

Client Categorisation Policy

Pepperstone EU Limited

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Contents

1. Introduction.....	3
2. Categories of Clients	3
A. Eligible Counterparties	3
Opt-Down to Professional Client	4
B. Professional Clients	4
Per Se Professional Clients	4
Elective Professional Clients.....	5
Opt-Down to Retail Client	5
C. Retail Clients.....	5
Elective Professional Clients.....	5
Procedure and Notifications required for opting up from a Retail to an Elective Professional.....	6
3. Gradation of Investor Protection Measures	6
Annex A: Request for Professional Client Status (Individual Opt-Up Policy).....	7
Annex B: Professional Client Notice.....	9
Annex C: Eligible Counterparty Client Notice	10
MiFID Client Classification Chart.....	11

1. Introduction

Pepperstone EU Ltd (“Pepperstone”, “we”, “us”, “our”, “the Company”) in accordance with the provisions of the of Investment Services Law 87(I)/2017, as updated, and amended from time to time (“the Law”) which transposes the MiFID II Directive EU 2014/65 EU into national law, as well as the rules and guidance of the Cyprus Securities and Exchange Commission (“CySEC”), is required to classify its clients, prior to doing any business with them, into one of the following 3 categories:

1. Eligible counterparties
2. Professional
3. Retail

This Policy sets out Pepperstone’s internal policies and procedures to properly categorise and notify each client in accordance with the regulatory rules.

2. Categories of Clients

The MiFID II Directive, transposed into national Law 87(I)/2017 defines three categories of clients:

1. **Eligible Counterparties:** Specific clients (as per section 2.A) for which the Company performs the following services: dealing on own account, execution of orders on behalf of clients and reception and transmission of orders on behalf of clients as well as any ancillary service directly relating to those transactions.
2. **Professional Clients:** Specific clients (as per section 2.B) that possess the experience, knowledge and expertise to make their own investment decisions and properly assess the risks that incur.

The Professional Client category, depending on factors including the size, turnover, knowledge and experience of the client can also be broken down into:

- **Per Se** Professional clients; or
 - **Elective** Professional clients.
3. **Retail Clients:** Clients that are not Professional Clients or Eligible Counterparties.

A. Eligible Counterparties

A client can be categorised as an Eligible Counterparty only if Pepperstone conducts Eligible Counterparty Business with that person. The following services carried on by Pepperstone may be Eligible Counterparty business:

- a) dealing on own account;
- b) execution of orders on behalf of clients
- c) the reception and transmission of orders; and
- d) any ancillary service directly related to the transactions resulting from services (a) to (c) above.

Any of the following types of clients (who are offered the services of dealing on own account, execution of orders on behalf of clients or reception and transmission of orders on behalf of clients and any ancillary service directly relating to those transactions) can automatically be categorised as an Eligible Counterparty:

- an investment firm, credit institution or insurance company;
- a collective investment scheme authorised under the UCITS Directive or the authorised fund manager of such a scheme;
- a pension fund or its management company;
- another financial institution (including regulated institutions in the securities, banking and insurance sectors) authorised or regulated under EU legislation or the national law of an EEA State;
- a national government (or its corresponding office) including a public body that deals with public debt at national levels;
- a central bank;
- a supranational organisation;
- a client from a non-EEA state but with equivalent status in its home state to one of the above types of entity.
- an undertaking exempted from the application of MiFID e.g. own account dealers in commodities or commodity derivatives or locals;

Opt-Down to Professional Client

Eligible Counterparties are entitled, pursuant to the CySEC rules and the relevant investment services Law 87(I)/2017, to request a re-categorisation as a Professional or Retail Client either generally or in relation to particular types of business, although the Company is not obliged to re-categorise them. Further relevant information and the main differences regarding the treatment of Eligible Counterparties and Professional Clients can be found in Annexes, A, B and C of this Policy.

B. Professional Clients

For any business other than Eligible Counterparty business (described in section 2.A), the client must be categorised as either a Professional Client or a Retail Client.

Per Se Professional Clients

Any of the following types of client can automatically be categorised as a **Per Se** Professional Client:

1. Any of the types of *Eligible Counterparties* (see section 2.A on Eligible Counterparties) which cannot be categorised as such because Pepperstone will not be undertaking Eligible Counterparty business with that client;
2. Any entity 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 third country which are:
 - credit institutions;
 - investment firms;
 - other authorised or regulated financial institutions;
 - insurance companies;
 - collective investment schemes or management companies of such schemes;
 - pension funds and management companies of such funds
 - commodity or commodity derivatives dealers;
 - locals
 - any other institutional investor;

3. in relation to a MiFID or equivalent third country business, a large undertaking meeting **at least two** of the following size requirements on a company basis:
 - balance sheet total of EUR 20,000,000;
 - net turnover of EUR 40,000,000; and/or
 - own funds of EUR 2,000,000.
4. National and regional governments, including public bodies that manage public debt at national or regional level, 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 organisations.
5. Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitisation of assets or other financing transactions.

