

Kraken Margin Trading - TMD

TARGET MARKET DETERMINATION

Issuer	Bit Trade Pty Ltd (trading as Kraken Exchange Australia) (ACN 163 237 634)
Financial product	Spot Margin Trading
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Version	1.0

About this document

The design and distribution obligations set out in Part 7.8A of the *Corporations Act 2001* (Cth) (“Corporations Act”) (“DDO”) apply to the issue and distribution of financial products to retail clients. DDO applies to the Spot Margin Trading product, which is a financial product for the purposes of Division 2 of Part 2 of the *Australian Securities and Investments Commission Act 2001* (Cth). DDOs are intended to assist retail clients to obtain appropriate financial products by requiring product issuers and distributors to take a consumer-centric approach to the design and distribution of financial products.

This document is a target market determination (“TMD”) for the purposes of section 994B of the Corporations Act in respect of the Spot Margin Trading product issued by Bit Trade Pty Ltd (trading as Kraken Exchange Australia) (ACN 163 237 634) (“Kraken”).

A TMD describes the class of clients that the product is targeted at (the “Target Market”) and any conditions around how the product is distributed to clients (the “Distribution Conditions”). It also describes the events or circumstances where Kraken is required to review and monitor the TMD for the Spot Margin Trading product (the “Review Triggers”) and sets out the requirements to notify the Australian Securities and Investment Commission (“ASIC”) of significant dealings. The TMD forms part of Kraken’s DDO arrangements for the product, including Kraken’s product governance framework.

Kraken has oversight over how the product is promoted and issued. All clients must meet Kraken's suitability conditions for the product. In addition, this document outlines Kraken's views that the conditions specified are appropriate and are of a nature that it will be likely that the product will be distributed to a client in the Target Market and it would likely be consistent with the client’s likely objectives, financial situation and needs.

About Spot Margin Trading

The Spot Margin Trading product is a facility that enables clients to buy and sell crypto assets on Kraken Exchange on the spot market using leverage. Spot Margin Trading using leverage involves buying or selling the crypto assets using funds provided by Kraken, subject to the clients providing collateral. The crypto assets are themselves high risk and volatile assets as there is no regulated market for such crypto assets and the price available for crypto assets can fluctuate significantly on any given day and over time.

When a client opens a margin spot position, the client incurs corresponding obligations to Kraken until those obligations are satisfied. Opening a spot position using margin (also called "margin trading") can amplify a client's exposure to market volatility, giving the client's trading strategies more flexibility.

Target Market for Spot Margin Trading

Spot Margin Trading will not be suitable for everyone. The Target Market for Spot Margin Trading includes retail clients who satisfy each of the following criteria:

1. retail clients that are individuals who are 18 years of age or older (or in the case of a Kraken business account, the controlling person(s) are individuals who are 18 years of age or older).
2. retail clients who:
 - a. are experienced investors who have a strong understanding of the risks associated with trading with leverage;
 - b. are aiming to speculate or hedge potential future losses or protect gains from previous investments in other products;
 - c. have a high or very high risk tolerance with the ability to tolerate significant fluctuations in Spot Margin positions, and capacity to absorb a rapid reduction in all or more of their investment value;
 - d. have the wealth to support losses that could amount to the total or greater sum of money they invest without materially impacting their standard of living; and have a short-term trading and investment timeline.
3. Retail clients who have passed Kraken's Knowledge Assessment, which is an assessment of the client's knowledge and understanding during onboarding (see Distribution Conditions).
4. Pass our internal client risk suitability assessment which takes into account factors such as the employment status, investment amount, income and assets

<p>Likely objectives, financial situation and needs</p>	<p>1. Likely Objectives Spot Margin Trading is best suited to clients who are likely to have one or more of the following objectives:</p> <ul style="list-style-type: none"> i. capturing short-term trading opportunities with an intention to capitalise on volatile market conditions for capital growth; ii. speculating on potential market movements for higher returns, understanding the associated risks; iii. timing the market using funds that could exceed the balance in the account via leverage; and iv. hedging for protection against other investment positions. <p>2. Likely Financial Situation: Clients wishing to use Spot Margin Trading:</p> <ul style="list-style-type: none"> i. have a high to very high risk tolerance and can afford to lose all or more than their investment without significant detrimental effect on their standard of living; ii. have access to existing cash or other assets to enter trades and/or meet margin requirements; and iii. have regular or stable income and do not use retirement savings, income or cash for living expenses. <p>3. Likely Needs Clients intending to engage in Spot Margin Trading will typically have one or more of the following in common:</p> <ul style="list-style-type: none"> i. need access to leverage ii. ability to monitor and adjust their positions based their trading strategy <p>Does not need:</p> <ul style="list-style-type: none"> 1. short-term access to pledged collateral and liquidity 2. regular or otherwise predictable returns on their investments 3. capital protection or stability
<p>Excluded classes of client</p>	<p>The following clients will not be appropriate for Spot Margin Trading and are not in the target market:</p> <ul style="list-style-type: none"> a. any person under 18 years of age; b. Retired or unemployed individuals who do not pass our internal client risk suitability assessment; c. persons who are novice or inexperienced investors; d. persons who do not demonstrate that they understand and accept the risks of Spot Margin Trading including but not limited to market movement and volatility, leverage (which can multiply profits as well as losses), margin calls, or financial loss; e. person who have a capital preservation or guaranteed income generation and distribution objective;

