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StoneX Europe Ltd

Client Categorisation Policy

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1. Introduction

This Client Categorisation Policy, ("**the Policy**") sets out the requirements for the classification of clients as Retail, Professional or Eligible Counterparties to ensure that the risks to both the Firm and its clients, including but not limited to an insolvency event, are effectively mitigated and managed.

1.1 Scope

This policy applies to:

- SEL Directors, employees, agents, contractors and sub-contractors and any other legal person acting on behalf of the Firm (collectively "**staff**"); and
- any other entity that performs regulated activities on behalf of the Firm or its staff.

Those to whom this policy applies should familiarise themselves with its requirements and not engage in any behaviour which may be a breach of its provisions. This policy applies to all activities of the Firm, regardless of whether it falls strictly within the scope of the applicable regulations. If in doubt, the spirit of the policy should apply.

Violations of this policy will be taken seriously and may result in the invocation of the Firm's disciplinary process.

2. Regulatory Requirements

Client categorisation rules were first outlined in the Markets in Financial Instruments Directive[1] ('MiFID') and were expanded significantly in the MiFID II Directive[2] and the EU Markets in Financial Instrument Regulation[3] which came into force in January 2018.

SEL must comply with the relevant rules and guidance set out by the Cyprus Securities and Exchange Commission ("**CySEC**") in Law 87(I)/2017 ("**the Law**"), and defines the types of clients, notification requirements, qualitative and quantitative tests for Elective Professional clients, levels of protection, policies, procedures and records which firms must have in place.

In accordance with the Polish Financial Supervision Authority ("**KNF**"), a specific client categorisation for Experienced Retail Clients is applicable exclusively to Polish residents. This

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1 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32004L0039

2 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0065

3 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014R0600

categorisation provides particular benefits and trading conditions tailored to experienced clients in Poland, distinguishing them from other retail clients.

SEL currently offers Contracts for Difference ("**CFD**") products which are high risk and complex. In 2018, when introducing product intervention legislation, the European Securities and Markets Authority ("**ESMA**") stated that:

> *"CFDs are marketed, distributed or sold to both retail and professional clients. However, retail (unlike professional) clients do not normally possess the experience, knowledge and expertise to make investment decisions which properly assess the risks they incur with regard to the complex CFDs."*

Consumers who elect to be 'opted up' as Professional should also be aware that they will lose some the protections that Retail customers receive.

3. Types of Clients

3.1 Retail Clients

Retail clients are defined as a client who is "*not a Professional client or an Eligible Counterparty*" and as such, clients who do not meet the criteria outlined in any of the sections below will be classed as Retail clients.

All clients of the SEL undergo appropriateness assessments as part of their application to determine whether the product is appropriate for them, given the high-risk nature of leveraged trading and potential risk of harm to the wider retail market.

Retail clients receive the highest level of protection including:

- Negative balance protection (available through the Cyprus Investor Compensation Fund, 'ICF'),
- Maximum leverage limits,
- Segregation of client funds
- 50% margin close out level.

Retail clients are also provided with the following:

- ***Best execution*** – SEL must take all sufficient steps to obtain, when executing orders, the best possible results for its clients considering the execution factors which include price, costs, speed and likelihood of execution.

- ***Trade confirmations*** – Retail clients must be provided with prescriptive trade confirmation information.

- ***Key information documents*** – must be provided to Retail clients.

- ***Communications*** – must be fair, clear and not misleading.

- ***Risk Warning*** - Retail clients are entitled to receive standardised risk warnings about CFD trading.

SEL must provide Retail clients with a clear written warning of the protections and investor compensation rights that the client may lose by opting-up to Professional classification. This must be in a separate document from any contract and the client must confirm in writing that they are aware of the consequences of losing such protections.

3.1.1 Experienced Retail Clients (specific measure for Polish residents only)

As discussed above, according to KNF, an Experienced Retail Client is a Retail client who, although not classified as a professional, demonstrates significant experience, knowledge, and understanding of trading financial instruments. These clients are skilled at assessing and managing the risks associated with higher levels of leverage.

In compliance with regulatory standards and to enhance competitiveness, KNF has introduced specific provisions for Experienced Retail Clients of Polish residence, including reduced margin requirements for selected assets such as major currency pairs and indices. This allows for higher leverage while maintaining robust protections for more volatile assets such as cryptocurrency CFDs. The following leverage limits apply:

- 100:1 for Currency Pairs
- 100:1 for Gold
- 100:1 for Major Global Stock Indices
- 10:1 for Commodities (other than Gold) and non-major equity indices
- 5:1 for Individual Equities and other reference values
- 2:1 for Cryptocurrencies

KNF's aim is to promote trading with local CFD providers rather than firms from third countries, which may not offer the same level of regulatory protection. This approach ensures that experienced clients continue to receive high standards of investor protection as mandated by EU regulations. The client must qualify with a number of criteria and a prescribed procedure must be followed, outlined in Section 4 below.

3.2 Professional Clients

Professional clients are defined as a client who possesses the experience, knowledge and expertise to make his/her own investment decisions and properly assess the risks that (s)he incurs. Professional clients may be either Per Se Professional or Elective Professional as described below.

