

CLIENT CATEGORIZATION

“The document that provides information about the three different categories of Clients (“Retail”, “Professional” and “Eligible Counterparty”)”

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1. Introduction

- 1.1. X GLOBAL Markets Ltd (hereinafter called the “Company”) is a Cyprus Investment Firm incorporated under the laws of Cyprus, which has its principal place of business at 162, Fragklinou Rousvelt, 1st Floor, CY-3045 Limassol and registered with the Registrar of Companies in Nicosia under the number HE 291958. The Company is regulated by the Cyprus Securities and Exchange Commission as a Cyprus Investment Firm (CIF) under the License Number 171/12. The information on this document (hereinafter called the “Disclosure”) is provided to newly categorized and re-categorized Clients in accordance with the provisions of the Investment Services and Activities and Regulated Markets Law of 2007 (No. 144(I)/2007), implementing Directive 2004/39/EC of the European Parliament and of the Council on Markets in Financial Instruments (“MiFID”) as amended by the Directive 2006/31/EC of the European Parliament and of the Council.
- 1.2. The *Disclosure* is an integral part of the *Client Agreement*, which constitutes an integral part of the *Collective Agreement*; the interpretation of the term *Collective Agreement* is set out in the *Client Agreement* (the agreement that constitutes the basis on which the Company provides investment services and activities and ancillary services to the Client; such agreement can be found online under the *Legal Information* section at <http://www.xglobalmarkets.com>). The interpretation of terms used in the *Disclosure* is set out in section 2 of the *Client Agreement* (“Interpretation of Terms”). The definition of other terms used in the *Disclosure* is set out in the aforementioned Law and/or in the applicable legislation and may also be provided in the *Client Agreement* and/or in the *Disclosure*; such terms have quote marks. Terms without quote marks that are not interpreted

in the *Client Agreement* and/or in the *Disclosure* shall have the meaning attributed to them in the aforementioned Law and/or in the applicable legislation.

- 1.3. The *Disclosure* provides useful information about the three (3) different categories of Clients (“Retail”, “Professional” and “Eligible Counterparty”) and aims, amongst others, to inform Clients about their right to request a different categorization and about any limitations to the level of their protection that such re-categorization would entail.

2. Definitions and relevant information

- 2.1. **Retail Client:** A Client who is neither a Professional Client nor an Eligible Counterparty. Clients categorized as Retail enjoy the highest level of protection as described in articles 19 (Conduct of business obligations when providing investment services to clients), 21 (Obligation to execute orders on terms most favorable to the client), 22 (Client order handling rules) and 27 (Obligation for investment firms to make public firm quotes) of Directive 2004/39/EC of the European Parliament and of the Council on Markets in Financial Instruments (“MiFID”). Further, Retail Clients enjoy a certain level of protection by the Investor Compensation Fund. Additional information can be found on a separate document titled *Protection of Client Funds and ICF* under the *Legal Information* section provided at <http://www.xglobalmarkets.com>.
- 2.2. **Professional Client:** A Client who possesses the experience, knowledge and expertise to make his/her own investment decisions and properly assess the risks that it incurs. In order to be considered a Professional Client, the Client should meet the following criteria (ANNEX II of Directive 2004/39/EC):

A. Categories of Clients who are considered to be professionals:

EUR 2,000,000

The following should all be regarded as professionals in all investment services and activities and financial instruments for the purposes of Directive 2004/39/EC.

- (1) Entities that are 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 a Directive, entities authorized or regulated by a "Member State" without reference to a Directive, and entities authorized or regulated by a "non-Member State":

- Credit institutions
- Investment firms
- Other authorized or regulated financial institutions
- Insurance companies
- Collective investment schemes and management companies of such schemes
- Pension funds and management companies of such funds
- Commodity and commodity derivatives dealers
- Locals
- Other institutional investors

- (2) Large undertakings meeting two of the following size requirements on a company basis:

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

- (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.

The entities mentioned above are considered to be professionals. However, they are allowed to request non-professional treatment and, in such case, the Company may agree to provide a higher level of protection. Where the Client is an undertaking referred to above, the Company must inform it 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 Company must also inform the Client that it can request a variation of the terms of the agreement in order to secure a higher degree of protection.

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

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 Client for the purposes of the applicable conduct of business regime. Such agreement should specify whether this applies to one or more particular services or transactions, or to one or more types of product or transaction.

B. Clients who may be treated as professionals on request

B.1. Identification criteria

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

The Company is allowed to treat any of the above Clients as professionals provided the relevant criteria and procedure mentioned under B.2 are fulfilled. These Clients should not, however, be presumed to possess market knowledge and experience comparable to that of the categories listed in section A.

Any such waiver of the protection afforded by the standard conduct of business regime shall 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/her own investment decisions and understanding the risks involved.

The fitness test applied to managers and directors of entities licensed under Directives

in the financial field could 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:

- The Client has carried out transactions, in significant size, on the relevant market at an average frequency of ten (10) per quarter over the previous four quarters
- The size of the Client's financial instrument portfolio, defined as including cash deposits and financial instruments exceeds EUR 500,000
- The Client works or has worked in the financial sector for at least one (1) year in a professional position, which requires knowledge of the transactions or services envisaged

B.2. Procedure

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

- 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
- The Company will give such Clients a clear written warning of the protections and investor

compensation rights they may lose

- They must state in writing, in a separate document from the contract, that they are aware of the consequences of losing such protections

Before deciding to accept any request for 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 under Section B.1 above.

