

## **CLIENT CATEGORISATION NOTIFICATION**

### **CLIENT CATEGORISATION POLICY**

MeritKapital Limited ("MK" or "the Company") is regulated by the Cyprus Securities and Exchange Commission (the "CySEC") and required by Law 144(I)/2007 to notify its client of its categorisation into one of the following categories:

- Professional Client
- Eligible Counterparty
- Retail Client

The purpose of the client categorisation regime will determine the extent to which the Markets in Financial Instruments Directive II (MiFID II) conduct of business rules will apply. It will also tailor client protections in light of the client's ability to make their own investment decisions and understand the risks involved.

### **Professional Clients**

Professional Clients are those that have enough experience and knowledge of financial markets to take investment decisions and evaluate the risks therein. These clients may be professionals or entities which are required to be authorised or licensed by the financial regulating authorities in order to operate in the financial markets, a national and federal government or central bank, institutional investors whose main activity is to invest in financial instruments or large undertakings that fulfil at least two of the following requirements:

- A net annual turnover of at least €40,000,000 (forty million Euros);
- A balance total of at least €20,000,000 (twenty million Euros); and/or
- Own capital of at least €2,000,000 (two million Euros)

The clients falling under this category may be `Per Se` Professionals, which are firms that by their nature meet the CySEC's requirement to be classified as "Professional" (Section I of Annex II of MiFID II), or

Elective Professionals, which opt to be so classified and meet the FCA's requirements to do so (Section II of Annex II of the MiFID II).

It is noted that local authorities and municipalities (and their pension schemes) will be treated as Retail Clients unless they opt up to Professional investor status.

### **Eligible Counterparties**

Eligible Counterparties are those institutions that are registered as credit institutions, insurance undertakings, pension funds and other financial organisations authorised by an EU member state or a third country.

### **Retail Clients**

A Retail client is neither classified as a Professional Client nor an Eligible Counterparty, but receives a greater level of regulatory protection than both of these categorisations. A Retail client is most likely to have limited investment knowledge and so requires a high level of protection.

### **CLIENT PROTECTION**

Professional clients are afforded less regulatory protection than retail clients due to the higher expertise and sophistication they have compared to Retail Clients.

Retail clients enjoy the greatest regulatory protection as they are considered to be the most inexperienced investors; therefore it is less likely that they will have the ability to assess or manage the risks associated with investment activity.

MK will provide Retail Clients with the following:

- The financial instruments to be traded and the risks relating to these; information on the company itself, its services and any investments, costs, commissions, fees and charges of transactions so that the client is able to make an informed investment decision.
- Frequent periodic statements in respect of portfolio management activities executed on their behalf.
- Notification to the client if MK faces difficulty in properly executing the client orders.
- a summary of the Investor Compensation Fund.
- a warning to the client in situations where MK considers that the particular transaction the client wishes to execute is not appropriate. Regardless of the warning, the client may still instruct that the transaction be executed.

Eligible Counterparties have the lowest level of investor protection. The investor protection for this group is significantly reduced because counterparties are most likely to be already established within the industry therefore subject to relevant regulatory protection. MeritKapital is not required to:

- provide with best execution when executing orders;
- apply the rules on the financial promotions and communications when dealing with the client;
- disclose information about expenses such as fees, commissions or charges that MK receives or pays;
- provide information on MK, its services and remuneration arrangements;
- provide reports on the execution of orders or the management of the client's investments;
- provide risk disclosures on MK's products or services the Client has selected;
- assess the appropriateness of a product or service that MK provide and can assume that the client has expertise to choose the most appropriate product or service for themselves.

In light of MiFID II, the Company will ensure that in its dealings with clients (including Eligible Counterparties) it will apply the following –

- to act honestly, fairly and professionally in dealings with Eligible Counterparties;
- to communicate in a way which is fair, clear and not misleading;
- to provide certain information to Eligible Counterparties; and
- to provide certain reports to Eligible Counterparties.

