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| PRODUCT GOVERNANCE POLICY |

VERSION CONTROL

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# Definitions and Interpretation

* 1. Definitions

“**Board of Directors**”: the Board of Directors of the Company.

“**clients**”: retail clients, professional clients and eligible counterparties.

“**Company’s database**”: a universal on-premise system of programs for automating a company’s financial and wider operational activities based on 1C or such other system the Company will utilise.

“**CySEC Directive**”: Directive DI87-01 of the Cyprus Securities and Exchange Commission for the Safeguarding of Financial Instruments and Funds belonging to Clients, Product Governance Obligations and the rules applicable to the Provision or Reception of Fees, Commissions or any Monetary or Non-Monetary Benefits, R.A.D. 2/2018, publication dated 05 January 2018 as amended by the Directive DI87-01(Α) for the Safeguarding of Financial Instruments and Funds belonging to Clients dated 22 July 2022[[1]](#footnote-2).

“**Distributor**”: taking into account Recital 15 and Article 10(1) of the MiFID II Delegated Directive it means a firm which offers, recommends or sells an investment product or provides investment services to clients: Recital 15 and Article 10(1) of the MiFID II Delegated Directive.

“**end client**”: the person or group of persons at the end of the supply chain.

“**environmentally sustainable investment**”: an investment in one or several economic activities that qualify as environmentally sustainable under the Taxonomy Regulation (defined below) or other definition as set by the Taxonomy Regulation after the date of the Policy.

“**ESG**”: environmental, social and governance.

“**ESMA Guidelines**”: ESMA Final Report on guidelines on MiFID II product governance requirements dated 27 March 2023 | ESMA35-43-3448[[2]](#footnote-3).

“**financial instruments**”: the instruments specified in Section C of Annex I of MiFID II.

“**investment product**” or “**product**”: a financial instrument (within the meaning of Article 4(1)(15) of MiFID II) or a structured deposit (within the meaning of Article 4(1)(43) of MiFID II).

“**KID**”: key information document.

“**Law**”: Investment Services and Activities and Regulated Markets Law L. 87(I)/2017[[3]](#footnote-4).

“**Manufacturer**”: taking into account Recital 15 and Article 9(1) of the MiFID II Delegated Directive, it means a firm that manufactures an investment product, including as well as the creation, development, issuance or design of that product, including when advising corporate issuers on the launch of a new product.

“**MiFID II Delegated Directive**”: Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing MiFID II Directive of the European Parliament and of the Council with regard to safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits[[4]](#footnote-5).

“**MiFID II**”: Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast)[[5]](#footnote-6).

“**Policy**”: Product Governance Policy.

“**PRIIPs**”: packaged retail and insurance-based investment products as defined in the Regulation (EU) 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs)[[6]](#footnote-7).

“**SFDR**”: the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability‐related disclosures in the financial services sector[[7]](#footnote-8).

“**sustainability factors**”: environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters or other definition as set by the SFDR (defined above) after the date of the Policy.

“**sustainable investment**”:

* an investment in an economic activity that contributes **to an environmental objective**, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy; or
* an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations;
* an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm **any of those objectives** and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance; or
* other definition as set by the SFDR (defined above) after the date of the Policy.

“**sustainability preferences**”: a client’s or potential client’s choice as to whether and, if so, to what extent, one or more of the following financial instruments shall be integrated into his investment:

* a financial instrument for which the client or potential client determines that a minimum proportion shall be invested in environmentally sustainable investments (defined above);
* a financial instrument for which the client or potential client determines that a minimum proportion shall be invested in sustainable investments as defined in the SFDR (defined above);
* a financial instrument that considers principal adverse impacts on sustainability factors (defined above) where qualitative or quantitative elements demonstrating that consideration are determined by the client or potential client; and/or
* other definition as set by the Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive[[8]](#footnote-9) after the date of the Policy.

“**sustainability risk**”: an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment or other definition as set by the SFDR (defined above) after the date of the Policy.

“**Taxonomy Regulation**”: the Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088[[9]](#footnote-10).

* 1. Interpretation

The following rules of construction shall apply to the Policy:

* + 1. All terms defined in the Policy in the singular form shall have comparable meanings when used in the plural form and vice versa.
		2. All terms not defined in the Policy shall bear the meaning ascribed to them in other policies and documents of the Company.
		3. Words importing the masculine gender shall include the feminine and neuter genders.
		4. References to sections, appendixes and annexes herein are references to sections, appendixes and annexes of the Policy respectively unless indicated otherwise.
		5. References to the Board of Directors, senior management, departments, offices, and staff herein are references to the Board of Directors, senior management, departments, offices, and staff of the Company respectively unless indicated otherwise.

# Scope and Purpose of this Policy

* 1. SKANESTAS INVESTMENTS LIMITED (the “**Company**”) with CIF License No. 251/14 offers a variety of investment products (defined in Section 1.1) to retail clients, professional clients and eligible counterparties (the “**clients**”). Firms such as the Company are required to have procedures in place that regulate the investment products and services offered by the Company at all stages.
	2. The purpose of this Policy is to ensure investors’ protection, by ensuring that the manufacturing and distribution of financial instruments do not subsist to the detriment of the clients, as per the requirements of MiFID II.
	3. The Company shall, therefore, have in place effective product governance policies and procedures that regulate the entire product lifecycle and enable it to act in the best interests of its clients, their investment objectives and particular requirements.
	4. For each financial instrument in its product assortment, the assessment of whether the Company is considered the Manufacturer and/or the Distributor, the identified positive and negative target market, the defined distribution strategy and the scenario analysis conducted can be found in Appendix 1 of this Policy.

