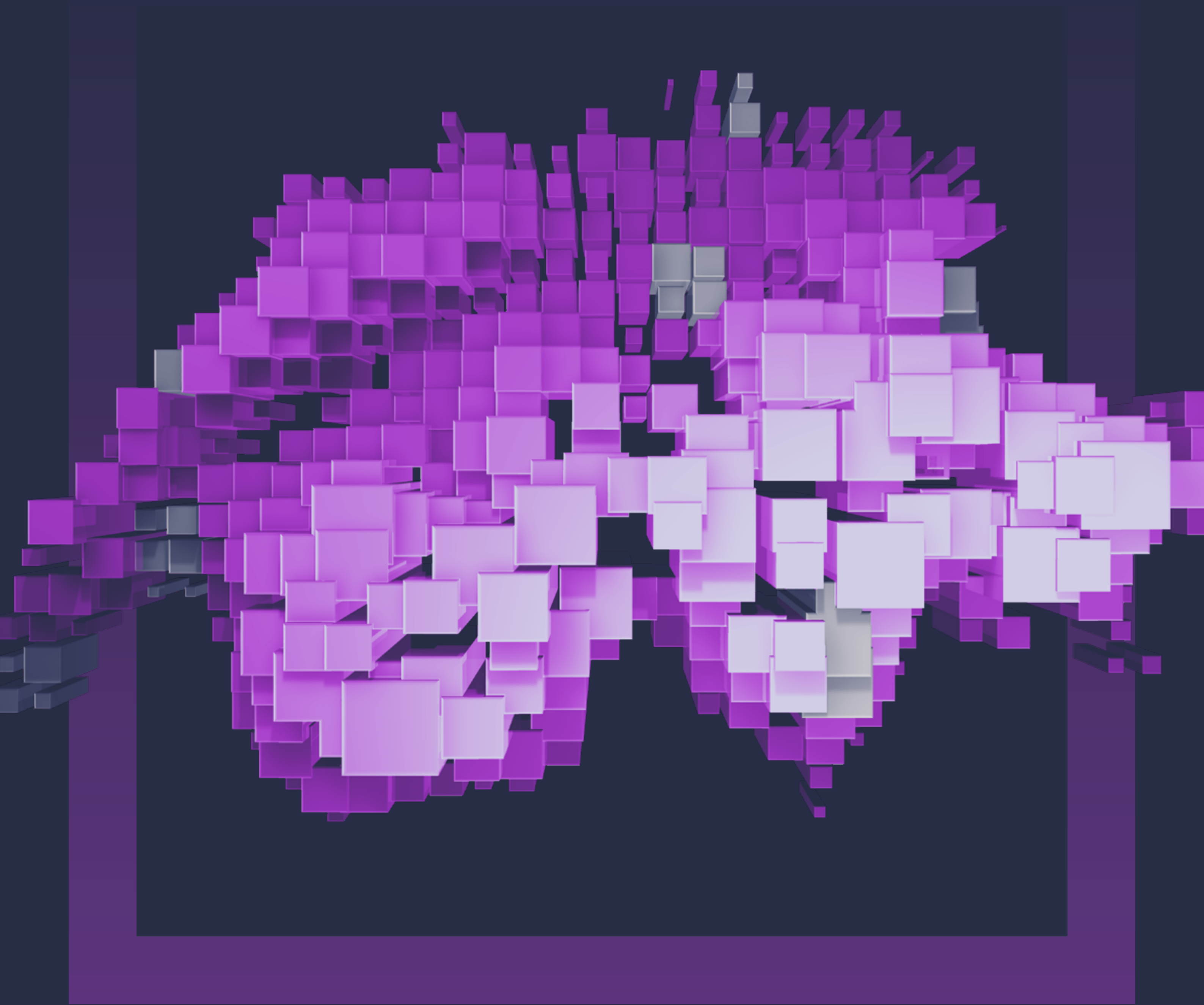

SWISS DIGITAL ASSET AND WEALTH MANAGEMENT REPORT 2021

WRITTEN BY
ALEXANDER E. BRUNNER

PUBLISHED BY CV VC AG

FOREWORD BY FORMER SWISS PRESIDENT JOHANN SCHNEIDER-AMMANN

When I proclaimed “Crypto Nation Switzerland” three years ago, I was convinced of the innovative potential of blockchain technology. However, I honestly did not expect Switzerland to establish itself as one of the leading and most dynamic blockchain nations in the world in such a short time.

This result is primarily due to openness and foresight. Swiss politics, in particular, has shown a lot of pragmatism. The Parliament unanimously approved punctual adjustments to existing legal structures in record time and made new distributed ledger technology (DLT) legislation possible. This DSSURDFKJXDUDQWHHVWKHIOH[LEOHLQWHJUDWLRQRI rapidly changing blockchain technology and its application into the existing legal framework.

Switzerland’s new legislation provides legal certainty and, at the same time, the scope for innovation and new business models. The US and China, the primary technology nations and competitors, admire this approach - not just because Crypto Valley’s focus on legal certainty, curiosity, and cooperation has allowed it to grow into a thriving ecosystem with over 960 companies and 5,200 jobs.

The new DLT trading license goes very far in terms of content and allows trading, custody, and certain payment transaction activities. This could EUHDWDQHEOLQJ4UVWRYHUDGYDQWDJHLQJOREDO competition, Switzerland will be streets ahead of other jurisdictions.

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$VWKLV4UVW6ZLVV'LJLWDO$VVHWDQG:HDOWK Management Report 2021” impressively shows, WKH6ZLVV4QDQFLDOFHQWHUKDVQRWRQOLDUULYHGLQ the new digital world but is perfectly positioned. :LWKHVWDEOLVKPHQWRIGLJLWDODVVHWVDQGWUDGLQJ SODWIRUPVWKH6ZLVV4QDQFLDOFHQWHUDQG&USWR Nation Switzerland” can secure a leading position.

Johann N. Schneider-Ammann was a Federal Councillor and Head of the Federal Department of Economic $IIDLUV(GXFDWLRQDQG5HVHDUFKIURPWR 6LQFHWKHIRUPHU3UHVLGHQWRIWKH6ZLVV Confederation has been a member of the Board of Directors of the Zug-based investment company CV VC.

FOREWORD BY THE PUBLISHER - MATHIAS RUCH, CEO AND FOUNDER OF CV VC

M R

When we started our activities in 2016, something quickly became clear: Blockchain is not only a huge opportunity for us as entrepreneurs, but also for Switzerland DQKXUHJHQHUDWRQVWKH4UVWZDYHRIEORFNFKDLQ pioneers and projects reached Switzerland from 2017-2018 in the ICO hype, which triggered global regulatory trends soon after. Today, Switzerland is in an excellent position, with arguably the world's most progressive legal framework, regulated key players, and a vibrant community. I am convinced that with this starting position, the way is paved for the second wave: the one of digital assets.

It is a great pleasure to support the publication of WKLV4UVWZLVVJLWDO$VVHWHSRUW&99&LVQRWMXVW an investment company that invests in early-stage VWDUWXSVWKRUOZLGHHKDYHEUHDWRXUHFRVVWHP with co-working spaces, events, community services and incubation programs in Zug, the heart of &USWR9DOOHDQUHHQWQXEDLDQ9DXHH connect all players from industry, politics, science, and society.

7RUHSUHVHQWWKLVQDPLVPLVYHUVWWLPHQEHUHDW we launched the CV VC Top 50 Report, which has now become a standard publication. It surveys the crypto and blockchain ecosystem in Switzerland and Liechtenstein, lists the number of companies involved in blockchain, researches the number of jobs created, calculates valuations and ranks the 50 largest companies, including 11 unicorns in the most recent edition. Anyone concerned with Crypto Valley and Blockchain Nation Switzerland can't miss the CV VC Top 50 Report.

LWKWKLVJLWDO$VVHWHSRUWZHDUHSXUVXLQJWKH same ambition: together with Alexander Brunner and the Swiss Blockchain Federation, we want to EUHDWWRQHZRUHEUHHQEHSXEOLFDWLRQRIWKH4QDQFLDO industry. Digital assets are much more than cryptocurrencies. Thanks to tokenization, new types of investments are emerging. Demand for these QHZ4QDQFLDOSURGXFWVJURZLQJDVVLQWHUHVW IURPDVVHWPDQDJHUVDQGIDPLOREFHVWKHUHDUHD a number of players in Crypto Valley who anticipate the new business areas and are active at the global forefront.

I am convinced that digital assets will establish themselves as a new asset class. Next-generation trading platforms will emerge and Switzerland, with its leading crypto and blockchain players, will SODDEUXEHDOOUROHKH%HEDXVHWKHZLOODWWUDFWLRQ WKHDWWHQWLRQVLRQDQLQQRYDWLRQRIWKH4QDQFLDO VHFWRULQ6ZLWUODQG7KLV4UVWJLWDO$VVHWHSRUW is a guide and source of inspiration for the capital market of tomorrow.

0DWKLDV5XFK&(2DQGIRXQGHURI&99&KDVEHHQDQ entrepreneur and investor in the digital startup scene IRUHDUVHIRXQEHDQDJHEHQLWWHYHUDOO companies in the digital startup space. Today he is a driving force in the development of a global blockchain ecosystem and co-founder of the Swiss Blockchain Federation.

FOREWORD BY THE AUTHOR - ALEXANDER E. BRUNNER

When I published my book Crypto Nation Switzerland in late 2019, the ICO craze of 2017 had just turned into a severe "crypto winter," with bitcoin crashing from almost [illegible] community were nursing hefty losses, the traditional [illegible] Many industry observers, including the Financial Times, were convinced that this was the end of the remarkable and breathtaking story of bitcoin and other cryptocurrencies. Right up until November 2020, the Financial Times wrote that the "promise of bitcoin has proved to be elusive." Little did they know that digital assets would come back with a bigger bang than ever. In 2021, leading investors and hedge-fund titans from Paul Tudor Jones and Stanley Druckenmiller to Ray Dalio would acknowledge the viability of bitcoin. Innovation happens in leaps and bounds.

On the 4th of January 2021, the Financial Times changed its stance and wrote the following headline [illegible] [illegible] [illegible] [illegible] year of Covid-19, it has also been the year of bitcoin. Indeed it is the year where bitcoin has come of age." Furthermore he wrote "...this (2020) is the year bitcoin has become investible for institutions with custodian arrangements available from the likes of Fidelity and with prominent hedge fund investors declaring that they have bought it."[1] 2020 was also the year when many bankers quietly changed their tune from highly sceptical to positively interested, no longer being able to ignore customer requests.

The aim of this report is to give the many voices, from investors and bankers to regulators, a voice and showcase the diversity of the Swiss ecosystem. It is based on interviews with more than 80 providers, investors and experts based in Switzerland. Mark Branson, former CEO of the Swiss regulator FINMA, kindly gave an exclusive interview. The report is aimed at investors, big or small, who are pondering how to invest into cryptocurrencies and digital assets. It shall enable investors to get more familiar with this nascent and highly innovative asset class. The report also shows the breadth and width of the Swiss digital asset ecosystem, which is growing at a rapid pace. Yes, Switzerland is at the forefront of this incredible development. This presents a tremendous [illegible] ecosystem overall. However, the global competition is not sleeping.

So what are digital assets: a new digital gold or just "thin air," as former private banker and fund of [illegible] [illegible] [illegible] be answered in this report.

Alexander E. Brunner, author

[illegible] [illegible] and business at the University of St. allen HS. Brunner worked for many years in alternative investments and family [illegible] [illegible] international deep tech startups and is a member of the parliament of the City of Zurich. He is also the founder [illegible] smart city innovations in Switzerland.

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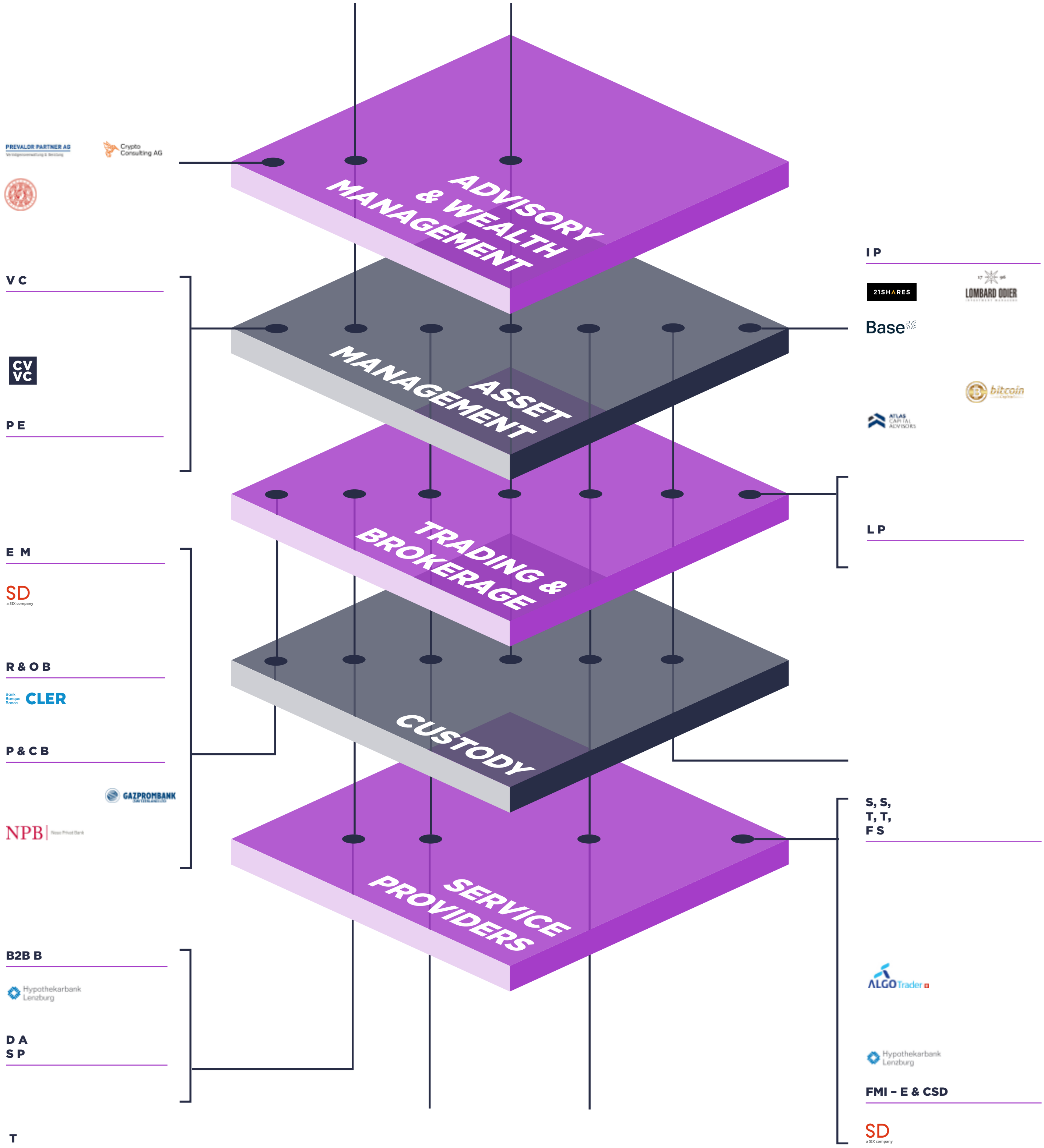
[1] [illegible]

SWISS DIGITAL ASSET ECOSYSTEM



The Swiss Blockchain Federation is probably a unique initiative worldwide: launched by two Federal Councillors, Finance Minister Ueli Maurer and Economics Minister Johann N. [illegible] Crypto Valley's driving forces and better understand their concerns. The former task force has since become a private-public partnership that unites industry, start-ups, science, cantons, and politics.

The Swiss Blockchain Federation (SBF) aims to promote a prosperous, secure, innovative, and world-leading blockchain ecosystem and has achieved quite a bit:

- Framework: The SBF represents the interests and concerns of Crypto Valley vis-à-vis politics and administration and advocates for optimal framework conditions, such as the new, forward-looking DLT legislation.

- Networking: The SBF is the central platform for all of those interested in blockchain from business, industry, politics, administration, and science and [illegible] abroad.

- Innovation: The SBF promotes innovation by working together with Innosuisse, the Swiss Agency for innovation promotion, to generate projects and start-ups in the annual SERI Innovation Cycle, connecting them with companies at an early stage, organizing hackathons, and driving knowledge and technology transfer.

The three cantons of Ticino, Zurich, and Zug play a particularly active role in the Swiss Blockchain Federation. The responsible cantonal councils recognized the importance and potential of location marketing early on, especially when it comes to start-ups with blockchain-based business models.

Thanks to the joint activities of these cantons with the Swiss Blockchain Federation, the attractiveness of Crypto Valley has continuously increased. Those cantons that have supported their ecosystems with funding programs are now reaping the rewards. The settlement of new blockchain companies continues despite crypto winter and the Corona year. According to the CV VC Top 50 Report, Crypto Valley has 960 companies and 5,200 jobs. Investments and a continued positive, curious attitude are essential for "Crypto Nation Switzerland" to stand out and serve as a beacon to the world with its genuine innovations and ground-breaking business models.

[illegible] Federation and Finance Director of the Canton of Zug.

This report is based on more than 80 interviews with investors, wealth managers, fund managers, bankers and service providers in Switzerland. It highlights the incredible depth and breadth of the Swiss digital asset industry that has sprung out of Crypto Valley. It is a testament to the rapid development of digital assets and blockchain-technology at large, becoming more diverse and also more institutional. Switzerland can be really proud to be a key part of this far-reaching technological development, boosting a strong, well-educated and ever-growing ecosystem.

Tipping point for digital asset

An investor note penned by Morgan Stanley's wealth management unit in March 2021 summarized the rise of digital assets and cryptocurrencies neatly: "Our recommendation is that investors get educated and consider how and whether to get exposure to this burgeoning asset class in their portfolio."[1] Investors entered the digital asset and crypto space at a rapid pace in 2021 as cryptocurrencies and digital assets moved in early 2021 from something easily dismissed as hype (or worse) to a nascent and exciting new asset class. Digital assets are clearly here to stay, as large Swiss and US banks are ZRUNLQJRQFKDLQVHUYLFHVRQDODUJHVFDOHDVVHWPDQDJHUV and traditional hedge-funds start building exposure. 0DQ\DQDO\VWVVHHSURYHQ\HVWR4XRUXPWKDWVWKH tipping point for the acceptance of crypto currencies and digital assets: The client demand had become too large to simply brush aside. Even the mosre discerning and critical Financial Times came to the conclusion in May 2021 that bitcoin and crypto are here to stay.[2] Bitcoin and its brethren entered the Zeitgeist in 2021.

Strong Swiss ecosystem

7KHFRPELQDWLRQRIWHFKQRORJ\4QDQFHLQ the form of digital assets has super-charged LQQRYDWLRQIURP4QDQFHWRWKHDUWVIURPWKHLQVWDOO FRQQHFWLQJ+&2EUDFHDQGWKHFHQWUDOEDQ 4QDQFHDQGQRQKXPDQGHSNHQVEXDQWRUSW

prices have given a strong impetus to widespread HSHULPHQWDWLRQ2QWKH5LSSOHEDQNHVWDEOLVKH 4QDQFLDOLQVWLWXWLRQVDUHEROQHUDQG2WKHUSHUFHLYH lack of regulation, illicit behaviour and the risk of a heavy-handed regulator. Regulators in Europe and the US have recently started to look more closely into the various crypto and digital asset EXVLQHVVHVDQGLWLVFOHDUWKDWWKHLQGXVWU\LV moving to a more regulated future, even though this will take time and solid knowledge from the regulator's side. The Swiss regulator FINMA has been at the forefront of this development, giving Switzerland a clear head-start. Switzerland has a diverse and rapidly maturing ecosystem with many wealth managers, asset and fund managers and SULYDWHEDQNVHQWHULQJWKHVSDFHDQGWKHLQGXVWU\$SULO 2021, for example, the large Swiss insurer AXA announced that it would start to accept bitcoin for SD\PHQWVLQQRQOLIHLQVXUDQFHDXJXVW WKHJOREDODSSURYDORI4UVWUHJXODWHG regulated marketplace for digital assets. This is an important step as a regulated digital asset exchange for larger volumes is sorely missing in Switzerland. Clearly, digital assets are making huge strides towards wider adoption in Switzerland. This can be seen in the digital asset ecosystem map in this report. At the same time, an increasing number RIDVVHWPDQDJHUVZHDOWKPDQDJHUVDQG private banks entered the industry at a rapid pace. JDPLO\RIILFHVDOVRSDUWLFLSDWHGLQWKLVDVVHWFODVV this new asset class. Many private banks also saw an uptick of digital assets by a younger audience, often serving as the next generation of existing clients. The banks are using digital assets services to reach out to the next generation of bank customers. In summary, Switzerland is well positioned due to its competence in wealth management, experienced regulator, modern regulatory framework, a solid tax framework and the Crypto Valley ecosystem.

