

## **CLIENT CATEGORIES AND THEIR DIFFERENCES IN PROTECTION**

### **A) CLIENT CATEGORIES**

Following the Investment Services and Activities and Regulated Markets Law 144(I) of 2007, by means of which Cyprus has implemented the EU Markets in Financial Instruments Directive (MiFID), SPA FINANCIAL SERVICES LTD is required to classify clients into one of the following three categories:

**Retail or Professional Client or Eligible Counterparty.**

#### **Categorization Criteria:**

The categorization criteria set by the relevant legislation are the following:

##### **• Retail Client**

A “Retail Client” is a client who is not a professional client or an eligible counterparty.

##### **• Professional Client**

A “Professional Client” is a client who possesses the experience, knowledge and expertise to make investment decisions and properly assess the risks that accompany all investment services, activities and financial instruments.

The following legal persons are considered to be Professional Clients:

1. Entities which are required to be authorised or regulated to operate in the financial markets (including, entities authorised by a Member State under a Directive, entities authorised or regulated by a Member State without reference to a Directive and entities authorised or regulated by a non-Member State), such as:
  - a) Credit Institutions;
  - b) Investment Firms;
  - c) Other authorised 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) Local enterprises;
  - i) Other institutional investors (indicatively, Portfolio Investment Companies);
2. Large undertakings which satisfy **at least two** of the following size requirements:
  - a) balance sheet total at least Euro 20,000,000
  - b) net turnover at least Euro 40,000,000
  - c) own funds at least Euro 2,000,000.
3. National and regional governments, public bodies that manage public debt, Central Banks, international and supranational institutions such as the World Bank, the International Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organizations.
4. Natural persons who meet at least 2 of the 3 criteria below:
  - a) Have a portfolio of financial instruments of minimum EUR 500,000;
  - b) Have realized minimum 10 significant transactions per trimester on the same financial instruments during 4 consecutive trimesters;

- c) Possess significant financial knowledge and expertise or hold or have held a managerial position in a regulated financial firm or bank.

In exceptional cases, natural persons who may not satisfy the above criteria but have demonstrated extensive knowledge and expertise of financial markets may be classified by SPAFS, at their ultimate discretion, as Professional Clients.

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

#### • **Eligible Counterparty**

“Eligible Counterparty” is any of the following entities (to which a credit institution or an investment firm may provide reception and transmission of orders on behalf of clients and/or execution of such orders and/or investment management and/or dealing on own account): EU Investment Firms, other regulated Investment firms, credit institutions, insurance companies, UCITS and their management companies, SICAVs, Portfolio Investment Companies, pension funds and their management companies and other financial institutions authorised by an EU Member State or regulated under Community legislation or the national law of a Member State, undertakings exempted from Investment Services and Activities and Regulated Markets Law of 2007 under article 3(2)(α) and (ιβ), national governments and their corresponding offices or public bodies dealing with public debt, central banks and supranational organizations.

#### **Request for Different Classification:**

A Retail Client has the right to request to be classified as a Professional Client but he/she will be afforded a lower level of protection. SPA FINANCIAL SERVICES LTD is not obliged to deal with the Client on this basis.

A Professional Client has the right to request to be classified as a Retail Client in order to obtain a higher level of protection. SPA FINANCIAL SERVICES LTD is not obliged to deal with the Client on this basis.

An Eligible Counterparty has the right to request to be classified either as a Professional Client or Retail Client in order to obtain a higher level of protection. SPA FINANCIAL SERVICES LTD is not obliged to deal with the Client on this basis.

## **B) DIFFERENCES IN PROTECTION**

### ***Retail Clients/Professional Clients***

Where we treat you as a retail client, you will be entitled to more protections under the law than you would be entitled to as 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 ourselves, our services and any investments, our costs, commissions, fees and charges and the safeguarding of client financial instruments and client funds.
- b) Under the law, where we provide investment services other than discretionary portfolio management, we 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 investments service or product envisaged is appropriate for the client. In case we consider, on the basis of the information received, that the product or service is not appropriate to a retail client, we shall warn the client accordingly.

**Please note that we are not required to assess appropriateness in certain cases (e.g. discretionary portfolio management) specified by law.**

We 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, we should not generally need to obtain additional information from the client for the purposes of the assessment of appropriateness (where relevant) for those products and services for which they have been classified as a professional client.

- c) 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 that is to obtain the best possible result for their clients.

Where we execute 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 we are not required to prioritize the overall costs of the transaction as being the most important factor in achieving best execution for them.

- d) Investment firms and credit institutions providing investment services must obtain from clients such information as is necessary 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 in the course of providing the service of investment advice, or entered into in the course of providing a nondiscretionary portfolio management service (when relevant), satisfies the following criteria:

- 1) It meets the investment objectives of the client in question;
- 2) It is such that the client is able financially to bear any related investment risks consistent with his investment objectives;
- 3) 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 portfolio.

Where we provide an investment service to a professional client we 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, we shall be entitled to assume that a professional client is able financially to bear any investment risks consistent with its investment objectives.

- e) We 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) We are required to provide retail clients with more information than professional clients as regards execution of orders.