

# **Canaccord Genuity Limited**

## **Policy on Client Categorisation**

January 2018

**Department:** Compliance

**Version Date:** January 2018

## 1. Introduction

In formulating this policy we have considered the different services provided by Canaccord Genuity Limited (“CGL”) which has two principle areas of business :- Securities side of the business which faces investor clients and includes Research, Sales, Sales Trading and Trading as well as Investment Banking (Advisory and Corporate Broking) which acts for companies.

The Equities selling side of the business is caught by MiFID, however Research on its own is not a core MiFID service but is an ancillary service. However, as it is a service that is rarely provided in isolation to a client, we would be required to apply the MiFID client categories (COBS 3.1.4). In the event that Research was to be provided in isolation i.e. for a fee then the non-MiFID definitions can be used.

Corporate Finance M&A advice can be non-core MiFID business unless the advice involves a personal recommendation on securities. For example, advising a company about finding a buyer for it would not be MiFID business whilst advising a shareholder(s) on the value of and selling their shares in the company would be caught under ‘personal recommendation’ which is MiFID business. Placings and underwritings are core MiFID activities, and as a large proportion of CGL’s Corporate Broking business will involve the carrying out a placing (or occasionally underwriting) for the client, the policy of CGL is that in most cases Corporate Broking clients will be categorised under MiFID categorisations.

The COBS 3 rules require new clients to be notified of their category prior to the provision of the service, and the firm must keep records (for 5 years in relation to MiFID business or 3 years for any other business after ceasing a relationship with a client (COBS 3.8.2)) of the category, sufficient evidence to support it, evidence that notice of category was despatched to the client and a copy of any agreement entered into in this respect (i.e. an Elective Professional Client agreement - see below). The procedures to comply with these requirements are set out below under the relevant business areas and within those department’s procedure manuals.

This policy sets out below the three different types of clients categories, and then considers how the rules will be applied to the two different business areas.

## 2. Client Categories

There are three types of client categories: - Eligible Counterparties (COBS 3.6), Professional Clients (COBS 3.5) and Retail Clients (COBS 3.4).

### *Eligible Counterparty (ECP)*

Eligible Counterparties are, in summary, various types of EEA or other regulated financial institutions, pension funds, national governments, central banks or supranational organisations. A client can only be an ECP for ECP business. ECP business is limited to undertaking transactions for the client and ancillary services connected to that trade. It would not include the giving of investment advice. The protections provided to ECPs are materially less than those provided under the other client categories, including the fact that CGL is not required to give best execution to an ECP.

FCA rules also allow per se Professional Clients to opt up to ECP status, but it is the policy of CGL not to allow such opting up so procedures for opting up to ECP are not set out here.

### *Professional Client*

A client can be a per se professional client or an elective professional client.

**A Per Se Professional** client is one of the following (save to the extent they have been categorised as an ECP):

- a) an entity required to be authorised or regulated to operate in the financial markets, whether in an EEA state or other third country;

- b) a national or regional government, including a public body that manages public debt at national or regional level, a central bank, an international or supranational institution (i.e. World Bank, IMF) or another similar international organisation<sup>1</sup>;
- c) another institutional investor whose main activity is to invest in financial instruments (MiFID business) or designated investments (other business); or
- d) a large undertaking which meets the following criteria (the criteria are different depending on whether it is MiFID or non MiFID business):

In relation to MiFID business, a large undertaking must meet two of the following size requirements on a company basis (this means you can only consider the size of the company you are acting for and not the size of any holding company or subsidiary, this is different to non MiFID business):

- balance sheet total of EUR 20 million;
- net turnover of EUR 40 million; or
- own funds of EUR 2 million

Definitions for these purposes are: 'Own Funds' is calculated in accordance with the Banking Consolidation Directive; 'Net turnover' is calculated by reference to the turnover of the client; 'Balance sheet total' is calculated by reference to the most recent accounts of the client

In relation to Non MiFID business, a large undertaking is: (i) a body corporate (including an LLP) which has (or any of its holding companies or subsidiaries have) called up share capital or net assets of at least £5 million; or (ii) the undertaking meets (or any of its holding companies or subsidiaries meet) two of the following:

- balance sheet total of EUR 12.5 million
- a net turnover of EUR 25 million
- an average number of employees during the year of 250.

