

StoneX[®]

StoneX Digital International Limited Order Execution Policy

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1. Introduction

StoneX Digital International Limited (“SDI” or the “Firm”) has established and implemented arrangements to take all sufficient steps to obtain, when executing orders or placing orders with other entities to execute, the best possible results for its clients, taking into account the execution factors, on an on-going basis.

This Policy (the “Policy”) has been designed to satisfy the expectations set out in the Regulations (EU) 2023/1114 on Markets in Crypto Assets Regulation (“MiCAR”) in respect of best execution when handling and executing client orders. It also draws upon best practices from MiFID entities within the StoneX Group where appropriate. SDI has also considered the European Securities and Markets Authority’s opinion on broker models of 31 July 2024 (the “ESMA Opinion”) which addresses best execution where EU-based brokers of are executing orders for crypto-assets on third-country execution venues.

The Firm also factors in lessons learned from the Central Bank of Ireland’s Thematic Review of compliance by MiFID-authorized investment firms with the MiFID ‘Best Execution’ requirements for consumers in November 2020.

The best execution obligation is a core component in the regulation of financial services and aims to deliver three main objectives:

- ensure protection for investors;
- sustain integrity in the price formation process, especially in the over-the-counter (“OTC”) markets; and
- promote competition.

SDI structures its order execution arrangements to allow customer-facing employees to exercise their professional judgement in the best interests of clients, especially as the rules governing order execution are neither prescriptive nor open-ended, and the differing needs and requirements of clients.

All employees involved, directly or indirectly, in the execution of orders on behalf of clients are expected to comply with the provisions of the Policy. This Policy applies only in respect of the execution of orders on behalf of clients by SDI in Digital Assets.

2. Execution Venues

SDI undertakes a number of different types of execution activity, with the execution venue changing depending upon the applicable execution model. The execution venue is not impacted by the clients’ selection of whether or not to use the Firm’s Custody services.

- **Scenario 1: Client routes order electronically through SDI self-directed platform:** In these instances, the order is routed into and through the SDI execution and matching engine (utilizing the Talos Order Management System (“Talos OMS”). The execution venue in this scenario will be SDI.
- **Scenario 2: Client communicates order to SDI Brokerage Desk.** In this instance, the client communicates an order via telephone or instant messenger. There are multiple flows from this order communication mechanism.

- **Scenario 2a. SDI Brokerage Desk enters the order on the client's behalf.** In this instance, the order operates exactly as if the client had entered the order. The execution venue in this scenario will be SDI.
- **Scenario 2b. SDI Brokerage Desk fills order vs inventory.** In this scenario, the firm is able to match a client's order against existing inventory. In the interest of the desk, the best price for the client can be reached through StoneX inventory, and is able to fill the client. The execution venue in this scenario will be SDI.
- **Scenario: 2c: SDI execution of crypto-assets via third-party execution management system:** If SDI Brokerage Desk can achieve the best results for the client by executing a voice or third party system order, the Desk will shop around for the best price / size, and execute vs a Liquidity Provider, either on the phone, chat, or the LP's electronic platform. In these instances, the execution venue would be the relevant liquidity provider.

SDI engages with a number of EU and third-country liquidity partners which will act as execution venues for certain trades that SDI will facilitate. Liquidity is currently provided by StoneX Digital LLC. However mindful of its best execution obligations and regulatory expectations, SDI also is actively exploring partnerships with additional liquidity partners. These include Kraken, Cumberland, Jane St., FalconX (Solios), B2C2, and Coinbase Prime. This engagement is ongoing. SDI will also use one of its non-EU affiliates, StoneX Digital LLC, for the execution of certain liquidity and hedging activities.

In each scenario, SDI only offers clients crypto-assets traded on the "spot" market, i.e. where the crypto-asset is traded for immediate delivery.

SDI will ensure compliance with the best execution obligations whether SDI or a third-party is the execution venue. To ensure ongoing compliance, SDI will assess its own execution operations and that of the third-party execution venues against the following criteria:

