coinbase

Risk Disclosure

CB Payments, Ltd

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1. Introduction

CB Payments Ltd ("**we**", "**us**", "**our**" or "**CBPL**") is authorised and regulated by the Financial Conduct Authority ("**FCA**") in the United Kingdom as an electronic money institution and registered to carry out specific cryptoasset activities under the Money Laundering Regulations 2017 (firm reference number 900635) and as a MiFID investment firm (firm reference number 1045733). We are authorised to undertake the following regulated activities (including but not limited to):

(i) arranging (bringing about) deals in investments;
(ii) making arrangements with a view to deals in investments; and
(iii) arranging safeguarding and administration of assets.

The financial instruments that we may make available as part of our arranger service include (together, the "**MiFID Products**"):

- shares in publicly listed companies and certain other securities available to retail clients, professional clients, and eligible counterparties ("**ECPs**");
- perpetual futures ("**PERPs**"), with a range of underlyings including cryptoassets and non-crypto assets, available to professional clients and ECPs; and
- other derivatives including U.S. Commodity Futures Trading Commission ("**CFTC**") - regulated futures contracts ("**Futures**"), with a range of underlyings including cryptoassets and non-crypto assets available to professional clients and ECPs.

You should not invest in the MiFID Products unless you understand:

- the nature of the instruments;
- the nature of the relevant contracts and contractual relationships into which you are entering when investing;
- the market underlying the instruments; and
- the extent of your exposure to risk.

This Risk Disclosure is provided by CBPL and sets out important information about the risks associated with our arranger service and the instruments we may make available. The information contained in this Risk Disclosure is not exhaustive. Before engaging with any instrument, you should be satisfied that it is appropriate for your individual circumstances, investment objectives, and financial situation.

If you have any questions or doubts about any of the content of this Risk Disclosure, you should seek independent professional advice. We do not offer any type of legal, financial, or tax advice.

2. General Risks Associated with Our Arranger Service

General Risk
CBPL provides an arranger service on a non-advised basis. Before engaging with our arranger service in relation to any instrument, you should understand the risks set out in this Risk Disclosure.

Engaging with instruments involves capital risk. The value of your investment may fall as well as rise, and you may receive back less than your initial investment. In some cases, you may lose your entire initial investment. Past performance of an instrument is not an indication of its future performance. You must have the ability to bear losses when using our arranger service.

We may amend this Risk Disclosure from time to time in accordance with applicable law and regulatory requirements.

Third-Party and Partner Risk
We rely on affiliate and/or third-party brokers, custodians, exchanges, trading venues, clearing firms, settlement agents, banking partners, technology providers and other service providers to facilitate aspects of your activity. Their performance can affect your ability to trade or access your account. Failures, delays, outages, cyber incidents, insolvencies or other issues at these providers may cause execution delays, prevent you from opening or closing positions, or result in losses. Although we perform due diligence and maintain oversight, we cannot guarantee the continued availability or performance of any third-party service.

Conflicts of Interest
Conflicts of interest may arise where we, members of our group, our directors, employees or other persons connected to us, or other customers, have interests that differ from yours. Conflicts may include situations where we or a connected person could make a financial gain or avoid a loss at your expense, have an interest in the outcome of a service or transaction that is distinct from your interest, receive inducements from third parties, or have incentives to favour the interests of one customer or group of customers over another. Conflicts may also arise where we or another group entity invest for our own account in MiFID Products in which customers are seeking to invest, or where employees engage in personal account dealing. We maintain policies, procedures and internal controls designed to identify, manage and mitigate conflicts, but those efforts cannot eliminate all potential conflicts.

Arranger-only
CBPL acts as an arranger and transmits your orders to third-party brokers, venues and/or affiliated entities for execution; we do not execute trades ourselves nor do we hold client money or assets as custodian. Execution quality depends on many factors, such as the executing broker or venue, market conditions, available liquidity, order size and type, and any instructions you provide. There is no guarantee that an order will be executed at the price shown when you place it, or that it will be executed at all. Orders may be delayed, rejected, partially filled or filled at a price different from the one initially displayed. While we seek

to achieve best execution and handle client orders promptly and fairly, we cannot guarantee the best available price in every circumstance.