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The large Swiss banks, important global custodians for financial assets are still mostly absent in early 2021. Their approach seems to be to "wait-and-see." This was due to regulatory concerns as well as the lack of knowledge and, in turn, commitment. Interestingly, the smaller private and cantonal banks, who are closer to their private clients, are making headway rolling out their digital asset offerings. Many providers of digital asset services confirm [illegible] that large institutions are preparing for a digital [illegible] train left the station!

Venture capital funding growing

Switzerland has a rich seed and angel investor community that funds many amazing startups. However, in order to reach global scale and scale fast, a large pool of later stage capital, termed scaling capital, is required. As tech entrepreneur and investor Francisco Fernandez pointed out, large pools of growth capital for scale-ups are missing in Switzerland. This is clearly a disadvantage in comparison to the buoyant and highly active US venture capital sector that provides funding to the likes of Coinbase with its unicorn valuation. Nevertheless, the ecosystem is picking up speed with CV VC's successful CHF 13m fundraise in May 2021.

lobal competition strengthening

Switzerland is in strong competition with other financial hubs such as New York, London and Singapore. As a fund domicile Switzerland is small in comparison to Luxembourg, Ireland, the UK, the US or Singapore. The lack of scale is clearly a stumbling block. A trade show of US digital asset managers [illegible] that the US has a strong homegrown digital asset investment industry that is expanding globally. The US can leverage its strong venture capital ecosystem, their crypto exchanges from Kraken to Coinbase and the investment strengths of hedge-funds with the likes of Skybridge Capital or Bridgewater Associates. Switzerland has a hard time competing with the scale and depth of the US financial market. However, what the US is lacking are clear regulatory and taxation guidelines, which create uncertainty for any incumbents or new players in the digital asset ecosystem. In Europe, while the UK seems to be [illegible] two new electronic securities and digital assets acts. Further, the EU is working on a Markets-in-Crypto-Assets (MiCA) framework, determined to catch up with Switzerland.

Switzerland staying at the top

The recent EU Blockchain Ecosystem Development Report states: "Switzerland is one of the most advanced nations when it comes to blockchain and crypto-assets, not only in Europe, but also globally. It has been called the 'crypto nation' and is home to the world-famous 'crypto valley' of the Zug canton."[3] [illegible] best hub for digital assets globally. Supported by regulatory stability, optimal business conditions expertise, and know-how resources, Switzerland remains the prime crypto nation." In order to retain its lead, Switzerland clearly needs rapid further adoption of this new asset class by large banks [illegible] a unique opportunity for Switzerland as a financial center. Switzerland has all the necessary building blocks in place: a forward-looking regulator, an innovative legal framework and clarity around [illegible] sector. The emergence of digital assets as a nascent and highly innovative asset class is a huge opportunity for Switzerland. It would be a shame if Switzerland lost its head start to others!

[3] European Commission EU Blockchain Ecosystem Development Report

Bitcoin was among the best performing DVVHWVWQDWKHHQRUVHPHQW of respected investors, digital assets experienced a fear of missing out (FOMO) moment in late 2020 that continued unabated into 2021. More and more investors realized that the risk of missing out is larger than the comfort of abstaining. Elon Musk, the world's wealthiest man, had a unique ZDRIVKRZQJKLVKH4UVWHEL2WRQWKLV ZZWUHELRQKLVSURIOHHDQJDREHJLW jump in the price, before announcing in February 2021 that Tesla had bought $1.5 billion worth of bitcoin. In May 2021 Tesla sold the position at a hefty SUR4WPLOORQ7HVODDOVRDQQRXQFHG accepting payments in bitcoin in exchange for its products "subject to applicable laws and initially on a limited basis" before retracting in May 2021. It is dazzling to see how one individual has the power to move the prices of markets with singular statements about cryptocurrencies or messaging apps. In 2021, Musk became the single most important factor in crypto markets.

TESLA'S BITCOIN SPECULATION HELPED TO BOOST PROFITS

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2020

In late 2020 and early 2021, a big sentiment change occurred among sophisticated investors towards cryptocurrencies and digital assets. Many of them realized that cryptocurrencies and digital assets are here to stay. FOMO set in with many prominent investors allocating money to digital assets. This WULJJHUHGDEXUURITXHVWLRQVVXFKDVZKDW cryptocurrencies are, exactly: are they a currency or DQDVVHWDGLJLWDOJROGRUDJLWDOPRQH RUWKH LQWUQHWDJH-HDQVKRWHURQHDUO6ZLVV bank UBS Chief Economist Paul Donovan expressed his view that bitcoin and other cryptocurrencies are not actual currencies. The reason being that they are too volatile as a store of value due the absence of a central bank balancing supply and demand.[1] So, if QRWDFXUUHQFZKDWLVLW

-QFRQWUDVWRFXUUHQFLHVLVVXHGEJRYHUQPHQWV controlled by central banks and accepted as legal tender, cryptocurrencies or digital assets are not centrally managed by governments.[2] They are SULYDWHGLJLWDOPRQH&DWKLHRRGRIARK Invest, a prominent US fund manager with crypto HSRVXUHDOOVELWFRLQWKH4UVWGLJLWDOUXOHVEDVHG

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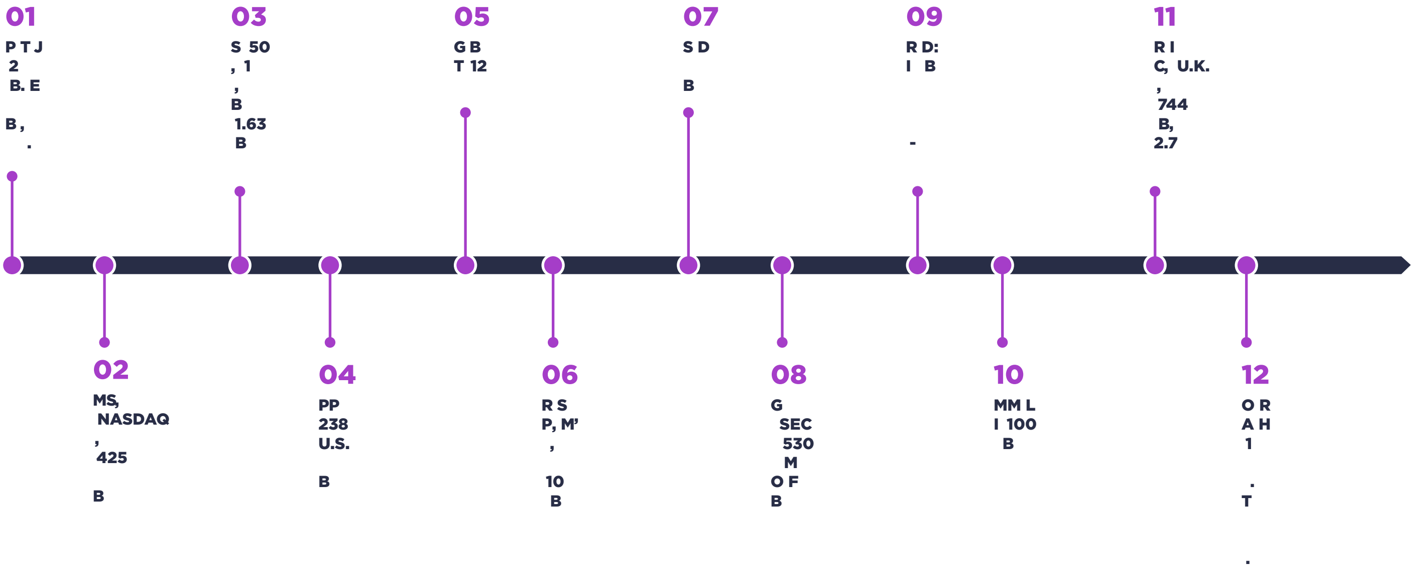
BITCOIN IN 2020: GRADUALLY AND THEN SUDDENLY



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monetary system."[3] 3URIHVVRUDOOR6HEDVWLDQD0DUHVVRU of marketing at the New York University Stern School RI%XVLQHVVH4QHEHLWFRLQDVDUHYHUVHSURRQ our trust on central governments that keep printing money and it is an interesting way of transporting money. Try to transport ten million dollars of gold through London! " He also stressed the scarcity of supply and the view that many investors see it as DQLQ5DWRQKHJHVLPLODUWRJROG[4] This narrative 4UVWRNKROLQDVPRUHDQPRUHLQYHVWRUV started to regard bitcoin and its brethren as a new asset class with a limited supply, akin to gold.

Michael Saylor, CEO of MicroStrategy and early bitcoin adopter for treasury, publicly stated that for KLPELWFRLQVDQLQ5DWLRQKHJHLQDZRUOGZKHUH cash is not an asset but a liability. For Saylor, bitcoin LVWKHZRUOGV4UVWRQHWDU\QHWZRUNVZLPPLQJDUW JDEHERRN$PD]RQRJOH$SSOHRXWXEHEXW is social energy built into money." For him bitcoin is "the most global asset as it is constantly traded around the world."[5]

In a client note Ray Dalio wrote: "To have invented a new type of money via a system that is programmed into a computer and that has worked for around 10 years and is rapidly gaining in popularity as both a type of money and storehold of wealth is an amazing accomplishment. There aren't many alternative gold-like assets at this time of rising need for them."[6] Nowadays, cryptocurrencies such as bitcoin are YLHZHGDVDQLQYHVWRUVDVDQLQ5DWLRQKHJHDNLQ to gold, which is not directly connected to the global 4QDQFLDOV\VWHP

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BITCOIN IS GOLD 2.0

	BITCOIN	GOLD
s	Fixed inelastic supply	Limited elastic supply
Transferable	Like sending an email	Like sending a ton of bricks
Storable	Low cost	High cost
Decentralized	Yes	HVVHQWLDOO\EHFRPH4VWDWHDVVLQJDH authority in every jurisdiction
Durable	Yes – Digital Asset	Yes – Physical Asset
Fungible	Yes	Yes
9HULI4DEOH	Yes	Susceptible to counterfeiting
Divisible	Easily divisible (1 Bitcoin is divisible into 1000 million units called satoshis	Not easily divisible (troy ounce unit of measurement)

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Skybridge Capital, a US fund of funds, launched a new bitcoin fund in January 2021. The fund, led by prominent investor Anthony Scaramucci, sees bitcoin having strong advantages versus gold as outlined in his investor presentation:

In several interviews, Swiss product providers have FRQ4UPHGWKDWWKHVWRU\OLQHRIELWFRLQDVGLJLWDO gold" resonates strongly with investors. Investors with a strong belief in monetary devaluation and LQIODWLRQDUHDVLQJOHQRWDEOHPRYHUWKRVHVWDUWLQJ venturing into digital assets, as Roland Friedli from 3UHYDORUFRPPHQWRQHRIWKH4UVWDPHUJLQJDVVHWPDQDJHUV WKHQHYDEDVHGRQWUDFNHURIWKHLUFKDVHEHHQ active in the space since 2016.

More traditional investors still prefer the physicality of gold, as it can be used for jewelry and industrial applications. However, digital assets are global and HDVLO\WUDQVIHUDEOHDFURVVWKHVWDPRYHDFURVV boundaries, which gold cannot.

Michael Saylor of MicroStrategy put it nicely: "bitcoin is destroying gold's value proposition" because bitcoin has "dematerialised gold."[7]

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COINBASE FINANCIAL RESULTS

Coinbase revenue in 2019 — $534m

Coinbase revenue in 2020 — $1.3bn

Coinbase losses in 2019 — -$30m

&RLQEDVHSUR4W in 2020 — +$322m

)LQDQFLDO7LPHV

Peak bitcoin market capitalization was above $1 trillion in spring 2021.

The 14th of April 2021 saw a pivotal moment for cryptocurrencies with the Nasdaq listing of the leading US crypto exchange Coinbase. It immediately became one of the 120 most valuable public companies in the US. The Financial Times marked this monumental event for the acceptance of cryptocurrencies with a big headline on its frontpage saying: "Coinbase's $76bn debut puts seal on cryptocurrencies asset class."[8]

D)LQDQFLDO7LPHV&RLQEDVHVVEQGHEXWSXWVVHDORQFUSWRFXUUHQFLHV asset class, 15.04.2021

A HISTORY OF INNOVATION IN ASSET MANAGEMENT IN SWITZERLAND

I QWKHVDQGVWKH4QDQFLDOLQGXVWU was a fun, innovative and sometimes crazy place to work. It attracted a lot of talent and was highly lucrative (it largely still is). This was also the time when a new fund type with unrestricted investment strategies arrived on the scene: the swash-buckling hedge-fund. It was the time when OHJHQGDULQYHVWRUVVXFKDVHRUJH6RURV3DXO Tudor Jones or Bruce Kovner made spectacular returns year-on-year. According to Erwin Brunner, ZKRIRXQGHGRQHRIWKH4UVWIXQGRIIXQGVLQ Switzerland, these new funds easily generated an DQQXDOLHGUHWXUQRISHUFHQWWKHZHUH4UVW LQWURGXFHGWR6ZLWHUODQGEVHYHUDOWHHQHYDQ private banks such as Banque Privée Edmond de Rothschild. In the new millenia, these funds had their hay-days with spectacular performances even during market crashes. The legend of the brash, combative and wealthy hedge-fund manager was born. It was this time that Switzerland became an alternative asset management center with groups VXFKDV3DUWQHUV*URXS0DQ*ODUHRU*HQHKPXWK 7%UXQQHU-QYHVWPDQDJHPHQW

Lars Jaeger, an alternative investment industry pioneer and regular book author on science and technology, has been involved in various alternative investment strategies since 1997 in Switzerland. +HKHOSHGWKH4UVWWUDQVSDUHQWPRGHOV that exploited "alternative betas" (a term he coined) akin to hedge-funds. He saw how the Swiss alternative industry with strong players such as RMF, Harcourt or EIM had developed rapidly over WKHHDUVKRZHYHUWKH4QDQFLDOFULVLVDQG the following regulatory tsunami led to a brutal consolidation in Switzerland. Today, industry observers compare the nascent digital asset industry to the birth of the hedge-fund industry in the nineties. High returns were and are possible due to LQWUDQVSDUHQWDQGLQHIFLHQWPDUNHWVKRZHYHU/DUV -DHJHUWKLQNVWKHUHDUHQRWDOOHJHQHUDVWKH market for cryptocurrencies is only about two trillion dollars in size and trading volumes are relatively VPDOOLQFRPSDULVRQWRWUDGLWLRQDO4QDQFLDOPDUNHWV There is just not enough liquidity for larger funds yet, according to Jaeger. He sees this new asset class as by far not yet matured, with too many "cowboys" lacking maturity or even seriousness in the market.

However, this is changing fast.

TOP INITIAL COIN OFFERINGS

4.1	**BLOCK.ONEEOS**	June 2018
$320m	DRAON COIN	March 2018
$300m	HUBOI	February 2018
$258m	HDAC	December 2017
$257m	FILECOIN	September 2017
$157.9m	SIRIN LABS	December 2017
$152m	BANCOR	December 2017
$152m	THE DAO	May 2017
$150.9m	BANKERA	February 2018
$142.4m	POLKADOT	October 2017

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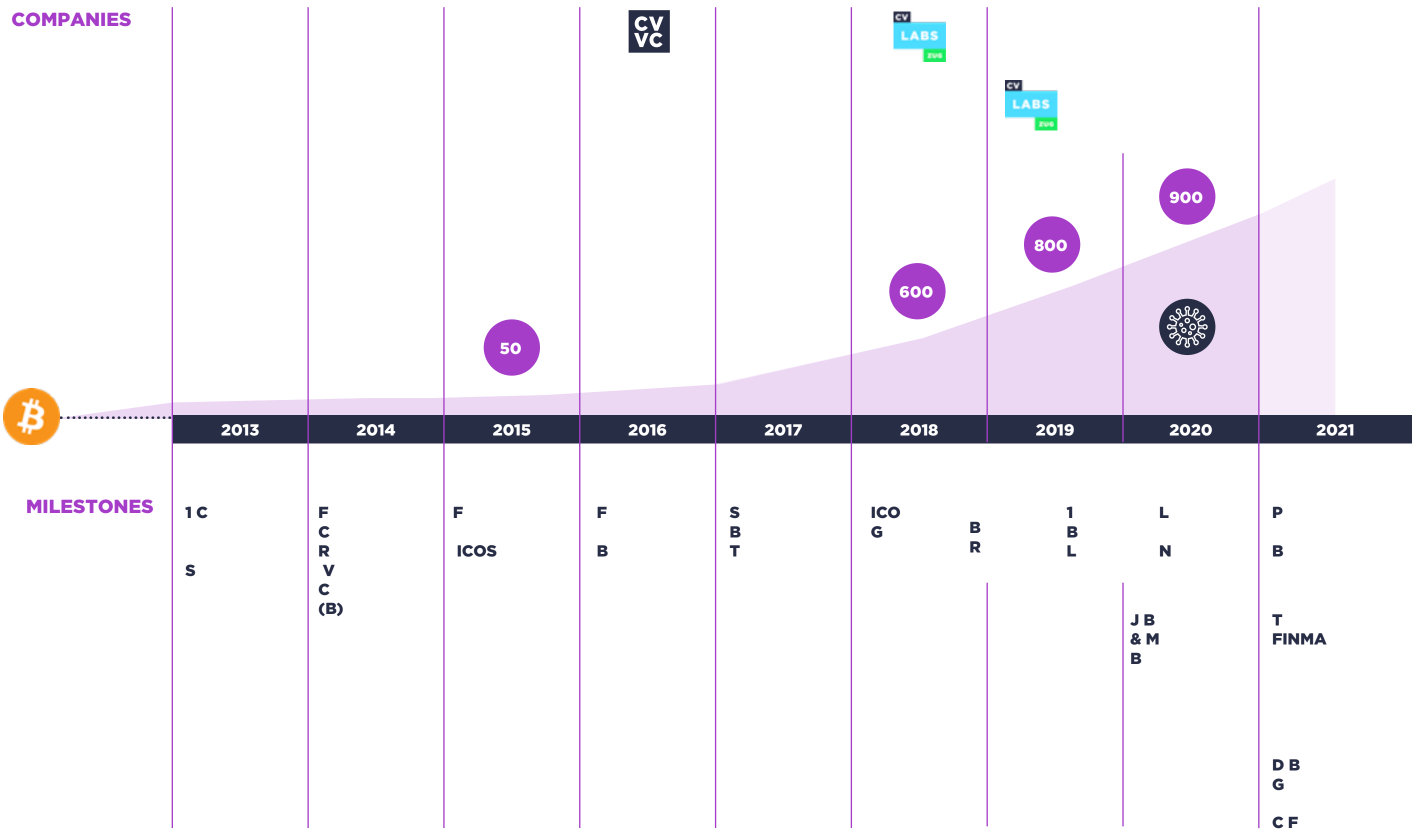
The Crypto Valley puts Switzerland on the global map

7KH4QDQFLDOFULVLVDOVRJDYHELUWKWDEURPSOHWHO QHZDVVHWFODVVELWFRLQKDWUWHQRQ&DOLIRUQLDQ a strongly libertarian cypherpunk community, would HYHQWXDOO4QGLWVZDWR6ZLWHUODQGZLWKWKH emergence of Crypto Valley in Zug in 2013, digital assets took root in Switzerland. In short succession, fueled major events from the establishment of several blockchain protocols such as Ethereum in 6ZLWHUODQGWKH4UVWLQLWLDOFRLQRIIHULQJ&2

