

Anticipated Impact of the Ethereum Merge on the 21Shares ETPs

Updated as of 19 September 2022

The below FAQs are intended to assist 21Shares ETP investors in navigating the Ethereum Merge (the “Merge”), that occurred on 15 September 2022. It contains the following sections:

- 1. TLDR: Key Details for Investors in 21Shares Exchange Traded Products (“ETPs”)**
- 2. Background: What is the Ethereum Merge?**
- 3. Ethereum Hard Fork**

We invite 21Shares ETP investors with remaining questions to contact sales@21.co and we will be happy to address any additional questions with you in greater detail.

TLDR: Key Details for Investors in 21Shares ETPs

- 1. Which 21Shares ETPs hold ETH?**

Ticker	ETP Name	%ETH (at 17:00 CET 15.9.2022)
ABBA	21Shares Bitcoin Suisse Index ETP	32.53%
AETH	21Shares Ethereum ETP	100.00%
DEFII	21Shares DeFi 10 Infrastructure ETP	39.84%
HODL	21Shares Crypto Basket Index ETP	26.25%
HODLV	21Shares Crypto Basket Equal Weight ETP	19.77%
HODLX	21Shares Crypto Basket 10 ETP	26.10%
KEYS	21Shares Bitwise Select 10 ETP	29.17%
LAY1	21Shares Crypto Layer 1 ETP	29.73%
MOON	21Shares Sygnum Platform Winners Index ETP	25.55%
SPETH	21Shares S&P Risk Controlled Ethereum Index ETP	42.19%

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2. Will 21Shares ETP investors receive proceeds from the airdrop of the forked asset (ETHW)?

- o The ETHW airdrop has been received for all 21Shares ETPs holding ETH (except for 21Shares Bitcoin Suisse Index ETP) and the airdrop proceeds have been sold and reinvested into the ETPs on a prorata basis. The ETPs will hold ETH (Proof-of-Stake) only, in accordance with the corresponding indices (not ETHW). The NAV for each ETP in scope will reflect airdrop proceeds at market close on Monday 19 September 2022.
- o The custodian for 21Shares Bitcoin Suisse Index ETP is not supporting the airdrop so it will not be accrued into that product's NAV.

3. What does the Merge mean for 21Shares ETPs that hold ETH?

- o As a result of the Merge, staking of ETH will become available on the Ethereum Network. However, because of uncertainty related to how the staking mechanism will work and the anticipated lack of liquidity in staked assets, we do not expect to enable staking of ETH within our ETPs in the near future, though we may revisit this as the situation evolves.
- o Eventually, staking of ETH may become an important characteristic of the Ethereum Network, according to reports.

Background: What is the Ethereum Merge?

4. What is happening to Ethereum?

- o Ethereum moved from a Proof-of-Work (PoW) consensus mechanism to a Proof-of-Stake consensus mechanism (PoS) on the 15th of September 2022.
- o Ethereum miners have invested significant resources in their mining equipment ([estimated](#) worth approximately \$5 billion) so that they can mine on the Ethereum PoW blockchain and be rewarded with ETH. In an attempt to preserve the income stream from mining, a minority of users caused a hard fork on the Ethereum Network, so that there will continue to be a PoW chain.
- o This PoW chain is separated from the main Ethereum chain that switched to PoS.
- o However, from the standpoint of Ethereum holders, the Ethereum Network is operating the same post-Merge. This was an important change for certain stakeholders - in particular, miners - but everyday holders of ETH should not see any changes.

5. What is the difference between Proof-of-Work and Proof-of-Stake?

- o Proof-of-Work and Proof-of-Stake are two blockchain consensus mechanisms that are used to ensure the validity of transactions and the security of a blockchain. Proof-of-Work involves solving complex equations using computing power, and sourcing extensive energy usage. Proof-of-Stake does not involve high computing power (e.g., supercomputers), but rather, requires skin in the game or a stake in the native token for the right to verify and validate a new block of transactions.

6. What is Ethereum 2.0?

- o Ethereum 2.0 is not a new asset but is the name given to a set of updates coming to the Ethereum Network. The initial updates saw Ethereum transitioning from Proof-of-Work to Proof-of-Stake. Over the next few years, additional updates will roll out. It is important to note that Ethereum 2.0 is a term used to describe the Ethereum Network after its network upgrade, the Merge.

Ethereum Hard Fork

7. What is a hard fork and how has it affected Ethereum?

- o A hard fork involves splitting the code base of a blockchain network in two which results in two entirely separate blockchains.
- o The two separate blockchains will each have their own rules for transaction verification, settlement, and security. In addition, each blockchain will have its respective native currency.
- o In case of a hard fork, affected users may receive airdrops. Airdrops are direct, unsolicited deposits of certain cryptocurrencies or tokens into users' wallets.
- o Certain Ethereum miners have introduced a hard fork which means there will now be both Proof-of-Work and Proof-of-Stake versions of ETH. Additional hard forks may occur but are unlikely to be supported by exchanges and custodians.
- o The main hard fork token is called ETHW. ETHW validates transactions with a Proof-of-Work mechanism, while the already existing token ETH validates transactions with a Proof-of-Stake mechanism.

8. Is there an impact on decentralized applications (dApps), like Uniswap and other tokens, that sit on top of the Ethereum Network?

- o Decentralized applications can choose to support the Proof-of-Stake version, the Proof-of-Work blockchain, or both. However, blue-chip applications such as Chainlink, a leading price-feed provider, have [decided](#) to only support the Proof-of-Stake blockchain in line with the decision of the Ethereum Foundation and the community.

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