Please refer to the Best Execution Policy for further detail on CBPL's execution arrangements.

Financial Resources

You should ensure that you have appropriate financial resources to engage with instruments through our arranger service and that you are able to bear any losses that may arise. Do not rely on expected profits to meet repayment obligations.

You must not enter into any borrowing arrangements, including loans or credit facilities, to fund any investments made through our arranger service. It is your sole responsibility to ensure you understand the risks involved and have the financial means to meet your obligations and absorb potential losses.

No Advice

Our arranger service is provided on a non-advised basis. We do not provide personal recommendations or assess suitability. Factual information we may provide about instruments does not constitute advice. If you are uncertain about the suitability or appropriateness of any instrument, you should obtain independent professional advice.

Provision of Information

We may provide financial and market data, news, research, graphs or other third-party information. Such information is indicative, may not reflect the price at which a transaction can be executed and does not consider your individual circumstances. It is provided solely to enable you to make your own investment decisions and does not constitute investment advice or a personal recommendation.

Technical Risk

While we will endeavour to make our platforms and services available without interruption, we cannot guarantee uninterrupted availability. In such circumstances, you might not be able to engage with our arranger service or monitor your positions. Access may also be affected by a weak internet connection. You should ensure you are connected to a reliable network and that any applications you use are kept up to date.

Instrument Availability

The instruments available through our arranger service may change from time to time. We cannot guarantee that any specific instrument will remain available, and we reserve the right to suspend or remove any instrument at any time at our sole discretion. If an instrument is removed, you will no longer be able to submit orders to buy that instrument, though we will endeavour, where the law permits, to allow you to close any existing positions.

Examples of circumstances that may lead to an instrument being removed include, but are not limited to: changed market conditions, business decisions, or restrictions driven by regulatory requirements.

Tax

Various tax regimes may apply to your activity depending on your personal tax status and applicable laws. You have sole responsibility for determining the tax implications of your activity, and you should consult an appropriate professional advisor. CBPL does not provide tax advice and will not be liable to you for any tax implications arising from your activity.

Legal and Regulatory Changes

Changes to legislation and regulations could impact the availability, functionality, and/or price of instruments and affect your positions. Such changes may be material and unexpected, and may impact certain companies, markets, or jurisdictions more than others.

Legal and regulatory changes may also affect the arranger service we provide. Where possible, we will inform you in advance of material changes so you have sufficient time to assess their potential impact.

3. General risks associated with the MiFID Products that we offer

The following table sets out the key risk types applicable to the instruments available through our arranger service.

Risk Type	Description
Political Risk	Political decisions made by governments and administrative bodies may negatively impact market participants. Issuers may not be able to fulfil earlier commitments, reducing the value of financial instruments. Examples include trade embargoes, interest rate changes, or other decisions affecting the social, economic, and legal environment.
Emerging Markets Risk	Investments in instruments from countries classified as emerging markets may be subject to increased and unpredictable volatility due to more unstable political and economic conditions.
Currency Risk	Unfavourable exchange rate fluctuations may impact your profits or losses in connection with instruments denominated in foreign currencies.
Market and Price Risk	You may incur losses due to unfavourable fluctuations in the prices of instruments. The market price of instruments is influenced by a broad array of factors and can change rapidly and unexpectedly. You have sole responsibility for monitoring the value of your positions and must ensure you can access the relevant platform on an ongoing basis to do so.
Liquidity Risk	Insufficient market liquidity may hinder your ability to sell or buy instruments at a favourable price. You may receive lower returns or incur losses as a result.
Systemic Risk	You may incur losses due to disruptions in custody systems, depositories, exchanges, and other institutions. You may irrecoverably lose investments if such institutions fail to meet their obligations.
Interest Rate Risk	The performance of certain instruments may be dependent on the level of global and regional interest rates. Changes in interest rates may negatively impact investment returns.
Issuer Risk	If the issuer of securities suffers financial difficulties, underperforms, or faces other challenges, this could have a negative effect on the securities it has issued. You may bear losses as a result.
Information Risk	It may be impossible or challenging to obtain adequate and accurate information about all instruments. In such cases, it may be difficult for you to make appropriate investment decisions.
Credit Risk	The risk that the issuer of an instrument or a counterparty may default on their obligations.

