

# SUMMARY OF SAFEGUARDING CLIENTS ASSETS

## VERSION CONTROL

**Policy Owner:** Athlos Capital Investment Services Ltd

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Review date	Reviewed by	Comments and suggestions for amendments	Date of approval
<b>10/09/2019 (V.01/2019/09)</b>	Compliance Function	Policy has been updated as part of the overall update of the IOM	30/09/2019
<b>04/09/2020 (V.01/2020/09)</b>	Compliance Function	Policy amended to include procedures for retail clients	03/01/2021
<b>05/08/2022 (V.01/2022/08)</b>	Compliance Function	Annual review of the Policy	23/08/2022
<b>16/11/2022 (V.02/2022/11)</b>	Compliance Function	Updated to include the new address details of the Company	21/11/2022

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# 1 Introduction

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## 1.1 Scope and Purpose

- 1.1.1 The purpose of the Safeguarding of Client Assets Policy (herein the "Policy") is to set out the arrangements established by the Company to safeguard the ownership rights of its Clients, especially in the event of the Company's insolvency as well as to prevent the use of Clients' financial instruments for its own account.
- 1.1.2 The provisions of this Policy apply to the business units within the organization who are responsible for the record-keeping of funds and financial instruments.

## 1.2 Legal Framework

- 1.2.1 The Policy has been established taking into consideration the applicable legal framework, as follows:
- Law 87(I)/2017 which provides for the provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (herein the "**Law**");
  - Commission Delegated Regulation (EU) 2017/565 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (herein the "**Reg (EU) 2017/565**");
  - Directive DI87-01 for the 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 (herein "**Directive**");
  - Directive regarding the operation of the Investors Compensation Fund of the Cyprus Securities and Exchange Commission (herein the "**ICF Directive**").
  - Circular C458 regarding Enhancement of procedures regarding safeguarding of Clients' funds held by CIFs.

## 1.3 Definitions

- 1.3.1 The following words or phrases shall have the meaning given to them herein:

**"Clients"** means natural or legal persons who have an established business relationship with the Company and to whom the Company offers safekeeping services.

**"CySEC"** means the Cyprus Securities and Exchange Commission, which is the regulatory authority of the Company.

**"Directive"** means the Directive DI87-01 for the 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.

**"ICF Directive"** means the Directive regarding the operation of the Investors Compensation Fund of the Cyprus Securities and Exchange Commission.

**"Law"** means Law 87(I)/2017 which provides for the provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters as amended from time to time.

**"Professional Client"** Is a Client who possesses the experience, knowledge and expertise to make his own investment decisions and properly assess the risks that he incurs and satisfies the criteria set out in the Second Appendix of the Law and includes Clients who have requested to be treated as Professional in line with the criteria of Part II of the Second Appendix of the Law.

**"Retail Client"** Is a Client who is not a Professional Client or an Eligible Counterparty under the Law.

## 2 Provisions under the Law

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### 2.1 Safeguarding provisions

