

Directa Sim SpA  
 Registered under number 59 of the SIM register Company Register  
 Tax Code and VAT registration no. 06837440012  
 Registered offices in Turin - Italy, via Bruno Buozzi 5  
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 E-mail: [directa@directa.it](mailto:directa@directa.it) - Certified Electronic Mail: [directasim@legalmail.it](mailto:directasim@legalmail.it)  
 Corporate Capital: Euro 6.600.000,00 fully covered  
 Member of the National Guarantee Fund  
 Agreement of:

## ELECTRONIC TRADE EXECUTION AND ANCILLARY SERVICES

### PRELIMINARY INFORMATION

Retail Customer  
 March 2020 edition

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#### SECTION A – INFORMATION ON DIRECTA AND ITS SERVICES

##### COMPANY NAME, ADDRESS AND CONTACTS OF INTER-MEDIARY

Directa Sim SpA  
 Registered under number 59 of the SIM register Company Register referred to Article 20 of Legislative Decree no. 58, February 24<sup>th</sup>, 1998, Resolution no. 11761 of 22/12/1998 and subsequent amendments and additions.  
 Tax Code and VAT registration no. 06837440012  
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##### LANGUAGES IN WHICH YOU CAN COMMUNICATE

Italian - English - German – French - Czech

##### METHODS OF COMMUNICATION THAT CAN BE USED WITH THE BROKER ALSO REGARDING THE TRANSMISSION AND THE RECEIPT OF ORDERS

The dispatch of letters, any notification and any other statement or communication, including the transmission and the receipt of orders, will normally be made electronically. The Customer may request to receive hard copy of the documents by post as per the agreement, where postage costs that will be charged are listed. Transmission of communications by electronic means will happen on the Customer's account through Directa's trading site. Correspondence will be sent using the address of residence, indicated in the agreement, unless a different address is specified.

## **AUTHORIZATION TO OPERATE AND ADDRESS OF THE COMPETENT AUTHORITY THAT ISSUED THE AUTHORIZATION**

The company can carry out investment services specified further below, upon the following authorizations issued by CONSOB (Italian Exchange Commission):

-authorization issued on 22 December 1998 by resolution no. 11761, which renews the authorization that was already granted by previous resolution no. 9225 on 17 May 1995 regarding the service of reception and transmission of orders;

-authorization issued on 14 March 2000 by resolution no. 12438 relating to **underwriting and/or placing on a firm commitment basis or placing without a firm commitment basis**;

-authorization issued on 5 February 2002 by resolution no. 13438 regarding the service of execution of orders on behalf of clients. Additional information on the competent authority can be found on the website [www.consob.it](http://www.consob.it) and/or sending a request to CONSOB, 00198 Rome Via G.B. Martini 3, tel. +390684771 Fax +39068417707. Directa is also subject to supervision by the Bank of Italy that can be contacted at the following address: 00184 Rome, Via Nazionale 91, Tel: +3906 47921 - [www.bancaditalia.it](http://www.bancaditalia.it)

## **NATURE, FREQUENCY AND DATES OF THE FINANCIAL STATEMENTS OF ACCOUNT**

The Customer may decide how the notes of executed orders will be transmitted: -free of charge -with charge. For details about commissions, see the website [www.directa.it](http://www.directa.it)

## **SUMMARY DESCRIPTION ON THE PROTECTION OF FINANCIAL INSTRUMENTS OR LIQUID ASSETS THAT DIRECTA HOLDS ON BEHALF OF THE CUSTOMER**

As required by current legislation and subsequent amendments and additions, the Customer's financial instruments held by Directa are **segregated assets**, for all purposes separate from Directa's itself and other Customers' assets; on these, no actions of creditors of Directa or on behalf of such are allowed, neither those of creditors of the custodian or sub-custodian or on behalf of such. The actions of the creditors of individual Customers are allowed within the limits of the assets owned by the latter. For accounts referring to financial instruments held by third parties, legal and judicial compensation cannot operate and contractual offsetting of the claimed credits of the custodian or sub-custodian against the intermediary or the depository cannot be agreed. Directa's accounts held by third parties, regarding financial instruments of Customers, have been clearly listed as third party assets. The custodians' data are periodically checked and reconciled with those held by Directa.

## **INVESTOR'S COMPENSATION METHODS OR DEPOSIT GUARANTEE, WITH DESCRIPTION OF HEDGING SYSTEM**

Directa is a member of the National Guarantee Fund, which provides for the Customer's compensation, within a certain amount, for loans

represented by financial instruments and/or liquid assets related to investment transactions towards members of the Fund. Such compensation is subject to: - administrative receivership, upon issue of the order; - bankruptcy, upon issue of the adjudication of bankruptcy; - prior agreement with creditors, upon registration of the agreement. The Fund operates to compensate Customers for unsecured loans or caused by a full non-repayment of money and financial instruments, or their equivalent value, which have been recognised as final by the authorities for the insolvency procedure. The compensation is calculated on the basis of the established amount at that time, after any partial distribution decided by the authority for the insolvency procedure.

The warranty offered by the National Guarantee Fund includes the following investment services: a) proprietary trading/execution of orders on behalf of Customers; b) **underwriting and/or placing on a firm commitment basis or placing without a firm commitment basis**; c) portfolio management; d) execution of orders as well as brokerage; e) safekeeping and administration of financial instruments as ancillary service for investment operations. The submission methods for compensation claims the limits of the requested amount and any additional information can be found in the Guidelines of the National Guarantee Fund ([www.fondonazionaledigaranzia.it](http://www.fondonazionaledigaranzia.it)).

## **IDENTIFICATION OF CONFLICTS OF INTERESTS AND MANAGEMENT POLICY**

Directa adopts, under the current legislation, every reasonable measure to identify conflicts of interest that might arise between itself and the Customer or among Customers, as a result of any accessory or essential service, principal or accessory. Should the actions taken not be enough to avoid with reasonable certainty the risk of damaging the Customers' interests, before acting on their behalf Directa will inform them clearly, in writing or on the Internet and, if necessary, providing specific documentation of the nature and sources of the conflicts, in order to allow the Customer to take an informed decision.

