

FalconX Digital Asset Derivatives Risk Disclosure Statement

THIS BRIEF STATEMENT COVERS SOME, BUT NOT ALL OF THE RISKS OF TRANSACTING IN DERIVATIVES CONTRACTS RELATING TO DIGITAL ASSETS WITH FALCONX. BY ENTERING INTO SUCH TRANSACTIONS WITH FALCONX, YOU REPRESENT AND WARRANT THAT YOU HAVE EVALUATED THE MERITS AND RISKS OF TRADING SUCH CONTRACTS WITH FALCONX AND HAVE DETERMINED THAT SUCH CONTRACTS ARE APPROPRIATE FOR YOU AND THAT YOU ARE CAPABLE OF ASSUMING, AND ARE PREPARED TO ASSUME, THE RISKS ASSOCIATED WITH SUCH CONTRACTS.

TRADING DERIVATIVES CONTRACTS RELATING TO DIGITAL ASSETS AND TRADING WITH FALCONX IS NOT SUITABLE FOR EVERYONE AND CAN RESULT IN LOSSES UP TO, AND IN SOME CIRCUMSTANCES ABOVE, THE ENTIRE AMOUNT YOU INVEST. YOU SHOULD ONLY ENTER INTO SUCH TRANSACTIONS AFTER YOU ARE CERTAIN THAT YOU FULLY UNDERSTAND THE RISKS ASSOCIATED WITH DOING SO.

Please also refer to the [insert reference to other key FalconX documents and disclosure statements], which this Disclosure Statement supplements.

Risk Disclosures for Derivatives that Provide Exposure to or Reference Digital Assets

High Volatility, Speculation, Low Liquidity and High Market Concentration

Derivatives that provide exposure to digital assets¹ may trade at a value other than that which may be inferred from current values of the underlier due to factors including, but not limited to, high volatility, low liquidity and high market concentration in the underlier, as well as the fact that there may be significant variations in publicly available pricing sources.

The prices for many digital assets are highly volatile and can fluctuate significantly in short periods of time, sometimes even absent the occurrence of the types of economic events that normally precipitate price changes for other types of assets. Depending on how quickly prices change, you might not be able to terminate or hedge your digital asset-referencing transactions before you suffer significant losses. The absence of industry standard terms for digital asset and digital asset derivatives transactions can also increase this risk. Another source of volatility for digital asset prices is the high degree of digital asset demand that is generated by speculators and investors seeking to profit from the short- or long-term holding of digital assets. Such speculators and investors losing interest in digital assets could reduce liquidity and increase volatility, and ultimately make it difficult to accurately value digital assets.

Liquidity (and relative liquidity) is another source of potential volatility for digital asset prices. The overall size of many digital asset markets can be significantly smaller than markets for other types of assets, which can limit liquidity and increase volatility. In addition, liquidity in digital asset markets can change quickly. Because the market forces that determine digital asset prices are not entirely clear, it is difficult to predict what market factors can lead to substantially more or less liquidity in digital asset markets. Digital assets trade across different exchanges and in varied jurisdictions, so local and regional events can affect the liquidity, prices and volatility of digital assets in unexpected ways. Liquidity can also be adversely affected by the development of updated or new technologies, market standard terms and new digital assets and the migration of trading interest to such new digital assets or away from existing technologies and market standard terms. You should monitor liquidity developments in digital assets carefully.

The liquidity of digital assets and the volatility of digital asset prices also depend on the concentration of owners of a digital asset or the traders in such digital assets. There is little transparency in the ownership of or trading interest in most digital assets, nor are there generally limits on concentrated ownership or

¹ For purposes of this Disclosure Statement, the term “digital asset” refers to an asset that is issued and/or transferred using distributed ledger or blockchain technology, including, but not limited to, “virtual currencies,” “coins,” and “tokens.”

trading interest. Ownership of or trading in particular digital assets can be concentrated in a limited number of countries or regions and may be controlled by a small number persons or entities. Events in such countries and regions, or events that affect such persons or entities, could have a disproportionate impact on the prices of digital assets. Greater concentration in ownership or trading interest can also lead to heightened volatility due to sharp swings in the level of supply or demand. High levels of concentration can also make a market susceptible to manipulation or distortion.

