

**Crypto Asset Trading Platforms  
Pre-Registration Activities Undertaking**

To: The Alberta Securities Commission (the **Principal Regulator**) and the other members of the Canadian Securities Administrators (collectively, the **CSA**)

From: CatalX CTS Ltd. operating as Catalyx (the **Filer**)

Re: Undertaking in respect of pre-registration activities during the CSA review of the Filer's application for registration and related application for exemptive relief conducted by the Filer and on the Filer's Platform (defined below) in relation to clients resident in Canada (the **Undertaking**)

Date: March 24, 2023

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**Background**

The Filer operates a proprietary internet-based platform for the trading of crypto contracts based on crypto assets (collectively, the **Filer's Platform**) that enables clients to buy, sell, hold, deposit and withdraw crypto assets such as Bitcoin, Ether, and anything commonly considered a crypto asset, digital or virtual currency, or digital or virtual token, through the Filer.

The Filer's Platform constitutes a Dealer Platform as those terms are defined in Joint CSA-IIROC Staff Notice 21-329 *Guidance for Crypto-Asset Trading Platforms: Compliance with Regulatory Requirements (CSA SN 21-329)*. In connection with the operation of the Filer's Platform, the Filer has:

- (a) made an application for registration in the category of restricted dealer that includes a completed and signed Form 33-109F6 *Firm Registration* including all schedules and supporting documents (the **Application for Registration**) in each jurisdiction in Canada where the Filer carries on or intends to carry on business as a crypto asset trading platform (**CTP**);
- (b) made an application for prospectus relief, suitability relief and trade reporting relief in each jurisdiction in Canada where the Filer carries on or intends to carry on business as a CTP (the **Application for Relief**) in connection with the operation of the Filer's Platform;
- (c) paid all required fees applicable to the Application for Registration and the Application for Relief; and
- (d) filed a completed Form 31-103F2 *Submission to Jurisdiction and Appointment of Agent for Service*.

## Interpretation

The provisions of this Undertaking are representations of and commitments by the Filer to the Principal Regulator and to the CSA. The Filer will make best efforts to bring its operations into compliance with securities legislation.

In this Undertaking,

- (a) in relation to paragraphs 8, 15(b) and 16 of Schedule I, the Filer undertakes to implement these provisions within 120 days of the date of this Undertaking, and
  - (b) for all other provisions, the Filer undertakes to implement such provisions within 90 days of the date of this Undertaking,
- unless the provision otherwise indicates or the Principal Regulator provides written consent that another timeframe is acceptable.

The Filer agrees to abide by the representations and commitments in this Undertaking until such time as the Principal Regulator has made a decision on the Filer's Application for Registration and Application for Relief or until such time as this Undertaking is withdrawn in accordance with the provisions described below.

The representations and commitments set out in this Undertaking are based on the obligations that will apply to the Filer once registered and are substantially consistent with the terms and conditions set out in the Filer's Application for Relief. There are certain provisions in this Undertaking that may not be consistent with the obligations that would apply to the Filer should it become registered, and those provisions in this Undertaking do not necessarily reflect the decision that will be made by the Principal Regulator and the other members of the CSA in the Applicable Jurisdictions in connection with the Application for Registration and the Application for Relief.

The Filer understands that the Principal Regulator will disclose the name of the Filer and this Undertaking or the fact that the Filer has provided this Undertaking on the Principal Regulator's website, the website of other members of the CSA in the Applicable Jurisdictions and/or the CSA website.

## Definitions

In this Undertaking including the Schedules, the following terms have the following meanings:

"Acceptable Third-party Custodian" means an entity that:

- (i) is one of the following:
  - a. a Canadian custodian or Canadian financial institution;
  - b. a custodian qualified to act as a custodian or sub-custodian for assets held in Canada pursuant to section 6.2 [*Entities Qualified to Act as Custodian or Sub-Custodian for Assets Held in Canada*] of NI 81-102;
  - c. a custodian that meets the definition of an "acceptable securities location" in accordance with the Investment Dealer and Partially Consolidated Rules and Form 1 of New Self-Regulatory Organization of Canada;

- d. a foreign custodian for which the Filer has obtained the prior written consent from the Principal Regulator and the regulator or securities regulatory authority of the Applicable Jurisdiction(s); or
  - e. an entity that does not meet the criteria for a qualified custodian and for which the Filer has obtained the prior written consent from the Principal Regulator and the regulator or securities regulatory authority of the Applicable Jurisdiction(s);
- (ii) is functionally independent of the Filer within the meaning of NI 31-103;
  - (iii) has obtained audited financial statements within the last twelve months, which
    - a. are audited by a person or company that is authorized to sign an auditor's report under the laws of a jurisdiction of Canada or a foreign jurisdiction and that meets the professional standards of that jurisdiction, and
    - b. are accompanied by an auditor's report that expresses an unqualified opinion.
  - (iv) has obtained a Systems and Organization Controls (SOC) 2 Type 1 or SOC 2 Type 2 report within the last twelve months, or has obtained a comparable report recognized by a similar accreditation board satisfactory to the Filer's Principal Regulator and the regulator or securities regulatory authority of the Applicable Jurisdiction(s).

