Product Governance Policy

Instant Trading EU Ltd

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Product Governance Policy – Version control

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Introduction & Purpose

Instant Trading EU Ltd (Reg. HE 266937) with head office address at 23A, Spetson, Leda Court, Block B, Office B203, Mesa Geitonia, CY- 4000 Limassol, is a Cypriot Investment Firm incorporated and registered under the laws of the Republic of Cyprus, which is authorized and regulated by the Cyprus Securities and Exchange Commission (hereafter the "CySEC") with license 266/15.

Instant Trading EU Ltd , offers a variety of investment products to Retail and Professional Clients ("Clients"). Firms such as the Company are required to have procedures in place that regulate the products and services offered by the Company at all stages.

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 Directive 2014/65/EU.

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 interest of its clients.

For each financial instrument in its product assortment, the Company shall assess whether it falls under the manufacturer or distributor category. There may be cases where the Company shall be considered as both, manufacturer and distributor. For this reason, the applicable requirements and procedures that the Company should follow, depending on whether the Company acts as manufacturer and/ or distributor, can be found in the present Product Governance Policy (the "Policy").

For each financial instrument in its product assortment, the assessment of whether the Company is considered manufacturer and/ or distributor, the identified positive and negative target market, as well as the defined distribution strategy, can be found in the Appendix of this Policy.

Legal Framework

The regulatory framework in place regarding the product governance requirements comprises of the following:

- Directive 2014/65/EU (hereafter the "MiFID II") issued by the European Parliament and the Council of the European Union;
- Delegated Directive (EU) 2017/593 on 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;
- ESMA Guidelines on MiFID II product governance requirements;
- CySEC's Directive DI87-01 on 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; and
- CySEC's Circular C236.

Definition

'Distributor' refers to a firm that offers, recommends or sells an investment product and service to a client.

'Manufacturer' refers to a firm that manufactures an investment product, where manufacturing includes the creation, development, issuance or design of that product, including when advising corporate issuers on the launch of a new product.

<u>General Requirements</u>

When acting as manufacturer of a financial instrument, the Company shall:

- ensure that the financial instrument it manufactures is designed to meet the needs of an identified target market of end clients within the relevant category of clients;
- ensure that the strategy for distribution of the financial instrument is compatible with the identified target market; and
- take reasonable steps to ensure that the financial instrument is distributed to the identified target market.

Product Approval

The Company shall maintain, operate and review a process for the approval of each financial instrument (and significant adaptations of existing financial instruments) before the instrument is marketed or distributed to clients.

The product approval process shall:

- specify an identified target market of end clients within the relevant category of clients for each financial instrument;
- ensure that all relevant risks to the identified target market are assessed;
- ensure that the intended distribution strategy is consistent with the identified target market.

Conflicts of Interest and Stability of Financial Markets

The Company shall have procedures and arrangements in place to ensure that conflicts of interest are properly managed. When manufacturing a financial instrument, the Company shall ensure that the design of the financial instrument, including its features, does not adversely affect end clients or does not lead to problems with market integrity, by enabling the Company to mitigate and/ or dispose of its own risks or exposure to the underlying assets of the product where the Company already holds the underlying assets on own account.

Each time a financial instrument is manufactured, the Company shall analyze potential conflicts of interest; it shall assess whether the financial instrument creates a situation where end clients may be adversely affected if they take:

- an exposure opposite to the one previously held by the Company itself; or
- an exposure opposite to the one that the Company wants to hold after the sale of the product.

The Company shall also ensure, before launching a product, that the manufactured product does not represent a threat to the orderly functioning or the stability of financial markets.

Target Market

Positive Target Market

The Company shall specify the type(s) of client for whose needs, characteristics and objectives the financial instrument is compatible.

The potential target market of each financial instrument it manufactures shall be specified at a sufficient granular level. The level of granularity of the target market shall be proportionate to the nature of the financial instrument and distribution strategy.

When the Company acts as manufacturer only, given the absence of specific client information, target market assessment shall be rather abstract and shall be based, inter alia, on the Company's theoretical knowledge of and past experience with the product.

The identification of the target market shall be based on an assessment of end clients for whose needs and objectives the product is intended, taking into account the nature of the product. In particular, the Company shall:

assess whether the risk/ reward profile of the financial instrument is consistent with the target market and whether the financial instrument design is driven by features that benefit the client and not by a business model that relies on poor client outcomes to be profitable;

Consider the charging structure proposed for the financial instrument and examine the following:

- whether the financial instrument's costs and charges are compatible with the needs, objectives and characteristics of the target market;
- whether the charges undermine the financial instrument's return expectations, such as where the costs or charges equal, exceed or remove almost all the expected tax advantages linked to a financial instrument; and
- whether the charging structure of the financial instrument is appropriately transparent for the target market, such as that it does not disguise charges or is too complex to understand.

