

Client Categorization Policy



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1. Introduction

The Website of Nessfx.com is owned and operated by FXNET Limited. FXNET Limited (the 'Company') is a Cypriot Investment Firm (CIF) which is authorized and regulated by the Cyprus Securities and Exchange Commission ('CySEC'), under license number 182/12, incorporated and registered under the laws of the Republic of Cyprus (Certificate of Incorporation No. 300624), registered office at 4 Theklas Lysiotti St, Harmony House, Office 31, 3rd floor, 3030 Limassol, Cyprus.

2. Scope

- 2.1 The Client Categorization Policy (the 'Policy') sets out the process and the procedure adopted by the Company for the categorization of its Clients in compliance with applicable laws and Regulations.
- 2.2 Following the implementation of the Markets in Financial Instruments Directive (MiFID) in the European Union and in accordance with the Investment Services and Activities and Regulated Markets Law of 2007 (Law 144(I)/2007) in Cyprus as amended from time to time, the Company is required to categorize its Clients into one of the following three categories: Retail, Professional or Eligible Counterparty.

3. Definitions and Criteria for Categorization

3.1 Retail Client

The Retail Client is a Client who is not a Professional Client.

3.2 Eligible Counterparty

Eligible Counterparty is any of the following entities to which a credit Institution or an Investment Firm provides the services of Reception and Transmission of Orders on behalf of Clients and/or Execution of such orders and/or Dealing on own account: Cyprus Investment Firms, other Investment Firms, Credit Institutions, Insurance Undertakings, UCITS and their management companies, Pension Funds and their management companies and other Financial Institutions authorized by a Member State or regulated under Community legislation or the National law of a Member State, undertakings exempted from the application of the Investment Services and Activities and Regulated Markets Law of 2007 under article 3(2)(k) and (l), National Governments and their corresponding offices including Public Bodies that deal with Public Debt, Central Banks and Supranational Organizations.

3.3 Professional Client

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. In case of Professional Clients, the Company must inform the Client, 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 Client may request a variation of the terms of the agreement in order to secure a higher degree of protection. In order to be considered a Professional Client, a Client must meet the following criteria:

- 3.3.1** Entities which are required to be 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 European Community Directive, entities authorized or regulated by a Member State without reference to such Directive and entities authorized or regulated by a Non-Member State:
- a) Credit institutions;
 - b) Investment firms;
 - c) Other authorized 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;
- 3.3.2** Large undertakings meeting two of the following size requirements on a proportional basis:
- a) Balance sheet total of at least EUR 20,000,000;
 - b) Net turnover of at least EUR 40,000,000;
 - c) Own funds of at least EUR 2,000,000;
- 3.3.3** National and regional governments, public bodies that manage public debt, Central Banks, international and supranational institutions such as the World Bank, the International Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organizations.
- 3.3.4** Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitization of assets or other financing transactions.

4. Protection Rights

4.1 The type of Client Categorization will determine the level of protection afforded to the Client under applicable legislation. A Retail Client is afforded with the highest regulatory protections available. The Company will notify the Client in writing to inform him/her of his/her loss of certain regulatory protection(s) prior to agreeing a re-categorization request.

4.2 Retail Clients and Professional Clients

The Retail Client shall be entitled to more protections under the law than the Professional Client. In summary, the additional protections that Retail Clients are entitled to are as follows:

- i. A Retail Client will be given more information/disclosures with regard to the Company, its services and any investments, its costs, commissions, fees and charges and the safeguarding of Client Financial Instruments and Client Funds.
- ii. Under the law, where the Company provides investment services other than investment advice (in the form of personal recommendations) or discretionary portfolio management, the Company shall ask a Retail Client to provide information regarding his knowledge and experience in the investment field relevant to the specific type of product or service offered or demanded so as to enable the Company to assess whether the investment service or product envisaged is appropriate for the Client. In case if the Company considers, on the basis of the information received, that the product or service is not appropriate to a Retail Client, it shall warn the Client accordingly. Please note that the Company is not required to assess appropriateness in certain cases specified by law.

The Company shall be entitled to assume that a Professional Client has the necessary experience and knowledge in order to understand the risks involved in relation to those particular investment services or transactions, or types of transaction or product, for which the Client is classified as a Professional Client.

Consequently, the Company should not generally need to obtain additional information from the Professional Client for the purposes of the assessment of appropriateness for those products and services for which the Client have been classified as a Professional Client.

- iii. When executing orders, investment firms and credit institutions providing investment services must take all reasonable steps to achieve what is called “best execution” of the Client’s orders that is to obtain the best possible result for their clients.

Where the Company executes an order on behalf of a Retail Client, the best possible result shall be determined in terms of the total consideration, representing the price of the financial instrument and the costs related to execution, which shall include all expenses incurred by the Client, that are directly related to the execution of the order, including execution venue fees, clearing and settlement fees and any other fees paid to third parties involved in the execution of the order.

When providing Professional Clients with best execution, the Company is not required to prioritize the overall costs of the transaction as being the most important factor in achieving best execution.

- iv.** Investment firms and credit institutions providing investment services must obtain from Clients such information as is necessary for the firm or credit institution, as the case may be, to understand the essential facts about the Client and to have a reasonable basis for believing, giving due consideration to the nature and extent of the service provided, that the specific transaction to be recommended, or entered into in the course of providing a portfolio management service, satisfies the following criteria:
 - a.** it meets the investment objectives of the Client in question;
 - b.** it is such that the Client is able financially to bear any related investment risks consistent with his investment objectives;
 - c.** it is such that the Client has the necessary experience and knowledge in order to understand the risks involved in the transaction or in the management of his/her portfolio.

