



**SM CAPITAL MARKETS**

Global Online Trading

## SM CAPITAL MARKETS

# INVESTOR COMPENSATION FUND POLICY

SM CAPITAL MARKETS LTD (previously named ABC 123 (CY) LTD)

is authorized and regulated by CySEC License (339/17)

with its registered business Office

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## INTRODUCTION

SM Capital Markets Ltd Previously ABC 123 (CY) Ltd (hereafter the “Company”) is a member of the Investor Compensation Fund (the “Fund”) for Customers of Cyprus Investment Firms (CIFs) and other Investment Firms (IFs) which are not credit institutions, which was established under the Investment Firms Law 2002 as amended and replaced by Law 144(I)/2007 (the “Law”) and the Establishment and Operation of an Investor Compensation Fund for Customers of CIFs Regulations of 2001 which were issued under the Law.

The Fund constitutes a private law legal entity and its administration is exercised by an Administrative Committee of five members, who are designated for a three-year term. The object of the Fund is to secure the claims of the covered clients against the members of the Fund by the payment of compensation for their claims arising from the covered services provided by its members, so long as failure by the member to fulfill its obligations has been ascertained.

It is a legal obligation for CIFs and other IFs, which are not banks, to subscribe to the Fund.

Any compensation provided to clients by the Investor Compensation Fund shall not exceed EURO20.000. This applies to clients’ aggregate claims against the Company.

## COVERED CLIENTS

The Fund covers the clients of the Company, except those belonging into the following categories:

- a. The following categories of institutional and professional investors:
  - i. IFs
  - ii. legal entities associated with the member of the Fund and, in general, belonging to the same group of companies
  - iii. banks
  - iv. cooperative credit institutions
  - v. insurance companies
  - vi. collective investment organizations in transferable securities and their management companies
  - vii. social insurance institutions and funds
  - viii. investors characterized by the member as professionals, upon their request
- b. States and supranational organizations
- c. Central, federal, confederate, regional and local administrative authorities.
- d. Enterprises associated with the member of the Fund

- e. Managerial and administrative staff of the member of the Fund
- f. Shareholders of the member of the Fund, whose participation directly or indirectly in the capital of the member of the Fund amounts to at least 5% of its share capital, or its partners who are personally liable for the obligations of the member of the Fund, as well as persons responsible for the carrying out of the financial audit of the member of the Fund, such as its qualified auditors
- g. Investors having in enterprises connected with the member of the Fund and, in general, of the group of companies, to which the member of the Fund belongs, positions or duties corresponding to the ones listed in paragraphs (v) and (vi)
- h. Second-degree relatives and spouses of the persons listed in paragraphs (v), (vi) and (vii), as well as third parties acting for the account of these persons
- i. Apart from the investors, investors-clients of a member of the Fund responsible for facts pertaining to the member of the Fund that have caused its financial difficulties or have contributed to the worsening of its financial situation or which have profited from these facts
- j. Investors in the form of a company, which due to its size, is not allowed to draw a summary balance sheet in accordance with the Companies Law or a corresponding law of a Member State.

*In the cases of paragraphs (e), (f), (g) and (h), the Fund suspends the payment of compensation informing the interested parties accordingly, until it reaches a final decision as to whether such cases apply.*

## COVERED SERVICES

Covered services are the following investment services which are offered by the Company:

- a. Reception and transmission of orders in relation to one or more financial instruments
- b. Execution of orders on behalf of clients

Financial Instruments in relation to which investment services are currently provided by the Company are the following:

- a. Transferable securities
- b. Money-market instruments
- c. Units in collective investment undertakings
- d. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash

- e. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event)
- f. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF
- g. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of Part III and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls
- h. Derivative instruments for the transfer of credit risk
- i. Financial contracts for differences
- j. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

## COMPENSATION OF COVERED CLIENTS AND PAYMENT FORMALITIES

### FAILURE OF A MEMBER OF THE FUND TO FULFILL ITS OBLIGATIONS TOWARD ITS INVESTORS

The Fund compensates the covered clients for claims arising from the covered services provided by its members, as long as failure by the member to fulfill its obligations has been ascertained notwithstanding a relevant obligation by the member of the Fund in accordance with the legislation and the terms which govern its agreement with the covered client and regardless of whether the said obligation of the member of the Fund is based on the agreement or on wrongdoing.

Failure by a member of the Fund to fulfill its obligations consists of its failure:

- Either to return to its covered clients funds owed to them or funds which belong to them but are held by the member, directly or indirectly, in the framework of the provision by the said member to the

said clients of covered services, and which the latter requested the member to return, in exercise of their relevant right

- Or to hand over to the covered clients financial instruments which belong to them and which the member of the Fund holds, manages or keeps on their account, including the case where the member is responsible for the administrative management of the said financial instruments.

