

## *MIFID Policy – Client classification & Best execution*

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## 1. Introduction

As a Luxembourg financial institution, East-West United Bank, hereafter called EWUB, is bound by the laws and regulations laid down by the Luxembourg authorities. The main local supervisory body for the Luxembourg financial institutions is the 'Commission on Supervision of the Financial Sector', called the 'CSSF'.

In compliance with the laws and regulations governing the Luxembourg financial sector, EWUB would like to provide information on the business rules of conduct of the financial sector with regard to investment risk. The rules apply to all Financial Sector Professionals in Luxembourg, and their application underlies the stringent control of the CSSF.

These rules of conduct ("MiFID") entitle EWUB to gather information on the Client's financial situation, the Client's experience and knowledge in terms of investment products and services provided by EWUB and his/her main objectives regarding the services he/she requests from EWUB. This information is important for EWUB to define the following client categories:

- a client who is not a professional client (a "retail client")
- a "professional client"
- an "eligible counterparty" i.e. a professional client towards whom the investment services provider (the Bank) does not need to observe the rules for dealing with clients when providing certain investment services.

The purpose of this classification is to provide the Client with adequate information regarding investment products and the risks involved in investment transactions.

EWUB informs the Client that he/she might incur losses and that returns made on previous investments do, on no account, guarantee profits for the future.

## 2. Purpose

The MiFID ("Markets in Financial Instruments Directive") is a European Union directive with the following aims:

- To harmonise the rules governing investment services: the degree of harmonisation intended under the MiFID has the advantage of providing investors with a high level of protection. It also allows investment firms to provide their services across the European Union, applying the supervisory regulations applicable in the Member State from which a given firm originates.
- To increase transparency and competition on financial markets: by setting efficiency and transparency rules for the financial markets, the MiFID aims to improve the quality of the services provided. Opening up order-execution locations to competition leads to more efficient and cheaper services.

- To improve protection for investors: the specific rules that apply to the different client categories defined by the MiFID aim to ensure a level of protection suited to their specific situations and financial knowledge.

MiFID governs the activities of investment firms, regulated markets and authorised credit institutions which provide one or several investment services and/or conduct one or several investment activities.

The main investment services and activities concerned are the following:

- Reception and transmission of orders relating to one or several financial instruments;
- Portfolio management;
- Investment advisory (*currently not offered by EWUB*)

### Financial instruments

The MiFID applies to transactions on the following financial instruments:

- Transferable securities;
- Money market instruments;
- Collective investment scheme shares;
- Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivative instruments, financial indices or financial measures which may be settled physically or in cash;
- Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market and/or a Multilateral Trading Facility (MTF);
- Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled, and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls;
- Derivative instruments used for transferring credit risk;
- Financial contracts for differences;
- Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures, which have the characteristics of other derivative financial

instruments, having regard to whether, inter alia, they are traded on a regulated market or an Multilateral Trading Facility, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

### 3. Client Classification

The MiFID defines the three following client categories:

- Eligible counterparties ;
- Professional clients ;
- Retail clients (non-professional).

The purpose of client categorisation is to establish different levels of client protection depending on their knowledge of financial instruments and services and their risk tolerance. The highest level of protection goes to clients categorised as retail. This includes services suited to the client's risk profile (established beforehand) and more extensive information. At the other end of the scale, eligible counterparties receive the lowest level of protection; for example, they are the only category for which the best-execution obligation does not apply.

#### a) Eligible counterparties

The following can be considered eligible counterparties:

- Investment firms,
- Credit institutions,
- Insurance companies,
- Open-ended investment funds (UCITS) and their management companies,
- Pension funds and their management companies,
- Other financial institutions authorised or regulated under EU law or the law of a Member State,
- Sovereign countries' governments and their departments, including public bodies managing public debt, central banks and supranational organisations. Eligible counterparties are subject to less regulatory protection due to their knowledge, their capabilities and their financial capacities. However, they are not entirely exempt, in particular they are bound by the organisational rules laid out in the MiFID.

## b) Professional clients

### **Definition**

A 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. As such, it is provided a lower degree of protection than retail clients.