Elective Professional Clients

See Section 2.C – Retail Clients on how to become an Elective Professional Client.

Opt-Down to Retail Client

Professional clients are entitled, pursuant to the CySEC rules and the relevant investment services Law 87(I)/2017, to request a re-categorisation as a Retail Client either generally or in relation to particular types of business, although the Company is not obliged to re-categorise them. Further relevant information and the main differences regarding the treatment of Retail and Professional Clients can be found in Annex A and Annex B of this Policy.

C. Retail Clients

A Retail Client is a client who is not a Professional Client or an Eligible Counterparty (as described in section 2.B and 2.A respectively)

The following are examples of clients that would be classified as Retail Clients. Note that this list is not exhaustive:

- an individual (irrespective if he/she is working for firms in the financial sector business)
- a small legal entity who is not authorised by the CySEC to carry on one or more regulated activities; or
- an overseas small legal entity who is not authorised by an overseas financial services regulatory authority.

Elective Professional Clients

A Retail Client may be classified as an Elective Professional Client, only if the Company has taken all reasonable steps to ensure that the requesting client satisfies the following circumstances:

- a) that the client meets the “**Qualitative Test**”, that is, Pepperstone has adequately assessed the client’s expertise, experience and knowledge and is satisfied that in light of the business that will be undertaken for that client, he or she is capable of making his or her own investment decisions and understands the risks involved; and

- b) for MiFID (or equivalent third country) business that the client meets the “Qualitative Test” in (a) **AND** the following “**Quantitative Test**” (in which **at least two** of the following conditions must be satisfied):
- 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 (4) quarters;
 - the size of the client’s portfolio of financial instruments defined as including cash deposits and financial instruments exceeds EUR 500,000; and
 - the client works or has worked for at least one year as a financial sector professional in a role that requires knowledge of the transactions or services to be provided by the Company.

Notes:

- ✓ The fitness test applied to managers and directors of entities licensed under directives of the EU in the financial field is an example of the assessment of expertise and knowledge involved in the Qualitative Test.
- ✓ An Elective Professional Client must not be presumed to possess market knowledge and experience comparable to a Per Se Professional Client.
- ✓ If the client is an entity, the above Qualitative Test should be performed in relation to the person authorised to carry out transactions on its behalf.

Procedure and Notifications required for opting up from a Retail to an Elective Professional

For a Retail client to opt up to an Elective Professional the following prerequisites apply:

- a) The client must state in writing to the Company that it wishes to be treated as a Professional Client, either generally or in respect of a particular service, transaction, transaction type or product.
- b) The Company must give the client a clear written warning of the protections and investor compensation rights the client will lose due to the change in its status.
- 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.

If the Company becomes aware that a client no longer fulfils the initial conditions allowing it to be an Elective Professional Client, appropriate action must be taken and the client will be notified and reclassified as a Retail Client.

3. Gradation of Investor Protection Measures

The full range of MiFID II and CySEC investor protections apply to Retail Clients (e.g. in relation to Investor Compensation Fund compensation, best execution requirements, appropriateness test etc.) whereas more limited rules apply to clients classified as Professional Clients or Eligible Counterparties. A detailed summary of the differences can be found in Annexes A, B and C of this Policy.

Annex A: Request for Professional Client Status (Individual Opt-Up Policy)

Criteria for treatment of Retail Clients as Professional Clients

Pursuant to the rules of our regulator, the Cyprus Securities and Exchange Commission (“CySEC”) and the relevant investment services Law 2017/87, we may treat a Retail Client as a Professional Client provided we:

- (a) have received a written application from that client requesting that he/she be treated as such;
- (b) the client is warned of the protection and investor compensation which he/she may lose by opting to be treated as a Professional Client instead of a Retail Client;
- (c) the client confirms that he/she is aware of the consequences of losing such protection; and
- (d) we are satisfied in light of the client’s expertise, experience and knowledge and the nature of the transactions envisaged that such client is suitable to be treated as a Professional Client.

Accordingly, if you wish to be treated as a Professional Client you will need to complete this request form and any additional documentation which we deem necessary to enable you to be treated as a Professional Client. Pepperstone reserves the right to refuse such an application.

Warning

In the event that your application as a Professional Client is accepted, you should note that where we treat you as a professional client rather than a retail client, a number of CySEC regulatory rules may cease to apply. In particular:

Disclosures: You may not be given any of the additional disclosures required to be provided to retail clients (for example on costs, commissions, fees and charges and foreign exchange conversion rates).

