

October 2007

MiFID Overview & Client Categorisation Information

Topics:

What is MiFID?
Overview
Key Impact Areas
Client Documentation
Packs
Glossary

MiFID?

What is MiFID and how does it affect Calyon Financial and our clients?

MiFID is the **Markets in Financial Instruments Directive** and forms the basis by which European investment firms can passport their services to other EEA countries. By setting wide ranging harmonised requirements for compliance and conduct of business rules, MiFID will lead to substantial changes to regulations across the whole of Europe. The implementation of the directive's articles is intended to bring about harmonisation across Europe.

MiFID contains 73 articles of changes to regulation, applies to all investment firms in the EU and impacts all asset classes. MiFID is an integral part of the creation of a wider European market to compete with the US, and is the most extensive European regulation we have seen to date.

Overview

The stated objectives of MiFID include:

- Delivering harmonisation across European jurisdictions
- Offering investors a high level of protection
- Ensuring a high quality of execution
- Providing a coherent and risk-sensitive framework for regulating order execution
- Enhancing transparency on liquidity
- Upholding the integrity and overall efficiency of the financial system

MiFID will impact a vast number of organisations operating in financial services within the EU, whether they provide investment advice or transaction services.

This includes, but is not limited to:

- Futures and Options Brokers
- Investment Advisors
- Private Banks
- Investment Banks
- Portfolio Managers

MiFID legislation covers almost all tradeable financial products (including derivatives), with limited exceptions.

The key MiFID impact areas for Calyon Financial are:

- Client Categorisation
- Best Execution and Order Handling
- Investment Advice
- Inducements
- Conflicts of Interest
- Terms of Business
- Trade and Transaction Reporting

The following sections will describe how Calyon Financial has been preparing for these changes and what this means to our customers.

Key Impact Areas - *Overview*

CLIENT CATEGORISATION

MiFID has changed and standardized the client classification process across Europe.

Under MiFID all clients will be reclassified as either:

- Non Professional / Retail Client*;
- Professional Client; or
- Eligible Counterparty

All Calyon Financial SNC clients will receive a letter stating their categorisation.

Under MiFID regulations a client may request a different categorisation to that stipulated by Calyon Financial, and any such request should be made to Calyon Financial's Compliance Officer and may require different account documents to be completed.

** Calyon Financial SNC will not conduct business for Non-Professional / Retail client in certain regions*

**MiFID has a hard
deadline of
1 November 2007**

BEST EXECUTION

MiFID requires all firms to provide best execution to clients in most situations taking into account client categorisation, the characteristics of the order and the characteristics of the product and exchange venue. Additionally, best execution must take into account:

- Price
- Cost
- Likelihood of execution & settlement
- Size of transaction
- Nature of trade
- And any other relevant consideration

Calyon Financial has formulated a Best Execution policy and will notify our clients of the policy via a Best Execution Disclosure Statement.

**Best Execution will not apply to Eligible Counterparties*

CONFLICTS OF INTEREST

Under MiFID it is no longer possible to deal with conflicts of interest by means of disclosure only – firms must actively take steps to ensure that they avoid conflicts of interest where possible.

Firms must ensure that they have developed a conflict of interest policy and that this is made available to clients.

Calyon Financial has made provisions to make this information available to our clients.

Key Impact Areas – *Overview cont.*

TERMS OF BUSINESS

The changes introduced by MiFID require changes to our terms of business (TOBs) and the information we provide to clients. The key changes will be:

- Best execution
- Client Money
- Custody
- Inducements
- Risk Warnings
- Consent

Calyon Financial has issued amended TOBs to our clients.

**Amended TOBs will not be sent to clients trading OTC products only.*

Client Documentation Packs

Due to the changes required under MiFID, we are providing the following information to our clients:

France

Non-Professional Clients will receive:

- Categorisation Letter
- Detailed description of Categorisation
- Best Execution Disclosure Statement
- Conflicts of Interest Policy
- Trading and Products Risk Warnings
- Consent Form*
- Amended Terms of Business

Professional Clients will receive:

- Categorisation Letter
- Overview of Categorisation
- Best Execution Disclosure Statement
- Trading and Products Risk Warnings
- Consent Form*
- Amended Terms of Business

Eligible Counterparties will receive:

- Categorisation Letter
- Overview of Categorisation
- Consent Form
- Amended Terms of Business

Germany and Spain are currently finalizing their documentation

**We must receive written consent from our clients before executing orders outside of a regulated market or multi-lateral trading facility for those products which are also listed on-exchange and to allow for electronic communication.*

UK

Professional Clients will receive:

- Categorisation Letter
- Best Execution Disclosure Statement
- Consent Form*
- Amended Terms of Business

Professional OTC Clients will receive:

- Categorisation Letter
- Best Execution Disclosure Statement
- Consent Form*

Eligible Counterparties will receive:

- Categorisation Letter
- Amended Terms of Business

Eligible Counterparties OTC will receive:

- Categorisation Letter

Available to all clients on Calyon Financial's website:

- Best Execution Disclosure Statement
- Conflicts of Interest Policy
- Trading and Products Risk Warnings
- Overview of Categorisation
- Execution Venues

Key Contacts

Please contact your Account Executive or Client Service representative at:

Calyon Financial SNC
Paris
33.1.44.82.86.86

Calyon Financial SNC
London
+44 (0)20 7 550 2424

Calyon Financial SNC
Frankfurt
49.69.4789.7450

www.calyonfinancial.com

Glossary of Useful Terms

AMF	AUTORITÉ DES MARCHÉS FINANCIERS - France's Regulator & CESR Member
BAFin	Bundesanstalt für Finanzdienstleistungsaufsicht (BAFin) (German Federal Financial Supervisory Agency)
CESR	Committee of European Securities Regulators
CNMV	COMISIÓN NACIONAL DEL MERCADO DE VALORES - Spain's regulator & CESR Member
EEA	European Economic Area -An economic area encompassing all the members of the European Union (EU) and the European Free Trade Association (EFTA)
ECN	Electronic Communication Network
EU	European Union
FOA	The Futures and Options Association
FSA	FINANCIAL SERVICES AUTHORITY - UK's regulator & CESR member
Gold-Plating	The act in which local regulators enforce additional requirements on-top of MiFID regulation. Sometimes referred to as 'Super Equivalence'.
ISIN	International Securities Identifying Number (ISIN) uniquely identifies a security
LSE	London Stock Exchange
MiFID (MIF)	Markets in Financial Instruments Directive
MTF	Multi-Lateral Trading Facilities
SI's	Systematic Internalizers
Silver-Plating	Intelligent copy-out of the regulation into law, however, not enforced by regulation
Super Equivalence	See 'Gold-Plating'
TOBs	Terms of Business