**An Elective Professional** is a client (other than local authorities and municipalities) that does not fall within the above definitions, but can be treated as an elective professional if the following apply (1-3 for MiFID clients and just 1 and 3 for Non MiFID clients):

- 1) the firm has undertaken an adequate assessment of the expertise, experience and knowledge of the client that gives reasonable assurance, in the light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved;
- 2) at least two of the following three criteria are satisfied:
  - a. the client has carried out transactions, in a significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;
  - b. the size of the client's financial instrument portfolio (includes cash deposits) exceeds €500,000;
  - c. the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged (the 'quantitative test' - this only applies to MiFID business); and
- 3) the following actions are taken:
  - a. The client must state in writing to the firm that it wishes to be treated as a professional client (either generally or in respect of a particular investment service or transaction or type of transaction or product – although note Canaccord's policy in this area for IB clients – see the section on page 7 titled "Opt Up or Opt Down");
  - b. CGL must give the client a clear written warning of the protections and investor compensation rights the client may lose; and

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<sup>1</sup> Note that local public authorities & municipalities are excluded from this list; to the extent that you are seeking to take on / categorise such an entity, please refer to page 4 and consult with Compliance.

- c. The client must state in writing, in a separate document from the contract (e.g. terms of business or engagement letter) that is aware of the consequences of losing such protections.

In practice, we may meet the requirement set out in (3) by: (i) sending our standard written warning of the protections the client may lose alongside our terms of business and (ii) asking the client to sign and return a copy of the warning. In the warning, the client states that they wish to be treated as a professional client and confirm that they are aware of the consequences of such.

### ***Retail Client***

Retail clients have the greatest regulatory protection. Any client not falling within the above two categories (such as private individuals as well as local public authorities and municipalities) will be retail clients.

Under FCA rules clients may, either on the initiative of the firm or at the client's request, and with the consent of the firm, be opted down to a more protective client classification. In most cases it is the policy of CGL not to agree to act if a per se professional client requests treatment as a retail client.

### ***Local Public Authorities and Municipalities opt up to Elective Professional***

Under MiFID II we cannot opt such clients to elective professional status unless they meet the requirements set out below:

The municipality / local authority client satisfies the requirement in (i), AND one of the requirements under (ii)(a)-(c) below:

- i. the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds € 10,000,000; AND
- ii. Either:
  - a) the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters; or
  - b) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged; or
  - c) the client is an 'administering authority' of the Local Government Pension Scheme within the meaning of Schedule 3 of The Local Government Pension Scheme Regulations 2013 (SI/2356) or, (in relation to Scotland) within the meaning of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity.

For non-UK based prospective clients that are local authorities or municipalities, confirm that the prospective client satisfies the requirements in (i) or (ii) below:

- i. where the local public authority or municipality is established in an EEA State and the EEA State has adopted alternative or additional criteria to those listed in (ii) below, the client satisfies those criteria as set out in the law of that EEA State; or
- ii. in any other case, the client satisfies at least two of the following criteria:
  - a) the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;
  - b) the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds € 500,000; or
  - c) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

### 3. Equities Business

#### Who is a client? (COBS 3.2)

- a person to whom a firm provides, intends to provide or has provided a service or ancillary service in the course of carrying on a regulated activity
- includes a potential client
- anyone to whom a financial promotion (approved or communicated by us) is communicated, or likely to be communicated to
- if CGL provides a service to a person, where we know they are acting as agent for underlying clients, our client is the agent providing:
  - (i) we have not agreed otherwise; and
  - (ii) the agent is authorised or, if the agent is unauthorised, provided that the main purpose of such an arrangement is not to avoid duties that we would otherwise owe the underlying client

#### Who are the clients of the equities business?

CGL provides research and/or dealing services mainly to authorised firms, as well as to some companies. Many of the authorised institutions have underlying funds or clients, whose investments they manage but in such cases it is the institution that is generally regarded as the client of CGL. It also has a few individuals to whom it provides an execution only dealing service and who will be opted up as professionals or, more likely, Retail Clients. These are approved on an exceptional basis normally related to our corporate clients, for example one of their directors or a material shareholder.

If CGL is dealing with a hedge fund or other organisation who requests CGL to give up the trade to a prime broker, it is the policy of CGL that our client in these cases is the entity that we advise and on whose behalf we are in reality acting rather than to the entity who the trade is booked to for settlement purposes i.e. our client is the hedge fund not the prime broker.

CGL also opens director and employee share dealing accounts for its investment banking corporate clients. In such cases the account is the name of the corporate and all orders are given by an agreed contact at the corporate, confirmations and monies are returned to the corporate. In such cases the corporate is the client not the underlying employees or directors. The corporate is able to provide this service to their employees and connected parties under Article 71 exemption in the Regulated Activities Order 2001.

