

# PRODUCT GOVERNANCE POLICY

Reference No. 34

## VERSION CONTROL

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## **1. Scope and Purpose of this Policy**

- 1.1** SKANESTAS INVESTMENTS LIMITED (the “**Company**”) with CIF License No. 251/14 offers a variety of investment products 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.
- 1.2** The purpose of the Product Governance Policy (the “**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.
- 1.3** 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.
- 1.4** The relevant definitions and the rules of interpretation can be found in **Appendix “A”** of this Policy.

## **2. Legal Framework**

The principal regulatory framework in place regarding the product governance requirements comprises of the following, as amended from time to time – collectively referred to as the “**legal framework**”:

- MiFID II & Law 87(I)/2017.
- 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 (ESMA35-43-3448)
- Questions and Answers on MiFID II and MiFIR investor protection and intermediaries topics ESMA35-43-349.
- CySEC’s Directive.
- CySEC’s Circular C236 on product governance requirements under MiFID II dated 15 September 2017.
- CySEC’s Circular C261 – ESMA Guidelines on MiFID II product governance requirements.
- CySEC’s Circular C603 – ESMA Guidelines on MiFID II product governance requirements.

## **3. General Requirements**

- 3.1** The Company is the Distributor, and will at all times comply with, and pay particular attention to the relevant provisions of the legal framework. Additionally, the Company at all times will act honestly, fairly and professionally in accordance with the best interests of the clients, ensuring that the financial products they distribute are compatible with the needs, characteristics, and objectives of an identified target market, and that the intended distribution strategy is consistent with the identified target market.
- 3.2** In its capacity as the Distributor, the Company must:
  - (a)** understand the financial instruments it distributes to clients.
  - (b)** 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.
  - (c)** ensure that financial instruments are distributed only when this is in the best interests of the clients.

(d) keep track of changes the Manufacturer makes to the financial instrument and follow its requirements and conditions to a reasonable extent.

**3.3** 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:

- (a) disclosure;
- (b) suitability;
- (c) appropriateness;
- (d) inducements; and
- (e) conflicts of interest.

**3.4** 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.

#### **4. Obtaining information from Manufacturers**

**4.1** 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.

**4.2** 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.

**4.3** 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:

- (a) should consider whether it understands the materials provided by the Manufacturer or the Distributor earlier in the sales chain.
- (b) should ask the Manufacturer to supply additional information or training where this seems necessary to understand the financial instrument or investment service adequately.
- (c) should not distribute the financial instrument or investment service if it does not understand it sufficiently.
- (d) 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.

**4.4** 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.

The Company relies on sustainability disclosures by the Manufacturer or, where unavailable, on other third-party sources.<sup>1</sup> It is understood, that the Company is not the author or primary source of sustainability disclosures concerning a financial instrument or its issuer. In such cases, the Company evaluates the quality, reliability and relevance of third-party sustainability disclosures, but it cannot guarantee the *accuracy*, *completeness* and *relevance* of such information. While the Company does not independently verify the sustainability data from third-party sources, unless explicitly included in their assessments, it will assess whether the sources are credible and consistent with the applicable regulatory framework. The Manufacturer is ultimately responsible for ensuring that all sustainability-related disclosures are accurate, complete and compliant with relevant regulatory requirements. The Company will work with Manufacturers, Distributors and/or third parties to obtain sustainability-related information, and will rely on this information in the course of assessing the financial instrument, provided it meets the Company's internal standards for reliability and transparency.