Being deemed skilled on and knowledgeable about the markets, the only protection it gets is:

- An assessment of its investment objectives. Such assessment will establish whether a service is appropriate for a given client before it is provided;
- An order-execution policy that defines the client's order-execution criteria. Such policy is updated annually.

The following are treated as per se professionals:

- Entities which are required to be authorised or regulated to operate in the financial markets, i.e:

- Authorised or regulated financial institutions (other than the ones defined under eligible-counterparties),
- Commodity and commodity derivatives dealers,
- Local companies,
- Other institutional investors.

- Large entities meeting two of the following size requirements on a company basis:

- Balance sheet total: EUR 20 million,
- Net turnover: EUR 40 million,
- Own funds: EUR 2 million.

- Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitisation of assets or other financing transactions.

### **Opt-up professional clients (non-professional asking for Professional classification with weaker protection)**

By requesting opt-up professional status, retail clients may waive part of the protection afforded by best-execution rules.

Professional clients that have made an opt-up request may only be treated as opt-up professionals by EWUB after the assessment and notification procedure described below has been completed.

- Client assessment

In order for applicants to be granted a lower level of protection than that afforded by best-execution regulations, an assessment of their skills, experience and knowledge must provide reasonable assurance that they are capable of taking the required investment decisions and understanding the risks they run, in relation to the sort of transactions they plan to carry out and the services they expect to use.

EWUB is authorised to treat any such clients as an opt-up professionals, provided they satisfy at least two of the following criteria:

- The size of the client's financial instrument portfolio exceeds EUR 500 000,
- The client has carried out transactions, in significant size, on financial instruments at an average frequency of 10 per quarter over the previous four quarters,
- The client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of investment in financial instruments.

- Client notification

Once all reasonable steps have been taken to ensure the retail client who wishes to be granted opt-up professional status fulfils the criteria described above, EWUB may start the procedure for classifying the client as professional as the client must state in writing that they wish to be treated as a professional client, acknowledge and accepts the written warning of the protections and investor compensation rights they may lose, and the consequences of losing such protections as per GTCs.

### c) Retail clients

Retail clients are those who fall neither in the eligible counterparty nor in the professional clients' categories, and include those who have applied for "opt-down" status, i.e. professional clients who have requested in writing to be treated as non-professional (retail) clients.

**Classification of clients is done using the Investment Risk Profile questionnaire in the Account Application Form.**

**In case of empty or incomplete Risk Profile questionnaire, the clients will be classified by default as Retail, offering the maximum protection.**

**Financial institutions and Professionals of the Financial Sector will be by default classified as Eligible Counterparties.**

## 4. Best Execution

The EU Market in Financial Instrument Directive (MiFID) requires that investment firms establish an Order Execution Policy (“Execution Policy”) and take all reasonable steps to obtain the best possible result when executing orders on behalf of its Clients.

This document sets out EWUB’s Execution Policy, which is accepted by the Client under the GTC he signs at account opening.

The execution policy applies to:

- financial instruments according to annex 1 of Directive MiFID 2004/39/CE (namely: equities, bonds, derivatives, money market instruments, financial contracts for differences, units in collective investment undertakings). The financial instruments covered by MiFID include most financial instruments but do not include (non-exhaustively):
  - o Spot Foreign Exchange and Spot commodity transactions;
  - o Loans and deposits.
- all Retail and Professional Clients (“Client” or “Clients”). This policy does not apply to Eligible counterparties.

The Execution Policy explains our approach when providing to our Clients

- best execution, when EWUB is executing the order itself directly on the market;
- best selection, when EWUB is transmitting the order to a third party for execution.

### a) Approach to best execution and best selection

#### **Appropriate technology for routing and executing the order**

Apart from specific exceptions, EWUB uses automated systems to route and execute customer orders. The system as implemented has features which enable EWUB to:

- access the main pools of liquidity – these could be off-exchange;
- route the orders toward the execution venues that present the best market conditions;
- ensure order execution compliant with the best execution policy established by EWUB. In particular, the system allows the bank to execute client’s orders by prioritizing some execution factors (price, cost, liquidity) over others.

#### **Careful consideration of the factors of order execution**

EWUB relies on the extensive day to day experience of its Global Market Department to execute all clients’ orders.



Where an order requires manual execution because of its particular nature (an order that can impact the market, volatility impact of the underlying financial instrument, etc.) the Global Market Department decides, on a best effort basis, upon the best strategy to work the order.

