

## INFORMATION FOR CLIENTS

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On 15 June 2018 the Swiss Parliament passed the Federal Act on Financial Services (hereinafter “**FinSA**” [LSerFi]) and the Federal Act on Financial Institutions (hereinafter “**FinIA**” [LisFi]) which came into force on 01.01.2020. The FinIA harmonizes the rules for the authorization of certain financial service providers. The FinSA contains rules for conduct that the financial service providers must observe in the relationship with their clients. Both of the acts feature a transitional period (the so-called “transitional provisions”) for their implementation by those subject to them.

With the introduction of the FinIA, independent portfolio managers of individual clients are now subject to monitoring, namely they are subject to the Swiss Financial Market Supervisory FINMA. *Lugano Financial Advisors SA* (hereinafter the “**Company**” or “**Financial services provider**”) obtained on 07.06.2021 the authorization from FINMA to operate as a Portfolio Manager, therefore the Company is now subject to the rules of FINMA and meets the requirements for authorization set by the authority.

The FinSA focuses especially on the rules of conduct that the financial services providers must comply with when providing said services in the context of investments, rules that integrate the provisions of civil law applicable to contractual relationships between the financial services provider and its clientele.

The new legislation therefore aims to regulate the financial market, increase the protection of investors and offer greater transparency on financial products.

**The introduction of FinSA has made it necessary for the Company to update its contracts for the services provided and/or the financial products submitted to its clientele. With the present document the Company informs its clients about the effects of FinSA on client relationships.**

### **The Federal Act on Financial Services (FinSA)**

FinSA applies in Switzerland to all financial services providers that perform the activity professionally, as well as to financial instrument providers.

#### **1. What does FinSA regulate and in which cases are you effected by it?**

The main goal of FinSA is to strengthen the protection of investors with regards to the provision of financial services and the offering of financial instruments. In particular, FinSA contains rules of conduct such as requirements to provide information and documents, in addition to organizational measures. For the application of the rules of conduct set forth in FinSA, there is in general a transitional period of two years starting from 01.01.2020.

#### **2. Protection of the investor**

The extent of protection for the investor depends on the client segmentation and on the type of financial service provided by our Company and of which you avail yourself. FinSA distinguishes among the following types of financial services:

- Acquisition or disposal of financial instruments;
- Receipt and transmission of orders in relation to financial instruments;
- Administration of financial instruments (**portfolio management**);
- Provision of personal recommendations on transactions with financial instruments (**investment advice**);
- Granting of loans to finance transactions with financial instruments.

With regards to client segmentation, FinSA distinguishes between retail clients, professional clients and institutional clients.

Being treated as a retail client means enjoying the highest level of protection for each financial service requested. FinSA moreover permits, in the event the Client so wishes and meets certain conditions, the Client to change segments and be put into a different client segment than the one communicated to them; this must be done by means of an express written request to the Company.

### Combined effects of the client segmentation in accordance with FinSA and CISA (LICoI)

Along with FinSA, the Federal Act on Collective Investment Schemes (hereinafter “CISA” [LICoI]) was also updated. For example, CISA now contains only provisions specifically referred to products related to collective investment schemes, while the rules of conduct to be observed in regards to clients are now to be found in FinSA. The update has also affected the characteristics of the classification of clients as qualified or non-qualified investors in accordance with CISA, which makes reference to the definitions of client segmentation contained in FinSA.

- Professional clients and institutional clients are treated as qualified investors;
- Retail clients are not treated as qualified investors, and therefore do not have access to the collective investment schemes (investment funds) reserved for qualified investors, nor may they invest in collective investment schemes (investment funds) which are not authorized in Switzerland. **It must however be noted that if a client has entered into a written agreement for a permanent investment advice or portfolio management relationship with the Company, it is considered a qualified investor as per CISA.** This means a broader range of opportunities, but also a greater number of risks. The classification as a qualified investor makes it possible to acquire financial instruments at increased risk: for example, in the context of an investment advice or portfolio management relationship, a qualified investor may also acquire foreign collective investment schemes or structured products that carry a higher level of risk.
- If a client wishes to give up the status of “qualified investor”, they must declare so in writing.

### Change of Segment

FinSA provides the possibility of changing one’s segmentation by written request to the financial services provider, as long as the established conditions are met.