Directa shall:

- identify, in relation to the investment services and activities and ancillary services, the circumstances which constitute or may give rise to a conflict of interest, which would significantly damage the interests of one or more Customers;
- establish the procedures to follow and measures to take to manage such conflicts.

For the identification of conflicts of interests, Directa should consider whether, as a result of the services provided, Directa itself, a **significant** person or a person who is associate or subsidiary to the latter: a) may make a financial gain, or avoid a financial loss, to the detriment of the Customer; b) hold an interest in the outcome of the service provided to the Customer, that is different from the one of the Customer; c) have an incentive to favour the interests of Customers who are the ones to whom the service is provided; d) has

the same job of the Customer; e) receive or may receive from a person other than the Customer, in relation to a service provided, an incentive in the form of money, goods or services, other than commissions or compensation usually received for such service.

The conflict management policy adopted by Directa seeks to ensure that the relevant persons perform the activities involving a conflict of interest with the appropriate level of independence, taking into account the size and the activity that is carried out.

To ensure the independence as per policy, Directa adopts, where appropriate, measures and procedures aimed at: a) preventing or controlling the exchange of information between relevant subjects involved in activities that may pose a risk of conflict of interest, where the exchange of such information may affect the interests of one or more Customers; b) ensuring the separate supervision of the relevant subjects, whose main functions may involve potentially conflicting interests with those of the Customer on whose behalf a service is provided.

#### **INCENTIVES**

In accordance with the MiFID regulations, it should be noted that for those Customers who open an account with an authorized bank, a portion of the commissions that they pay Directa will be **paid back** to the intermediary and/or the company Central Trading S.r.l., for an amount that can vary on the basis of several parameters, without exceeding, in any case, the maximum limit of 28% of the fee.

In the event that the customer carries out buy-sell operations on financial instruments issued by Banks or other Authorized Persons on which, for each execution, Directa receives a commission from the Issuer, Directa will inform the Customer about the value of the remuneration received in a special section of the trading site. Further information will also be provided to each customer upon simple request.

#### **METHODS OF PAYMENT AND EXECUTION**

The incoming funds can come from bank accounts payable to the Customer or be paid with cheques at the registered office, in accordance with regulations. The exiting funds are taken at the request of the Customer directly from the trading account and can only have, as the recipient, a bank account payable to the Customer, as indicated at the time of opening the Directa account; they can also be requested in the form of a cheque that needs to always be payable to the same Customer. This procedure is a "structural" guarantee towards any fund transfer that would damage the Customer. The payments charged to the Customer will be covered by Directa's available funds. For Customers relying on an authorized bank to hold funds and financial instruments, the incoming and exiting payment flows are managed

between the bank and Directa by default, within the limits of liquid assets available in the account and the instructions given by the Customer.

#### **LAW CONCERNING PRELIMINARY AGREEMENTS**

The Member State on whose legislation Directa bases its relationships with the Customer before the termination of the distance contract is Italy.

## **SECTION B - INFORMATION ON THE SAFEGUARD OF FINANCIAL INVESTMENTS AND THE LIQUID ASSETS OF THE CUSTOMER**

#### **INFORMATION ON THE SUB-CUSTODY OF FINANCIAL INSTRUMENTS AND/OR AMOUNTS OF MONEY HELD ON BEHALF OF THE CUSTOMERS AND RESPONSIBILITY OF THE INTERMEDIARY**

Subject to current provisions concerning dematerialized financial instruments, Directa and the selected custodian bank are authorized to sub-deposit financial instruments in central securities depositories organisms or other authorized custodians, to be identified case by case depending on the specific features of financial instruments deposited. If the financial instruments have features of fungibility, or when otherwise possible, Directa is also authorized to proceed with their grouping, that is to allow the grouping of the sub-custodians organisms, and the Customer agrees to receive in return the same number of securities of the same kind and quality. Directa remains liable to the Customer also regarding financial instruments sub-deposited and, in the event of subsequent changes in the subject sub-custodians, give him communication in the reporting of the portfolio provided periodically.

#### **DEPOSIT METHOD OF CUSTOMERS' FINANCIAL INSTRUMENTS AND LIQUID ASSETS: USE OF THE "OMNIBUS ACCOUNT"**

To deposit the Customers' assets, Directa uses an "omnibus account" in a bank of its choice for the benefit of third parties (or at an authorized financial intermediary), hence clearly separate from its own assets. Directa identifies financial instruments and liquid assets available to each Customer in specific mandates, ensuring the assets segregation among Customers and the immediate availability of funds.

#### **SUB-DEPOSIT OF FINANCIAL INSTRUMENTS OR LIQUID ASSETS OF CUSTOMERS WITH FOREIGN SUB-CUSTODIANS AND SUBJECT TO A NON-EU LEGAL SYSTEM**

Even for trading in foreign markets, in order to hold Customers' funds, Directa uses "omnibus accounts" held on behalf of third parties at the various custodians, accounts that are separate from Directa's assets. For trading in the U.S. market, Directa holds "funds" and "securities" accounts at ViewTrade Securities Inc. and one at BNP Paribas. Liquid funds in dollars are Directa's own funds. The securities account has been contractually defined as an "omnibus account" and its financial instruments, due to the clearing and settlement,

are recognized as belonging to Directa's Customers and, as such, no one can capitalise on them, even in the event of financial default by Directa.

## SECTION C- INFORMATION ON FINANCIAL INSTRUMENTS

### GENERAL INSTRUCTIONS

The investor must conclude a transaction only if he has fully understood the nature and the degree of risk exposure it entails.

### INFORMATION PROSPECTUS AND KID DOCUMENTS

When offering new financial instruments for subscription, Directa makes available to its customers the Prospectus and the Summary Note published by the issuers in compliance with current regulations. For complex instruments or PRIIPS available to retail customers, Similarly, Directa provides the KID document which describes its operating methods and the risks to which one gets exposed by making the investment.

The customer acknowledges that in order to make informed investment choices it is important to read and understand the documents indicated above, as well as relying on own analyzes and evaluations on the basis of the criteria identified in the following paragraphs.

### RISK EVALUATION OF AN INVESTMENT IN FINANCIAL INSTRUMENTS

In order to acknowledge the risk arising from an investment in financial instruments it is necessary to consider the following elements: 1) the volatility of the price of financial instrument; 2) its assets; 3) its currency; 4) other factors as source of risk.