4. Specific risks associated with investing in our MiFID Products

4.1. Risks associated with shares

Shares represent equity interests in companies and may provide returns through price appreciation and/or dividends. However, they potentially also carry significant risks:

Market and Price Risk
The price of shares can fluctuate significantly and unpredictably, driven by a wide range of factors including, but not limited to, the company's financial performance, macroeconomic conditions, sector developments, regulatory changes, and broader investor sentiment. You may lose part or all of your initial investment.

Issuer Risk
The financial health of the issuing company directly impacts the value of its shares. If the company faces financial difficulty, enters insolvency, or ceases to operate, the value of its shares may decline substantially, and you may lose your entire investment.

Liquidity Risk
While shares listed on major exchanges are generally considered liquid, liquidity can vary significantly depending on the size of the company, the exchange on which it is listed, and prevailing market conditions. In some circumstances, you may be unable to sell your shares at the desired price or at all.

Dividend Risk
Dividends are not guaranteed. The decision to pay a dividend rests with the issuing company's board of directors and is subject to the company's financial performance and applicable legal requirements. You should not assume that any anticipated dividend income will be received.

Voting Rights
Whilst shares may carry voting rights at general meetings of the issuing company, you may not always be able to exercise these rights due to the the structure of your holdings, the timing of corporate actions, and/or other operational processes.

Currency Risk
Where shares are denominated in a currency other than your base currency, fluctuations in exchange rates may increase or reduce the value of your investment, independently of the performance of the underlying shares.

Dilution Risk
A company may issue additional shares from time to time, which could dilute the value of existing shareholders' interests. Such events, including rights issues or other equity offerings, may have a material effect on the price and value of your shareholding.

Suspension and Delisting Risk

Shares may be suspended from trading or delisted from an exchange for a variety of reasons, including regulatory action, financial distress, or failure to meet exchange listing requirements. Suspension or delisting may significantly impair your ability to sell your investment and may result in substantial losses.Conside

Extended Hours (24/5) Trading

Extended hours trading takes place outside regular market hours of 9:30 a.m. to 4:00 p.m. U.S. Eastern Time zone ("ET"). Trading during these hours involves extra risk including:

- There may be fewer buyers and sellers, which can make it harder to buy or sell shares, cause wider spreads, and mean your order is only partly filled, not filled at all, or filled at a worse price than during regular market hours.
- Prices during extended hours may also change more quickly and may differ from prices available during regular market hours.
- Prices shown on one extended hours trading venue may also differ from prices available on another venue trading the same security.
- Company announcements or other important news released outside regular market hours may cause sudden and significant price movements.
- Orders may fill during pre-market, overnight and after-hours sessions, but market orders are not accepted during those sessions; only collared limit orders are accepted.
- There is also a short period from 7:44:30 p.m. to 8:00 p.m. ET when orders cannot be accepted due to third-party system limitations.

Not all shares are available for extended hours trading.

We do not currently offer fractional share trading services outside of market hours (9:30 a.m. to 4:00 p.m. ET).

Absence of Investor Protection

You may not receive FSCS protection unless you are an eligible claimant and have a valid claim arising from regulated investment business carried on by an FCA-authorised firm that has failed.

The FSCS does not cover losses caused by movements in the value of shares or poor investment performance. If CBPL fails, protection may apply to a valid claim arising from our regulated arranging services.

You may have a separate contractual relationship with one or more third-party service providers. Any FSCS protection relating to a third party will depend on its regulatory status, the services it provides, your eligibility and the circumstances of the claim.