However, if Clients have already been categorized as professionals under parameters and procedures similar to those above, it is not intended that their relationships with the Company should be affected by any new rules adopted pursuant to Annex II of Directive 2004/39/EC, as mirrored herein.

The Company implements appropriate written internal policies and procedures to categorize its Clients. Professional Clients are responsible for keeping the Company informed about any change, which could affect their current categorization. However, if the Company becomes aware that the Client no longer fulfills the initial conditions, which made the Client eligible for a professional treatment, it is required to take appropriate action.

- 2.3. Eligible Counterparty:** Other investment firms, credit institutions, insurance companies, UCITS and their management companies, pension funds and their management companies, other financial institutions authorized or regulated under Community legislation or the

national law of a Member State, undertakings exempted from the application of Directive 2004/39/EC under Article 2(1)(k) and (l) of the said directive, national government and their corresponding offices including public bodies that deal with public debt, central banks and supranational organizations.

Member States may also recognize as Eligible Counterparties other undertakings meeting predetermined proportionate requirements, including quantitative thresholds. In the event of a transaction where the prospective counterparties are located in different jurisdictions, the Company shall defer to the status of the other undertaking as determined by the law or measures of the Member State in which that undertaking is established. Member States may recognize as Eligible Counterparties third country entities equivalent to those categories of entities mentioned in the previous paragraph.

Member States may also recognize as Eligible Counterparties third country undertakings such as those mentioned in the previous paragraph on the same conditions and subject to the same requirements as those laid down in the previous paragraph.

The Company, as a result of its authorization to execute orders on behalf of Clients and/or to receive and transmit orders for execution on behalf of Clients, may bring about or enter into such transactions with Eligible Counterparties without being obliged to comply with the obligations under articles 19 (Conduct of business obligations when providing investment services to clients), 21 (Obligation

to execute orders on terms most favorable to the client) and 22[1] (Client order handling rules) of Directive 2004/39/EC in respect of those transactions or in respect of any ancillary service directly related to those transactions.

When the Company enters into transactions with an entity categorized as an Eligible Counterparty, it is required to obtain the express confirmation from the said entity that it agrees to be treated as an Eligible Counterparty. This confirmation can be obtained either in the form of a general agreement or in respect of each individual transaction. Classification of entities as an Eligible Counterparty is without prejudice to the right of such entities to request, either on a general form or on a trade-by-trade basis, treatment as Clients whose business with the investment firm is subject to Articles 19, 21 and 22 of Directive 2004/39/EC.

The Company may recognize an undertaking as an Eligible Counterparty if that undertaking falls within a category of Clients who are to be considered Professional Clients in accordance with the first, second and third paragraph of Part A, of Second Appendix of the Investment Services and Activities and Regulated Markets Law of 2007 (No. 144(I)/2007), excluding any category which is explicitly mentioned in Section 41(2) of this Law.

The Company may also recognize as Eligible Counterparties undertakings that fall within a category of Clients who are to be considered Professional Clients in accordance with Part B of Second Appendix of the

Investment Services and Activities and Regulated Markets Law of 2007 (No. 144(I)/2007). In such cases, however, the undertaking concerned shall be recognized as an Eligible Counterparty only in respect of the services or transactions for which it could be treated as a Professional Client.

3. Summary and Important Notes

3.1. Client's rights:

- (a) A Client categorized as Professional Client has the right to request to be categorized as a Retail Client in order to obtain a higher level of protection
- (b) An Eligible Counterparty has the right to request a different categorization of either a Professional Client or Retail Client in order to obtain a higher level of protection
- (c) A Client categorized as Retail has the right to request to be categorized as a Professional Client but he will be afforded a lower level of protection.

3.2. The Company has the right to decline any request for different categorization. Further, the Company is permitted, either on its own initiative or at the request of the Client:

- (a) To treat as a Professional or Retail Client a Client that might otherwise be classified as an Eligible Counterparty pursuant to Article 24(2) of Directive 2004/39/EC
- (b) To treat as a Retail Client a Client that is considered as a Professional Client pursuant to Section I of Annex II of Directive 2004/39/EC.

4. Monitor and Review

4.1 The Company will, on a regular basis, monitor and assess the effectiveness of this Policy and the sequence of its order execution arrangements and, in particular, the execution quality of the procedures explained in the Policy in order to deliver the best possible result for the Customer, and, where appropriate, the Company reserves the right to correct any deficiencies in this Policy and make improvements to its execution arrangements.

4.2 In addition, the Company will review the Policy. A review will also be carried out whenever a material change occurs that affects the ability of the firm to continue to obtain the best possible result for the execution of its Customer orders on a consistent basis using the venues included in this Policy.

4.3 The Company will notify any Customers affected by material changes in its Policy or order execution arrangements.

5. Client Consent

5.1. The Company is required, when establishing a business relationship with the Customer, to obtain his/her prior consent to this Policy.