

Legacy Securities Public-Private Investment Program (PPIP) Summary of Conflicts of Interest Rules and Ethical Guidelines

The United States Department of the Treasury (“Treasury”) has designed a robust set of conflict of interest rules and ethical guidelines for the Legacy Securities Public-Private Investment Program (“PPIP”). Through these measures, Treasury protects the taxpayer funds that will be used to attract private capital and investment expertise to markets that are impeding an economic recovery.

In developing these requirements, Treasury researched best practices and received extensive outside feedback, including from the staff of the Special Inspector General for the Troubled Asset Relief Program (“SIGTARP”) and the compliance staff of the Federal Reserve Bank of New York (“FRBNY”). Their recommendations were adopted wherever, in Treasury’s judgment, it was feasible to do so.

Summary of Treasury’s Process to Investigate and Mitigate Conflicts of Interest

Treasury engaged in a rigorous process to investigate and mitigate conflicts of interests that could affect a Public-Private Investment Fund (“PPIF”). This process was conducted in connection with the evaluation of PPIP fund manager applicants and included the following primary steps:

- Treasury required PPIP fund manager applicants to identify all actual or potential conflicts of interest and propose how they would prevent or mitigate those conflicts.
- Treasury assessed each potential PPIP fund manager’s responses and identified any deficiencies with respect to governance and conflicts mitigation controls.
- For those applicants selected as finalists, Treasury conducted due diligence to obtain additional information regarding governance and conflicts of interest issues, including information with respect to the proposed PPIF: (i) internal audit methodology, accounting policies and procedures and internal controls; (ii) mechanisms to identify, track, eliminate, mitigate, and monitor conflicts of interest; (iii) policies regarding affiliates, valuation, trade allocations and handling of material non-public / sensitive information; and (iv) Chief Compliance Officer’s responsibilities, authorities and independence.
- Treasury benchmarked these responses across several key compliance and conflicts of interest metrics and then prepared follow-up due diligence questions for each finalist, as necessary.
- Finalists made in-person presentations to Treasury that provided additional opportunities for Treasury to seek more information. A SIGTARP representative was present at most of these meetings.

This process allowed Treasury to develop conflicts of interest standards that will ensure that the PPIP can protect taxpayers’ interests while simultaneously attracting private capital and investment expertise to markets that have been substantially frozen for many months.

Summary of Conflicts of Interest Rules and Ethical Guidelines

All PPIP fund managers will be required to adopt the following provisions which include, but are not limited to, the items set forth below:

- **Conflicts regarding PPIP fund manager affiliates holding Eligible Assets:** PPIFs may not buy from or sell Eligible Assets to: (i) its affiliates (thus, a PPIF cannot sell assets from non-PPIF funds into the PPIF); (ii) any other PPIF managed by a different PPIP fund manager; or (iii) any investor that has invested 10% or more of the aggregate private capital raised by the PPIF. In addition, any transaction with a related party must be at arm's length, commercially reasonable, and on terms no less favorable to the PPIF than in transactions with unrelated parties.
- **Alignment of PPIP fund manager and investor interests:** Treasury will require each PPIP fund manager to invest a minimum of \$20 million of firm capital in the PPIF they manage. Additionally, each PPIP fund manager must allow co-investment by PPIP fund manager staff and employees in the PPIF it manages to better align incentives between the PPIP fund manager and the investors in the PPIF. PPIP fund managers must demonstrate that their compensation systems align the economic interests of those that run the fund with interests of investors in the PPIF.
- **Key policies and procedures (allocation and valuation / pricing policy):** PPIP fund managers must adopt policies and procedure that comply with the Investment Advisers Act of 1940 in all material respects. The pre-qualified fund managers have been chosen from a large pool of applicants and have impressive track records and reputations. Each pre-qualified fund manager maintains strict internal policies regarding ethics and compliance. In addition, each pre-qualified fund manager is also a registered investment advisor and maintains independent auditors and corporate governance processes.
- **Independent compliance department and oversight:** PPIP fund managers will be required to maintain an independent compliance department that reports all positions in Eligible Assets (PPIF and non-PPIF funds) to Treasury on an on-going basis. This allows Treasury to monitor and audit all funds in the investment manager's family of funds that trade in Eligible Assets and allows Treasury to see the flow of Eligible Assets throughout the firm. Thus, Treasury will be able to evaluate if the PPIP fund manager is purposely disadvantaging the PPIF relative to other funds. In addition, Treasury and SIGTARP will have the right to conduct annual and ad hoc audits of compliance with all policies.
- **Personal conflicts of interest of PPIP fund manager employees:** Treasury will require that all PPIFs maintain stringent policies related to of the handling of material non-public information, personal trading, outside business affiliations, and the giving and accepting of gifts and entertainment. In addition, all key individuals of the PPIP fund manager must comply with an approved code of ethics and associated personal trading policy.
- **Conflicts with PPIP fund manager placement agents and broker-dealer relationships:** PPIP fund managers may not have "pay-to-play" arrangements with placement agents, underwriters, and other service providers in which money or other forms of direct or indirect

compensation are exchanged for services for the privilege to engage in such activities. In addition, PPIFs may not execute trades through any broker-dealer affiliated with the PPIF fund manager.