



CLIENT CATEGORISATION AND REGULATORY PROTECTIONS

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1. INTRODUCTION

Scope

This document on Client Categorisation and Regulatory Protections sets out the regulatory requirements for these areas.

Specifically, this document, describes how Finalto Financial Services Ltd (“FFS”, “we” or “us”) classifies clients into the categories available under Applicable Laws and Regulations (as defined herein below) and what protections or loss of protections apply with the different client classifications.

This document forms part of the Customer Legal Documents Pack between FFS and any client or prospective client.

Our business activities

FFS enables clients to trade Rolling Spot, Contracts for Difference (“CFDs”) and Spread Betting (“SB”) via our online trading platforms. We effectively receive, transmit and execute clients’ orders in CFDs.

We always act as Principal (counterparty) to the trading of our clients.

We do not offer investment advice or portfolio management services. Our limited investment research is undertaken by third parties and is not addressed to any individual client for pursual. For clarity, our limited research also does not relate to any personal investment objectives of our clients.

2. THE LEGAL AND REGULATORY FRAMEWORK UNDER WHICH THIS DOCUMENT IS ISSUED AND IMPLEMENTED

This document is issued pursuant to, and in compliance with the provisions under Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments (otherwise referred to as “MiFID II”) which replaced Directive 2002/92/EC and Directive 2011/61/EU. This document is also written in line with Financial Services and Markets Act 2000 (FSMA) and FCA Handbook provisions, specifically Conduct of Business Sourcebook (COBS) Chapter 3 on Client Categorisation (“FCA rules”) covering relevant Laws and Regulations of the United Kingdom that apply to us.

In this document, we collectively refer to the above as the “Applicable Law” or the “Law”.

3. PER SE PROFESSIONAL CLIENTS

Under Section 3.5 of the FCA rules, the following entities are regarded as “per se” professional clients in all investment services and activities and financial instruments:

- (i) entities which are required to be authorised or regulated to operate in the financial markets, including organisations such as credit institutions, investment firms, other authorised or regulated financial institutions, insurance companies, collective investment schemes and their management companies, pension funds and their management companies; commodity and commodity derivative dealers, local authorities, any other institutional investors; *or*

- (ii) for MiFID or equivalent third country business, a large undertaking which meets two of the three following size requirements on a company basis:
 - i. a balance sheet is equal to or exceeds EUR 20,000,000;
 - ii. a net turnover is equal to or exceeds EUR 40,000,000; or
 - iii. own funds equal to or exceeds EUR 2,000,000; *or*
- (iii) in relation to business that is not MiFID or equivalent third country business, a large undertaking meeting any of the following conditions;
 - a. a body corporate (including a limited liability partnership which has (or any of whose holding companies or subsidiaries has) (or has had at any time during the previous two years) called up share capital or net assets of at least £5 million (or currency equivalent at the relevant time));
 - b. an undertaking that meets (or any of whose holding companies or subsidiaries meets) two of the following tests:
 - i. a balance sheet total of EUR 12,500,000;
 - ii. a net turnover of EUR 25,000,000;
 - iii. an average number of employees during the year of 250;
 - c. a partnership or unincorporated association which has (or has had at any time during the previous two years) net assets of at least £5 million (or currency equivalent at the relevant time) and calculated in the case of a limited partnership without deducting loans owing to any of the partners;
 - d. a trustee of a trust (other than an occupational pension scheme, SSAS, personal pension scheme or stakeholder pension scheme) which has (or has had at any time during the previous two years) assets of at least £10 million (or currency equivalent at the relevant time) calculated by aggregating the value of the cash and designated investments forming part of the trust's assets, but before deducting its liabilities;
 - e. a trustee of an occupational pension scheme or SSAS, or a trustee or operator of a personal pension scheme or stakeholder pension scheme where the scheme has (or has had at any time during the previous two years):
 - i. at least 50 members;
 - ii. assets under management of at least £10 million (or currency equivalent at the relevant time)
- (iv) a national or regional government, public body that manages public debt, central banks, international or supranational institution (such as the World Bank, the IMF, the ECB, the EIB or other similar international organisation).
- (v) another institutional investor whose main activity is to invest in financial instruments (for MiFID or equivalent third country business) or designated investments (in relations to the firm's other business). This includes entities dedicated to the securitisation of assets or other financing transactions.

4. ELECTIVE PROFESSIONAL CLIENT

A client, other than a local public authority or municipality, will be treated as an "elective" professional client, only at their request, and if we comply with 4.(1) and 4.(3) and, where applicable, 4.(2):

- 1) the client can evidence retention of the minimum requirements that we require in relation to expertise, knowledge and experience of trading in complex financial instruments (otherwise known as the "qualitative test"). Our adequacy assessment of these observable client actions provides us with reasonable assurance that the client can make their

own investment decisions and understand the risks involved in such activity;

- 2) in relation to MiFID/third country business, two of the below are satisfied (otherwise known as the “quantitative” test):
- a. the client has carried out transactions on the relevant market at an average frequency of 10 per quarter over the past four quarters;
 - b. the size of the client’s financial instrument portfolio (defined as including cash deposits and financial instruments) exceeds EUR 500,000;
 - c. the client works or has worked in the financial sector for at least one year in a professional position, in which requires knowledge of the transactions or services envisaged; and

We reserve the right to request independent documentary evidence to support the above criteria. We will not permit clients to receive the elective classification to “professional” client if these criteria are not met.

- 3) the following procedure is followed:
- a. the client states in writing to us that they wish to be treated as a “professional” client, either generally or in respect of a particular service or transaction, or type of transaction or product;
 - b. we give the client a clear written warning of the protections and investor compensation rights that the client may lose as a result of their reclassification request; and
 - c. the client states in writing, in a separate document from the contract, that they are aware of the consequences of losing such protections.