"Account Appropriateness Factors" has the meaning ascribed to that term in paragraph 30 of Schedule I;

"Applicable Jurisdictions" means the jurisdictions in Canada in which the Filer carries on or intends to carry on business as a CTP;

"Canadian custodian" has the meaning ascribed to that term in NI 31-103;

"Canadian financial institution" has the meaning ascribed to that term in National Instrument 45-106 *Prospectus Exemptions*;

"Client Account" means an account opened by a client of the Filer using the Filer's website and/or mobile application to access the Filer's Platform;

"Crypto Asset" means Bitcoin, Ether, and anything commonly considered a crypto asset, digital or virtual currency, or digital or virtual token, that are not themselves securities or derivatives;

"Crypto Asset Statement" has the meaning ascribed to that term in paragraph 36(e) of Schedule I;

"Crypto Contract" means a client's contractual rights relating to a Crypto Asset or a Value-Referenced Crypto Asset and related rights under the client's agreement with the Filer's Platform;

"CSA SN 21-329" means Joint CSA/IIROC Staff Notice 21-329 *Guidance for Crypto-Asset Trading Platforms: Compliance with Regulatory Requirements*;

"Dealer Platform" has the meaning ascribed to that term in CSA SN 21-329;

"foreign custodian" has the meaning ascribed to that term in NI 31-103;

“Form 31-103F1” means Form 31-103F1 *Calculation of Excess Working Capital*;

“KYP Policy” has the meaning ascribed to that term in paragraph 29 of Schedule I;

“Liquidity Provider” means a crypto asset trading platform or marketplace or other entity that the Filer uses to fulfill its obligations under Crypto Contracts;

“NI 31-103” means National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*;

“NI 81-102” means National Instrument 81-102 *Investment Funds*;

“permitted client” has the meaning ascribed to that term in NI 31-103;

“promoter” has the meaning ascribed to that term in Canadian securities legislation;

“Proprietary Token” means a Crypto Asset that is not a Value-Referenced Crypto Asset, and for which the Filer or an affiliate of the Filer acted as the issuer (and mints or burns the Crypto Asset) or a promoter;

“qualified custodian” has the meaning ascribed to that term in NI 31-103;

“Risk Statement” has the meaning ascribed to that term in paragraph 34 of Schedule I;

“Specified Crypto Assets” means Bitcoin, Bitcoin Cash, Ether, Litecoin and any other Crypto Asset in respect of which the Principal Regulator and the other CSA members in the Applicable Jurisdictions have provided written confirmation to the Filer subsequent to the date of this Undertaking that such Crypto Asset may be designated as a Specified Crypto Asset for the purposes of this Undertaking;

“Staking” means the act of committing or locking Crypto Assets in smart contracts to permit the owner or the owner’s delegate to act as a validator for a particular proof-of-stake consensus algorithm blockchain;

“Staking Services” means any and all services conducted by the Filer and third parties in order to enable the Staking of Crypto Assets that are held on the Filer’s Platform for the benefit of clients; and

“Value-Referenced Crypto Asset” means a crypto asset that is designed to maintain a stable value over time by referencing the value of a fiat currency or any other value or right, or combination thereof.

In this Undertaking a person or company is an affiliate of the Filer if

- (a) one of them is, directly or indirectly, a subsidiary of the other, or
- (b) each of them is controlled, directly or indirectly, by the same person.

## Undertaking re Pre-Registration Activities

Until such time that a decision is made by the Principal Regulator and the other members of the CSA in the Applicable Jurisdictions in connection with the Application for Registration and the Application for Relief, and unless this Undertaking is otherwise withdrawn by the Filer in accordance with the manner described below, the Filer hereby undertakes to comply with the provisions of this Undertaking:

1. The Filer will conduct all transactions with clients resident in Canada in compliance with the Pre-Registration Provisions as set out in Schedule I. In particular, as set out in paragraph 40 of Schedule I, the Filer confirms that Crypto Assets held for the benefit of clients are held in trust, separate and apart from the assets of non-Canadian clients, separate and apart from its own assets and are not pledged, re-hypothecated or otherwise used in any way by the Filer.
2. The Filer will comply with the Reporting Provisions as set out in Schedule II.
3. Regardless of whether the Filer is or will be operating through a Canadian affiliate, the Filer has and will continue to confirm that the Filer (or its Canadian affiliate, where applicable) is not liable for the debt of an affiliate or affiliates that could have a material negative effect on the Filer.
4. The Filer accepts and agrees that the Undertaking will be governed and interpreted in accordance with the laws of the Principal Regulator or the Applicable Jurisdiction and the laws of Canada applicable therein.
5. The Filer has designated an individual as its Chief Compliance Officer (**CCO**) that:
  - (a) has the education, training and experience that a reasonable person would consider necessary to perform the role of a CCO competently,
  - (b) is responsible for the maintenance and application of policies and procedures for assessing compliance by the Filer and individuals acting on behalf of the Filer, with securities legislation,
  - (c) monitors and assesses compliance by the Filer and individuals acting on its behalf, with securities legislation, and
  - (d) has direct access to the board of directors, or individuals acting in such capacity for the Filer, at such times as the CCO may consider necessary or advisable in view of the CCO's responsibilities.
6. The Filer will promptly inform the Principal Regulator in writing of any material change in the business, activities, operations or financial results or condition of the Filer, or an affiliate of the Filer, or control persons of an affiliate that may in the opinion of a reasonable person be material to the Filer's clients.