#### PRECONDITIONS FOR THE INITIATION OF THE COMPENSATION PAYMENT PROCEDURE BY THE FUND

The Fund initiates the compensation payment procedure:

- If the member of the Fund submits to the Fund or to Cyprus Securities and Exchange Commission CySEC a written statement declaring its failure to fulfill its obligations toward its clients
- If the member of the Fund files an application for liquidation
- If (CySEC) has revoked or suspended the member's authorization to provide investment services and ascertains that the member of the Fund is not expected to be in a position to fulfill its obligations toward its clients in the near future, for reasons which do not concern a temporary lack of liquidity which can be dealt with immediately.

CySEC may request by the member of the Fund to set out its views within a short deadline so fixed, which cannot be less than three working days from the date of the invitation to set out such views.

#### PROCEDURE RELATING TO THE INVITATION OF COVERED CLIENTS TO SUBMIT APPLICATIONS

Upon issuance of a decision by the Court or by CySEC, on the commencement of the compensation payment process, the Fund publishes in at least three newspapers of national coverage, an invitation to the covered clients to make their claims against the member of the Fund arising from covered services, designating the procedure for the submission of the relevant applications, the deadline for their submission and their content.

The publication contains at least:

- the name and address of the headquarters of the member of the Fund, to whom the covered client compensation process has been activated through the Fund

- the deadline for the submission of compensation applications, which cannot be less than five months and greater than nine months from the last publication
- the mode and address of submission of applications
- the address at which investors may be informed about the exact content of the applications to be submitted, and get the relevant form provided by the Fund.

#### INTERRUPTION OF DEADLINE FOR SUBMISSION OF APPLICATIONS

In case a covered client, not being its fault, was neither informed about the invitation to submit compensation applications nor in a position to submit within the deadline this application, the deadline is interrupted provided that an interruption of the deadline arises in case of an event of force majeure, as long as it has been proved that it prevented the keeping of the deadline for the submission of compensation applications or the collection and submission of the required information.

Indications that the covered client has an impediment for which he is not responsible and which forms a reason for the interruption of the deadline for the submission of a compensation application include especially

- proved absence of the covered client abroad for a period which includes at least half of the deadline for the submission of a timely application;
- illness confirmed by a doctor that it forms a serious impediment for the submission of an application for a period which includes at least half of the deadline for the submission of a timely application; or
- his stay in a correctional institution for a period which includes at least half of the deadline for the submission of a timely application.

A covered client who submits an application late to the Fund for the payment of compensation is obliged to submit, in addition to the information forming the necessary minimum content of the application a solemn declaration stating the reason for which he was not in a position to claim compensation in time attaching the necessary supporting evidence to prove his allegations.

#### CONTENT OF COMPENSATION APPLICATIONS SUBMITTED TO THE FUND

The compensation applications of covered clients with which they make their claims against a member of the Fund are submitted to the Fund in writing. The compensation applications must include:

- the name of the claimant

- the address, telephone and fax numbers as well as any email address of the claimant
- the client code that the claimant had for the member of the Fund;
- the particulars of the covered services agreement between the Fund and the claimant;
- the type and amount of the alleged claims of the claimant; and
- the exposition of the particulars from which the alleged claims of the claimant and their amount are derived.

The Fund may ask for more information included in the compensation application, which it communicates with its publication in at least three newspapers of national coverage as well as in the Official Gazette of the Republic, and puts a catalogue with this information at the disposal of investors, at its offices and/or at the offices of the member of the Fund.

#### PROCEDURE RELATING TO THE RECORDING AND EVALUATION OF THE ALLEGED COMPENSATION CLAIMS

The Fund designates at least one qualified auditor and at least one lawyer with knowledge on capital market issues, who after having checked initially the prerequisites, they evaluate the claims submitted to the Fund and recommend to the Administrative Committee their acceptance in total or in part or their rejection. In case of disagreement between these persons, each one of them submits a separate recommendation. The remuneration of the persons is agreed between the Fund and these persons and burdens the member of the Fund, and, if necessary, is paid by the Fund.

The persons in order to evaluate the applications:

- ask from the member of the Fund to express its opinion about the grounds of the claims alleged by the claimants and, in case of doubt, to present the relevant supporting documents;
- evaluate, based on the information they have, the applications, determining the amount of the compensation for each claimant.

The persons have full access to the books kept by the member of the Fund, in order to accomplish their work, and they are obliged to exhibit confidentiality against any third party as to the information coming to their knowledge in the exercise of their duties provided that the said obligation of confidentiality is disregarded in order to render possible the exercise of their duties.