#### Moving to a segment that offers lower protection (*opting-out*):

High-net-worth retail clients or private investment structures created for such clients without a professional treasury may declare that they wish to be treated as professional clients. This request is admissible in the following cases:

- the person or the structure;
  - a) has at their disposal assets of at least CHF 500,000<sup>1</sup> and
  - b) possesses the necessary knowledge to understand the risks associated with the investments thanks to their training and professional experience or on the basis of comparable experience in the financial sector

or

- the person or structure has at their disposal assets of at least 2 million CHF<sup>2</sup>.

#### Moving to a segment that offers greater protection (*opting-in*):

- A professional client may ask to be treated as a retail client.
- An institutional client may ask to be treated as a professional client.

### 3. Code of Conduct

Before the signing of the contract or the provision of the service, the Company shall provide you with certain information. The purpose of this information is to make it easier for you to decide whether you wish to use a given financial service. In the case of investment advice or portfolio management, the Company must assess whether the service is suitable or appropriate for you. The Company documents the provision of the service, and, at your request, shall provide you with access to that documentation. Moreover, when financial instruments are personally recommended, the Company shall make the key information document available to retail, insofar as such a document must be produced for the financial instrument recommended. The code of conduct for the Company, a principal element of the protection of the investor, therefore, depends on the client segmentation. In the case of retail clients, the entire code of conduct must be followed.

<sup>1</sup> The amounts indicated above are calculated excluding assets such as real estate property, claims from social insurance schemes or occupational pension assets.

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#### **The assessment of suitability and appropriateness**

The financial services provider that offers portfolio management services must carry out an assessment of suitability mainly based on the Client's financial situation, investment goals and their knowledge and experience of the service received. This is likewise valid when the service consists in investment advice that takes into account the client's entire portfolio.

If the investment advice is limited to specific recommendations regarding isolated operations without taking into account the client's entire portfolio, the financial services provider is only responsible for assessing the suitability of the financial instruments offered in regards to the client's knowledge and experience. If the financial services provider has not received sufficient information to be able to assess the suitability and appropriateness of the services offered, it must inform the client of this fact. If the services offered by the financial services provider consist exclusively in the execution or transmission of orders (*execution only*), FinSA does not require any assessment of appropriateness or suitability. Nevertheless, the provider must inform its client that there has been no assessment of the appropriateness or suitability of the operation.

#### **4. Provisions related to information and documentation**

The duty to provide information regards, on the one hand, the data about the Company itself, and, on the other, the information about the financial services it can provide. The Company is required to document the financial services agreed upon with the client and the information gathered about the latter. In the event of investment advice, it must likewise document the needs of the client and the reasons for every recommendation.

Professional clients may expressly waive the duty to provide information, documentation and rendering of account. In the case of professional clients, the Company, when assessing the appropriateness and suitability, can assume that such clients have the necessary knowledge and experience at their disposal and are financially capable of bearing the investment risks associated with the financial service. In the case of institutional clients, the rules of conduct contained in FinSA are not applicable. This means that for institutional clients there is no duty to provide information, documentation or rendering of account nor any duty with regards to transparency and diligence or the performance of an assessment of appropriateness or of suitability.

#### **Information about costs**

When providing financial services there may costs and taxes both from the Company and from third parties. The Company informs you about the type and amount of the compensation which it receives from third parties related to the financial service provided.

#### **Information about risks**

Operations with financial instruments are associated with both opportunities and risks. It is therefore especially important that, before using a financial service, you understand the risks involved. For this purpose you will be given the booklet "*Risks Involved in Trading Financial Instruments*". In this booklet you can find all the relevant information about the risks typically present in trading financial instruments.

#### **Best Execution**

When executing the client's orders, the Company shall ensure that the best possible outcome is achieved in terms of cost, timing and quality. In any case, if a trading operation derived from an explicit instruction from the investor is incompatible with the principles of best execution and/or the choice of the banking counterpart for the trade was not made by the Company, then the Company is justified in not following the principles of best execution.

#### **5. Conflicts of interest**

The Company shall undertake, in the provision of financial services, to reconcile as far as possible the interests of its clients with those of the Company and its collaborators. It is nevertheless in the nature of things that conflicts of interest cannot always be avoided. The company has therefore taken, in compliance with the law, measures for the correct and transparent management of conflicts of interest.

Lugano Financial Advisors SA  
(unsigned document)