Where the Company provide an investment service to a Professional Client it shall be entitled to assume that, in relation to the products, transactions and services for which it is so classified, the Client has the necessary level of experience and knowledge for the purposes of paragraph (c) above.

In addition, under certain circumstances, the Company shall be entitled to assume that a Professional Client is able financially to bear any investment risks consistent with its investment objectives.

- v.** The Company must inform Retail Clients of material difficulties relevant to the proper carrying out of their order(s) promptly upon becoming aware of the difficulty.
- vi.** The Company is required to provide Retail Clients:
 - a.** with more information than Professional Clients as regards execution of orders, other than for portfolio management;
 - b.** with periodic statements in respect of portfolio management activities carried out on their behalf, more frequently than for Professional Clients.

- vii. Where the Company provides portfolio management transactions for Retail Clients or operate Retail Client accounts that include an uncovered open position in a contingent liability transaction, it shall also report to the Retail Client any losses exceeding any predetermined threshold, agreed between the Company and the Client, no later than the end of the business day in which the threshold is exceeded. Or, in a case where the threshold is exceeded on a non-business day, the close of the next business day.
- viii. If the Company provides an investment service other than investment advice to a new Retail Client for the first time after 1 November 2007, the Company must enter into a written basic agreement with the Client, setting out the essential rights and obligation of the Company and the Client.
- ix. The Company shall not use financial instruments held by the Company on behalf of a Client for its own account or the account of another Client, without the Client's prior express consent to the use of the instruments on specified terms, as evidenced, in the case of a Retail Client, by his signature or equivalent alternative mechanism.
- x. Retail Clients may be entitled to compensation under the Investor Compensation Fund for Bank Client or the Investor Compensation Fund for Clients of Investment Firms, as the case may be.

4.3 Eligible Counterparties

Where the Company treats the Client as an eligible counterparty, the Client will be entitled to fewer protections under the law than he would be entitled to as a Professional Client. In particular, and in addition to the above:

- i. The Company is not required to provide the Client with best execution in executing the Client's orders;
- ii. The Company is not required to disclose to Client information regarding any fees or commissions that the Company pays or receives;
- iii. The Company is not required to assess the suitability or appropriateness of a product or service that it provides to the Client but can assume that the Client have the expertise to choose the most appropriate product or service for him/her and that he/she is able financially to bear any investment risks consistent with his investment objectives;
- iv. The Company is not required to provide the Client with information about the Firm, its services and the arrangements through which the Company will be remunerated.
- v. The Company is not required to provide the Client with risk disclosures on the products or services that he/she selects.

- vi. The Company is not required to provide reports to the Client on the execution of his/her orders or the management of his/her investments.

5. Re-categorization Requests

5.1 The Company may, either on its own initiative or at the Client's request, treat a Professional Client or a Retail Client a Client that might be otherwise be categorized as an Eligible Counterparty or treat a Retail Client as a Professional Client pursuant to the provisions of the law. If a Client desires to be re-categorized as either a Professional Client or an Eligible Counterparty, then the Client needs to send a written request to the Company. The Company shall consider such request at its own discretion after reviewing Client's change in circumstances.

5.2 The following requests may be submitted to the Company:

- i. A Retail Client requesting to be categorized as a Professional Client. In that case the Client will be afforded a lower level of protection.
- ii. An Eligible Counterparty requesting to be categorized as a Professional Client or Retail Client. In that case the Client seeks to obtain a higher level of protection.
- iii. A Professional Client requesting to be categorized as a Retail Client. In that case the Client seeks to obtain a higher level of protection.

Professional Clients are allowed to request non-professional treatment and the Company may agree to provide a higher level of protection.

It is the responsibility of the Client, considered to be a Professional Client, to ask for a higher level of protection when the Client deems that he/she is unable to properly assess or manage 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 he/she shall not be treated as a Professional for the purposes of the applicable conduct of business regime. Such agreement will specify whether this applies to one or more particular services or transactions, or to one or more types of products and/or transactions.

Clients who may be treated as Professionals on request**a) Identification criteria:**

- Clients other than those mentioned in paragraph 3.1 above, including public sector bodies and private individual investors, may also be 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 procedures mentioned below are fulfilled. These Clients will not, however, be presumed to possess market knowledge and experience comparable to that of the categories listed in 3.1 above.
- Any such waiver of the protection afforded by the standard conduct of business regime will 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 European 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.

b) In the course of the above assessment, as a minimum, two of the following criteria should be satisfied:

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

c) Procedure:

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

- i. 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 transactions or products,
- ii. the Company will give them a clear written warning of the protections and investor compensation rights they might lose,
- iii. 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 in paragraph 5.2 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 the Directive and legislation mentioned above.

The Company implements appropriate written internal policies and procedures to categorize Clients. Professional Clients are responsible for keeping the Company informed about any change, which could affect their current categorization. If the Company become aware that the Client no longer fulfills the initial conditions which made him eligible for a Professional treatment the Company reserves the right to take an appropriate action.

5.3 The Company reserves the right to decline any of the above requests for different categorization.