When identifying the target market for a financial instrument, the Company shall use the following list of five categories:

- client type: "retail client", "professional client".
- 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.
- 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).
- 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").
- 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.

For more complicated products, such as CFDs, the target market shall be identified with more detail, while for simpler, more common products, the target market could be identified with less detail.

Negative Target Market

For each financial instrument it manufactures, the Company shall also identify a negative target market, i.e. any group(s) of clients for whom the product is incompatible, by using the same five categories as stated above.

When acting as a manufacturer only, where the Company does not have a direct relationship with end-clients, it shall identify the negative target market on a theoretical basis.

Product Testing

The Company shall conduct a scenario analysis, assessing the risks of poor outcomes for end clients posed by the product and in which circumstances these outcomes may occur.

The Company shall assess the financial instrument under negative conditions, taking into account various factors such as stress testing and reliability of data/ assumptions. For example, the Company shall examine what would happen if:

- the market environment deteriorated;
- the Company or a third party involved in manufacturing and or functioning of the financial instrument experiences financial difficulties or other counterparty risk materializes;
- the financial instrument fails to become commercially viable; or

  the demand for the financial instrument is much higher than anticipated, putting a strain on the Company's resources and/or on the market of the underlying instrument

Distribution Strategy

The Company shall define its distribution strategy and shall make its best efforts to select distributors whose clients and services are aligned with the Company's identified target market.

The Company shall propose the type of investment service through which the product could be sold (e.g. execution only, advisory, discretionary) and if the product is deemed appropriate for a sale without advice, the Company may also specify the preferred acquisition channel (e.g. face to face, telephone, online etc).

Information exchange between the Company and distributors

In order to enable the distributors to understand and recommend/ sell a financial instrument properly, the Company shall have arrangements in place to ensure that sufficient information is given to distributors, including the appropriate channels for distribution of the financial instrument, the product approval process, the identified target market and target market assessment.

In addition, the Company shall have appropriate and effective arrangements in place to ensure that it receives information back from the distributors in relation to the manufactured products, in order to ensure that such products are being sold to the appropriate target market.

Review

Financial instruments manufactured by the Company shall be reviewed:

On a regular basis, taking into account any event that could materially affect the potential risk to the identified target market; for each financial instrument it manufactures, the Company shall assess at least whether:

- the financial instrument remains consistent with the needs, characteristics and objectives of the identified target market;
- the intended distribution strategy remains appropriate;
- the financial instrument is being distributed to the target market; and
- the financial instrument is reaching clients for whose needs, characteristics and objectives the financial instrument is not compatible.

Prior to any further issue or re-launch, if the Company is aware of any event that could materially affect the potential risk to investors.

Crucial events that would affect the potential risk or return expectations of the financial instrument shall also be identified (e.g. the crossing of a threshold that will affect the return profile of the financial instrument or the solvency of certain issuers whose securities or guarantees may impact the performance of the financial instrument).

When crucial events occur, the Company shall take appropriate action, including inter alia:

- the provision of relevant information on the event and its consequences on the financial instrument to the clients or the distributors of the financial instrument (if the Company does not offer or sell the financial instrument directly to the clients);
- changing the product approval process;
- stopping further issuance of the financial instrument;
- changing the financial instrument to avoid unfair contract terms;

- where the Company becomes aware that the financial instrument is not being sold as envisaged, considering whether the sales channels through which the financial instruments are sold are appropriate;
- contacting the distributor to discuss a modification of the distribution process;
- terminating the relationship with the distributor; or
- informing the relevant competent authority.

At regular intervals, to assess whether the financial instruments function as intended.

For each financial instrument manufactured, the Company shall determine the frequency of such reviews based on relevant factors, such as factors linked to the complexity or the innovative nature of the investment strategies pursued.

Collaboration with other entities in the manufacturing of products

When collaborating with other entities (including entities which are not authorized and supervised in accordance with MiFID II or third-country firms) to manufacture a product, the mutual responsibilities of those entities and the Company shall be outlined in a written agreement.

Where the Company collaborates with other entities to manufacture a financial instrument, only one target market shall be identified.

