

## **CLIENT CATEGORIZATION**

Under the EU Markets in Financial Instruments Directive (2004/39/EK MiFID) and its transfer to Cyprus Law with the Law on Investment Services and Regulated Markets (144/2007) which regulates the provision of investment services, the execution of financial transactions, the functioning of regulated markets and other related matters, Prochoice Stockbrokers is required to categorize its clients.

Article 2 of the aforementioned law provides the following definitions:

1. Retail client: Every client that cannot be categorized as a professional client. According to articles 36, 38 and 39 of the law, the company is required to provide retail clients with the highest possible protection level.

2. Professional client: Professional is the client who possesses the knowledge and the experience to form his own investment decisions and accurately assess the risks related to various investment products and services. The client is considered professional as far as all investment services, activities and financial instruments are concerned but, in order to be categorized as such, the client must belong in one of the following sub-categories or fulfill the criteria listed below:

A. Businesses which are obliged to obtain an operation license or are obligatorily subjected to supervisory rules to perform their distinctive activities in financial markets. Included are businesses that have obtained a license from a member state by application of community legislation or have obtained a license or are subjected to supervisory rules of a member-state without a mentioning to a directive or are businesses which have obtained a license or are subjected to supervisory rules of a third country. The following can be considered such businesses:

(a) Credit Institutions

(b) Other IF excluding credit institutions

(c) Other authorized or regulated financial institutions

(d) Insurance companies

(e) Collective investment organizations and their management companies

(f) Pension funds and their management companies

(g) Negotiators in trading stock exchange and relevant derivatives

(h) Local businesses

(i) Other institutional investors

B. Big businesses which possess individually at least two of the following size requirements:

- Businesses with equity of at least €2.000.000 euro
- Businesses with a balance sheet total of at least €20.000.000 euro
- Businesses with a net turnover of at least €40.000.000 euro

C. The national and district governments, public authorities which manage the public debt, central banks, national and international organizations like the World Bank, the National Monetary Fund (IMF), the European Central Bank (ECB), the European Investment Bank (EIB) and other international organizations.

D. Other institutional investors whose main activity is investing in financial instruments, including companies which exclusively title assets or other financial transactions.

Businesses belonging to the four categories listed above are considered professional clients but have the option to request to be categorized as retail clients in which case, the IF's may accept to provide them with a higher level of protection. Despite this, it is the professional clients' own responsibility to request a higher level of protection in cases where they consider that they are not in a position to assess and correctly manage the risks related to the investment activity. The CIF is obliged to inform the clients that they are considered professional and that they will be treated as such and that they have the option to request adjustments to the contract's clauses. In this case, the clients establish a written agreement with the IF that they will not be considered professional clients with respect to IF's rules of professional conduct. Said agreement clarifies whether this applies to one or more services or transactions or to one or more types of products or transactions.

Retail clients, including public institutions and individual private investors, may waive the protection offered by IF's rules of professional conduct to retail clients provided that, an appropriate evaluation of the clients' ability, experience and knowledge has reasonably convinced the IF that the clients can be considered professional and are capable of forming their own investment decisions fully understanding the risks involved. But, such clients should not be considered as knowledgeable or experienced as the professional clients mentioned in the paragraphs above. In the cases of small entities, the person under evaluation will be the person authorized to perform transactions on the entity's behalf.

Evaluation criteria (at least two of the following):

- The client has performed in the previous year an average of ten (10) transactions of substantial size per semester
- The value of the client's portfolio exceeds €500.000
- The client possesses or possessed for at least a year a professional post in the financial industry which requires knowledge of planned transactions or services

Procedure:

- The retail client informs the CIF, in writing, that he wishes to be categorized as a professional client either in general or concerning a specific investment service or transaction or for a type of transaction or product
- The CIF informs the client, in writing, concerning the protections and compensation rights he might forfeit
- The client replies, in writing, that he is aware of the consequences that the loss of these protections might cause.

3. Eligible Counterparties: are the CIF, other IF, credit institutions, insurance companies, UCITs and their management companies, pension funds and their management companies and other financial institutions that have all obtained an operation license from a member state and are subjected to European law or member state national law regulations. Categorization as an eligible counterparty under the law does not affect the companies' right to request to be categorized either in general or in cases of specific transactions as retail or professional clients.