- 4.5** The Company may inquire whether the client has any specific sustainability preferences or whether they are indifferent towards ESG objectives (sustainability neutral). The Company is required to collect detailed information on the client's sustainability preferences, if any at:
- (a) the onboarding stage of a potential new client;
  - (b) at any time upon request of an existing client.
- 4.6** The Company must explain, upon the client's request, the available sustainability disclosures and ESG benchmarks related to a financial instrument. The Company will take all reasonable steps to ensure sustainability disclosures are accessible, clearly presented, and explained to the client in an understandable manner.
- 4.7** If no sustainability disclosures are available for a financial instrument, or if such disclosures are insufficient to adequately assess its alignment with sustainability objectives, the Company will not independently analyse the financial instrument against criteria for environmentally sustainable investments. In such cases, the financial instrument will be considered as not *not meeting these criteria*, and no claims regarding sustainability will be made.
- 4.8** The Company may not be held liable for a transaction with a financial instrument that does not meet the client's sustainability preferences, provided that:
- (a) the financial instrument lacks sufficient sustainability disclosures to clearly establish its sustainability-related characteristics.
  - (b) the financial instrument no longer meets the client's sustainability preferences after a transaction (sustainability claims that don't stand up to scrutiny (greenwashing), instrument reassessment, update of benchmark, etc.);
  - (c) the financial instrument provides interest in an undertaking for collective investments in transferable securities (UCITS), exchange traded funds (ETF), other funds or structured products;<sup>2</sup>
  - (d) 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 those preferences;

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<sup>1</sup> Examples: MSCI ESG Fund Ratings and Climate [Search Tool](#); Bloomberg [ESG Data](#), Sustainable Fitch [ESG Ratings](#), Morningstar [ESG Risk Ratings](#), CDP [Companies scores](#)

<sup>2</sup> 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.

- (e) a client made a trade through a direct electronic or market access;
- (f) the transaction is executed as part of high-frequency or other algorithmic trading techniques;
- (g) 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
- (h) the Company and/or the client relied on sustainability disclosures by the Manufacturer or, absent which, on other third-party sources, which at the time of the transaction fulfilled client's sustainability preferences.

4.9 The SFDR categorizes financial products according to their sustainability-related objectives and the level of ambition for sustainability integration:

- (a) products set out in Article 6 of the SFDR **do not have *sustainable investment as an objective***, but may or may not integrate *sustainability risks* into the investment process. These products are typically not marketed as having sustainability credentials.
- (b) products set out in Article 9 of the SFDR (often referred to as “dark green” products) have sustainable investment as their core objective and their underlying assets will always be invested in sustainable investments.
- (c) products set out in Article 8 of the SFDR are products that promote environmental or social characteristics, though they may or may not pursue sustainable investments. They can invest in a broad range of underlying assets, but are characterised by the promotion of specific environmental or social outcomes.

4.10 Criteria for environmentally sustainable economic activities. For the purposes of determining whether an investment qualifies as environmentally sustainable, an economic activity is considered sustainable if it meets the following criteria:

- (a) it contributes substantially to one or more of the environmental objectives set out in Article 9 of the Taxonomy Regulation, in accordance with Articles 10 to 16 of the Taxonomy Regulation.
- (b) it does not significantly harm any of the environmental objectives set out in Article 9 of the Taxonomy Regulation, in accordance with Article 17 of the Taxonomy Regulation.
- (c) it is carried out in compliance with the minimum safeguards laid down in Article 18 of the Taxonomy Regulation.
- (d) it 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.

## 5. Distributing financial instruments manufactured by non-MiFID II Companies & Other Considerations

5.1 The Company must take all reasonable steps to comply with the present Policy when distributing financial instruments manufactured by Companies to which MiFID II product governance requirements do not apply. Specifically, the Company must ensure that an appropriate level of service and security is provided to its clients, at a level comparable to what would be expected if the product had been designed in accordance with MiFID product governance requirements.

5.2 As part of this, the Company must establish effective arrangements to ensure that it obtains sufficient, accurate and reliable information from the Manufacturer about the financial instruments. This ensures that the distribution of such instruments is aligned with the characteristics, objectives, needs, the target market, and sustainability preferences of the clients. The Company should also determine the target market and

distribution strategy also when they are not defined by the Manufacturer. This should be done in a manner that is appropriate and proportionate considering the nature of the product, by taking into account the characteristics of the product, including its complexity, risk-reward profile or liquidity, or its innovative character.

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

If the Manufacturer *provides* information about the target market of the instrument in accordance with categories of clients set out by the MiFID II, the Company should *mirror this target market* while also considering 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 or superficial, the Company must conduct its own detailed and thorough assessment of the target market. This assessment must consider the client's characteristics, objectives, needs, sustainability preferences and other relevant factors. The Company may choose to define a narrower target market, compared to the one identified by the Manufacturer, if this is more appropriate for the client's profile.

