Exhibit A-3

Attach as Exhibit A-3, a narrative summary of Applicant's proposed clearing activities including (i) the anticipated start date of clearing products (or, if Applicant is already clearing products, the anticipated start date of activities for which Applicant is seeking an amendment to its registration), and (ii) a description of the scope of Applicant's proposed clearing activities (e.g., clearing for a designated contract market; clearing for a swap execution facility; clearing bilaterally executed products).

Applicant response

This Exhibit provides an overview of the scope and nature of proposed clearing activities of Smarkets Board of Trade Clearing LLC ("**Smarkets Clearing**").

Smarkets Clearing has designed a risk management framework specifically tailored to the clearing of fully collateralized binary options. Unlike traditional clearing models that rely on partial collateralization, leverage, and variation margin calls, Smarkets Clearing's model eliminates credit risk exposure to Clearing Members through a strict pre-trade, fully funded requirement.

By requiring 100% of the maximum potential liability of a contract to be on deposit prior to trade acceptance, Smarkets Clearing's effectively removes the risk of a Member default resulting from market movements. As a result, Smarkets Clearing's risk management focus shifts from managing credit exposure to managing operational, settlement, and systemic risks.

Smarkets Clearing anticipates clearing products upon the registration of both Smarkets Clearing and its affiliated designated contract market, Smarkets Board of Trade Exchange LLC ("**Smarkets Exchange**").

Measurement and Monitoring of Credit Exposure (Reg. 39.13(g))

In Smarkets Clearing's model, every open position must be collateralized at 100% of the maximum possible loss of the trade at the time of order entry, meaning a participant can never incur a loss greater than the collateral already posted. As a result, no additional initial margin is required. Counterparty risk exposure is therefore measured using a maximum-loss framework, where required collateral equals the full notional loss of each contract.

Due to the binary nature of the products and the full collateralization requirement, Smarkets Clearing does not collect or pay variation margin (“VM”) based on intraday mark-to-market moves and does not extend credit to Participants. Settlement occurs only upon the expiration of the contract (or upon closing the position).

Pre-Trade Credit Checks

Smarkets Clearing utilizes an automated (but subject to human oversight) risk management mechanism. Smarkets Clearing’s clearing system (integrated with Smarkets Exchange’s matching engine) performs a real-time, pre-execution credit check which involves:

1. Calculating the required funds based on the limit price and quantity.
2. Comparing the required funds to the Participant’s available balance (also known as “buying power”).
3. Immediately encumbering the funds (i.e., locking reducing the available balance or buying power by the cost of the fully collateralised binary option). If funds are insufficient, the order is instantaneously rejected, and funds are released as unencumbered.

This pre-trade credit check process makes it impossible for a Participant to enter a position for which they cannot pay the maximum possible loss.

Limiting Exposure to Potential Default (Reg. 39.13(f))

Because every trade is fully funded at inception, Smarkets Clearing does not maintain a mutualized "Guaranty Fund" or "Default Fund" typical of traditional clearing houses. Consequently, Smarkets Clearing does not hold assessment powers over its Members to cover the default of another Member. While credit risk is mitigated via pre-funding, Smarkets Clearing monitors for significant positions held by single entities to ensure orderly liquidation if necessary.

Settlement Procedures (Reg. 39.14)

As contracts are fully funded, "daily settlement" is a record-keeping exercise to mark positions to market for account statement purposes, but does not result in the transfer of variation margin.

Upon expiration, the Smarkets Exchange determines the Settlement Price. The Smarkets Clearing system automatically:

- Unlocks the collateral held for the “winning” and “losing” positions.

- Transfers the fixed payout amount from the "Out-of-the-Money" accounts to the "In-the-Money" accounts.

This process is instantaneous and automated.

System Safeguards and Operational Risk

Given that Smarkets Clearing's risk management relies primarily on the efficacy of the pre-trade credit check, the Applicant prioritizes System Safeguards (as detailed in Exhibit I).

In particular, Smarkets Clearing maintains a Real-Time Ledger of all Participant funds. The Smarkets Clearing system and Smarkets Exchange matching engine also operate with microsecond synchronization to ensure that funds shown as "Available" are truly available, preventing "double spend" scenarios.