CREDO

Purpose

This document provides clarification on Credo's approach to Complex Instruments, and what Credo are doing to assist Financial Intermediaries (FI's) in meeting their regulatory obligations.

Overview

Complex Instruments, as defined by the European Regulator (ESMA), include those products that incorporate a clause, condition or trigger that could fundamentally alter the nature of the risk of the investment or pay-out profile or that include explicit or implicit exit charges that have the effect of making the investment illiquid.

Complex Instruments include unregulated funds, equity and covered warrants, preference shares, convertible bonds, perpetual bonds, callable and puttable bonds, step-up and step-down bonds, bail-in-able bonds, some exchange traded investments (such as ETCs and ETNs), nil paid rights, structured products, derivatives, and certain other investments.

The FCA define instruments as non-complex if all the following criteria are met:

- it is not a derivative or other security giving the right to acquire or sell a transferable security or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or measures
- there are frequent opportunities to dispose of, redeem, or otherwise realise the instrument at prices that are publicly available to the market participants and that are either market prices or prices made available, or validated, by valuation systems independent of the issuer
- it does not involve any actual or potential liability for the client that exceeds the cost of acquiring the instrument
- adequate comprehensive information on its characteristics is publicly available and is likely to be readily understood so as to enable the average retail client to make an informed judgment as to whether to enter into a transaction in that instrument.

Credo reflects the ESMA definition into our Security Masterfile sourced from our market data provider. However, instruments deemed complex by ESMA, but which satisfy the above FCA criteria (such as ETFs and Investment Trusts with no gearing, derivatives or structuring) are recorded as non-complex.

Rationale for Complex Instrument Classification

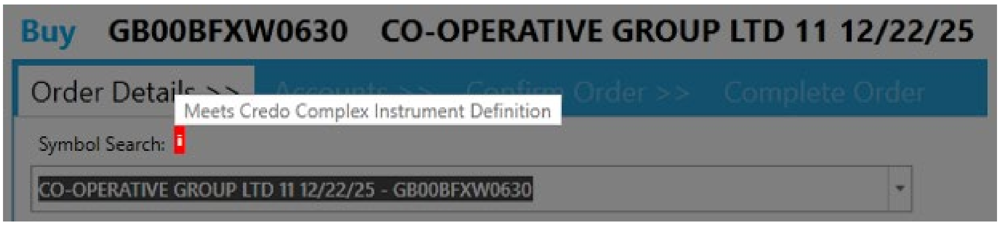
The Complex Instrument classification is designed to protect retail investors from investing in these instruments when they may not fully understand the underlying risks. The FCA deems that if a retail investor is to be exposed to these instruments, then depending on the mandate type, a suitability or appropriateness assessment must be completed before the investment is made.

As an eligible counterparty (or elective eligible counterparty) relationship exists between Credo and its FI clients, Credo do not restrict investments into these instruments on the Credo platform as the responsibility for suitability / appropriateness assessments lies with the FI.

What is Credo doing to help?

With the regulatory focus in this area, Credo is looking to assist our FI clients in complying with the FCA requirements with the following:

- If a user selects a Complex Instrument in the trading screen on the MyCredo platform a red notification will appear above the symbol search field as shown below.
- When the user hovers over the red notification it will display a message informing them that the selected instrument is considered complex by Credo as per the above definition.
- This notification will appear pre-trade regardless of who the user or client is as it acts as a trigger for the user to consider.



- As part of a future platform release a Complex Instrument Holding screen is being developed that will show the value and % exposure to Complex Instruments by FI, Relationship Manager, Client Classification etc. This will be made available under the Compliance tab and will act as a post-trade control.