JXLGHOLQHVED4QDQFLDOUHJXODWRULQDQG WKHOLFHQVLQJRIWKH4UVWQDVFHQWFUSWREDQNVLQ 2019, Switzerland developed a strong ecosystem IRUGLJLWDODVVHWWRPHRQHZKRVSHFL4DOO incorporated a company in Switzerland in 2019 because of its crypto-friendly ecosystem was Ali 0LDQLRXQHURIWKH)L&\$6\$QXJEHFRUQLQJ to Mizani, his search for legal certainty and a crypto-friendly environment eventually led him to Zug, Switzerland. Here he found not only one of the most open-minded regulators, but also one of the most advanced infrastructures with one of the most HQJDJLQJDQGEDUULQJFRPPXQLWLHV\$QWRQROXEH of Flovtec, who has been part of the Swiss crypto and blockchain ecosystem for many years, sees the FRPPXQLWHORSLQJLQSKDVHVWKH4UVWSKDVHH VDZSURJUDPPHUVHQWHULQJWKH4QDQFHVSDFHERWK innocently and, sometimes, malevolently. This led to the ICO craze of 2016 and 2017. In 2018, the market EVWLQJDQDWDOOVLQFROORZLQJWKH4UVWVHJXODWRU actions and a “crypto winter” set in. Then, in 2019, WKH4UVWWUSWREDQNVZHUHODXQFKHGZKLFKZDV WKHEHJLQQLQJRIDWRQDO4QDQFHEDQEDQNHUV entering the space. Nowadays, the third phase is blending the world of programming and algorithms ZLWK4QDQFHH

From 2013 until 2018 a nascent ecosystem was established, followed in 2019 by a new phase with the institutionalization and professionalization of VHUYLFHVDQGHULQJVLQ6ZLWDHUODQG6ZLVVSULYDWH banks such as Julius Bär or Maerki Baumann and online bank Swissquote started to provide custody and trading services to its investors. Today ,an interesting fusion of the old-and-stayed world of banking and the fast-moving, experimentative

CV VC: THE HISTORY OF THE CRYPTO VALLEY, 2021



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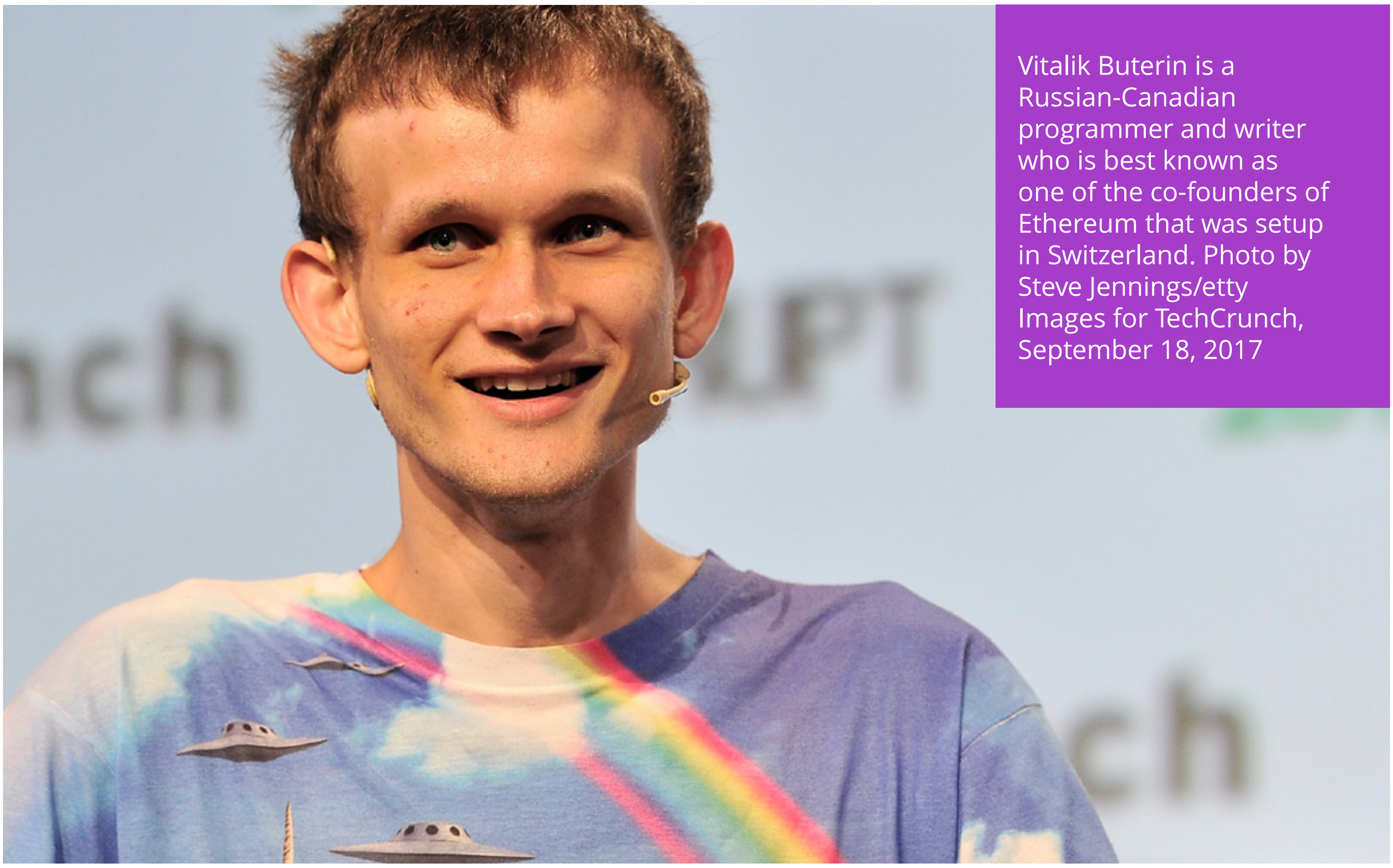
world of programming and coding is taking place. In addition, Switzerland is one of the leading private banking hubs in the world, with a wide range of investors from private bank clients and wealthy individuals and families to wealth managers. It is perceived as a safe haven for wealth with a steadily increasing number of sophisticated single- and multi-family offices that invest across the entire investment spectrum. All of this has created a strong ecosystem in Switzerland that is “hard to build from scratch,” as an experienced early Swedish investor into cryptocurrencies stated. Switzerland has a clear edge in digital assets.

In a survey in 2020 by Swiss bank UBS, the top question asked by clients was how much they should allocate to bitcoin.



Vitalik Buterin is a Russian-Canadian programmer and writer who is best known as one of the co-founders of Ethereum that was setup in Switzerland. Photo by Steve Jennings/etty Images for TechCrunch, September 18, 2017

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In dozens of interviews with ecosystem participants it was obvious that the Swiss regulator FINMA acted as a strong catalyst for the entire ecosystem, providing regulatory certainty for a nascent industry.

FINMA, which has been operating a dedicated [illegible] [illegible] [illegible] global reputation as a regulatory trailblazer when [illegible] [illegible] for an independent regulated crypto exchange in [illegible]

nascent blockchain technology and digital assets, FINMA gave clarity and acknowledgement while the rest of the world was still wondering how to deal with this highly innovative and exciting industry. Many industry players that were interviewed for this report acknowledged that the regulatory clarity and the positive attention of the regulator led to a faster development of the ecosystem in Switzerland. Jeroen von Oerle of Lombard Odier Darier Hentsch [illegible] regulators globally, right up there with MAS in Singapore and the FCA in the UK. FINMA gave Switzerland a head start that led to a thriving ecosystem.

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In an exclusive interview, Mark Branson, then CEO of FINMA, gave some interesting insights from a regulatory perspective.

INTERVIEW WITH MARK BRANSON

In Branson's view, crossborder payment systems are "ripe for innovation" as fees tend to be high and highly intransparent. Cross-border payment is a slow and cumbersome process in a world where customers are used to instant services. Therefore, new payment projects are welcomed as long as they satisfy three criteria: security, compliance and client [illegible] same utility as traditional currencies. On the other hand, blockchain technologies promise streamlined processes. As a regulator, one has to be technology-neutral. A simple regulatory principle for him is "same risks, same rules". Branson's view is that current rules, such [illegible] However, they may need some adjustments to handle new technologies. Innovation brings more competition and hopefully new jobs for [illegible] are under pressure in Switzerland and around the world. It also needs an acceptance that "projects can fail, as long as they fail safely." For wider adoption and scaling of blockchain technology, he would like to see a trail-blazing [illegible] allows the technology to scale. Only if the blockchain technology ecosystem generates new jobs, will it be a true success from an economic point of view.

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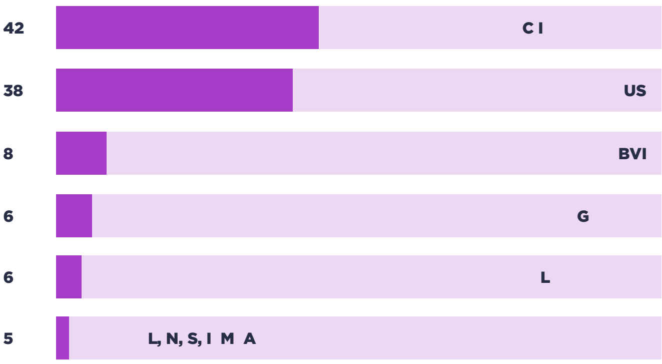
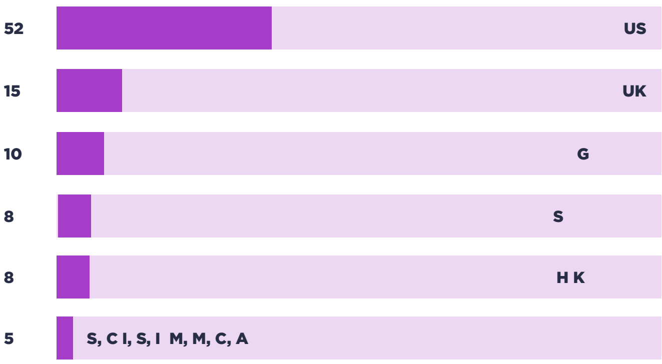
:LWKWKHHPHUJHQFHRI&USWR9DOOHDVZHOODV a strong ecosystem, tailored legislation and a competent regulator, Switzerland has a perfect setup to become a leading hub for digital asset wealth and digital asset management. Henri Arslanian, PwC Crypto Leader based in Hong Kong, publishes a global crypto hedge fund report every [illegible] is very well positioned globally due to its brand and [illegible]

DIGITAL WEALTH & ASSET MANAGEMENT HUBS

Top Crypto Hedge Fund Domiciles



Top Crypto Hedge Fund Manager Locations



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ranks number four among the top crypto hedge fund manager locations, right after the US, the UK and
DEUDOWDU6ZLWDQUHPDLQVRQHRIWKHZRUOGV
top wealth management destinations with a strong
4QDQFLDOVVWHPDQGJOREDOEUDQGDOOWKHVHIDFWRUV
make Switzerland destined to become a wealth and asset management hub for digital assets.

GENDER GAP IN THE SWISS BLOCKCHAIN ECOSYSTEM – WHERE ARE WE HEADING?

Cryptocurrencies and blockchain-based technologies had a steep rise in recent years and are disrupting various industries around the world. However, less than 10% of active collaborators
DUHZRPHQLQWKH4HO6ZLVVEORFNFKDLQ
about 6% of funding in related ventures is received by female founders, while a
VLJQL4FDQWSHUFHQWDJHRILQYHVWRUVDUH
middle-aged, white men.[1] As blockchain-technology is still in its early stages, the
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develop the ecosystem should not be missed.

Why are there so few women in the Blockchain ecosystem
DIWHUHERXQ
of bitcoin in 2020, the question once more arises as to why there are so few women present in the bitcoin and blockchain space. One of the more obvious reasons is the gender disparity
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have been more likely to lack access to
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women were not allowed to open a bank account without their husbands' signature up until 1988. Furthermore,
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attractive employer by female students due to the lack of integrity, the focus on competition rather than team collaboration and the not so family-friendly conditions.[2]

Similar downsides apply to the tech industry. Several studies reported the lack of family-friendly conditions as being a reason for fewer women in tech. A more recent study by the University of Bern highlights the impact of self-evaluation on choosing a career in STEM 4HOGV[3] Many young women assess their own mathematical competencies worse than men. Thus, young women refrain from approaching a career in a STEM area.

Priska Burkhard

Additionally, the risk aversion that has been observed in women ZDVVHHQWR4HDVRQH of the key challenges for women entering WKH4QDQFHLQGXVWU Risk aversion can EHLHQWHLQWR DUHDV4UVWZKHQ investing, women tend to focus on less risky assets. Secondly, when approaching a new area, women are more concerned with gaining enough knowledge and expertise before getting actively involved.

Opportunity set for women is expanding

To conclude, the already existing systemic EDUULHUVIRUZRPHQWHQWUKH4QDQEH and tech area holds true for the blockchain ecosystem and hinders women getting involved and advancing in this area. However, on a positive note, more and more women are interested to learn more about blockchain and EUSWRFXUUHQELHVLWKHOSRIZRPHQOHH and blockchain or cryptocurrencies focused communities and meetups, these women are getting more opportunities to get involved and not only gain knowledge and expertise EXWDOVR4QDVSSRUWQJQHZRUNWHSORUHH the opportunities within this rather new ecosystem.

By Lilian Roos and Priska Burkard, TechFace

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Digital Startup of the Year
awarded by Aite

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Digital assets are a new alternative asset class based on decentralized blockchain-technology. Some investors see it as an LQ5DWRQKHJEDNLQWRLWHUVHHDWKH emergence of a new platform-based internet-native money that is the foundation for an entirely new 4QDQEDOLQUDVWXEUH

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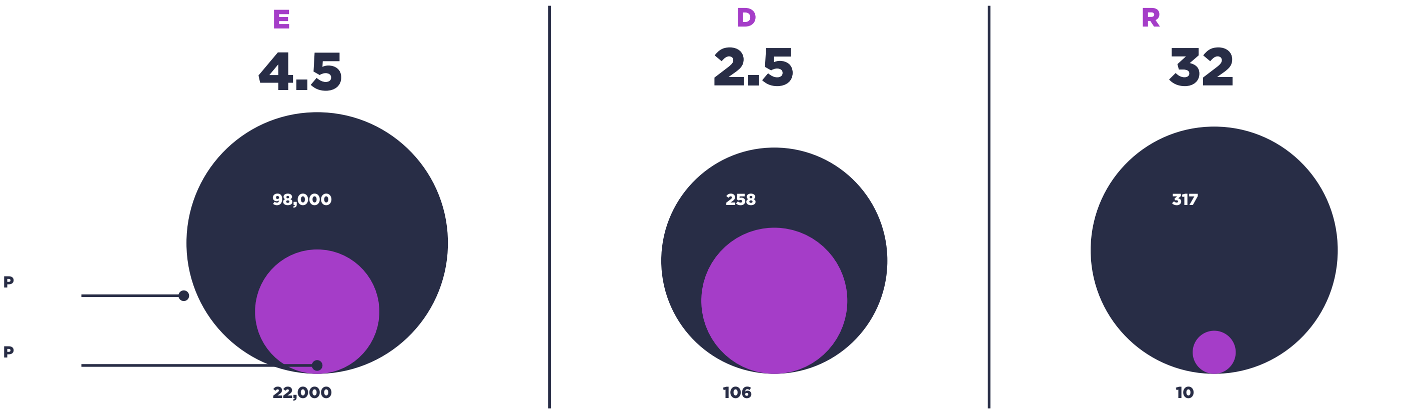
Due to lower costs and easier transferability, industry participants such as Jeroen von Oerle of Lombard Odier Darier Hentsch believe that the technology will enable fractional ownership of various assets, from real estate to art and cars.

An interesting aspect of blockchain-based digital assets are that every trade is logged decentrally, visible for everyone. According to Tavis Digital, tokens serve as digital representations of any given underlying asset, allowing for fractionalization and thus higher accessibility, improved liquidity and execution speed in combination with a never before seen transparency and trust. In addition, cryptocurrencies and digital assets trade 24/7, and are settled much shorter than the typical two-day VHWHPHQSHUURUWDWRQDO4QDQEDOPDUNHW This reduces the capital needed for the settlement process

THE POTENTIAL FOR DIGITAL ASSETS IN PRIVATE MARKETS IS MUCH GREATER THAN IN PUBLIC MARKETS

P , 2019



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THE DIGITAL ASSET INVESTMENT UNIVERSE

For sophisticated investors who invest their own or their client's money, a small allocation to bitcoin RIWHHPVWEHWKHQDWXUDO4UVWSWHW familiar with this new asset class. However, digital assets provide a wider investment spectrum that can be divided into four categories. These basic four categories are a good starting point for an investor embarking on a digital asset investment journey.

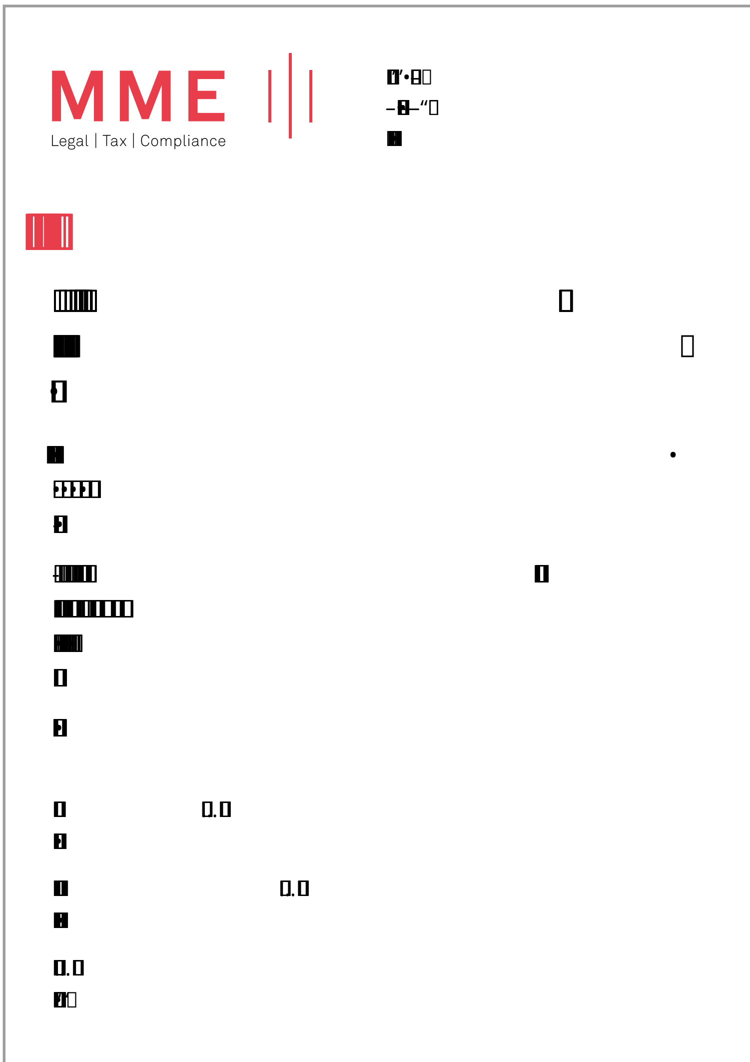
1. Coins

By far the largest cryptocurrency by market capitalization is bitcoin, followed by ethereum.
WKPRUHHWKDQRWKHUFRLQVWRFKRRVHIURP from, investors can select coins that range in characteristics from payment to asset and utility tokens. However, it takes a lot of sophistication to VHOHFWKHPRUHREVFXUHFRLQVEHLQJFUHDWHG WKHODUJHVWFRLQVUHPDLQWKHEHVWTXDOLW\WKLVLV also the reason why most professional investment vehicles focus on the top 50 coins in existence.