5. ELIGIBLE COUNTERPARTIES

An eligible counterparty can be either a “per se” eligible counterparty or an “elective” eligible counterparty.

Per se eligible counterparty

Each of the following is a “per se” eligible counterparty (including an entity that is not from the UK that is equivalent to any of the following) unless and to the extent it is given different categorisation:

- 1) an investment firm;
- 2) a credit institution;
- 3) an insurance company;
- 4) a collective investment scheme authorised under the UK provisions which implemented the UCITS Directive or its management company;
- 5) a pension fund or its management company;
- 6) another financial institution authorised or regulated under the law of the UK;
- 7) a national government or its corresponding office, including a public body that deals with public debt at national level;
- 8) a central bank; and
- 9) a supranational organisation.

Elective eligible counterparty

We may treat a client as an elective eligible counterparty if:

- 1) the client is an undertaking and:
 - a) is a per se professional client (except for a client that is only a per se professional client because it is an institutional investor under COBS 3.5. R(5)) and, in relation to business other than MiFID or equivalent third country business:
 - i. is a body corporate (including a limited liability partnership) which has (or any of whose holding

- companies or subsidiaries had) called up share capital of at least £10 million (or its equivalent in any other currency at the relevant time); or
 - ii. meets the criteria in the rule on meeting two quantitative tests (FCA rules, COBS 3.5.2 R(3)(b)); or
- 2) We have, in relation to MIFID or equivalent third country business, obtained explicit confirmation from the prospective counterparty that it has agreed to be treated as an eligible counterparty.

The categories of elective eligible counterparties include an equivalent undertaking that is not from an EEA State provided the above conditions and requirements are satisfied.

6. RETAIL CLIENTS

A retail client is any client who does not satisfy the criteria to qualify as a professional client or eligible counterparty.

Finalto does not accept and does not offer any services to retail clients.

7. REQUEST FOR DIFFERENT CATEGORISATION

A professional client or an eligible counterparty has the right to request to be re-classified as a "retail client" to obtain a higher level of regulatory protection. However, it is the responsibility of the client, to request a higher level of protection when it deems it is unable to properly assess or manage the risks involved in trading in complex financial instruments. However, Finalto Financial Services currently do not offer services to Retail Clients. Customers that wish to be classified as a Retail client may be informed we do not offer such services and may have to end their relationship with us.

Where an eligible counterparty requests treatment as a client whose business with us is subject to FCA COBS protections, we shall treat that eligible counterparty as a professional client. The request should be made in writing and shall indicate whether the treatment as professional client refers to one or more investment services or transactions, or one or more types of transaction or product.

Before deciding to accept any reclassification requests, we will take all reasonable steps to ensure that the client meets the relevant criteria of the category of their request. Upon receipt of a re-categorization request, we shall inform the Client, in writing, about the rights and protections of the different categorisation and about any limitations to the level of client protection that new category would entail. It is at the discretion of the firm to assess whether it will accept a client's request for a different classification.

Before services are provided, new clients will be notified of how FFS have categorised them. Clients will also receive a link to the "Standard Terms of Business". We reserve the right to decline a client's requests for different categorisation. We also reserve the right to re-categorize a client in line with provisions in accordance with FCA Principle 7 (communications with clients) and will notify the respective client of its new category accordingly. If we already have an agreement with the client, we will also consider any contractual requirements concerning the amendment of that agreement and notify the client of changes to the limits of protection.

The ways in which a client may be provided with additional protections under this section include re-categorisation:

- On a general basis; or
- On a trade-by-trade basis; or
- In respect of one or more specified rules; or
- In respect of one or more particular services or transactions; or

- In respect of one or more types of product or transaction.

8. TYPES OF CLIENT CLASSIFICATION AND THE DIFFERENCES IN PROTECTION

Retail clients are entitled to the highest level of regulatory protection. FFS has taken the strategic decision to exit the retail market and accordingly does not accept nor offers services to retail clients.

Professional clients will be entitled to fewer protections than they would be entitled to as a Retail client. In particular;

- a. Professional clients may lose more general protections, e.g. you will not be offered negative balance protection, or your margin close on account level does not need to be minimum 50%;
- b. a professional client may lose their right to refer complaints to either the FCA and/or the FOS as they may not be considered eligible complainants;
- c. when providing a professional client with “best execution”, we are not required to prioritise the overall costs of the transaction as being the most important factor in achieving best execution for professional clients;
- d. We may not choose to treat professional clients in the same way as we would retail clients based on Consumer Duty provisions;
- e. We are not required to perform an appropriateness assessment and will assume the client has the necessary knowledge and experience, and;
- f. Under FCA Product Intervention rules, leverage does not need to be restricted in the way it would for retail clients.

An eligible counterparty client will be entitled to even fewer protections under the Law than a professional client. In addition to fewer protections applied to professional clients, they are:

- a. an eligible counterparty will be given fewer information disclosures with regard to the fees or commissions that FFS receives or pays;
- b. FFS may not provide an eligible counterparty with annual cost and charges statements;
- c. where FFS assesses whether a product or service is appropriate for the clients, we can assume that the eligible counterparty has the necessary level of knowledge and experience to understand the risks involved in it;
- d. FFS is not required to provide an eligible counterparty with risk disclosures on the products or services that they select;
- e. FFS is not required to provide an eligible counterparty with best execution, while executing its orders;
- f. FFS are not required to provide an eligible counterparty with periodic statements as frequently or with as much detail as for retail clients;
- g. FFS is not required to provide an eligible counterparty with information about the company, its services and the arrangements through which the Company will be remunerated.

This is a non-exhaustive list and further information will be provided on the relevant notice letter provided to a client subject to their categorization.