# Legal Framework

* 1. The principal regulatory framework in place regarding the product governance requirements comprises of the following:
* MiFID II;
* MiFID II Delegated Directive;
* Regulation (EU) 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs);
* SFDR;
* Taxonomy Regulation;
* ESMA Guidelines;
* Questions and Answers on MiFID II and MiFIR investor protection and intermediaries topics dated 19 November 2021 | ESMA35-43-349[[10]](#footnote-11);
* Law which incorporates MiFID II into Cyprus national law L.87(I)/2017;
* CySEC’s Directive; and
* CySEC’s Circular C236 on product governance requirements under MiFID II dated 15 September 2017[[11]](#footnote-12).

# General Requirements

* 1. The Company is the Distributor, and will at all times comply with, and pay particular attention to the relevant provisions of MiFID II, the MiFID II Delegated Directive, the ESMA Guidelines, the Law, and the CySEC Directive.
	2. In its capacity as the Distributor, the Company must:
		1. understand the financial instruments it distributes to clients;
		2. assess the compatibility of the financial instruments with the needs and characteristics of the clients to whom it distributes investment services, taking into account the Manufacturer’s identified target market of end clients; and
		3. ensure that financial instruments are distributed only when this is in the best interests of the clients;
		4. keep track of changes the Manufacturer makes to the financial instrument and follow its requirements and conditions to a reasonable extent.
	3. Distributors must have in place procedures and measures to ensure that when deciding the range of financial instruments and investment services to be distributed, and the target market, all applicable rules are complied with, including but not limited to:
		1. disclosure;
		2. suitability;
		3. appropriateness;
		4. inducements; and
		5. conflicts of interest.
	4. In the exercise of the above duties, the Company should consider what impact the selection of a given Manufacturer could have on the end client in terms of charges or the financial strength of the Manufacturer, or possibly, where information is available to the Distributor, how efficiently and reliably the Manufacturer will deal with the Distributor or end client at the point of sale.

# Obtaining information from Manufacturers

* 1. The Company must obtain from Manufacturers information to gain the necessary understanding and knowledge of the financial instruments it intends to distribute in order to ensure that the financial instruments will be distributed in accordance with the needs, characteristics and objectives of the identified target market under MiFID II.
	2. The Company must to the extent possible obtain from the Manufacturer the following information: information about product’s identified target market, intended distribution strategy, the product’s costs and charges, indicators of whether the Manufacturer deems its product to be complex or non-complex, appropriate information on the Manufacturer’s product approval process, fulfilment of sustainability criteria.
	3. In ensuring that it has obtained sufficient information about the financial instruments it distributes and in ensuring that it understands the financial instruments or investment services distributed, the Company:
		1. should consider whether it understands the materials provided by the Manufacturer or the Distributor earlier in the sales chain;
		2. should ask the Manufacturer to supply additional information or training where this seems necessary to understand the financial instrument or investment service adequately;
		3. should not distribute the financial instrument or investment service if it does not understand it sufficiently; and
		4. in case it provides information to another Distributor in a distribution chain, it should consider how the further Distributor will use the information, such as whether it will be given to end clients.
	4. The Company relies on sustainability disclosures by the Manufacturer or, absent which, on other third-party sources if they are available[[12]](#footnote-13). The Company, being the Distributor, periodically reviews the products it offers and recommends to its clients ensuring that there is no updated information from the Manufacturer(s) in relation to the needs, characteristics, and objectives, which includes any sustainability related objectives, of the target market.

It is presumed that the Company is not the author or a first-hand source of sustainability disclosures with respect to a financial instrument or its issuer. The Company relies on statements, assessments and declarations of third parties on sustainability disclosures on a financial instrument or its issuer. The Company does not guarantee the veracity, completeness and relevance of such information. The Company does not add whether assessing third parties are independent from the Manufacturer or the Distributor of the financial instrument, unless such information is present in the assessments.

The Manufacturers are the ones that bear the responsibility to include any adequate and reliable sustainability-related information in an analysis of a financial instrument. The Company may seek about this information from the Manufacturers, Distributors and third parties and rely on this information as adequate in the course of assessment of the financial instrument.

* 1. The Company may ask the client if he has any particular sustainability preferences (defined in Section 1.1) or whether he is indifferent towards ESG objectives (sustainability neutral). The Company has to collect more information on sustainability preferences (if any) of a client at:
		1. the onboarding stage of a potential new client;
		2. at any time upon request of an existing client.
	2. The Company must explain to the client, upon his request, available sustainability disclosures and ESG benchmarks on a financial instrument. The Company takes all reasonable measures to make sustainability disclosures accessible, clearly presented and explained to the client.

If there are no sustainability disclosures with respect to a financial instrument or they are not sufficient the Company will not analyse on its own the financial instrument against criteria of environmentally sustainable investment set out in Section 5.8. In such case, the financial instrument is deemed as *not meeting such criteria*.