Requirements and Procedures for Distributors

When acting as a distributor, the Company shall:

- understand the financial instruments it distributes to clients;
- assess the compatibility of the financial instruments with the needs of the clients to whom it distributes investment services, taking into account the manufacturer's identified target market of end clients; and
- ensure that financial instruments are distributed only when this is in the best interests of the client.

In selecting manufacturers, the Company shall consider what impact the selection of a given manufacturer could have on the end clients (e.g. in terms of the financial strength of the manufacturer or the charges) and shall also consider whether the given manufacturer will deal with the Company or the end clients (at the point of sale or subsequently) in an efficient and reliable manner.

Obtaining information from manufacturers

The Company shall have in place effective arrangements to ensure that it obtains sufficient information about the financial instruments it offers or recommends from the product manufacturers, in order to gain the necessary understanding and knowledge of the financial instruments it intends to distribute and ensure that the financial instruments are suitable for distribution to the Company's own identified target market.

Where manufacturers are not subject to MiFID II, the Company shall ensure that it obtains adequate and reliable information about their products. Where relevant information is not publicly available, the Company shall take all reasonable steps to obtain such relevant information from the manufacturer or its agent (e.g. entering into an agreement with the manufacturer or its agent in order to obtain all relevant information).

Acceptable publicly available information for products sold on primary and secondary markets is information which is clear, reliable and produced to meet regulatory requirements (e.g. disclosure requirements under the Prospectus Directive, the Transparency Directive, the UCITS Directive, the AIFMD Directive of third-country equivalent requirements).

Where the Company is not able to obtain in any way sufficient information on products from out-of-scope manufacturers, it shall refrain from including such products in its product assortment.

Target market and Distribution Strategy

<u>Positive Target Market</u>

The Company shall comply with the relevant product governance requirements even when offering or recommending products manufactured by out-of-scope entities. In this respect, the Company shall determine the target market for each financial instrument it offers or recommends, even if the target market was not defined by the product's manufacturer.

The Company shall use the information obtained from the manufacturer and the Company's knowledge of its own clients to identify the actual target market and distribution strategy for each financial instrument it intends to offer or recommend.

When identifying the actual target market, the Company shall use the same list of categories used by manufacturers (see section 6 of this Policy).

In addition, it shall consider:

- the nature of the financial instruments to be offered or recommended and how they fit with end clients' needs and risk appetite;
- the impact of charges on end clients;
- the manufacturer's financial strength; and
- where information is available on the manufacturer's processes, whether the manufacturer will deal with the end clients (at the point of sale or subsequently) in an efficient and reliable manner.

When acting both as a manufacturer and as a distributor, only one target market shall be identified.

It should be noted that the identification of the target market shall be a separate responsibility of the Company to that of conducting an appropriateness test for each client within the identified target market; the target market assessment shall be in addition to and before the assessment of the appropriateness.

<u>Negative Target Market</u>

The Company shall also identify any groups of clients for whose needs, characteristics and objectives the product or service is not compatible (i.e. negative target market), by using the same five categories as stated above.

<u>Sales outside the positive target market or within the negative target market</u>

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.

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.

Sales to the negative target market shall be reported to the manufacturer, who shall decide if remedial action should be taken.

It should be noted that 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.

<u>Distribution strategy</u>

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.

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 shall have in place adequate arrangements to ensure that the distribution strategy is consistent with the target market.

Review

<u>Review of product governance arrangements</u>

The Company shall periodically review and update its product governance arrangements and take appropriate actions if necessary.

<u>Post-sale review of financial instruments</u>

The Company shall regularly review the financial instruments it offers or recommends and the services it provides, taking into consideration any event that could materially affect the potential risk to the identified target market and shall assess at least whether the financial instrument is still consistent with the needs of the identified target market and whether the intended distribution strategy remains appropriate. The Company shall take appropriate actions following such review.

If the Company becomes aware that the target market has been incorrectly identified or that the product/service does no longer meet the circumstances of the identified target market (e.g. where the product becomes illiquid or very volatile due to market changes), it shall reconsider the target market and/or update its product governance arrangements.

Compliance with other rules

When deciding the range of financial instruments and investment services to be distributed as well as the target market of a product, the Company shall ensure that it complies with all applicable rules, including, inter alia, the rules on:

- disclosure;
- appropriateness;
- inducements; and
- conflicts of interest.

Information Sharing

The Company must provide to manufacturers information on sales and the post-sale reviews carried out by the Company.

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.

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

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

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 and are mentioned in this section.

