

Client Categorization Policy

1. Introduction

Swissquote, a trading name of Swissquote Capital Markets Cyprus Limited (“SQCM” or “Swissquote”), an investment firm regulated and authorized by the Cyprus Securities and Exchange Commission (“CySEC”) under License No. CIF 422/22, has adopted this Client Categorization Policy for the purposes of categorization of its clients either as Retail or Professional or Eligible Counterparty clients.

2. Legal Framework

SQCM operates as a Cyprus Investment Firm under the provisions of the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments (“MiFID II”), which was transposed into national Law, the Investment Services and Activities and Regulated Markets Law of 2017 (“Law 87(I)/2017”), as amended from time to time.

According to MiFID II and Law 87(I)/2017, SQCM is required to categorize its clients either as retail or professional (per se or elective) or Eligible Counterparty clients. Therefore, during the onboarding procedure, SQCM assesses the application for opening an account and classifies any potential client under any of the aforesaid categories.

3. Client Classification

SQCM, prior to engaging in business relationship with its potential clients, notifies the potential clients of the clients’ classification in use by the SQCM, and informs them about the category in which they are initially classified. Clients shall be categorized as follows, based on the criteria outlined below:

a. Eligible Counterparty Clients

SQCM, 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:

- i. Investment firms
- ii. Credit institutions
- iii. Insurance companies
- iv. UCITS and their management companies
- v. Pension funds and their management companies
- vi. Other financial institutions authorized or regulated under community or national law
- vii. Commodity and commodity derivative traders (dealing on own account)
- viii. National governments and their corresponding offices including public bodies which manage public debt
- ix. Central Banks
- x. Supranational organizations
- xi. Third country entities equivalent to the categories mentioned above.

The SQCM when enters into transactions with eligible counterparties, obtains the express confirmation form the prospective counterparty that it agrees to be treated as an eligible counterparty. This confirmation may be obtained either in the form of a general agreement or in respect of each individual transaction.

b. Professional Clients

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:

- 1) 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:
 - i. Credit institutions
 - ii. Investment Firms
 - iii. Other authorised or regulated financial institutions
 - iv. Insurance undertakings
 - v. Collective investment schemes and management companies of such schemes
 - vi. Pension funds and management companies of such funds
 - vii. Commodity and commodity derivatives dealers
 - viii. Locals
 - ix. Other institutional investors
- 2) 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
- 3) National and regional governments and public bodies that manage public debt, Central Banks, international and supranational institutions such as the World Bank, the IMF, the ECB, the European Investment Bank and other similar international organizations.
- 4) Other institutional investor whose main activity is to invest in financial instruments including entities dedicated to the securitization of assets or other financing transactions

It should be pointed out to all the Clients who are Professional Clients that they are not covered by the Investor Compensation Fund administered by CySEC to which SQCM has subscribed. Section 4 provide detailed information with respect to client's right for recategorization and protection rights.

c. Retail Clients

Every client, which is neither an eligible counterparty nor a professional client, is considered to be a retail client.

4. Option to Change Classification

It is noted that an eligible counterparty or professional client is allowed to request non-professional treatment and SQCM may agree to provide a higher level of protection. In this respect, SQCM notifies its clients in a written form of their option to be classified as retail clients. SQCM proceeds in this action, in order to offer a uniform level of protection to all of its clients. The higher level of protection will be provided by SQCM when the client enters into a written agreement with SQCM, to the effect that it shall not be treated as a professional. It is the responsibility of the client who is classified as a professional client to ask for a higher level of protection when it is not in a position to properly assess and manage the risks involved in the transactions.

In addition, clients who have been initially classified by SQCM as retail clients are allowed to request to be treated as professional clients, provided that at least two of the following criteria are satisfied:

1. The client has carried out transactions, in significant size (as defined by SQCM), at an average frequency of 10 per quarter over the previous ten quarters;
2. The size of the client's financial instrument portfolio exceeds EUR500.000;

3. 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 following procedure must be followed by clients who may waive the benefit of the detailed rules of business conduct:

- a) The client must state in writing to SQCM at the electronic address compliance_sqcm@swissquote.com 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. The client's written request must be accompanied by the supporting documentation such as bank statement, letter from employer which refers to the relevant knowledge and experience, portfolio statement, trading statement etc.;
- b) SQCM 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.

