



*MIFID Policy –
Client classification*

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1. Introduction

As a Luxembourg financial institution, East-West United Bank S.A. (hereafter “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” (hereafter “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, defined by the European Union directive 2004/39/CE on Markets in Financial Instruments (hereafter “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 3 distinct client categories:

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 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;
- Discretionary 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.

Various requirements apply to each MiFID client categories and to the type of financial instruments, as further detailed in this policy and in the Dealing Manual of Procedures.

3. Client Classification

The MiFID II classification is applicable to clients only. "Client" for the purpose of this MiFID Classification policy is defined as business relationships which have an account opened with the Bank and whom the Bank offers investment services.

The MiFID regulation defines the three following distinct client categories:

- Eligible Counterparties;
- Professional clients (both *per se* and *opt-out*);
- Retail clients.

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-out professional clients (non-professional asking for Professional classification with weaker protection)

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

– the client states in writing to the credit institution and investment firm that it wishes 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 credit institution or investment firm must give to the client a clear written warning of the protections and investor compensation rights it may lose;

– the client must state in writing, in a separate document from the contract, that it is aware of the consequences of losing such protections.

Before deciding to accept any request for waiver, the credit institution or investment firm must be required to take all reasonable steps to ensure that the client requesting to be treated as a professional client meets the relevant requirements stated below (client assessment section).

- 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.

In accordance with Annex III section B of the amended Law of 5 April 1993 on the financial sector, 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, defined as including cash deposits and financial instruments, exceeds 500,000 euros,
- 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-out 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.

Professional clients are responsible for keeping the credit institution or investment firm informed about any change, which could affect their current categorisation.

Should the credit institution or investment firm become aware however that the client no longer fulfils the initial conditions, which made him eligible for a professional treatment, the credit institution or investment firm must take appropriate action.

For Request, Notification & Consent template letter for opt-up professionals, please refer to “MIFID client opt up request Template Letter” and “MIFID client notification and consent Template Letter - opt out professionals” on EWUB’s internal server.

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.

d) Classification decision and documentation

Client classification is done by PAM as part of account opening process during the KYC files preparation and is derived from the KYC information collected (included but not limited to “Investor Questionnaire” form completed and signed by Clients. The latest version of this form must be taken from the EWUB’s internal server for every single new opening.

Please refer to Front manuals or procedures for MiFID classification assessment and documentation detailed process and steps performed by PAMs as first level.

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 (“FSPs”) accounts will be by default classified as Eligible Counterparty.

e) Compliance 2nd level controls on classification

At account opening Compliance will review the client classification done by PAM (Retail, Professional, Opt out for Professional or Eligible Counterparty category) based on the information provided by the client and relevant record made in a respective line of Investor Questionnaire. The classification by PAM is done in accordance with criteria detailed in section 3) of this current MiFID Policy.

During KYC review or *ad hoc* in case of classification change (e.g. client opt-out request) Compliance will review the new classification done by PAM based on the updated information provided by the client and relevant updated record made in a respective line of Investor Questionnaire, still in accordance with criteria detailed in the above section of this current MiFID Policy.

In case of discrepancy or disagreement on the classification or insufficient information or corroboration documentation, Compliance will return the file to PAM for discussion.