Communications: We may have regard to your investment expertise when complying with requirements under the regulatory system that communications must be fair, clear and not misleading. Whilst, however, we would seek to ensure that communications comply with this standard, the level of detailed disclosures is reduced for *Professional Clients*.

Appropriateness: Where we assess whether a product or service is appropriate for you, we can assume that you have the necessary level of experience and knowledge to understand the risks involved in relation to any investment, service, product or transaction.

Suitability: If we are ever required to assess the suitability of a personal recommendation to you or (if we are providing relevant investment advice), we can assume that you have the necessary experience and knowledge to understand the risks involved and assume that you are able financially to bear any investment risks consistent with your investment objectives.

Order execution: Our order execution requirements may differ between Professional and Retail Clients.

Prompt execution: We do not need to inform you of material difficulties we may have or encounter relevant to the prompt execution of your orders.

Client money: Pepperstone’s current policy is to provide client money segregation to all client accounts.

Financial Ombudsman: Clients categorised as ‘Elective Professional’ may be entitled to refer complaints to the FOS as ‘consumers’.

Financial Services Investor Compensation Fund: *Per Se* Professional Clients are unlikely to be “eligible complainants” entitled to compensation under the Financial Services Compensation Scheme in the event that an authorised firm is unable to fulfil its financial obligations. Also, *Elective* Professional Clients will unlikely be “eligible claimants” entitled to compensation under the Financial Services Compensation Scheme in the event that an authorised firm is unable to fulfil its financial obligations, as per CySEC Directive DI87-07 for the operation of the Investors Compensation Fund, Second Schedule, section 1. (1) h.

Request for Professional Client Status

I acknowledge that I have appropriate expertise and knowledge in the type of investments and transactions which may be carried out pursuant to the Customer Agreement. I acknowledge that I have read and understood the differences in treatment between being categorised as an elective professional client compared to a retail client.

I hereby request Pepperstone EU Limited to treat me as a Professional Client and acknowledge that I am aware of the protections I may lose and the consequences as such.

Signed: Date:

Name:

Annex B: Professional Client Notice

Summary of the main differences between the treatment of Professional Clients and Retail Clients

We have categorised you as a Professional Client. You are entitled, pursuant to the CySEC rules and the relevant investment services Law 87(I)/2017, to request a re-categorisation as a Retail Client either generally or in relation to particular types of business (although we are not obliged to re-categorise you).

Where we treat you as a Professional Client rather than a Retail Client, a number of CySEC regulatory rules may cease to apply. In particular:

Disclosures: You may not be given any of the additional disclosures required to be provided to Retail Clients (for example on costs, commissions, fees and charges and foreign exchange conversion rates).

Appropriateness: Where we assess whether a product or service is appropriate for you, we can assume that you have the necessary level of experience and knowledge to understand the risks involved in relation to any investment, service, product or transaction.

Suitability: if we are ever required to assess the suitability of a personal recommendation made to you, we can assume that you have the necessary experience and knowledge to understand the risks involved and can sometimes assume that you are able financially to bear any investment risks consistent with your investment objectives.

Order execution: Our order execution requirements may differ between Professional and Retail Clients.

Prompt execution: We do not need to inform you of material difficulties we may have or encounter relevant to the prompt execution of your orders.

Periodic statements: We are obliged to provide Retail Clients with more detailed information periodically.

Financial Ombudsman Service: Professional Clients may be entitled to refer complaints to the FOS as 'consumers'

Investor Compensation Fund: Generally only Retail Clients may be entitled to compensation under the Financial Services Investor Compensation Fund.

Client money: Pepperstone's current policy is to segregate all client money.

Annex C: Eligible Counterparty Client Notice

Summary of the main differences between the treatment of Eligible Counterparties and Professional Clients

We have categorised you as an Eligible Counterparty. You are entitled, pursuant to the CySEC rules and the relevant investment services Law 87(I)/2017, to request a re-categorisation as a Professional Client or Retail Client either generally or in relation to particular types of business (although we are not obliged to re-categorise you).

Where we treat you as an Eligible Counterparty, you will be entitled to fewer protections under CySEC Rules. In particular:

When the Company enters into transactions with eligible counterparties is not obliged to comply with the obligations under Articles 25, 26, 28 and 29(1) of Law 87(I)/2017 in respect of those transactions and services or in respect of any ancillary service directly related to those transactions.