7. The Filer will promptly inform the Principal Regulator in writing of any material breach or failure of
  - (a) the Filer's or any of its Acceptable Third-party Custodian's system of controls or supervision, and what steps have been taken by the Filer to address each such breach or failure, and
  - (b) the system of controls or supervision of each affiliate of the Filer that could have a material impact on the Filer and what steps have been taken to address each such breach or failure.

The loss of any amount of Crypto Assets impacting the Filer's clients will be considered a material breach or failure.

8. The Filer will promptly inform the Principal Regulator in writing if a self-regulatory organization or any other regulatory authority or organization or governmental authority in any jurisdiction including any foreign jurisdiction initiates proceedings or renders a judgment related to a compliance or enforcement action involving the Filer, an affiliate of the Filer, or a control person(s) of an affiliate that may reasonably be perceived by the Principal Regulator or a client of the Filer to be material to the client.
9. The Filer will promptly inform the Principal Regulator in writing if the Filer or an affiliate of the Filer becomes subject to any of the following under the laws of any jurisdiction including any foreign jurisdiction:
  - (a) a bankruptcy, a filing for bankruptcy or a proceeding governing an event similar to a bankruptcy;
  - (b) a proposal, including a consumer proposal, or restructuring under any legislation relating to bankruptcy or insolvency or any similar proceeding;
  - (c) proceedings under any legislation relating to the winding up or dissolution of the entity, or under the *Companies' Creditors Arrangement Act* (Canada);
  - (d) any proceedings, arrangement or compromise with creditors, including the appointment of a receiver, receiver-manager, administrator or trustee.
10. The Filer will promptly inform the Principal Regulator in writing if a control person of an affiliate is subject to any of the listed events, as provided in the preceding paragraph, if the occurrence of such an event may reasonably be perceived by the Principal Regulator or a client of the Filer to be material to the client.
11. The Filer will work diligently and use its commercially reasonable best efforts to advance the Application for Registration and Application for Relief.

12. The Filer further acknowledges that the giving of this Undertaking does not mean that the Filer has been or will be granted registration in any Applicable Jurisdiction or that the relief requested in the Application for Relief will be granted in any Applicable Jurisdiction. The Filer undertakes not to make any representation to suggest that it is registered under securities legislation in Canada. The Filer's Platform will clearly indicate that the Filer has submitted an Application for Registration under securities legislation in Canada but it is not registered and is operating pursuant to the provisions of a Pre-Registration Undertaking. There can be no assurance that the Filer will be registered and if it fails to become registered in any Applicable Jurisdiction it will promptly cease carrying on registrable activity in such Applicable Jurisdiction.
13. The Filer further acknowledges that the Filer's compliance with the Pre-Registration Provisions as set out in Schedule I does not mean that any documents delivered or made available to clients have been reviewed or approved by the Principal Regulator or other members of the CSA and the Filer further acknowledges that it may be required to make changes to any such documents as a result of the continued review of the Application for Registration and the Application for Relief.
14. The Filer further acknowledges that the Principal Regulator or other members of the CSA may examine the business, conduct, financial affairs, books, records and other documents of the Filer and its applicable affiliates and control persons for the purpose of determining if the Filer is complying with this Undertaking, securities or other applicable legislation in Canada, or acting contrary to the public interest.
15. The Filer will provide not less than 30 days' prior written notice to the Principal Regulator and the other members of the CSA in the Applicable Jurisdictions if the Filer wishes to withdraw this Undertaking. Where such notice is given, the Filer will cease to carry on registerable activity in each of the Applicable Jurisdictions at the time the Undertaking is withdrawn. All obligations respecting the provision of information relevant to the period in which the Filer was in operation will survive the withdrawal of this Undertaking.

*[Remainder of page left intentionally blank. Signature page follows.]*

For CatalX CTS Ltd.:

*"Jae Park"*

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Name: Jae Park

Title: Chief Executive Officer

*"I have authority to bind the firm"*

Date: March 24, 2023



**Schedule I**  
**Pre-Registration Provisions**

***Pre-Registration Business Conduct Obligations***

*Acting fairly, honestly and in good faith*

1. The Filer will act and will take reasonable steps to cause each individual acting on its behalf to act fairly, honestly and in good faith with clients.

*System of controls and supervision*

2. The Filer will establish, maintain and apply written policies and procedures that establish a system of controls and supervision sufficient to
  - (a) provide reasonable assurance that the firm and each individual acting on its behalf complies with securities legislation, and
  - (b) manage the risks associated with its business, including operations that are not related to trading securities or derivatives, in accordance with prudent business practices.
3. Further to paragraph 2(a), the Filer's policies and procedures will reflect that the Filer is seeking exemptive relief from certain regulatory requirements under the Filer's Application for Relief unless the Filer has been informed by staff of the Principal Regulator that staff do not support the Filer's request for exemptive relief from certain regulatory requirements.
4. Without limiting the foregoing, the Filer will establish, maintain and apply policies and procedures relating to confidentiality, information containment and the supervision of trading in Crypto Contracts and Crypto Assets by individuals acting on behalf of the Filer and will maintain material non-public information about Crypto Contracts and Crypto Assets in confidence.