Complaints regarding CBPL's conduct in relation to Shares may be eligible for consideration by the FOS, subject to applicable FOS eligibility criteria and jurisdictional limits. FOS protection does not cover poor investment performance.

4.2. Risks Associated with Futures (not available to retail clients)

A “Futures” contract is a legally binding agreement between two parties to buy or sell a specified underlying asset at a predetermined price on a specified future date (the ‘expiry’ or ‘settlement date’). Unlike purchasing the underlying asset directly, Futures derive their value from the performance of the underlying asset. We offer Futures trading in both ‘crypto’ and ‘non-crypto’ (e.g. commodities and equity indices), which impacts the risk profile of the Futures product in certain circumstances. We clarify how in the sections below where relevant.

Futures contracts are complex instruments that potentially involve significant risk. You may be required to post additional funds at short notice to avoid liquidation of your position and your losses may substantially exceed your initial outlay. You should only engage with Futures if you fully understand how they work and have the financial capacity to absorb significant losses.

<u>Leverage Risk</u>
Futures contracts are leveraged instruments. This means that you are only required to deposit a fraction of the total contract value (known as "initial margin") in order to open a position. Whilst leverage can amplify potential gains, it equally amplifies potential losses, which can significantly exceed your initial margin deposit.

<u>Settlement Risk</u>
Futures contracts offered through CBPL's arranger service may be cash or USDC settled. At expiry, open positions will be automatically settled at the expiry settlement price as determined by the relevant platform or exchange methodology.

You should be aware of the following crypto Futures settlement-specific risks:

- <u>Index and Reference Price Risk</u>:
  The settlement price of these futures is determined by reference to an external index or benchmark rather than the price on any single trading venue. The settlement price may therefore differ from the price observed on any individual exchange at the time of settlement. The methodology, constituents, and fallback procedures of the relevant benchmark are set by its administrator and may be amended from time to time. You should review the administrator's published methodology before trading.

- <u>Automatic Settlement at Expiry</u>: If you do not close your position prior to the contract's expiry date, your position will be automatically settled at the determined expiry price. You should actively monitor your positions and be aware of relevant expiry dates. CBPL accepts no liability for losses arising from automatic settlement where you have failed to close a position prior to expiry.

- <u>Settlement Finality and Blockchain Risk</u>: Settlement of crypto futures may be contingent upon the finalisation of transactions on the relevant blockchain network. Blockchain congestion, technical failures, or network forks may delay or disrupt the settlement process, potentially resulting in losses or unexpected outcomes. Stablecoin issuer actions, such as address freezing, redemption suspension, or de-pegging, may further impair it. Any of these may result in losses, delayed access to funds, or other unexpected outcomes.

- Platform Settlement Methodology Risk: The methodology used to determine the settlement price may be amended by the relevant exchange or platform from time to time. Changes to the settlement methodology may affect the price at which your position is settled and may not always be to your advantage.

Mark-to-Market Risk

Futures positions are revalued against prevailing market prices on a continuous or daily basis, with the resulting gains and losses applied to your account. These adjustments can cause significant and rapid changes in your account balance and may require you to post additional margin at short notice. Failure to meet a margin call may result in your positions being closed out, potentially at a loss.

Crypto Futures positions are marked to market on a continuous basis, reflecting the real-time price movements of the underlying cryptoasset. Gains and losses are credited or debited to your account based on the prevailing market price. Given the extreme volatility that can characterise cryptoasset markets, mark-to-market adjustments may be rapid and substantial, potentially resulting in significant and sudden changes to your account balance, including the need to deposit additional margin at very short notice or the triggering of automatic liquidation.

Rollover and Basis Risk

Dated Futures contracts have a fixed expiry date. If you wish to maintain exposure beyond the expiry of a contract, you must roll over your position into the next available contract. Rolling over a position may result in additional costs and may expose you to basis risk — the risk that the price of the expiring contract and the price of the next contract diverge in an unexpected manner, resulting in a loss.