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3.2.1 Elective Professional Clients

SEL may opt up Retail clients to Elective Professional status in accordance with Client Classification rules which state that a firm may treat a client other than a local public authority or municipality as an Elective Professional client when certain criteria are met. The client must pass a ***Qualitative Test***, a ***Quantitative Test*** and a prescribed procedure must be followed, outlined in Section 5 below.

3.2.2 Per Se Professional Clients

SEL categorises Per Se Professional clients as those who meet the criteria for Eligible Counterparty ("**ECP**") defined in the section below, but who choose not to elect this categorisation. Clients who hold ECP categorisation may also request non-professional treatment and SEL may agree to provide a higher level of protection.

The following shall all be regarded as professionals in all investment services and activities and financial instruments for the purposes of the Law:

1. Entities which are required to be authorised or regulated to operate in the financial markets. The list below should be understood as including all authorised entities carrying out the characteristic activities of the entities mentioned: entities authorised by a member state under a European Community Directive, entities authorised or regulated by a member state without reference to such Directive, and entities authorised or regulated by a non Member State:

    a) Credit institutions;
    b) IFs;
    c) Other authorised or regulated financial institutions;
    d) Insurance undertakings;
    e) Collective investment schemes and management companies of such schemes;
    f) Pension funds and management companies of such funds;
    g) Commodity and commodity derivatives dealers;
    h) Locals;
    i) Other institutional investors

2. Large undertakings meeting two of the following size requirements, on a proportional basis:

    - Balance sheet total at least EUR 20.000.000
    - Net turnover at least EUR 40.000.000
    - Own funds at least EUR 2.000.000

3. National and regional governments, public bodies that manage public debt, central banks, international and supranational institutions such as the World Bank, the Internal Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organisations.

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

3.2.3. Loss of Protections

Professional clients are afforded fewer protections as they are deemed to have a higher level of knowledge, understanding and expertise than Retail clients. As such, SEL is not obliged to offer the protections listed in the previous section to Professional clients.

In addition, Best Execution may be applied differently for Professional clients, more sophisticated language may be used to communicate with a Professional client than a Retail client and SEL is entitled to assume Professional clients have the necessary level of knowledge and experience to understand the risks involved in trading leveraged products.

3.3 Eligible Counterparties ('ECP')

'Eligible Counterparty' is any of the following entities to which an investment firm provides the services of reception and transmission of orders on behalf of Clients and/or execution of such orders: Cyprus Investment Firm, other investment firms, credit institutions, insurance companies, UCITS and UCITS management companies, pension funds and their management companies, other financial institutions authorised by a Member State or regulated under the laws of Cyprus or under European Union law, national governments and their correspond offices, include public bodies that deal with public debt at national level, central banks and supranational organizations. Moreover, those included in Section 31(2)(b), (31)(3) and 31(4) of the Law.
Examples of an ECPs would include, but is not limited to:

- An investment bank;
- An investment firm;
- A national government;
- A central bank.

4. Experienced Retail Opt-Up

To qualify as an Experienced Retail Client, as well as being a Polish resident, at least one criterion from **both** sections 1 and 2 below must be met, with relevant supporting evidence.

- **Criteria 1 – Trading Experience**
    - **Criteria 1a**: Over the last 24 months, at least 10 CFD trades entered of a nominal value of at least €50,000 (or the equivalent in PLN) per quarter over the previous four quarters (with SEL and/or other providers).

  - **Criteria 1b**: Over the last 24 months, at least 50 CFD trades entered of a nominal value of at least €10,000 (or the equivalent in PLN) per quarter over the previous four quarters (with SEL and/or other providers).
  - **Criteria 1c**: Over the last 24 months, at least 40 CFD trades entered of a nominal value of at least €2,000,000 (or the equivalent in PLN) per quarter over the previous four quarters (with SEL and/or other providers).

- **Criteria 2 – Professional Knowledge**
  - **Criteria 2a**: The client holds a professional certificate confirming knowledge of derivatives, including CFDs[4].
  - **Criteria 2b:** The client has relevant work experience, having worked for at least one year in a position requiring professional knowledge of CFDs or other derivatives.
  - **Criteria 2c:** The client has completed at least 50 hours of training in derivatives, including CFDs, and have a relevant certificate confirming this training within the last 12 months.[5]

5. Elective Professional Opt-Up

Clients can apply for re-categorisation from Retail to an Elective Profession status via the SEL's website or by sending an email, as communicated from time to time from the Company, that they wish to be treated as a professional client.

For a Retail client to be opted up to Elective Professional status, SEL must conduct a qualitative and quantitative assessment, both of which need to be passed. A client cannot be opted up if they only pass one of the two assessments.

5.1 Qualitative Assessment

In order to pass this test, SEL must assess whether the client has sufficient expertise, experience and knowledge of the transactions and services envisaged, are capable of making their own investment decisions and understand the risks involved.

