PRODUCT GOVERNANCE POLICY

Last Updated on April 2020

1. Introduction

This summarised Product Governance Policy ("the Policy") is prepared in accordance with the Investment Services and Activities and Regulated Markets Law of 2017 L. 87(I)/2017 ("the Law"), European Commission's Directive 2014/65/EU (hereinafter, "MiFID II") as amended from time to time, Commission Delegated Directive (EU) 2017/593 as amended from time to time, Regulation (EU) 1286/2014 as amended from time to time, ESMA's Final Report Guidelines on MiFID II product governance requirements as amended from time to time, CYSEC's Circular C236 as amended from time to time.

Pursuant to the Law, The First Interstellar Capital Limited ("the Company", "we", "us") ") aims to elucidate the procedures, steps and control systems that the Company, adopts and follows in respect to product governance as to be in line with the applicable regulatory framework as amended from time to time.

2. Purpose

The purpose of this Policy is to enhance the level of investor (i.e. client) protection by regulating all stages of the life-cycle of products or services in order to ensure that firm(s) which manufacture and distribute financial instruments and structured deposits act in the Clients' best interests. This Policy provides for Product Governance Requirements specifically for manufacturers and distributors of financial instruments as well as Product Governance Requirements applicable to both.

The Company is required to comply with the Product Governance Requirements, taking into account the nature of the financial instrument, the investment service and the target market for the products offered by the Company to its clients.

The Company is currently offering the investment service of Reception and transmission of orders in relation to one or more financial instruments therefore is considered as acting in the capacity of a Distributor.

3. General requirements

Investment Firms are required, when deciding the range of financial instruments issued by the themselves or by other firms, along with the services they intend to offer or recommend to clients, to comply, in a way that is appropriate and proportionate, with the Product Governance Requirements, taking into account the nature of the financial instrument, the investment service and the target market for the relevant product(s).

1. Manufacturers

The main regulatory requirements for investment firms manufacturing financial instruments (hereinafter, the "Manufacturers") are listed below:

i. maintain, operate and review a process for the approval of each financial instrument and significant adaptations of existing financial instruments before it is marketed or distributed to Clients. The product approval process shall specify an identified target market of "end Clients" within the relevant category of clients for each financial instrument. In this context, the Manufacturer shall ensure that relevant risks to such identified target market are assessed and that the intended distribution strategy shall be consistent with the identified target market;

ii. establish, implement and maintain procedures and measures to ensure that the manufacturing of financial instruments complies with the requirements on proper management of conflicts of interest, including remuneration;

iii. analyze potential conflicts of interests each time a financial instrument is manufactured;

iv. consider whether the financial instrument may represent a threat to the orderly functioning or to the stability of financial markets before deciding to proceed with the launch of the relevant product(s);

v. ensure that the relevant staff involved in the manufacturing of financial instruments possess the necessary expertise to understand the characteristics and risks of the financial instruments they intend to manufacture;

vi. ensure that the Board of Directors has effective control over the firm's product governance process;

vii. arrange that the Compliance Function monitors the development and periodic review of product governance arrangements in order to detect any risk of failure by the firm to comply with the Product Governance Requirements;

viii. outline the mutual responsibilities in written agreement(s) in cases where the firm collaborate with other firms for creation, development, issuance and/or design of a product (including collaboration with entities which are not authorized and supervised in accordance with MiFID II or third-country firms);

ix. identify, at a sufficiently granular level, the potential target market for each financial instrument and specify the type(s) of clients for whose needs, characteristics and objectives, the relevant financial instrument(s) is compatible. As part of this process, identify group(s) of clients for whose needs, characteristics and objectives the relevant financial instrument(s) is not compatible;

x. determine whether a financial instrument meets the identified needs, characteristics and objectives of the target market;

xi. undertake a scenario analysis of financial instruments which shall assess the risks of poor outcomes for end clients, posed by the relevant product(s) and in which circumstances these outcomes may occur;

xii. consider the charging structure proposed for the relevant financial instrument(s);

xiii. ensure that the provision of information about financial instrument(s) to distributors shall include information about the appropriate channels for distribution of the relevant financial instrument(s), the product approval process and the target market assessment, which should be of an adequate standard as to enable distributors to understand and recommend and/or sell the relevant financial instrument(s) properly;

xiv. review the financial instruments manufactured on a regular basis, taking into account any event that could materially affect the potential risk of the identified target market. Moreover, into consideration should be taken as to whether the relevant financial instrument(s) remains consistent with the needs, characteristics and objectives of the target market and if it is distributed to the target market, or is distributed to for whose needs, characteristics and objectives the relevant financial instrument(s) is not compatible;

xv. review financial instruments prior to any further issue or re-launch if becoming aware of any event that could materially affect the potential risk to clients and, at regular basis, whether the relevant financial instrument(s) functions are as intended.

