Coinbase Financial Services Europe Ltd
Trade and Order Execution Policy

1. Overview

Coinbase Financial Services Europe Ltd (hereafter the "Company" or "CBFSE") is a limited liability Company incorporated in the Republic of Cyprus with registration number HE 350475. The Company is authorized and regulated by the Cyprus Securities and Exchange Commission (hereafter the "CySEC") to operate as a Cyprus Investment Firm (hereafter the "CIF") under license number 374/19.

2. Legal and Regulatory Requirements

The Company operates under the provisions of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments (hereafter the "MiFID II"), which was transposed into Cypriot Law by virtue of the Investment Services and Activities and Regulated Markets Law 87(I)/2017, as the same may be modified or amended from time to time (hereafter the "Law"). This order execution policy (hereafter the "Policy") defines the principles that the Company is required to apply in accordance with MiFID II, the Law, and other applicable laws and regulations such as the Delegated Regulation 2017/565 and the Delegated Regulation (EU) 2017/576. In accordance with the abovementioned legislation as well as the directives and circulars issued by CySEC in connection therewith (collectively referred as the "Best Execution Rules"), the Company is required to take all sufficient steps to act in the best interest of its clients (hereafter "Clients" and each a "Client") when receiving and transmitting orders for execution and when executing such orders by taking into account various factors such as the price, costs, speed, likelihood of execution, size, nature or any other consideration relevant to execution.

3. Scope

This Policy outlines the Company's guidelines for executing Client trades and orders on financial instruments. Its goal is to consistently achieve the best possible outcomes for Clients, ensuring that orders are executed under the most favorable terms.

4. Communication with Us

This Policy applies to the Brokerage Department when it provides the investment services of Reception and Transmission of Orders and Execution of Orders on behalf of clients. For any questions about this Policy, please contact the Company at cbfse-compliance@coinbase.com.

5. Investment Services and Products

The Company provides the following services in relation to Futures on various underlying assets via its online trading platform:

Investment Services

● Reception and transmission of orders; and
● Execution of orders on behalf of clients.

The Company acts on an agent basis for all transactions entered on the behalf of Clients and does not take a proprietary principal position against any Client (i.e., the Company is not the Client’s counterparty in any transaction). Clients should refer to the Execution Costs section below or their account documentation for details on how their transactions are priced. In all cases, the Company's best execution obligations to Clients remain the same - to take sufficient steps to consistently obtain the best possible result when executing orders.

6. Products

The Company facilitates trading in Futures contracts, which are traded on a futures exchange with regulatory oversight. These derivative contracts legally bind parties to purchase or sell an underlying asset at a predetermined price and date. CBFSE is responsible for managing the settlement process and ensuring compliance, thereby safeguarding client assets.

7. Placement and Cancellation of Orders

Clients will be able to open and close positions subject to and in accordance with the User Agreement, including within such periods and under such conditions and/or restrictions that the Company may agree with you under the User Agreement. Cancellation of orders and/or suspension of a Client’s trading account with the Company is also governed by the User Agreement and will thus, be performed by the Company subject to and in accordance therewith.

8. Type of Orders

To offer clients flexible trade execution, the Company supports various order types. The primary order type offered is the Market Order, enabling the purchase or sale of a specified quantity of an Asset at the best available market price from existing Orders on the Order Book. Additional order types include Limit Orders, Stop Limit Orders, Take Profit/Stop Loss Orders, and TWAP (Time-Weighted Average Price). Comprehensive details on the functionality of each order type, including Market Orders, are provided below. Clients are advised to thoroughly understand the different order options and their potential execution methods before placing any trades.

The types of orders supported for Futures contracts are outlined below:

1. Market Order: Buys or sells a specified quantity at the current best available price. Executed immediately, but price may vary based on liquidity. It consumes liquidity from the order book, automatically matching with the best available opposing orders (lowest asking price for a buy, highest bidding price for a sell).
2. Limit Order allows you to specify a precise price for a trade. This type of order guarantees execution at your set limit price or a more favorable price.
    - Buy Limit: Placed below the current market price, this sets the maximum price you are willing to pay.
    - Sell Limit: Placed above the current market price, this sets the minimum price you are willing to receive.

