

# Information on the Trading, Capital Market and Research Activities

Legal information regarding the Trading, Capital Market and Research Activities

## 1 Introduction

This document contains legal information on the trading, capital market and research activities of Zürcher Kantonalbank. In particular, possible conflicts of interest (second chapter), data protection (third chapter), as well as further legal information (fourth chapter) are addressed.

Hereinafter both Zürcher Kantonalbank's clients (owning an account / safe custody account with Zürcher Kantonalbank) and/or its counterparties (without account) are referred to as «**Clients**».

## 2 Conflicts of interest

### 2.1 Client orders

Client orders regarding financial instruments are commission-based transactions executed by Zürcher Kantonalbank on behalf of the Client. Such orders are executed by Zürcher Kantonalbank itself or by third parties commissioned by it. Zürcher Kantonalbank acts in the interest of the Client. However, conflicts of interest may arise when executing transactions for other Clients or transactions on own account at the same time or almost simultaneously.

### 2.2 Fixed price transactions

In the case of fixed price transactions, Zürcher Kantonalbank and the Client conclude a purchase agreement for financial instruments at a certain or determinable price, or enter into a derivative contract at agreed terms.

Since Zürcher Kantonalbank always acts on its own account in fixed price transactions and thus in its own interest, such agreements inherently bring along conflicting interests.

## 2.3 Proprietary transactions and positions

### 2.3.1 Hedging of risks

If Zürcher Kantonalbank issues financial instruments to Clients, opens a derivative position or holds an inventory in a financial instrument, it will generally hedge the resulting risks. Appropriate hedging transactions may influence the price of financial instruments traded between Zürcher Kantonalbank and the Client or of those issued by Zürcher Kantonalbank. Particularly in the following situations, the interest of Zürcher Kantonalbank may differ from those of Clients purchasing said financial instruments:

- Build up a hedge before issuing a financial instrument
- Reduction of the hedge towards the end of the term of a financial instrument

### 2.3.2 Further transactions for Zürcher Kantonalbank's own account

The fact that Zürcher Kantonalbank may enter into transactions for its own account (apart from hedging) may negatively affect the price for financial instruments traded with Clients or issued by Zürcher Kantonalbank.

### 2.3.3 Proprietary positions

Zürcher Kantonalbank may have an interest in a financial instrument through its own positions/holdings, which require or prevent actions by Zürcher Kantonalbank that are contrary to the interests of the Client.

### 2.3.4 Market making

Zürcher Kantonalbank acts as a market maker by continuously offering two-way prices in a variety of listed and unlisted financial instruments. Zürcher Kantonalbank may trade prior to or alongside a Client's transaction to execute transactions for itself to facilitate execution with other Clients, manage risks, source liquidity or for other reasons. Such activities may impact the prices Zürcher

Kantonalbank shows to a Client for a transaction and the liquidity at levels necessary to execute Client orders. They can also trigger stop loss orders, barriers, knock-outs, knock-ins and similar events. In conducting these activities, Zürcher Kantonalbank endeavours to employ reasonably designed means to avoid undue market impact.

### **2.3.5 Transactions for other Clients**

Executing transactions for other Clients may negatively impact orders of a Client. Such negative impact may arise by

- executing a large-volume order from another Client
- executing an order in an illiquid title for another Client

### **2.4 Arranging of securities offerings**

When providing services to an issuer during a securities offering, Zürcher Kantonalbank will assist the issuer in raising funds at optimal prices and provide access to a diverse Client base that the issuer may not otherwise be able to access. At the same time, Zürcher Kantonalbank will be processing and accepting indications of interest from Clients. Conflicts of interest may thus arise between Zürcher Kantonalbank and Clients, as well as between issuers and Clients' interests, such as conflicts in relation to:

- possible under-pricing or over-pricing of an offering; and
- the allocation process.

### **2.5 Bond-holder representative**

Furthermore, Zürcher Kantonalbank may be mandated as bond-holder representative, resulting in potential conflicts of interests of bond-holders and the issuer, as well as of Zürcher Kantonalbank's own interests in certain situations where actions of the bond-holder representative are required under the terms of the bonds, or the relevant provisions of Swiss law.

### **2.6 Self-Placement**

A conflict of interest may also arise if Zürcher Kantonalbank places securities it has issued (e.g. subordinated bonds, structured products).