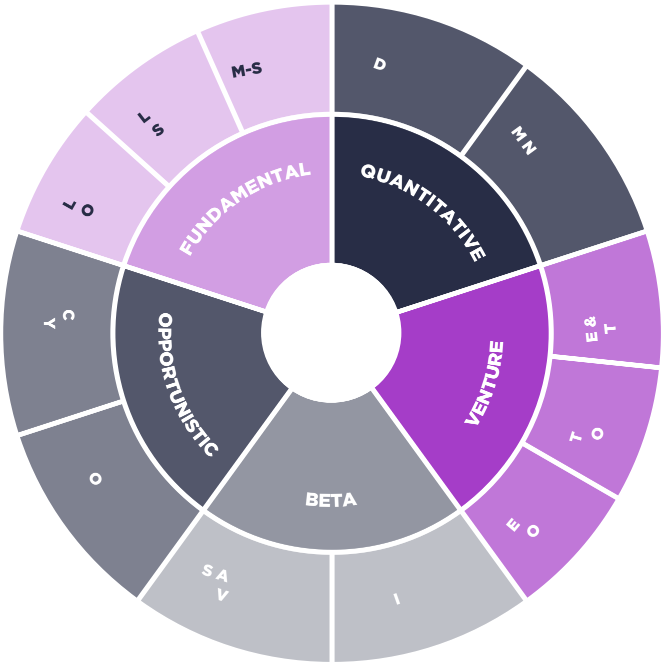
Investors can get exposure through a plethora of venues from opening their own crypto wallets to store crypto and opening trading accounts with banks or brokers to trading through crypto HFKDQJHVDQGEX\LQJFHUWL4FDWHVRUWUDFNHU IXQGVDVZHOODVRWKHUSURGXFWV&XVWRG of crypto and digital assets is still a main concern for many investors. Therefore, choosing the right approach is a crucial part of the journey. Investors have to carefully assess how much direct control, ease of use and information about taxation they UHTXLUHZKHUHDVVRPHLQYHVWRUVLQWKHVSDFHIHHO comfortable with holding the private key directly, having a bankable product with an ISIN number and tax reporting is an important feature for many larger investors. "It is the responsibility of the taxpayer to correctly declare their crypto holdings in the tax return," says Thomas Linder, Tax Partner at MME in Switzerland, and one of the leading tax specialists with regard to digital assets. "Hence, complete UHSRUWLQJRIWKHSRUWIROLRLQFOXGLQJYHUL4FDWLRQ of the transaction history, is of great importance IRULQYHVWRUVLQRUGHUWRDYRLGDQ\RSHQLVVXHVZLWK tax authorities." Robust and institutional-grade custody is clearly one of the biggest concerns of sophisticated managers, highlighting that traditional banks clearly have a role to play in digital assets, despite the peer-to-peer nature of decentralized assets.

2. Active trading strategies

Investors can access a wide array of trading strategies managed by professional managers.
OREDOOHVWLPDWHVWDWHWKDWPRUHWKDQIXQGVDFWLYHO invest into digital assets. These replicate strategies from the hedge-fund industry, ranging from long-short to market-neutral and high-yield strategies.
3URIHVVLRQDOPDQDJHUVDOVRRIIHUYDULRXVPDQDJHG LQYHVWPHQWYHKLFOHVVXFKDVEHUW4HDWQRWWRU RVKRUHIXQGVUDQJLQJLQVWUDWHJLHVYDU\IURPKROGLQJ the largest 50 coins to investing in the thousands of lesser coins and projects, so-called DeFi. These YHKLFOHVRIWQRWHUWRPVDQGDTXDOLWLPLODUW WDLORUQDOKHJHIXQGV%HVLGHVPRUHLQJPRUH sophisticated strategies, investing into investment SURGXFWVRIIHUVVHYHUDODGYDQWDJHVVXFKDVD6,1QXPEHUVDVD well as investment and tax reportings.



DIGITAL ASSET INVESTMENT STRATEGIES



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3. V

Besides investing into coins, there is an increasing number of venture capital providers that invest in new digital asset startups and projects. In recent months, the interest in the Decentralized Finance (DeFi) industry has strongly increased. The US venture capital industry in particular has been heavily investing and creating outlandish returns, with Andreessen Horowitz as one of the largest players. Investors can choose between traditional 3/3VWUXFWXUHVRUWKH4EDVWDQHYHQHQKDOO tokenized funds. These investments typically have a longer investment horizon and require larger minimum investments.

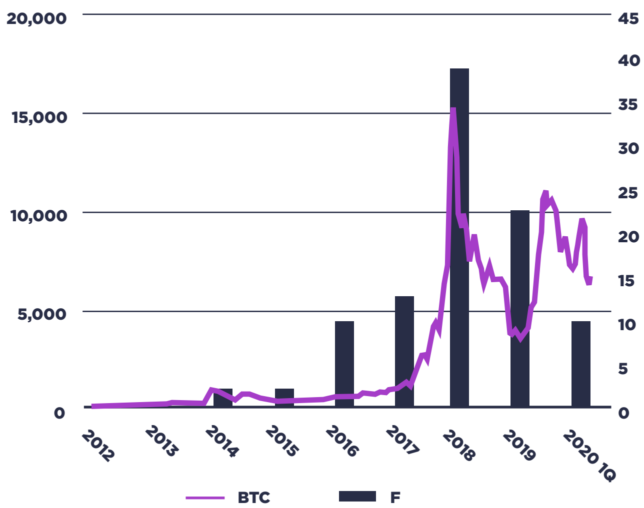
4. Tokenized assets

Still in its infancy are tokenized private assets such as real estate, collectibles such as cars, music, art or shares of smaller companies. Tokenized assets are still very niche and lack trading on exchanges and, in turn, liquidity. In addition, there are many legal and regulatory uncertainties that need to be addressed.

MORE THAN 400 CRYPTO FUNDS GLOBALLY

Scott Army of the American research provider Vision Hill globally tracks more than 400 crypto hedge-funds. He sees a clear institutionalization of the RHULQJZLWKHVSDEWEHVHHQLQDRSWDURPKH traditional hedge-fund industry. Speaking to industry experts and fund managers, the nascent market for digital assets is often compared to the early days of WKHKHJHIXQGLQGXVWULQWKHHDUOQLQHWHVZLWK many retail traders trading on sentiment, arbitrage opportunities between exchanges and strong PRPHQWXPVLJQDOVDVVHWUHDKLJKOQHEHLHQW market full of alternative risk premia. Joachim Nahmani of Lemvi calls digital assets a "generational trade" due to the unique opportunity set that does QRWVWQWDWRQDO4QDQEDOPDUNHWDQPRUH %RDUPHPEHURI&USWR)LQDQFHURXSDUE3

LAUNCH OF NEW CRYPTO HEDGE FUNDS CORRELATES TO THE PRICE OF BITCOIN



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INVESTORS IN CRYPTO HEDGE FUNDS

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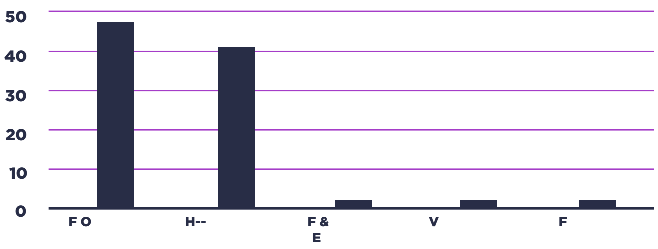

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N I	58.5	27.5
Average ticket size (US$m)	3.1	0.3

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Bernegger sees more traditional fund managers and even fund-of-funds entering the digital asset space. They add robust institutional investment processes and more thorough due diligence. Henri Arslanian of PwC sees this already happening in the crypto fund space, where best practices from the traditional fund industry with independent custodians and directors are being adopted by crypto funds. These are welcome signs of a rapidly professionalizing sector catering to more institutional and sophisticated investors.

The crypto fund industry is developing quickly according to a recent PwC report that states: HHVWDWKHWRWDO$XDVVHWVXQHU management) of crypto hedge funds globally increased to over US$2 billion in 2019 from US$1 billion the previous year."[1] Further, the report states that "the average AuM increased from US$21.9 million to US$44 million." The report also clearly shows that investors still allocate very small tickets to funds, with a median ticket size clocking in at only

> Setting up a regulated and institutional-grade asset manager in Switzerland requires in-depth knowledge of processes and a clear setup based on experience, as Zurich-based Tavis Digital con□med. In a nascent industry, sta□with experience is in short supply.

D3Z&(OZRRGQQXDO&USWRHGJH)XQG5HSRUW

US$0.3 million. At the end of 2020, total assets in crypto hedge-funds increased to $3.8bn according WKH3Z&OREDO&U\SWR+HGJH)XQG5HSRUW 2021, with 84% of investors being high-net worth LQGLYLGXDOVDQGIDPLO\RIILFHV1HYHUWKHOHVVWKHVL]H of the crypto hedge-fund industry, in comparison to the established hedge-funds industry with more than $3trn in assets under management, is still marginal. This clearly points to a considerable growth potential.

VENTURE CAPITAL

OREDO9HQWXUH&DSLWDOKDVVHHQDGUDPDWLFLQFUHDVH in funding over the past several years, particularly for more mature, later-stage start-ups. As Blockchain technology and applications are still in the early stages, investing in start-ups typically involves a few key players with in-depth expertise and a wide reach within the Blockchain community. Crypto or blockchain-related businesses are developing in a new realm, given that the industry has been around for only a decade. Because of this, the risks for venture capitalists are much higher, especially considering the prevalence of failures and, at times, scams. In addition, token models and potential interdependencies between equity and token HFRQRPLFVDUHVSHFLILFWRWKHEORFNFKDLQLQGXVWU\ making the sector unique in terms of an additional funding route for startups, as well as investment potential for investors.

The blockchain revolution is often compared to the beginning of the dot-com era, during which countless Internet companies came out of nowhere promising major advances. Although the Internet has been a disruptive technology indeed, it changed the way a lot of industries operate today, created unicorns and new market leaders. As it is natural for early stage start-up investments, RQO\DVPDOOSURSRUWLRQRIWKHHDUO\VWDJHILUPV managed to survive and achieve such successes.

A clear argument for a broad portfolio and risk GLYHUVLILFDWLRQDQGDQHDUO\VWDJHVWDUWXS9& investment approach in the sector.

The various blockchain protocols from bitcoin to ethereum and polkadot are built on a large developer community that constantly drive the projects forward. In the US, home to the venture capital epicenter Silicon Valley, a strong community is supporting the development of the ecosystem.

An early investor is the legendary venture capital 4UP$QGUHHVVHQ+RURZLW]ZKLFKODXQFKHGWZR crypto funds with more than $865 million dollars to deploy into promising crypto and blockchain projects. On their website they write: “Finally, we are optimistic because we are deep believers in the power of software. Software is simply the encoding of human thought, and as such has an DOPRVWXQERXQGHGGHVLJQVSDFH:HRXUVHOYHVDUH consistently surprised and excited by the wide variety of creative crypto ideas we encounter. For those of us who have been involved in software for a long time, it feels like the early days of the internet, web 2.0, or smartphones all over again.” Andressen Horowitz famously backed the US digital DVVHWH[FKDQJH&RLQEDVH7KHLULQYHVWPHQWSDLGRII heavily when Coinbase did an IPO in April 2021. In May 2021 Andressen Horowitz announced that they were planning to raise a new $1 billion follow-up crypto fund.[2]

Since the birth of Crypto Valley, a venture capital community has sprouted in Switzerland with various advisors supporting local and international ventures.

Insights from Olaf Hannemann

2ODI¶V%DFNJURXQG2ODILV&9&$¶V3UHVLGHQW+LV experience includes 20 years of Corporate Finance & Investment Banking at JPMorgan/Chase in 627UDGLQJDQGWKH8.DQG*HUPDQ\

2)LQDQFLDO7LPHV$QGUHHVVHQ+RURZLW]SODQVQHZFU\SWRIXQG

Even prior to COVID-19, change was afoot in the venture capital markets in general, which also [illegible] are some of the key trends that stand out from our perspective:

COVID-19 initial impact and rebound

- Commitments to funds slowed initially, causing [illegible] [illegible] impact on companies in the process of, or getting ready to, raise capital.

- Many startups had to pivot from growth to cost-saving and survival mode.

- However, during the last few quarters we have seen a strong appetite by risk capital to deploy funds, and the startup funding environment is highly attractive both in general, as well as for blockchain and crypto business models.

- The recent market turbulences in the liquid crypto markets have re-introduce a healthy dose of scrutiny to token driven funding rounds, whilst interest to deploy on the more traditional equity investment side into the sector remains buoyant.

eneral VC trends through Q2 2021

- New record highs in Q2 2021: total global startup [illegible] [illegible] M&A / IPO exits (+109 YoY).

- Fintech remains mega-trend: 1 out of ever 5 [illegible] investment in the quarter.

- Other sectors on the rise: Digital Health (USD [illegible] [illegible]

- Valuations, in particular in the US, climb, as capital competes aggressively for the best deals (Q1 2021 median US Series A valuation of USD 42M).

- Europe has reached new funding records at the half year mark already, with USD 51B deployed in 3,470 deals.

Blockchain Technology and VC

- [illegible] [illegible] from a stronger drive towards sectors or tech that utilize blockchain as an underlying catalyst technology such as the aforementioned Digital Health, Fintech, and AI sectors, rather than as a deliberate new focus area.

- Blockchain focused Venture Capital approaches are often dominated by level 1 (protocol layer) investments, mixed with some application focus. DEFI, NFT and tokenization in general remain the most relevant megatrends on many investor´s minds.

- [illegible] driven by public opinion and popular politics, rather than true underlying facts.

- Dedicated blockchain accelerator/ incubation programs have continued to be on the rise: CV VC`s CV Labs incubator, Outlier Venture`s [illegible] LongHash Ventures, Chain Accelerator, and so on.

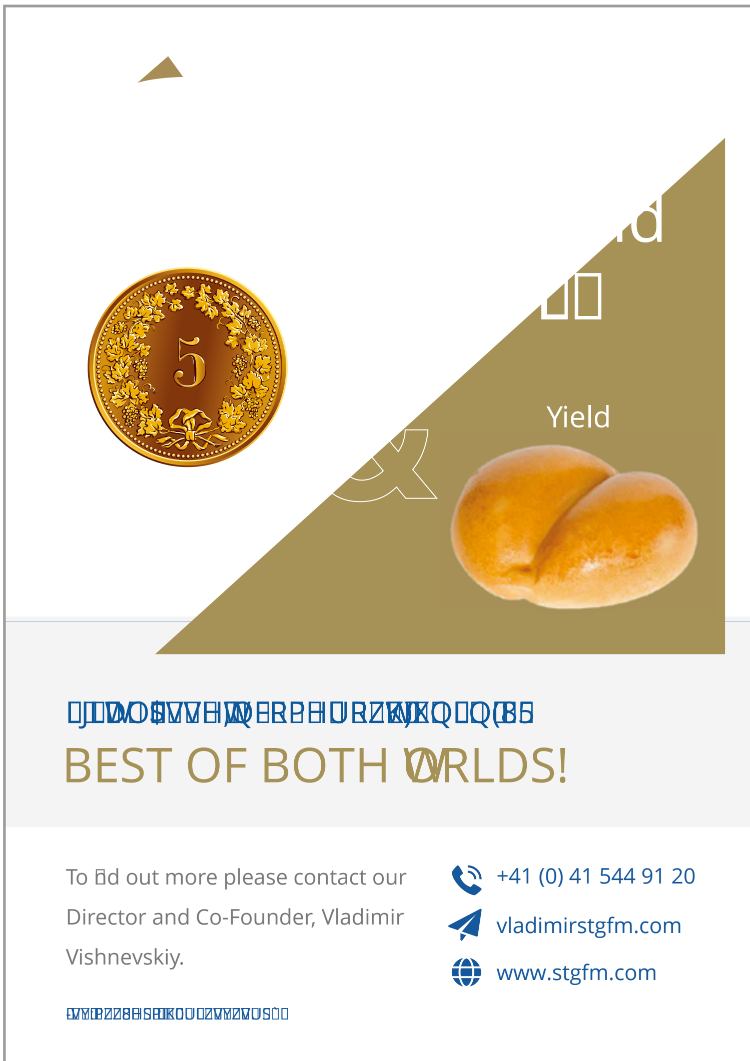
- Many sectors that blockchain tech addresses are [illegible] of the previously noted social and economic environment driven chances. However industrial applications have developed slower than anticipated during the last 12-24 months, which we contribute to two main factors: 1) focus on more imminent internal topic during COVID and 2) true digital readiness of many sectors to [illegible]

- The startup investment pipeline remains strong, with blockchain startups often challenging conventional business in a way corporate innovation is unable or unwilling to do.

CV VC's investment approach

[illegible] growth through venture capital investments in early-stage startups (Pre-Seed, Seed, Series A). The current social and economic environment has led to a digitization push that will cause certain industries to grow disproportionately in the future, we call this Technology for Tomorrow (T4T). CV VC invests in startups that build decentralized applications based on blockchain technology, with a focus on [illegible] Health, Education & Science, Security & Identity, E-Commerce & Logistics and Finance & Investing.

Blockchain is one of the technology megatrends of the future, forecasted by independent consultants to grow to a USD 3 trillion industry by 2030. It is driving [illegible] and supply chain to healthcare and industrial applications, being applied by large corporates and startups alike and represents one of the catalyst technologies, alongside AI, machine learning, and IOT for the coming years. CV VC invests in the most attractive global use cases, across industries [illegible] to industries/geographies and weighting of the underlying portfolio companies, thereby minimizing any cluster risks.



As recently as 2019, sophisticated investors and bankers summarily dismissed cryptocurrencies and digital assets as a short-lived hype or even outright fraud. In mid 2020, the sentiment swiftly changed to the positive. In more than 30 interviews with wealth managers, IDPLOREEHVDQSUYDWHEDQNVRUWKHHSRUW a growing interest among wealthy investors was clearly palpable. The opinions were widely dispersed from ardent believers into the digital gold and LQ5DWRQKHJHQDUUDWYHHWKHRXWJKWHSWV who dismiss digital assets as thin air.

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Starting in 2020, Rattaggi saw more and more professional and institutional investors entering the PDUNHWHULQJLQVWWRQDOJDEHSHUWHDQ SURKEWHDOWPDQDJHUVRDOOVHVUHJLVWUHD growing interest from clients in 2020 and 2021, with particularly younger and more tech-savvy investors being interested in the space.

\$FFRUGLQJWRPRVWHUVHYHQWH4UVWZLVSHQVLRQ funds started to pay attention to digital assets in 2020. It can be expected that in the near future, IDPLOREEHVDQSUYDWHEDQNVZLOOFRQWQXHWSOD DVJQL4FDQWUROHDVDOORFDWRUDVKHSWKH nascent industry.

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Family oces charging ahead

In the nineties, the hedge-fund boom in Switzerland VWDUWHGZLWKWKHKHOSRIHQWHUSULVLQJSULYDWH banks. Back then, private banks did not have the same regulatory and compliance shackles as of today, making them more adventurous and entrepreneurial. They easily invested into innovative products such as hedge-funds, private equity and, later, insurance-linked securities. Philipp Cottier, who was key to the success of the fund-of-funds manager Harcourt in the late 90s and early 2000s, ZDVSDUWRIWKDWQRYHOWHVQDQFLDOLQQRYDWLRQV Today he is active in the digital asset space through L1 Digital and Crypto Finance. In his view, whereas private banks were the enablers for new investment SURGXFWVQWKHSDVWIDPLOREHVKDYHWDNHQ on this role in Switzerland.

JDPLOREHVKDYHDODUJHUGHJUHHRIIUHHGRP in what they invest. They also have become a VLJQL4FDQWPDUNHWSOD\HULQWKHQXPEHURIDPLO

21S 2020, ,

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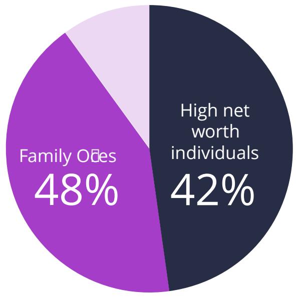
Total AuM of global crypto hedge funds between 2018 and 2019 globally

Doubled



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RFHVKDVJURZQWRJOREDOOZLWKWRWDODVVHWV amounting to $6 trillion USD, according to a report by Insead.[1] According to Tobias Prestel from Prestel DQGSDUWQHU)DPLO\2IILFHIRUXPIDPLO\RIILFHVJOREDOO\ digital assets are interesting as they represent a new technology, disruption and plenty of investment cases. And beyond being investors in funds, family RIILFHVKDYHSULYDWHHTXLW\DQGYHQWXUHEDFNJURXQGVKRZ KRZDUHRIWHQLQYROYHGLQDQGDOVRRZQDQGEXLOGGLJLWDO asset and blockchain companies. According to Marc P. Bernegger, investor and board member of Crypto)LQDQFHWRXSIDPLO\RIILFHVDQGZHDOWK\LQGLYLGXDOV who do not have to adhere to an investment process and can test the waters with a small allocation DUHRIWHQDPRQJWKHILUVWPRYHUVWKHEHQHILWVRIDQ allocate 2-5 percent of their overall portfolio to digital assets without a large and cumbersome LQYHVWPHQWSURFHVVEHKLQG$UVODQ%XWWRI'LJLWDO&RQQHFWLRQV this in his 2020 Crypto Hedge Fund Report: "The majority of investors into crypto hedge-funds are IDPLO\RIILFHV6LPLODUO\WKHOHDGLQJ ETP issuer 21Shares witnessed that in 2020, IDPLO\RIILFHVZHDOWKPDQDJHUVDQGSULYDWHEDQNV allocated more funds and portfolio allocation into regulated crypto products like crypto ETPs. Large DQGVRSKLVWLFDWHGIDPLO\RIILFHVEDVHGLQ6ZLW]HUODQG will play a key role in developing digital assets due WRWKHLUIDPLO\RIILFHVUHJXODWLRQV LQYHVWPHQW SURFHVVHVKRPDVLQ RPHUKHDGRIWKHGLJLWDO 6ZLVVIDPLO\RIILFH RRGDQ$VVHWPDQDJHPHQWSXW it simply: "You need a bit of crypto in your portfolio".[2]

2WKHUPDQDJHUVRIIDPLO\RIILFHVVWDUWLQYHVWLQJLQWR GLJLWDODVVHWVSULYDWHO\4UVWZDVUHYHDOHGLQPDQ\ interviews with numerous wealth managers and IDPLO\RIILFHVDUHDOUHDG\PDQDJLQJSDUWQHUDWWKH PXOWLIDPLO\RIILFH)DUEXUJ)DPLO\2IILFHUDQNV digital assets as one of the most innovative sectors of the asset and wealth management industry. He has personally invested into cryptocurrencies since 2017 and has been following the sector with great LQWHUHVWDVRWKHU4UVWSDVVLRQDOO\ DOORFDWLRQWKHLUIDPLO\RIILFHVFOLHQWVLQ order to get exposure and gain knowledge about this emerging asset class. The natural next step is then to buy tracker products with ISIN numbers that track bitcoin or other cryptocurrencies. Using products that can be booked into standard bank accounts also solves the custody and taxation challenges with direct holdings of cryptocurrencies. This gives convenience and security to sophisticated investors, KLJKOLJKWLQJWKHLPSRUWDQFHRIDOODUJHEDQNVRIIHULQJ custody services for a wider adoption.