Volatility, liquidity and concentration risk with respect to digital assets may ultimately affect the terms of derivatives contracts that reference digital assets. High volatility or low liquidity could, for example, lead to difficulties in ascertaining the correct valuation for a digital asset, which could in turn pose challenges with respect to payment, delivery and collateral obligations, among others, under a related derivatives contract since these obligations rely upon the value of the underlying digital asset.

Malicious Actors

Mining is the act of using a computer to run computations designed to help build the next block (a set of records of digital asset transactions) on the distributed ledger where digital transfers are recorded. A material concentration in processing power dedicated to mining on a digital asset network can also increase the risk of a malicious actor or botnet, *i.e.*, a volunteer or hacked collection of computers controlled by networked software coordinating the actions of the computers, obtaining a majority of the processing power dedicated to mining on any given digital asset network, in which case it may be able to alter the distributed ledger by constructing fraudulent blocks or preventing certain transactions from completing in a timely manner, or at all. The malicious actor or botnet could control, exclude or modify the ordering of transactions. Such activity by the malicious actor or botnet could have significant effects on the liquidity and price of the digital asset. Such acts could also affect digital asset derivatives by disrupting markets in the underlying digital asset and introducing uncertainty as to the price or other characteristics of the digital asset.

Lack of Trading History

The markets for digital assets and derivatives that reference digital assets are relatively new. Accordingly, there do not exist long histories of pricing information for digital assets, and the market forces that determine the prices for digital assets continue to evolve. This risk is heightened for newer digital assets and the derivatives that reference them, as these are less developed markets with shorter trading histories. The evolution of these market factors can lead to significant changes to market trading behavior and digital asset prices, and can in turn affect the terms of derivatives contracts that reference digital assets.

The Effect of Consumer Preferences

The growth of the digital asset industry is subject to a high degree of uncertainty. Changes in consumer demographics and public tastes and preferences over time can affect the further development of this industry, which in turn could move the price of digital assets in unexpected and unpredictable directions.

Such changes in public tastes and preferences could be in response to, among other factors, the failure to maintain and update digital asset software and technology and a growing perception that the use and holding of digital assets is no longer safe and secure. The open-source nature of digital asset networks means that contributors are not generally directly compensated for their contributions in maintaining and updating the digital asset software and technology. Consequently, there is a lack of financial incentive for developers to maintain or develop the networks or adequately address issues that may emerge over time. A failure to do so can negatively impact consumer preferences for digital assets and consequently the prices of the relevant digital assets.

Further, social media and the news can affect consumer perception of digital assets. In particular, in circumstances where the digital asset is issued or sponsored by a single team or company, negative press of the team or issuing or sponsoring company could adversely impact the price of that digital asset.

Changing public perception with respect to digital assets could very well affect the terms of derivatives contracts that reference digital assets. By way of example, negative press that leads to public discontent

with a particular digital asset (or, for that matter, digital assets more broadly) could dramatically affect the value of derivatives contracts which rely upon the value of an underlying digital asset.

Lack of Regulation; Possibility of Government Intervention

The “cash” or “spot” markets for most digital assets are largely unregulated in most jurisdictions. In addition, in some non-U.S. jurisdictions, the digital asset derivatives markets are largely unregulated. In particular, depending on their location, these markets and the participants therein may not be subject to market integrity or transparency rules, and participants in these markets may not be subject to registration, licensing or fitness requirements, business continuation, disaster recovery or cybersecurity requirements, or know your customer and anti-money laundering rules. This lack of regulation can make digital asset markets susceptible to manipulation or distortion, which may adversely affect your digital asset transactions and your derivatives contracts that reference digital assets. This is particularly the case to the extent that the digital asset derivatives we enter into with you reference digital assets or related derivatives that trade in unregulated markets, for example to establish one or more settlement prices or in connection with disruption or similar events.