- 2.1.1 Pursuant to Art. 17(8) of the Law, the Company must, when holding financial instruments belonging to Clients, make adequate arrangements to safeguard the ownership rights of Clients, especially in the event of the Company's insolvency, and to prevent the use of Clients' financial instruments for its own account, unless it has obtained the Client's express consent.
- 2.1.2 The Company must, when holding funds belonging to Clients, make adequate arrangements to safeguard the rights of Clients and to prevent the use of Clients' funds for its own account.
- 2.1.3 In this respect, the Company will:
- (a) Keep such records and accounts as are necessary to enable the Company at any time and without delay to distinguish assets held for one Client from assets held for any other Client and from its own assets.
  - (b) Maintain records and accounts in a way that ensures their accuracy, and in particular their correspondence to the financial instruments and funds held for Clients and that they may be used as an audit trail.
  - (c) Conduct, on a regular basis, reconciliations between its internal accounts and records and those of any third parties by whom those assets are held.
  - (d) Take the necessary steps to ensure that any Clients' financial instruments deposited with a third-party, are identifiable separately from the financial instruments belonging to the Company and from financial instruments belonging to that third party, by means of differently titled accounts on the books of the third party or other equivalent measures that achieve the same level of protection.
  - (e) Take all necessary measures to ensure that the Clients' funds deposited in a central bank, a credit institution or a bank authorized in a third country or a qualifying money market fund are held in an account or accounts identified separately from any accounts used to hold funds belonging to the Company.
  - (f) Apply all necessary organizational measures to minimize the risk of the loss or diminution of Client assets, or of rights in connection with those assets, as a result of misuse of the assets, fraud, poor administration, inadequate record keeping or negligence.
- 2.1.4 The Company shall make information pertaining to its Clients' financial instruments and funds readily available to the following entities: competent authorities, appointed insolvency practitioners and those responsible for the resolution of failed institutions. The information to be made available shall include the following:
- (a) Related internal accounts and records that readily identify the balances of funds and financial instruments held for each Client.
  - (b) Where Client funds are held by investment firms, details on the accounts in which Client funds are held and on the relevant agreements with those firms.
  - (c) Where financial instruments are held by investment firms, details on the accounts opened with third parties and on the relevant agreements with those third parties, as well as details on the relevant agreements with those investment firms.
  - (d) Details of third parties carrying out any related (outsourced) tasks and details of any outsourced tasks.
  - (e) Key individuals of the Company involved in related processes, including those responsible for oversight of the Company's requirements in relation to the safeguarding of Client assets.
  - (f) Agreements relevant to establish Client ownership over assets.

### 2.2 Use of Financial Instruments

- 2.2.1 The Company is not allowed to enter into arrangements for securities financing transactions in respect of financial instruments held by the Company on behalf of a Client, or otherwise use such financial instruments for its own account or the account of any other person or Client of the Company, unless both of the following conditions are met:
- (a) the Client has given his prior express consent for the use of the instruments on specified terms, as evidenced expressly and in writing and affirmatively executed by signature or in an equivalent manner, and

- (b) the use of that Client's financial instruments is restricted to the specified terms to which the Client consents.
- 2.2.2 The Company is not allowed to enter into arrangements for securities financing transactions in respect of financial instruments which are held on behalf of a Client in an omnibus account maintained by a third party, or otherwise use financial instruments held in such an account for its own account or for the account of any other person unless, in addition to the conditions set out in sub-paragraph 1, at least one of the following conditions is met:
- (a) each Client whose financial instruments are held together in an omnibus account must have given prior express consent in accordance with point (a) of sub-paragraph 1;
  - (b) the Company must have in place systems and controls which ensure that only financial instruments belonging to Clients who have given their prior express consent in accordance with point (a) of sub-paragraph 1 are used.
- 2.2.3 The Company's records include details of the Client on whose instructions the use of the financial instruments has been effected, as well as the number of financial instruments used belonging to each Client who has given his consent, so as to enable the correct allocation of any loss.
- 2.2.4 The Company shall take appropriate measures to prevent the unauthorised use of Client financial instruments for its own account or the account of any other person such as:
- (a) the conclusion of agreements with Clients on measures to be taken by the Company in case the Client does not have enough provision on its account on the settlement date, such as borrowing of the corresponding securities on behalf of the Client or unwinding the position;
  - (b) the close monitoring by the Company of its projected ability to deliver on the settlement date and the putting in place of remedial measures in the event that this cannot be done; and
  - (c) the close monitoring and prompt request of undelivered securities outstanding on the settlement day and beyond.