*Conflicts of interest*

5. The Filer will establish, maintain and apply reasonable policies and procedures to identify existing material conflicts of interest, and material conflicts of interest that the Filer in its reasonable opinion would expect to arise, between the Filer, including each individual acting on behalf of the Filer, and its clients.
6. The Filer will address an existing or potential conflict of interest identified under the preceding paragraph in the best interests of the client. If a client, acting reasonably, would expect to be informed of a conflict of interest identified under the preceding paragraph, the Filer will disclose, in a timely manner, the nature and extent of the conflict of interest to a client whose interest conflicts with the interest identified.

*Capital requirements, financial information and provision of information*

7. The Filer will deliver financial information as provided under section 12.12 of NI 31-103 [*Delivering financial information – dealer*]. Where the Filer is temporarily unable to obtain unconsolidated audited financial statements, the Filer will (i) obtain and provide to the Principal Regulator unconsolidated audited financial statements as soon as is reasonably practicable and (ii) until the Filer is able to provide unconsolidated audited financial statements, provide to the Principal Regulator relevant financial information as agreed to by the Principal Regulator, such as unaudited financial statement of the Filer.
8. The Filer's excess working capital as calculated in accordance with Form 31-103F1 must not be less than zero for 2 consecutive days. Should the Filer's excess working capital be less than zero, the Filer will notify the Principal Regulator and/or the other Applicable Jurisdictions as soon as possible.
9. The Filer will exclude from the excess working capital calculation all the Crypto Assets, including Proprietary Tokens, and all Value-Referenced Crypto Assets it holds for which there is no offsetting by a corresponding current liability, such as Crypto Assets held for its clients as collateral to guarantee obligations under Crypto Contracts, included on line 1, *Current assets*. This will result in the exclusion of all the Crypto Assets inventory, including Proprietary Tokens inventory, and all of the Value-Referenced Crypto Assets inventory held by the CTPs from Form 31-103F1 (Schedule 1, line 9).
10. The Filer will provide within 60 days of the date of this Undertaking to the Principal Regulator a completed Form 31-103F1 regarding the excess working capital it holds and the Filer will confirm the accuracy of the information provided. The Filer will provide updated information relating to the excess working capital it holds as requested by the Principal Regulator from time to time.
11. In addition to any reporting requirements provided for in the Schedules of this Undertaking, upon the request of the Principal Regulator, the Filer will promptly deliver to the Principal Regulator any reasonably available information the Principal Regulator may require in a form that is acceptable to the Principal Regulator, including but not limited to:
  - (a) any audit reports regarding the financial reporting of the Filer, including a SOC 1 report; and
  - (b) real time data reporting to the Principal Regulator, in lieu of or in addition to the data reporting under Schedule II.
12. Upon engaging an auditor, the Filer will direct such auditor in writing to conduct any audit or review required by the Principal Regulator, and deliver a copy of the direction to the Principal Regulator. The Filer will not destroy or conceal any information or documents or otherwise fail to cooperate with a reasonable request made by an auditor in the course of an audit.

## *Risk Management*

13. The Filer will assess liquidity risk and concentration risk posed by Liquidity Providers upon which the Filer relies to execute a trade for its clients.
14. The liquidity and concentration risks assessment will consider trading volume data as per paragraph 1(g) of Schedule II and complete a historical analysis of each Liquidity Provider and a relative analysis between the Liquidity Providers. Consideration should be given to whether the Liquidity Provider has issued its own Proprietary Tokens and to consider limiting reliance on these Liquidity Providers.

## *Restrictions on products and services*

15. The Filer will only trade Crypto Contracts based on (a) Crypto Assets that the Filer has reasonably determined are not in and of themselves securities or derivatives, or (b) Value-Referenced Crypto Assets in accordance with paragraph 16 of this Schedule.
16. The Filer will not permit its clients to buy or deposit Value-Referenced Crypto Assets through a Crypto Contract without the prior written consent of the Principal Regulator and the regulator or securities regulatory authority of the Applicable Jurisdiction(s) and subject to such terms and conditions as may be imposed on the Filer and the issuer of the Value-Referenced Crypto Assets by the regulator or securities regulatory authority. Clients can continue to hold Crypto Contracts based on Value-Referenced Crypto Assets that are in place as of the date of this Undertaking and can sell or withdraw the Value-Referenced Crypto Assets upon which those Crypto Contracts are based.
17. The Filer will only engage in the business of trading Crypto Contracts in accordance with paragraph 15 of this Schedule, and perform its obligations under those contracts, and will not offer derivatives based on Crypto Assets or Value-Referenced Crypto Assets other than Crypto Contracts to clients.
18. The Filer will seek the appropriate approvals from the Principal Regulator and, if required under securities legislation, the regulator or securities regulatory authority of any other Applicable Jurisdiction, prior to undertaking any other activity governed by securities legislation.
19. The Filer will not offer Crypto Asset lending products or services or Staking Services to clients without the prior written consent of the Principal Regulator and the regulator or securities regulatory authority of the Applicable Jurisdiction(s) in which such products or services are offered.
20. The Filer will not trade Crypto Assets or Value-Referenced Crypto Assets or Crypto Contracts based on Crypto Assets or on Value-Referenced Crypto Assets with a client in an Applicable Jurisdiction, without the prior written consent of the regulator or securities regulatory authority of the Applicable Jurisdiction, where the Crypto Asset or Value-Referenced Crypto Asset was issued by or on behalf of a person or company that is or has in the last five years been the subject of a publicly announced order, judgment, decree, sanction, fine or administrative penalty