In some cases, especially when the handling of a client order requires particular expertise, EWUB will utilize sophisticated counterparties possessing the necessary expertise.

When dealing with a retail client order the Global Market Department will inform promptly the client of material difficulties that can affect the proper execution of the order.

### **Careful selection and monitoring of Counterparties and Brokers**

EWUB puts a particular emphasis on the selection of Counterparties and Brokers used to execute client's order.

Among others, these are the most important factors considered by EWUB when selecting a Counterparty or a Broker:

- Size, creditworthiness and reputation of the broker (company rating);
- A well established reputation in relation to a particular market or financial sector;
- Clearance and settlement capabilities;
- Access to markets and distribution networks.

In addition, EWUB will consider, as a criterion, the fact that the broker is MiFID compliant.

## **b) Methods of execution**

### **Listed Financial Instruments**

When an order is received, EWUB executes it directly on a Regulated Market or Multilateral Trading Facility (MTF) of which is a member or through a third party participant with whom EWUB entered into an agreement for handling and executing orders.

For financial instruments admitted to trading on a regulated market or MTF, in the case the client has given his prior express consent, EWUB can also route the order to a third party, like, for example, a market maker, or any other venue that allows an execution of the order on the over-the-counter (OTC) market.

When possible, in order to protect clients' best interest, the Global Market Department matches the orders of its clients through an authorized stock market or a Multilateral Trading Facility.

### **Unlisted Instruments**

For unlisted instruments EWUB acts on a best effort basis to execute the order as far as it is possible within the parameters of its execution policy. The client has to be aware that, in relation to unlisted instruments, there may be liquidity, cost, settlement and timing constraints affecting execution.

For unlisted structured products EWUB acts on the primary market (subscription and redemption). In the case the client wants to liquidate the investment before the expiration date, the bank will apply, when it is possible, the price offered by the principal market maker.

### **Collective investment scheme**

With regard to collective investment scheme EWUB acts normally on the Primary market (subscription and redemption). Except for ETF investments, EWUB reserves the possibility to match clients' positions.

### **Specific Instructions**

It is important to point out that when a client gives specific instructions (for example limit order or the client requests execution of an order on a specific venue) in relation to the execution of an order, the order will be executed according to these instructions.

Please be aware that a specific instruction given to EWUB for the execution of an order can prevent EWUB from taking all the steps set up in its execution policy in order to obtain the best possible result for the client.

The selection of a trade's parameters (such as its price, counterparty, venue, timing and size) by clients who have "direct market access" is considered a specific instruction given to the bank.

## **c) Best Execution Factors and Criteria**

### **Best Execution Factors**

EWUB takes into account the following factors when it makes a determination on where and how to route and execute a client order:

- Price;
- Size;
- Availability of price improvement;
- Cost;
- Speed;
- Likelihood of execution and settlement;
- Any other consideration relevant to the execution of the order.

Under normal circumstances total price will assume a fundamental role in obtaining the best possible result for the client. Other factors can assume a relative higher importance in consideration of the nature of the order, client or market conditions.

### **Best Execution Criteria**

In assessing the relative importance of the best execution factors when executing a client's order EWUB will consider the following criteria:

- the characteristics of the client;
- the characteristics of the order (limit order, market order, stop loss order);
- the characteristics of the financial instrument that will subject of the order.

### **d) Consent**

EWUB is required to obtain clients' consent to its execution policy. As Per GTC, the client is aware that the sending of an order to EWUB after having received information on the execution policy is interpreted as an expression of consent.

In addition, in the case of financial instruments admitted to trading on a regulated market or Multilateral Trading Facility, EWUB is required to obtain the client's prior express consent in order to be able to execute the order outside a regulated market or Multilateral Trading Facility.

Under no circumstance EWUB will execute an order on a listed instrument outside a regulated market or MTF without having received the prior client's consent.

Clients (Professional and eligible-counterparty) express their consent to executing an order outside a regulated market or Multilateral Trading Facility by signing the GTCs, including specific references to these concerns.

*Ad-hoc* consent can be given by retail clients by sending an email of letter together (or prior) to their order. This consent would be filed together with the order for documentation purpose.

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