

THE RULE BOOK

Version 2.0.

Approved by the BFAA Management Board

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1. Definitions and abbreviations

- 1.1. **Affiliate** means a company which is affiliated to BFAA on the basis of the Affiliation Agreement.
- 1.2. **Affiliation Agreement** means an agreement on the basis of which a company becomes an Affiliate.
- 1.3. **Baltic Countries** mean Estonia, Latvia and Lithuania.
- 1.4. **BFAA** means a non-profit association “Baltic Financial Advisors Association” registered in Latvia and founded by banking associations of the Baltic Countries, which manages and operates the licensing system created under the Rule Book.
- 1.5. **Inactive License Holder** means a License Holder who is declared or has become inactive pursuant to the Rule Book.
- 1.6. **Individuals** - natural persons, who are not related to Affiliates and do not become License holders. These persons seek becoming a Certified Financial Broker according to Lithuanian law. They pass exam for consultation and managing of investment portfolios in Lithuania, provided by BFAA, and are entitled to perform licensed services by Lithuanian law.
- 1.7. **General Meeting** means the general meeting of BFAA which consists of the banking associations of Baltic Countries.
- 1.8. **Investment Advice** means the provision of personal recommendations to a client, either upon its request or at the initiative of the Affiliate, in respect of one or more transactions with financial instruments or other financial products for which suitability assessment is required under local legislation.
- 1.9. **License** means a license which has been obtained pursuant to the Rule Book.
- 1.10. **Licensed Services** mean the services specified in clause 5.1.
- 1.11. **License Holder** means a private individual who holds a License obtained pursuant to the Rule Book, irrespective of whether or not the License Holder is inactive.
- 1.12. **License Candidate** means a private individual who applies for a License obtainable pursuant to the Rule Book.
- 1.13. **Management Board** means the management body of BFAA which manages and represents the BFAA and is appointed by the founders or elected by the General Meeting.
- 1.14. **Regulatory Authorities** mean the regulatory authorities of financial markets in the Baltic Countries – the Financial Supervision Authority of Estonia, Financial and Capital Market Commission of Latvia, and the Central Bank of the Republic of Lithuania.

1.15. **Review Board** means review board of BFAA which shall determine the proficiency requirements applicable to licensing examinations and continuous professional development (CPD).

1.16. **Rule Book** means these rules and regulations.

1.17. **Tied Agent** means a natural or legal person who, under the full and unconditional responsibility of only one entity providing Licensed Services on whose behalf it acts, promotes investment and/or ancillary services to clients or prospective clients, receives and transmits instructions or orders from the client in respect of investment services or financial instruments, places financial instruments and/or provides advice to clients or prospective clients in respect of those financial instruments or services.

1.18. **CPD** stands for Continuous Professional Development, that the License Holders are obliged to fulfill on an annual basis.

1.19. **Licensing Portal** means the system provided by BFAA to Affiliates and License Holders where they receive and access their learning materials and sit exams.

2. Introductory provisions

2.1. The Rule Book provides provisions for voluntary self-governing licensing system related to provision of Licensed Services in the Baltic Countries with an objective to implement joint market standards and proficiency requirement for the individuals providing Licensed Services to the clients of the Affiliates.

2.2. The Rule Book applies and is binding to BFAA, Affiliates and License Holders.

3. Conclusion of Affiliation Agreement

3.1. The following types of Licensed Services providers are entitled to conclude an Affiliation Agreement with BFAA as long as they are entitled by law to provide Licensed Services in a Baltic Country:

3.1.1. Credit institutions;

3.1.2. Investment firms;

3.1.3. Fund management companies (both UCITS and non-UCITS);

3.1.4. Insurance companies;

3.1.5. Other parties, which are subject to supervision by the Regulatory Authorities;

3.1.6. Tied Agents pursuant to applicable laws in relevant jurisdiction.

3.2. Affiliates shall comply with the Rule Book commencing the date of execution of an Affiliation Agreement.

4. Termination of Affiliation Agreement

4.1. The Affiliation Agreement may be terminated in the following manner:

4.1.1. An Affiliate may give notice in writing of termination of the Affiliation Agreement to the Management Board of BFAA in which case the Affiliation Agreement shall terminate 30 days after the receipt of the notice of termination;

4.1.2. BFAA may terminate the Affiliation Agreement in the event an Affiliate has seriously violated its obligations under the Rule Book;

4.1.3. The Affiliation Agreement shall terminate automatically as of the date on which the Regulatory Authority revokes the Licensed Services activity license of the Affiliate.