#### 1) The volatility of the price of financial instrument

The price of each financial instrument depends on many circumstances, and may vary more or less sharply, depending on its nature. Here below a brief list enumeration of the main financial instruments traded on the markets, regardless of whether they are made available by Directa at the moment or not,

##### *1.1 Equity securities and debt securities*

Firstly it is necessary to distinguish between capital securities (the most popular titles in this category are shares) and debt securities (the most popular debt securities are bonds and certificates of deposit), taking into account that: a) by purchasing equities you become shareholder of the issuer, participating fully in its economic risk; those investing in equities are entitled to receive annually, on the profits made during the fixed term, the dividend that the shareholders' meeting decides to pay. The shareholders' meeting may nevertheless choose not to distribute any dividend;

b) by buying debt securities you become lender of the company or entity who issued them and

you have the right to receive periodic interest as per regulations and, at maturity, the repayment of the loan. On equal terms, equities are riskier than debt securities, as its profit is more closely linked to the issuer's economic trend. Debt securities holders, instead, will only run the risk of not being paid in the event of financial difficulties of the issuer. In addition, in case of bankruptcy of the issuing company, debt securities holders will be able to participate, to the division - which, however, usually takes place in a very long time - of the income from the sale of the assets of the company with the other creditors, while it is almost impossible that equity holders could recover any of what they invested.

##### *1.2 Specific risk and general risk*

For both equity securities and debt securities, the risk can be ideally divided into two types: the specific risk and general risk (or systematic risk). The specific risk depends on the distinctive features of the issuer (see next point 1.3) and can be substantially decreased through the division of the investment in securities issued by different issuers (portfolio diversification), while the systematic risk is that part of the variability of the price of each security which is dependent on market fluctuations and cannot be eliminated through diversification. Systematic risk for equity securities traded on an organized investment exchange arises from general changes in the market, changes that can be identified in the movements of the stock market index. The systematic risk of debt securities (see next point 1.4) arises from fluctuations in market's interest rates, which have such a sharp impact on prices (and then on its returns) of the securities sharper the longer it is their duration; the duration of a security at a certain date is represented by the period of time that must elapse from that date to the time of its repayment.

##### *1.3 Issuer risk*

For investments in financial instruments it is essential to acknowledge the financial solidity and the economic outlook of the issuers, taking into account the situation of the sectors in which they operate. It is important to consider that the prices of equity securities always reflect the average expectations that investors have on the perspective earnings of the issuing companies. With regard to debt securities, the risk that companies or financial institutions issuers are not able to pay interests or repay the capital borrowed is reflected in the rate of interest that these bonds provide to the investor: the greater is the perceived riskiness of the issuer, the higher is the interest rate that this will need to pay to the investor. To assess the adequacy of the interest rate paid by a title you need to consider the interest rates paid by the issuer whose risk is considered lower and in particular the return offered by government bonds for emissions with the same maturity.

## 1.4 Interest rate risk

With regard to debt securities, the investor should be aware that the actual measurement of the interest rate is constantly adapting to the market conditions through price changes in the price of the same securities. The yield curve of debt securities will become closer to the one incorporated in the security itself at the time of purchase, only if the security is held by the investor until maturity. If the investor needs to liquidate the investment before its maturity, the actual return may be different from that provided by the security at the time of the purchase. In particular, for securities providing a predetermined interest rate that cannot be modified during the term of the loan (fixed rate securities), the longer the maturity, the greater the variability of the stock price itself with respect to changes of market interest rates. For example, consider a zero coupon – a fixed-rate bond that provides interest rate payments in a lump sum at the end of the term – with a 10-year residual maturity and 10% return per year; the increase of one percentage point in the market interest rates determines for the above security, a decrease in the price by 8.6%. It is therefore important for the investor, in order to assess the adequacy of his investment in this bond category, to determine within what timeframe he will need to liquidate the investment.

## 1.5 The effect of diversification of investments. The collective investment schemes

As mentioned earlier, the specific risk of a particular financial instrument can be removed through diversification that is dividing investments among several financial instruments. Diversification may, however, become expensive and difficult to implement for an investor with a limited capital. The investor can achieve a high degree of diversification at low cost by investing his own assets in units or shares of **collective investment schemes** (mutual funds and Investment Company with variable capital - SICAV). These organisms invest the investors' liquid assets among different types of securities provided by regulations or investment programs adopted. With reference to open-ended mutual funds, for example, investors can enter or exit the investment by buying or selling Fund shares on the basis of the net asset value (increased or reduced by fees); this value is obtained by dividing the value of the managed fund portfolio, calculated at market price, by the number of current shares. It should be noted that investments in these types of financial instruments may still be risky due to the features of the financial instruments in which they plan to invest (for example, funds that invest only in securities issued by companies operating in a particular sector or in securities issued by companies established in certain states) or due to insufficient diversification of the investments.

## 1.6 Hedge collective investment schemes

They are mutual funds, both open or close ended,

in derogation of the prudential restrictions and limiting regulations established by the Bank of Italy. It is the type of fund used by the asset management company to set up hedge funds under the Italian law. Hedge funds are non-harmonised collective investment schemes, that means that they do not need to follow the EU regulations regarding mutual funds. In addition to the risks of an investment in collective investment schemes, hedge funds can be described as follows: they can be in derogation of the prudential restrictions and limiting regulations established by the Bank of Italy, thus increasing the risk of the investment. They can invest in off-shore hedge funds or that are not subject to any prudential restrictions. The investments tend to be less liquid asset based than the traditional ones and often a notice period is needed to disinvest (this allows the fund manager to implement their investment strategies). They may resort to a significant use of leverage and derivative instruments, always within the limits set by the Fund regulations. It is important to highlight that the leverage is greater than one where the total market value of net positions in financial instruments is higher than the equivalent value of the assets entrusted under management, due to short selling, derivatives, etc. They can draw, in relation to the investments made, forms of borrowing, within the limits set by the Fund Regulations. They cannot campaign for investors and subscriptions are limited to a maximum number of participants to the Fund, which currently stands at 200. The valuation of the portion may have a monthly frequency or also higher. The minimum investment entry threshold is very high and the minimum entry units cannot be fractioned, so the minimum subscription amount indicated above must be satisfied entirely by a single Customer.

