

## **CLIENT CATEGORIZATION POLICY**

### **1. INTRODUCTION**

One of the main consequences of MiFID is that entities conducting investment business are subject to specific regulatory requirements, including obligations to protect investors. A fundamental part of this regulatory framework is the requirement to categorize clients. Following the implementation of the Markets in Financial Instruments Directive (MiFID) in the European Union and in accordance with the Investment Services and Activities and Regulated Markets Law of 2007 (Law 144(I)/2007) in Cyprus, HYCM (Europe) Ltd., (hereinafter the “Company” or “HYCM”) is required to categorize its Clients into one of the following three categories: retail, professional or eligible counterparty.

Each category carries a different level of protection, with retail Clients being afforded the highest level of protection. **The Company shall classify all its Clients as a Retail Client irrespective of information provided during the account opening process.** The Client may “opt” to be re-classified to an alternative category, any change in category will be in accordance to criteria set by Law and at the discretion of the Company.

### **2. CLIENT CLASSIFICATION**

**2.1 Retail Client** is every client, who is neither an eligible counterparty nor a professional client. A retail client receives the highest possible level of protection.

**2.2 Professional client** is a client who possesses the experience, knowledge and expertise to make its own investment decisions and properly assess the risks that it incurs. In order to be considered a professional client, the client must fall within the following categories of clients:

- a) Entities which are required to be authorized or regulated to operate in the financial market, either from Member States or non-Member States, such as:
  - Credit institutions
  - Investment Firms
  
  - Other authorised or regulated financial institutions

- Insurance undertakings
  - Collective investment schemes and management companies of such schemes
  - Pension funds and management companies of such funds
  - Commodity and commodity derivatives dealers
  - Locals
  - Other institutional investors
- b) Large undertakings meeting two of the following size requirements, on a proportional basis:
- Balance Sheet total at least EUR20.000.000
  - Net Turnover at least EUR40.000.000
  - Own Funds at least EUR2.000.000
- c) National and regional governments and public bodies
- d) Other institutional investor whose main activity is to invest in financial instruments including entities dedicated to the securitisation of assets or other financing transactions

The entities mentioned above are considered to be professionals. They are however allowed to request non-professional treatment and the Company may agree to provide a higher level of protection. Where the client of the Company is an undertaking referred to above, the Company must inform him prior to any provision of services that, on the basis of the information available to the Company, the client is deemed to be a professional client, and will be treated as such unless the Company and the client agree otherwise. The client may request a variation of the terms of the agreement in order to secure a higher degree of protection.

It is the responsibility of the client, considered to be a professional client, to ask for a higher level of protection when it deems it is unable to properly assess or manage the risks involved.

This higher level of protection will be provided when a client who is considered to be a professional enters into a written agreement with the Company to the effect that it shall not be treated as a professional for the purposes of the applicable conduct of business regime. Such agreement should specify whether this applies to one or more particular services or transactions, or to one or more types of product or transaction.

## 2.2.1 Non-Professional Clients who may be treated as professionals on request

### *I. IDENTIFICATION CRITERIA:*

With the exception of the clients listed above, Clients may also be allowed to waive some of the protections afforded by the conduct of business rules of the Company. HYCM (Europe) Ltd is allowed to treat any of the above clients as professionals provided the relevant criteria and procedures mentioned below are fulfilled. These clients should not, however, be presumed to possess market knowledge and experience comparable to that of the categories listed above. Any such waiver of the protection afforded by the standard conduct of business regime shall be considered valid only if an adequate assessment of the expertise, experience and knowledge of the client, undertaken by HYCM (Europe) Ltd, gives reasonable assurance, in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved.