If the Manufacturer does *not provide* information regarding the target market of the instrument in accordance with the categories of clients set out by the MiFID II, the Company will use indicators such as complexity, risk-reward profile, liquidity, innovation, market conditions, information availability, conflicts of interest, and other relevant features of the financial instrument, as provided by the Manufacturer of the financial instrument, to determine the appropriate target market.

If a client has sustainability preferences, the financial instruments offered to the client may be adjusted to align with those preferences. This adjustment does not change the target market of the financial instrument itself, but rather ensures that only products satisfying the client's ESG preferences are considered for them.

**5.3** In summary, the procedure for fulfilment the client's sustainability preferences consists of the following stages:

- (a) the Company explains to the client what it meant by "sustainable investments" and ensures tht the client understands the scope of sustainability in the context of financial products. The Company will also evaluate the client's investment objectives, including sustainability preferences.
- (b) The Company ensures that the financial products distributed to the client are compatible with the client's sustainability preferences, taking into account both the client's overall investment goals and their specifiv sustainability objectives.
- (c) When the Company identifies financial products with sustainable characteristics, the Company specifies to which group of clients with sustainability preferences the product should be distributed and how. Specifically, the Company will determine which products may be distributed on an execution-only basis, where the client may have limited information and make their own investment decisions and which products are suitable for inclusion in a Portfolio Management service (where such a service is offered to the client), in order to ensure that the investment is aligned with the client's objectives and sustainability preferences.
- (d) The Company should identify the client's overall needs and assess whether the products with suitable sustainable characteristics are appropriate for the client, considering factors ESG preferences. This includes evaluating whether the product aligns with the client's risk tolerance,

investment horizon, and overall financial situation. As a result, even if a product meets the client's sustainability preferences, it may still be incompatible with the client's characteristics.

For example, if a product that aligns with sustainability objectives is a high-risk investment intended for clients with a long-term investment horizon who are willing to accept potential losses, this product may not be suitable for a client with the same sustainability preferences, but with a low risk tolerance or a short-term investment horizon.

- (e) 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 shall explain to the client why 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 wishes to adapt his sustainability preferences, the Company should inform the client that such a financial instrument may be available elsewhere (e.g. through a different investment Company). The Company should also 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 accessible to all client, including those without specific sustainability preferences, the Company does not exclude any client groups based on their compatibility with sustainability characteristics. The Company considers that there is no "negative market" for sustainable products.<sup>3</sup>

This means that sustainable products may be distributed to clients falling outside that "positive" sustainability-related target market, as long as these products are compatible with the features of the other target market categories. Therefore, for financial products that incorporate sustainability factors, the Company must always conduct a target market assessment based on the other five target market categories: client type, knowledge and experience, financial situation, risk tolerance and client's objectives and needs. However, the sustainability-related objectives should not be a factor in the target market assessment for these products.

- 5.4** The Company ensures that the availability of a type of financial instrument, whether complex or non-complex, aligns with the Manufacturer's identification of the target client group (MiFID II client categorisation of "*retail client*", "*professional client*" and/or "*eligible counterparty*").

In general, complex, and non-complex types of instruments are available to professional clients and eligible counterparties, while only non-complex instruments are available to retail clients. For further details on the classification of instruments as "complex" or "non-complex", please refer to the Product Description Forms that are incorporated in this Policy as **Appendix "B"**.

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;

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<sup>3</sup> Section 7 of the Preamble to Commission Delegated Directive (EU) [2021/1269](#) of 21 April 2021 amending the MiFID II Delegated Directive.

- 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.

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

**5.5** The obligation to obtain adequate and reliable information applies proportionately depending on:

- (a) the degree to which publicly available information is obtainable; and
- (b) the complexity of the financial instrument.

**5.6** 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,<sup>4</sup> the EU Transparency Directive,<sup>5</sup> the EU UCITS Directive,<sup>6</sup> the AIFMD<sup>7</sup> or third-country equivalent requirements are acceptable.