## 2) Liquidity

The liquidity of a financial instrument is its ability to promptly transform into cash without losing any value. It mainly depends on the market trend in which the security is traded. In general, in equal situations, securities traded in organized markets are more liquid than the securities therein not mentioned: in fact, since the supply and demand of securities are mainly directed to these markets, the prices reported here are more reliable as indicators of the actual value of the financial instruments. It is important to consider that the sale of securities traded in organized markets to which access is difficult, because established in distant countries or for other reasons, can still cause issues to investors when they need to liquidate their investments and might incur in additional costs.

## 3) The currency

When a financial instrument is denominated in a currency other than the base currency, typically the Euro for European investors, in order to determine the risk of the investment, the investor should acknowledge the volatility of the exchange

rate between the two currencies, especially those belonging to typically very unstable developing countries, and more generally, the impact of exchange rate fluctuations on the overall result of the investment.

#### 4) Other factors as source of general risk

##### *4.1 Operations performed in markets based in other legal jurisdictions*

Transactions performed in foreign markets, including those relating to financial instruments traded also in domestic markets, could expose investors to additional risks. Regulations of such markets may offer low guarantees and reduced protections to investors. Before performing any type of operation in these markets, investors should gather information about the rules that apply to them. They also need to consider that, in these cases, the supervisory authority will be unable to ensure compliance of the existing rules in any jurisdiction where the operations are performed. Therefore the investors must also inquire about possible actions that can be taken with respect to such transactions.

##### *4.2 Electronic trading support systems*

Most of the electronic trading systems or "open outcry" are supported by computerized systems for the procedures of order transmission (order routing), for crossing, registration and clearing of transactions. Like any automated procedures, above mentioned systems may be subject to temporary shutdowns or malfunctions. The possibility for investors to be compensated for any losses arising directly or indirectly from above mentioned events, may be compromised by limitations of liability set forth by systems suppliers or by the markets.

##### *4.3 Electronic trading systems*

The computerized trading systems may be different from each other, as well as they differ from the "open outcry" trading systems. Execution orders in markets using computerized trading systems could not be executed as specified by the investor or be unexecuted if the trading systems would suffer from malfunctions or crashes due to their hardware or software systems.

#### **THE RISK OF INVESTMENTS IN FINANCIAL DERIVATIVE INSTRUMENTS**

Derivative financial instruments are characterized by very high risk, whose appreciation by the investor is hampered by their complexity. It is therefore necessary that the investor concludes transactions in such instruments only after having fully understood the nature and degree of exposure to the risk involved; he must also consider that the complexity of these instruments may encourage operations that are not appropriate. It should be noted, on a general note, that the negotiation of derivative financial instruments is not suitable for many investors. Once assessed the risk, it must be established whether the investment is appropriate for the investor, with

particular reference to his financial position, his objectives and his experience in financial derivative instruments. Below we illustrate some features of the risk of the most common ones.

#### 1) Futures

##### *1.1 The "leverage"*

Transactions in futures carry a high degree of risk. The amount of initial margin is small (a few percentage points) compared to the value of contracts and this produces the so-called "leverage effect". This means that a relatively small movement of market prices will have a proportionately higher impact on the funds deposited in the intermediary account, which may be to the detriment or the benefit of the investor. The initially paid margin and the additional payments made to maintain the position can therefore get completely lost. In the event that market movements were against the investor, the position may be liquidated at a loss and the investor will be liable for the payment of any other liabilities.

##### *1.2 Orders and strategies aimed at risk reduction*

Some types of orders aimed at reducing losses within a fixed maximum amount may be ineffective, as certain market conditions may render it unable to run. Also investment strategies using combinations of positions, such as "standard combination orders" could be risky as these are "long" or "short" individual positions.

#### 2) Options

Option transactions carry a high degree of risk. The investor should first understand how the types of contracts he intends to negotiate (put and call) work.

##### *2.1 The purchase of an option*

The purchase of an option is a highly volatile investment and there is a very high probability that the option is worthless at expiration. In this case, the investor will lose the entire amount used to purchase the premium, fees included. Following the purchase of an option, the investor can maintain the position until maturity or perform an opposite sign operation, or, for "American" style options, exercise it before maturity. The exercise of the option may involve cash settlement of a premium or the purchase or delivery of the underlying asset. If the option relates to futures contracts, the exercise of it will determine the purchase of a futures position and the obligations concerning the adjustment of margins. An investor intending to buy an option on an asset whose market price is very far from the price at which it would be convenient to exercise the option (deep out of the money), must consider that the possibility that the exercise option will become profitable is remote.

##### *2.2 The sale of an option*

The sale of an option will generally involve taking a higher risk than its purchase. In fact, even if the premium received for the option sold is fixed, the losses that may occur for the seller of the option

are potentially unlimited. If the market price of the underlying asset moves unfavourably, the seller of the option will be required to adjust the margin requirements in order to maintain the assumed position. If the sold option is the "American" type, the seller may be called at any time to settle the transaction in cash or to acquire or deliver the underlying asset. In the event that the underlying asset of the sold option is futures contracts, the seller will take a position in futures and the related obligations concerning the adjustment of margins. The seller's exposure to the risk can be reduced by holding a position on the underlying (stocks, indexes, etc.) corresponding to that of the reference of the option sold.

### 3) Other risk factors common to transactions in futures and options

#### 3.1 *Contractual terms and conditions*

Particular attention should be given to the conditions under which the investor may be required to deliver or receive the underlying futures contract and with reference to options, the expiration dates and the means of exercising. In certain specific conditions the contractual terms may be modified upon decision of market supervisory authorities or clearing house, in order to incorporate the effects of any changes in the underlying assets.

#### 3.2 *Suspension or restriction of trading and the relationship between prices*

Special conditions of market illiquidity, as well as the application of certain current rules on certain markets (such as suspensions resulting from abnormal price movements, the so-called circuit breakers), can increase the risk of losses, making impossible to carry out transactions or liquidate or neutralize the positions. In the case of positions resulting from the sale of options, that may increase the risk of suffering losses. It should be added that the usually existing relations between the price of the underlying asset and the derivative instrument may be impaired if, for example, a futures contract underlying an option contract was subject to price limits while the option was not. The absence of an underlying price could make difficult the judgment of the derivative contract value.