Private banks and wealth managers appear on the scene

As highlighted previously, Swiss private banks were RIWHQWKHLQQRYDWRUVRQHULQJQHZLQYHVWPHQWV WKHUHDUHQHZLQYHVWPHQWWKHSHRSOHWRUHDQHZUXOHVDQG regulations for private banks and wealth managers, FRXSOHGWRWKHDIWHUPDWKRIWKH4QDQFLDOFULVLV in 2008, has made them much more risk-averse. Regulatory restrictions make it much harder for them to invest into nascent and not widely-adopted asset classes such as digital assets, as they carry a higher risk. This can be clearly seen by the very cautious stance of large Swiss banks towards digital assets, in particular around anti-money-laundering. Nevertheless, Switzerland has seen some early adopters like the now defunct Falcon Private Bank and the family-owned, Zurich-based private bank Maerki Baumann.

Even more remarkable is that the bank started RIIHULQJLQYHVWPHQWDGYLVRU\VHUYLFHVLQWKH4UVW quarter of 2021. This entails advice on traditional as

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well as digital assets. In fact, they even have an in- [illegible] [illegible] the same time, private banks and wealth managers [illegible] in a new generation of younger and more open [illegible] private bank Bordier & Cie. sees the next generation of "execution only" clients approaching this new [illegible] [illegible] trading for cryptocurrencies in June 2020. As a bank [illegible] and an integration into the bank's regular reporting. Further, the Neue Privat Bank in Zurich sees a strong interest among younger clients for its crypto [illegible] for Switzerland as a global digital banking hub is [illegible] active Spanish bank BBVA. According to Javier Rubio, Client Solutions Director and executive board member of BBVA, "Cryptocurrencies are in particular an Emerging Markets phenomena. This is due to a large unbanked population, 50% of Latin Americans in all countries are considered to be unbanked. For Emerging Markets in Southeast-Asia, Latin America and Africa, cross-border payments for remittances are costly and cumbersome. Crypto could be an elegant solution. In addition, there is also a higher willingness to bear risks and test new technologies." [illegible] [illegible] the strength of Switzerland's ecosystem and legal framework," according to Rubio.

Asked about the main risks in regard to the digital [illegible] Maerki Baumann emphasized that it is paramount to explain to investors that high volatility or even a total loss could occur with crypto currencies and that the risk therefore is very high. At the same time there are technological and regulatory challenges alongside the fundamental challenge to value crypto currencies without a traditional "fair value." [illegible] beginning of Maerki Baumann's asset journey,

Roland Friedli, managing director at Prevalor, believes that Switzerland as a wealth management center has strong advantages, including an independent currency, a neutral government and a stable financial market.

almost the entire banking industry had the mindset that cryptocurrencies and digital assets are cursed. [illegible] Sygnum and SEBA in 2019 and a strong FINMA endorsement, this has since changed a lot. Today, whenever another bank inquires about the digital [illegible] or the business development manager, but a senior employee or even the CEO who requests a meeting. This is a clear sign of the growing acceptance and legitimacy of the digital asset ecosystem.

But it is not only private banks that are starting to [illegible] [illegible] them are the Zurich-based wealth manager DuLac [illegible] B2B and B2C digital asset services. Domino Burki, managing partner at DuLac Capital, sees Switzerland at the forefront of digital wealth management for clients due to its expertise, favorable regulations and business-friendly government. Another Zurich-based wealth manager, Prevalor, allocated some client funds to bitcoin.

[illegible] gold. Dominik Zehnder of Kehrli & Zehnder in Zurich [illegible] educating himself about this new asset class. For him, building trust in custody solutions and service providers is paramount before taking further steps for his clients. This was a view that was echoed by many other traditional wealth managers. For [illegible] building knowledge is key. In particular, the lack of longer-term track-records of investment vehicles is a key concern. His long stint in finance has taught him that trends quickly emerge and also disappear again. Only time will tell. In the end, trust will be built with time and success. Mike Hobi, who is a partner at Sun Capital, experienced first-hand how some of his clients built sizable allocations in crypto. Hobi started advising clients, directing them towards standard investment products such as ETPs with ISIN [illegible] in traditional investment portfolios. Much like other private banks, building expertise in crypto and digital assets enabled him to attract a younger clientele. [illegible] digital asset and crypto space nowadays comes at a high cost. Digital assets are commanding headlines and attracting the interest of leading investors, from Ray Dalio of Bridgewater Associates to legendary US investor Carl Icahn. It is high-time for the wider financial sector to acknowledge the potential of crypto and digital assets at the intersection of finance and technology. Wealth managers have fiduciary duties towards their clients, preserving their client's assets as their main concern.

From 'kill the banks' to native crypto banks

A key feature of technology-driven innovation is its break-neck speed, accelerating the digital transformation of businesses. This can be clearly seen in the development of digital assets based on a technology that is only slightly older than a decade. The original idea of bitcoin in 2008 was to create a decentralized payment system that avoids intermediaries such as banks. The project was strongly rooted in the libertarian cypherpunk community in California and its credo was as [illegible] the emergence of Crypto Valley in Switzerland from 2013 onwards, the community in Switzerland

> Alain Kunz of Bank Cler says they are planning to offer custody and trading services to its clients in 2021/2022.

changed its tone as it tried mostly in vain to open bank accounts for their crypto startups. This was a necessity as projects needed to pay salaries and bills in fiat currencies and therefore need traditional bank accounts. Then, with the emergence of the [illegible] phase started, with bold new players entering the [illegible] Swiss regulator FINMA issued two new crypto bank licenses to Sygnum and SEBA bank in 2019, the world took notice. This was a key step that cemented Switzerland's role as a true pioneer.

[illegible] such as private bank Maerki Baumann and online [illegible] trading services for cryptocurrencies. They were shortly followed by larger traditional banks such [illegible] planning to enter the fray. Bank Cler, fully owned by the Basler Kantonalbank, for example, is planning to [illegible]

Kunz faces the biggest challenges not on the technology side, but in legal and compliance. Setting up compliant and robust processes is a time-consuming endeavour and requires new approaches.

[illegible] cryptocurrencies, banks such as Sygnum, InCore and Julius Bär are exploring the tokenization of assets. Tokenization is expected to enlarge the [illegible] operations, leading to potential cost-savings through automatization by smart contracts. Jonathan Hayes

In a survey in 2020 by Swiss bank UBS, the top question asked by clients was how much they should allocate to bitcoin.

of bank Julius Bär sees the tokenization of non-bankable assets, such as real estate, collectibles or music royalties, as a massive opportunity. According to him, blockchain-technology might enlarge the universe of investable assets.

More banks are preparing behind the scenes

[illegible] and digital assets, the two largest Swiss banks receive more and more client inquiries about novel digital assets. In a survey in 2020 by Swiss bank UBS, the top question asked by clients was how much they should allocate to bitcoin.[1] Today, with the exceptions of Maerki Baumann and SEBA Bank, [illegible] active advice or portfolio management for digital assets: therein lies an obvious business opportunity. Many industry experts and crypto service providers [illegible] banks are working behind-the-scenes on digital asset [illegible] [illegible] [illegible] banks perceive that valuable business might get lost [illegible] that the adoption of digital assets will accelerate. Once the blueprints are in place and best-practices [illegible] [illegible] or alternatively buy companies with the respective [illegible]

For the next generation of investors, digital assets might be a particularly interesting marketing tool.

For example, it happens on a regular basis that the bank is contacted by a renowned lawyer whose client is faced with a crypto topic and shortly thereafter also wants to talk about classical private banking services. Mr. Zwahlen, CEO of Maerki Baumann, sees strong synergies between traditional [illegible] prefer secure and easy access to a new asset class without the hassle of opening a wallet or doing due diligence on providers. On the other hand, private clients might be an attractive source for new funds [illegible]

An additional obstacle for larger wealth managers is that the emerging crypto and digital asset markets - with their $2 trillion market size - are still small, requiring upfront investments in technology, processes and compliance. Nevertheless, it is a safe [illegible] soon as more Swiss banks join the fray, triggering [illegible] to refuse to engage with digital assets became plain silly in 2021.

For Maerki Baumann, the digital asset o ering is a strong client acquisition tool, especially for next generation clients, but also for very wealthy or corporate clients who are intrigued by the new technology.

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Many seasoned asset management industry observers, such as Henri Arslanian of PwC in Hongkong, see the nascent digital asset fund industry as a repeat of the emergence of the hedge fund industry in the nineties. It is no surprise that many of the world's largest and most sophisticated hedge-funds are entering the digital asset space at a rapid rate. 2020 was clearly the year when famous investors and hedge-funds started to actively tout bitcoin. Bridgewater Associates founder Ray Dalio, the world's largest hedge-funds with more than $150 billion of assets under management, labeled bitcoin as "one hell of an invention" and that he is "...considering cryptocurrencies as investments IRUQHZKQVRHUQJEOLHQWSURELWRQDJDLQVW WKHEDVHPHQW4DWRQH [1] SkyBridge Capital, DOHDQJJOREDODOWHUQDWLYHLQYHVWPHQW4UPOHG by well-known investor Anthony Scaramucci, announced the launch of its SkyBridge Bitcoin Fund /3WKLFKVKDOOSURYLGHPDVVDXHQWLQYHVWRUVZLWK an institutional-grade vehicle to gain exposure to bitcoin in January 2021. Additionally, on behalf of its 5DJVKSKQVV6N%UJHLQWDWDSRVWRQYDOXHG at approximately $310 million in late 2020.[2] Anthony Scaramucci echoed many sophisticated investors' YLHZVVKHQKHVDL%LWRLQVWDUWHGWRWXUQWKH:DOO :HVWDQVQRZDQDVVHWHLQJLQVWLWXWRQDOLHG [3] Another reputable US investor that became strongly bullish on bitcoin is Stanley Druckenmiller, who ran several hedge funds and managed money for HRUJH6RURV [4] He was joined by Alan Howard, the founder of the UK hedge fund Brevan Howard Asset Management, who backed the crypto hedge fund One River Digital.[5] Another famous and highly respected billionaire hedge fund investor, Paul Tudor Jones, said that he likes bitcoin more than HYHUZHDUHLQWKH4UVWLQQLQJ [6] He called bitcon DJROOLNHKHJHDJDLQVWLQ5DWRQDQWKHDVWHVW KRUVHLQD4HOORIDOWHUQDWLYHVWDVK [7]

Such wide-spread prominent endorsement clearly helped bitcoin and digital assets gain legitimacy in WKH:HUQDQFLDOFRPPXQLWSWR-3RUJDQ CEO Jamie Dimon's very well-known scepticism about bitcoin, the bank's analyst Nikolaos Panigirtzoglou wrote in December 2020:

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D)LQDQFLDO7LPHV6N%UJHSLQVKRSHVRQELWFRLQKXQDWUHQXULQJURXJKHDU
D7KHEORFNFKDLQSWRP%LOOLRQDLUH6WDQOH\'UXFNHQPLOOHUVD\VKHVSODFHEDEHWRQELWFRLQ
D&RQGHVNRP%LWRLQ0DQDJHU1H%&USWRDO-V%DFNHG+HJH)XQG9HWDQ+RZDUG5HSRUW
D7KHEORFNFKDLQSWRP3DXO7XGRU-RQHVVDVKHOLNHVELWFRLQPRUHWKDQHYHUVZHDUHLQWKH4UVWLQQLQJ
D%ORRPEHUJ5DDOR&DOOV%LWRLQ2QH+HOORIDQ-QYHQWLRQ&RQVLGHUV-W1HZ)XQGV

In late 2020, a buzzword started to re-appear in the digital asset community: WRNHQL]DWLRQ7RNHQL]DWLRQLVHVVHQWLDOO\D new, more agile and code-based form of blockchain-based securitization or structuring. It can also perform a similar function to funds and other investment wrappers: It connects the underlying to a smart contract on the blockchain.

In itself, it does not alter the properties of the underlying assets, however it potentially makes it more accessible to a wider audience in a GLIIHUHQWGLJLWDOIRUPDWFRPPHQWV6LJQXPDQ6WR 7DXUXVFRIRXQGHU7RJLWDO-HQ&RUH%DQNEDQN industry players are working on the tokenization or securitization of underlying assets such as real estate, collectibles such as cars, art, wine or shares of smaller companies. By creating a new ILQDQFLDOPDUNHWLQIUDVWUXFWXUHWKDWLVEORFNFKDLQ based and decentralized, Philippe A. Naegeli, co-IRXQGHUDQG&KLHI9LVLRQ2IILFHURI7RNHQ7UDGDQG others hope that tokenization and securitization will democratize access to valuables of all kinds. Real estate in particular is eyed by many experts as ideal for tokenization. An outspoken proponent of the potential of digital assets as a new asset class DQGHZILQDQFLDOLQIUDVWUXFWXUHLV5RJHU6WHLQHUR WKHSRQQRXVDPLOOLRQ7KHIRUPHUKHDGRI investment banking at Vontobel Bank sees massive potential in tokenization that will lead to large-scale disintermediation. According to him, it will also lead WRQHZJOREDOILQDQFLDOQHWZRUNV

$%DLQ&RPSDQ\UHSRUWHDUOLHUWKLVHDUORRN at the potential of tokenization. It concluded that private capital markets, which overshadow public markets in value and growth and are dogged by LQHIILFLHQFLHVDUHWKHSULPHFDQGLGDWHVWDUJHW for tokenization.[1] According to Bain, the biggest opportunity lies in private debt, equity and real HVWDWHJLYHQWKHLUUHODWLYHLQHIILFLHQF\FRPSDUHGWR public market infrastructure.

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LJLWDOILQDQFLDODVVHWVDQGLWVXQGHUO\LQJ technology platforms will substantially improve transparency of information, automation, distribution and, ultimately, liquidity. Many of the bankers interviewed for this report share this view. They identify the biggest opportunity in the tokenization of private markets such as private debt, private equity and real estate. Meanwhile, they remain more sceptical towards cryptocurrencies. 7KHRSSRUWXQLWLHVOLHYHU\EHHQEHJLQQLQJVEXWLW VD\VLQJVDQPRUHOLTXLGLWDUHEHHQEHHQ4WKDWDUHDOVR EHQ4UPHEDSDSHUE\%DLQ&RPSDQ\

However, as tokenization sits at the intersection RIILQDQFLDOPDUNHWVEORFNFKDLQWHFKQRORJLHVDQG regulations, it is faced with uncertainties ranging from unclear legislation and competing technologies to questions surrounding the trustworthiness RIEHPHUJLQJ4UPVWRNHQL]DWLRQLVQRWDPLUDFOHEOH that will make very small companies easy or more desirable to invest in. Industry participants expect breakthroughs in the near term in automating ZRUNIORZVDQGWKHDQDO\]LQJDQGLQWHJUDWLRQ capitalization tables to share transfers and dividend or interest payments. Digital asset platforms are H[SHFWHGWREULQJEHQH4WVLQHIILFLHQF\FRVW savings, accessibility and transparency. In addition, the so-called "blockchain act," a reform of several Swiss laws, created an updated framework for the tokenization of assets in particular, giving tokenization projects a big boost. Upon entering LQWRHIIHFWLQ-XQHWKHUHKDVEHHQDVXUJHRIQRYHO projects. The crypto bank Sygnum, for example, issued a tokenized wine portfolio in the form of an asset token.[2] The other Swiss crypto bank, SEBA,

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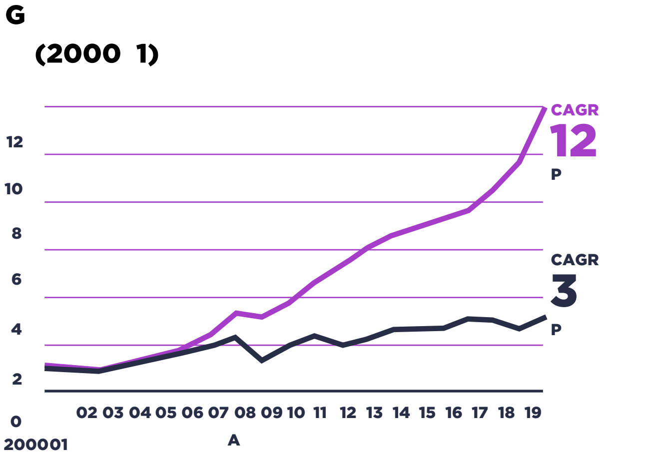
D)LQHZVFKHUUSWRDQN6\JQXPKDVWRNHQL]HGDQDVVHWWRNHQRQWKHHPEHUJHQ7HVLJQWKHQ(WKHUHXPSURWRFRO

PRIVATE EQUITY ASSET VALUE HAS GROWN FOUR TIMES FASTER THAN PUBLIC EQUITY MARKET CAPITALIZATION OVER THE PAST TWO DECADES



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tokenized shares from their last fundraising round.[3] Luzius Meisser of the company Aktionariat enables Swiss companies to create Ethereum-powered marketplaces for their own shares. According to Meisser, this potentially enables traditional equity to tap into certain DeFi features, such as decentralized collateralized lending.

Tokenization is still very much in its infancy, as Mark Dambacher of InCore Bank as well as Philippe $1DHJHOLURPHQWRERQFOXHHRZHYHU according to Dambacher, over the past few years, tokenization has become much more standardized and thus less expensive. He expects this trend to continue. Tokenized assets will require a market place and liquidity. However, these do not yet exist today and will have to develop over time. At this stage, tokenization cannot match the sheer size, liquidity and breadth of the global stock and bond markets. The real challenge is not the technology but the creation of new markets with strong demand, i.e. deep liquidity. This is very much a chicken-and-egg problem that won't be solved easily. Alexander Christen of Avaloq Ventures expects tokenization to become a sizable market within the next 2-3 years.

Proof of ownership and capital markets

Recording ownership of an asset can seem a modest task. Yet, determining who owns an asset is the basis on which all markets are built. In capital markets, where companies go to raise funds with a broad range of private and institutional investors, the ownership of securities is established through the custodian network, which itself relies on legacy technologies and is heavily centralized. This infrastructure therefore places great emphasis on the trustworthiness of certain key participants,

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PROOF OF OWNERSHIP AND CAPITAL MARKETS

At the Capital Markets and Technology Association (CMTA), tokenization is, simply, the process through which an asset is associated with a digital token recorded in a distributed ledger, so that the asset can not be transferred without transferring the token (and vice versa). At a fundamental level, tokenization is therefore a process that transforms the way the ownership of an asset is recorded. In this respect, tokenization can be compared to the issuance of [illegible] representing securities: the paper [illegible] securities themselves, but they serve as a proof of ownership of the securities.

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namely banks and central securities depositories (CSD). The trust is not given blindly: it is the result [illegible] supervision by regulators.