3. Stop Limit Order: This two-part conditional order remains inactive until a specified price is met. It allows for trade activation or risk management to occur only after a trigger, while ensuring guaranteed price control.
   Mechanism:
   - Stop Price (Trigger): When the market trades at or through this price, the order becomes active.
   - Limit Price (Execution): Once active, it becomes a Limit Order and will only be filled at the limit price or better.

   Use Cases:
   - Stop-Loss (Risk Management): Sell a long position if the price falls to the stop, but only at or above the limit price (to avoid selling at an extremely low price).
   - Breakout (Entry): Buy a position if the price breaks above a resistance level (stop), but only up to a certain maximum price (limit).
4. A Time-Weighted Average Price (TWAP) order is an algorithmic order type designed to execute large orders over a defined period. Its primary goal is to achieve an average execution price that closely matches the time-weighted average price of the security during that period, thereby minimizing market impact and ensuring an efficient average price.
5. Bracket Order: is a trade management tool that automatically places two opposing, contingent orders around a primary position. These orders are designed to secure profit and limit risk simultaneously, allowing a trader to execute a strategy without constant monitoring.

There are no guarantees of execution price for any order types. The price at which an order is ultimately executed can differ from the proposed execution price indicated at the time the order is placed. Factors like market volatility and liquidity mean that market orders may be executed at a better or worse price than originally proposed and limit orders may be executed at a better price than originally proposed (please refer to the Best Execution and Slippage sections below for more information). The Company aims to execute orders on the best available terms at the time of execution, but makes no guarantees regarding the execution price. Subject to the User Agreement, the Company will have no liability against any Client if the price at which the order is executed is different to the proposed execution price initially indicated. Clients should be aware of execution risks before placing orders of any type.

9. Contract Rolling

Contract rolling is a convenient feature for traders who wish to maintain continuous exposure to an underlying asset without the need for manual monthly management of position expiration and re-establishment. This process involves closing a position on an expiring contract and then re-establishing it on the next available contract. The next contract becomes available for trading at 6 PM ET, two days before the front-month contract's expiration. If a client chooses not to roll their position, it will expire on its designated expiration date. Upon expiration, margin funds will be released back to the account, and any resulting profits or losses will be credited or debited to the client's CBFSE account.

10. Time In Force Order Types

- Good Till Cancelled (hereafter “GTC”) means that the order will remain in effect on each trading day in respect of the relevant market until execution or earlier cancellation by the Client or by the Company in accordance with the User Agreement. In respect of the types of order listed above, all orders will be deemed GTC unless the Company agrees when you place the order that it has a different time in force. Clients are responsible for cancelling any order that they have placed and unless they do so, the order will be executed, regardless of whether such Clients have closed or opened any position, unless the order has been automatically cancelled in accordance with the User Agreement.

- Good Till Date (hereinafter “GTD”) means that the order will remain in effect in respect of the relevant market until the earlier of: cancellation of the order by the Client; or possible cancellation by the Company in accordance with the User Agreement; or the date specified on the order at the time it was placed.
- Fill or Kill (hereinafter “FOK”) means that the order is a conditional order that must be executed immediately in its entirety or cancelled.
- Immediate or Cancel (hereinafter “IOC”) means that the order must be executed immediately. Any portion of an IOC order that cannot be filled immediately will be cancelled. If you experience or suspect any errors with any of your instructions and/or orders, please contact the Company immediately.

11. Cash Settled

Futures contracts are exclusively cash-settled. This means that at expiration, the profit or loss (PnL) from the contract is settled in cash, rather than through the delivery of the underlying asset.

12. Order Handling

The Company executes all active orders based on its published price. When processing Client orders, the Company adheres to several conditions: orders are recorded and allocated promptly and accurately; comparable Client orders are carried out sequentially and promptly unless market conditions or the Client's interest dictate otherwise; and Clients are informed of any material difficulties in order execution as soon as the Company becomes aware of them.