The Company may not be held liable for a transaction with a financial instrument which falls short of client’s sustainability preferences, provided that:

* + 1. the financial instrument has no sustainability disclosures sufficient enough to definitely establish its sustainability-related characteristics;
		2. the financial instrument ceased to comply with sustainability requirements of a client after the transaction (sustainability claims that don’t stand up to scrutiny (greenwashing), instrument reassessment, update of benchmark, etc.);
		3. the financial instrument provides interest in an undertaking for collective investments in transferable securities (UCITS), exchange traded funds (ETF), other funds or structured products[[13]](#footnote-14);
		4. a client filed an order to make the transaction with a financial instrument, which does not meet client’s sustainability preferences, and the order does not unequivocally require observance of the preferences (Section 10.5);
		5. a client made a trade through a direct electronic or market access;
		6. the transaction is made in the course of high-frequency or other algorithmic trading technique;
		7. the client executed or the Company as part of the Portfolio Management strategy executed a transaction for hedging purposes or other market related reasons; or
		8. the Company and/or the client relied on sustainability disclosures by the Manufacturer or, absent which, on other third-party sources (Section 5.4), which at the time of the transaction fulfilled client’s sustainability preferences.
	1. The SFDR categorizes financial products according to the degree of sustainability related ambition for that product.
		1. products set out in Article 6 of the SFDR **do not pursue *sustainable investment*** but may or may not integrate *sustainability risk* (both terms defined in Section 1.1) into the investment process. These are generally not marketed as having any sustainability credentials.
		2. products set out in Article 9 of the SFDR (often referred to as dark green products) have sustainable investment as an objective and their underlying assets will always be in sustainable investment.
		3. products set out in Article 8 of the SFDR sit between these two categories and are those products that promote environmental or social characteristics. They may or may not pursue sustainable investments and may invest in a wide range or underlying assets.
	2. Criteria for environmentally sustainable economic activities. For the purposes of establishing the degree to which an investment is environmentally sustainable investment, an economic activity shall qualify as such where that economic activity:
		1. contributes substantially to one or more of the environmental objectives set out in Article 9 in accordance with Articles 10 to 16 of the Taxonomy Regulation;
		2. does not significantly harm any of the environmental objectives set out in Article 9 in accordance with Article 17 of the Taxonomy Regulation;
		3. is carried out in compliance with the minimum safeguards laid down in Article 18 of the Taxonomy Regulation; and
		4. complies with technical screening criteria that have been established by the European Commission in accordance with Article 10(3), 11(3), 12(2), 13(2), 14(2) or 15(2) of the Taxonomy Regulation.

# Distributing financial instruments manufactured by non-MiFID II firms

* 1. The Company must take all reasonable steps to comply with the present Policy when distributing financial instruments manufactured by any firm to which MiFID II manufacturer product governance requirements do not apply.
	2. As part of this, the Company must put in place effective arrangements to ensure that it obtains sufficient, adequate and reliable information from the Manufacturer about the financial instruments to ensure that they will be distributed in accordance with the characteristics, objectives, needs, the identified target market, and sustainability preferences. The Company should determine the target market as well as the distribution strategy also when they are not defined by the Manufacturer.

If the Manufacturer, a trading venue or other intermediary on a regulated financial market provided all material information about the financial instrument, then the Company draws from this information verbatim.

If the Manufacturer *provides* information of a target market of the instrument in accordance with categories of clients set out by the MiFID II, then the Company *mirrors such target market*, taking also into consideration the existing information on their clients and prospective clients to identify its own target market. Where the target market assessment by the Manufacturer is generic and superficial the Company should perform its own thorough assessment of the target market taking into consideration client’s characteristics, objectives, needs, and sustainability preferencesand the factors explained below. The Company may even choose a narrower target market, compared to the one identified by the Manufacturer.

If the Manufacturer does *not provide* information of a target market of the instrument in accordance with categories of clients set out by the MiFID II, then the Company follows indicators of complexity, risk-reward profile, liquidity, innovation, market and information availability, conflicts of interest, and other relevant features of financial instruments as provided by Manufacturers of these financial instruments.

Where a client has sustainability preferences, then a target market of a financial instrument is adjusted in accordance with Sections 5.2–5.8.

* 1. In summary, procedure of fulfilment of client’s preferences consists of the following stages:
		1. the Company explains to the client what it means by referring to sustainable investments. The Company will also proceed with evaluating the client’s investment objectives including sustainability preferences.
		2. The Company ensures that the products distributed to the clients are compatible with his sustainability preferences.
		3. When the Company identifies investment products with sustainable characteristics, the Company specifies to which group of clients with sustainability preferences, the financial instrument should be distributed and how. In other words, it should be specified which products may be distributed on an execution only basis and without marketing (as such the client may have limited information and make its own investment decisions) and which products are suitable to be included as part of the provision of Portfolio Management (where such a service is offered to the client).
		4. The Company should identify client’s needs and assess whether the products with fitting sustainable characteristics are suitable for the client for reasons beyond ESG. This might make the financial instrument incompatible with client’s characteristics as a result.

For example, if the product that suits sustainability factors (defined in Section 1.1) concerns a risky product intended for clients with a long-term investment horizon and willing and able to lose their investment amount, in which case the product would not be compatible with a client with same sustainability preferences but low risk tolerance.

* + 1. Where the Company does not have access to financial instruments which are eligible for recommendation to the client because they do not meet sustainability preferences, the Company explains to the client why it deems a financial instrument is unsuitable for him (for example through articulating which of the sustainability preferences are not met in the financial instrument which the Company has access to). Before asking the client if he wants to adapt his sustainability preferences, the Company should inform the client that such a financial instrument may be available elsewhere (e.g. though a different investment firm). The Company should inform the client of third-party sources to compare the sustainability factors of different financial instruments. The Company may then ask the client if he wants to adapt his sustainability preferences or whether the client wants to find alternative investment solutions.