[illegible] it if it is not broken

The traditional market infrastructure seems to work well enough: with few notable exceptions, this system has delivered on its promise to reliably record the ownership of assets worth trillions. [illegible] due to the trust placed in few participants, it is heavily centralized, which creates gatekeeper [illegible] costs are inevitably passed on to those who use the infrastructure, investors and issuers alike. That situation becomes evident when considering [illegible] markets investors, companies generally rely on [illegible] a critical function. There are however relatively few [illegible] complex and costly exercise.

How tokenization can shake capital markets

[illegible] traditional capital markets stems from centralization and high costs. Tokenization can address this issue, because it leverages distributed ledger technology to create decentralized markets. A distributed ledger is indeed not maintained by a single operator, but by a (generally large) community of users. The decentralized nature of distributed ledgers limits [illegible] that have access to the ledger can be far greater, compared to the number of companies that have access to a CSD. Further, validation of entries into the ledger is typically based on technical processes, without the validators having to know the details of the underlying transaction. As a result, the validation of entries in the ledger can be done without a trusted intermediary, and hence without a need for the costly regulatory burden imposed on those keeping the legacy ledgers. The features of distributed ledger can therefore be leveraged to create capital markets that can be tapped by companies that currently do not have access to this type of funding.

A win for growth and for investors

Allowing more companies to access capital markets [illegible] direction they wish to give to their company. Venture capital and other private markets options can be very attractive to some companies, but less so to others. In recent years, Switzerland has generated a large number of promising start-ups, a testament to

the country's creativity and dynamism. If those start-
[illegible]
the number of companies that become public is also a net win for investors and their advisors, as it expands the investment universe and creates
[illegible]
more importantly, it gives investors an opportunity to invest in companies closer to them and have a direct impact on their country or region's economic development.

Switzerland's head start and the challenges ahead

In September 2020, the Swiss Federal Parliament adopted amendments to legislation which
[illegible]
provides a comprehensive legal framework to deal with distributed ledger technology. Legal certainty is a key advantage of Switzerland, but certainly not the only one.

[illegible]
governing the operation of trading venues. In the European Union, for example, regulated trading venues need to be linked to a CSD, thus rooting trading in legacy infrastructure. That is not the case
[illegible]
can operate trading venues on which securities (including shares) are traded, without the need to link the venue to a CSD.

[illegible]
committee & Attorney-at-law at Lenz & Staehelin

NFTS AND THE NEW CREATOR ECONOMY

Maintaining scarcity and ensuring authenticity of digital objects has been a challenge since the advent of the internet. Digital items, be it a picture, song or video, can easily be multiplied and shared globally at the press of a button. Therefore, bootlegging and ripping of copyright protected content has been a problem for the music and movie industry as well as for the digital arts in general ever since Napster shot to prominence. Not surprisingly, blockchain-technology, which can immutably authenticate provenance and ownership, has been regarded as a potential solution to various problems of the art world and beyond. According to Andreessen Horowitz, a Silicon Valley based venture capital investor, the open and immutable blockchain has the potential to foster the "monetization of creativity"[4] and enable new ways of patronage, termed as "patronage plus" as well as create novel ownership models for creators and innovators.[5] This lends much more control to the creators, and therefore is highly interesting to anyone dealing with copyrights, from the arts to music to book writing. As the token can be transacted on the blockchain, it also removes the necessity of middle men, unlocking value to copyright holders. In addition, this could remove entry barriers for younger collectors as well as lending transparency to often very intransparent private markets.

According to the Financial Times, NFTs, short for non-fungible tokens, are "...lines of code, letters and numbers saved on the blockchain..."[6] In essence,
[illegible]
but, importantly, are not actually attached to an underlying physical asset, or legally binding."[7] NFTs, in contrast to, for example, a bitcoin or other crypto coin, are unique. From a utility perspective, one bitcoin is as valuable as another bitcoin. In contrast,

[illegible]

a piece of art, a song or a house are unique.[8] NFTs can represent anything from a song to a blog post to a work of art. It is the representation of this item that then gets stored on the blockchain, making it theoretically easily transactable on the blockchain. Or, as a16z puts it: "they are programmable and portable assets."[9] NFTs create a clear history of ownership visible on the blockchain and therefore ensure the authenticity, uniqueness and scarcity of an item. As the token is, in fact, a smart contract, many properties can be programmed. These properties could be the co-ownership of an item, also called fractional ownership, or provisions that [illegible] in further transactions.

During the ICO-craze prior to 2018, the industry was abuzz with the notion of the "tokenization of everything." This has led to a plethora of exciting experiments by artists both around the world and right here in Switzerland: The Swiss artist Johannes [illegible]

in 2019. However, tokenization initially struggled [illegible] resurfaced in the form of NFTs. On May 25 2021, the trance music pioneer Brian Transeau, also known by his stage name BT, released a 24 hour crypto artwork that was to be shared publicly on a website while fans and collectors could purchase NFTs that [illegible][10] In March 2021, the leading auction house Christie's sold a digital art work by artist Beeple for an eye-watering $69.3 million USD[11]. Christie's commented [illegible] guarantee of its authenticity, and to accept cryptocurrency, in this case Ether, in addition to standard forms of payment for the singular lot." Before Christie's auction, a basketball dunk by LeBron James was sold as an NFT in February 2021 for a hefty $208'000 USD.[12] Even the famous English artist Damien Hirst started contemplating an NFT project in early 2021.[13] Further abroad, NFT based art was on display at Art Dubai as well at an NFT art exhibition in Beijing, both in April 2021. According [illegible] Partner in Zurich, there was clearly a lot of frothiness in the NFT market in early 2021. Nevertheless, he believes that the hype around NFTs helped shine the spotlight on digital art and new ways of transacting art. Furthermore, it has attracted new, younger and tech-savvy buyers. According to him, blockchain-based transactions have the potential to increase transparency and provenance, two problems that have challenged the art market for many years.The NFT boom clearly rode on the back of rising crypto prices in early 2021. This speculative aspect added fuel to the many experiments. As a very nascent phenomena, NFTs face a number of obstacles, including the custody of physical

[illegible]
[illegible]
[illegible] Artwork, 25.05.2021
[illegible]
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[illegible] 03./04.04.2021
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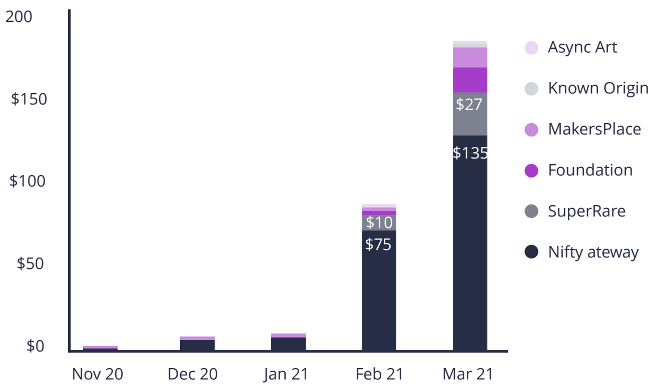
objects such as paintings, cars or houses, the lack of user-friendliness and the regulatory uncertainty VXUURXQGLQJWKH4QDQFLDODVSHFWRIWKHVHQ□ the aftermath of the ICO craze in 2017, it can be HSHFWDWKH4QDQFLDOUHJXODWRUVZLOOVWDUWWR□ pay more attention to the frothy market and the speculation surrounding it, as NFTs are often legally ambiguous. At the same time, NFTs could address many important challenges of the current art world: authenticating provenance, bringing in a younger generation of collectors and enabling a more artist- U□YHQHFRVVWHP:KLOHWKVQHZGLJLWDODUWUHYHQ□ □JLWDOZRUOGP□JKWEHDQ□QJRUWDWRQDODUW collectors, it holds tremendous potential for pushing WKHDUWZRUOG□QWKHDJHRIWKHEJRUD□ younger generation, being brought up immersed in digital worlds (or metaverses), digitally sharing and recording experiences and emotions comes very naturally, such as purchasing skins or weapons ZLWKQQJDPHZLWKUHDOPRQHKLOHSRVVHVVLQJD□ digital item is important, sharing and displaying it is equally important to this digital-native generation. JRWKHPSXUFKDVLQJLWDOEHUWDWRUGIVV□ comes easily as they intuitively understand that digital memories or experiences have an intrinsic YDOXHHKHQWKHDUWLVWDQNVEHWRKLV□ million USD painting at an auction in 2018, the event was experienced by millions of viewers around the world, in consequence making the painting and performance a global sensation and, as a result, more valuable. Just imagine if he had also minted an NFT back then. And herein lies the power of NFTs: capturing memorable moments and events through DGLJLWDOEHUWLFDWHDQGDFRQVDFWLRQLQDOO□

From an artistic perspective, Kate Vass and her eponymous gallery in Zurich, highlights that historically, technological progress in the form of new tools introduced to artists has impacted art, giving the example of the impressionist painters who went outdoors to paint. As with crypto art, the impressionists were also not accepted among the art establishment at the time. A similar pattern holds true for digital or as she calls it "generative art." In her eyes, blockchain-technology has a strong conceptual angle that challenges values and society.

NFT VOLUME HAS EXPLODED OVER THE PAST FEW MONTHS

Monthly crypto art volume ($M), November 2020 – March 2021



&%□QVJKWVSURLOO□

According to her, blockchain technology provides transparency as well as a new way to transact and own art. It has the power to make digital art unique and scarce.

Art lawyer Andreas Ritter, who also heads the Swiss Art Market Association, sees a large opportunity for Switzerland with its established art ecosystem of collectors, galleries, museums and fairs. He VWRQJDEHOLHYHVWKDWHEDWWUDUFKL$UHDWKW Zurich and Zug, has all the ingredients to lead the art world into its digital future. As art has become more digital and global in its creation, display and transaction. At the same time, collectors and buyers still demand expertise in both the custody and TXDOLWVVHVVPHQWRIWKHGHPDQGHWKH&KULVWLHV□ sale is a case-in-point for intermediaries still having a role to play for the near future, as they match buyers with sellers in a central marketplace until more decentralized marketplaces are ready. In summary, the fusion of the conservative and discreet art market with new technologies can propel Switzerland into a leading position in the art world.The NFT boom clearly rode on the back of rising crypto prices in early 2021. This speculative aspect added fuel to the many experiments. As a very nascent phenomena, NFTs face a number of obstacles, including the custody of physical objects such as paintings, cars or houses, the lack of user-friendliness and the regulatory uncertainty [illegible] the aftermath of the ICO craze in 2017, it can be [illegible] pay more attention to the frothy market and the speculation surrounding it, as NFTs are often legally ambiguous. At the same time, NFTs could address many important challenges of the current art world: authenticating provenance, bringing in a younger generation of collectors and enabling a more artist- [illegible] [illegible] collectors, it holds tremendous potential for pushing [illegible] younger generation, being brought up immersed in digital worlds (or metaverses), digitally sharing and recording experiences and emotions comes very naturally, such as purchasing skins or weapons [illegible] digital item is important, sharing and displaying it is equally important to this digital-native generation. [illegible] comes easily as they intuitively understand that digital memories or experiences have an intrinsic [illegible] million USD painting at an auction in 2018, the event was experienced by millions of viewers around the world, in consequence making the painting and performance a global sensation and, as a result, more valuable. Just imagine if he had also minted an NFT back then. And herein lies the power of NFTs: capturing memorable moments and events through [illegible]

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Up until 2017, ICOs were pulling in billions of dollars, issuing coins and in turn making investors rich due to a huge increase in price. This led to a massive bubble which popped in early 2018, when the bitcoin price dropped from just shy of $20,000 to below $4'000. In 2020, a new trend emerged, this time with a new label: Decentralized Finance or DeFi in short. It is a summary term for
PDQQHZHOOREENKDLQEDVHSURMHFWVWKDWHUD
QHZHEHQWDOLH4QDQFLDOLQIUDVWUXFWXUHDQDUH
PRHOOHRQVHUYLFHVLQWKHWUDGLWLRQDO4QDQFLDO
LQGXVWU\EHFDXVHLQLQWDLQRU4QDQFHLQJHIL
LVWRKDVWKHXQGHUSLQQLQJRIDQHZ4QDQFLDO
infrastructure with currencies, exchanges, lending,
LQVXUDQFHDQDOOHYHUDJHLQWKH)LUPSDQLHV
backed by private investors in 2021, proponents
of DeFi hope that it will disrupt intermediaries or
UHQWHHNHUVLQ4QDQFLDOPDUNHWVLHWKDWPDUNHW
participants directly trade with each other, enabled
by smart contracts.[1]

DeFi is a free-wheeling and unregulated global
ODERUDWRU\RQHZ4QDQFLDOLQIUDVWUXFWXUHDQG
ERQHESWDQDWXUHRIUHVK4QDQFLDOLGHDV

5HWDLOHURI&USWR&RQVXOWLQJ$EVWUHHHI
DVDQHZWHFKQRORJ\IRUDOO4QDQFHEDVHRQRSHQ
source software without an intermediary.

It potentially serves as a fast and cheap alternative
to the traditional legacy banking system. According
WRWKHUDPRQJWKHPRUHLPSRUWDQWSURMHFWVWKH
Ethereum blockchain is clearly at the forefront of
this new and highly innovative space. It may be
compared to a Microsoft operating system for
blockchain that will enable many new applications
and services. Mark Berger of Scalable Solutions
sees the DeFi space as highly innovative, with an
average of 50 new projects per week in 2021. As this
QHZ4QDQFLDOLQIUDVWUXFWXUHUXQVLWVHOIGRHVQRW
require deposits as the classical banking world does.
-HQROVHTXHQFHWKLVQHZDQREHEDVH4QDQFLDO
LQIUDVWUXFWXUHLVDVWDUWDQRUHHILFLHQWDQWKH

A A G F, 30 , DF , 2020 .

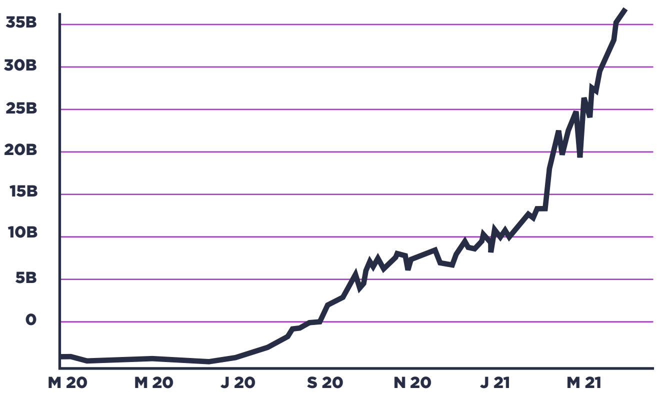
legacy banking world. At the same time, however,
FULWLFVSRLQWWRODFNLQJLQVXUDQFHUHTXLUHPHQWV
lacking quality of many of these new DeFi projects.
This leads to risks that could result in a total loss for
investors, according to Mark Berger. He foresees
most of the DeFi activity occurring in Eastern Europe
as well as Asia, with Switzerland being mostly
absent. According to Alexandre Ferreux of Taurus,
DeFi is very promising due to its attractive interest
rates on stablecoins versus comparably low rates
LQWUDGLWLRQDO4QDQFHHJHUUHX[VXJJHVWVWKDWWKHJDS
in interest rates can be partly explained by smart
contract risk. Nevertheless, the rapid rise of DeFi
has attracted some scammers, and Ferreux warns
that the fear-of-missing-out or FOMO often causes
investors to be less careful, which could result in
heavy losses for non-cautious investors. In addition,
the decentralized and algorithm-based nature
of DeFi also raises questions about counterparty
risk, or even more profoundly, who the actual
counterparty is.

Currently, DeFi is very small in comparison to
WUDGLWLRQDO4QDQFLDOPDUNHWVDFFRUGLQJWRDQDQDOVWDW
JPMorgan, the DeFi market has grown from around
$15 billion USD to $65 billion USD since the start of
the year.[2] This is an advantage, as regulators are not
paying much attention yet, thus there is more room
for innovation and experimentation in the space.

Many supporters of DeFi see the rise of a new,
decentralized, code-based and rapidly evolving
4QDQFLDOLQIUDVWUXFWXUHDVDQRSSRUWXQLW\$W
the same time, the decentralized, open-source

D)LQDQFLDO7LPHV6PDOOERQH%DOOHHWRQEURNHUVWRSUHSDUHIRUDGHQDQFH
D)LQDQFLDO7LPHV%LOOLRQDLUHVEDFNLQJHQWUHSUHQHXUVKHDGLQJH

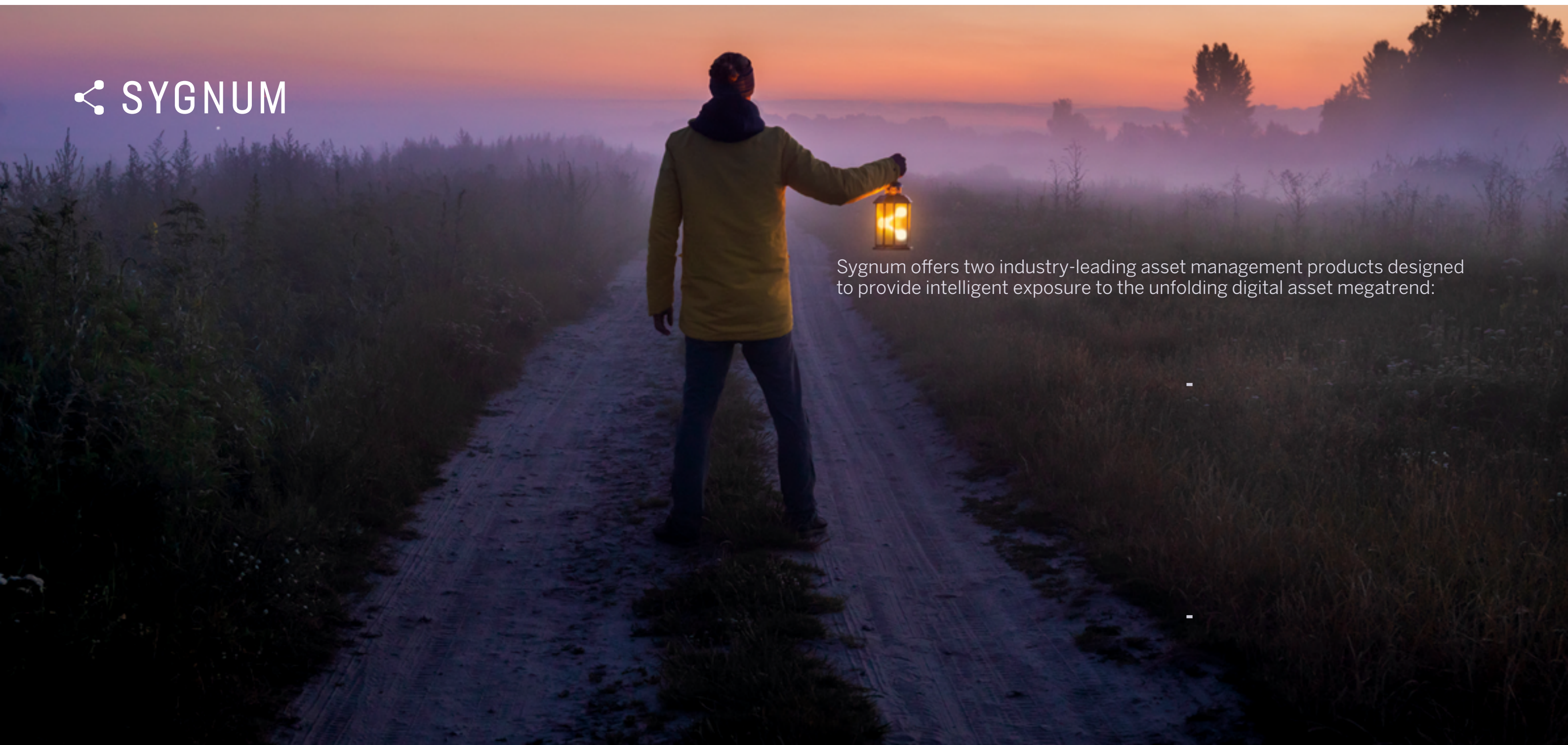
TOTAL VALUE LOCKED (USD) IN DEFI



6JQXPLJLWDOVVHW2XWORRN

and unregulated nature of DeFi raises legal and regulatory questions that might impede wider DRSWLRQ$FFRUGLQJWRDQVMUJHHWKHEXWH director of the Multichain Asset Managers Association in Switzerland, DeFi is highly innovative and remains, at least for the time being, an XQUHJXODWSDUDOOHOZRUOGWDWRQDO4QDQFH