- **Regulatory compliance:** SDI will assess both itself and the third-party execution venues for compliance with the requirements of MiCAR. Where the execution venue is in a third-country, SDI shall have due regard to the ESMA Opinion;
- **Operational resilience:** SDI will ensure that both itself and the third-party execution venues have the capacity to facilitate peak trading volumes while meeting the order execution standards. SDI will carry out business continuity and stress-testing of itself and third-party execution venues to this end.
- **Security:** SDI will ensure that both itself and the third-party execution venue are compliant with the market standards for ICT infrastructure and cybersecurity to ensure the safety of SDI's client's data and crypto-assets;
- **Market abuse:** SDI itself maintains policies on the prevention of market abuse (see SDI's Market Conduct Policy) and shall ensure that any third-party execution venues it partners with have effective policies in place also;
- **Anti-Money Laundering and Countering the Financing of Terrorism ("AML/CFT"):** SDI itself and all execution venues it partners with must have effective AML/CFT policies and procedures in place;
- **Execution Factors:** SDI will monitor executions performed by itself and by third-party execution venues against the Execution Factors listed at section 3.2 of this Policy;

- **Conflicts of Interest:** SDI will assess any potential or actual conflicts of interest that may arise between SDI and any third-party execution venues; and
- **Technical Infrastructure:** SDI will ensure that it has the technical capability to perform execution and will assess third-party execution venues to ensure adequate technical capacity.

Where a particular execution venue does not meet the required standards, SDI will route client orders through alternative execution venues. SDI will not receive any form of remuneration (including discounts and non-monetary benefits) from any third-party execution venues for the routing of client orders (see section 8 of this Policy on payment for order flows).

3. Order Execution under MiCAR

Under MiCAR, the Firm is required to establish an Order Execution Policy and “always aim to obtain the best possible result” for clients, including when acting as counterparty to a trade. Furthermore, MiCAR sets out the following expectations of SDI:

- controls must be established to control the risk that employees of SDI may misuse information related to client orders (e.g. by front running a client trade);
- receipt and transmission of orders to other crypto asset service providers (“**CASPs**”) must be subject to robust procedures ensuring their prompt and proper sending;
- the effectiveness of order execution and this policy must be monitored, including an assessment of whether the execution provides for the best possible result for the client;
- clients must be notified when material changes are made to SDI’s order execution arrangements or this policy.

Art. 78(1) of MiCAR requires that SDI “*take all necessary steps to obtain, while executing orders, the best possible result for [its] clients taking into account factors of price, costs, speed, likelihood of execution and settlement, size, nature, conditions of custody ... or any other consideration relevant to the execution of the order.*” In this document, these are referred to as the “Execution Factors”.

Where a client provides SDI with a specific instruction, SDI is not required to refer to all of the Execution Factors when executing in line with that instruction.

3.1 Client Consent

SDI must obtain client consent to this Policy prior to transmitting or executing any transactions for the client. This consent is obtained during the client onboarding process. In addition, explicit consent must be obtained if SDI retains the possibility to execute or route client orders outside a trading platform. SDI seeks this consent as a general agreement but will, where clients request it, provide for consent on a transaction-by-transaction basis.

3.2 The Execution Factors & Pricing Methodology

There are various execution factors at play in determining a dynamic execution price. The Pricing Methodology, therefore, will include each of the below considerations or execution factors.

Significant effort has been dedicated to the establishment of a deep pool of market prices. It is imperative that the Firm, and its' Clients, have confidence in the rich market pricing and depth that is consolidated and displayed on the Platform. This is the first step in enacting the Pricing Methodology. The Firm consolidates a series of real-time market data feeds from across the world. These are actionable prices – not theoretical prices - in that they represent a price at which a trade can most likely be executed, at a certain depth of book. These actionable prices are displayed to clients who access the platform, and are updated in sub-second intervals for both price at the top of book, and all the way down to hundreds or thousands of each asset listed.

Further, the Firm also receives dozens of market data feeds from Exchanges and OTC providers that while not actionable, represent a broader spectrum of the prevailing market. These are not shown to clients on the platform, but are used as a real-time mechanism to evaluate and validate the spectrum of actionable pricing.