13. Execution Venue and Strategy

General

An execution venue is defined as the marketplace or entity through which the company places or transmits client orders for execution. The company's objective in selecting execution venues is to achieve the best possible outcome for clients. This is accomplished by evaluating multiple factors on a case-by-case basis and continuously ensuring that the chosen execution venue consistently delivers this optimal result. The technology used in execution decisions assesses relevant factors (as detailed in the Best Execution Criteria and Factors and Process section below) to guarantee ongoing compliance with the company's best execution requirements and this Policy.

The Company routes and executes orders in Futures on Coinbase Derivatives, LLC (“Coinbase Derivatives Exchange” or “CDE” or the “Exchange”), which is a CFTC-regulated Designated Contract Market (DCM), via Coinbase Financial Markets, Inc. (“CFM”), a CFTC-regulated Futures Commission Merchant (FCM) and a member on the Exchange.

Use of affiliates or a third-party broker

The Company may use the services of a connected party or a third-party broker or dealer to assist in the execution of your order which may be outside of the EEA (such as CFM). Using an affiliated or third-party broker does not remove the Company’s obligation to deliver best execution to its clients and the Company will satisfy itself through the application of appropriate due diligence that the other entity has arrangements in place to enable the Company to comply with its best execution obligation.

Review of execution venue

The execution venue the Company uses to execute transactions in Futures will be kept under review to determine whether or not this venue supports the Company in obtaining the best possible result for its clients. The Company will also monitor the market landscape to determine if there are other alternate venues that should be considered.

14. Best Execution Criteria, Factors and Process

Best Execution Criteria

When executing Client orders, the Company considers the following criteria on a case-by-case basis to determine the relative importance of execution factors:

- The regulatory status of the trading venue;
- The Client's characteristics, including their categorization (retail or professional);
- The characteristics of the Client order;
- The characteristics of the financial instruments subject to the order; and
- The characteristics of the execution venue to whom the order can be directed.

Best Execution Factors

When managing Client orders, the Company will take sufficient steps to achieve best execution for Clients, when receiving and transmitting orders for execution, by taking into consideration the following execution factors on a case-by-case basis:

- Price;
- Speed of execution;
- Likelihood of execution;
- Costs or commissions related to execution;
- Size of the order;
- Market conditions and variations;
- Nature of the order; and
- Any other direct consideration relevant to the execution of the order;

For clients that are categorised by the Company as retail, the best possible result will be determined primarily in terms of the total consideration, representing the price of the contract and the cost related to execution (i.e., external third-party costs relative to execution such clearing and settlement fees, and any other fees paid to third parties that may be involved in the execution of orders). The other execution factors of speed, likelihood of execution size, nature or any other relevant consideration will, in most cases, be secondary to price and cost considerations, unless they would deliver the best possible result for the retail client in terms of total consideration. However, those secondary factors remain important here, particularly given the nature of the product and the market for futures contracts on crypto assets.

For all other clients other than retail, the relative importance assigned to each of the aforesaid execution factors is as follows:

- Transactional features: High
- Price: High
- Costs: High
- Size: High
- Liquidity and market impact: High

- Speed of execution: Medium
- Likelihood of execution and settlement: Medium

<u>Details about the Execution Factors</u>

Price and risk controls

1. **Price limits** (often referred to as "circuit breakers" or "trading halts").

   A mechanism used to help control the extent of price fluctuations for a given asset within a specified time period. These limits are designed to prevent excessive volatility and ensure market stability by setting boundaries on how much the price of an asset can move up or down from a reference price or previous trading levels. When these predetermined limits are reached, trading may be temporarily halted to allow the market to stabilize.
   Coinbase Derivatives Exchange uses a multi-layered approach for futures contracts:

   - **Hourly Price Fluctuation Limits (Dynamic Limits)**
   - **Daily Price Limits:**

     Futures contracts also have a 30% Daily Price Limit based on the previous day's settlement price. This acts as a hard boundary for daily price movements.

   When executing orders for perpetual-style futures on the CDE exchange, our Trade and execution policy incorporates the hourly-calculated funding rate as a critical factor. This funding rate, designed to keep futures prices aligned with spot prices, directly impacts the overall cost of execution for clients, affecting their Profit and Loss (P&L) and positions through cash adjustments. We carefully consider how these hourly calculations and twice-daily cash adjustments, processed via the clearinghouse, affect the total consideration for each transaction, ensuring transparency and optimal outcomes for our clients.