#### 3.3 *Foreign exchange risk*

The gains and losses related to contracts denominated in currencies other than the reference one for the investor (usually the Euro) may be affected by fluctuations in the exchange rates.

### 4) Swap contracts

Swap contracts carry a high degree of risk. For these contracts, there is no secondary market and there is no standard form. There are, at most, standard contract models, which are usually adapted case by case in details. For these reasons, it may not be possible to terminate the contract before the agreed deadline, if not

sustaining high costs. At the conclusion of the contract the value of a swap is always zero, but it can quickly become negative (or positive) depending on how the parameter to which the contract is attached fluctuates. Before subscribing to a contract, the investor must be sure to have fully understood how and how quickly the changes in the benchmark are reflected in the determination of the differential that he will have to pay or receive. In certain situations, the investor may be called upon to pay margin calls even before settlement date.

### 5) Covered warrants

Covered warrants are a financial instrument that incorporates an option to buy or sell a certain asset at a fixed future date. It is generally issued by banks or investment firms and listed on regulated markets. Since this is an option, the holder of the security has the right but not the obligation to purchase or sale. Depending on the nature of the right, covered warrants differ in Call (right to buy) and Put (right to sell). The rights conferred by a covered warrant have a cost, represented by a sum of money, called a "premium" that the buyer pays to the seller. The premium, therefore, is the price of the warrant. The asset object of the right is called "underlying asset" and generally consists of listed shares, indexes, baskets of securities and currencies. They also include government bonds, interest rates, commodities, precious metals, and so on. The current price of the underlying asset measured on the trading markets is called "spot price". The number of covered warrants needed to acquire the right to buy or sell a unit of the underlying asset is predetermined and is indicated as "parity". Even the price at which the underlying asset will be bought or sold is predefined, and is called "exercise price" (or strike price, or base price). For covered warrants it is expected more often, instead of the underlying asset physical delivery, the liquidation of a sum of money (cash differential) equal to the difference, if positive, between the spot price and the exercise price, in the case of a call option or between the exercise price and the spot price, in the case of put option, divided by the relative parity; in case of a negative difference it will be instead the investor to lose, symmetrically, partially or even in full, the amount paid as premium for the purchase of the covered warrant. Usually, covered warrants are automatically exercised and refunded at maturity, but the investor may decide not to take advantage of such automatic exercise: for covered warrants of American type there is the possibility to exercise even before the expiration date, through specific declaration of will. After the expiration date, the investor can no longer make any claim. Among the elements which contribute to determine the value of a covered warrant particular attention needs to be focused on the **volatility** of the underlying asset, that is the variability degree in the prices of an asset: the quicker the prices move, and with significant amplitude in both directions, the greater

the volatility. Its influence on the price of the warrants is direct, meaning that increases/decreases of the volatility meet increases/decreases in the price of the warrants. Another element that could affect the result of the investment is the degree of liquidity of the covered warrants: relevant trading volumes provide, in fact, on one hand, the possibility of divesting promptly, and on the other more competitive prices. Through the leverage, covered warrants allow to get amplified results compared to the direct investment in the underlying asset. Given the opportunity to have more returns, these instruments involve the risk of equally significant losses: it is possible to lose, at worst, the entire capital invested. It can be said, in general, that the purchase of covered warrants is not suitable for many investors.

## 6) Certificates

Certificates are securitized derivative financial instruments, which replicate the performance of the underlying asset, with or without leverage. The certificates without leverage, also known as "investment certificates", are, both in terms of investment and in terms of risk, an alternative to investing directly in the underlying asset. In this category we find: -certificates that simply replicate the performance of the underlying asset (commonly called benchmark), useful in case of underlying assets otherwise difficult to reach by private investors (such as indexes, currencies, futures, oil, gold and silver) - certificates that allow, through ancillary options, the realization of more complex investment strategies (for example with the aim of a partial or total protection of the invested capital or to achieve better performance than those obtained by the same underlying asset in certain market conditions). Leveraged certificates are divided into "bull" and "bear". The bull leverage certificates are financial instruments that allow investors to take an upward position (precisely bull) on the underlying asset, using only a fraction of the value required to purchase the same; purchasing a certificate with a "bull" leverage type is equivalent in fact, from a financial point of view, to buying the underlying asset at the same time and turning on a loan with the issuer for an amount equal to the value of the strike price. On this amount the investor pays in advance (or day by day through a mechanism of daily update of the strike) a portion of interests. The bear leverage certificates are financial instruments that allow investors to take a short position (precisely "bear") on the underlying asset: purchasing a certificate with a "bear" leverage type is financially equivalent to selling short the underlying asset at the same time and making a deposit, with the issuer, equal to an amount equal to the strike price, for a period which coincides with the maturity of the certificate. The deposit can be both interest bearing and in this case the interest is discounted from the price of the certificate in advance (or paid daily through a mechanism of daily update of the strike), and non-interest bearing. These financial instruments, such as

the bull, are also characterized by the presence of a stop-loss level (or barrier), placed below or at the same level of the Strike, when reaching it, the financial instrument is extinguished in advance. While the Leveraged certificates are more suitable for investors with a good technical financial preparation, who usually adopt highly speculative investment strategies, with an average short-term time horizon, certificates without leverage are suitable to more conservative investment and oriented to medium-long term strategies. The value of Certificates, either with or without leverage, unlike that of the Covered Warrants, does not depend on the passage of time (time decay) and on the volatility of the underlying asset. Investment certificates class b) are an exception, because of the optional accessory component that, as said above, characterizes them.

## **EMERGING MARKETS INFORMATION**

Transactions carried out in the markets of countries conventionally defined as "emerging" may expose the Customer to a number of additional risks, not completely assimilable to those faced when operating on markets of more developed countries. In general, the essential distinctive traits of an "emerging market" country are the following:

- inadequate development of infrastructures;
- significant margins for increased economic growth and foreign participation in the capital of companies operating in the country. More in detail, a country can be considered an "emerging market" if it possesses some of the features listed below:
- per capita income of less than \$ 9,386 (parameter identifier of low-and middle-income economies set by the World Bank in 1997);
- recent (or relatively recent) liberalizations in the economic sector, that are all the processes that will help reduce the presence of the government in the economy, such as the privatization of public activities, or the removal of government supervision on currency negotiations, and the obstacles the settlement of foreign capital in the country;
- placement in the lower grades of investment classifications in rank lists drawn up by the major international rating agencies, or previous recent referrals or non-payment information of the public debt;
- recent liberalization in the political sphere, and the beginning of democratic evolution of the political system;
- not a member of the OECD.