1. **Current Best Bid / Best Offer (“BBBO”)** – : also known as the ‘top of book’ this is the price at which a very small increment (likely a single coin) coin can be priced for execution. It is typically the tightest spread – meaning the closest deviation between the price at which the asset can be bought or sold.
2. **Size** – how large is the transaction in either notional value or number of coins. The larger a transaction, the wider the likely spread is between the potential purchase and sale price. It is critical to determine the potential impact of the transaction or order on the price of the relevant asset and SDI's ability to execute. The greater the size, the more liquidity that must be consumed to fill the order, which will increase the price of a purchase and decrease the price of a sale;
3. **Market Conditions and Timing** – transactions do not occur in a vacuum. Prevailing market conditions can have a major impact on the Pricing Methodology. This may include various factors including: time of day (despite the fact that cryptocurrencies trade 24 x 7, there are still times throughout a trading day that are more or less active); broad-based market volatility (is the traditional financial market experiencing high volatility); and cryptocurrency volatility (is this cryptocurrency, or the wider asset class as a whole experiencing high volatility, making it harder to determine a firm price).
4. **Order Characteristics** – what are the instructions from the client? Limit price, market order, time-duration, individual clip size of child orders, etc. If they are very precise – a specific limit order to be placed on the market, (leaving an order to buy at a price below the current bid for example), or there are more complex order factors (like a specific time-duration, splitting the order up into dozens or hundreds of smaller slices over time), these instructions must be followed.
5. **Costs** – meaning the various costs associated with completing the purchase or sale, and delivering the asset. These include network fees, exchange fees, cost of funding, settlement costs, and other variable costs to completing both execution and delivery of the asset to the client, or to the client's custody account at the Firm.

Other factors that are a part of the Execution Factors but are not necessarily determinate of the Pricing Methodology include:

6. **Likelihood of execution** – meaning the probability of successful execution;
7. **Speed** – meaning the time taken to execute the transaction;
8. **Any other consideration** relevant to the execution of an order –

3.2.1 Key Execution factor: Price

SDI considers that, in most cases, price will be the highest priority factor when obtaining best execution for a client. In some instances, for example order sizing, the characteristics of the order may mean that price becomes less important in achieving best execution.

In such scenarios, best execution may be achieved by transacting with a different liquidity provider at a higher price due to, for example, significantly lower costs providing a better overall outcome for the client.

3.2.2 Key Execution factor: Size

The size of an order is a key factor in the Pricing Methodology. It is also independently an execution factor in determining best execution. The larger an order, the more likelihood there is for slippage. Best execution is achieved by understanding the size of an order vs the average daily volume and the volume at the time of the order communication, and selecting the appropriate venue and method of execution therefrom.

3.2.3 Key Execution factor: Costs

SDI views the control of costs as integral to meet the best execution obligation, and takes into consideration the following:

- implicit cost control, meaning minimisation of the market impact of order execution;
- explicit external costs (e.g. exchange or clearing fees); and
- explicit internal costs, which represent SDI's own remuneration through its commission or spread.

3.2.4 Key Execution Factor: Likelihood of Execution

One of the highest priorities for SDI is the likelihood of execution when balanced against achieving a specific price, given the unique challenges of price discovery in certain crypto-asset markets.

3.2.5 Execution Factors: Examples

Thinly Traded Markets

For assets where there is limited liquidity, SDI will focus on the likelihood and size of execution (and possibly speed dependent on the external environment) to deliver best execution. For example, in thinly traded markets, where price points are not available, the best result for the client may be achieved by focusing on the immediacy and likelihood of execution and settlement if only a single counterparty is willing to take the other side of the trade.

Volatile Markets

Where markets are seen to be particularly volatile, either across the market or in relation to the asset that is the subject of the trade order, then the speed of execution will be escalated in importance. This is because in this situation the price could move rapidly against the client, or the liquidity could evaporate, meaning that any delay in execution could result in either a worse price being achieved, or the desired trade not being completed at all.

When the price of the relevant instrument is moving quickly, either because of news relating to that instrument or because of wider market movement, speed of execution will usually be the priority factor. Second to speed will be successful execution, followed by the question of cost. In these circumstances, the price factor is inevitably de-prioritised.

Market crises

Where there is an interruption in trading in Digital Asset markets, or the possibility of turbulent markets due to the failure of counterparties, then the likelihood of settlement may be the execution factors focused on. The management, diversification and minimisation of counterparty risk may also become a critical issue in this situation.

Niche or specialist markets

In the case of niche or specialist Digital asset markets, the range of available liquidity providers that can complete the trade may be more limited. In addition, the geographical location, relevant experience and track record of the broker in relation to the specific instrument that is the subject of the trade order is likely to become a deciding factor. In this case, price and likelihood of execution are likely to be more important, with the importance of cost lessened as it will be necessary to use the method of execution that has the highest chance of completing the trade.

3.3 Aggregation of client orders

SDI may aggregate a client order with orders from other clients and/or transactions with its own account where this will generally improve the pricing of execution. However, in certain circumstances this may result in a less favourable price than if the orders had been executed separately. The executed orders will be allocated fairly and proportionately.

3.4 Treatment of client specific instruction

SDI will execute orders in accordance with the specific instruction(s) provided by a client, irrespective of the execution factors or other relevant consideration. By following a client's specific instruction(s), SDI will have met the best execution obligation. Should a client's specific instruction only apply to part of an order, the remaining parts of the order will be subject to the provisions of the Policy.

