i>	21/3/2019	CRO
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1.2 Document Change Record

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2. Introduction

MHEU is required to identify and manage actual or perceived conflicts of interest (“**COI**”). A COI is a situation where one or more persons or entities have competing interests and the serving of one interest may serve to the detriment of another.

This policy applies to all employees, fixed term worker and contractors and must be applied not only to so-called “outside business interests¹”, but also to crossing an ethical barrier that prevents communication between members of the same organisation². Conflicts can also arise between members of the same overall team.

For example, conflicts of interest must be avoided in the organisation of an IT department. Activities that are not compatible with each other must be performed by different staff members. More specifically, the activities of application development and activities performed by production support must be separated unless; in a rare and exceptional circumstance these activities must be combined. In general, role-based-access controls will be an adequate control for this example.

Another example could be the potential conflict between delivering functionality via a software application or delivering an application that is secure with limited economic or human resources.

The audience of this policy are expected to consider COI’s in a wide context and in if doubt discuss with any perceived conflict with the Compliance department.

Conflicts arise when the duties owed to a customer conflict with the interests of MHEU, other parts of the Mizuho group, another customer or employees personal interests’. Effective management of conflicts of interest ensures customer outcomes are in line with regulatory expectations.

MHEU is required to take all appropriate steps to identify and to prevent or manage conflicts of interest and in each case to maintain and operate effective organisational and administrative arrangements in this regard.

3. Resolution of conflicts

Where the arrangements implemented to prevent a COI are not sufficient to give reasonable confidence that risk of damage to a customer’s interests will be prevented, MHEU needs to clearly disclose in sufficient detail to the customer the general nature / sources of the COI and the steps taken to mitigate those risks before undertaking business on behalf of the customer.

While disclosure of specific COI is required, an over-reliance on disclosure without adequate consideration as to how conflicts may appropriately be managed is not permitted.

In situations where COI cannot be managed by way of implementing appropriate controls, MHEU may not be able to act for a customer or group of customers.

¹ Outside business interests is a generic term for any interest an individual has outside MHEU. Examples include, but are not limited to, Directorships of limited companies, being a trustee of a charity or an investor with a holding of $\geq 15\%$ of a listed or unlisted company whether in or out of scope of this policy.

² An ethical barrier that prevents communication between members of the same organisation is sometimes referred to as a “Chinese Wall”. Employees, fixed term workers and contractor are expected to apply judgement and if in doubt seek advice from Compliance should the term “Chinese Wall” be absent from any detailed procedural documents.

4. “Non-exhaustive list”

It is both impractical and imprudent to attempt to identify an exhaustive list of COI and there must be room for judgement. In applying this policy to the day-to-day operations of MHEU, the management board of MHEU have considered a COI as something that gives rise to the following:

- a) MHEU and / or an employee failing to comply with a legal or regulatory obligation;
- b) MHEU and / or an employee failing to fulfil a duty of care, trust or loyalty owed to another person or entity such as a customer;
- c) an employee’s professional judgement and objectivity being compromised and / or hindering the proper execution of their duties and responsibilities;
- d) an employee engaging in unethical conduct; and or
- e) MHEU obtaining an improper advantage or treatment or giving rise to the appearance of impropriety and reputational damage, including as it relates to the manner in which business is awarded to MHEU.

A COI under this policy includes both an actual COI (i.e. a COI that has arisen) and a potential COI (i.e. a situation which may give rise to a COI under certain circumstances, in the context of certain facts). This policy also includes a perceived COI (i.e. a situation which may give rise to the perception of a COI) even where a COI may not in fact exist.

Failure to identify and appropriately manage COI could result in inappropriate of adverse consequences for customers, MHEU and / or employees, fixed term workers and contractors. The next section identifies some actual, potential and perceived COI.