To ensure that financial instruments with sustainability factors remain easily available also for clients that do not have sustainability preferences, the Company does not identify groups of clients with whose needs, characteristics and objectives the financial instrument with sustainability factors is not compatible. The Company relies considers that there is no negative market for sustainable products[[14]](#footnote-15).

That means that sustainable products may be distributed to clients falling outside that “positive” sustainability-related target market, provided that they are compatible with the features of the other target markets categories (Section 7.5). Hence, for products which consider sustainability factors, the Company should always perform a target market assessment with respect to the other five target market categories (client type, knowledge and experience, financial situation, risk tolerance and client’s objectives and needs), but should not consider the sustainability-related objectives for these products.

* 1. The Company aligns availability of a type of financial instrument (complex or non-complex) against the Manufacturers identification of the type of clients to whom the product is targeted (MiFID II client categorisation of “retail client”, “professional client” and/or “eligible counterparty”).

Generally, complex, and non-complex types of instruments are available to professional clients and eligible counterparties, and only non-complex types of instruments are available to retail clients. Financial instruments are marked as complex or non-complex in Appendixes to the Policy.

However, availability of financial instruments for a particular client may also be affected by:

* results of suitability or appropriateness tests of a client;
* risk-profile, investment strategy, needs, characteristics, and objectives of a client;
* currency, date of issue, duration, and other parameters of a financial instrument;
* presence of a financial instrument in client’s portfolio at present date or in the past;
* history of meeting margin calls, payment of Company’s fees by a client;
* credit rating and other significant parameters of an issuer of a financial instrument;
* conditions of counterparties involved in a transaction with a financial instrument;
* requirements of a financial market, an intermediary or any other person which might be involved in a transaction with a financial instrument;
* scope of Company’s services provided to a client;
* applicable law; and/or
* other criteria which the Company may find reasonable in particular circumstances.

Target market of each type of instrument accessible through the Company, is indicated in Appendix No 1 “Product Description Forms”.

This principle applies to financial instruments sold on either the primary or secondary market.

* 1. The obligation to obtain adequate and reliable information applies proportionately depending on:
		1. the degree to which publicly available information is obtainable; and
		2. the complexity of the financial instrument.
	2. Where all relevant information is not publicly available (for example, through the PRIIPs, KIDs or a prospectuses), the reasonable steps should include entering into an agreement with the Manufacturer or its agent in order to obtain all relevant information enabling the Company to carry out its target market assessment. Acceptable publicly available information is information which is clear, reliable and produced to meet regulatory requirements, for example, information disclosed in compliance with requirements in the EU Prospectus Directive[[15]](#footnote-16), the EU Transparency Directive[[16]](#footnote-17), the EU UCITS Directive[[17]](#footnote-18), the AIFMD[[18]](#footnote-19) or third-country equivalent requirements are acceptable.
	3. Where the Company is not in a position to obtain in any way sufficient information on products from out-of-scope Manufacturers, or to define on its own the product target market and distribution strategy, it shall refrain from including such products in its product assortment.

# Target market and distribution strategy

* 1. The Company is authorized for the distribution of the following financial instruments:
		1. Transferable securities;
		2. Money-market instruments;
		3. Units in collective investment undertakings;
		4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
		5. Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;
		6. 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, a multilateral trading facility (“**MTF**”), or an organised trading facility (“**OTF**”), except for wholesale energy products traded on an OTF that must be physically settled;
		7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in Section 7.1(f) and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
		8. Derivative instruments for the transfer of credit risk;
		9. Financial contracts for differences;
		10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates 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 other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section 7.1, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF.
	2. The Company’s Product Governance Committee shall specify the type(s) of a client for whose needs, characteristics and objectives, including any sustainability related objectives, each financial instrument distributed by the Company is compatible (“**positive target market**”). The Company must determine the target market for the particular financial instruments it distributes, even if the target market was not defined by the Manufacturer.
	3. The Company must identify the target market and its distribution strategy using:
		1. the information obtained from Manufacturers; and
		2. information it has on its own clients.
	4. Target market identification should occur at an early stage, when the Company’s business policies and distribution strategies are defined by the management body and on an ex-ante basis. Assessment on a target market is an integral part of the present Policy (Appendix No 1 “Product Description Forms”).
	5. In identifying the target market and creating a distribution strategy, the Company should consider the following list of five (5) categories:
		1. client type: “retail client”, “professional client”, “eligible counterparty”.
		2. knowledge and experience: knowledge and experience about elements such as the product type, product features and/ or knowledge/ experience in thematically related areas to help the client understand the product; knowledge and experience may be dependent on each other in some cases.
		3. financial situation with a focus on the ability to bear losses: the percentage of losses target clients are able and willing to afford must be specified; the Company should also specify if there are any additional payment obligations that might exceed the invested amount (e.g., margin calls).
		4. risk tolerance and compatibility of the risk/ reward profile of the product with the target market: the general attitude that target clients should have in relation to the risks of investment must be specified and described (e.g. “risk-oriented or speculative”, “balanced”, “conservative”).
		5. clients’ objectives and needs: the wider financial goals of target clients or the overall strategy they follow when investing must also be specified (e.g. the expected investment horizon - number of years the investment is to be held); the clients’ objectives and needs may vary from specific to more generic.
	6. In addition, the Company shall consider:
		1. the nature of financial instruments to be offered or recommended and how they meet clients’ needs, objectives and risk appetite;
		2. sustainability factors of the financial instruments and how they meet clients’ sustainability preferences;
		3. the impact of charges on end clients;
		4. the financial strength of the Manufacturer; and
		5. where information is available on the Manufacturer’s processes, how efficiently and reliably the Manufacturer will deal with the end client at the point of sale or subsequently, such as when complaints arise, claims are made or the financial instrument reaches maturity;
	7. The target market identified by the Company for each financial instrument should be identified at a sufficiently detailed level subject to Section 6.2 (granular approach). For more complicated products, the target market shall be identified with more detail, while for simpler, more common products, the target market could be identified with less detail.

