

CLIENT CATEGORISATION POLICY

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CLIENT CATEGORISATION

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1. INTRODUCTION

1.1 **Royal Financial Trading (Cy) Ltd** is incorporated in the Republic of Cyprus with Certificate of Incorporation No. HE349061.

The Company is authorized and regulated by the Cyprus Securities and Exchange Commission ('CySEC'), with license No. 321/16, and operates under the Provision of Investment Services, the Exercise of Investment Activities, the Operation of Regulated Markets and Other Related Matters Law of 2017, Law 87(I)/2017 as subsequently amended from time to time (the "Law"). The Company's head office is located at Level 3 Iris House Office 340, 8 John Kennedy Street, Limassol 3016, Cyprus.

2. CATEGORIZATION CRITERIA

2.1 Following the implementation of the Markets in Financial Instruments Directive II (MiFID II) in the European Union and in accordance with the Investment Services and Activities and Regulated Markets Law of 2017, Law 87(I)/2017 in Cyprus Royal is required to categorize its Clients into one of the following three categories: retail, professional or eligible counterparty.

2.2 **'Retail Client'** is a Client who is neither a Professional Client nor an Eligible Counterparty.

2.3 **'Eligible Counterparty'** for the purposes of Article 31 of the Law, is any of the following entities to which an investment firm provides the services of reception and transmission of orders on behalf of Clients and/or execution of such orders and/or dealing on own account: Cyprus Investment Firm/Greek Investment Firm, other investment firms, credit institutions, insurance companies, UCITS and their management companies, Portfolio Investment Companies, pension funds and their management companies and other financial institutions authorized by a Member State of the European Union or regulated under Community legislation or the national law of a Member State, undertakings exempted from the application of the Investment Services and Activities and Regulated Markets Law 87(I)/2017, national governments and their corresponding offices, including public bodies that deal with public debt, central banks and supranational organizations.

2.4 **'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. In order to be considered a Professional Client, a Client must comply with one of the following criteria.

2.4.1 Categories of Clients Who Are Considered to be Professionals

The following should be regarded as professionals in all investment services and activities and financial instruments:

- (1) Entities which are required to be authorized or regulated to operate in the financial markets. The list below should be understood as including all authorized entities carrying out the characteristic activities of the entities mentioned: entities authorized by a Member State under the Markets in Financial Instruments Directive, entities authorized or regulated by a Member State without reference to the above Directive, and entities authorized or regulated by a non-Member State:

Investment Firms;

- Collective Investment Schemes and the management companies of such schemes;
- Other Authorized or regulated financial institutions;
- Credit Institutions
- Pension funds and the management companies of such funds;
- Insurance Companies;
- Locals;
- Commodity and commodity-derivative dealers;
- Other Institutional Investors (like Portfolio Investment Companies).

(2) Large undertakings which meet two of the following company size requirements:

- Balance sheet total: 20,000,000 EUR
- Net turnover: 40,000,000 EUR
- Own funds: 2,000,000 EUR

(3) National and regional governments, public bodies that manage public debt, Central Banks, International and supranational institutions such as the World Bank, the IMF, the ECB, the EIB and other similar international organizations.

(4) Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitization of assets or other financing transactions.

2.4.1.1. The entities mentioned above from (1) to (4) are considered to be professionals in relation to all investment services and activities and financial instruments. 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 the Client, 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 terms of the agreement in order to secure a higher degree of protection.

2.4.1.2. 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, specifying whether this applies to one or more particular service or type of transaction.

2.4.2. Clients Who May Be Treated as Professionals on Request

2.4.2.1 Identification Criteria

Clients, other than those mentioned in section 2.4.1, including public sector bodies and private individual investors, may also be allowed to waive some of the protection afforded by the conduct of business rules.

The Company is, therefore, allowed to treat any of the above Clients as Professionals provided the relevant criteria and procedure mentioned below are fulfilled. These Clients will not, however, be presumed to possess market knowledge and experience comparable to that of the categories listed in section 2.4.1.

Any such waiver of the protection afforded by the standard conduct of business regime will be considered valid only if an adequate assessment of the Expertise, Experience and Knowledge of the Client, undertaken by the Company, 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 Directives in the financial sector may 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 authorized 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:

- (a) The Client has carried out significantly-sized transactions in 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, defined as including cash deposits and financial instruments, exceeds 500,000 EUR,
- (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.

2.4.2.2 Procedure

The customers defined above may waive the benefit of the detailed rules of conduct only where the following procedure is followed:

- (a) They must state, in writing, to the Company 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,
- (b) They must state, in writing, in a separate document from the contract, that they are aware of the consequences of losing such protection,
- (c) The Company will give them a clear written warning of the protection and investor compensation rights they might lose.

2.4.2.3 Before deciding to accept any request for a waiver, the Company is required to take all reasonable steps to ensure that the Client requesting to be treated as a professional client meets the relevant requirements stated in section 2.4.2.1 above.

After reviewing Client's profile, if the latter does not comply with two of the three requirements mentioned above, the status will remain as "Retail Client".

2.4.3. Professional clients are responsible for keeping the Company informed about any change which could affect their current categorization. However, should the Company become aware that the Client no longer fulfils the initial conditions which made him eligible to be categorized as a professional; the Company will take appropriate action.