5. Types of COI that may arise at MHEU

5.1 General considerations

Customer – Firm

- Access to customer information (for example, trading strategy, trading activity, financial information, etc.);
- Use and control of confidential or inside information about a customer obtained from primary markets activity, advisory services or secondary market activity;
- Performing multiple roles in relation to the same customer or transaction (for example, adviser, underwriter, lender, lead manager, producer of investment research, etc.);
- Directing business to a particular business unit / third party as part of profit sharing / referral fee arrangements;
- Offering or recommending products to customers for which MHI receives greater fees / remuneration over other products, and / or
- Proprietary transactions in securities or investments by MHEU.

Customer – Customer

- Customers interested in acquiring the same investment or asset;
- Customers pursuing the same trading strategy subject to different fee arrangements, and / or
- Customers competing for order execution or preferential treatment in terms of allocation of new issues of securities or access to research analysts.

Employee - Firm

- Remuneration structures or incentives which encourage MHI employees to take excessive risks or sell particular financial instruments to customers which may not be appropriate;
- Outside business interests (including management board memberships or directorships, whether or not remuneration is received);
- Personal account dealing and other types of investments³ outside the scope of the Personal Account Dealing Policy;
- Giving or receiving gifts or entertainment to or from individuals or companies with whom MHEU conducts or intends to conduct business, and / or
- Competing with MHEU for the provision of services to customers.

MHEU must also take into account whether it or any person directly or indirectly linked by control to MHEU is:

- likely to make a financial gain or avoid a loss at the expense of a customer;
- has an interest in the outcome of a service provided to, or a transaction carried out on behalf of, a customer which is distinct from the customer's interest in the outcome;
- has a financial / other incentive to favour the interest of another customer over the interests of the customer;
- Carries on the same business as the customer; and / or
- Receives or will receive from a person other than the customer, an inducement in relation to a service provided to the customer other than the standard commission or fee for that service.

5.2 Primary markets activity

MHEU will be involved in originating and managing new issues of fixed income securities, equities and convertible bonds.

In a new issue, COI can arise as MHEU has a duty to the issuer as well as to investor customers. Key controls to identify and manage potential conflicts and to control the flow of inside information are set out below:

- Physical segregation from the secondary sales and trading areas;
- Reporting details of pipeline transactions to Compliance as soon as there is a likelihood of a new issue transaction;
- Allocating securities fairly in accordance with the allocation policy; and
- Checking for conflicts or potential conflicts of interest in accordance with Mizuho group requirements.

Where a transaction relates to acquisition finance, or where it is assessed that a conflict may arise, details of the transaction will be reported by MHEU Compliance to MHSC Compliance for group-level conflicts checking;

³ There may be instances where an employee has an investment in a company that could also provide services to MHEU. For example, an employee could be an investor in a software company that has developed a platform for managing risk. Whilst nothing stops the employee recommending this software company, the employee must disclose it and remove themselves from the decision making process to engage the software company. The employee stands to gain financially, albeit indirectly through their shareholding and in this situation will struggle to remain objective.

- Where necessary, establishing and maintaining insider lists and communicating insiders' responsibilities to all insiders;
- Adhering to Chinese Wall Procedures to control the flow of confidential and inside information;
- Implementing controls to ensure confidential information and inside information is properly handled (including using code names, password protecting documents, IT access controls, etc.);
- Establishing "deal trees" or "Chinese boxes" to separate deal teams, as required;
- Following procedures for market soundings of customers prior to announcement of a new issue.

5.3 Secondary markets activity

MHEU will be involved in receiving / executing customer orders as principal within public secondary market. In such circumstances COI can arise with regard to the handling of order flow and confidential information. Key controls to identify and manage potential conflicts and to control the flow of inside information are set out below:

- Physical segregation from the primary business areas;
- Adhering to wall crossing procedures;
- When undertaking business with customers, orders and requests for quotes are executed in due turn (unless it is considered to not disadvantage the customer to execute another customer's order first);
- Any information relating to customer orders or trading patterns should not be misused or abused, for example, by front running or passing information to staff that do not need to receive it;
- When MHEU is acting as a new issue syndicate member, secondary markets traders should not publish bid-offer quotes in the grey market until the new issue has been priced;
- Care should be taken to ensure that trade ideas / recommendations are not held out as independent investment research; and
- All relevant disclosures are included in any communication which constitutes an investment recommendation.