imposed by, or has entered into a publicly announced settlement agreement with, a government or government agency, administrative agency, self-regulatory organization, administrative tribunal or court in Canada or in a Specified Foreign Jurisdiction in relation to a claim based in whole or in part on fraud, theft, deceit, aiding and abetting or otherwise facilitating criminal activity, misrepresentation, violation of anti-money laundering (AML) laws, conspiracy, breach of trust, breach of fiduciary duty, insider trading, market manipulation, unregistered trading, illegal distributions, failure to disclose material facts or changes, or allegations of similar or analogous conduct. For the purposes of this condition, the term “Specified Foreign Jurisdiction” means any of the following: Australia, Brazil, any member country of the European Union, Hong Kong, Japan, Republic of Korea, New Zealand, Singapore, Switzerland, United Kingdom of Great Britain and Northern Ireland, the United States of America, and any other jurisdiction that the Principal Regulator shall advise.

#### *Restriction on margin and leverage*

21. The Filer will not offer margin, credit or other forms of leverage to clients in connection with trading of Crypto Contracts, Crypto Assets or Value-Referenced Crypto Assets on the Filer’s Platform.

#### *Restrictions on trading Proprietary Tokens*

22. The Filer will not permit its clients to buy or deposit Proprietary Tokens through a Crypto Contract, unless otherwise agreed to in writing by the Principal Regulator and the regulator or securities regulatory authority of the Applicable Jurisdiction(s). Clients can continue to hold Crypto Contracts based on Proprietary Tokens that are in place as of the date of this Undertaking and can sell or withdraw the Proprietary Tokens upon which those Crypto Contracts are based.

#### *No recommendations or advice*

23. Neither the Filer nor any representative of the Filer will provide recommendations or advice to any client or prospective client.

#### *Advertising and social media use*

24. The Filer has reviewed Joint CSA-IIROC Staff Notice 21-330 *Guidance for Crypto-Trading Platforms - Requirements relating to Advertising, Marketing and Social Media Use* and federal government guidance on the general scope of the false or misleading representations and deceptive marketing practices provisions of the *Competition Act*, and will establish, maintain and apply reasonable policies and procedures to ensure advertising and social media use regarding the Filer’s Platform by the Filer and persons and companies acting on behalf of the Filer is fair, balanced and not misleading.

Until such time as the Filer obtains registration in the Applicable Jurisdictions, the Filer will also include the following statement (or a link to the following statement when impractical to include) in all advertising and social media that is related to the Filer’s Platform and targeted at Canadian investors:

“CatalX CTS Ltd. (CatalX) has filed an application for registration in certain Canadian jurisdictions but has not yet obtained registration. Until such time as CatalX obtains registration, CatalX has agreed to abide by the terms of an undertaking available at the following link [Link to be inserted].”

#### *Account opening*

25. The Filer will establish, maintain and apply eligibility criteria for the onboarding of all Canadian clients. All Canadian clients must: (a) successfully complete the Filer’s know-your-client (**KYC**) process which satisfies the requirements applicable to money service businesses under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and its regulations, and (b) hold an account with a Canadian financial institution.
26. Each Canadian client who is an individual, and each individual who is authorized to give instructions for a Canadian client that is a legal entity, will be: (a) a Canadian citizen or permanent resident; and (b) 18 years or older.
27. The terms of service between the Filer and its Canadian Clients will be governed by the laws of a jurisdiction of Canada, and state that the client’s Crypto Assets will be held in trust for and/or for the benefit of the client.

#### *Investment limits*

28. The Filer will ensure that the maximum amount of Crypto Assets, excluding Specified Crypto Assets, that a client, other than (i) clients resident in British Columbia, Manitoba and Québec and (ii) clients that are permitted clients, may enter into Crypto Contracts to purchase and sell on the Filer’s Platform (calculated on a net basis and is an amount not less than \$0) in the preceding 12 months does not exceed a net acquisition cost of \$30,000.<sup>1</sup>

#### *Account appropriateness assessment*

29. The Filer has established and will maintain and apply reasonable policies and procedures (**KYP Policy**) to review Crypto Assets before offering Crypto Contracts based on the Crypto Assets in the Applicable Jurisdictions;
30. The Filer will perform product assessments pursuant to the KYP Policy and account assessments taking into account the following factors (the **Account Appropriateness Factors**):
  - (a) the client’s experience and knowledge in investing in Crypto Assets;
  - (b) the client’s financial assets and income;

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<sup>1</sup> At the time the Filer implements this requirement, all clients of the Filer will be treated as having made no purchases in the preceding 12 months.