3. REQUEST FOR DIFFERENT CATEGORIZATION

- 3.1. A Retail Client has the right to request to be categorized as a Professional Client will, then be afforded a lower level of protection (please refer to point 2.4.2 above).
- 3.2. An Eligible Counterparty has the right to request to be categorized either as a Professional Client or a Retail Client in order to obtain a higher level of protection.
- 3.3. The Company has the right to decline any of the above Client requests.
- 3.4. A Professional Client has the right to request to be categorized as a Retail Client in order to obtain a higher level of protection

4. PROTECTION RIGHTS

Retail Clients

4.1. Where the Company treats the Client as a retail client, he/she will be entitled to more protection under the Law than as a professional client. In summary, the additional protection retail clients are entitled to, are as follows:

- (1) A retail client will be given more information/disclosures with regard to the Company, its services and any investments, its costs, commissions, fees and charges and the safeguarding of Client financial instruments and Client funds.
- (2) Under the Law, where the Company provides investment services other than investment advice (in the form of personal recommendations) or discretionary portfolio management, 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 investment firm 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 law.
- (3) When executing orders, investment firms and credit institutions providing investment services must take all reasonable steps to achieve what is called "best execution" of the Client's orders; in other words, to obtain the best possible result for their Client.

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.

- (4) Investment firms and credit institutions providing investment services must obtain from the Client such necessary information for the firm or credit institution, as the case may be, 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 (or entered into in the course of providing a portfolio management service) satisfies the following criteria:

- (a) It meets the investment objectives of the Client in question;
 - (b) The Client is financially able to bear the investment risk that arises from his investment objectives;
 - (c) That the Client has the necessary experience and knowledge to understand the risks involved in the transaction or the management of his portfolio.
- (5) 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.
- (6) The Company is required to provide retail clients:
- (a) With periodic statements, in respect of portfolio management activities carried out on their behalf, more frequently than professional clients.
 - (b) With more information than professional clients on execution of orders other than for portfolio management.
- (7) The Company will not use financial instruments held on behalf of a client for its own account or the account of another Client 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 an equivalent alternative mechanism.
- (8) 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 will 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 a case where the threshold is exceeded on a non-business day, the close of the following business day.
- (9) If the Company provides an investment service other than investment advice to a new retail client for the first time after 1 November 2007, the Company must enter into a basic written agreement with the Client, setting out the essential rights and obligations of the firm and the Client.
- (10) Retail clients may be entitled to compensation under the Investor Compensation Fund for Bank Clients or the Investor Compensation Fund for Clients of Investment Firms, as the case may be.

Introduction of Improved Protection Measures by MiFID II

MiFID II provides a vast array of new and improved protection policies for investment firms to abide by, ensuring a higher level of investor protection. Below is a short summary of the retail investor protection changes introduced by MiFID II:

- Prohibited payment and retention of inducements (MiFID article 24)
- Creation of a Commission Delegated Regulation (EU) 2017/565, which is supplementary to MiFID II and aims to clarify the main changes proposed in Articles 16, 24, 25, 27 and 28.
- Investment Advice must be independent and refrain from accepting or retaining inducements from third parties.
- Stricter rules for discretionary portfolio management, refraining them from accepting or retaining inducements from third parties.

- Advisory and portfolio management clients will receive a detailed suitability assessment in a periodic performance report.
- Pre-and post-trade information to clients will be enhanced.
- Standardized form of information on fees and commissions paid and received by the investment firm.
- Definition of non-complex instruments will be amended and exclude structured UCITS.
- Creation of a new execution venue - the OTF.
- New requirements for corporate governance and non-executive directors.
- Strengthened the criteria for qualified senior management of Investment Firms.
- Stricter control of remuneration of staff (e.g. bonus criteria)
- Strengthened the importance and role of the compliance officer
- Key Information Document for PRIIPs as well as obligations on manufacturers and distributors.
- Obligation of Investment Firms to assess their products, services and their target market.
- New Product Governance requirements.
- Enhancing the role of Approved Publication Arrangement (APA) firms.
- Transaction reports will need to capture additional information (including identification of individuals – or computer algorithms where relevant – responsible for the investment decision).
- Extended scope of products and activities. Additional financial instruments will be brought into the scope of MiFID II.

*For more information regarding the implementation of the above, please visit our updated policies and procedures found in our legal section: <https://oneroyal.com/eu/client-agreements/>

Professional Clients

- (1) The Company shall be entitled to assume that a professional client has the necessary experience and knowledge to understand the risks involved in relation to such particular investment services or transactions, or types of transaction or product, for which the Client has been classified as a professional client.
- (2) 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 such products and services, for which they have been classified as a professional client.
- (3) When providing professional clients with best execution, the Company is not required to prioritize the overall costs of the transaction as the most important factor in achieving best execution for them.
- (4) 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 (c) above. In addition, under certain circumstances, the Company shall be entitled to assume that a professional client is able to financially bear any investment risks consistent with their investment objectives.

Eligible Counterparties

4.2. Where the Company treats the Client as an eligible counterparty, the Client will be entitled to less protection under the Law than he/she 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 risk disclosures on the products or services that he/she selects from the Company
- (2) The Company is not required to provide reports to the Client on the execution of his/her orders or the management of his/her investments;
- (3) The Company is not required to provide the Client with best execution for the Client's orders;
- (4) The Company is not required to assess the suitability or appropriateness of a product or service that it provides to the Client but can assume that the Client has the expertise to choose the most appropriate product or service for him/her and that he/she is financially able to bear any investment risk consistent with his/her investment objectives;
- (5) The Company is not required to disclose to the Client, information regarding any fees or commissions that the Company pays or receives;
- (6) 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. MONITORING AND REVIEW

The Company will, on a regular basis, monitor and assess the effectiveness of this Policy in order to deliver the best possible service for the Client, and, where appropriate, the Company reserves the right to correct any deficiencies in this Policy and make improvements to it.

In addition, the Company will review the Policy at least annually. A review will also be carried out whenever a material change occurs that affects the ability of the Company to continue to provide the best possible investment services to its Client.