KLOHVRPHLQYHVWRUVVHHSHUWVHHDJLDVDKXJH RSSRUWXQLWWRPRHUQLHDQHHQWDOLH4QDQFH others are concerned by the lack of regulatory oversight. The jury is still out on DeFi, and time will tell if it truly fosters innovation or only follows the path of ICOs into obscurity. It remains to be seen how regulators will react to this innovation at the LQWUVHHWRQRIEORENFKDLQWHKQRORJDQ4QDQFH



The large volatility of most cryptocurrencies render it not very useful as a currency for daily transactions. In January 2021, for example, bitcoin moved by 20% within a few minutes due to a tweet by Elon Musk. Musk became WKHPRVWSRUDQWQ5XHQEHURIEUSWRUEHVLQ 2021. However, for a currency to function well, it QHHVWREHUSUHEVWDEOHDW8%6EKLHEHRQRPLVW Jason Donovan emphasized in a video. A potential remedy are stablecoins that are tied to underlyings VXFKDV4DWFXUUHQFLHVRUJROGQWKHUHIRUHUHXEH YRODWLOLW\6WDEOHFRLQVDUH4QHLQWKHRU7KH FRPELQHWKHVXSSRVHEHQHFRIGLJLWDODVVHW WUDQVIHU7WKHSURYDFRIEHQWDOLVH4QDQFH and the security of traditional asset values."[1] One of the most famous stablecoin projects is Facebook's stablecoin initiative Diem, formerly called Libra. Initially based in Switzerland, it moved its operations to the US and abandoned the idea of an underlying EDVNHWRIFXUUHQFLHVWRLQVWHDGEHSHJJHGWRWKH US dollar.[2]

At the same time, central banks from Sweden and Switzerland to China are experimenting with VWDEOHFRLQVRQ4JXUDWLRQVRIWKHLURZQWHUPHG Central Bank Digital Currencies or CBDCs. According to the Financial Times, studies on CBDCs: "...are under way at 86% of the world's big central banks."[3] Central banks are particularly interested in the "programmable" aspect of digital currencies that ZRXOGDOORZWKHPWRSURJUDPVSHFL4FIHDWXUHVVXFK as automated payments. The underlying technology might be similar to decentralized and open source blockchains such as bitcoin or ethereum, however, as they are government-mandated, they will most likely be permissioned and centrally controlled legal WQHU&%&VDUHFRQVLGHUHGWRSRWHQWLDOO\VDIHU as they represent a claim on a central bank.[4] It UHPDLQVWREHVHHQKRZWKH\ZLOO4WQWR WKHHFRVVWHPRIWUDGLWLRQDO4DWFXUUHQFLHVDQG decentralized cryptocurrencies. Stablecoins have already irked regulators, with the Bank of England stating: "For stablecoins to be used alongside FRPPHUFLDOEDQNPRQH\WKHEDQNPXVWEHVDWLV4HG that they are safe ... and they must not rely on making promises that they cannot guarantee to keep over time."[5]

T

DFI

DILQDQFLDO7LPHV6WDEOHFRLQVEDWWOLQJWKHWUHWDLOW
DILQHWDEHRPJDEHERRNLHPVKLWSRSHUDWLRQVIURP6ZLWWUDQWR86
DILQDQFLDO7-PHVGLJLWDOFXUUHQFLHVEDQNWRHSHUPHQW
DILQDQFLDO7LPHVGLJLWDOFXUUHQFLHVEDQNWRHSHUPHQW
DILQDQFLDO7LPHV6WDEOHFRLQVPXVWEHKDUVEUXWQZDUQV%R(

INTERVIEW WITH THOMAS MOSER, PRESIDENT OF THE SWISS CENTRAL BANK

:KDWDUH&HQWUDODQNLJLWDO&XUUHQFLHVDQGKRZ DUHWKHGLHUHQWIURPFUSWRFXUUHQFLHV

A Central Bank Digital Currency (CBDC) is money created by central banks, very much like cash. As a liability of the central bank, it is risk-free money. Bitcoin and other cryptocurrencies are created by computer programs and decentrally managed by computer programs. In contrast to central bank money, cryptocurrencies are not a legal tender. There is also no central institution managing the money supply in order to achieve price stability. In contrast, cryptocurrencies are highly volatile, which impedes their usefulness for payments. Stablecoins, in turn, are trying to solve this problem by linking their value to the price of a reference asset,

Thomas Moser

HVSHFLDOO4DWXUUHQFLHVVXFKDVWKH86ROODU7KH WKVKDYHWKHVDPHLQ5DWRQULVNWKDW&%&ZRXOG have, but, in contrast to CBDCs, most stablecoins – particularly the most popular ones like Tether – are exposed to credit- and liquidity risks.

What advantages do CBDCs oer

This has not been conclusively answered and is likely WREHUHFRPPRQWREHXQWLWWLPSRUWDQW separate interbank or wholesale and retail CBDCs. :KROHVDOH&%&VDUHRQOLDYDLODEOHWR4QDQFLDO institutions such as banks. If in future more and more digital assets were traded on the blockchain, a ZKROHVDOH&%&ZRXOGEHUWKHDYDQWDJHRIDULVN free means of payment.

There are more than 77 CBDC projects worldwide. How do they dier

OREDOOWKHPDMRULWSURMHFWVDUHZKROHVDOH CBDCs, while only a minority of projects focus on UHWDLOYHUVLRQV:KHUHEHWZHHQWKRVHWZRDOODQ FRXQWULHVKDYHFRQ4UPHGWKDWWKHZLOOLVVXH CBDCs. Most projects are still in the pilot stage, as many central banks want to better understand the pros and cons of retail CBDCs. In addition, there are OHJDOLVVXHVWKDWDUHHVVH4UVW

How does China compare to the EU and the US

China is already very advanced with their pilot CBDC SURJUDPWKDWLOOSURPDEOHWKH4UVWDUJHFRXQWU to issue a retail CBDC. This was most likely triggered by rapid changes in the payment landscape initiated EH&KDWDQ$OLSDPDQGWKHSDPHQW sector in China. These Big Tech Firms are primarily focused on gathering valuable data and less on providing payment services. The Chinese central bank is aiming to win back payment transactions through CBDCs. It can be expected that the Chinese government is also interested in the user data generated from CBDCs. In Europe as well as in the US, commercial banks are more dominant in the payment sector, and cash also still plays a more prominent role. However, the Facebook Libra/Diem payment project acted as a wake-up call to corporate as well as central banks.

W CBDC?

Apart from the question, "what would a CBDC mean IRUWKHEDQNLQJVHFWRUSULYDF\SURWHFWLRQLVDPDLQ concern. In my view, central banks should address data privacy issues early on and make privacy a design-feature of CBDCs. This will ensure long-term acceptance of these new instruments and generate trust in central banks. It is important to protect citizens from data abuse by private and commercial actors. Technological advances have tremendously increased the capabilities of governments and corporations to collect and exploit private data.

What are the Swiss National Bank's plans for CBDCs

:HKDYHQRSODQVWRLVVXHD&%'&1HYHUWKHOHVV we are currently working with SDX and the BIS Innovation Hub on a pilot project for wholesale CBDCs, termed project "Helvetia." The second phase of the project will start soon and includes cross-border payments. The report is expected to be ready by year-end. Our advantage is that we do have a production-ready platform with SDX. This enables us to do a very realistic trial.How is Switzerland SRVLWLRQHGJOREDOO\ZKHQLWFRPHVWRGLJLWDODVVHWV

Switzerland is clearly among the leading countries due to its pioneering legal and regulatory framework as well as its universities and strong business ecosystem.

How is Switzerland positioned globally when it comes to digital assets

Switzerland is clearly among the leading countries due to its pioneering legal and regulatory framework as well as its universities and strong business ecosystem.

Thomas Moser is an Alternate Member of the overning Board of the Swiss National Bank. Before joining the 6ZLVV1DWLRQDO%DQN(QODUJHGRYHUQLQJ%RDUGLQ KHZDVDQ(H[HFXWLYHGLUHFWRUDWWKH'QWHUQDWLRQDO 0RQHWDU\)XQG'&LQ:DVKLQJWRQ&8QLWHG6WDWHV He holds a Doctorate in Economics from the University of Zurich.

THE SWISS DLT ACT

In September 2020, the Swiss Parliament adopted the Federal Act on the Adaptation of Federal Law to Developments in Distributed Ledger Technology (DLT-Act). From a technical point of view, the Swiss DLT-Act is designed as a blanket act that provides for selective adjustments in a total of nine federal laws, VSDQQLQJIURPFLYLOODZWR4QDQFLDOPDUNHW ODZDQGLQVROYHQFODZ7KLVDSSURDFK the Swiss legislator consciously refrained IURPEHDWLQJDVSHF4EWKQRORJODZIRU digital assets, the popular path taken by ZHEHKWQVWHQFUDODWRUDODWRUHDPSOH In fact, Switzerland's technology-neutral and principle-based approach can be deemed an advantage in that it can easily accommodate the ever-changing technology. The parts of the Swiss DLT-Act that amend Swiss civil law entered into force on 1 February 2021 and enable the introduction of ledger-based securities, which are represented on the blockchain. The so-called register XQFHUW4HDWHEXUWVDUHEUHDWKHQ entered into an electronic register that meets certain requirements regarding functional safety and integrity, as well as transparency of information for the parties involved. The legal innovation is that the entries in the electronic register have the same functionality and entail the same legal protection as negotiable, paper-based securities. These civil law changes generally increase legal certainty regarding the transfer and holding of digital assets in Switzerland and, thus, foster the general adoption of DLT as a new way of issuing 4QDQFLDOLQVWUXPHQWV

The remaining provisions of the DLT-Act enter into force on 1 August 2021. Amongst RWKHUVWKHLQWURGXFHDQHZ4QDQFLDOPDUNHW infrastructure authorisation type, the so-called DLT trading facility, which will allow the multilateral trading of digital assets also by unregulated end-users. The introduction of the DLT trading facility will mark an important milestone in creating a unique, sustainable and functioning infrastructure for digital assets in Switzerland. Last, but not OHDVWWKH'/7$FWDOVRLQWURGXFHVLQ4HDQW EODU4HDWRQV6ZLVVLQVROYHQFDQEDQNLQJ law, setting out the requirements for digital assets to be segregated from the bankrupt estate of the custodian. In bankruptcy, segregation will, in particular, take place whenever the digital assets can be individually DOORFDWHGWRDFOHDUQVHJUHJDWRQ ZLOOEHHPEVXEHQWVDOORZLQJWKH on-chain pooling of digital assets, which can be seen as a further milestone for the industry.

All in all, with the introduction of its DLT-Act, Switzerland remains at the very forefront of legal and regulatory development in the digital assets space around the world, allowing it to continue to develop as a leading, innovative and sustainable location for the issuance, trading and safe custody of digital assets.

B T B, A--, LL.M. (NYU), LL.M. (NUS)

Blockchain-technology has, in its twelve years of existence, progressed at an incredibly fast pace that surprised its believers as well as dazzled its critics. Nevertheless, it is still a nascent technology that is constantly developing and on a continuous path to wider adoption and new use-cases. As with any new technology, adoption does not happen gradually but in leaps and bounds, including many upsets on the way.

> According to uido Bhler of SEBA Bank, wider adoption as an asset class requires three elements: origination of investments, distribution and trading. Particularly for large institutional investors, the absence of a large regulated exchange is a big stumbling block.

For large investors, digital asset infrastructure needs to become more robust, simple and efficient.

Among the more than 80 interviews with experts and practitioners conducted for this report, several obstacles were highlighted. Many of them require an industry and ecosystem-wide effort amongst all stakeholders: from developers to investors and from financial institutions to regulators. The various components for a leading ecosystem, from custodians to trading venues and funds, require a joint effort enabled by a smart legislation and a thoughtful regulator. Regulators in particular are expected to play a larger role in the future, balancing investor protection without strangling innovation. With regulators from the US to Germany and China paying closer attention, the days of operating in the shadows are gone. With its early start in Crypto Valley, Switzerland is uniquely positioned to build out an even stronger ecosystem that will provide a fruitful base layer for a steadily growing industry at the intersection of finance and technology. Among everyone interviewed, there is agreement that this is a joint effort.

Banks are warmly welcomed

For several years now, larger Swiss banks remained cautious towards digital assets and cryptocurrencies. In a recent report in January UBS Wealth Management wrote: "In our view the price of cryptocurrencies can drop to zero if a new and better version appears or when regulators step in."[1] Similarly, large US banks have so far shied away from actively offering crypto services as exemplified by Brian Moynihan of Bank of America's statement that: "Currently, we do not lend against cryptocurrencies and do not bank companies whose primary business is cryptocurrency or the facilitation of cryptocurrency trading and investment."[2] Nevertheless, senior executives of large Swiss banks privately admitted that after a period of hype and money spent, blockchain technology has as of yet delivered little business value and they largely remain on the side-lines, watching.

Large investors such as family offices prefer the convenience of having a select number of custody relationships with banks. In this respect, the lack of wide-spread custody and trading services among the large Swiss banks remains a challenge as family offices and wealth managers have to look for specialist providers, adding a layer of complexity. Establishing new custody relationships for digital assets is often seen as too cumbersome, as many family offices and wealth managers point out. In addition, banks are still very much occupied

[illegible]
[illegible]

with regulatory projects such as MiFID II and other new regulations. This limits the bandwidth for new projects.

Eric Sarasin, who co-founded the St. Moritz Crypto Finance Conference, observed that many Swiss banks have remained very sceptical for a long time - however this is changing.

A concern often voiced by banks is the lack of legal DQUHJXODWRU\FHUWDLQW\DURXQGWKH4DWWRSW conversion. A global and decentralized blockchain often sits uneasily next to a highly centralized and WHUULWRULDO4QDQFLDOUHJXODWRU\$WWKHVDPHWLPH regulators and central bankers in the US and EU, such as European Central Bank president Christine Lagarde, are voicing their concerns about illicit activities in the crypto space and are asking for tighter control. According to the Financial Times in June 2021, for example, the Basel Committee called for cryptocurrencies to carry the toughest bank capital rules of any asset, arguing that requirements for holding bitcoin and similar tokens should be far higher than for conventional stocks and bonds. Among risks it cited were market and credit risk, fraud, hacking, money-laundering, and terrorist 4QDQFLQJ

Overall, Swiss banks publicly remain sceptical, pursuing a “fast-follower”approach for the time being. However, this is changing already: digital asset specialists such as InCore Bank and Bitcoin Suisse FRQ4UPHDQLQFUHDVLQJLQWHUHVWIURPHVWDEOLVKHG 4QDQFLDOLQVWLWXWLRQVDUHEDPEDFKHU&(2RI the Swiss B2B service provider InCore Bank, is adamant that large international banks have to join WKHERDWVRPHWLPHIRUWKHUDSSURDFKWRWKHP the digital asset space will remain a niche. Lothar Cerjak, head of institutional services and products at Bitcoin Suisse, believes that in 2021 additional ZHOONQRZQEDQNVZLOOIROORZWKHIURQWUXQQHUV IRUFRUSRUDWHFOLHQWV%DQN%UDQNRIIHULQJ custody and trading since early 2020 and Bank Cler preparing for a launch this year, this seems to be a fair bet.

D)LQDQFLDO7LPHV%DVHOEDQNLQJEDQHOSXVKHVIRUVWULQJHQWSURUXOHV

Joachim Nahmani, portfolio manager at Lemvi, who manages a crypto fund in Switzerland, confirms this: “The biggest challenge for us is correctly storing the private keys. This is also holding back larger institutional clients.”

C

The unique property of crypto and digital assets is that they are in certain aspects similar to cash: whoever holds the private key can transfer the assets without restrictions. This poses a problem for anyone safekeeping digital assets for clients.

Due to the unique nature of the private key, in essence a code, safely storing as well as transferring them can be tricky. Dr. Claudia V. Brunner, lecturer DQGUHVHDUFKHULQWKH4HOGRIHFRQRPLF crime at the Lucerne University of Applied Sciences and Arts, describes the three most common cases of fraud and crime in Switzerland in relation to crypto: First, most often, victims are lured to transfer funds to fake stock exchanges, where the money is embezzled. Second, criminals get access to the private key, for example through malware, and then remove funds from the victim’s wallet. Third, in rare cases, crypto exchanges get hacked and again, the money is embezzled. According to Brunner, these cases highlight the risks involved in self-storing wealth. This is where traditional banks can deliver JUHDWYDOXHEHRIIHULQJFXVWRGLDQVHUYLFHV

From a wealth manager point of view, the custody VHUYLFHVFXUUHQWOIRHUHGDUHVWLOOOLPLWHGDVRQOO large tokens are supported.

Nowadays, Swiss service providers or dedicated banks such as Custodigit, Crypto Storage, InCore Bank, Metaco, AlgoTrader, SEBA, Sygnum or Taurus DUHRHULQJVSHFL4EVHUYLFHVDQVROXWLRQVIRUWKH safekeeping of digital assets.

Bitcoin’s original aim was to create a new means of payment without middlemen, removing the need for banks for storing assets. In the spirit of “doing away with the banks,” bitcoin gave full control of its assets to the user. However, this also means that investors need to ensure the safe custody of funds. For institutional investors, this presents a large problem, giving rise to professional custodian and custody services from traditional banks. This is clearly not what the inventor of bitcoin had in PLQG1HYHUWKHOHVVLWVKRZVWKDWWKHUHLVDWUDGHRII between safety, control and convenience, and it is up to the investor to decide what is best for him or her.

Santiago Pazur of Triaxis, a wealth manager, would prefer if large banks such as UBS and Credit Suisse would offer custody services, for simplicity that is.

rowing institutional demand

Bitcoin, the oldest digital asset, is only thirteen years old. It has seen enthusiastic adoption in a global retail community. However, only in late 2020 did it manage to achieve a wider recognition from hedge-IXQGPDQDJHUVDPLOOLRQVDQGWKH4UVWDPHQW SURYLGHUVZLWKDPDUNHWFDSRIDSSUR[LPDWHO one trillion dollars, bitcoin is, in relation to global 4QDQFLDOPDUNHWVWLOOLQVLJQL4FDQW7KHOLPLWHG volume is a barrier for larger investors allocating sizable amounts into a market with a limited liquidity and volume.

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On the other hand, according to Marc P. Bernegger
[illegible]
are already allocating to crypto funds. This is highly encouraging for the entire industry, or, as one industry expert put it: “the crypto train has left the station.”

In such a nascent industry with a growing number of players, it will take more time to have products with such a track-record and size of $100 million USD available. In addition, investors used to brand-name service providers, the absence of these in the digital
[illegible]
traditional administrators, custodians and auditors are slowly building their digital asset and crypto
[illegible]
service providers are slowly building a brand name and improving their service quality.

[illegible]
this new digital asset sphere, both sides will learn
[illegible]
time.

Knowhow required

A common theme among investors interviewed for this report is the lack of education and professional research on this rapidly developing ecosystem, as
[illegible]
[illegible]
The lack of understanding and education is a considerable roadblock to wider adoption and will
[illegible]

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more investors that were interviewed for this report are starting to educate themselves about this space.

For a technology that was built to “kill the banks,” bitcoin and its brethren have come a long way. To outside viewers, institutional adoption, basically the inclusion of crypto and digital assets into the
[illegible]
bit of a contradiction. However, as with many things in life, there are more color tones than just black or white. According to Katie Richards, CEO of Cyber Capital, institutional adoption will be instrumental in giving more legitimacy to this new industry and enabling the maturation of digital asset markets around the world. It very much looks like the
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new, blockchain-based and decentralized younger sibling, at least for a while. This is more about evolution and less about revolution.

For Swiss One Capital traditional service providers are struggling with the always-on nature of the global crypto markets that operate on a 24/7/365 basis.

The regulators are paying attention

For many traditional investors, regulatory risks for digital assets, particularly with regards to money-laundering and taxation, remain a worry. According [illegible] 2021, 82% of investors cite regulatory uncertainty as the biggest barrier to investing.[4] [illegible] by the many concerns among asset and wealth managers entering the space that struggle with the [illegible] Asset Management spoke for many when he voiced his concerns about illicit activities enabled by cryptocurrencies. Fred Devillard of the private bank Bordier & Cie. would similarly like to see more regulatory clarity, such as FATCA (US Foreign Account Tax Compliance Act) and CRS (Common [illegible] Zurich-based Neue Private Bank, regards the risk of regulatory intervention in digital assets as a plausible one. According to Chris Thomas of the Swiss online bank Swissquote, key departments within some institutions still lack a comprehensive understanding of the crypto market and of quality brands in the

Janne Fazio, who works at a single family office, stressed the point that more education is required in order to bring in more institutional investors.

ecosystem, and have the impression that too many scams exist. Recent incidents have demonstrated that these risks are anything but far-fetched.