It is therefore defined as operation on "emerging markets" those relating to financial instruments (and their derivatives) issued by entities resident, domiciled, or significant stakeholders in countries that possess some of the above-stated features. This document, although not exhausting the subject entirely, is to provide a discussion of the most risky investment activities in emerging markets, primarily related to the factors listed below.

## 1) Economic structure

The economies of emerging market countries are characterized by a greater instability than those of more developed countries: the main consequences can be significant fluctuations even of the main economic parameters, such as the exchange rates with other currencies or interest rates and inflation. Even any borrowing of the country against other nations or international organizations, as well as a lack of appropriate infrastructure, can help increase economic instability and, consequently, to create a condition of uncertainty in finance.

## 2) Political situation

It is common knowledge that an unstable political environment causes uncertainty and instability for the financial market. The high social conflict that characterizes many emerging countries can often lead to dramatic upheavals in the political situation, with inevitable consequences on the stability of the currency exchange and on the market's regulation. It could therefore be particularly difficult for the Customer (and his counterparts) to predict the potential impact of such events on investments eventually undertaken.

## 3) Financial market situation

In the emerging countries the organized financial markets, as well as being usually smaller than those of the more developed countries, have less precise and complete rules; often a real organized market for trading on securities issued by local companies does not even exist, with the natural consequence of a great price volatility of these financial instruments.

## 4) Currency situation

The prices of the currency circulating in emerging countries may fluctuate substantially, due to both the dynamics of foreign exchange markets and the measures taken by the domestic monetary authorities. It should be kept in mind that, even taking all the possible measures for risk control, a satisfactory degree of security is often not reached.

## 5) Collecting Information

To get complete information on issuers and counterparties operating in the emerging countries is often more difficult than it is in the more developed countries, because often official data and statistics available cannot be considered fully reliable. The Customer's opportunity to consciously choose his investment strategies is therefore limited, also due to incomplete knowledge of the main economic parameters of the country.

## 6) Settlement

Reliability and efficiency of system of custody of financial instruments and procedures of settlement and clearing of transactions concluded on organized markets in the emerging countries are often smaller than in other countries. The

possibility of making mistakes, neglect or even outright fraud, sometimes pushed to the denial of ownership of financial instruments to those who have purchased, are higher.

## 7) Issuer risk and credit risk

The economic instability that can characterize the emerging countries can lead to negative repercussions on the ability of the issuers of financial instruments to fulfil its obligations towards the Customers (payment of dividends, extinction of bonds, etc.). In fact, some countries are currently defaulters on their obligations to the public debt. Similar risks are even greater if the market has a limited number of issuers.

## 8) Taxation

Tax legislation of the emerging countries tends to be subject to sudden and substantial innovations; in addition, the rules for levying taxes are not always efficient and defined as those adopted by the developed countries. It may ultimately become difficult to apply the regulations adopted by the country of origin of the Customer to avoid double taxation.

## 9) Legal Risk and Regulation

Although in some of the emerging countries the legal system has reached (or is about to reach) a sufficiently sophisticated level of development in terms of integrity and reliability, in several others it continues to be deficient, so that the enforceability of rights acquired by the Customer may be uncertain or insecure.

## **STATEMENT OF "CORPORATE BONDS"**

"Corporate bonds" are defined as financial instruments of bond segment issued by non-governmental entities. The risk that issuers may not be able to pay interest or repay capital borrowed (the "issuer risk") is reflected in the rate of interest that such bonds correspond to the Customer: the greater the perceived risk, the higher the interest rate that the issuer must pay to the market. To assess the adequacy of the interest rate paid by a title you should refer to the interest rate paid by the issuer whose risks are considered lower and in particular the return offered by government bonds with the same maturity. Analysis of the degree of risk associated with issuers 'corporate' is usually entrusted to the main international agencies: Moody's ([www.moody.com](http://www.moody.com)); Standard & Poor's ([www.standardandpoors.com](http://www.standardandpoors.com)). These supply rating assessments of creditworthiness of individual issuers, including evaluations on their ability to meet their financial obligations; based generally on the following factors: economic and political risks related to the country where the issuer resides or has its principal market; industrial sector or sectors in which the issuing company does business; the market share of the issuing company and its competitive position in the industry, operating and growth strategies; parameters and financial goals; management features and ability; specifically regarding

SYMBOL-MOODY'S	SYMBOL S. & P.	EVALUATION	
Aaa	AAA	Issuers have exceptional financial soundness. Even the still possible changes in the creditworthiness of the issuer should not affect the excellent situation of fundamentals.	IN-VESTI-MENT GRADE
Aa	AA	Issuers have excellent financial soundness. Together with the previous grade Aaa / AAA, this group represents issuers called "high level". They are measured at a level lower than those Aaa / AAA because the long-term risks are considered superior.	
A	A	Issuers have good financial soundness, but also some element of weakness in front of any future difficulties.	
Baa	BBB	Issuers have sufficient financial soundness; however some protection elements may be lacking or unreliable in the long term.	
Ba	BB	Issuers have doubtful financial soundness. Often the ability of these entities to meet their obligations does not provide sufficient guarantees for the future.	SUB IN-VESTI-MENT GRADE
B	B	Issuers have poor financial soundness. The ability to repayment of long-term debt is very low.	
Caa	CCC	Issuers have very poor financial soundness. They were already defaulters in the past or in any case subject to risk with regard to the punctuality of repayments.	
Ca	CC	Issuers have a clearly insufficient financial soundness. They are often in default in the payment of bonds.	
C	C	Issuers of grade C are the worst of all: they are usually defaulters, so chances of debt recovery are scarce.	
-	D	Issuers are in default. The category D is applied: when payments are not made on the due date, in case of a judgment of bankruptcy or other insolvency actions.	

individual bond issues, the evaluation of the terms and the analysis of any guarantees offered. The rating assessments normally available on the market refer to long-term bonds, so called long-term issue credit ratings (the U.S. market considers long term bond issues with maturity of more than one year). To allow an adequate assessment of potential investments in "corporate" securities, the following table shows the measurement scales used by the rating agencies Moody's and Standard & Poor's, with a summary of the relative opinions, expressed in terms of degree of risk default (failure) of the issuer.