5. Licensed Services

5.1. The Affiliate will apply the proficiency requirements and compliance measures for all of its employees who provide the following services:

5.1.1. provision of Investment Advice to clients of the Affiliate;

5.1.2. distribution of insurance policies to clients of the Affiliate.

5.1.3. provision of information on financial instruments, investment services or ancillary investment services.

5.2. The obligation affects holders of positions who perform their work duties in a Baltic Country.

5.3. The selection of License Candidates is upon the decision of the Affiliate.

5.4. Affiliate's employees, other than those providing Licensed Services, may obtain a License.

6. License requirements

6.1. In order to obtain a License, the License Candidate must:

6.1.1. be employed by the Affiliate or Tied Agent except the License Candidates applying for exam acc to 1.6;

6.1.2. be suitable to hold a License according to the assessment done by the Affiliate;

6.1.3. Pass a licensing examination, and complete Continuous Professional Development after the calendar year of the examination is passed on an annual basis. Detailed requirements for CPD are set in the CPD Policy available for License Holders.

6.1.4. Conclude a License Applying and Granting Agreement (in the Licensing Portal) with BFAA giving consent to comply with the Rule Book, Code of Ethics and other procedures and policies among other provisions for processing of applicant's personal data.

6.2. The Rule Book shall apply to the License Holder commencing on the date on which he or she becomes licensed by BFAA.

7. Continuous Professional Development (CPD)

7.1. An Affiliate must ensure that License Holders remain up to date in their knowledge in accordance with the proficiency requirements established by the Review Board of the BFAA.

7.2. The License Holder under the responsibility of the Affiliate is obliged to undergo the CPD as required by BFAA.

7.3. The CPD requirement does not apply to an Inactive License Holder. However, in the event the License of an Inactive License Holder is to be activated, the Inactive License Holder must bring the CPD completion up to date.

7.4. Prior to the end of November each year, License Holders must ensure that they have undergone the CPD.

7.5. If a License Holder fails to undergo the CPD, the License Holder is given a maximum of three months to fulfill the CPD requirements and if the CPD is not obtained during this period, the license will expire by the 1st of March of the following year.

8. Inactive License Holder and License expiry

8.1. The following sections contain provisions regarding License Holders being declared inactive. The Rule Book applies to Inactive License Holders as it applies to other License Holders, with the exception of the CPD requirement as specified in clause 7.3.

8.2. An Affiliate or the BFAA makes License Holder inactive where there are reasons for doing so, e.g. where the License Holder is on parental leave, leave of absence for any other reason, discharged from work duties, or is to change work duties.

8.3. Where a License Holder's employment at an Affiliate terminates, the License Holder shall become inactive as of the day on which the employment terminates.

8.4. In the event the Affiliation Agreement is terminated, all employees of the Affiliate shall automatically become Inactive License Holders as of the date the termination of the Affiliation Agreement becomes effective.

8.5. A License of an Inactive License Holder may be activated upon application by the Affiliate, e.g. in respect of a newly recruited employee who is an Inactive License Holder.

8.6. For the License to be activated, the Inactive License Holder must undergo the CPDs which the Inactive License Holder did not undergo during the period when the License Holder was inactive.

8.7. Before submission of the application for activation of a License, the Affiliate must assess whether the Inactive License Holder is suitable to hold a License.

9. Exemptions

9.1. BFAA may issue a License without the applicant having passed a licensing examination, provided that other conditions specified in clause 6.1 are fulfilled and material reasons exist e.g. previously obtained relevant qualifications.

9.2. Where BFAA has entered into an agreement regarding mutual recognition of an examination conducted by another licensing body that does not have operations in the Baltic Countries, BFAA may also issue a license in accordance with the conditions stated in such an agreement.

9.3. Where special reasons exist, BFAA may, for a limited period of time, grant an exemption from the License requirement to persons who must hold a License. Such an exemption may also be granted without any limitation in time where material reasons exist.

9.4. Where material reasons exist, BFAA may grant an exemption for a limited time to allow the applicant to carry out previously omitted knowledge updates.