**5.7** 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.

## **6. Target market and distribution strategy**

**6.1** The Company is authorized for the distribution of the following financial instruments:

- (a) Transferable securities.
- (b) Money-market instruments.
- (c) Units in collective investment undertakings.
- (d) 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.
- (e) 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.
- (f) 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.
- (g) 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.

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<sup>4</sup> <https://eur-lex.europa.eu/eli/reg/2017/1129>

<sup>5</sup> <https://eur-lex.europa.eu/eli/dir/2004/109>

<sup>6</sup> <https://eur-lex.europa.eu/eli/dir/2009/65>

<sup>7</sup> <https://eur-lex.europa.eu/eli/dir/2011/61>

- (h) Derivative instruments for the transfer of credit risk.
- (i) Financial contracts for differences. **Note – The Company does not offer this financial product to any of its clients.**
- (j) 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, 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.

**6.2** The Company is responsible to specify the type(s) of clients, for whose needs, characteristics and objectives, including any sustainability related objectives, each financial instrument distributed by the Company is compatible (the “**positive target market**”). The Company must determine the target market for the particular financial instruments it distributes, even if the target market has not been defined by the Manufacturer.

**6.3** The Company must identify the target market and its distribution strategy using:

- (a) the information obtained from Manufacturers; and
- (b) information it has on its own clients.

**6.4** 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 “B” - “Product Description Forms”**).

**6.5** In identifying the target market and creating a distribution strategy, the Company should consider the following list of five (5) categories:

- (a) client type: “retail client”, “professional client”, “eligible counterparty”.
- (b) 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.
- (c) 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).
- (d) 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”).
- (e) 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.

**6.6** In addition, the Company shall consider:

- (a) the nature of financial instruments to be offered or recommended and how they meet clients’ needs, objectives and risk appetite;
- (b) sustainability factors of the financial instruments and how they meet clients’ sustainability preferences;

- (c) the impact of charges on end clients;
- (d) the financial strength of the Manufacturer; and
- (e) 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;

**6.7** 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 complex products, the target market should be identified in greater detail, while for simpler, more common products, the target market may 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 less complex the product or underlying instrument, the more likely the clustering approach will be used to describe the key characteristics of the product types.

The Company will use both approaches (granular and clustering) based on whether the products are classified as complex or non-complex.

**6.8** In accordance with the above, the Company should, in relation to each financial instrument, at least identify:

- (a) the client type category. Financial instruments could be:
  - (i) for all investor types (including retail clients);
  - (ii) for professional clients, including per se professional clients and elective professional clients;
  - (iii) for professional clients, including per se professional clients and elective professional clients and eligible counterparties;
- (b) the distribution channel category and strategy for products . Financial instruments could be those which are:
  - (i) offered on execution-only regime with no active marketing (the Company is not involved with marketing practices).
  - (ii) offered or actively marketed to certain groups of clients (characterized by common features in terms of knowledge, experience, financial situation etc.)
  - (iii) offered in the context of the service of portfolio management.

**6.9** The Company must have in place adequate product governance arrangements to ensure that:

- (a) 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
- (b) the intended distribution strategy is consistent with the identified target market.

**6.10** 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.

**6.11** The Company must identify any groups of end clients for whose needs, characteristics and objectives the financial instrument or investment service is not compatible (the "**negative target market**"), by using the same five categories, except where sustainability factors are needed to be taken into consideration.

**6.12** 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.

- 6.13** The Company should take particular care to ensure compliance with the principles in Sections 6.10-6.11, when it intends to distribute new financial instruments or there are variations to the investment services it provides.
- 6.14** 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.