- (c) the client's risk tolerance; and
  - (d) the Crypto Assets approved to be made available to a client by entering into Crypto Contracts on the Filer's Platform.
31. The Account Appropriateness Factors will be used by the Filer to evaluate whether entering into Crypto Contracts with the Filer is appropriate for a prospective client before the opening of a Client Account.
  32. The Filer has adopted and will apply policies, procedures and systems to notify clients of losses based on changes to the market value of any Crypto Assets held by clients in Crypto Contracts based on thresholds reasonably established by the Filer. If warranted, clients may receive messaging about the Filer's Platform and the Crypto Assets, specific risk warnings and/or receive direct outreach from the Filer about their activity.
  33. After completion of the account-level appropriateness assessment, a prospective client that is not a permitted client will receive appropriate messaging about using the Filer's Platform to enter into Crypto Contracts, which, in circumstances where the Filer has evaluated that entering into Crypto Contracts with the Filer is not appropriate for the client, will include prominent messaging to the client that this is the case and that the client will not be permitted to open an account with the Filer.

#### *Risk Statement*

34. Before a prospective client opens an account with the Filer, the Filer will deliver to the client a statement of risks (the **Risk Statement**), and will require the client to provide electronic acknowledgement of having received, read and understood the Risk Statement.
35. For each client with a pre-existing Client Account at the date of this Undertaking the Filer will deliver to the client a Risk Statement and will require the client to provide an electronic acknowledgement of having received, read and understood the Risk Statement.
36. The Risk Statement will clearly explain the following in plain language:
  - (a) the Crypto Contracts;
  - (b) the risks associated with the Crypto Contracts;
  - (c) a prominent statement that no securities regulatory authority has expressed an opinion about the Crypto Contracts or any of the Crypto Assets made available through the Filer's Platform, including any opinion that the Crypto Assets themselves are not securities and/or derivatives;
  - (d) the due diligence performed by the Filer before making a Crypto Asset available through the Filer's Platform, including the due diligence taken by the Filer to assess whether the Crypto Asset is a security and/or derivative under the securities legislation of each of the

jurisdictions of Canada and the securities and derivatives laws of the foreign jurisdiction with which the Crypto Asset has the most significant connection, and the risks if the Filer has incorrectly determined that the Crypto Asset is not a security and/or derivative;

- (e) that the Filer has prepared a plain language description of each Crypto Asset made available through the Filer's Platform and of the risks of the Crypto Asset, with instructions as to where on the Filer's Platform the client may obtain the description (each, a **Crypto Asset Statement**),
  - (f) the Filer's policies for halting, suspending and withdrawing a Crypto Asset from trading on the Filer's Platform, including criteria that would be considered by the Filer, options available to clients holding such a Crypto Asset, any notification periods and any risks to clients,
  - (g) the location and manner in which Crypto Assets are held for the client, the risks and benefits to the client of the Crypto Assets being held in that location and in that manner, including the impact of insolvency of the Filer or an Acceptable Third-party Custodian,
  - (h) the manner in which the Crypto Assets are accessible by the Filer, and the risks and benefits to the client arising from the Filer having access to the Crypto Assets in that manner,
  - (i) that the Filer is not a member of the Canadian Investor Protection Fund (**CIPF**) and the Crypto Assets held by the Filer (directly or indirectly through third parties) will not qualify for CIPF protection,
  - (j) a statement that certain statutory rights under securities legislation in Canada do not apply in respect of the Risk Statement or a Crypto Asset Statement, and
  - (k) a prominent statement that the Filer has submitted an Application for Registration and an Application for Relief under securities legislation of certain jurisdictions of Canada but there is no guarantee these applications will be granted and the Filer is not currently registered under the securities or derivatives legislation of any jurisdiction of Canada and has not been granted an exemption from any requirements of securities or derivatives legislation of any jurisdiction of Canada.
37. The Filer will ensure it has policies and procedures for updating the Risk Statement and each Crypto Asset Statement to reflect any material changes to the disclosure or include any material risks that may develop with respect to the Crypto Contracts, Crypto Assets generally, or a specific Crypto Asset, as the case may be. In the event that the Risk Statement is updated, existing clients of the Filer will be promptly notified and provided with a copy of the updated Risk Statement. In the event that a Crypto Asset Statement is updated, existing clients of the Filer will be promptly notified through electronic disclosure on the Filer's Platform, with links provided to the updated Crypto Asset Statement.

