

Client categorization

This information is being made available to the Client based upon the Czech Capital Markets Act (Act No. 256/2004 Coll., as amended - the "Capital Markets Act"), European Directive 2014/65/EU on markets in financial instruments ("MiFID II"), Commission Delegated Regulation (EU) 2017/565 supplementing MiFID II as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of the above-mentioned Directive (the "Regulation"), and the relevant measures of the Czech National Bank (ČNB).

42FS's obligation to engage in Client categorization

Under the Capital Markets Act, 42FS must categorize all of its clients to which it renders investment services, and inform them of the categorization. As per the law, 42FS recognizes three different categories of Clients:

- Retail Client
- Professional Client, and
- Eligible Counterparty.

In putting the given Client into one of these categories, 42FS relies on the information which it possesses on the Client.

Legal definition of Client categories

Retail Clients are Clients other than professional Clients.

Professional Clients

Clients will be put into this category if they are one of the following:

- a bank,
- a savings bank or credit union,
- a securities trader,
- an insurance company,
- a reinsurer,
- an investment company,
- an investment fund,
- a pension company,
- another person doing business in the financial market based on a license issued by the financial market supervisory authority or based on an entry in a registry kept by the financial market supervisory authority, i.e., in particular, a payment institution, an electronic money institution, a small-scale issuer of electronic money, a non-bank provider of consumer credit, a central administrator, an investment intermediary, an insurance agent, an insurance broker, an independent consumer credit intermediary, an independent loss adjuster, a payment system operator with settlement finality, an operator of settlement system with settlement finality and the central securities depository, but with the exception of a tied agent of an investment intermediary, a tied agent under the Consumer Credit Act, a tied agent of an investment firm, a tied agent of a pension company, a tied insurance intermediary, a subordinate insurance intermediary and an exclusive insurance agent,
- a person who arranges for securitization as its key activity,

- a person who trades on their own account with investment instruments in order to bring down the risk from transactions in the financial instruments set out in Sec. 3 (1) (d) through (k) of the Capital Markets Act (i.e., hedging), if this activity is among their key activities,
- **a person who trades on their own account** in the investment instruments listed in Sec. 3 (1) (g) through (i) of the Capital Markets Act or in **commodities**, if this activity is among their key activities,
- a legal entity entrusted with the management of property of the state in securing the purchase, sale or management of its receivables or other assets, or in the restructuring of companies or other legal entities with ownership participation by the state,
- **a foreign person** in a line of business similar to those in letters (a) through (m),
- a country, or the member state of a federation,
- the Czech National Bank, a foreign central bank, or the European Central Bank, and
- the World Bank, the International Monetary Fund, the European Investment Bank, or another international financial institution.
- A commercial undertaking (including foreign entities) which, according to its most recent financial statements, satisfies at least two of the following three criteria:
 1. a net asset value corresponding to at least EUR 20 000 000,
 2. annual aggregate net turnover corresponding to at least EUR 40 000 000,
 3. equity corresponding to at least EUR 2 000 000.

Eligible Counterparty

The Eligible Counterparty is a Professional Client listed in the Capital Markets Act. 42FS is under no obligation to fulfil the duties set out in the Capital Markets Act vis-a-vis such a Client.

Advice on the consequences of Client categorization and on transfer rights

The Capital Markets Act sets out certain duties which 42 FS must observe with respect to Clients, depending on the defined categories of Clients. Differences in the treatment of Clients within the statutory categories comprise the following in particular:

- I. **Level of protection of the Client.** Retail Clients can be sure to receive a maximum level of protection from 42FS. Professional Clients must be granted a minimum level of protection by 42FS. Eligible Counterparties enjoy almost no protection at all with respect to the provision of investment services.
- II. **Information disclosure duties.** Retail Clients, unlike Professional Clients, are entitled to detailed information in connection with the provision of investment services under the Capital Markets Act.
- III. **In-depth suitability and adequacy test (assessment of financial instruments).** When rendering investment services to a Professional Client, 42FS may assume that they possess certain qualities.

Recategorization of Clients

Clients who receive investment services from 42FS may ask to be allocated to a different Client category. A change of Client category may concern either (i) the investment services provided, or (ii) trade(s) in a specific investment instrument. Provided that the quantitative thresholds set out in the law are met, a Retail Client may ask to be transferred from the category of Retail Clients to the category of Professional Clients. This transfer is associated with a loss of the previous level of protection and kind of treatment. The Retail Client must be made aware of the fact that they may in such a case no longer be eligible for compensation from foreign systems similar to the Guarantee Fund of Securities Traders, and become subject to restricted performance of certain bank duties under the Capital Markets Act. Professional Clients may ask to be transferred to a category with a higher level of protection (i.e., the category of Retail Clients).

Assignment of categories to Clients - 42FS will inform the Client about the assigned category in writing, no later than upon execution of the Agreement.