Cryptoasset Volatility Risk

For crypto Futures, the underlying cryptoassets referenced are subject to significant price volatility, which significantly exceeds the volatility typically associated with non-crypto regulated financial instruments such as equities or commodities. Cryptoasset prices can fall or rise by large percentages within very short periods of time, including within a single trading day, as a result of factors including but not limited to:

- Regulatory announcements or enforcement actions in any jurisdiction;
- Changes in market sentiment, media coverage, or social media activity;
- Technical developments or failures in the underlying blockchain network;
- Large-scale buying or selling by major market participants;
- Cybersecurity incidents, exchange failures, or fraud; and
- Macroeconomic events and broader financial market conditions.

Such volatility may result in rapid and total loss of your margin deposit and may trigger automatic liquidation of your position with little or no prior warning.

Liquidity Risk

Whilst many Futures contracts trade on regulated exchanges with significant liquidity, liquidity can vary depending on the underlying asset, the contract month, and broader market conditions. In periods of market stress or for less actively traded contracts, it may be difficult to enter or exit a position at your desired price, potentially resulting in losses.

Counterparty and Platform Risk

Where Futures contracts are traded on a regulated exchange, they are typically cleared through a central counterparty clearing house ("**CCP**"). Whilst this mitigates direct counterparty risk, you remain exposed to the risk of failure of the CCP itself, which, although considered unlikely, could result in significant losses.

Crypto Futures contracts may be traded on centralised digital asset trading platforms rather than non-crypto regulated exchanges with CCP clearing arrangements. This means you may be exposed to platform-specific risks, including:

- The risk of platform insolvency or failure, which may result in the loss of your margin deposit and any open positions;
- Operational outages or technical failures, which may prevent you from managing your positions or meeting margin calls;
- Cybersecurity incidents, including hacking, theft of assets, or compromise of platform systems; and
- Fraud or misappropriation of client assets held on the platform.

In the event of platform failure, you may have limited or no recourse to recover your funds, and the protections available to you may be significantly less than those applicable in non-crypto regulated financial markets.

Blockchain and Network Risk

Crypto Futures transactions may be dependent on the operational integrity of one or more blockchain networks. You should be aware network-specific risks, such as the following:

- **Network Congestion:** High transaction volumes on a blockchain network may result in delays in the processing and confirmation of transactions, which could affect your ability to manage positions or meet margin requirements in a timely manner;
- **Network Forks:** A blockchain network may undergo a hard fork or soft fork, which could affect the value or availability of the underlying cryptoasset and, consequently, the value of your futures position; and
- **Protocol Vulnerabilities:** Cryptoasset networks and associated smart contracts may contain undiscovered technical vulnerabilities that, if exploited, could result in the loss of assets or disruption to trading.

Tracking and Correlation Risk

The price of a Futures contract may not perfectly track the price of the underlying asset. This divergence, known as basis, may result in your position performing differently from the underlying asset, even where the direction of price movement is the same.

Regulatory and Market Disruption Risk

Exchanges, regulators, and other authorities may impose restrictions on Futures trading, including position limits, price limits, trading halts, or forced liquidation requirements. Such interventions may prevent you from managing your position effectively and could result in losses.

Absence of Investor Protection

You may not receive Financial Services Compensation Scheme ("**FSCS**") protection unless you are an eligible claimant and have a valid claim arising from regulated investment business carried on by an FCA-authorised firm that has failed.

The FSCS does not cover losses caused by market movements, leverage, margin calls, liquidation, settlement or the performance of a futures contract. If CBPL fails, protection may apply to a valid claim arising from our regulated arranging services.

You may have a separate contractual relationship with one or more third-party service providers. Any FSCS protection relating to a third party will depend on its regulatory status, the services it provides, your eligibility and the circumstances of the claim.

Complaints regarding CBPL's conduct in relation to Futures products may be eligible for consideration by the FOS, subject to applicable FOS eligibility criteria and jurisdictional limits. FOS protection does not cover poor investment performance.