The client must answer 'yes' to the following two questions in the Professional Opt Up application form:

[4] Acceptable certifications include: Investment Advisor, Securities Broker, Chartered Financial Analyst, Financial Risk Manager, Professional Risk Manager, ACI Dealing Certificate, ACI Diploma, or completion of a relevant field of study.

[5] If the client meet at least one of the criteria in section 1 but none from section 2, FOREX.com will provide free access to relevant training as described in Criteria 2c. However, this does not guarantee that the training will always lead to receiving the relevant certificate.

- *Do you understand that trading as a Professional will involve a greater risk of loss than trading as a Retail client as you are trading on higher leverage rates?*

- *Are you confident you have the adequate expertise, experience and knowledge to allow you to manage your account on the higher leverage rates that apply to a Professional account?*

Should a client answer 'no' to any of the above questions but has passed the quantitative test, the application should be referred to Compliance as a potential 'fat finger' error. If this is deemed to be a possibility, clarification is sought from the client about the answers to the qualitative assessment questions. The client should under no circumstance be led or induced into changing their answers to 'yes' in order to pass the assessment, nor should SEL insinuate that the client understands the answers to the questions as they passed the quantitative test. The conversation must remain neutral and factual.

If the client confirms that they have answered correctly and intended to answer 'no', the client has failed the assessment, and the application must be declined. If the client made a 'fat finger error' and confirms the answers should have been 'yes', then the assessment process can proceed.

5.2 Quantitative Assessment

In relation to MiFID or equivalent third country business, the client must satisfy at least two of the following criteria to have passed the quantitative assessment:

1. The client must be able to evidence transactions of a significant size, on the relevant market at an average frequency of 10 transactions per quarter over the previous four quarters either with SEL or another broker; or

2. The value of the client's financial instrument portfolio, defined as cash deposits and financial instruments, exceeds €500,000; or

3. The client or, in the case of a company, individual(s) involved should be employed or have recently worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

SEL determines significant size as a minimum notional value of, for example, €100,000 on forex, €50,000 on indices, €10,000 on single stock CFDs, however this is assessed on case-by-case basis.

Relevant markets include: CFDs/FX (Spot/Forwards/Options); Futures; Options; Leveraged Exchange Traded Products (e.g. Turbos); Warrants, Binary Options and Spread betting.

When assessing each criterion, SEL must take all 'reasonable steps'[6] to ensure that a Retail client that has requested to be treated as a Professional, meets the requirements of the quantitative

[6] ESMA Q&A 25th May 2018 Section 11, question 3

assessment. If SEL does not hold such evidence, relevant evidence must be requested from the client.

In addition, the following procedure must be followed:

a) the client must state in writing to the firm that it wishes to be treated as a professional client either generally or in respect of a particular service or transaction or type of transaction or product;

b) the firm must give the client a clear written warning of the protections and investor compensation rights the client may lose; and

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.

It is noted that it is up to SEL to accept or reject any such request for change of Categorisation. If the Company becomes aware that the Client no longer fulfils the initial conditions which made it eligible for a professional treatment, the Company shall take appropriate action.

5.3 Joint Accounts

Both joint account holders must qualify individually for Elective Professional categorisation for the joint account to be opted up to Elective Professional status. It is not sufficient that only one holder qualifies as the other client, who remains Retail, would have access to the higher leverage levels and would not benefit from all the regulatory protections. Should only one joint account holder qualify, the account must remain Retail.

6. Re-categorisation

Any request that SEL receives from a Retail client in relation to re-categorisation should be actioned in accordance with the SEL's requirement to act honestly, fairly and professionally for the best interests of the client. Improper client opt ups may result in regulatory, legal and reputational risk.

If a Retail client requests to opt-up to Professional status within 6 months of being opted down from Professional status, SEL may refuse such a request.

Professional Clients and Eligible Counterparties have the right to request re-categorisation as a client that benefits from a higher degree of protection. It is the responsibility of the client to ask for a higher level of protection. SEL may, at its discretion, opt clients back down to Retail or Professional status as appropriate such as if a client notifies us that they no longer meet the Elective Professional criteria. This may also occur if SEL becomes aware through other information received, that the client may be unable to properly assess or manage the risks involved with trading as either a Professional or ECP.

Clients may be required to close any existing open positions before they are opted down. If a new client category is applied by SEL, new written agreements will be issued and the client that is to be re-categorised must complete the appropriate form which will replace any previous agreement.

6.1 Inactive Accounts

An account may be deemed as inactive after a certain period, should a client contact SEL and request that their account be reactivated to resume trading, an account reactivation form must be completed to ensure that the contact details are correct. In addition, a rationale should be obtained from the client as to why they are looking to resume trading, and the client's trading experience also needs to be reassessed.

Should a Professional client wish to resume trading, the account needs to be re-assessed as above to ensure that they remain eligible for Professional classification.

7. Notifications

SEL must notify a new client of their categorisation as a Retail Client, Professional Client or Eligible Counterparty in a durable medium prior to the provision of any services. The client must also be informed about any rights to request a different categorisation, and any limitations to the level of client protection a different categorisation would entail.

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