On the contrary the Company may identify a target market per cluster of product types instead of per individual product type (clustering approach). The lower the complexity of the product or underlying instrument the more clustering approach is used to describe key characteristics of product types.

The Company uses both approaches for complex and non-complex products in Appendix No 1 “Product Description Forms”.

* 1. In accordance with the above, the Company should, in relation to each financial instrument, at least identify:
		1. the client type category. Financial instruments could be:
			1. for all investor types (including retail clients);
			2. for professional clients, including per se professional clients and elective professional clients;
			3. for per se professional clients and eligible counterparties;
		2. the distribution channel category and strategy for products (see Section 11). Financial instruments could be those which are:
			1. offered on execution-only regime with no active marketing;
			2. offered or actively marketed to certain groups of clients (characterized by common features in terms of knowledge, experience, financial situation etc.);
			3. offered in the context of the service of portfolio management.
	2. The Company must have in place adequate product governance arrangements to ensure that:
		1. the financial instruments and investment services they intend to distribute are compatible with the needs, characteristics and objectives, including any sustainability related objectives, of the identified target market; and
		2. the intended distribution strategy is consistent with the identified target market.
	3. The Company must appropriately identify and assess the circumstances and needs of the clients they intend to focus on to ensure that their clients’ interests are not compromised as a result of commercial or funding pressures.
	4. The Company must identify any groups of end clients for whose needs, characteristics and objectives the financial instrument or investment service is not compatible (“**negative target market**”), by using the same five categories as stated above in Section 7.5, except where sustainability factors are needed to be taken into consideration.
	5. The obligation of the Company to identify the actual target market and to ensure that a product is distributed in accordance with the actual target market, is not substituted by an assessment of suitability or appropriateness and has to be conducted in addition to, and before such an assessment.
	6. The Company should take particular care to ensure compliance with the principles in Sections 7.10–7.11 when it intends to distribute new financial instruments or there are variations to the investment services it provides.
	7. The Company should periodically but at least annually review its product governance arrangements and must take appropriate actions where necessary to ensure they remain robust and fit for their purpose.

# Product Governance Committee

* 1. The Company establishes the Product Governance Committee (the “**Committee**”), which is appointed by the Senior Management and shall consist of at least:
		1. 2 (two) Non-Executive Directors; and
		2. 1 (one) person engaged in control functions of the Company.
	2. When the Company appoints the person referred to in Section 8.1(b) the Company takes into account such person’s:
* experience in provision of brokerage or portfolio management services, particularly to retail clients;
* sufficient proficiency and experience in MiFID II requirements, particularly practice of dealing with retail clients;
* adequate proficiency and experience in SFDR requirements, particularly practice of dealing with clients having sustainability preferences;
* dealing with PRIIPs, KIDs and other disclosures of manufacturers or distributors of financial instruments;
* knowledge of product governance obligations of investment firms;
* other characteristics the Board of Directors deems necessary.

The Board of Directors appoints members of the Committee, including its Chairperson. Term of service of members of the Committee shall be indefinite. The Board of Directors may without a requirement for the advance notice to terminate the appointment of any or all members of the Committee and/or replace its Chairman.

Through continuous development and training, the Company shall ensure that members of the committee have a very good understanding of the Company’s products so as to enable the Company to take better product governance decisions.

* 1. The Committee shall be responsible for the following:
* elaboration, review and proposal to the Board of Directors of amendments as regards to product’s characteristics, risk profile, positive and negative target market assessments, costs and charges, distribution strategy and other details of the product;
* identification and ongoing review of positive and negative target markets of a product pursuant to its complexity, establishment of knowledge generally expected from a client to deal with the product;
* keeping track of material changes which the Manufacturer makes to a product;
* review of a suitability and appropriateness tests and the onboarding questionnaire of the Company in the light of changes made to target markets and other principal characteristics of products available to clients of the Company, in order to ensure that the Company will correctly assess whether a potential client falls within the product’s positive target market;
* proposal to the Board of Directors regarding a product’s of distribution strategy and network of products;
* evaluation of one-off and ongoing costs for implementation and observance of measures, which the Company shall undertake to implement in accordance with the Policy and their presentation to the Board of Directors;
* collection of statistics on the observance of positive and negative target markets of products and of other data relevant for the evaluation of the Policy’s implementation;
* reporting to any member of the Board of Directors on any question falling within the ambit of the Committee;
* proposal to the Board of Directors of amendments to the Policy, its appendixes and annexes.
	1. The Committee shall put its opinions, suggestions and recommendations before the Board of Directors, unless the Policy authorises the Committee to resolve the underlying matters without recourse to the Board of Directors.

