

HYCM Capital Markets (UK) Limited  
Client Categorization Policy  
(version 1.0 – July 2022)

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## 1. OVERVIEW

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HYCM Capital Markets (UK) Limited (“HYCM”) is an Investment firm registered in the UK and regulated by the Financial Conduct Authority (FCA). Under the COBS 3 of the FCA rules HYCM is required to notify new clients, and existing clients that it has newly categorised, of their categorisation as a retail client, a professional client or an eligible counterparty in accordance with Directive 2014/65/EU (“MiFID II”).

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 CATEGORIES

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### ‘Retail Client’

A ‘Retail Client’ is a client who is not a professional client or an eligible counterparty. Retail Clients are afforded with the highest level of protection.

### ‘Professional Client’

A ‘Professional Client’ is a client that is either a per se professional client or an elective professional client. A professional client is a client who possesses the experience, knowledge and expertise to make his own investment decisions and properly assess the risks that he incurs.

#### Categories of clients who are considered to be Per Se Professionals:

1. An entity which is required to be authorized or regulated to operate in financial markets. Examples of entities carrying out the characteristic activities are:
  - a) Credit institutions
  - b) Investment firms
  - c) Other authorized or regulated financial institutions
  - d) Insurance companies
  - e) Collective investment schemes and management companies of such schemes
  - f) Pension funds and management companies of Such funds
  - g) Commodity and commodity derivatives dealers
  - h) Locals : firms which provide investment services and/or perform investment activities consisting exclusively in dealing on own account on markets in financial futures or options or other derivatives and on cash markets for the sole purpose of hedging positions on derivatives markets or which deal for the accounts of other members of those markets or make prices for them and which are guaranteed by clearing members of the same markets, where responsibility for ensuring the performance of contracts entered into by such firms is assumed by clearing members of the same markets.
  - i) Other institutional services
2. Large undertaking meeting two of the following size requirements on a company basis:
  - a) balance sheet total at least EUR 20,000,000
  - b) net turnover at least EUR 40,000,000
  - c) own funds at least EUR 2,000,000
3. Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitization of assets or other financing transactions.

#### Elective professional clients

HYCM may treat a client as an elective professional client if the following process is followed:

1. HYCM undertakes an adequate assessment of the expertise, experience and knowledge of the client that 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 qualitative test”). If the client is an entity, the test should be performed in relation to the person authorised to carry out transactions on its behalf.
2. At least **two (2)** of the following criteria are satisfied:
  - a) 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
  - b) The size of the client’s financial instrument portfolio exceeds EUR 500,000
  - c) 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 (“the quantitative test”); and
3. The following procedure is followed:
  - a) The client must state in writing to the firm that it wishes to be treated as a professional client either generally or in respect of a particular service or transaction or type of transaction or product;
  - b) HYCM must give the client a clear written warning of the protections and investor compensation rights the client may lose; and
  - c) The client must state in writing, in a separate document from the contract, that it is aware of the consequences of losing such protections.

Before deciding to accept any request for waiver, HYCM 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 informed about any change which could affect their current categorization. However, should HYCM become aware that the client no longer fulfils the initial conditions which made him eligible for a professional treatment, HYCM will take appropriate action.

#### **‘Eligible Counterparty’**

##### Per Se Eligible Counterparty

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, an ‘Eligible Counterparty’ (ECP) is any one of the following entities.:

- 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

##### Elective eligible counterparties

HYCM may treat a client as an elective eligible counterparty if:

- 1) the client is an undertaking and:
  - a) is a per se professional client, and:
    - i. is a body corporate which has called up a share capital of at least £10 million; or

- ii. meets the criteria in the rule on meeting two quantitative tests; or
  - b) requests such categorisation and is an elective professional client, but only in respect of the services or transactions for which it could be treated as a professional client; and
- 2) HYCM has, in relation to MiFID business, obtained express confirmation from the prospective counterparty that it agrees to be treated as an eligible counterparty.

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

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- 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.

It is the responsibility of the client to ask for a higher level of protection. HYCM reserves the right to cease business with the client if different client categorisation is requested. If a new client category is applied by HYCM new written agreement will be issued.

HYCM has the right to decline any of the above Client's requests for different classification.

### **4. KEY DIFFERENCES BETWEEN RETAIL CLIENTS AND PROFESSIONAL CLIENTS**

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The key differences between the relative levels of protection between Retail client and Professional clients include the following:

1. When dealing with Retail clients, we need to provide additional information (including detailed risk warnings, disclosure of costs and charges without any limited application). When communicating any financial promotions, we have to ensure that the information provided does not emphasise any potential benefit of any products or services without providing a fair and prominent indication of any relevant risks. The information has to be presented in a way that is likely to be understood by the intended audience.
2. When dealing with Retail clients, we are required to ascertain if they have the knowledge and experience to understand the risks relating to a particular product/ service, and in some cases, their ability to financially bear the related investment risk. This will help us determine if the product/service offered or requested is suitable for the client. For Professional clients, we are entitled to assume that they have the necessary experience and knowledge to understand the risk relating to a particular product/service and they are able to bear any related investment risk for such a product/service.
3. Complaints received from certain Retail clients (those that meet the definition of an Eligible Complainant) are required to be handled in accordance with particular complaint handling rules. Professional clients are not eligible to refer complaints to the Financial Ombudsman.
4. Retail clients are more likely to have rights as eligible claimant under the Financial Services Compensation Scheme, a professional client is not eligible such a claimant meaning that compensation under the Financial Services Compensation Scheme would not be available.
5. When dealing with Retail clients there are more restrictions in relation to safeguarding of client investments and client money.

6. With retail clients, we will always apply the principles of best execution required under MiFID II, unless specific instructions received from a client restrict our ability to apply the principles fully. With professional clients dealing in financial instruments, we are not required to prioritise the overall costs of the transaction as being the most important factor in achieving Best Execution for you, nor do we have to consider our own commissions and costs relating to each of the eligible execution venues available when assessing which to use in order to provide Best Execution.
7. When selling packaged investment products to retail clients, there are a number of specific rules which must be adhered to, for example, the provision of a key information document.

## **5. KEY DIFFERENCES BETWEEN ELIGIBLE COUNTERPARTIES AND PROFESSIONAL CLIENTS**

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Certain FCA rules which apply to us when acting for Professional clients do not apply when the client is an Eligible Counterparty:

1. The rule requiring firms to act in the best interest of its client.
2. The rule requiring certain information to be disclosed to a client before providing services.
3. The rule that restricts the ability of firms to accept and pay inducements.
4. The rule on how we communicate with clients, including those which govern how we market and promote to clients.
5. The rules requiring firms to provide information about costs and charges have a limited application in respect of Eligible Counterparties.
6. The rules governing the provision of client agreements.
7. The rules which require firms to assess the appropriateness of products or services.
8. The rules requiring firms to take all reasonable steps to obtain the best possible result when executing or receiving and transmitting client orders (best execution).
9. The rules which require firms to follow certain conditions when carrying out client orders (i.e. those rules relating to the prompt recording and allocation for orders, sequential execution and aggregation of orders and allocation of orders).
10. The rule which require firms to provide clients with a description of the nature and risks of investments.
11. The rules which require firms to provide clients with trade confirmation information and periodic statements may have a limited application.



**HYCM Capital Markets (UK) Limited**

Authorized and regulated by the Financial Conduct Authority – FRN 186171

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**Risk Warning**

*Trading CFDs involves a high risk of loss and may not be suitable for all investors.*

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