When distributing financial instruments to other distributors (i.e. it does not have the direct client relationship), the Company shall:

- ensure that relevant product information is passed from the manufacturer to the final distributor in the chain;
- if the manufacturer requires information on product sales in order to comply with their own product governance obligations, enable them to obtain it; and
- in relation to the service it provides, apply the product governance obligations for manufacturers, as relevant.

Knowledge and competence of staff – Training of staff

The Company shall ensure that the relevant staff involved in the manufacturing of financial instruments possess the necessary expertise to understand the characteristics and risks of the financial instruments it intends to manufacture.

Staff involved in the distribution of financial instruments shall possess the necessary expertise to understand the characteristics and risks of the financial instruments that the Company intends to distribute, and the services provided, as well as the needs, characteristics and objectives of the identified target market.

The Company shall ensure that staff (newly hired and existing staff) involved in the manufacturing and/or distribution of financial instruments 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.

Oversight by management and compliance function

The Company's management body shall have effective control over the Company's product governance processes.

Information about the financial instruments manufactured by the Company, including information on the distribution strategy, shall be included in the compliance reports submitted to the management body.

The compliance function shall monitor the development and periodic review of the Company's product governance arrangements, to detect any risk of failure by the Company to comply with the relevant product governance obligations.

Policy Development and Review Procedure

The present Policy shall be reviewed by the Company's compliance function on an annual/quarterly basis, as well as on an ad-hoc basis where necessary for the Policy to remain robust and fit for its purpose and/ or in order to reflect any updates in the applicable requirements.

Following such review, the Policy shall be approved by the Board of Directors and shall be distributed to the employees involved in the manufacturing and/or distribution of financial instruments.

APPENDIX 1

- Overview

The Company offers CFDs on various underlying currency pairs. A Forex contract is a type of Contract for Differences (CFD) which is an agreement between a buyer and a seller to exchange the difference in value of a particular underlying instrument for the period between when the contract is opened and when it is closed. Forex CFDs are generally not suitable for long term investments and are intended for short term trading.

The risk indicator for this product has been set by the Company at 7 (i.e. highest risk with typically higher awards), which rates the potential losses from future performance at a very high level.

This product is not a listed instrument but is traded over the counter.

The Company's Role

The Company is considered as a manufacturer and distributor in relation to the said financial product.

Identified Positive Target Market

- Type of clients: retail and professional clients
- Clients' knowledge and experience: clients with experience on trading in CFDs or other types of derivatives trading and extensive knowledge of the characteristics of CFDs and the underlying assets including the main market factors that determine its price, the concept, effects and risks of leveraged trading, ability to understand the risks involved including the risk of losing 100% of the amount invested in a trade and the entire balance of their trading account in a short period of time, general understanding of capital markets and the derivative products in terms of investment objectives and attitude towards risk. Knowledge and experience may be dependent on each other in some cases (i.e. an investor with limited or no experience could be a valid target client if they compensate missing experience with extensive knowledge).
- Clients' financial situation with a focus on the ability to bear losses: ability to bear a 100% loss of the amount invested as well as entire balance of their trading account.
- Clients' risk tolerance and compatibility of the risk/reward profile of the product with the target market: clients with high risk tolerance; the general attitude of target clients in relation to the risk of investment is expected to be defined as risk-oriented and speculative.
- Clients' objectives and needs: clients looking for short term capital gain, speculative trading, with short term investment horizon, who want to invest in highly volatile markets and who want to have a diversified investment and savings portfolio; clients who have sufficient time available to frequently monitor their investment.

Identified Negative Target Market

Clients who should not invest:

- Clients' knowledge and experience: clients lacking the requisite knowledge and experience (i.e. clients who score 6/10 or less on 'Trading Experience' questions according to the Company's scoring system cannot start trading).
- Clients' financial situation with a focus on the ability to bear losses: clients lacking the ability to tolerate the risks of the investment and the ability to bear a 100% capital loss; clients who are looking for full capital protection or full repayment of the amount invested; clients who need a fully guaranteed income or fully predictable return profile.
- Clients' risk tolerance and compatibility of the risk/reward profile of the product with the target market: clients with low risk tolerance
- Clients' objectives and needs: clients with long term investment horizon, who do not want to be subjected to volatile markets; clients who do not have time to monitor their investments with due frequency.

Distribution Channel

Considering the target market analysis, [the optimal distribution channel for the product is via advised sales only. This will allow evaluation of whether the client fits into the target market]/ [the product can be promoted with or without advice, with no additional requirements or restrictions on distributors]/ [the product is eligible for all distribution channels (e.g. investment advice, portfolio management, non-advised sales and pure execution services).