The fitness test applied to managers and directors of entities licensed under European Union Directives in the financial field could be regarded as an example of the assessment of expertise and knowledge. In the case of small entities, the person subject to the above assessment should be the person authorised to carry out transactions on behalf of the entity. In the course of the above assessment, as a minimum, two of the following criteria should be satisfied:

- the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;
- the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments exceeds 500,000 Euros;
- the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

### *II. PROCEDURE*

The clients defined above may waive the benefit of the detailed rules of conduct only when the procedure below is followed:

1. The client must state in writing to HYCM (Europe) Ltd that they wish to be treated as a professional client, either generally or in respect of a particular investment service or transaction, or type of transaction or product,

2. HYCM (Europe) Ltd must give them a clear written warning of the protection and investor compensation rights they may lose,
3. The client must state in writing, in a separate document from the contract, that they are aware of the consequences of losing such protection.

Before deciding to accept any request for waiver, HYCM (Europe) Ltd. must take all reasonable steps to ensure that the client requesting to be treated as a professional client meets the relevant requirements stated above. Professional clients are responsible for keeping HYCM (Europe) Ltd informed about any change which could affect their current categorization. However, should HYCM (Europe) Ltd become aware that the client no longer fulfils the initial conditions which made him eligible for a professional treatment, HYCM (Europe) Ltd will take appropriate action.

**2.3 Eligible Counterparties** is any one of the following entities to which the Company is authorized to receive and transmit orders or/and to execute orders on behalf of Clients. The Company, when dealing with eligible counterparties, is exempted from important obligations under conduct of business rules, best execution rules, client order handling rules.

For that purpose, eligible counterparties may consider to be falling within the following categories:

- Investment firms
- Credit institutions
- Insurance companies
- UCITS and their management companies
- Pension funds and their management companies
- Other financial institutions authorised or regulated under community or national law
- Commodity and commodity derivative traders (dealing on own account)
- National governments and their corresponding offices including public bodies which manage public debt
- Central Banks
- Supranational organisations
- Third country entities equivalent to the categories mentioned above

### **3. REQUEST FOR DIFFERENT CATEGORIZATION AND PROTECTION RIGHTS**

- A Retail Client has the right to request a different classification to become a Professional Client but he will be afforded a lower level of protection.

- A Professional Client has the right to request a different classification as a Retail Client in order to obtain a higher level of protection.
- An Eligible Counterparty has the right to request a different classification of either a Professional Client or Retail Client in order to obtain a higher level of protection.

The Company has the right to decline any of the above Client's requests for different classification

### **3.1 PROTECTION RIGHTS FOR RETAIL CLIENTS/PROFESSIONAL CLIENTS.**

Where the Company treats a Client as Retail client, the Client will be entitled to more protections under the law than if the Client was entitled to be a professional client. In summary the additional protections retail clients are entitled to are as follows:

- a) A retail client will be given more information/disclosures with regard to the Company, its services and any investments, its cost, commissions, fees and charges and the safeguarding of client financial instruments and client funds.
- b) Where the Company is providing the Services it has been authorized to under its license 259/14 by the Cyprus Securities and Exchange Commission, the Company shall ask a Retail Client to provide information regarding his knowledge and experience in the Investment Field relevant to the specific type of product or service offered or demanded, so as to enable the Company to assess whether the Investment Service or product envisaged is appropriate for the Client. In case the Company considers, on the basis of the information received, that the product or service is not appropriate to a Retail Client, it shall warn the Client accordingly. Please note that the Company is not required to assess appropriateness in certain cases specified by the Law 144(I)/2007, (for example but not limited to the situation where on an Execution only basis the Financial Instrument concerned is not complex). On the other hand, the Company shall be entitled to assume that a Professional Client has the necessary experience and knowledge in order to understand the Risks involved in relation to those particular Investment Services or transactions, or types of transaction or product, for which the Client is classified as a Professional Client.

Consequently, and unlike the situation with a Retail Client, the Company should not generally need to obtain additional information from the Client for the purposes of the assessment of appropriateness for those products and services for which they have been classified as a Professional Client.