## **7. Product Governance & Oversight**

- 7.1** The Board of Directors is responsible for overseeing the Company's adherence with the product governance requirements ensuring that relevant oversight is centralised at the highest level of the organisation of the Company, including the classification of financial instruments, the target market identification, and the ongoing review of products.
- 7.2** The Head of Compliance, Head of Brokerage and other relevant head functions and/or the Senior Management are responsible – depending on their duties and responsibilities – among other for the below:
- 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 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 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 relevant question.
  - proposal to the Board of Directors of amendments to the Policy, its appendixes and annexes.
- 7.3** The establishment of a dedicated Product Governance Committee will be reviewed as needed in the future. Should the complexity of product governance requirements evolve, or if a more focused oversight function is deemed necessary to ensure compliance and effective governance, the Board of Directors will assess the need for a separate committee, considering inter alia, the increasing complexity in product offerings, changes in regulatory requirements, and any other relevant factors that may impact the effectiveness of the current oversight.

## **8. Assessment of Target Market – Procedures**

- 8.1** The Company as the Distributor, must obtain information from the clients regarding their investment objectives, risk tolerance, financial situation, and any sustainability preferences. This information is essential to ensure that the financial products offered are suitable and aligned with the client's goals and needs, including their personal and financial circumstances. This includes providing the option for clients to express that they have no sustainability preferences (sustainability-neutral).

- 8.2** The Company shall ensure that employees of the Front Office Department collect appropriate and sufficient information from potential clients during the onboarding process. This information will be used to determine whether the client meets the criteria for inclusion in a product's positive target market. In addition, the onboarding process will capture information on the client's sustainability preferences (if any), which will be used to identify products that align with these preferences, as well as the client's objectives, risk appetite, and other relevant factors.
- 8.3** As a boutique investment Company, the Company does not actively promote its services or products. During the onboarding stage, the Company shall ensure that clients provide information on their investment objectives, risk appetite, and other relevant factors necessary for product governance purposes. This information will be used to determine whether the products offered align with the client's goals and preferences. It is further acknowledged, that such information may be updated or amended at any time during the course of the client relationship, as part of the regular due diligence assessment. Any updates to the client's information, including sustainability preferences (if applicable), will be taken into account to ensure the continued alignment of products with the client's evolving objectives.
- 8.4** In practice, for assessing whether a potential client falls within the target market of a product, the following checks are followed:
- (a)** The financial instruments offered by the Company are classified into "*complex*" and "*non-complex*" in line with the target market identification of each product, as this classification is evidenced in the Product Description Forms (**Appendix "B"**).
  - (b)** The Company conducts the target market assessment when a potential client completes the onboarding questionnaire, and relevant evidence is maintained in place. This questionnaire is provided to clients manually, via email in person or other methods (online registration is not possible). It includes questions that allow the Company to review the client's investment knowledge and experience, financial situation, risk tolerance, investment objectives and goals, which help to determine if the client falls within the positive target market for the product.
  - (c)** Based on the information provided in the onboarding questionnaire, the Company has developed a scoring methodology. This methodology evaluates the client according to the five key criteria of product governance. The goal is to classify the client accurately and ensure that only products suitable for the client's profile are offered.
  - (d)** If a client does not meet the necessary criteria, they will not be offered that particular product (falling in the "*negative*" target market). In cases where a client's classification is conditional or unclear, additional measures may be taken to ensure that the client is suitable for the product. This may include a personal interview, the completion of an additional questionnaire, or considering other information or evidence – as the case may be – to gather more detailed information.
  - (e)** If the client falls within the product's target market, the results obtained through the appropriateness test (*all potential clients must do appropriateness test before onboarding decision is made*) and / or the suitability test (*this test applies to portfolio management clients only*) of a potential client are taken into account by the Company, so as for the latter to review whether it is in the position to offer the requested investment services to the client. Additionally, other checks required for completion of the onboarding of the potential client – including without limitation the procedures incorporated in the Client Acceptance and Monitoring Policy and Procedures of the Company.
  - (f)** If, following the steps outlines above, the Company decides to onboard a potential client, the client will sign a depositary agreement, an agreement for the provision of investment and ancillary services, or a portfolio management agreement (depending on the requested services), along with any other documents specified by the Company's written procedures (e.g., Client Acceptance and

Monitoring Policy and Procedures). The Front Office department ensures that all details of the clients onboarded are incorporated within the Company's database.

- (g) If any circumstances of clients are amended – including their MiFID categorisation – the Company will review the relevant target market assessment, to ensure that the products offered remain consistent with the client's needs, objectives and preferences.