2. Distributors

The main regulatory requirements for investment firms distributing financial instruments (hereinafter, the "Distributors") are listed below:

i. prior to distributing a product, determine the target market for the respective financial instrument(s), even if the target market was not initially defined by the manufacturer;

ii. have in place adequate product governance arrangement as to ensure that the products and services intended to be offered and/or recommended are compatible with the needs, characteristics, and objectives of an identified target market and that the intended distribution strategy is consistent with the identified target market. As part of this process, identify group(s) of clients for whose needs, characteristics and objectives the relevant financial instrument(s) is not compatible;

iii. obtain from Manufacturers information as to gain the necessary understanding and knowledge about the products intended to be recommended and/or sold, in order to ensure that the product distribution is in accordance with the needs, characteristics and objectives of the identified target market. In case Manufacturer(s) is not subjected to MiFID II, the Distributor is also required to obtain additional, adequate and reliable information, as to ensure that the relevant products are distributed in accordance with the characteristics, objectives and needs of the target market;

iv. use the information obtained from Manufacturer(s) as well as the information obtained separately about clients as to identify the target market and distribution strategy;

v. maintain procedures and measures as to ensure compliance with all applicable requirements under the Law, including those relating to disclosure, assessment of suitability or appropriateness, inducements and proper management of conflicts of interest;

vi. periodically review and update product governance arrangements in order to ensure remaining with robust and fit for the purpose, taking appropriate actions where necessary;

vii. review the products offered and/or recommended and the services provided on a regular basis, taking into account any event that could materially affect the potential risk for the identified target market. Distributors shall assess at least whether the relevant product and/or service remains consistent with the needs, characteristics and objectives of the identified target market and whether the intended distribution strategy remains appropriate.

viii. arrange for the Compliance function to oversee the development and periodic review of product governance arrangements in order to detect any risk of failure or comply with the Product Governance Requirements;

ix. ensure that the relevant staff possess the necessary expertise to understand the characteristics and risks of the product intended to offer and/or recommend and the services provided as well as the needs, characteristics and objectives of the identified target market;

x. the Board of Directors shall have effective control over the product governance process in order to be able to determine the range of investment products offered and/or recommended and the services provided to the respective target markets;

xi. provide Manufacturer(s) with information on sales and, where appropriate, information as to support relevant product reviews carried out by Manufacturer(s).

4. Distinction between Manufacturer and Distributor

For the purpose of product governance requirements, an investment firm which creates, develops, issues and/or designs financial instrument(s), including advisory role provided to corporate issuers when launching new financial instrument(s), is generally considered as a Manufacturer while investment firm which offers or recommend relevant financial instrument(s) and services to clients is generally considered as a Distributor.

5. Product Distribution

The Company shall ensure that the products distributed are compatible with the needs, characteristics, and objectives of the identified target market, taking into consideration for each product its design features (including but not limited to the average volatility, the maximum leverage offered, the trading hours, the underling prices, complexity, costs and charges structure, risk-reward profile or liquidity) as to ensure that relevant risks concerning the targeted market are met. Conflicts of interested shall be identified and taking into consideration in order to ensure the that the features of the relevant product(s) are beneficial to clients. The Company shall take into consideration the Manufacturer(s)' specifications of the respective products (such as prospectuses, KIDs, product sheets etc.).

6. Identification of Target Market

The Company shall obtain the following information in order to identify the Target Market:

End-Client categorisation in accordance to the MiFID II Client categorization (Retail Client, Professional Client and/or Eligible Counterparty).

a. *Knowledge and experience of the end-Client*

Knowledge	Experience
Inquire about the knowledge of the targeted clients about: - *the relevant product type,* - *the relevant product features and/or* - *knowledge in thematically related areas helping to understand the relevant product.* *E.g: for structured products, the Company may specify that the targeted clients should have knowledge about the way that the specific type of product works and what are the likely outcomes from the product.*	*Inquire about the experience of targeted clients in relation with:* - *the relevant product type,* - *the relevant product features and/or* - *the actual experience in thematically related areas for the relevant product.* *E.g: The Company may specify a time period for which targeted clients should have been active in the financial markets.*
Knowledge and experience may be dependent on each other in some cases (i.e client(s) with limited or no experience could be a valid targeted client if the missing experience is compensated with extensive knowledge).	

b. *Financial situation of the end-Client (ability to bear losses)*

The Company shall specify:

- the percentage of losses that targeted clients should be able and/or willing to afford (e.g. from minor losses to total loss of invested funds);
- whether there are any additional payment obligations which may cause for the invested amount to be exceed (e.g margin calls). This may be taken into consideration in relation to the maximum amount of assets for investment. Additionally, annual income, expenses/obligations, loans and wealth should be taken into consideration when determining the amount the specific client can risk;
- any parameters or thresholds under which such an exercise would need to be performed, subject to the nature and risk profile of both the financial instruments and the business model of the Company.

c. *Risk tolerance of the end-Client and compatibility with the risk/reward profile of the relevant product(s)*

The Company should specify the general attitude of the targeted clients in relation to the risks of investment. Basic risk-attitudes should be clearly described and categorized for example:

- "risk oriented or speculative";
- "balanced";
- "conservative".