	<ul style="list-style-type: none"> f. persons seeking regular or predictable returns on deposits; g. persons with a low to medium risk tolerance that is inconsistent with the risks and potential financial loss set out in the Product Attributes below; <ul style="list-style-type: none"> i. persons who wish to trade using their retirement savings, income, or cash that the consumer relies on for living expenses or personal savings; ii. persons who cannot afford to lose some, all or more than their account balance without significant detrimental effect on their standard of living; iii. persons who are financially vulnerable or have difficulty in meeting their financial commitments on time. iv. persons who intend to use Spot Margin Trading as a standalone or core component of their investment portfolio; h. persons who do not pass the Knowledge Assessment (see Distribution Conditions). 	
Product attributes	Risk level	This is a high to very high risk product. Spot Margin Trading is a complex product and the risk of financial loss is great. It is possible that a client will lose all or more than the sum of the amount initially deposited.
	Leverage	x2 to x10: A client can trade anywhere between X2 to X10 leverage depending on the underlying asset.
	Term	There is no defined term for Spot Margin Trading. A client's duration in a position will depend on the purpose of trading, market movements and other factors.
	Possible negative outcomes	There is a risk that a client will lose all of their provided collateral. In extreme market conditions, a client may owe more than their collateral.
	Margin Call Level	The "margin call level" is the margin level at which you are in danger of having some of your positions

		<p>forcibly closed (or "liquidated"). Upon a margin call, you are required to provide additional collateral to satisfy the margin requirements. This additional collateral could be in excess of any amount contributed to or made on the underlying transaction.</p> <p>The margin call level is approximately 80%, although the exact threshold varies in accordance with price volatility in applicable markets.</p>
	Margin Liquidation Level	<p>The "margin liquidation level" is the margin level at which an automated liquidation process will occur. The margin liquidation level is approximately 40%, although the exact threshold varies in accordance with the price volatility in applicable markets.</p>
	Fees	<p>Fees are updated on our website. It includes Trade fees when opening a position and Margin fees that are charged based on the total value of the amount that is extended as margin.</p>
Appropriateness for target market	<p>Kraken views that the Spot Margin Trading product, including its key attributes, will mean that the product will be consistent with the likely objectives, financial situation and needs of clients in the Target Market.</p> <p>The purpose of the Spot Margin Trading product is to provide a facility through which clients may trade crypto assets on the spot market using leverage provided by Kraken subject to the client providing collateral. The product enables clients seeking speculative and higher capital growth opportunities or hedging of investment positions to access high to very high risk investments on the volatile crypto asset spot market using leverage.</p> <p>Kraken's view is that the product's key attributes are consistent with the likely objectives, financial situations or needs of consumers in the Target Market.</p>	
Distribution Channel: Proprietary Online channel	<p>Kraken offers Spot Margin Trading directly to clients via the Kraken website and mobile applications only.</p>	

only

Kraken offers a Pro interface and a Consumer interface. The Pro interface is used by more experienced traders. The Spot Margin product is only available via the Pro interface.

The Kraken Pro trading platform offers an interface and features that are designed for professional traders. It has been designed with analytics, and customisable options to cater for the needs of the more experienced user. This compares to the Consumer Interface which is much more intuitive for the user.

The website and mobile applications provide educational information about how the product works, an explanation of the key terms and concepts (including margin, leverage, margin call level and margin liquidation level, collateral, hedging), and risk disclaimers: see [here](#).

As the sole issuer and distributor, Kraken will have oversight over how the Spot Margin Trading product is promoted and issued. As well as web marketing, Kraken also hosts events from time to time. All marketing and promotional material must be reviewed and approved by Kraken's compliance department to ensure that it does not attract potential clients outside of the Target Market prior to publication or use.

Distribution Conditions

Distribution restrictions:

Kraken has implemented restricted access controls to provide access to Spot Margin Trading on the website and mobile application to clients in the Target Market and reduce the possibility that the product will be distributed to clients outside the Target Market.

All prospective clients who wish to use Spot Margin Trading will need to sign up for an account with Kraken and complete a qualification flow to determine if they are in the target market. The Spot Margin Trading facility can only be accessed by clients in the Target Market who have successfully qualified.