## *Custody of Cash, Crypto Assets and Other Assets*

38. The Filer will hold client cash in a designated trust account with a Canadian custodian or Canadian financial institution. Despite the forgoing requirement to use a Canadian custodian or a Canadian financial institution, the Filer may hold client cash in a designated trust account with a foreign custodian if a reasonable person would conclude, considering all of the relevant circumstances, including, for greater certainty, the nature of the regulation and the sufficiency of the equity of the foreign custodian, that using the foreign custodian is more beneficial to the client than using a Canadian custodian or a Canadian financial institution.
39. The Filer is proficient and experienced in holding Crypto Assets and has established and will maintain and apply policies and procedures that manage and mitigate custodial risks, including but not limited to, an effective system of controls and supervision to safeguard the Crypto Assets and a mechanism for the return of the Crypto Assets to clients in the event of bankruptcy or insolvency of the Filer. The Filer also maintains appropriate policies and procedures related to IT security, cyber-resilience, disaster recovery capabilities and business continuity plans.
40. The Filer holds Crypto Assets (i) in an account clearly designated for the benefit of clients or in trust for clients, (ii) separate and apart from the assets of non-Canadian clients, and (iii) separate and apart from its own assets and from the assets of any custodial service provider. The Filer will not pledge, re-hypothecate or otherwise use any Crypto Assets held on behalf of its clients.
41. The Filer has and will retain the services of one or more Acceptable Third-party Custodians to hold not less than 80% of the total value of Crypto Assets held on behalf of clients.
42. The Filer will ensure that each Acceptable Third-party Custodian holds client Crypto Assets in a designated trust account or in an account designated for the benefit of clients. Such account shall be held and designated in such a fashion as to preserve the nature of the trust and to ensure the ability to trace, by equitable or other means, the assets so held in the event of bankruptcy, insolvency, restructuring, or similar activity of the Filer or the Acceptable Third-party Custodian. The terms of the custodian agreement between the Filer and each Acceptable Third-party Custodian will clearly identify that the Crypto Assets are held in trust for the benefit of the Filer's clients and specifies the actions the custodian will take in the event of the insolvency of the Filer. If the Acceptable Third-party Custodian holds the Crypto Assets of the Filer or its affiliates, the Acceptable Third-party Custodian holds those Crypto Assets in a separate account from those Crypto Assets held in trust for the benefit of the Filer's clients.
43. The Filer has conducted due diligence on the Acceptable Third-party Custodians, including reviewing a copy of the SOC 2 Type 1 or SOC 2 Type 2 audit report prepared by the Acceptable Third-party Custodians' auditors and has not identified any material concerns.
44. The Filer has established and will maintain and apply policies and procedures to ensure that
  - (a) Each of the Filer's Acceptable Third-party Custodians holds all Crypto Assets for clients of the Filer in trust in a designated trust account in the name of the Filer, separate and apart from the assets of the Filer's non-Canadian clients, and separate and distinct from the assets



of the Filer, the Filer's affiliates and all of the Acceptable Third-party Custodian's other clients.

(b) Each of the Filer's Acceptable Third-party Custodians maintains an appropriate level of insurance for Crypto Assets held by the Acceptable Third-party Custodian. The Filer has assessed the Acceptable Third-party Custodian's insurance policy and has determined, based on information that is publicly available and on information provided by the Acceptable Third-party Custodian and considering the controls of the Acceptable Third-party Custodian's business, that the amount of insurance is appropriate.

(c) Each of the Filer's Acceptable Third-party Custodians has established and applies policies and procedures that manage and mitigate the custodial risks, including, but not limited to, an effective system of controls and supervision to safeguard the Crypto Assets for which it acts as custodian and to mitigate security breaches and cyber incidents. The Filer's Acceptable Third-party Custodian has established and applies written disaster recovery and business continuity plans.

45. The Filer has established, and will maintain and apply, policies and procedures that are reasonably designed to ensure the Filer's Acceptable Third-party Custodian's records related to Crypto Assets that the Acceptable Third-party Custodian holds in trust for clients of the Filer are accurate and complete.

46. The Filer will provide an authorization and direction in a form acceptable to the Principal Regulator for the Principal Regulator to obtain information directly from each of the Filer's Acceptable Third-party Custodians.

#### *Insurance*

47. The Filer has established, and will maintain and apply, policies and procedures that are reasonably designed to ensure that any third-party insurance obtained by the Filer includes coverage for the Crypto Assets held by the Filer in the event of loss or theft in accordance with the terms and subject to the limits of the insurance policy in question.

#### *Confidentiality of Clients' Order and Trade Information*

48. The Filer has established and will maintain and apply policies and procedures to safeguard the confidentiality of client information, including information relating to their trading activities.

#### *Books and Records*

49. The Filer keeps books and records and other documents to accurately record its business activities, financial affairs and client transactions, and to demonstrate the Filer's compliance with applicable requirements of securities legislation as if the Filer were a registered firm, including but not limited to:

(a) a record of all clients and prospective clients granted or denied access to the Filer's Platform;

- (b) daily trading summaries of all Crypto Assets traded, with transaction volumes and values;
- (c) records of all orders and trades, including the price, volume, times when the orders are entered, matched, cancelled or rejected, and the identifier of the client that entered the order or that was counterparty to the trade; and
- (d) records of assets held on behalf of clients, including the location of such assets, with such assets regularly reconciled to the records of the Acceptable Third-party Custodians or to the assets held by the Filer.

### *Reporting Requirements*

50. The Filer will promptly notify the Principal Regulator of any of the following:

- (a) any material system failure involving the Filer's business or involving the business of an affiliate of the Filer and, if applicable, any clearing and settlement services, including cybersecurity breaches, that has a material impact on its Canadian clients;
- (b) any material system failure involving the services of an affiliate of the Filer, and if applicable, any clearing and settlement services of those entities, including cybersecurity breaches, that impacts the Filer's Canadian clients;
- (c) any known investigations of, or regulatory action against, the Filer, or an affiliate of the Filer, by a regulatory authority in any jurisdiction in which it operates which may impact the operation of the Filer's Platform in Canada;
- (d) details of any material litigation instituted against the Filer, or an affiliate of the Filer, which may impact the operation of the Filer's Platform in Canada;
- (e) notification that the Filer, or an affiliate of the Filer, has instituted a petition for a judgment of bankruptcy or insolvency or similar relief, or to wind up or liquidate the Filer, or an affiliate of the Filer, or has a proceeding for any such petition instituted against it; and
- (f) the appointment of a receiver or the making of any voluntary arrangement with creditors.