10. Obligations of Affiliates

10.1. The Affiliate shall ensure that its employees engaged in the provision of Licensed Services:

10.1.1. hold a License, insofar they are not exempt from the License requirements; or

10.1.2. hold a license issued by another licensing body that has operations in the Baltic Countries and which has been approved by a Regulatory Authority, insofar such approval is required under applicable law, provided that such license ensures the compliance with the proficiency rules arising from the regulatory requirements; or

10.1.3. are trained by the Affiliate itself provided that such trainings ensure the compliance with the proficiency rules arising from the regulatory requirements

10.2. The Affiliate is obliged, upon written request by BFAA, to provide BFAA with the information that BFAA requests and requires for the application of the Rule Book.

10.3. The Affiliate is obliged to conduct a comprehensive suitability assessment of the employee who is required to hold a License. In conducting the suitability assessment, the Affiliate shall assess and verify the following:

10.3.1. The Affiliate shall assess whether the employee's circumstances are such as to enable the employee to perform the obligations of the License Holder;

10.3.2. An employee who, during the past five years, has been convicted or pleaded no contest in respect of a criminal offence, the nature of which is likely to diminish confidence in the employee, should be deemed not suitable to hold a License;

10.3.3. An employee's personal suitability must also be assessed;

10.3.4. The suitability assessment shall also include verification that the employee satisfies the requirements imposed by the Regulatory Authority.

10.4. The Affiliate shall apply for a License in respect of only those employees who are suitable.

10.5. Affiliates manage all data in the Licensing Portal regarding employment status of their staff members who are License Holders or License Candidates. All changes in data shall be registered in the Licensing Portal within 5 days. Data can be also managed by the BFAA.

10.6. The Affiliate is entitled to give a notice to BFAA to revoke the License of its employee according to the Article 12. of this Rule Book.

10.7. Affiliates and/or License Holders shall pay fees set and invoiced by BFAA. Detailed provisions regarding the amount of the fees, payment requisites, etc. shall be reviewed and approved by the Management Board of BFAA at least annually. Any amendments to fees will be notified to Affiliates at least 6 months in advance of being implemented.

10.8. BFAA, a non-profit organization, will charge the fees specified to ensure it is fulfilling its purpose as stated in the Articles of Association. BFAA ensures its operations are efficient and its fees are kept at the level of ensuring the necessary liquidity of BFAA, but without the intention to earn profit in excess of these objectives.

10.9. All complaints and respective disciplinary actions against License Holders are executed by the Affiliates. In case the complaints reach BFAA, BFAA will inform the Affiliate and the claimant of the receipt of such complaint and forward the documents attached to the complaint to the Affiliate.

11. Obligations of License Holders

11.1. Upon written request by BFAA, the License Holder shall provide BFAA with the information which BFAA requests and requires for the application of the Rule Book.

11.2. License Holders shall comply with applicable laws and generally accepted practices of financial markets. In addition, License Holders shall comply with this Rule Book, the BFAA Code of Ethics, License Applying and Granting Agreement, and with the internal rules of the Affiliate insofar as such are based on applicable laws and generally accepted practices of financial markets.

12. Revocation of License

12.1. On the request of the Affiliated Company the BFAA may adopt decisions relating to License Holders licenses:

12.1.1. revoke a License;

12.1.2. temporarily revoke a License.

12.2. Affiliate is entitled to give notice to BFAA to revoke a License Holder's license as the result of a disciplinary action against a License Holder carried out by Affiliate.

12.3 Affiliate shall carry out a disciplinary action against a License Holder where the License Holder has violated his/her obligations or has otherwise seriously neglected the obligations incumbent upon him/her in the performance of his/her duties regarding Licensed Services or has committed a criminal offence or otherwise acted in such a manner that, due to personal circumstances, he or she cannot be deemed suitable to hold a License.

12.4. Upon receiving notice from Affiliate to revoke the License, BFAA adopts a decision within 15 (fifteen) business days to revoke the License and informs the License Holder about the decision.

12.5. Where reasons exist for doing so, the Affiliate may order a temporary revocation from the BFAA. Such revocation shall apply for a period determined by the Affiliate, however not exceeding one year.

12.6. To reissue a temporarily revoked License, the License Holder must comply with CPD requirements.

12.7. Where the Affiliate makes the assessment that there are risks associated with a License Holder holding a License pending investigation of a matter, the Affiliate may order a temporary revocation of the License, with immediate effect, from BFAA. Such temporary revocation shall be applied for a time period not exceeding one year.