As part of the qualification flow, Kraken's exclusion criteria will assist in identifying and preventing unsuitable clients from utilising Spot Margin Trading. The exclusion criteria has been built into the Suitability Test. The Suitability Test assesses whether a prospective retail client would likely fall within the Target Market for Spot Margin Trading and whether the product would likely be consistent with the likely objectives, financial situation and needs of retail clients. The Suitability Test contains specific questions in relation to the client's employment status, income level, savings and investment levels and the value of funds intended to be used for trading. A question logic is programmed to qualify certain client statuses as eligible clients.

Distribution conditions:

Kraken views that the distribution conditions specified below are appropriate and are of a nature that it will be likely that the Spot Margin Trading product will be distributed to clients in the Target Market.

- Risk Suitability – All prospective retail clients must satisfy Kraken's eligibility criteria for Spot Margin Trading prior to acquiring the product. Any prospective retail client who satisfies any exclusion criteria will not be permitted access to the product.
- Knowledge Assessment – Prior to accessing the product, all prospective clients must demonstrate an understanding of the concepts and risks of trading using margin before the prospective retail client is able to engage in Spot Margin Trading. This assessment comprises of a questionnaire requiring the prospective retail client to demonstrate their understanding of the following matters related to Spot Margin Trading:
 - (i) the fundamentals of margin and leverage;
 - (ii) the inherent risks of Spot Margin Trading, including the risk of significant losses, which can be as great as or more than the sum of the retail client's account balance, and the preparedness to bear such losses;

	<p>(iii) and the fees and costs associated with Spot Margin Trading.</p> <ul style="list-style-type: none">• Knowledge Assessment (ongoing) - Kraken may seek to update client profile information from time to time including without limitation reassessing a client.• Jurisdictional restrictions – the client must be an Australian resident.
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<p>Review Triggers</p>	<p><i>Periodic review:</i> Kraken will conduct a review of the TMD within 3 months of the effective date, and at least every 3 months thereafter for the first 12 months. After this, Kraken will review the TMD at least every 6 months. Kraken may make a new TMD at any time.</p> <p><i>Review Triggers:</i> Kraken will conduct a review of the TMD on the occurrence of the following events and circumstances (“Review Triggers”):</p> <ul style="list-style-type: none"> • Kraken becomes aware of an occurrence of a significant dealing to clients who are outside the Target Market. • Kraken becomes aware that Spot Margin Trading is not being accessed and used as envisaged by this TMD, For instance, Kraken becomes aware of clients contacting it with significant confusion about the Product or how the Product operates. • Kraken becomes aware of a significant increase in the number of complaints from Clients using the Spot Margin Trading facility. • Material changes to the Spot Margin Trading facility as a result of new or amended functionality, distribution channel or distribution strategy. • Material changes to the business of Kraken. • Material changes to law or regulation affecting Spot Margin Trading. • Any other event or circumstance that would materially change a factor taken into account in making this TMD for Spot Margin Trading. • Any other significant matter is identified during a regular review performed in accordance with the Design and Distribution Policy.
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Where a review trigger has occurred, this TMD will be reviewed within 10 business days.

<p>Conducting the review</p>	<p>Kraken will take into account all available information on the Spot Margin Trading facility including but not limited to:</p> <ul style="list-style-type: none"> • volume of trading activity; • monthly transacting users; • new transacting users; • margin trading fees; • assessment and measurement of product design and performance; • impact of choice architecture on consumer choice and outcomes; • general product feedback (e.g. fees) and consumer complaints, the outcomes of complaints based on internal dispute resolution information; and • information from other sources about consumer outcomes, including from the Australian Financial Complaints Authority (“AFCA”).
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	<p>Kraken may also consider the following non-exhaustive list of data when reviewing this TMD for appropriateness:</p> <ul style="list-style-type: none"> • any losses suffered by clients and whether the client is likely to achieve their investment objectives using Spot Margin Trading over time; • the fees compared to similar types of products; • a significant increase in account closures; and • the nature and number and outcomes of complaints. <p>Kraken will assess appropriate actions arising from the review process.</p>
Reporting and monitoring	<p>While our systems have been designed to prevent a significant dealing outside the Target Market, we continuously monitor complaints and expressions of vulnerability and analyse these on at least a quarterly basis. We perform a detailed analysis of client outcomes in accordance with the BTPL’s internal Product Governance Framework and procedures at least every 12 months.</p> <p>Kraken will notify ASIC in writing as soon as practicable, and in any case within 10 business days after becoming aware of a significant dealing in the Spot Margin Trading facility that is not consistent with the TMD. Kraken will take into account factors including the following, for determination as to whether a dealing is significant:</p> <ul style="list-style-type: none"> • of the consumers who acquired the product, the proportion of consumers who are not in the target market, including the proportion of the consumers who are part of the excluded consumers; • the actual or potential harm to consumers, including the amount of any financial loss, resulting from consumers who are not in the target market acquiring the product; • the nature and extent of the inconsistency of distribution with the TMD; • the proportion of gross income or premium obtained from the product in respect of consumers who are not in the target market acquiring the product; and • the time period in which these acquisitions outside the target market occurred.