4.3. Risks Associated with PERPs (not available to retail clients)

A PERP is a derivative contract that is intended to provide continuous exposure to an underlying asset (e.g. shares, commodities, crypto) or index without a fixed expiry date. Depending on the underlying asset, a PERP may reference, for example, a regulated financial instrument or commodity (a "**non-crypto-asset PERP**") or a cryptoasset (a "**crypto PERP**") . This is different to other derivatives with an expiration date such as Futures. PERPs can theoretically be held indefinitely, subject to the ongoing payment of a funding rate and the maintenance of sufficient margin. PERPs typically include a funding-rate mechanism: periodic payments between long and short position holders intended to align the PERP's price with a reference price.

We offer to arrange PERPs trading in both 'non-crypto' and 'crypto' assets, which impacts the risk profile of the PERPs product in certain circumstances. Where the underlying is a regulated financial instrument, some of the risks described below (for example, blockchain and platform risks) may not apply.

You should ensure you fully understand the mechanics of PERPs, including the funding rate mechanism, the liquidation process, and the settlement arrangements, before engaging with these instruments. If you are in any doubt, you should seek independent professional advice.

A. General PERP Risks

Funding Rate Risk

Unlike non-crypto Futures contracts, PERPs do not have an expiry date. Instead, convergence is achieved through a funding rate — a periodic payment exchanged between holders of long positions (those expecting the price to rise) and holders of short positions (those expecting the price to fall), based on the difference between the PERP contract price and the spot price of the underlying asset. Funding rates for crypto PERPs can be more volatile than those for PERPs referencing non-crypto assets.

The funding rate can be positive or negative and is typically calculated and settled at regular intervals (for example, every eight hours, though this may vary by platform). Key funding rate risks include:

- **Cost of Carry**: If you hold a long position and the funding rate is positive, you will be required to pay the funding rate to holders of short positions at each settlement interval. Conversely, if the funding rate is negative, you will receive a payment. Over time, cumulative funding rate payments can be substantial and significantly erode the value of your position, particularly where the funding rate remains persistently positive or negative over an extended period.
- **Funding Rate Volatility**: The funding rate is determined by prevailing market conditions and can change materially and rapidly, particularly during periods of extreme market volatility. Funding rates in cryptoasset markets can reach levels significantly higher than those observed in non-crypto derivatives markets, substantially increasing the cost of maintaining a position.
- **Unpredictability**: Funding rate payments may be unpredictable and cannot always be reliably estimated in advance. You should not assume that historical funding rate levels will be indicative of future funding rate levels.

Leverage and Liquidation Risk

PERPs may be leveraged instruments. Where they are leveraged, you are only required to deposit a fraction of the total notional value of your position as initial margin. Whilst leverage can amplify potential gains, it equally and significantly amplifies potential losses, which may substantially exceed your initial margin deposit.

If the market moves against your position and your account equity falls below a specified maintenance margin threshold — which may occur rapidly given the extreme volatility of relevant markets — your position may be subject to automatic liquidation. Liquidation means your position will be forcibly closed by CBPL or the relevant platform at the prevailing market price in order to prevent further losses. Key liquidation risks include:

- **Speed of Liquidation**: In fast-moving markets, liquidation may occur extremely rapidly and without prior notice, leaving you with insufficient time to deposit additional margin or take other remedial action;
- **Liquidation Price Slippage**: During periods of extreme volatility or low liquidity, liquidation may be executed at a price that is materially worse than the maintenance margin threshold, potentially resulting in losses that exceed your margin deposit; and
- **Cascade Liquidations**: In highly leveraged markets, the liquidation of large numbers of positions simultaneously can trigger further price movements, potentially accelerating losses for other participants and creating systemic market disruption.

You should actively monitor your margin levels and open positions at all times and maintain sufficient funds in your account to reduce the risk of liquidation.