51. In addition to any other reporting required herein, the Filer and its applicable affiliates and control person(s) will provide to the Principal Regulator, on a timely basis and on demand, any report, data, document or information that the Filer and its applicable affiliates and control person(s) have available or would be reasonably expected to have available regarding the Filer's business, including regarding its information technology system, software, any intra-company arrangement or services and, if applicable, any clearing and settlement services provided to Canadian clients that may be reasonably requested by the Principal Regulator from time to time. Unless otherwise prohibited under applicable law, the Filer will share with the Principal Regulator information relating to regulatory and enforcement matters that will materially

impact its business, including any clearing and settlement services provided to the Canadian clients.

## Schedule II Reporting Provisions

### ***Data Reporting***

1. The Filer will provide the following information to the Principal Regulator, and to the securities regulatory authority or regulator in each of the Applicable Jurisdictions with respect to clients in those jurisdictions individually, within 30 days of the end of each March, June, September and December (the first period that the Filer shall provide this information for will be for the period from July 1 to September 30, 2023):
  - (a) aggregate reporting of activity conducted pursuant to Crypto Contracts during the applicable calendar quarter that will include the following:
    - (i) number of Client Accounts opened each month in the quarter;
    - (ii) number of Client Accounts closed each month in the quarter;
    - (iii) number of trades in each month of the quarter;
    - (iv) average value of the trades in each month of the quarter;
    - (v) number of Client Accounts with a net acquisition cost greater than \$30,000 of Crypto Assets at the end of each month in the quarter;
    - (vi) number of Client Accounts with no trades during the quarter;
    - (vii) number of Client Accounts that have not been funded at the end of each month in the quarter; and
    - (viii) number of Client Accounts that hold a positive amount of Crypto Assets at the end of each month in the quarter;
  - (b) the details of any material client complaints received by the Filer during the calendar quarter and how such complaints were addressed;
  - (c) the details of any fraudulent activity or cybersecurity incidents on the Filer's Platform during the calendar quarter, any resulting harms and effects on clients, and the corrective measures taken by the Filer to remediate such activity or incident and prevent similar activities or incidents from occurring in the future;
  - (d) the amount of any Crypto Assets held in hot wallets as of the end of the quarter, and
  - (e) the details of the transaction volume per Liquidity Provider, per Crypto Asset during the quarter.
2. The Filer will deliver to the Principal Regulator and the regulator or the securities regulatory authority in each of the Applicable Jurisdictions, in a form and format acceptable to the regulator or the securities regulatory authority, a report that includes the following anonymized account-level data for activity conducted during the applicable calendar quarter pursuant to a Crypto Contract for each client within 30 days of the end of each March, June, September and December (the first period that the Filer shall provide this information for will be for the period from July 1 to September 30, 2023):

- (a) unique account number and unique client identifier, as applicable;
  - (b) jurisdiction where the client is located;
  - (c) the date the account was opened;
  - (d) the amount of any fiat currency held by the Filer at the beginning of the reporting period and at the end of the reporting period;
  - (e) cumulative realized gains/losses on the Filer's Platform since account opening in CAD;
  - (f) unrealized gains/losses on the Filer's Platform as of the report end date in CAD;
  - (g) quantity traded, deposited and withdrawn by Crypto Asset during the quarter in number of units;
  - (h) Crypto Asset traded by the client;
  - (i) quantity held of each Crypto Asset by the client as of the report end date in units;
  - (j) CAD equivalent aggregate value for each Crypto Asset traded by the client, calculated as the amount in paragraph (i) multiplied by the market price of the asset in paragraph (h) as of the report end date; and
  - (k) age of account in months.
3. The Filer will deliver to the Principal Regulator within 30 days of the end of each March, June, September and December, either:
- (a) blackline copies of changes made to the policies and procedures on the operations of its wallets that were previously delivered to the Principal Regulator; or
  - (b) a nil report stating no changes have been made to its policies and procedures on the operations of its wallets in the quarter.
4. In addition to any other reporting required by securities legislation in Canada, the Filer will provide, on a timely basis, any report, data, document or information that the Filer has available or would be reasonably expected to have available to the Principal Regulator, including any information about the Filer's Acceptable Third-party Custodian(s) and the Crypto Assets held by the Filer's Acceptable Third-party Custodian(s), that may be requested by the Principal Regulator from time to time as reasonably necessary for the purpose of monitoring compliance with the legislation and the conditions in the Undertaking, in a format acceptable to the Principal Regulator.
5. Upon request, the Filer will provide the Principal Regulator and the regulators or securities regulatory authorities of each of the Applicable Jurisdictions with aggregated and/or anonymized data that the Filer has available or would be reasonably expected to have available concerning client demographics and activity on the Filer's Platform that may be useful to advance the development of the Canadian regulatory framework for trading Crypto Assets.
6. The Filer will promptly make any changes to its business practices or policies and procedures that may be required to address investor protection concerns that may be identified by the Filer or by the Principal Regulator arising from the operation of the Filer's Platform.