#### DECISION OF THE ADMINISTRATIVE COMMITTEE ON SUBMITTED APPLICATIONS

Upon submission of the applications the Administrative Committee has control especially if:

- the claimant falls within the category of covered clients
- the application was timely submitted
- the conditions of legislation and of this Policy for the valid submission of compensation applications are fulfilled.

The Administrative Committee rejects the application in case the claimant does not fulfill the above conditions or, if at the Administrative Committee's discretion, there exists at least one of the following reasons:

- The claimant used fraudulent means in order to secure the payment of compensation by the Fund, especially if it knowingly submitted false evidence;
- the damage suffered by the claimant substantially derived from concurrent negligence or offence on its behalf in relation to the damage it suffered and to its underlying cause.

The Administrative Committee during the examination of the applications takes into consideration the recommendations of the persons and decides on the applications submitted to the Fund determining the amount of the compensations for each covered client-claimant.

#### UNJUSTIFIABLY PAID COMPENSATION

The Fund may demand at any time from a covered client to return the compensation paid to it, if it finds out a posteriori that there was a reason to reject its application.

#### FIXING OF THE AMOUNT OF PAYABLE COMPENSATION

To ascertain the claims of a claimant against a member of the Fund, as well as any counterclaims of the member of the Fund against the claimant, the books kept and the particulars issued by the member of the Fund as well as the supporting evidence produced by the claimant are taken into consideration.

The amount of the compensation payable to each covered client is calculated in accordance with the legal and contractual terms governing the relation of the covered client with the member of the Fund, subject to the set-off rules applied for the calculation of the claims between the covered client and the member of the Fund.

The valuation of the financial instruments pertaining to the compensation payable to the covered client is carried out based on their value at the day:

- of publication of the court
- of publication of the decision of CySEC.

The calculation of the payable compensation derives from the sum of total established claims of the covered client against the member of the Fund, arising from all covered services provided by the member and regardless of the number of accounts, of which it is a beneficiary, the currency and place of provision of these services.

As the amount of the claim determined under this Regulation exceeds the amount of twenty thousand Euro (EURO20.000), the claimant receives as compensation the lump sum of the amount of twenty thousand Euro (EURO20.000).

#### VALUATION OF CLAIMS OF COVERED CLIENTS AND ITS NOTIFICATION PROCESS

Upon completion of the valuation, the Fund:

- issues minutes listing the clients of the member of the Fund which are compensation beneficiaries along with the amount of money each one of them is entitled to receive, and, communicates it to CySEC and the member of the Fund within five working days from its issue; and
- communicates to each affected client its finding no later than fifteen days from the issue of the minutes referred to above communicates to each affected client its finding no later than fifteen days from the issue of the minutes determining the total compensation amount this client is entitled to receive.

CySEC, in order to ensure that the provisions of the legislation in force in the Republic are fulfilled during the examination of the applications and the calculation of the amount of the corresponding compensation per covered client, may:

- request from the Fund, the member of the Fund and the claimant to produce information and particulars
- run any investigation required, implementing the relevant provisions of CySEC (Establishment and Responsibilities) Laws of 2001 and 2002, as in force, and especially those provisions enacting the powers of the CySEC for entry and investigation.

The claimant to whom the Fund communicates the total compensation amount to which it is entitled, in case it disagrees with the Fund's decision, has the right within ten days from the communication of the decision, to appeal to CySEC, justifying sufficiently its alleged claim.

The CySEC, in as long as it finds errors or inaccuracies as to the evaluation by the Fund of the applications for the payment of compensation and the fixing of the compensation for each claimant, taking into consideration any memos submitted to it by claimants, may demand from the Fund to correct the payable compensations with a decision communicated to the Fund within forty-five days from the communication to it of the minutes of the compensation beneficiaries.

#### DEADLINE AND PROCEDURE RELATING TO THE PAYMENT OF COMPENSATION

The Fund is obliged to pay to each covered client-claimant the compensation within three months from sending to CySEC the minutes with the compensation beneficiaries.

The payment of the compensation by the Fund is deposited to a bank account of the covered client-claimant designated by the latter in writing to the Fund.

Every compensation payable to a covered client burdens initially the property of the Fund corresponding to the individual shares of its members and then the assets of the fixed reserve.

#### EFFECTS OF PAYMENT OF COMPENSATION

The payment of any compensation by the Fund entails ipso jure subrogation of the Fund to the rights of the compensated covered client-claimant against the member of the Fund for an amount equal to the compensation payable to it.