

# Client categorisation

Adviser guide

Edition 05

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## Introduction

The Financial Conduct Authority (FCA) requires clients to be categorised in accordance with the provisions outlined in chapter 3 of the conduct of business sourcebook – client categorisation (cobs 3).

A client is defined as a person to whom a firm provides, intends to provide or has provided a service in the course of carrying on a regulated activity. As well as individuals, a person can be a legal body such as a Trust, or limited partnership. Clients also include potential clients.

The Nucleus client terms and conditions categorise clients as retail unless the adviser requests a re-categorisation. Retail clients receive the highest level of FCA protection including segregation of funds, access to the Financial Ombudsman and Financial Services Compensation Scheme. It is therefore important to remember that if you wish to re-categorise your clients, there is a potential reduction in the level of protection available.

To assist in meeting our record keeping obligations for client categorisation, the platform has the functionality to categorise clients as retail or professional.

Below is a brief summary of the client categories. It is for guidance only as the client categorisation rules are complex and your compliance team should be able to assist you in correctly categorising your clients. For further information on the FCA requirements, see Cobs 3 - client categorisation, which can be found in the FCA handbook: <https://handbook.fca.org.uk/>

If you have any further questions, please contact your client relations team.

## Categories and definitions

Client Category	Definition				
1. Retail client	A client who isn't a professional client or eligible counterparty.				
2. Professional client	<p>A client who is either;</p> <ol style="list-style-type: none"> <li>1. Another regulated entity or</li> <li>2. A large undertaking. The definition of large undertaking depends on whether the business is MiFID or non MiFID related. (Please see below).</li> <li>3. A national or regional government, a public body that manages public debt, a central bank, an international or supranational institution.</li> <li>4. Another institutional investor whose main activity is to invest in financial instruments (in relation to the firm's MiFID or equivalent third country business) or designated investments (in relation to the firm's other business). This includes entities dedicated to the securitisation of assets or other financing transactions.</li> </ol>				
	<table> <tr> <td>For MiFID business</td><td> <p>An undertaking that meets two of the following size requirements on a company basis:</p> <ol style="list-style-type: none"> <li>(a) balance sheet total of EUR 20,000,000;</li> <li>(b) net turnover of EUR 40,000,000;</li> <li>(c) own funds of EUR 2,000,000.</li> </ol> </td></tr> <tr> <td>For non-MiFID business</td><td> <ol style="list-style-type: none"> <li>1. 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 its equivalent in any other currency at the relevant time)</li> <li>2. an undertaking that meets (or any of whose holding companies or subsidiaries meets) two of the following tests: <ol style="list-style-type: none"> <li>(i) a balance sheet total of EUR 12,500,000;</li> <li>(ii) a net turnover of EUR 25,000,000;</li> <li>(iii) an average number of employees during the year of 250;</li> </ol> </li> <li>3. 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 its equivalent in any other currency at the relevant time) and calculated in the case of a limited partnership without deducting loans owing to any of the partners;</li> <li>4. 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 its equivalent in any other currency 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;</li> <li>5. 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): <ol style="list-style-type: none"> <li>(i) at least 50 members; and</li> <li>(ii) assets under management of at least £10 million (or its equivalent in any other currency at the relevant time).</li> </ol> </li> </ol> </td></tr> </table>	For MiFID business	<p>An undertaking that meets two of the following size requirements on a company basis:</p> <ol style="list-style-type: none"> <li>(a) balance sheet total of EUR 20,000,000;</li> <li>(b) net turnover of EUR 40,000,000;</li> <li>(c) own funds of EUR 2,000,000.</li> </ol>	For non-MiFID business	<ol style="list-style-type: none"> <li>1. 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 its equivalent in any other currency at the relevant time)</li> <li>2. an undertaking that meets (or any of whose holding companies or subsidiaries meets) two of the following tests: <ol style="list-style-type: none"> <li>(i) a balance sheet total of EUR 12,500,000;</li> <li>(ii) a net turnover of EUR 25,000,000;</li> <li>(iii) an average number of employees during the year of 250;</li> </ol> </li> <li>3. 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 its equivalent in any other currency at the relevant time) and calculated in the case of a limited partnership without deducting loans owing to any of the partners;</li> <li>4. 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 its equivalent in any other currency 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;</li> <li>5. 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): <ol style="list-style-type: none"> <li>(i) at least 50 members; and</li> <li>(ii) assets under management of at least £10 million (or its equivalent in any other currency at the relevant time).</li> </ol> </li> </ol>
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Client Category	Definition
3. Elective professional clients	<p>A firm may treat a client other than a local public authority or municipality as an elective professional client if it complies with 1. and 3. and, where applicable, 2.:</p> <ol style="list-style-type: none"> <li>the firm undertakes an adequate assessment of the expertise, experience and knowledge of the client that gives reasonable assurance, in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved (the "qualitative test");</li> <li>in relation to MiFID or equivalent third country business in the course of that assessment, at least two of the following criteria are satisfied: <ol style="list-style-type: none"> <li>the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;</li> <li>the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds EUR 500,000;</li> <li>the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged; (the "quantitative test"); and</li> </ol> </li> <li>the following procedure is followed: <ol style="list-style-type: none"> <li>the client must state in writing to the firm that it wishes to be treated as a professional client either generally or in respect of a particular service or transaction or type of transaction or product;</li> <li>the firm must give the client a clear written warning of the protections and investor compensation rights the client may lose; and</li> <li>the client must state in writing, in a separate document from the contract, that it is aware of the consequences of losing such protections.</li> </ol> </li> </ol>


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