Questions falling under Committee’s exclusive jurisdiction may either be resolved by the Committee or put before the Board of Directors for its perusal and resolution.

* 1. The Committee shall review and evaluate the adequacy of target markets assessments, products description forms, and other processes relevant to product governance in the Company as per the present Policy. Such review shall be done on an ongoing basis and shall also be done in case of material changes of characteristics of a product, legislation framework surrounding it, market environment and other events which the Committee or the Board of Directors deems as necessitating this review.

Results of the review shall be documented as minutes of a meeting of the Committee or as changes made or suggested to documents, practices or procedures of the Company.

# Assessment of target market – procedures

* 1. The Company as the Distributor, must obtain information from the clients regarding their investment objectives, in making sure that the product meets client’s goals, risk tolerance, financial status, and sustainability preferences (defined in Section 1.1), including the option that the clients may not have sustainability preferences.
	2. The Company shall ensure that employees of the Front Office collect appropriate information from potential clients:
		1. through the onboarding questionnaire in order to assess whether the potential client falls within a product’s positive target market;
		2. on their sustainability preferences (if any) in order to identify products meeting these preferences and other client’s objectives (investment objectives, risk appetite, etc.).

As a general practice the clients apply to the Company at their own volition without interference of the Company (reverse solicitation). The clients themselves may add their investment objectives, requirements and sustainability preferences at the time of application or any time later. The Company takes these particulars into account to the extent allowed with clients’ category, e.g. complex instruments will not be available to willing retail clients.

* 1. To assess whether a potential client falls within the target market of a product the Company applies the following checks:
* a potential client fills in the first section of the onboarding questionnaire, which includes questions regarding the client’s market experience and investment knowledge, risk tolerance, investment goals, financial situation, etc.; (i.e. target market assessment);
* a client who does not fall within the product’s positive target market, based on the answers provided in the questionnaire, will not be able to transact with the product. The Company may reject a client’s anticipated transaction in a particular financial product if a client falls outside the products target market;
* if the client falls within the product’s target market, the Company shall then run an appropriateness test (all potential clients must do appropriateness test before onboarding decision is made) and a suitability test (this test applies to portfolio management clients only) of a potential client to decide, whether the Company is in position to offer investment services to the client, a category the client falls in, conditions and extent of provision of investment services to the client. The Company employs a scoring system to assist in this process. A potential client is being interviewed personally by a member of senior management or the Front Office of the Company;
* other checks required by the Client Acceptance and Monitoring Policy and Procedures of the Company.
	1. If following these steps the Company resolves to onboard a potential client they sign a depositary agreement, an agreement for the provision of investment and ancillary services agreement or a portfolio management agreement together with other documents set out in the Client Acceptance and Monitoring Policy and Procedures of the Company. That Policy describes how an employee of the Front Office conducts client categorisation. These documents mark an end of assessment of a particular client as falling within a particular category of clients set out by the MiFID II, scope of products with appropriate target market and sustainability factors.
	2. An employee of the Front Office conducts the target market assessment and marks client’s category within the Company’s database in accordance with the documents set out in Section 9.4. The Company then notifies the client about his/her MiFID II categorisation and follows the procedure described in its Client Categorisation Policy and Procedure.
	3. Subject to adjustments in accordance with Section 6.4, target market of a client follows client’s category in accordance with the MiFID II and parameters of a financial instrument. This assessment of the client may be reviewed in case of change of client category (retail, professional, eligible counterparty) or in case the client’s and/or financial instrument’s characteristics change.

Information to be collected includes information, embodied in Sections 7.5–7.6.

# Sales outside target markets

* 1. Where all other legal requirements are met (including the applicable rules on disclosure, appropriateness, identification and management of conflicts of interest), products could be sold outside the positive target market, provided that these instances are justified by the facts of each case, the reason for the deviation is clearly documented, and where applicable, included in the suitability report.
	2. Sales to the negative target market should occur only in justified, rare circumstances (e.g. where the client is investing as part of a diversified portfolio approach or for hedging purposes) and the justification for such deviation should be accordingly significant and more substantiated than a justification for a sale outside the positive target market.
	3. Sales to the negative target market may be made at the initiative of the Company if needed for hedging and other sound trading and portfolio management practices.

The Company is not required to report sales outside of the positive target market to the Manufacturer if these sales are for diversification and hedging purposes and the sales are still suitable, given the client’s total portfolio or the risk being hedged.

* 1. The Company undertakes reasonable efforts to make financial instruments not available to a client if these instruments do not fit a sustainability preferences of the client.

If the Company does not have access to even a single product that meets the client’s sustainability criteria:

* + 1. the Company notifies the client of that fact; and
		2. shows characteristics of other instruments with close sustainability factors which are accessible through the Company.

If a client *confirms* that the instruments exposed under Section 10.4(b) are *suitable* to him (as regards client’s sustainability criteria) then client’s sustainability preferences are automatically adjusted to characteristics of the instruments with lowest ratings on sustainability factors.

If a client *does not find* the instruments exposed under Section 10.4(b) *suitable* (based on the client’s sustainability criteria) then the Company asks the client whether he will:

* + - 1. he would like to adjust his sustainability preferences in accordance with his objectives;
			2. indicate that he has no sustainability preferences and thus will have access to financial instruments irrespective of sustainability factors (sustainability neutral);
			3. leave the sustainability preferences intact and await access to instruments which conform to the existing sustainability preferences; or
			4. modify or terminate a respective agreement by mutual agreement with the Company.
	1. If a client filed an order to make a transaction with a particular financial instrument , which does not meet client’s general sustainability preferences, but did not unequivocally require observance of sustainability preferences, the Company:
		1. may proceed with the transaction;
		2. is not required to notify the client on that fact before and after the transaction; and
		3. does not deem the instrument outside client’s sustainability preferences.

