OTC Digital Asset Derivatives, ECP & Counterparty Risk Disclosure

Additional disclosure for elective OTC crypto-linked options, swaps, borrow/lend, and tri-party arrangements.

Effective September 3, 2026 - Version Date September 3, 2026

This disclosure applies only if a client separately elects over-the-counter digital-asset derivatives or related strategies and the service is included in a signed agreement or written authorization. It supplements the Client Advisory Agreement, digital-asset schedule, options and derivatives disclosure, Form ADV Part 2A, and any third-party platform, custodian, counterparty, or tri-party agreement.

OTC digital-asset derivatives are highly speculative and may be appropriate only for financially sophisticated clients with substantial risk tolerance, liquidity, and ability to bear losses. Protocol Wealth does not offer this service unless the client, account, counterparty, custodian, and strategy satisfy applicable eligibility, documentation, custody, and account requirements.

Eligibility and ECP Status

Certain OTC derivatives, swaps, leveraged commodity transactions, and crypto-linked transactions may be available only to eligible clients or eligible contract participants (ECPs), or may be restricted for retail market participants. ECP status must be verified before any service that requires ECP eligibility. A client must notify Protocol Wealth immediately if eligibility changes.

Non-U.S. status does not automatically make a client eligible. Non-U.S. persons, foreign entities, and cross-border arrangements are evaluated case by case based on eligibility, tax, sanctions, jurisdictional, counterparty, and account requirements.

Counterparties and Custody

An OTC arrangement may involve a direct client agreement with a counterparty or platform, such as FalconX, A1, or another approved provider, and may involve custody or collateral arrangements with Anchorage Digital Bank or another approved custodian. Protocol Wealth may act as investment adviser or limited agent under the client's written authorization, but Protocol Wealth is not the derivatives counterparty unless a signed agreement expressly states otherwise.

Even where assets or collateral are held in a tri-party custodial account, they may not be protected by SIPC, FDIC insurance, OCC clearing, or the same protections available for exchange-traded securities options. The client is exposed to the credit, solvency, operational, legal, cybersecurity, valuation, and settlement risks of each custodian, platform, counterparty, and service provider.

OTC Derivatives Risks

- Counterparty credit risk. The counterparty may fail to perform or become insolvent.
- Collateral risk. Collateral may be rehypothecated, restricted, liquidated, impaired, or unavailable.
- Liquidity risk. OTC contracts may be difficult or impossible to unwind before maturity.
- Valuation risk. Quotes may be proprietary, model-based, stale, or unavailable.
- No clearinghouse guarantee. OTC contracts are generally not guaranteed by OCC or a central clearinghouse.
- Regulatory risk. Law, jurisdiction, product treatment, or enforcement posture may change.
- Basis and settlement risk. Contract exposure may not track the underlying digital asset as expected.
- Margin and liquidation risk. Additional collateral may be required quickly, and failure to provide it may result in liquidation.
- Documentation risk. Master agreements, tri-party agreements, schedules, confirmations, and platform terms control legal rights and may contain important limitations.

Protocol Wealth Role

Protocol Wealth's fiduciary duty applies to advisory recommendations and strategy execution within the scope of the advisory relationship. Protocol Wealth does not guarantee counterparty performance, platform solvency, custodian operations, market liquidity, tax treatment, legal treatment, or investment results.

Protocol Wealth, LLC is a registered investment adviser (CRD #335298). Registration does not imply a certain level of skill or training. Investing involves risk, including possible loss of principal; past performance does not guarantee future results. This is a disclosure, not a contract term. It states Protocol Wealth's current practice, is delivered before the Client Advisory Agreement is signed - section 5 of that Agreement records the delivery - and is superseded by a later edition rather than amended.