2. **Position limits**

   Maintaining market stability, integrity, and resiliency is crucial. These measures, including regulatory and risk management tools like those found in futures markets, are designed to protect against adverse market conditions. They effectively reduce extreme price volatility and manipulation, thereby ensuring an orderly marketplace.

   a. Tiered System for Individual Users:
      i. CBFSE assigns individual users to a **position limit tier** based on the annual income and net worth they have attested to in their settings. These tiers directly determine **the maximum number of contracts** Clients can hold across various futures products.
      ii. To increase your position limit tier, you typically need to re-verify that you meet the financial requirements for the next tier.

   b. Contract-Level Limits:

      i. Position limits are indeed applied per specific futures contract. This means that users will have distinct maximum contract limits for each type of futures contract, such as Nano Bitcoin Futures, Nano Ether Futures, etc. Each contract type is treated independently in terms of position limits.

    ii. These limits apply to net position (long or short) across all expiration months for a given contract.
    iii. "Position size" for a given contract includes both your existing executed positions and any open orders that, if executed, would increase user position size.

c. System-Level Limits:

   This limit considers the total open notional value for a given contract across all users on CDE. This is a broader measure which the exchange monitors to ensure overall market health.

d. Regulatory Requirement:

    i. Position limits are a standard and often U.S. Commodity Futures Trading Commission (CFTC)-mandated risk management tool for futures exchanges. They serve to:
        - Prevent excessive speculation by limiting the ability of any single trader or group to exert undue influence on prices.
        - Reduce market manipulation. Make it harder for large players to corner the market or artificially inflate/deflate prices.
        - Maintain orderly markets. Contribute to overall market stability and fair price discovery.

3. **Minimizing slippage:** Slippage is determined by calculating the absolute difference between the top-of-book price at the time of order entry and the actual execution price for each trade. For buy orders, the best ask price is utilized, while for sell orders, the best bid price is applied.

   CBFSE monitors slippage consistency using a two-tiered threshold system. A 0.1% slippage triggers automatic data saving. If slippage surpasses 0.7%, an immediate alert is sent for urgent review. Both thresholds are meticulously recorded, monitored, and reported to senior management.

   Market data is directly sourced from the Exchange (CDE) through a dedicated market session, ensuring real-time pricing information without modification or intervention from the execution broker. This provides clients with enhanced transparency, faster price updates, and a reduced risk of slippage.

4. **Liquidation buffer:** The liquidation buffer chart visually represents a client's proximity to liquidation. This buffer is defined as the available margin funds exceeding the liquidation threshold, expressed as a percentage of the difference between the initial margin and the liquidation threshold. It offers clients an immediate understanding of their distance from liquidation and is calculated as:

   (Available for margin - Liquidation threshold) / (Initial margin - Liquidation threshold).

Internal order Book depth: Clients utilizing the advanced trade platform can access a visual tool known as the depth chart. This chart illustrates the order book depth, displaying open orders and their combined size at various price levels. It helps clients evaluate market liquidity and anticipate potential price shifts.

Execution Costs

CBFSE applies a transparent tiered fee structure based on client classification and contract type. These costs directly impact trading decisions and execution quality

- **Trader Classification & Fee Variability:** Execution costs differ based on trader classification, impacting trading strategy and execution choice.

- **Cost transparency and disclosure**: All trading fees are published in the official Fee Schedule, ensuring full transparency in the pricing. Clients can assess the cost implications of their trades before execution.

Market Impact

The Company's quoted prices, which as of the date of this Policy are derived from Coinbase Derivatives Exchange, may be impacted by various factors that affect the market such as price, volatility and liquidity.

Nature of Order

This covers the nature of the order, such as the type of order, the investment amount, the financial instrument in question, and the means of settlement.

Speed of Execution

Coinbase has optimized data processing and reduced latency through various infrastructure enhancements. Order latency is also continuously monitored, with historical statistics accessible via a dedicated dashboard.

Likelihood of execution and settlement.