## 9. Sales outside target markets

- 9.1 Provided all other legal requirements are met (including the applicable rules on disclosure, appropriateness, and the identification and management of conflicts of interest), products may be sold outside the positive target market, as long as such instances are justified by the specific facts of each case. The reason for the deviation must be clearly documented and, where applicable, included in the suitability report.
- 9.2 Sales to the negative target market should occur only in exceptional and well-justified circumstances (e.g. when the client is investing as part of a diversified portfolio or for hedging purposes). The justification for such a deviation must be significant and more substantiated than for a sale outside the positive target market.
- 9.3 Sales to the negative target market may be made at the initiative of the Company if necessary for hedging and other legitimate 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.
- 9.4 The Company will make reasonable efforts to ensure that financial instruments are not made available to a client if they do not align with the client's sustainability preferences.

If the Company does not have access to any product that meets the client's sustainability criteria:

- (a) the Company will notify the client of this fact; and
- (b) the Company will present characteristics of other instruments with similar sustainability factors that are accessible through the Company.

If a client *conCompanys* that the instruments exposed under Section 9.4(b) are *suitable* to based on their sustainability criteria, the client's sustainability preferences will automatically be adjusted to align with the characteristics of the instruments with the lowest sustainability ratings.

If a client *does not find* the instruments listed under Section 9.4(b) *suitable* according to their sustainability criteria, the Company will ask the client whether they would like to:

- (i) adjust their sustainability preferences to align with their objectives;
- (ii) indicate that they have no sustainability preferences, thus gaining access to financial instruments regardless of sustainability factors (sustainability neutral);
- (iii) keep the sustainability preferences unchanged and wait for access to instruments that align with their current sustainability preferences; or
- (iv) modify or terminate the respective agreement by mutual consent with the Company.

- 9.5 If a client places an order to execute a transaction with a particular financial instrument that does not align with the client's general sustainability preferences, but has not explicitly required the consideration of sustainability preferences, the Company:
  - (a) may proceed with the transaction;
  - (b) is not required to notify the client on this fact, either before or after the transaction; and
  - (c) does not consider the instrument to be outside the client's sustainability preferences.

## **10. Distribution Strategy**

- 10.1** The distribution strategy shall be defined at an early stage to ensure that a product is included in the Company's product range only when it is aligned with the type of service that the Company provides.
- 10.2** In determining the distribution strategy, the Company shall consider a range of factors, including the client's needs and risk appetite, the impact of charges on the end clients, the financial strength of the Manufacturer and how the Manufacturer will handle post sale complaints or claims. The Company must also take into account the Manufacturer's distribution strategy. If the Company decides to deviate from the Manufacturer's distribution strategy, it must conduct a thorough analysis of the product and the target client before doing so. Any deviation must be documented and reported to the Manufacturer via Distributor feedback. Manufacturers, in turn, should consider such feedback in their own product governance process when selecting suitable Distributors in accordance with MiFID II product governance requirements.
- 10.3** The Company shall have in place adequate arrangements to ensure that the distribution strategy is consistent with the target market and, where applicable, incorporates sustainability factors, as required by MiFID II and other relevant regulations such as the SFDR..

## **11. Information Sharing**

- 11.1** The Company must provide Manufacturers with information on sales and the post-sale reviews carried out by the Company.
- 11.2** The sales information provided shall include details necessary for the Manufacturers to assess consistency with the needs, characteristics and objectives of the target market. This information may include details on the distribution channels used, the proportion of sales made outside the target market, the types of clients involved, any complaints received and feedback from clients in response to questions suggested by the Manufacturer.

## **12. Chains of Distributors**

Where the Company collaborates with other entities for the distribution of a financial instrument, the following shall apply:

- (a)** Where the Company distributes financial instruments directly to end clients (i.e. where it has the direct client relationship), it shall meet the product governance obligations of Distributors as set in this Policy.
- (b)** When the Company distributes financial instruments to other Distributors (i.e. it does not have the direct client relationship), the Company shall:
- (i)** ensure that relevant product information is passed from the Manufacturer to the final Distributor in the chain;
  - (ii)** if the Manufacturer requires information on product sales in order to comply with their own product governance obligations, enable them to obtain it; and
  - (iii)** in relation to the service it provides, apply the product governance obligations of Manufacturers, as relevant.