### **REQUEST FOR CHANGE IN CLASSIFICATION**

After MK has categorised the client as a Retail Client, a Professional Client, or an Eligible Counterparty, the client may request for their category to be changed. For example, a Retail Client may ask to be categorised as a Professional Client as the result of a change in circumstance. Similarly, an Eligible Counterparty may request to be categorised either as a Professional or a Retail Client. MK reserves the right to reject any such request.

It is the responsibility of a Professional Client or Eligible Counterparty to ask for a higher level of protection when it deems it is unable to properly assess or manage the risks involved.

### **ELIGIBLE COUNTERPARTIES REQUESTING TO BE TREATED AS PROFESSIONAL CLIENTS**

An Eligible Counterparty may require to treat them as a different type of client in all cases or for a given transaction only.

In the instances where an Eligible Counterparty requests to be treated as a different type of client, but this client does not explicitly request to be treated as a Retail Client, MK then shall treat this Eligible Counterparty as a Professional Client if it grants them their request.

## **PROFESSIONAL CLIENTS REQUESTING TO BE TREATED AS RETAIL CLIENTS**

Professional Clients reserve the right to request to be treated as a Retail Client and in effect enjoy a higher level of protection in relation to a particular service or transaction, or with regard to a type of product or transaction.

The higher degree of protection will only be approved if, after the client request, a written agreement is signed between MK and the client confirming that the client no longer wishes to be treated as a Professional Client. The client will state to which services or transactions that the Retail classification relates.

Elective Professional Clients (for example a Retail Client who has opted up to Professional Client status) will not be able to “opt up another step” to Eligible Counterparty status.

## **RETAIL CLIENTS REQUESTING TO BE TREATED AS PROFESSIONAL CLIENTS**

Although Retail Clients enjoy the highest level of regulatory protection, they may be allowed to waive some of the protections afforded to them. This can be done via the following procedure:

1. The client makes a written request stating that they wish to be treated as a Professional Client. Within the request, the client must indicate which services or transactions to which this relates.
2. MK shall give the client clear, written warning of the protection and investor compensation rights the client will lose as a result of a change in categorisation.
3. The client must state, in a separate document from the contract, that it is aware of the consequences of waiving the Retail protections.

Before a Retail Client can be treated as a Professional Client, the client’s expertise, experience and knowledge must be assessed, in light of the nature of transactions or services envisaged, to give reasonable assurance that the client is capable of making his own investment decisions with full comprehension of the risks involved.

In assessing the client’s expertise, experience and knowledge, the client must satisfy at least two of the following criteria:

- the client has executed transactions, of significant size, with the relevant market at an average frequency of 10 per quarter over the previous four quarters; and/or
- the size of the client’s financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds EUR 500,000; and/or
- 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.

It is the responsibility of the client to inform MK of any changes that may affect the assigned category of the client in writing and with an indication of whether it is requested on a general basis or in relation to one or more specific trades, services or products and whether the client is aware of the consequences of

such re-categorisation. In the event that information is brought to the attention of MK after the initial categorisation of the client that could result a change in the categorisation of the client, MK shall take appropriate action.

#### **CATEGORISATION OF THE CLIENT**

On the basis of the information that is available to us, MKUK has categorised you as a ***[Professional Client/Eligible Counterparty/Retail Client]*** and shall treat you as such where we conduct business with or for you from the date of this letter unless otherwise agreed.

Please be informed that you have the right to request a different categorisation to benefit from a higher degree of regulatory protection. However, MK reserves the right to reject any such request if it considers that this is not appropriate. Should you wish to change your assigned categorisation, please communicate your intentions to MK's Compliance department via:

- Telephone: +357 25 857 900 (office hours 8.30 - 18.30 GMT+2);
- Fax: +357 25 340 327
- E-mail: [compliance@meritkapital.com](mailto:compliance@meritkapital.com)

#### **ACKNOWLEDGEMENT OF CATEGORISATION**

I hereby acknowledge that:

I have received and understood the Client Categorisation Policy of MK; and I have been informed of my categorisation as a ***[Professional Client/Eligible Counterparty/Retail Client]*** by MK.

Signature:

Name:

Title:

Company Name:

Date:

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