SDI remains accountable for the execution of a client order following specific instructions and should not induce a client to execute an order in a certain way, by expressly indicating or implicitly suggesting the content of the instruction to the client.

3.5 Provision of electronic trading functionality to clients

SDI provides its clients with access to electronic trading platforms where they can self-execute orders which are then routed to multiple liquidity sources. SDI offers its clients a selection of electronic trading platforms depending on a client's choice or specific needs and may, if it deems appropriate, recommend a certain electronic trading platform depending on the liquidity on offer by a liquidity provider.

3.6 Application of 'mark-up'

SDI applies a 'mark-up' to client orders. 'Mark-up' is the spread or charge that is included in the final price of a transaction in order to compensate SDI for a number of considerations, including, but not limited to, risks taken (e.g. credit risk, liquidity risk, counterparty risk, market risk), costs incurred and services rendered to SDI's clients. Such a mark-up does not negate that SDI has acted in line with best execution requirements towards the client.

4. Benchmarks

SDI ensures that, where client orders may be used in determining a benchmark reference price (or prices), such execution and/or placement is handled in accordance with applicable rules and regulations designed to ensure the integrity of a market. SDI executes all client orders in a manner consistent with good practice, and, especially those which have a potential to have a sizeable market impact, with particular care and attention.

SDI may use relevant benchmarks, closing prices and/or closing auctions in order to identify relevant prices to determine compliance with best execution requirements.

5. Price Slippage

SDI adheres to best practice with regards to price slippage. Client market orders placed on SDI's execution platforms are set to a default setting for slippage tolerance (they can be adjusted by the client if required). Any price movement that moves against the client within their defined tolerance, will result in slippage. Where a price movement occurs outside of a client's tolerance, it will result in a rejection, whereas a price movement in favour of the client may be unlimited.

Given this unlimited nature, SDI expects that net results across multiple orders should demonstrate asymmetric improvements. For stops and limits, the expectation is that stops could be filled at a better price, but no limit will be filled at a worse price. On occasions, particularly around market opens and other such events, SDI would expect to see significant differences between the pending order level and the executed level. For the purposes of assurance, the outliers are reviewed daily.

When SDI execute orders in the underlying market for a client, SDI will pass on the average price of the full volume of the hedge along with acceptable execution spread and will pass on any price improvement achieved.

6. Monitoring of execution quality

SDI maintains a robust control framework with suitable arrangements to manage, maintain and oversee its execution arrangements.

6.1 Last look

SDI does not apply the practice of 'last look' to client orders received. SDI uses other risk control mechanisms to verify and/or price a trade.

6.2 Transaction cost analysis ("TCA")

SDI may utilise the services provided by third-party vendors to assess its compliance with the requirement to obtain the best possible result when executing a client's order (commonly referred to as the 'best execution obligation').

7. Senior Management Oversight

Results of SDI's best execution monitoring are periodically presented to and reviewed by the Firm's senior management. This will involve the review of orders and trades and assessment of how each one performed in the context of a client's specific instruction, market conditions and the characteristics of the instrument being traded.

The Firm's senior management has overall responsibility to ensure that SDI clients have received the best outcome given the execution factors. This includes:

- ensure that SDI seeks to always achieve the best result for clients;
- where possible, or appropriate, to further enhance and refine our pricing logic and methodology to improve execution for clients;
- assess whether SDI is meeting its obligations to clients as set out in our T&Cs relating to best execution and order execution;
- assess the wider provision of execution services, in addition to pricing generation models, in the context of the wider customers experience;
- ensure that appropriate policies and procedures are in place to enable effective supervision in relation to the provision of best execution; and
- determine that appropriate management information is received by senior management on a periodic and timely basis to ensure appropriate oversight.

Senior management will periodically report its conclusions and any recommendations to the Board of Directors of SDI.

8. Payment for order flow (“PFOF”)

SDI will not engage, or falsely purport not to engage (includes an attempt to describe a commercial relationship in terms that are not consistent with the economic realities of SDI’s activities (termed a ‘recast arrangement’)), in any arrangement that may amount to PFOF and represent a sub-optimal outcome for clients.

9. Client notification

SDI complies with its obligation to provide clients with notifications they reasonably expect to receive for order execution arrangements. SDI will notify its clients of any material change to its order execution arrangements or the Policy and undertakes to make such notification(s) to its clients as soon as reasonably possible.