The extreme importance of this classification is further emphasized especially when an investor intends to make an investment in a high-yield bond (so-called high Yielder): they are in fact usually financial instruments classified in sub-investment grade, consistent with the already highlighted direct proportionality between return and risk.

#### REGULATORY COMMUNICATION BANK RESCUE (BAIL - OUT)/BAIL-IN

With the legislative decrees nn. 180 and 181 of 16 November 2015, the European Directive 2014/59 / EU (so-called Banking Resolution and Recovery Directive, BRRD) was implemented in Italy, which establishes a harmonized European regime on crisis prevention and management of banks and investment firms.

The changes introduced make the securities issued by banks and investment firms intrinsically more risky than those of other issuers, as the owners can no longer harbor hope in "state aid" as in some cases in the past.

Briefly, when the conditions for starting the intermediary's "crisis" management procedures are verified, the Bank of Italy can dispose:

- the reduction or conversion of shares, other equity and capital instruments issued by the entity (effective from 11/16/2015);

- where the previous measure does not allow to remedy the failure or risk of failure, the adoption of measures to resolve the intermediary, including the so-called "bail in" (effective from 01/01/2016) which consists in reducing the rights of shareholders and creditors, in certain cases up to account holders, or in converting their rights into capital. Derivative contracts, such as certificates and cw issued by the banks concerned, are also subject to the resolution measure in question.

In the case of bail in, the amount of the reduction or conversion into "risk capital" is absorbed by shareholders and creditors according to the hierarchy provided by art. 52 of Legislative Decree no. 180/2015, as well as by articles 1, paragraph 33, and 3, paragraph 9, of Legislative Decree no. 181/2015.

*Article 52* establishes the hierarchy according to which the established amount will have to be allocated; this hierarchy provides that, first of all, the reduction will have to be made, up to the extent of losses, according to the order

indicated: (i) of instruments representing Common Equity Tier 1 capital (CET1); (ii) of Additional Tier 1 capital (AT1) instruments; (iii) of class 2 capital instruments; (iv) subordinated debt other than Tier 1 additional capital instruments and Tier 2 instruments; (v) of the remaining liabilities. Once the losses have been absorbed, or in the absence of the losses, the shares will be converted into eligible shares in the primary capital, in the order indicated: (i) of the additional Tier 1 capital instruments; (ii) of Tier 2 equity instruments; (iii) subordinated payables other than additional Tier 1 capital instruments and Tier 2 instruments; (iv) of the remaining liabilities.

Pursuant to art. 1, paragraph 33, of Legislative Decree no. 181/2015 (which modifies art. 91 of the Consolidated Banking Law), for the "remaining liabilities" the bail-in will first concern the senior bonds and then the deposits (for the part exceeding the amount of € 100,000) of natural persons, micro, small and medium-sized enterprises. As a result of the provision pursuant to art. 3, paragraph 9, of the same decree, after January 1, 2019, senior bonds will be subject to bail-in before all other deposits (which will always be involved for the part exceeding the amount of € 100,000).

To implement the measures for the reduction or conversion of capital instruments and the resolution measures, the Bank of Italy has specific powers (art. 60 of Legislative Decree 180/2015).

Article. 60 shows the "general resolution powers": a) make requests for data and news and inspections; b) arrange for the transfer to third parties of shares or other holdings issued by the institution subject to resolution; c) arrange for the transfer to third parties of assets and legal relationships of the entity subject to resolution; d) reduce or set to zero the nominal value of shares or other holdings issued by the institution subject to resolution, as well as annul the shares or securities; e) reduce or set to zero the nominal value of the eligible liabilities of the institution under resolution; f) cancel, where necessary, the debt securities issued by the institution subject to resolution, with the exception of guaranteed liabilities; g) convert eligible liabilities into shares or other holdings of the institution under resolution or of a company which controls it or of a bridge institution; h) require the institution subject to resolution or the company that controls it issue new equity instruments; i) change the maturity of debt securities and other eligible liabilities issued by the institution subject to resolution, or change the amount of interest accrued in relation to these instruments and liabilities or the date from which interest becomes due, including suspending the related payments for a transitional period; this power does not apply to guaranteed liabilities; l) activate close-out clauses or order the dissolution of financial contracts or derivative contracts of which the institution subject to resolution is part of; m) order the removal or replacement of the administrative and supervisory bodies and of the senior management of the

institution subject to resolution; n) request the Central Bank to carry out the assessment of the potential purchaser of a qualified shareholding by way of derogation from the applicable terms.

In particular, the power to change the maturity of securities, the amount of interest accrued in respect to such securities or the date from which interest becomes due, including by suspending the related payments for a transitional period, shall be reported.

The entire discipline also applies to equity instruments and liabilities issued prior to January 1, 2016.

## SECTION D - INFORMATION ON CHARGES AND COSTS

### EX-ANTE AND EX-POST REPORTING

Directa, in compliance with the new provisions introduced by MiFID II, provides ex-ante disclosure on the costs applied to trading services on the main markets/financial instruments and highlights their average impact on the performance of the transaction. During the annual reporting, and at this time in a personalised form for each client, Directa also provides ex-post reporting with all the costs and charges relating to the investment services provided, also including any incentives paid or received by third parties in relation to the service provided to the customer. This information is presented in an aggregate form (but the detail of the single items is also available) all the costs applied by Directa, both in monetary terms and in percentage terms, placing them in relation to the average amount on the account in order to understand their actual impact on the achieved yield.