- c) When executing orders, the Company must take all reasonable steps to achieve what is called “best execution” of the client’s orders, that is to obtain the best possible result for its clients. Where the Company executes an order on behalf of a retail client, the best possible result shall be determined in terms of the total consideration, representing the price of the financial instrument and the costs related to execution, which shall include all expenses incurred by the client which are directly related to the execution of the order, including execution venue fees, clearing and settlement fees and any other fees paid to third parties involved in the execution of the order. When providing professional clients with best execution, the Company is not required to prioritise the overall costs of the transaction as being the most important factor in achieving best execution for them.
- d) The Company must obtain from clients such information as is necessary for it to understand the essential facts about the client and to have a reasonable basis for believing, giving due consideration to the nature and extent of the service provided, that the specific transaction to be recommended in the course of providing the service of investment advice, or entered into in the course of providing a portfolio management service, satisfies the following criteria:
- I. it meets the investment objectives of the client in question;
  - II. it is such that the client is able financially to bear any related investment risks consistent with his/her investment objectives;
  - III. it is such that the client has the necessary experience and knowledge in order to understand the risks involved in the transaction or in the management of his/her portfolio.

Where the Company provides an investment service to a professional client it shall be entitled to assume that, in relation to the products, transactions and services for which it is so classified, the client has the necessary level of experience and knowledge for the purposes of paragraph (iii) above. In addition, under certain circumstances, the Company shall be entitled to assume that a professional client is able financially to bear any investment risks consistent with its investment objectives.

- e) The Company must inform retail clients of material difficulties relevant to the proper carrying out of their order(s) promptly upon becoming aware of the difficulty.
- f) The Company is required to provide retail clients:
- I. with more information than professional clients as regards execution of orders, other than for portfolio management.
  - II. With periodic statements in respect of portfolio management activities carried out on their behalf, more frequently than for professional clients.

- g) Where the Company provides portfolio management transactions for retail clients or operate retail client accounts that include an uncovered open position in a contingent liability transaction, it shall also report to the retail client any losses exceeding any predetermined threshold, agreed between the Company and the client, no later than the end of the business day in which the threshold is exceeded or, in case where the threshold is exceeded on a non-business day, the close of the next business day.
- h) If the Company provides an investment service other than investment advice to a new retail client, the Company must enter into a written basic agreement with the client, setting out the essential rights and obligation of the firm and the client.
- i) The Company shall not use financial instruments held by it on behalf of a client for our own account or the account of another client of ourselves, without the client's prior express consent to the use of the instruments on specified terms, as evidenced, in the case of a retail client, by his signature or equivalent alternative mechanism.
- j) Retail clients may be entitled to compensation under the Investor Compensation Fund for Clients of Investment Firms.

### **3.2 PROTECTION RIGHTS FOR ELIGIBLE COUNTERPARTIES.**

Where the Company treats the client as an eligible counterparty, the client will be entitled to fewer protections under the law than it would be entitled to as a professional client. In particular, and in addition to the above:

1. The Company is not required to provide the client with best execution in executing client's orders;
2. The Company is not required to disclose to the client information regarding any fees or commissions that the Company pays or receives;
3. The Company is not required to assess the appropriateness of a product or service that the Company provide to the client;
4. The Company is not required to provide the client with information about the Company, its services and the arrangements through which the Company will be remunerated;
5. The Company is not required to provide the client with risk disclosures on the products or services that the client selects from the Company;
6. The Company is not required to provide reports to the client on the execution of his/her orders.

#### **4. GENERAL INFORMATION**

The above information is based on the Markets in Financial Instruments Directive (MiFID) 2004/39/EC as well as the Investment Services and Activities and Regulated Markets Law of 2007 (L144(I)/2007). For more detail information you can visit the Cyprus Securities and Exchange Commission website at <http://www.cysec.gov.cy>

For any further information regarding Client Categorisation Notice, please contact our Office at: Tel.: + 357 25 245750 or e-mail: [compliance@hycm.com](mailto:compliance@hycm.com)