

Icelandic Investors Ltd.

RULES ON CLASSIFYING CUSTOMERS



MAY 2020

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1. Purpose and scope

- 1.1. These rules are set, based on Art. 21 of Act no. 108/2007 on Securities Trading and par. 7 of Regulation no. 995/2007 on investor protection and business practices of financial undertakings.
- 1.2. The purpose of the rules is to ensure that Icelandic Investors Ltd. (hereafter “*Icelandic Investors*”, “*ÍFJ*” or “*the company*”) classifies its securities trading clients per the act and that only trading suitable for individual clients' classification is executed.

2. Responsibility

- 2.1. Icelandic Investors' employees are responsible for the enforcement of these rules in day-to-day operations.
- 2.2. If doubt arises over the execution or interpretation of the rules, employees shall seek the opinion of the compliance officer.

3. Classifying clients

- 3.1. Before trading occurs, Icelandic Investors shall have classified clients as a) professional clients, b) eligible counterparties, or c) retail clients.

Professional clients

- 3.2. Professional clients are clients with experience, knowledge, and expertise to make decisions on investments and evaluate the accompanying risk. The following parties are deemed to be professional clients:
 - 3.2.1. Legal persons, in Iceland or other countries, having operations or seeing to statutory operations on financial markets, including financial companies and companies related to the financial field, insurers, funds for mutual investment and their operations companies, pension funds and their operations companies, as relevant, sellers of commodities and commodity derivatives, regional parties and other institutional investors.
 - 3.2.2. Large companies fulfilling at least two of the following conditions:
 - i. The balance sheet total is €20 million or more.
 - ii. The net annual turnover is €40 million or more.
 - iii. The equity capital is €2 million or more.
 - 3.2.3. National and local governments, central banks, and international institutions, such as the International Monetary Fund, European Central Bank, European Investment Bank, and other comparable international institutions.
 - 3.2.4. Other institutional investors, the main work of which is to invest in financial instruments, including parties dealing with securities assets or other financial transactions.
 - 3.2.5. Parties accepted as professional clients, based on Art. 24 of the Act on Securities Trading no. 108/2007.
 - 3.2.6. Icelandic investors shall inform professional clients that they may request to be treated as retail clients. The increased protection will only be granted to professional clients after a written agreement with the company has been made to the effect that the party involved will not be treated

as a professional client. The agreement shall specify whether this applies generally or concerns specific trading, services, financial instruments, or products.

Eligible counterparty

3.3. An eligible counterparty means a client falling under Art. 3.2.1, 3.2.2, and 3.2.3.

3.3.1. When ÍFJ trades with an eligible counterparty, it shall obtain confirmation from the client that it shall be deemed an eligible counterparty. The obtained confirmation may be a general agreement or an agreement regarding particular trading.

3.3.2. An eligible counterparty may demand that ÍFJ treat it as a professional client or a retail client in its trading. If an eligible counterparty requests increased protection but does not unequivocally request treatment as a retail client, and the company agrees to this request, the party shall be treated as a professional client.

3.3.3. An eligible counterparty may also request the company to proceed according to the rules on investor protection set out in Art. 9, 14, 15, 16, and 18 and Art. 19 (1) of Act no. 108/2007 on Securities Trading, in their trading with the company.

Retail client

3.4. A retail client means a client that is neither a professional client nor an eligible counterparty.

3.4.1. A retail client can request treatment as a professional client if the conditions above in Art. 5 are met.

3.5. Icelandic Investors notify clients of their classification, inform them of their right to request to be placed in another classification and of restrictions on the scope of clients' protection by classification.

4. Changes affecting classification

4.1. Professional clients are responsible for notifying the company of changes that could affect their classification as professional clients.

4.2. ÍFJ is obligated to take appropriate measures if it becomes aware that a client no longer fulfils the conditions to be treated as a professional client.

5. Conditions a retail client must fulfil to be classified as a professional client

5.1. A retail client can request to be classified as a professional client generally or regarding particular trading or a type of trading. The company must receive such a request in writing on a form for that purpose.

To treat a client as a professional client, it shall fulfil at least two of the following conditions:

5.1.1. A client shall have engaged in considerable trading on securities markets in the last four quarters, on average at least 10 times per quarter.

- i. An individual requesting to become a professional client must have personally engaged in the transactions involved for his account and at his own risk. He must prove experience with the types of trading that his request to become a professional client covers. For example, if a client has solely traded in a certain type of financial instruments, but requests to become a professional client for all types of trading, approving his transfer between classifications is dubious since he does not have the required experience that professional clients may be presumed to have.
- ii. If a legal person requests to become a professional client, consideration will focus on the trading it has executed on its account. No consideration will be given to the personal experience of the legal person's directors. In other respects, the provisions of subpar. (i) will apply.

5.1.2. The value of an investor's portfolio shall exceed ISK 46.2 billion; this is a basic amount bound to the euro exchange rate (EUR) on 3 January 2007 (92.37).

- i. A client's net assets shall be considered. Securities assets are deemed to be financial instruments, cf. the definition in Art. 2 of the Act on Securities Trading.

5.1.3. A client shall serve or have served for at least one year in a position in the financial market requiring expertise in securities investments.

- i. A client that is an individual must have assessed the risk of investments and been responsible for the investment decisions as his main job for at least the last year. Frontline employees in a securities division and asset management are primarily those fulfilling these requirements. Other specialists in financial companies, such as lawyers and consultants in other fields would usually not fulfil these conditions.
- ii. A client who does not work in the financial market can fulfil this condition if the party's main job for the last year at least was being responsible for investments and assessing their related risk, cf., for example, an investment manager at a pension fund or an investment company.
- iii. Consideration is given to the knowledge of a legal person's employee who is responsible for the company's investments and assessing their risk. In other respects, the provisions of subpar. i) and ii) apply.

5.2. Also, Icelandic Investors make an independent evaluation of whether to grant a client's wish to be shifted into the classification of professional clients.

5.3. Icelandic Investors clearly explain to a client its legal protection and the additional rights there may be from shifting into the classification of professional clients. A client shall confirm in writing that it has acquainted itself with the company's summary of investor classifications.

6. Follow-up

6.1. The compliance officer and internal chartered accountant monitor the enforcement of these rules.

Approved by the Board of Directors of Icelandic Investors Ltd. 14 May 2020

The Board of Directors of Icelandic Investors Ltd.