### TRADING COMMISSIONS ON DIFFERENT MARKETS

Directa offers three different types of commission: flat, proportional, "degressive". The flat fee, provided on all markets in which Directa operates, is convenient when entering large size orders, but limited in number throughout the day. The proportional fee is convenient for modest size orders and is provided only for the MTA and SEDEX. The degressive fee is convenient for moderate size orders and very numerous. It is applicable on the Italian market and on those of futures, including foreign markets. For details of current fees please visit [www.directa.com](http://www.directa.com)

### TAXATION FROM 01/07/2014

Taxation on financial income is regulated by the Italian Legislative Decree no 461/97, which provides extension of tax levy, already existing on interest and dividends on securities, also to all capital gains on equity however realized (sale of shares, government bonds, bonds or other financial instruments, such as futures, options, swaps, IRS). The capital gains are taxed on a cash basis without the possibility to deduct any costs incurred for their production, and subject to withholding tax by withholding agents who deliver them. In general, except for special cases, such

withholding tax is applied as a tax (that is in a definitive form) against natural persons not engaged in commercial enterprise: in this case the taxpayer is relieved of their disclosure in the income tax return.

From 1 July 2014, the tax rate has been changed to 26%, for all the financial instruments, with the exception of the government bonds of the European Community countries and equivalent, where it maintains a rate of 12.50%.

## SECTION E - INFORMATION ON THE EXECUTION AND TRANSMISSION OF ORDERS ON MOST FAVOURABLE TERMS FOR THE CUSTOMER

### GENERAL INFORMATION ON STRATEGIES OF EXECUTION AND TRANSMISSION OF ORDERS

The factors identified by the regulations as possible elements of strategic differentiation in the way of transmission/execution of orders (price, costs, speed and likelihood of execution, size of the order...) can not in any way change Directa's order management, because Directa does not want it to be at its own discretion and accepts orders from its Customers only with specific instructions about how to execute and transmit them. The only form of discretion is one that may be required in the event that an extended technical issue would prevent the timely forwarding of the order, along the normal route, to the destination indicated by the Customer: Directa may therefore use an alternative route, usually another interconnected broker, to reach, whenever possible, the same venue of execution, providing explicit documentation in the Information sheet and without additional costs to the Customer.

In summary Directa SIM SpA uses the following "strategy of execution and transmission" of orders: **timely forwarding to the market, the Organized Trading Systems/ Multilateral Trading Facility or broker chosen by the Customer: except that in case of technical issues, any discretion forwarding and, in any case, any internalization of order is excluded.**

### INFORMATION ON STRATEGIES FOR DIRECT EXECUTION OF ORDERS

Directa SIM SpA directly transmits orders to the following markets and Organized Trading Systems:

- Electronic markets organized and managed by the Italian Stock Exchange and Euro TLX
- Derivatives foreign markets: Eurex and Chicago Mercantile Exchange.
- Organized Trading Systems (Multilateral Trading Facility): After Hours Market and Euronext Growth Milan of Borsa Italiana

### INFORMATION ABOUT TRANSMISSION OF ORDERS TO THE RECIPIENT OTHER THAN A MARKET OR AN ORGANIZED TRADING SYSTEM

For orders that cannot be forwarded directly to a market Directa SIM SpA relies on the support of

the leading brokers listed below, which allow a remote management of orders and a timely execution:

- for the market organized and managed by Deutsche Boerse (Xetra): *Banca IMI*
- for Euronext, CBOE Europe Equities and SIX Exchange markets: *Banca IMI*
- for regulated U.S. Markets – like NYSE, AMEX, NASDAQ, ECN - and the OTC: *ViewTrade Securities*
- for LMAX MTF: *LMAX Exchange*.

In line with its strategy of execution, in the case where financial instruments are traded on several execution venues, Directa will ask the Customer to indicate his choice, which will be considered as a binding instruction on how to perform/transmit orders.

**Please note that the above-mentioned "special instructions" may prevent to obtain the "best execution" as defined by the current legislation.**

Directa SIM SpA periodically examines its strategy of execution and transmission of orders and gives timely notice of the changes that might be necessary.

## SECTION F - PROCEDURES AND DEADLINES FOR DEALING WITH COMPLAINTS

Retail Customers must submit complaints in writing, addressed to Directa's registered office, which will work to process them with promptness. The final outcome of the complaint, with the conclusions of Directa, shall be communicated to the Customer in writing, usually within a maximum period of 90 days from receipt. Directa completes the procedure with the recording and conservation of the essential elements of the complaint and the measures taken to solve the issue raised.

## SECTION G – OUT-OF-COURT SETTLEMENT OF DISPUTES

The extra-judicial settlement of disputes between investors and qualified parties shall be in accordance to the Italian law, Art. 32-ter of decree no. 58, February 24<sup>th</sup>, 1998, and subsequent amendments and/or additions and the related implementing regulations.

## SECTION H - INFORMATION ON THE TERMS OF THE AGREEMENT

For the contractual terms please refer to the explanations in the Agreement and its Annexes.

## SECTION I - CUSTOMER CLASSIFICATION

According to the law and current regulations, a Customer is considered a natural or legal person

for or on behalf of which Directa makes investment activities and/or provides ancillary services. Directa, on the basis of the available information, will communicate to the Customer the classification assigned to him. The categories within which the customers can be classified are the following: Retail customer. Classification within this category entails the application, towards the customer, of the entire discipline regarding investment services, with particular reference to the rules of conduct and, in general, to the rules set up to protect investors.

Professional client. The classification within this category, carried out on the basis of the parameters and criteria provided by the transposition rules of Directive 2014/65 / EU (the so-called MiFID II Directive) has, as a consequence, the non-application of certain rules provided for the retail customers.

Professional customers may become such, upon their request, provided that the criteria and procedures necessary to properly assess their competence, experience, and financial knowledge are respected.

In the event of a request for a different classification, either in general terms or in relation to a particular service or transaction, the customer

will be informed of the consequences that, in terms of protection and compensation rights, this change will entail. In order to make his choice operational, the Customer must submit a statement confirming that he has understood the consequences of the choice made.

In any case, Directa reserves the right to modify the classification of a customer who no longer meets the requirements necessary for the attribution of the classification originally assigned to him.

Eligible counterparty. This classification concerns specific categories of customers, who professionally operate on the capital markets, as identified by Directive 2014/65 / EU and by the national reference regulations, to whom are provided services of orders execution and/or trading for their own account and/or the receipt and the transmission of orders.

Classification as Eligible Counterparty involves the non-application of certain norms set up to protect retail customers, while the obligation remains for intermediaries to act honestly, fairly and professionally, using clear and not misleading communications, taking into account the nature of the subject and its business.

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