### **2.7 Research**

Publications of the research department of Zürcher Kantonalbank can negatively influence the conditions or the value of financial instruments. Possible cases are:

- Zürcher Kantonalbank recommends a title first, then removes it from the recommendation list
- Zürcher Kantonalbank issues a structured product with underlying financial instruments that were recommended and then changes the recommendation for individual underlyings

### **2.8 Price-sensitive information**

Zürcher Kantonalbank may have price-sensitive information regarding issuers or financial instruments. Such information will not be considered when servicing Clients, neither to their disadvantage, nor in their favour. In addition, internal information barriers prevent unnecessary dissemination of such information.

### **2.9 Distribution fee**

Zürcher Kantonalbank offers its customers not only the Group's own, but also third-party products. Sales commissions and the use of proprietary investment products (i.e. issued by Zürcher Kantonalbank or one of its group companies), such as funds and structured products, could give rise to a conflict of interest on behalf of Zürcher Kantonalbank when it comes to selecting products compared with products that offer no sales commission and third-party products. In the case of proprietary products, this can be due to the fact that Zürcher Kantonalbank assumes other functions (e.g. asset management, trading, custodian) besides product sales and receives remuneration accordingly. Zürcher Kantonalbank informs the Client about this matter and the maximum rates for these compensations. Zürcher Kantonalbank additionally takes appropriate measures in relation to those conflicts of interest.

### **2.10 OTC trading platform eKMU-X**

Zürcher Kantonalbank offers with its off-exchange trading platform «eKMU-X» unlisted Swiss companies the possibility that their equity securities can be acquired and sold. Zürcher Kantonalbank is the operator of the eKMU-X trading platform and can also participate in the trading activities as a liquidity provider. The exercise of these two functions carries the risk of potential conflicts of interest.

### **2.11 Performance-related remuneration**

A conflict of interest may arise through performance-related remuneration of employees or agents. Examples include:

- The variable remuneration of a trader which is influenced by the success of his/her trading book
- The variable remuneration of a sales employee who i.e. is determined by the financial instruments placed through him/her

### **2.12 Employee-trading**

Conflicts of interest may also arise due to private trading by employees of Zürcher Kantonalbank. Zürcher Kantonalbank has therefore implemented internal rules, processes and surveillance measures to prevent conflicts of interest between employees and Zürcher Kantonalbank or its Clients.

## **3 Data protection**

### **3.1 Best execution and transaction cost analysis**

Zürcher Kantonalbank executes orders according to the provisions of its execution policy and applicable law. The Execution Policy details the measures taken by Zürcher Kantonalbank to achieve the best-possible execution of Client orders to buy or sell financial instruments.

As stated in the Execution Policy, Zürcher Kantonalbank has developed procedures and methods to review the execution quality achieved. In order to assess the execution quality of Execution Venues and Brokers, Zürcher Kantonalbank can appoint an independent domestic or foreign Transaction Cost Analysis Provider («TCA-Provider») and make the transaction data of the Clients available to it for this purpose. The Client's transaction data will be transmitted only in pseudonymised form.

### **3.2 FX market risk management**

Zürcher Kantonalbank carries out the hedging of foreign exchange and precious metal orders via an external software provider in a computer centre abroad. Zürcher Kantonalbank only transmits transaction data only in pseudonymised form. Market risk management data is currently being transferred to a computer centre in the United Kingdom (London).

### **3.3 Compliance with Market abuse regulation**

Zürcher Kantonalbank operates an automated transaction monitoring system for the detection of market abuse provided by an external software provider in a computer

centre in Switzerland. For this purpose Zürcher Kantonalbank transmits transaction data only in pseudonymised form. The software provider has limited access to the computer centre in Switzerland to provide software maintenance.

## **4 Money Market Transactions**

When entering into money market transactions with Zürcher Kantonalbank, foreign currencies will be placed either within or outside the respective currency area. Zürcher Kantonalbank selects its correspondent banks with customary due diligence. Clients subsequently bear the consequences of public-law measures (e.g. prohibitions of payments or transfers) in respect to money placed with Zürcher Kantonalbank. If it appears difficult or impossible for Zürcher Kantonalbank to transfer the money, its obligations are restricted to establishing a credit entry within the respective currency area at a correspondent bank or a bank named by the Client, provided the establishment of such a credit entry is feasible.

April 2019