5.4 Personal Account Dealing

MHEU has established a separate Personal Account Dealing Policy which establishes personal account dealing procedures that apply to all employees, fixed terms workers and contractors. The procedural requirements include:

- Individuals must not deal, or encourage anyone to deal, if they have inside information or on the basis of information gained from customers;
- An individuals' personal account dealing cannot be excessive and interfere with the performance of their duties;
- Compliance approval of personal dealing remains valid for a limited period of; and
- A minimum holding period will be required for all investments subject to prior approval.

5.5 Outside business interests

All forms of outside employment, consultancy, directorships, partnerships or interests $\geq 15\%$ of the issued share capital of a company must be approved by HR and Compliance.

MHEU employees should also ensure that outside business interests held by persons that are closely connected to them are disclosed to the Human Resources and Compliance departments. This includes dealing by a spouse / civil partner, a dependent child / stepchild and undertakings which are 20% or more owned or controlled by the staff member.

5.6 Gifts and entertainment

Conflicts of interest can arise whenever gifts or invitations are granted or received or in case of business meals. MHEU has established a separate Gifts and Entertainment Policy which establishes procedures for granting and receiving of gifts and entertainment (such as invitations and business meals) that apply to all employees, fixed terms workers and contractors. Control measures include inter alia thresholds and a gift register.

5.7 Outsourcing

MHEU will as part of its operations outsource certain services to its parent entity in order to maintain efficient group operations. In such circumstances conflicts of interests may arise where certain services are outsourced and such arrangements are not in the best interests of MHEU's customers. Key controls to identify and manage such conflicts are set out below:

- Initial review of MHI outsourcing capability and resourcing;
- Ongoing MHEU management and review of service provision, such review being coordinated by the firm's risk management function;
- Outsourcing arrangements to be subject to review by the firm's internal audit function;
- Annual review of outsourcing performance to be considered by the MHEU management board and by MHI's management board.⁴

6. Roles and responsibilities under this policy

6.1 General responsibilities

The Compliance team will maintain a COI, which will include the necessary steps to manage any potential, perceive or actual COI.

Nothing prevents the MHEU management board deciding that on the basis of control an actual conflict can be managed. However, if MHEU cannot satisfy itself that a Customer – Firm or Customer – Customer COI can be effectively managed it must either notify its customers or decline to act for a customer, group of customers.

Assessment of the risks arising from potential conflicts will be conducted on a periodic basis as part of the annual risk control self-assessment and compliance review processes; and

Compliance monitoring activity includes processes to identify potential conflicts.

6.2 Individual accountability

Conflicts of interest will be managed as part of MHEU's compliance framework. However, the primary responsibility for identifying and managing conflicts rests with employees, in particular front-office employees;

Training will be provided to staff in respect of procedures required to manage potential conflicts;

All employees and fixed term workers must be asked to disclose any outside business interests, or shareholdings and indeed anything that would reasonably fall within the scope and application of this policy. COI must be disclosed as part of the employee, fixed term worker on-boarding process managed by HR.

⁴ MHI's management board is composed of MHI executive directors, Mizuho group representatives and four independent non-executive directors.

Whilst Compliance will maintain the COI register and perform 2nd line monitoring, the Compliance function must also be informed as to any potential or perceived conflicts in order to assess risks and propose appropriate controls.

7. Escalation

All potential, perceived and / or actual Customer – Firm COI must be reported to Risk Committee of MHEU, but escalated immediately to the MHEU CRO.

Any Customer – Customer potential, perceived and / or actual COI will be managed on a case-by-case basis under the stewardship of the MHEU Head of Compliance and MHEU CRO.

8. Review

This policy will be reviewed on an annual basis or more frequently should there be a change in the underlying legal and regulatory framework.

9. Consequences of non-compliance

This policy forms an integral part of the employment agreement of all MHEU employees. Any breach of the obligations arising from this Policy is a violation of the employment agreement and may result in disciplinary action being taken against the employee concerned. This may include the termination of the employment agreement.