Digital asset trading has also been associated with illegal activity, including drug dealing, money laundering and other forms of illegal commerce. Law enforcement may respond to such actions by limiting or shutting down trading venues or participation on such venues.

Digital assets currently face an uncertain regulatory landscape in the U.S. and many foreign jurisdictions. In the U.S., digital assets are not currently subject to federal regulatory oversight, but may be regulated by one or more state regulatory bodies.

Certain non-U.S. jurisdictions have imposed stringent regulatory controls on digital asset transactions, greatly limiting liquidity in those jurisdictions. Other jurisdictions may, in the future, impose similar controls, or significant taxes or other requirements that greatly restrict participation in digital asset markets and funding markets, either in general or based on the nature of specific participants or transactions. All of these actions can significantly affect liquidity, volatility and prices for digital assets and derivatives contracts which rely on the value of an underlying digital asset.

Most digital asset derivatives are regulated in the United States by the CFTC. The CFTC and the SEC have brought numerous enforcement actions involving digital asset derivatives and securities, and they are expected to continue to focus their enforcement efforts on these types of instruments. Furthermore, the CFTC may promulgate new rules affecting digital asset derivatives and other federal regulators may also impose new regulations on entities and individuals that participate in the digital asset derivatives ecosystem. The effect of such rule changes is highly uncertain and could impact the terms or even the legality of certain digital asset derivatives.

Intellectual Property Claims

Third parties may assert intellectual property claims relating to the operation of a digital asset exchange or network and the source code relating to the holding and transfer of digital assets. Regardless of the merit of any intellectual property or other legal action, any threatened action could reduce the confidence in the long-term viability of digital asset networks or adversely affect prices for digital assets and their related derivatives.

Trading Hours May Not Align

The market for many digital assets operates on a global, twenty-four hour basis. Therefore, your and our hours of operation, during which you and we may transact in and value digital asset derivatives transactions, calculate margin and settlement amounts, issue margin calls and settle collateral delivery or return amounts, may not conform to the hours during which the underlying digital assets are most traded. To the extent this occurs, significant changes in digital asset prices as well as market, economic and political conditions due to reasons beyond our control, and thus the value of digital asset transactions and the amount of credit exposure they create between us, may take place during times when it may be difficult for you to monitor or react to them.

Digital asset markets that operate continuously may also impact digital asset derivative transactions. For example, derivatives transactions typically rely upon the underlying asset market having conventional times during which valuations are established, such as an official closing price at the end of a business day. This concept would not apply to digital asset markets that operate on a twenty-four hour basis. Furthermore, while some digital asset trading venues may publish prices at a certain time or across a certain period, these times or windows are typically not intrinsically tied to any circumstances regarding underlying market activity (such as the availability of trading or trading volume). This may lead to uncertainty as to how and when valuation of a digital asset will be ascertained for purposes of a digital asset derivative.

Forks

It is possible that planned, unplanned, sudden, scheduled, expected, unexpected, publicized, not well-known, consensual, and/or controversial changes to the underlying operating rules of certain digital assets may occur from time to time in such a way as to result in the creation of one or more related versions of an existing digital asset (each instance of any such change, a “Fork”). Forks may result in multiple versions of a digital asset and could lead to the dominance of one or more such versions of a digital asset and the partial or total abandonment or loss of value of any other versions of such digital assets.

A fork could fundamentally alter the nature or functionality of the digital asset, which could in turn affect the terms of a derivatives contract that reference that digital asset. Depending on its terms, the derivatives contract may not account at all for Forks or the potential existence of multiple versions of the digital asset underlier, may provide discretion for one of the parties to determine how to address the potential impact of a Fork, or may permit or require early termination or delayed settlement upon the occurrence of a Fork, all of which could affect the economic terms of the transaction or result in disputes.