### **2.3 Title Transfer Collateral Arrangements**

- 2.3.1 In accordance with Art. 17(10) of the Law, the Company shall not conclude title transfer financial collateral arrangements with Retail Clients for the purpose of securing or covering present or future, actual or contingent or prospective obligations of Clients.
- 2.3.2 The Company may enter into title transfer collateral arrangements with Professional Clients in accordance with the Applicable Provisions and only when the use of title transfer collateral arrangements is considered appropriate.
- 2.3.3 Where the Company uses title transfer collateral arrangements, it shall enter into a separate agreement with the Professional Client which will be setting out the specific rights and obligations of each party in relation to title transfer and highlight the risks involved and the effect of any title transfer collateral arrangement on the Professional Client's Financial Instruments and funds. The Client acknowledges and understands that any funds and Financial Instruments transferred from the Client to the Company under a title transfer collateral arrangement, shall not be treated as Client Money for the duration of the arrangement and as such, they shall not be safeguarded based on the Applicable Provisions in relation to the safeguarding of Clients' assets. It is noted that the provisions of this clause apply to Professional Clients only.

## 3 Safeguarding Procedures

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### 3.1 Deposit of Financial Instruments

- 3.1.1 The Company shall deposit Clients' financial instruments into accounts with third parties. The Company exercises all due skill, care and diligence in the selection, appointment and periodic review of the third party and of the arrangements for the holding and global custody of those financial instruments prior to depositing Clients' financial instruments into an account(s) with a third party.
- 3.1.2 In particular, the Compliance Function takes into account the expertise and market reputation of the third party, as well as any legal requirements related to the holding of those financial instruments that could adversely affect Clients' rights.
- 3.1.3 The Company ensures that the third party selected for depositing Clients' financial instruments, is established in a jurisdiction where the global custody of financial instruments for the account of another person is subject to specific regulation and supervision and that third party is subject to this specific regulation and supervision.
- 3.1.4 As a principle, the Company shall not deposit financial instruments with a third party established in a third country that does not regulate the holding and global custody of financial instruments. Where there is change in the circumstances and the Company decides to do so, it shall only do so if the following conditions are met:
- (a) the nature of the financial instruments or of the investment services connected with those instruments requires them to be deposited with a third party established in that third country;
  - (b) where the financial instruments are held on behalf of a Professional Client, that Client has requested the CIF in writing to deposit them with a third party in that third country.

### 3.2 Deposit of Clients' Funds

- 3.2.1 The Company shall upon receiving any Client funds, promptly place those funds into one or more accounts opened with any of the following:
- (a) Central bank;
  - (b) Credit institution;
  - (c) Bank authorised in a third country;
  - (d) Qualifying money market fund.
- 3.2.2 All Clients' accounts maintained by the Company for the purpose of depositing funds belonging to its Clients will be denoted as Athlos Capital Clients' Accounts to ensure that Clients' accounts are sufficiently distinguished from any of its own accounts.
- 3.2.3 The Company shall notify any of the entities listed in paragraph 3.2.1 of this Policy with whom the Company has entered into an arrangement for the custody of its Clients' funds, that they are obliged to keep its Clients' funds separate from their own funds and from any accounts held in the name of the Company for its own use. The Company shall keep appropriate records of the correspondence with these entities.
- 3.2.4 In case the Company is prevented for any reason from complying with its obligations under paragraph 4(1)(e) of the Directive to keep its Clients' accounts identified separately from any accounts used to hold funds belonging to the Company, the Company shall request the confirmation of paragraph 3.2.3 of this Policy. The Company shall demonstrate to CySEC that it had no other alternative but to conduct such business, given the risk to its Clients' funds in the event of the entity's insolvency and that it has done everything in its power to obtain separately titled accounts, including using another third-party.

### 3.3 Due diligence and diversification

- 3.3.1 Where the Company does not deposit Client funds with a central bank, it shall exercise all due skill, care and diligence in the selection, appointment and periodic review of the credit institution, bank or money market fund where the funds are placed and the arrangements for the holding of those funds and take into consideration the need for diversification of these funds as part of the required due diligence.
- 3.3.2 In particular, the Compliance Function shall take into account the expertise and market reputation of such institutions or money market funds with a view to ensuring the protection of Clients' rights, as well as any legal

or regulatory requirements or market practices related to the holding of Client funds that could adversely affect the Clients' rights.