- Article 25: General Principles and information to Clients (except subsections (4) and (5))
- Article 26: Assessment of suitability and appropriateness and reporting to clients (except subsection (6))
- Article 28: Obligation to execute orders on terms most favourable to the Client
- Article 29(1): Client orders handling rules

Best Execution: we are not required to provide you with best execution in executing your orders.

Fees and Commissions: we are not required to disclose to you information regarding any fees or commissions that we pay or receive.

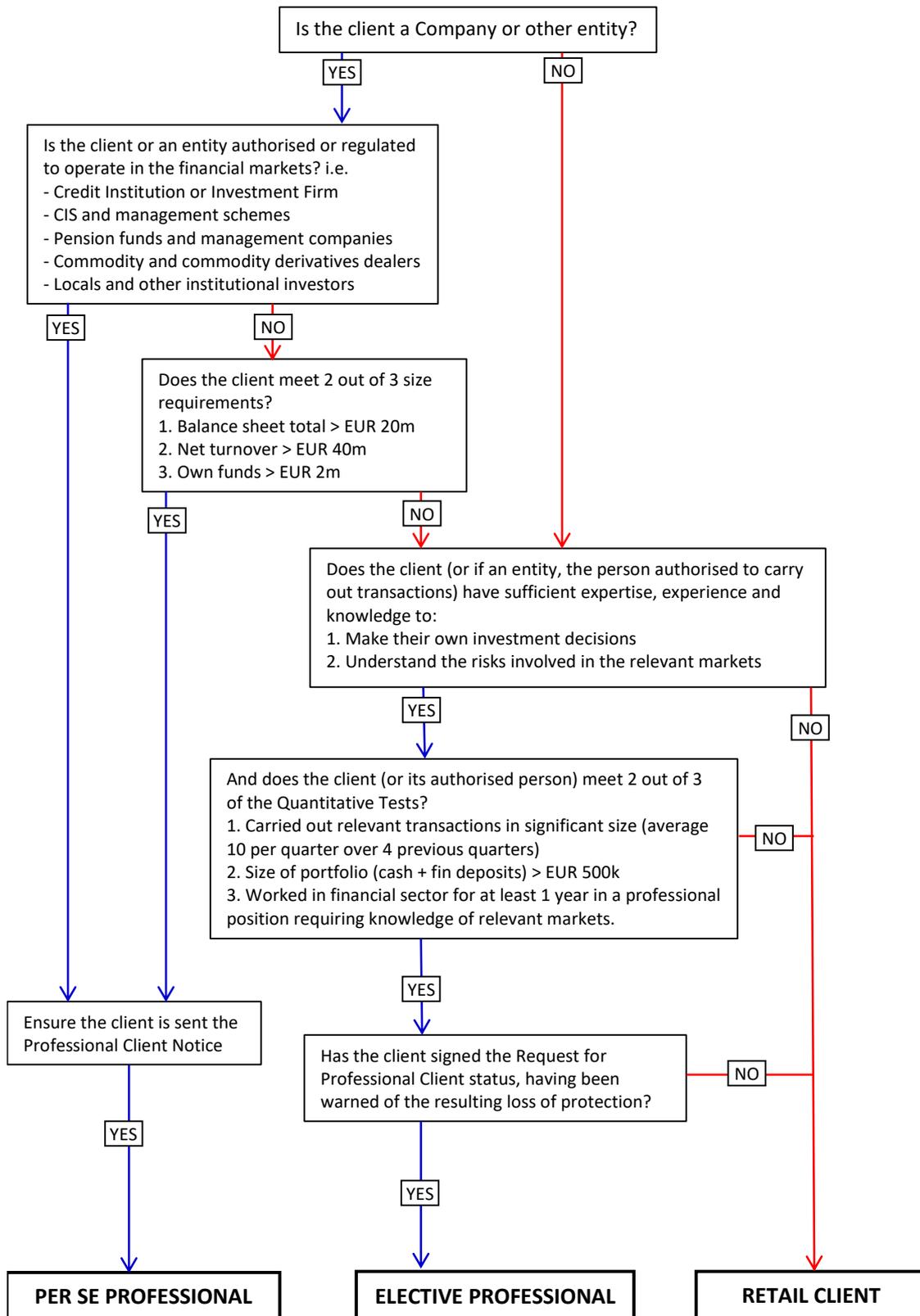
Appropriateness: we are not required to assess the appropriateness of a product or service that we provide to you but can assume that you have the expertise to choose the most appropriate product or service for yourself.

Information: we are not required to provide you with information about ourselves, our services and the arrangements through which we will be remunerated.

Risk Warnings: we are not required to provide you with risk disclosures on the products or services that you select from us.

Reporting: we are not required to provide reports to you on the execution of your orders or the management of your investments.

MiFID CLIENT CLASSIFICATION CHART





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