## **13. Oversight and Training Requirements**

- 13.1** 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.

- 13.2** The Board of Directors of the Company must have effective control over the Company's product governance process to determine:
- (a) the range of financial instruments the Company offers or recommends; and
  - (b) the investment services provided to the respective target markets.
- 13.3** The employees involved in target market assessment, disclosures on financial instruments, and other matters set out in the Policy must possess the necessary knowledge and expertise to understand:
- (a) the characteristics and risks of the financial instruments that the Company intends to distribute.
  - (b) the investment services provided by the Company.
  - (c) client categorisation and sustainability preferences.
  - (d) the needs, characteristics and objectives of the identified target market.
  - (e) KIDs and other product governance disclosures.
  - (f) sustainability factors and other ESG disclosures.

These employees must additionally:

- (i) be able to describe in a clear and non-technical manner financial, sustainability and other risks of financial instruments, their characteristics and target market.
- (ii) stay *current with* changes to product governance requirements, sustainability factors and other matters set out in the Policy.

- 13.4** The Company shall ensure that the said staff members possess the necessary expertise through regular appraisals, which will be formally documented.
- 13.5** 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.
- 13.6** 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.

#### **14. Compliance Reports**

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 Company 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.

#### **15. Post-Sale Review**

- 15.1** The Company 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.
- 15.2** The Company is responsible for following such changes and events and may make necessary urgent adjustments as needed from time to time.

- 15.3** 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:
- (a) 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
  - (b) whether the intended distribution strategy remains appropriate.
- 15.4** 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:
- (a) reconsidering the target market; and/or
  - (b) updating its product governance arrangements.
- 15.5** 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.
- 15.6** The Product Analysis and Review Form is completed by the Company (collaboration of various departments), and is 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.
- 16. Review of the Policy**
- 16.1** The Policy of the Company was developed in accordance with the legal framework as set out in Section 3.
- 16.2** 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.
- 16.3** 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.

## **17. Appendices:**

### **Appendix “A” – Definitions & Interpretations**

- “**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 IC 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](#), as amended by the [Directive DI87-01\(A\) for the Safeguarding of Financial Instruments and Funds belonging to Clients dated 22 July 2022](#).
- “**Distributor**”: taking into account Recital 15 and Article 10(1) of the [MiFID II Delegated Directive](#) it means a Company which offers or sells financial instruments and services to clients.
- “**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).
- **“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](#).
- **“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.
- **“Manufacturer”**: taking into account Recital 15 and Article 9(1) of the [MiFID II Delegated Directive](#), it means a Company that creates, develops, issue and/or designs financial instruments, including when advising corporate issuers on the launch of new financial instruments.
- **“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.
- **“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.
- **“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).
- **“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.
- **“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.
- **“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 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 ;
  - 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;
  - 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 Companies and defined terms for the purposes of that Directive 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.
  - “**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.

The following rules of construction shall apply to the Policy:

- (a) All terms defined in the Policy in the singular form shall have comparable meanings when used in the plural form and vice versa.
- (b) All terms not defined in the Policy shall bear the meaning ascribed to them in other policies and documents of the Company.
- (c) Words importing the masculine gender shall include the feminine and neuter genders.
- (d) References to sections, appendixes and annexes herein are references to sections, appendixes and annexes of the Policy respectively unless indicated otherwise.
- (e) 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.

#### **Appendix “B” - Product Description Forms**

The Product Description Forms for the financial instruments offered by the Company are incorporated herein and are considered an integral part of this Policy.

#### **Appendix “C” – Product Analysis and Review Forms**

The Company utilizes specific forms, templates and tools for the ongoing review of products, which include assessments of the target market, evaluations of risks, legal and compliance review, and any changes in market conditions.

These form an integral part of the Product Governance Policy, and part of the documentation maintained internally for audit purposes, and compliance with MiFID II requirements.