- **Order routing and execution**: CBFSE trading platform employs advanced algorithms to direct orders to connected trading venues, considering factors such as available prices, order size and the likelihood of execution.

- **Cash Settlement**: All futures contracts are cash-settled, meaning that upon contract expiration, the positions are closed by exchanging cash rather than delivering the underlying asset. This method simplifies the settlement process and reduces potential complications associated with physical delivery.

- **Clearing house collaboration**: The exchange collaborates with designated clearing organizations to manage the clearing settlement of contracts, ensuring that all transactions are processed in accordance with established clearing rules. This partnership enhances the reliability and efficiency of the settlement process.

Order Qualifiers

Orders can be customized with qualifiers like Good-till-Canceled(GTC), Immediate-Or-Cancel(IOC), and Fill-Or-Kill(FOK) providing flexibility in order execution strategies.

15. Other Important Matters

Leverage Limits and Protection

The Company provides futures contracts with crypto underlyings a maximum leverage of 10x and futures contracts with equity index underlyings a maximum leverage of 15x. To ensure clients cannot lose more than their initial funding for an order, negative balance protection is also offered on these products.

Leverage

To ensure appropriate knowledge and experience, all clients will be subject to a maximum leverage as detailed in the Key Information Document (KID) for each asset class. This leverage limit will be applied at two levels: (i) individual accounts and (ii) an exchange-wide ecosystem across all accounts combined.

These are strict controls. Once the established limits are reached, no further high-leverage positions will be matched in the order book. This system allows the Company to align leverage limits with its defined risk appetite. When the risk appetite is met, the system automatically prevents orders that would increase risk at either the account or ecosystem level from being executed.

It's important to note that the Company will not rely solely on these hard controls. We also plan to continuously monitor the risk associated with higher leverage positions post-trade through our stress testing framework.

Negative Balance Protection

In the event that a Client's losses result in a negative balance in such Client's account with the Company, the Company will not seek to recover these losses from assets held outside the Client's account with the Company. This feature can be described as negative balance protection. Negative balance protection is offered to retail and professional clients on a per account basis.

Margin Close Out Rule

Clients are also offered the protection of the margin-close out rule. The Company will close one or more of a Client's open positions if the combined total of funds, assets, and unrealized net profits in their trading account falls below a risk-adjusted threshold. This threshold is typically set at 66% of the initial margin required for those open positions. However, certain market conditions or the specific nature of positions may require different thresholds or considerations. For full details on the Company's controls, mechanics, rights, and obligations, please consult the User Agreement.

Record Keeping

In accordance with the Best Execution Rules, the Company is required to maintain records of all client transactions for a minimum of five (5) years. These records, which include details concerning cost, execution speed, and likelihood of execution, must be kept for seven (7) years if CySEC requests it.

Monitoring and Review

This Policy will undergo an annual review, or sooner if a material change occurs that could affect the Company's ability to consistently achieve the best possible execution results for Client orders through the designated execution broker. Should such a material change arise, the Company will assess its impact and consider appropriate adjustments to the relative importance of best execution factors to uphold the overarching best execution requirement.

For the purpose of this Policy, a "material change" is defined as a significant event that could influence best execution parameters. These parameters include, but are not limited to, price, cost, speed, likelihood of execution and settlement, size, nature, or any other relevant consideration for order execution. It also encompasses amendments to applicable law (including, without limitation, the Law) that may impede the Company's ability to secure the best possible outcomes for its Clients.

Upon a Client's request, the Company will provide evidence demonstrating its adherence to this Policy in relation to that Client's executed orders.

Consent

Clients provide their consent to this Policy upon accepting the User Agreement and establishing a contractual relationship with the Company. Subsequently, Clients are considered to consent to any future updates of this Policy if they continue to engage in transactions covered by this Policy after such updates. The Company will also communicate any significant changes to this Policy to all Clients as soon as feasible, using email, its website, or its trading platform.

Changes

The Company reserves the absolute right to amend, modify, alter and update this Policy (or any part thereof) and its execution arrangements, if and whenever it is required to do so.

Questions and Further Information

Please contact the Company at cbfse-compliance@coinbase.com for any questions and/or request for additional information you may have in connection with this Policy or any matter discussed herein.