A fitness test needs be undertaken by the client, for assessment of expertise and knowledge. If the client is not a natural person, the qualitative test must be satisfied by the person authorised to carry out transactions on the client's behalf.

4. Request for Different Categorization

In accordance with Section II above, the following request may be submitted to the company:

- a) A retail client requesting to be categorised as a professional client. In that case the client will be afforded a lower level of protection.
- b) A professional client requesting to be categorised as a retail client. In that case the client seeks to obtain a higher level of protection.
- c) An eligible counterparty requesting to be categorised as a professional client or retail client. In that case the client seeks to obtain a higher level of protection.

Before deciding to accept any request for waiver, SQCM will take all reasonable steps to ensure that the client requesting to be treated differently meets the relevant requirements. SQCM reserves the right to decline any of the above requests for different categorisation.

Professional clients are responsible for keeping SQCM informed about any change, which could affect their current categorization. Should SQCM become aware however that the client no longer fulfils the initial condition, which made him eligible for a professional treatment, appropriate action will be taken.

5. Protection Rights

Retail Clients/ Professional Clients

Where the SQCM treats the client as a retail client, he/she/they 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 the retail client is entitled to are as follows:

- a) A retail client will be given more information/disclosures with regards to SQCM, its services and any investments, its cost, commissions, fees and charges and the safeguarding of client financial instruments and client funds.
- b) Under the law, where SQCM provides investment services other than investment advice (in the form of personal recommendations) or discretionary portfolio management, the SQCM 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 SQCM 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 SQCM is not required to assess appropriateness in certain cases specified by law.

- c) SQCM 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.
- d) Consequently, and unlike the situation with a retail client, SQCM 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.
- e) When executing orders, investment firms and credit institutions providing investment services must take all sufficient steps to achieve what is called "best execution" of the client's orders that is to obtain the best possible result for their clients.
- f) Where SQCM 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 cost 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 the third parties involved in the execution of the order.
- g) When providing professional clients with best execution SQCM is not required to prioritise the overall cost of the transaction as being the most important factor in achieving best execution for them.
- h) The SQCM must inform retail clients of material difficulties relevant to the proper carrying out of their order(s) promptly upon becoming aware of the difficulty.
- i) The SQCM is required to provide retail clients with more information than professional clients as regards execution of orders, other than for portfolio management.
- j) If SQCM provides an investment service other than investment advice to a new retail or professional client, SQCM must enter into a written basic agreement with the client, setting out the essential rights and obligations of the firm and the client.
- k) SQCM shall not use financial instruments held by us 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.
- l) Retail clients are entitled to compensation under the Investor Compensation Fund for Clients of Investment Firms, as the case may be.
- m) Clients classified either as professional client will not be protected by the product intervention measures; consequently, they will not be offered negative balance protection, the margin close out protection rule at 50%, including initial margin protections. Such protection rules are applicable only for retail clients. It is noted though that if the total margin in an account held by the professional client falls below 30% of the amount of initial margin required in respect of the open CFDs, SQCM will close one or more of the CFDs.

Eligible Counterparty Clients

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

- a) SQCM is not required to provide the client with the best execution of the client's orders;
- b) SQCM is not required to disclose to client information regarding any fees or commissions that SQCM pays or receives;
- c) SQCM is not required to assess the appropriateness of a product or service that it provides to client but can assume that the client has the expertise to choose the most appropriate product or service for him/her/them;
- d) SQCM is not required to provide the client with information about the Company, its services and the arrangements through which the SQCM will be remunerated;

- e) SQCM is not required to provide the client with risk disclosures on the products or services that he/she/they select/s from the Company; and
- f) SQCM is not required to provide reports to the client on the execution of his/her/their orders or the management of his/her/their investments;
- g) SQCM is not required to apply the product intervention measures for Eligible Counterparty clients. Therefore, such clients will not be offered negative balance protection, the margin close out protection rule and initial margin protections.