The Company should be explicit about the criteria which shall be used in order to categorize clients and use the risk indicator stipulated by the Regulation (EU) 1286/2014 on Packaged Retail and Insurance-Based Investment Products (EU) (i.e. the PRIIPs Regulation), as amended, or Directive 2009/65/EC on Undertakings for the Collective Investment in Transferable Securities (i.e. the UCITS Directive), as amended, to meet this requirement.

d. *Objectives and needs of End-Client*

The Company should specify the investment objectives and needs of targeted clients for relevant product(s), including the wider financial goals or the overall strategy of the targeted clients (e.g reference could be made to the expected investment horizon ie pre-defined number of years for the relevant investment is to be held). The objectives could be further defined by specifying particular aspects of the investment and expectations of targeted clients.

Moreover, the objectives and needs of targeted clients may vary, from specific to more generic (e.g, product may be designed to meet the needs of a specific age, to achieve specific investment objectives etc).

The Company, when detailing/describing categories of targeted clients should take into account the relationship between different categories since they all contribute to the definition of the targeted market (hereinafter, the "Positive Target Market"), for a given product.

The Company should not sell product outside the Positive Target Market. Any change of client(s) details will be reviewed by the Company in order to take required actions, if deemed necessary.

The Company shall identify the "Negative target market" ie the segment to which the relevant product(s) shall not be marketed and/or offered.

The Positive target market shall be assessed in accordance to the number of parameters. In doing so, the Company shall analyze the relevance of each category for a certain product and respectfully align the values based on:

- the type;
- nature;
- other features of the product.

The Company, when identifying the target market, should not take into consideration solely the quantitative criteria but should consider the sufficient qualitative factors as well (i.e. balancing quantitative with qualitative criteria). For the identification of the Positive Target Market, the Company shall use any information and data deemed reasonably useful and available for this purpose, that is at the Company's disposal through the provision of investment and/or ancillary services as well as data gathered through sources other than the provision of investment and/or ancillary services.

The identification of the potential target market should be done in a proportionate manner, considering the nature of the relevant product(s) meaning that the Company, for target market identification should consider:

- product characteristics;
- complexity of the product;
- costs and charges structure of the product;
- risk-reward profile;
- liquidity or product innovative character.

It is expected for complex products (e.g. structured products with complicated return profiles) target market should be identified using more details whereas for simpler products t is likely that the target market will be identified using less details.

For some products, the Manufacturer may identify the target market categories following a common approach for financial instruments, using one type with sufficiently comparable product features.

Depending on the type of product, the description of categories may be more generic; the simpler a product, less detailed a category may be.

The Company, in all cases, should identify the target market at a sufficiently granular level to avoid provision of investment and/or ancillary services to investors for whose needs, characteristics and objectives the product is not compatible (i.e. Negative Target Market).

The Company should pay attention to situations where it might not be able to conduct a thorough targeted market assessment by virtue of specific type of service, intended to provide, in relation to relevant product. In this regard, for the provision of Reception and Transmission of Orders, the Company should consider that, most likely, it will only be able to conduct an assessment of the actual targeted market which is limited to the sole categories of clients' knowledge and experience (through the Assessment of Appropriateness). This is especially relevant for products characterized to be complex/risky (e.g CFDs), as well as for situations where there might be significant conflicts of interest (e.g products issued by entities within the Company's group; in cases where there is a receipt of inducements from third parties etc) considering the limited ability of the Company to assess clients through the appropriateness test (there are cases where clients receive no protection, as in the case of execution-only services).

Considering that clients' protection is decreased in cases where the information obtained is not sufficient, the Company, being a Distributor, may decide to provide clients with the service on a non-advisory basis, upon warning them that the Company is not in the position to assess clients' full compatibility with relevant products.

On the other hand, in cases where the Company intends to approach clients in a way which would recommend relevant product(s), or actively market product(s), or consider provision of portfolio management service, in such cases, the more exhaustive assessment of the target market take place.

7. Marketing/Distribution Strategy

The Company shall consider the intended distribution strategy to be consistent with the identified Positive Target Market, and shall take reasonable steps as to ensure that the relevant product(s) is distributed to the identified Positive Target Market.

In defining the distribution strategy, the Company should determine the extent of clients' information in order to be in a position to properly assess the target market for relevant product(s). Hence, the Company should offer the investment service for the targeted clients ensuring that the relevant product(s) is deemed appropriate for a sale without advice.