No Expiry and Indefinite Holding Risk PERPs have no fixed expiry date, meaning positions can be held indefinitely. However, holding a PERP position over an extended period exposes you to risks such as:

- **Cumulative Funding Costs**: The cumulative cost of funding rate payments over an extended holding period may be substantial and can significantly erode or eliminate any gains arising from favourable price movements in the underlying asset. This is particularly pronounced for crypto PERPs;
- **Sustained Adverse Price Movements**: The absence of an expiry date means there is no fixed point at which a position must be closed, which could lead to holding positions through prolonged adverse market conditions; and
- **Increased Exposure to Platform and Operational Risk**: The longer a position is held, the greater the cumulative exposure to platform-specific risks, including the risk of platform failure, operational outages, and cybersecurity incidents.

Mark-to-Market and Realised Loss Risk

PERP positions are marked to market on a continuous, real-time basis, reflecting the live price movements of the underlying asset. In particular, given the extreme volatility of cryptoasset markets, unrealised losses can accumulate rapidly and substantially, and may be realised through automatic liquidation before you have the opportunity to respond. You should not assume that a short-term adverse price movement will necessarily reverse before your position reaches the liquidation threshold.

Settlement Risk

Crypto PERPs are USDC instruments and do not involve the physical delivery of any underlying cryptoasset or other tangible asset. Non-crypto-asset PERPs will generally be settled in USDC. Settlement of funding rate payments occurs at regular periodic intervals as described above. Upon voluntary closure of a PERP position, settlement is determined by reference to the prevailing market price at the time of closure, subject to the following risks:

- **Coin-Margined Settlement Risk:** Where crypto PERPs are margined or settled in the underlying cryptoasset (rather than in a fiat currency or stablecoin), the fiat-equivalent value of your settlement proceeds will be subject to additional cryptoasset price volatility at the point of settlement. Even where your PERP position is profitable in terms of the underlying cryptoasset, the fiat value of your settlement proceeds may be lower than anticipated if the price of the cryptoasset has declined;
- **Stablecoin Settlement Risk:** Where settlement is made in a stablecoin, you should be aware that stablecoins are not legal tender and their value is not guaranteed. A stablecoin may lose its peg to the reference currency, particularly in stressed market conditions, which could result in settlement proceeds being worth less than their nominal value; and
- **Blockchain Settlement Risk:** The finalisation of settlement may be contingent upon the operational integrity of the relevant blockchain network. Network congestion, technical failures, or network forks may delay or disrupt settlement, potentially resulting in losses or unexpected outcomes.

Counterparty and Platform Risk

Crypto PERPs are typically traded on centralised digital asset trading platforms rather than non-crypto regulated exchanges with CCP clearing arrangements. This means you are exposed to heightened platform-specific risks, including:

- **Platform Insolvency or Failure:** If the platform through which you access crypto PERPs becomes insolvent or fails, you may lose your margin deposit and any open positions, with limited or no prospect of recovery;
- **Operational Outages:** Technical failures or system outages may prevent you from managing your positions, depositing margin, or closing positions during critical market periods;
- **Cybersecurity Incidents:** Centralised platforms hold significant concentrations of digital assets and are frequent targets for hacking, theft, and fraud. A successful cyberattack could result in the loss of assets held on the platform; and
- **Misappropriation of Assets:** Unlike regulated financial institutions, centralised cryptoasset platforms may not be subject to equivalent requirements regarding the segregation and safeguarding of client assets, increasing the risk of loss in the event of platform failure or misconduct.

PERPs referencing non-crypto assets may be traded on venues with CCP clearing, which can mitigate some platform and counterparty risks, but this does not eliminate the risk of loss.

<u>Liquidity and Slippage Risk</u>
Whilst major crypto PERP markets can exhibit significant liquidity, liquidity can deteriorate rapidly and unpredictably in cryptoasset markets, particularly during periods of market stress or following significant price movements. Insufficient liquidity may result in:

- An inability to close positions at your desired price or at all;
- Slippage — the difference between the expected execution price and the actual execution price — which can substantially increase your losses, particularly when closing large positions during periods of high volatility; and
- Wider bid-ask spreads, increasing the overall cost of trading.

These risks are particularly acute in crypto PERP markets given the potential for rapid and extreme price movements.