# Distribution Strategy

* 1. The distribution strategy shall be defined at an early stage, in order to ensure that a product is only included in the Company’s product range when this is aligned with the type of service that the Company provides.
	2. When determining a distribution strategy, the Company shall consider various factors, including the client’s needs and risk appetite, impact of charges on the end clients, financial strength of the Manufacturer and how the Manufacturer will deal with post sale complaints or claims. The Company must also take into account the Manufacturer’s distribution strategy. If the Company decides to deviate from a Manufacturer’s distribution strategy, it must only do so where it has conducted a “thorough analysis” of the products and target client. Further, any decision to deviate from the Manufacturer’s distribution strategy must be reported to the Manufacturer by way of Distributor feedback. Manufacturers, in turn, should take this into account in their product governance process when selecting suitable Distributors**.**
	3. In addition, the Company shall have in place adequate arrangements to ensure that the distribution strategy is consistent with the target market and, if needed, sustainability factors.

# Information Sharing

* 1. The Company must provide to Manufacturers information on sales and the post-sale reviews carried out by the Company.
	2. The sales information provided shall include items which are necessary for the Manufacturers to check consistency with the needs, characteristics and objectives of the target market.
	3. This could include information on which distribution channels have been employed, the proportion of sales outside the target market, the types of clients, complaints received and any feedback received from clients to questions suggested by the Manufacturer.

# Chains of Distributors

* 1. Where the Company works together with other entities for the distribution of a financial instrument, the following shall apply:
		1. Where the Company distributes financial instruments to end clients (i.e. it has the direct client relationship), it shall meet the product governance obligations applying to Distributors as set out in Sections 4 and 5.2–5.4;
		2. When distributing financial instruments to other Distributors (i.e. it does not have the direct client relationship), the Company shall:
			1. ensure that relevant product information is passed from the Manufacturer to the final Distributor in the chain;
			2. if the Manufacturer requires information on product sales in order to comply with their own product governance obligations, enable them to obtain it; and
			3. in relation to the service it provides, apply the product governance obligations of Manufacturers, as relevant.

# Oversight and training requirements

* 1. The development, periodic review and updating of product governance arrangements must be monitored by the MiFID Compliance Officer in order to detect any risk of failure by the Company to comply with applicable provisions of this policy and the relevant legislation.
	2. The Board of Directors of the Company must have effective control over the firm’s product governance process to determine:
		1. the range of financial instruments the firm offers or recommends; and
		2. the investment services provided to the respective target markets.
	3. Each employee of the Front Office and other relevant staff of the Company involved in client categorisation, target market assessment, disclosures on financial instruments, and other matters set out in the Policy must possess the necessary knowledge and expertise to understand:
		1. the characteristics and risks of the financial instruments that the firm intends to distribute;
		2. the investment services provided by the firm;
		3. client categorisation and sustainability preferences;
		4. the needs, characteristics and objectives of the identified target market;
		5. KIDs and other product governance disclosures;
		6. sustainability factors and other ESG disclosures;

These employees must additionally:

* + - 1. be able to describe in a clear and non-technical manner financial, sustainability and other risks of financial instruments, their characteristics and target market;
			2. stay current with changes to product governance requirements, sustainability factors and other matters set out in the Policy.
	1. The Company shall ensure that the said staff members possess the necessary expertise through regular appraisals, which will be formally documented.
	2. The Company shall ensure that staff (newly hired and existing staff) involved in the distribution of financial instruments possess the CySEC’s Basic or Advanced Certification and are registered in the Public Register.
	3. The Company shall also ensure that staff undertake training of sufficient time and quality, on a regular as well as on a needs basis, to help staff maintain their knowledge and expertise and to further support their understanding of the policy and the relevant product governance requirements.

# Compliance reports

* 1. Compliance reports that are provided within the year and at least on an annual basis to the Board of Directors must include information about the financial instruments distributed by the firm and the investment services provided. The Company will make the compliance reports available to CySEC annually and/or on request. It is stressed that the correct implementation of the product governance is responsibility of the Senior Management and the Board of Directors. The Compliance Officer also monitors the implementation of the product governance policy as part of the compliance monitoring plan.

# Post-sale review

* 1. The Company’s Product Governance Committee reviews the financial instruments they distribute and the investment services they provide at least annually and when a change/ event is occurring that materially affects the product’s characteristics, cost and charges, risk profile, target market and/or distribution strategy. The reviewers are taking into account any event that could materially affect the potential risk to the identified target market. The reviewers are documenting the said assessment.

The Chief Investment Officer is responsible for following such changes and events and may make necessary urgent adjustments before a meeting of this Committee.