The requirement to identify the target market and to distribute the relevant product(s) to the targeted market, should always take into consideration the needs, characteristics and objectives of the targeted market rather than group of clients to whom the relevant product(s) may not be suitable.

The Company's marketing strategy is based on promoting the Company and its services and does not explicitly promote any particular product and/or asset classes.

Nevertheless, the Company shall always take necessary measures as to ensure that the marketing strategy is targeting the Positive Target Market in order to minimize the possibility of approaching other clients for the relevant product(s) is not suitable.

1. **Marketing Campaigns**

Any new marketing campaign shall be reviewed and approved in order to avoid approaching clients outside the identified Positive Target Market.

2. **Distribution Channels**

The distribution channel utilized by the Company for the distribution (i.e. the offering and sale) shall be the Company's website, web-marketing, exhibitions or in person.

8. Conflicts of Interest

The Company shall address any potential conflicts of interest as to ensure that the distribution of relevant product(s) does not affect clients' interest, including remuneration.

As a result, the distribution of relevant products, including features, should not:

1. adversely affect clients;
2. cause issues with market integrity by enabling the Company to mitigate and/or dispose its own risks and/or exposure in cases where the Company holds the relevant underlying assets for its own account;

In particular, the Company shall assess whether the relevant products may create a situation where clients could be adversely affected in cases where

- enter the market and expose the Company in an opposite direction from the initial exposure of the Company; or
- enter the market and exposure the Company further more to the in the initial exposure of the Company.

Further clarification about the potential conflict of interest is described further below.

9. Review and Monitoring

The Product Governance Requirements applies to both, Manufacturers and Distributors, and requires that the review products is performed on a regular basis as to assess whether the product(s) remains robust and fit for the purpose and consistent with the needs, characteristics and objectives of the identified Positive Target Market. The said review should also be assessing whether the relevant product(s) are reaching the targeted market and that the intended marketing and distribution strategy remains appropriate.

The Manufacturers should consider, on a proportionate basis, information required in order to gather information and perform the review. Relevant information could be obtained from a sample of clients, from the targeted group and include, among others, which distribution channels have been used, summary information about targeted clients, any questions and/or complaints received.

The information may be summarised and does not need to be on product or sales basis. However, instrument related to specific product should be included for the assessment of suitability (e.g. to identify whether the specific product(s) is not suitable for targeted market).

10. ORGANIZATIONAL REQUIREMENTS

(a) Board of Directors

The Company's Management Body (Board of Directors):

a. has effective control over the product governance process in order to determine the range of products and services to be provided;

b. receives compliance reports systematically which include information about:

- products offered and/or recommended by the Company;
- the services provided.

The Policy and any of updates shall be reviewed and approved by the Board of Directors.

11. Product Governance Responsible Officer

The Company shall assign a person responsible for the Product Governance who shall be also be responsible for the maintenance and update of the Policy, from time to time.

The Product Governance Responsible Officer shall monitor the proper implementation of this Policy and compliance with Product Governance Requirements, including the ongoing review and monitoring of products offered by the Company, as to ensure that they remain suitable for the Positive Target Market.

The Product Governance Responsible Officer shall be involved in the distribution of products, along with the person(s) responsible for designing and implementing the Marketing Strategy of the Company. The Marketing Strategy shall be in accordance with the Product Governance Requirements when approaching clients. It is therefore of outmost importance that the Marketing Strategy of the Company target clients which fall within the Positive Target Market.

12. Responsibilities of the Head of the Reception and Transmission Department

The Head of the Reception and Transmission Department shall be responsible for assessing whether the clients fall within the defined Target Market. All members of the Reception and Transmission Department should possess the necessary understanding, knowledge and expertise to understand the:

1. characteristics and risks of products offered and/or recommended;
2. characteristics and risks of the products intended to be manufactured.

13. Responsibilities of the Administration/Back Office Department

The Administration/Back Office Department shall be involved in the Product Governance Process through client(s)' account applications and shall perform periodic review of the Product Governance Policy and its implementation, through provision of data/statistics, if/when required by the Product Governance Responsible Officer for the purposes of the required reviews.

14. Responsibilities of the Compliance Officer

The Compliance Officer and generally the Compliance Function shall be responsible for:

1. monitoring and overseeing the development product governance arrangements;

2. periodical reviews, of the Policy and the product governance arrangements and procedures;

3. detecting any risk of failure by the Company to comply with the Policy.

Furthermore, the Compliance Officer shall systematically prepare reports to the Board and which shall include information about the products offered and/or recommended by the Company and the services provided, as well as information about the Company's compliance level with this Policy.

15. POLICY REVIEW

This Policy shall be reviewed on at least annual basis by the Product Governance Responsible Officer.