- 3.3.3 In case the Company wishes to proceed with placing Clients' funds with a qualifying money market fund, it shall ensure that Clients have provided their explicit consent and shall inform them that the funds placed with a qualifying money market fund will not be held in accordance with the requirements for safeguarding Client funds as set out in the Directive.
- 3.3.4 The Company shall perform the required due diligence procedure as detailed in paragraph 3.3.5 on a regular basis and no less than once in each financial year.
- 3.3.5 More specifically, the Compliance Function shall consider the following criteria during the selection of custodian as well as during the annual due diligence review:
- (a) The capital of the bank;
  - (b) The amount of Clients' funds placed, as a proportion of the bank's capital and deposits;
  - (c) The credit rating of the bank (if available); and
  - (d) To the extent that the information is available, the level of risk in the investment and loan activities undertaken by the bank and its affiliated companies.
- 3.3.6 The Company shall consider diversifying placements of Clients' funds with more than one bank/custodian where the amounts are of sufficient size to warrant such diversification.

### **3.4 Appointment of Single Officer**

- 3.4.1 In accordance with the requirements of paragraph 9 of Directive, the Company has appointed a Single Officer for the safeguarding of Clients' financial instruments and funds. The appointed Single Officer is of sufficient skill and authority to review and assess matters relating to the Company's compliance with its obligations regarding the safeguarding of client financial instruments and funds.
- 3.4.2 The Single Officer possesses sufficient skills and authority to discharge his duties effectively and without impediment, including the duty to report to the Company's senior management in respect of oversight of the effectiveness of the Company's compliance with safeguarding of clients' assets requirements.
- 3.4.3 The Single Officer is expected to verify the accuracy and completeness of the information provided to CySEC in relation to Clients' money reconciliation.
- 3.4.4 The details of the appointed Single Officer of the Company are communicated to CySEC through the CIF Electronic Record.

### **3.5 Reconciliation of Clients' funds**

- 3.5.1 In line with paragraph 2.1.3 of this Policy, the Company shall conduct on a regular basis reconciliations between its internal accounts and records with those of any third parties by whom Clients' assets are held.
- 3.5.2 Taking into consideration the risks to which its business is exposed, the nature, volume and complexity of business activities, and where Clients' assets are held, the Company performs reconciliations on a daily basis, on a monthly basis and on a quarterly basis. The frequency of reconciliations depends on the various custodians, the amount of Clients' funds held by such custodians, the number of Clients to whom those assets belong to, and the frequency of transactions performed by Clients.
- 3.5.3 The Company ensures that reconciliations are performed between:
- (a) Clients' bank accounts or any other third-party holding Clients' funds (as per the Company's records) vs bank statements or any other third party statements.
  - (b) Client's bank account or any other third-party holding Clients' funds (as per the Company's records) vs Clients' equity (as per the Company's records).



## 4 Other Requirements

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### 4.1 Review

- 4.1.1 The provisions of this Policy and the safeguarding procedures applied by the Company shall be reviewed on an annual basis by the Compliance Function and the Internal Auditor. The Compliance Officer and the Internal Auditor shall review the procedures maintained by the Company for the safeguarding of its Clients' assets, which includes *inter alia* the verification of the accuracy and completeness of Clients' money reconciliation.
- 4.1.2 Where significant weaknesses or issues are identified by the Internal Auditor or the Compliance Officer, those should be reported immediately to the Board of Directors in order to take immediate corrective measures.
- 4.1.3 The Compliance Officer shall provide Senior Management and the Company's staff with recommendations and/or propose amendments to the Company's safeguarding of Clients' assets procedures to ensure compliance with the Company's obligations to safeguard Clients' assets.

### 4.2 Reports

- 4.2.1 The Company ensures that its external auditors report at least annually to CySEC on the adequacy of the Company's arrangements under section 17(8), 17(9) and 17(10) of the Law and the provisions of the Directive.