CGL, after careful consideration, has taken the view that other brokers i.e. members of the LSE, dealing with our traders in the market or on the order book, where they have not already been on-boarded as clients in respect of other business (for that business only), are not clients. No service is provided to them and they are our competitors in the market. We are obliged as Market Makers to deal with these Brokers and can be hit on an order book by another Broker and will not even know it is them dealing against us. The firm does not believe the rules on client categorisation were intended to catch these market to market activities. However, should CGL continue to provide a service to any Broker whether it is Corporate Finance advice or Investment Advice i.e. to the private client fund manager side of a Broker they would be a client for that service and be categorised accordingly. Equally where we execute orders for foreign brokers we will treat them as a client and categorise them as such as they are not competitors in our market and they have come to us to ask us to provide them with a service.

#### How will clients be categorised?

The majority of our clients will be Professional but we will have some ECPs and a limited number of Retail.

The ECP definition is relevant to the Securities side of the business where the majority of CGL's dealing clients are FCA authorised institutions. However as (1) we may wish to provide more services than simply dealing for these clients i.e. advice and (2) they have underlying clients to protect e.g. on best execution, most firms are not prepared to be categorised as an ECP. There are some foreign brokers who we would classify as ECPs as they do not have underlying clients. Equally, if a client wishes to deal with the traders

directly, for example our fixed income desk rather than through a salesman or sales trader, they would need to be categorised as ECPs. Where a client falls within the Per se Professional Client status they will be classified as such.

Taking on a Retail Trading Client requires Compliance approval and the reason for opening the account will be noted on the form; it is the exception rather than the rule as CGL's business is institutional.

Employees who wish to personal account trade must open an account with Canaccord Genuity Wealth Management Limited or an external broker; they cannot have an account with CGL.

## Opting up or down

The client categorisation rules allow both opting up and opting down. CGL will not generally provide a service to a Professional Client who requests to opt down and be categorised as a Retail Client. Our terms of business do, as required by the rules, explain that such a customer may request other forms of classification, with greater or lesser protections, however we make it clear that our policy is not to provide a service on that basis.

To opt up from a Retail Client<sup>2</sup> to a Professional Client would require all three parts of the Elective Professional Client requirements to be satisfied, as the services being provided by Securities are MiFID business unless the only service they receive is the receipt of our Research. The 'quantitative test' means that it is likely to be of limited use to the few clients we have who aren't regulated institutions i.e. directors of Corporate Clients may satisfy knowledge and experience but they are unlikely to satisfy two out of three of the 'quantitative tests'.

## How will categorisation be approved and recorded?

Before CGL can trade for a client or provide them with investment advice, a new client form must be completed and approval received from the Head of Sales, the Head of Trading or the CEO **and** Compliance. This form requires the category to be recorded on the form and it will be checked by Compliance prior to approval. The information supporting the category i.e. the FCA evidence of approval or the large undertaking's accounts, will be held by Compliance with a copy of the Form.

Client categorisations for trading clients are recorded on the Trading Clients Master spreadsheet. This spreadsheet is kept in the Compliance drive.

## How will the client be notified and when?

The Client will be notified of its categorisation in their Terms of Business. These are sent prior to CGL executing any transaction or giving any advice.

These Terms are sent out by Compliance on receipt of a request from Sales that they wish to trade with a potential new client by email. Our Order Retail and Professional Execution Policies for trading clients is sent with the relevant Terms which have to be expressly agreed to prior to CGL executing any trade for that client. Compliance records the sending of the Terms and the receipt of agreement to the Order Execution policy ("OEP") for Professional Clients or OEP for Retail Clients.

## 4. Corporate finance business

### What is a client? (COBS 3.2)

- a person to whom a firm provides, intends to provide or has provided a service or ancillary service in

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<sup>2</sup> With the exception of local authorities and municipalities that must pass a separate set of conditions to opt up to an elective professional detailed on page 4.

- the course of carrying on a regulated activity
- includes a potential client
- anyone to whom a financial promotion (approved or communicated by us) is communicated, or likely to be communicated to
- if CGL provides a service to a person, where we know they are acting as agent for underlying clients, our client is the agent providing:
  - a) we have not agreed otherwise; and
  - b) the agent is authorised or, if the agent is unauthorised, the main purpose of such an arrangement is not to avoid duties that we would otherwise owe the underlying client

The guidance with this rule makes it clear that a corporate finance contact (i.e. an actual or potential investor/placees) is not a client. If, however, a financial promotion is communicated or directed at such a person the communication will need to meet the relevant standards, and if monies are received from them then anti-money laundering verification needs to be undertaken but they do not need to be categorised; the placing terms and conditions make it clear that the placee is not CGL's client. Care will need to be taken in Investment Banking before sending such financial promotions and there are procedures set out in their manual to cover this.