<u>Regulatory Uncertainty</u>
The regulatory treatment of PERPs is subject to significant ongoing development in the UK and internationally. The classification of PERPs under UK and other country financial services laws remains an evolving area, and regulatory changes may affect:

- The availability of PERP products to eligible clients;
- The terms on which PERPs may be offered and the obligations applicable to CBPL;
- The protections available to you as a client; and
- The tax treatment of gains and losses arising from PERP positions.

<u>Absence of Investor Protection</u>
You may not receive FSCS protection unless you are an eligible claimant and have a valid claim arising from regulated investment business carried on by an FCA-authorised firm that has failed.

The FSCS does not cover losses caused by market movements, leverage, funding payments, margin calls, liquidation or the performance of a PERP. If CBPL fails, protection may apply to a valid claim arising from our regulated arranging services.

You may have a separate contractual relationship with one or more third-party service providers. Any FSCS protection relating to a third party will depend on its regulatory status, the services it provides, your eligibility and the circumstances of the claim.

Complaints regarding CBPL's conduct in relation to PERP products may be eligible for consideration by the FOS, subject to applicable FOS eligibility criteria and jurisdictional limits. FOS protection does not cover poor investment performance.

B. Specific Crypto PERP Risks

Crypto PERPs are among the most complex and highest-risk derivative instruments available in cryptoasset markets. They combine the risks of cryptoasset price volatility with the additional risks associated with leverage, funding rate payments, and the absence of investor protections typical of regulated financial markets. You may be required to post additional funds at short notice and your losses may substantially exceed your initial outlay. You will not hold, receive, or have any claim over the underlying cryptoasset as a result of entering into a crypto PERP.

Crypto PERPs involve multiple risks that can interact and crystallise losses very quickly: leverage can amplify losses, extreme volatility can trigger rapid margin shortfalls, reduced liquidity can make it harder to exit a position at the expected price, and automatic liquidation may occur at a materially worse price than you anticipated.

<u>Cryptoasset Volatility and Risk of Total Loss</u>
The underlying cryptoassets referenced by crypto PERPs are subject to extreme and unpredictable price volatility, which may significantly exceed the volatility typically associated with non-crypto financial instruments or stablecoins (a cryptocurrency whose value is tied to another asset). Cryptoasset prices can decline or increase by large percentages within very short periods of time, including within minutes or seconds, as a result of factors including but not limited to:

- Regulatory announcements, enforcement actions, or policy changes in any jurisdiction;
- Changes in market sentiment, media coverage, or activity on social media platforms;
- Technical developments, vulnerabilities, or failures in the underlying blockchain network;
- Large-scale buying or selling by major market participants (commonly referred to as "whale activity");
- Cybersecurity incidents, exchange failures, hacking events, or fraud;
- Macroeconomic developments and broader financial market conditions; and
- The inherently nascent and developing nature of cryptoasset markets.

Given the use of leverage in crypto PERP positions, such volatility can result in the rapid and total loss of your margin deposit, potentially within a single trading session. You should be fully prepared for the possibility of losing your entire investment. Non-crypto-asset PERPs are also subject to market volatility; however, the magnitude and speed of price moves in regulated markets may be different from cryptoasset markets.

<u>Blockchain and Network Risk</u>

The operation of crypto PERPs is dependent on the integrity and availability of underlying blockchain networks. You should be aware of the following:

- **Network Congestion:** High transaction volumes may delay the processing of transactions, which could affect your ability to manage positions, deposit margin, or receive settlement proceeds in a timely manner;
- **Network Forks:** A blockchain network may undergo a hard fork or soft fork, which could affect the value or availability of the underlying cryptoasset and consequently the value of your PERP position;
- **Smart Contract Risk:** Where crypto PERPs are operated through smart contracts, undiscovered vulnerabilities or bugs in the smart contract code could result in the loss of assets or disruption to trading; and
- **Protocol Changes:** Changes to the underlying blockchain protocol, including changes to consensus mechanisms (for example, transitions from proof-of-work to proof-of-stake), may affect the value and operational characteristics of the underlying cryptoasset.