* 1. The review shall include a review of the product’s characteristics and risk profile, target market assessment, costs and charges and the Company’s distribution strategy. In carrying out the review in the above principle, the Company must assess at least:
		1. whether the financial instrument or investment service remains consistent with the needs, characteristics and objectives, including any sustainability related objectives, of the identified target market; and
		2. whether the intended distribution strategy remains appropriate.
	2. If the Company becomes aware that it has wrongly identified the target market for a specific financial instrument or investment service, or the financial instrument or investment service no longer meets the circumstances of the identified target market, it must take appropriate steps, including at least:
		1. reconsidering the target market; and/or
		2. updating its product governance arrangements.
	3. The Company may need to take action under the above principle in circumstances where the financial instrument **becomes very illiquid or very volatile** due to market changes.
	4. The Product Analysis and Review Form (attached as “**Appendix 2**”) shall be completed by the Chairman of the Committee, following a relevant meeting and resolution of the Committee, and approved by the Board of Directors every time a product offered/distributed by the Company is assessed/reviewed. The Company shall keep records of such Form/reviews and shall provide such records to the Company’s Internal Auditor and/or CySEC, if requested.

# Review of the Policy

* 1. The Policy of the Company was developed in accordance with the legal framework as set out in Section 3.
	2. The Policy shall be reviewed by the Company’s compliance function, as part of the Annual Compliance plan. The Compliance Plan should include a review on at least an annual basis, as well as on an ad-hoc basis where necessary in order for the Policy to remain robust and fit for its purpose and/ or in order to reflect any updates in the applicable requirements.
	3. Following such review, the Policy shall be approved by the Board of Directors and shall be distributed to the employees involved in the distribution of financial instruments.

**Appendices:**

Appendix No 1 “Product Description Forms”;

Appendix No 2 “Product Analysis and Review Form”.

These Appendixes form [an integral part of](https://context.reverso.net/%D0%BF%D0%B5%D1%80%D0%B5%D0%B2%D0%BE%D0%B4/%D0%B0%D0%BD%D0%B3%D0%BB%D0%B8%D0%B9%D1%81%D0%BA%D0%B8%D0%B9-%D1%80%D1%83%D1%81%D1%81%D0%BA%D0%B8%D0%B9/an%2Bintegral%2Bpart%2Bof) the Product Governance Policy and are published as separate files on the Company’s website.

1. <https://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=84461d00-a4b8-49ad-9a94-58458f2216f6>; <https://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=930fab24-af80-4736-81be-7508c9dc12e4> (only in Greek) [↑](#footnote-ref-2)
2. <https://www.esma.europa.eu/sites/default/files/2023-03/ESMA35-43-3448_Final_report_on_MiFID_II_guidelines_on_product_governance.pdf> [↑](#footnote-ref-3)
3. <https://www.cysec.gov.cy/en-GB/legislation/services-markets/epey/> [↑](#footnote-ref-4)
4. <https://eur-lex.europa.eu/eli/dir_del/2017/593> [↑](#footnote-ref-5)
5. <https://eur-lex.europa.eu/eli/dir/2014/65> [↑](#footnote-ref-6)
6. <https://eur-lex.europa.eu/eli/reg/2014/1286> [↑](#footnote-ref-7)
7. <https://eur-lex.europa.eu/eli/reg/2019/2088> [↑](#footnote-ref-8)
8. <https://eur-lex.europa.eu/eli/reg_del/2017/565> [↑](#footnote-ref-9)
9. <https://eur-lex.europa.eu/eli/reg/2020/852/oj> [↑](#footnote-ref-10)
10. <https://www.esma.europa.eu/sites/default/files/library/esma35-43-349_mifid_ii_qas_on_investor_protection_topics.pdf> [↑](#footnote-ref-11)
11. <https://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=164a836e-de2b-4509-905c-45818757d4ec> [↑](#footnote-ref-12)
12. Examples: MSCI ESG Fund Ratings and Climate [Search Tool](https://www.msci.com/our-solutions/esg-investing/esg-fund-ratings-climate-search-tool); Bloomberg [ESG Data](https://www.bloomberg.com/professional/product/esg-data/), Sustainable Fitch [ESG Ratings](https://www.sustainablefitch.com/products/esg-ratings/), Morningstar [ESG Risk Ratings](file:///%5C%5Cs1%5CUsersShare%5CSWAP%5C_K.KUZNETSOV%5C2022%5C2022-02-14_Olga_product%20governance%5C2023-05-16_%D1%80%D0%B5%D0%B4%D0%B0%D0%BA%D1%86%D0%B8%D1%8F%20%D0%BE%D1%82%20N.Tantis%20%28FinCap%29%5C1_Product%20Governance%20Policy%5C%2C%20https%3A%5Cwww.sustainalytics.com%5Cesg-ratings), CDP [Companies scores](https://www.cdp.net/en/companies/companies-scores) [↑](#footnote-ref-13)
13. The Company may have hard time meeting sustainability preferences with respect to such financial instruments. For example, a fund may commingle sustainable instruments with non-sustainable ones without Company’s knowledge; an UCITS may not disclose accurately share of sustainable instruments in its portfolio at the time of a transaction. [↑](#footnote-ref-14)
14. Section 7 of the Preamble to Commission Delegated Directive (EU) [2021/1269](https://eur-lex.europa.eu/eli/dir_del/2021/1269) of 21 April 2021 amending the MiFID II Delegated Directive. [↑](#footnote-ref-15)
15. <https://eur-lex.europa.eu/eli/reg/2017/1129> [↑](#footnote-ref-16)
16. <https://eur-lex.europa.eu/eli/dir/2004/109> [↑](#footnote-ref-17)
17. <https://eur-lex.europa.eu/eli/dir/2009/65> [↑](#footnote-ref-18)
18. <https://eur-lex.europa.eu/eli/dir/2011/61> [↑](#footnote-ref-19)