### How will clients be categorised?

All Investment Banking clients will be categorised as either a Professional Client or a Retail Client. The service provided means they cannot be an ECP. Where a client falls within the Per se Professional Client status they will be classified as such.

If a client does not fall within the definition, Investment Banking will consider with Compliance if the client could be opted up (see below) or if they must be treated as a Retail Client.

### Opting up or down

How easy it will be to opt up an Investment Banking client will depend on the role that CGL is intending on carrying out.

If the role is MiFID business (i.e. Corporate Finance advice with a Placing or Underwriting or advice in respect of Securities rather than the purchase of assets) to opt up from a Retail Client to a Professional Client would require all three parts of the Elective Professional Client requirements to be satisfied. It is very unlikely that any corporate client would satisfy the quantitative test as although they may have an investment portfolio of the right size they are unlikely to satisfy either of the other two limbs unless they are within the financial services sector. In considering the knowledge and experience i.e. the qualitative test the directors who we are providing advice to can be assessed; however the quantitative test rules do not allow you to look at the number of personal account transactions a director may have carried it, it must be the corporate entity itself.

If the proposed role is not MiFID business i.e. it is an M&A transaction which does not involve a securities exchange element under the Panel rules or a retained Advisory or Broking role without any Placing or Underwriting, then it would be possible to opt the client up providing the board has the appropriate expertise.

The rules technically would allow us to categorise a Corporate client differently for each different role we undertook i.e. we could classify the Corporate Client via the opting up provisions as a Professional Client for our retained Nominated Adviser or Broker role, and as a Retail Client for any Placing or Underwriting. However, it is our view that this leads to confusion both for the client and our employees and thus the Investment Banking team will consider the likely service we will be providing to a client on an ongoing basis and classify accordingly i.e. retained listed clients will be classified under the MiFID route to cover future Fundraisings whilst a one-off piece of M&A work may be categorised in accordance with the FCA rules relating to non MiFID business.

## How will categorisation be approved and recorded?

A New Business Committee Form has to be completed prior to acting for a Corporate client, which will be approved at the New Business Committee. This form requires categorisation to be recorded. The Investment Banking Procedures Manual has guidance on how to categorise. Compliance will attend this meeting and consider the category that the Executive has placed the Corporate Client in, and amend where necessary. Compliance must ensure the form or attached documentation supports the categorisation selected.

A copy of the New Business Committee Form and any supporting documentation is held by both Compliance and the Investment Banking team members. All retained client categorisations are recorded on the AML Corporate Client Master Client spreadsheet. Categorisations for new corporate clients (whether retained or not) are also recorded on the Record of AML Checklist Signed spreadsheet. These spreadsheets are kept in the Compliance drive.

## How will the client be notified and when?

An Investment Banking Client can be notified of its categorisation in one of two ways. Our engagement letters set out the client categorisation and sends the required opt up notice where necessary. These engagement letters are sent after receiving new business approval and prior to announcing CGL's appointment. It does not matter for the purpose of these notification requirements that the client has not signed and returned the letter; it is the time of our sending it which is important.

However, as noted above under "What is a Client?" potential clients fall within this and under the rules, in respect of MiFID business, we would be required to inform a potential client of their category prior to the provision of any services. There are occasions when advice will be given to a client before either party has agreed formally to work together, in fact CGL may decide after doing its due diligence that it does not wish to act. Much of this early stage work would not amount to an investment service (i.e. advice) at all but before any material advice or other investment service is provided the mandate letter must be sent or if there are tactical reasons for not engaging with the client yet, this should be discussed with Compliance so the appropriate categorisation notification can be made separately. For potential transactions for retained clients this is not an issue as the classification has been done when the client was first taken on.

In the event the Corporate Client is one who we are opting up to Professional Client status, the notice must be sent and the client must agree to this opted-up status prior to providing advice. Until the client has agreed to the opt-up they will be a Retail Client.

## 5. General

### *Ongoing Requirements*

CGL should re-assess a client's categorisation where we become aware of any change that might affect a client's categorisation. CGL may choose to cease to act for a client who no longer fulfils the initial conditions that made it eligible for categorisation as an elective professional client and where CGL does not want to deal with the client as a retail client.

### *Record Keeping*

In addition to simply categorising the client, CGL must ensure that it gathers the required substantiating evidence as required (e.g. evidence of the nature of the potential client, evidence that size criteria has been met etc.).

CGL must ensure that the client file contains records of appropriate due diligence having been undertaken to evidence the basis of the client's categorisation.