12.8. Where a License has been granted on erroneous grounds, the BFAA may declare the License invalid.

13. Disciplinary sanctions on Affiliates

13.1. The following sanctions may be imposed on Affiliates:

13.1.1. warning;

13.1.2. termination of Affiliate agreement.

13.2. The BFAA may issue the warning of Affiliate in respect of a violation of Rule Book where the violation is not so serious as to justify termination of Affiliate agreement.

13.3. The BFAA may decide to terminate unilaterally Affiliate agreement if:

13.3.1. Affiliate has seriously violated his obligations pursuant to Rule Book;

13.3.2. Sanctions have been applied by Financial Supervisory Authority in respect of Affiliate relating breaches of Anti Money Laundering provisions;

13.3.3. Financial Supervisory Authority has revoked Affiliate's license.

14. The Review Board

14.1. The Management Board shall appoint the Review Board. The members of the Review Board shall possess comprehensive and broad knowledge of Licensed Services.

14.2. The Review Board shall determine the proficiency requirements which shall apply to the licensing examination and the CPDs. The Review Board shall ensure that the requirements correspond to developments in the financial markets and that the licensing examination corresponds to the proficiency requirements.

14.3. BFAA shall inform Affiliates regarding proficiency requirements.

15. Licensing examinations and License certificates

15.1. BFAA designs its procedures and the examinations after evaluating industry practice and regulatory requirements.

15.2. Assessment of whether a licensing examination is passed shall be made in accordance with the established procedures of BFAA.

15.3. BFAA issues a license certificate to persons who fulfil the requirements of a License.

16. Confidentiality

16.1. BFAA may not, without authorization, disclose or utilize information regarding Affiliates, License Holders, or the business or personal circumstances of any third party, which BFAA has obtained as a consequence of the performance of its duties pursuant to the Rule Book.

16.2. A person who is, or has been, connected to BFAA as an employee or service provider may not, without authorization, disclose or utilize information obtained in the course of the employment or service with respect to the business or personal circumstances of Affiliates, License Holders or any other party.

16.3. BFAA shall ensure that its employees and service providers sign confidentiality undertakings.

16.4. BFAA shall draft internal instructions regarding the handling and storage of documents provided to BFAA which contain information classified as confidential.

16.5. BFAA shall maintain a register of all License Holders and former License Holders, and the BFAA examination(s) that have been taken.

16.6. Information regarding License Holders with active Licenses, including a License Holder's name and employer, shall be publicly available record on BFAA website.

17. Amendments to the Rule Book

17.1. The Rule Book is adopted by the General Meeting. The Management Board shall review the Rule Book at least once a year and if required, make a proposal to the General Meeting to amend the Rule Book. Decisions regarding any amendment to the Rule Book shall be posted on the BFAA website. The website also states when a new version of the Rule Book shall enter into force.

17.2. Prior to making any amendment proposals for the Rule Book to the General Meeting, BFAA shall canvas the opinions of the Affiliates.

18. Online service

18.1. BFAA shall ensure online service development (e.g. the Licensing Portal) that should be used by BFAA, Affiliates and License Holders.

18.2. The Affiliates shall carry out the following obligations under the Rule Book via an online service:

18.2.1. Manage License Candidates and License Holders accounts employed by the Affiliate

18.2.2. make declarations of inactivity; termination of employment

18.2.3. submit reports on CPD;

18.2.4. Plan examinations and train their staff respectively

19. Other provisions

19.1. Any dispute between BFAA and an Affiliate or BFAA and a License Holder arising out of or relating to this Rule Book; shall be settled in accordance with Rules of Arbitration of the Court of Arbitration of the Estonian Chamber of Commerce and Industry; of the Latvian Chamber of Commerce and Industry Court of Arbitration or of the Vilnius Court of Commercial Arbitration upon the choice of the claimant. The arbitral tribunal shall comprise of three arbitrators. The seat of arbitration shall respectively be Tallinn; Riga or Vilnius. The dispute shall be governed by laws of the jurisdiction of the chosen arbitration.

19.2. Excess profits, if they occur, will be distributed fairly based on the share of the contribution by the Affiliates based on the decision of the Management Board.