Airdrops

An airdrop involves the unilateral issuance of a new digital asset to the holders of an associated digital asset. An airdrop could affect the value of the digital asset in unknown ways, which in turn may impact the terms of a related digital asset derivative. Depending on its terms, the derivatives contract may not account at all for airdrops, may provide discretion for one of the parties to determine how to address the potential impact of an airdrop, or may permit or require early termination or delayed settlement upon the occurrence of an airdrop, all of which could affect the economic terms of the transaction or result in disputes.

Delisting

Digital assets or related futures or options may be delisted from a trading platform suddenly and for any reason or no reason whatsoever, including, without limitation, changes in applicable law or regulation or by court order. Delisting could make it difficult or impossible to liquidate your positions in derivatives contracts that reference the delisted digital asset, future, or option and could ultimately result in a complete loss of value. Depending on its terms, the derivatives contract may not account at all for delistings, may provide discretion for one of the parties to determine how to address the potential impact of a delisting, or may permit or require early termination or delayed settlement upon the occurrence of a delisting, all of which could affect the economic terms of the transaction or result in disputes.

Risk of Market Disruption

Aside from those mentioned above, several other events or factors can result in disruption of digital asset markets and the derivatives contracts that reference them, including:

- Commencement of insolvency proceedings in respect of one or more digital assets or digital assets derivatives exchanges;
- Temporary or permanent suspensions or limitations on trading in digital assets or related derivatives, including the triggering of limits on the amount of price fluctuation, an unscheduled market close, or, as noted above, intervention by a government authority;

- Developments in regulation or taxation of digital assets or related derivatives or securities, including heightened enforcement activity or the imposition of limits on owning or trading in digital assets or related derivatives or securities; and
- Changes in a digital asset’s underlying technology protocols (such as a Fork in the distributed ledger used by a digital asset), initiation or discontinuation of use or support by a significant merchant, investor or other market participant, exchange or other intermediary.

In addition, cyberattacks, theft, fraud or other operational losses at exchanges, wallet providers or other platforms or market intermediaries also pose a significant risk of disruption of digital assets markets and their related derivatives. Particularly, the cybersecurity risks of digital assets and related “wallets” or spot exchanges include hacking vulnerabilities and a risk that publicly distributed ledgers may not be immutable. A cybersecurity event could result in a substantial, immediate and irreversible loss for market participants that trade in digital assets and the derivatives contracts that reference them. Similarly, it is possible that the holder of a digital asset could lose access to the platform or infrastructure through which it holds the digital asset as the result of the loss or theft of the private key relating to that digital asset. In many cases, the private key would not be recoverable, thus potentially resulting in a permanent inability to deal in the relevant digital asset and a dramatic impact on the liquidity and value of any derivatives contract that references the unrecoverable digital asset. Even a minor cybersecurity event in a digital asset is likely to result in downward price movement on that product and may also potentially impact other digital assets and their related derivatives. The viability of any digital asset derivative generally depends upon an accurate and immutable ledger recording digital asset transfers, as well as the safe and sound operation of digital asset platforms and infrastructure.

Depending on its terms, the derivatives contract may not account at all for these sorts of disruptions, may provide discretion for one of the parties to determine how to address the potential impact of a disruption, or may permit or require early termination or delayed settlement upon the occurrence of a disruption, all of which could affect the economic terms of the transaction or result in disputes.

Transaction Fees

Many digital assets allow market participants to offer miners (i.e., parties that process transactions and record them on a blockchain or distributed ledger) a fee. While not mandatory, a fee is generally necessary to ensure that a transaction is promptly recorded on a blockchain or distributed ledger. The amounts of these fees are subject to market forces and it is possible that the fees could increase substantially during a period of stress, which could in turn affect the value of derivatives that reference these digital assets.