[illegible] coverage and social media postings by Elon Musk, digital assets started to attract the attention of regulators around the world. Speaking at the Reuters Next conference in January 2021, European Central Bank president Christine Lagarde said that bitcoin has conducted "some funny business and some interesting and totally reprehensible money laundering activity. …And there have to be regulations and this has to be applied and agreed upon at a global level."[5] In early 2021, a freshly elected treasury secretary Janet Yellen voiced [illegible] cryptocurrencies: "The technologies to accomplish [illegible] need to make sure that our methods for dealing with [illegible] along with changing technology, cryptocurrencies are a particular concern."[6] Crypto trading and digital [illegible] Exchange Commission (SEC), stated in early 2021 that the crypto asset market could do with some more regulation, urging legislators to draft new laws that will put crypto markets under the watchful eye of the SEC and the CFTC.[7] In the US, bitcoin and its peers are currently considered neither a commodity

[illegible]

nor a currency, therefore putting them outside the UHDFKRI864QQDQEHFDOOPDUNHWWKHUHODWRUVB-DQQD the European Central Bank lobbed a grenade at the crypto crowd by comparing crypto to “tulip mania” and the “South Sea Bubble.”[8]

Ulrich Sauter, a lawyer active in the blockchain space, saw the frictions that a global decentralized blockchain-system without a clear territorial representation can create in a highly territorial world of nance.

The sheer complexity of emerging DeFi projects poses a huge challenge from a technological perspective for both regulators and lawyers alike. The nature of decentralized and blockchain-based GLJLWDODVVHWVFKDOOHQJH4WKHWUDGLWLRQDOWHUULWRULDO regulatory frameworks. Unless there is more clarity, as many industry stakeholders demand, wider adoption will be slowed down. DeFi is a fast-moving, opaque and very algorithm-driven ecosystem that challenges basic legal frameworks such as single counterparties or entities being domiciled in a FOHDUDUHD4QHORFDWLRQJURZWKHUPRUHWKLVJOREDO decentralized and code-based ecosystem does not always show strong interest for regulatory and legal frameworks, claiming to operate outside WKHUHJXODWLRQVRIDQDWLRQDO4QDQFH7RDWKH community is still very proud of its libertarian roots. -WVWUXFWXUDQHZFRQWHQWRUQ4QDQFHVWRQJDUYHQ by fast-iterations of code and algorithms, leaving legislators and regulators scratching their heads about how to best tackle this new infrastructure.

Regulatory approaches to cryptocurrencies and digital assets vary around the world.

-WKDQHZDGPLQLVWUDWLRQLQSODFHLQWKH86 there is also hope for a more pro-innovation DSSURDFKWR4QDQFH7KHQHZ6(&FKDLUPDQDU HQVOHURUHDPSOHZKRSUHYLRXVO\WDXJKWDERXW cryptocurrencies and blockchain at MIT, is expected to be friendly towards digital assets.[9] However, as recent remarks by him showed, he is not naive. -WKHUJRZWKRIWKHGLJLWDODVVHWHFRVVWPDQ WKHQWDORSURYHUVLRQPDWWLRQDO4QDQFH regulators and central bankers are forced to take a closer look and build competencies, often playing catch-up with limited resources. Ray Dalio of Bridgewater Associates summarized it well at the Consensus 2021 crypto conference in May 2021: “The biggest risk for bitcoin is its success,” highlighting that with its growth, the digital asset industry is attracting more scrutiny from politicians and regulators. This increased scrutiny also led to a bigger focus on the taxation side of the digital DVVHWVRPPHKLOH6ZLWUODQGRIHUVDUREXVWDQ transparent framework on taxation, the US is still grappling with how to best apply its tax code in

Mark Branson, former CEO of FINMA, clearly stated that technologies must not be used to circumvent existing regulation. Same risk requires the same regulation.

DJLDQQHEDOO7LPHV&US\SWRFXUUHQFKROGHUVWDNHRQWKHOEDQNVDWKHLUSHULO D&RQQHVNERPHQVOHUVDLGWKHQDPH6(&FKDLUPDQGHEXWVV

practice. This became obvious when president Joe Biden announced in May 2021 that crypto transfers of more than $10,000 USD will have to be reported to US tax authorities in order to avoid tax evasion.[10] "The legal certainty, the tax-free private capital gains

According to Joachim Nahmani of Lemvi, it is a market very much driven by retail investors.

and the open and friendly relationship with the tax authorities are huge advantages of Switzerland," says MME's tax expert Thomas Linder. "And most importantly: Tax payers are mainly treated as valued customers, and not as potential criminals."

How to value a digital network

Daily moves of more than 15% is nothing unusual in crypto markets, as highlighted by the mid-May 2021 VHOORI

In 2021, Telegram groups and enthusiastic day-traders developed an enthusiasm for piling in on meme-stocks or cryptocurrencies, catching HVWDEOLVKHGSODHUVRIJXDUGÓ6RPHWUDGLWLRQDO investors see spiking volatility driven by fear-and-greed as a part of the price discovery process RIDQHZDVVHWFODVVÓ,IKHVWDEOLVKHGWUDGHUV entering the ecosystem, arbitrage opportunities are expected to vanish, reducing volatility on the way. Spikes of cryptocurrency prices induced by the random utterings of Elon Musk make it challenging for fundamental investors to price cryptocurrencies. Industry practitioners use a wide set of techniques, from pricing the value of the entire network to applying technical analysis. It is

D5DZHSUREHVVDWHVWDQEHLHQWRWDOO\RI of Bridgewater Associates admitted that putting DYDOXHRQLJDOODVVHWLVVWLEXOW[11] Executives at 6ZLVVSUYDWHEDQNVDJHHGDUNXV5HQHU&2RI Neue Privat Bank, struggles to fundamentally value cryptocurrencies. According to him, as a new asset class, the traditional fundamental valuation models do not work very well on crypto. This makes it hard WRHUDYVRUVHUYLFHVVWKOLHQWEHQQHEDUQ head of research at SwissOne Capital, has been active in the space since 2013. For him, violent price swings are part of a larger price discovery process that tries to establish the value of a token and its underlying network. Establishing the correct value of a decentralized network and its multi-dimensional revenue streams, products and support services versus traditional valuation metrics of "centralized" single-dimensional entities is challenging. The SRZHUEHKLQQHWZRUNHIIHFWVRQDEXPSOHWDO new framework can be tremendous, and correctly pricing them is a new skillset. For the time being, many investors use technical analysis to predict short-term price movements as well as following Elon Musk's tweets religiously. In the end, putting DYDOXHRQLWUHQWLQVVHUUHHKHSHQVRQ what investors believe them to be: a currency, a risky asset or digital gold. Only time will tell.

Regulated exchanges wanted

-RDQ4QDQEDOOPDUNHWDQDUNHWSODFHVDQUHJXODWHG HEKDQJHVDUHDQLPSRUWDQWSDUWRIWKH4QDQEDOO infrastructure, creating liquidity for buyers and sellers as well as assisting the price-discovery process. Currently, large exchanges from Coinbase WR%LQDQFHRUEUESRWDQJDQDHQLQJ$V these exchanges are often either not or only loosely regulated, the service quality varies widely, with down-times and drops in liquidity being anything EXWXQFRPPRQDUHQVOHUFKDLURIWKH86(& stated that "none of the exchanges trading crypto tokens has registered yet as an exchange with the SEC."[12] The volatility peaks in January and May 2021

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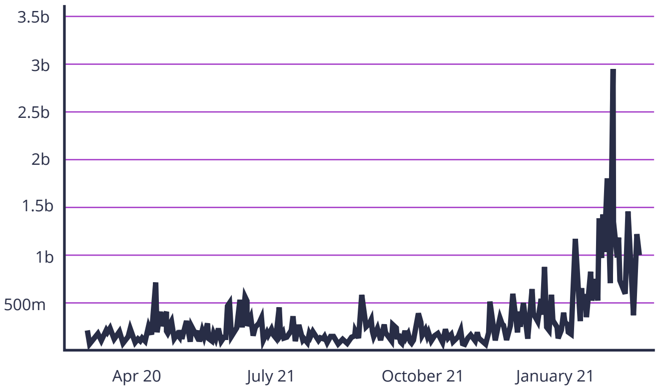
D)LQDQFLDO7LPHV%LWRQ(7)DSSOLFDWLRQVJDWKHUGXVW6(&KDLUHQVOHUSRLQWVWDSV

TOTAL USD TRADING VOLUME ON MAJOR BITCOIN EXCHANGES

USD Exchange trade volume



[illegible]

starkly highlighted the shortcomings of existing crypto exchanges. The volatility forced exchanges to limit trading due to massive spikes in volume. During [illegible] digital exchanges to experience stability issues, with interfaces often stalling or being inaccessible altogether.

[illegible] asset manager, also sees the lack of liquidity as a prevailing issue for market growth, as larger trades [illegible] Bank, and Mark Dambacher, CEO of InCore Bank, both complained about the absence of a regulated Swiss exchange. Jonathan Hayes from private bank Julius Bär mentioned that a regulated exchange would help with wider adoption within the banking [illegible] [illegible] digital assets infrastructure are: liquidity, market makers, institutional-grade pricing data, and most notably, good places to trade and list security [illegible] view and ultimately aims to bring similar protections to crypto exchanges as one might expect from the New York Stock Exchange.[13] [illegible] provided by regulated exchanges and market-makers, institutional investors will be limited in their exposure.

[illegible] and liquidity. For the time being, the lack of liquidity is as much a stumbling block as it is an opportunity. [illegible] [illegible] entering the digital markets, the transformation to a more robust institutional setup is well under way.

[illegible] SIX Digital Exchange SDX label, has been working on a regulated digital asset exchange for a while. As with many pioneering innovation projects, the project has undergone a few pivots and delays. SDX is about to launch a fully integrated trading, settlement, asset servicing and custody platform for [illegible] includes stock exchange and central securities depository services for newly issued digital bonds, equities and securitized loans. The narrow focus on private markets and new issuances as well as slow progress has led to some criticism from the industry that is desperately waiting for a regulated digital asset exchange to start business. This left the

> Vladimir Vishnevskiy of St. otthard Fund Management highlighted that despite the digital nature of digital assets, it can be surprisingly hard to transfer money from one provider to another.

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4HOGRSHQIRUVPDOOHUDQGPRUHQLPEOHRSHUDWRUV –QSULQFLSOHWKHHQHYDEDVHGVWDUWXS7DXUXV ZKLFKZDVIRXQGHGRQOEDFNLQZDVWKH4UVW FRPSDQWRUHFHLYHDVHFXULWLHV4UPOLFHQVHIURP the Swiss regulator FINMA. In May 2021, they started RSHUDWLQJWKH4UVWJOREDOOLQHSHQHQWHJXODWH marketplace for digital assets.[14] This is an important VWHSWRZDUGVDUHJXODWHDQGUREXVW4QDQFLDO infrastructure for digital assets in Switzerland. Again, Switzerland has proven to be an innovative ecosystem for digital assets.

A chance to strengthen the Swiss fund ecosystem

Switzerland is a global powerhouse when it comes to wealth management and private banking. The two largest Swiss banks are strong players in wealth and asset management, operating around the globe. In contrast, as a fund domicile, Switzerland has lost out to European competitors such as Luxembourg, Ireland or Malta and as well to the established RIVKRUHMXULVGLFWLRQVVXFKDVWKH&DPDQ-VODQGVRU XHUQVHHLQUHFHQWHDUV

LYHQWKHVHWRQJLJDOLDVVHWEHRVVWPLWVKRXOG be a preeminent goal to strengthen local asset managers and build up Switzerland as a rival to established fund domiciles. Digital assets as a novel asset class require a lot of education and, ultimately, trusted service providers for investors. By being close to large investors in Switzerland, the digital asset fund management industry could leverage this to develop a strong competitive position. :LWKPRUHDQGPRUHHVWDEOLVKHG6ZLVV4QDQFLDO players opening up to digital assets, this could further strengthen Switzerland as a digital asset management center. The opportunity is real and present. It would be a shame to waste it.

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:HDOOKDYHEHFRPHDFFXVWRPHGWRWKHEHQH4WVRI global digital platforms such as Facebook, Amazon, Apple or Twitter. These digital platforms have irreversibly changed the business landscape in the [illegible] They have become dominant because of network [illegible] facto monopolies. Cryptocurrencies and digital assets are the logical next step in this expansion of digital platforms into an internet of value, [illegible]

Cryptocurrencies and digital assets are based on two pillars: a simple, ever evolving code and a growing global network of users. They operate at the [illegible] native money in its truest sense and are enthusiastically adopted by a new, younger generation of investors who have grown up with the internet, gaming and are “digital natives.” They intuitively understand the power of platforms and have grown up in the “metaverse,” a digital parallel world in the form of Fortnite and other online games.

There is a generational divide visible within cryptocurrencies and digital assets with the older generation often struggling to accept something purely digital as having value.

Investor Philipp Cottier sees a generational gap as the younger generation has a strong interest in digital assets whereas the older generation typically remains highly sceptical.

New generation of investors

The typical private banking client is well above 60 years old and still values in-person interactions with his or her relationship manager. The baby boomer generation is holding on to its wealth much longer than industry experts expected. At the same [illegible] it can garner the interest of the next generation of investors. It has mostly been a fruitless exercise, as banks struggled to understand a younger generation that is internet-native. Meanwhile, a younger generation brought up on video games, social media platforms and memes has discovered trading through new, no-fee platforms such as Robin Hood. This new generation gathers on social media platforms such as Reddit or messenger services such as Telegram. They have discovered that they can make their presence felt. At the end of January, [illegible] Times, jumped as much as 120 percent, and its stock was repeatedly halted to calm volatile trading.[1] The same phenomena could be observed on the 29th of January 2021, when Elon Musk changed his [illegible] the bitcoin price by 20 percent from $32,000 USD to $38,400 USD within a few hours. It is the very same generation that has enthusiastically taken to cryptocurrencies and DeFi projects.

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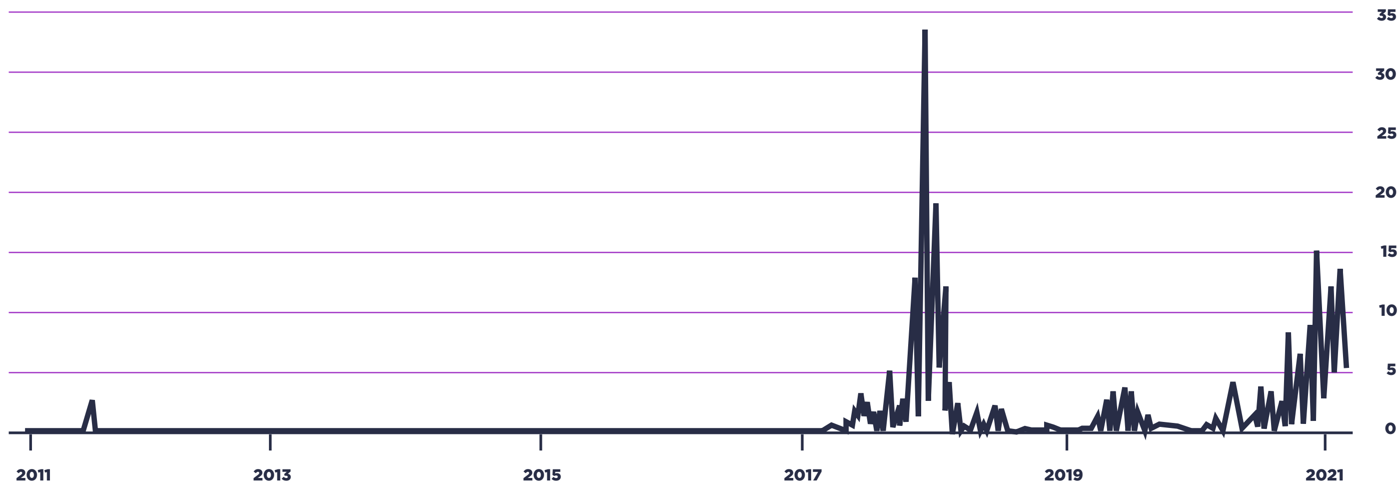
TRADING CRYPTO PAYS OFF AS TRANSACTION FEES CLIMB

Daily media bitcoin transaction fee ($)



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However, these are also future clients that will inherit large pools of capital to invest. This looming generational change is super-charged by a technological revolution by dominant digital platforms. The Financial Times aptly commented RQWKHDPHH6WSUDOOLQWWEDQDUPRI retail day traders: "...this is a cautionary tale of how VRFLDOPHGLDDQGEHFRPSDWWDFNWKH4QDQFLDO HVWDEOLVKPHQWWKHWDEEHKDQJLQJDOO6WHHW in the way Twitter and Facebook have changed politics."[2]

Trading has become an eclectic blend of a digital social experience paired with a gaming mentality and a very unique culture shaped by social media and platforms such as TikTok.

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In 2020, according to the Financial Times, bitcoin was among the best performing assets.[1] &KULVWRSKHUIRRDUHQRZQH 4QDQFLDODQDOVWDWRWWDVWKHDUHEWRQ EDPERDJHZKH4UVWRQHWKHEXLOWRUWKH internet with no competitor in sight... Bitcoin should DOVREHDPDVVLYHEHQH4EDUERIWKHQHWZRUNHHFW ZKLFKDVLWVEHLDUJURPWKHDPSOHVRIRJOHDQG Facebook, creates an extremely powerful winner-takes-all dynamic. For if money is the greatest social network of all, which it probably is, then bitcoin is WKH4UVWRQHWKHEXLOWRUWKHLQWHUQHWDQGLWV does not really appear to have a competitor." He further wrote "...the growing evidence of institutional ownership of bitcoin is hugely bullish for bitcoin, most particularly since the trend has just begun."[2] This hopefully will lead to a maturing of the ecosystem and herewith also its expansion. Most OLNHOWKHWDGLWLRQDODQGHQWDOOLHZRUOGRI4QDQFH will co-exist for many years alongside the new HEHQWDOOH4QDQFHEHFRVVWHPWKH3VRI Coinbase, a crypto exchange, and potentially Bakkt Holdings, a cryptocurrency platform, will be highly transformational for the entire digital asset industry.

Niall Ferguson, Stanford Professor of Economic History and contributor to the Financial Times, stated: "The acceptance of bitcoin as a digital asset, a quasi-gold, has been accelerated by the pandemic."[3] As seen many times before with other technologies VXFKDVDUWL4FLDOLQWHOOLJHQFHWHFKQRORJLFDO advances often follow an S-curve. The most famous

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UHSUHVHQWDWLRQRIKRZWKHDUWQHUKSHEEOH Adoption moves from gradual to sudden, as has happened with cryptocurrencies in 2020.

These technologies, in combination, will lead to the next phase in digitalization, creating an internet of value. Successful Swiss entrepreneur and investor JUDQFLVRJHUQDQGHHQWLRQ4HWKUHHXVHFDVHVIRU EORFNFKDLQWHFKQRORJ4UVWLWZLOOQEUHDVHQHEHQH in banking processes. Secondly, decentralized 4QDQFHZLOOHQDEOHDVLQWURPHDWLRQDQWKHULVH of decentralized exchanges. Lastly, it will enable previously unbankable assets such as art, real estate and intellectual property to become tradable. He views crypto as much more than just digital money or gold: it will enable a new era of transferable wealth. It certainly won't disappear, Fernandez said.

During the ICO-craze in 2017, it was easy to dismiss the digital asset ecosystem as a group of nerds, speculators and shady characters. In 2018, the sceptics had a good laugh when crypto winter set LQKLOHWKHDPHIXHUWLQDQUHSEHWZRQ of the stronger focus of regulators around the ZRUODZHUHULQVWLWXWLRQDOLRUHLQJDVWKDSSLQJ up behind the scenes. Then in 2020, institutional adoption started as a trickle and transformed into an avalanche in 2021. In this third phase of the development of crypto and digital assets, 6ZLWWHUODQKDV4JKWDULQJIRUHUWRFRPSHWH with strong international competition from the US, the UK and Singapore. Switzerland has all the right ingredients, from a strong brand of safety and quality and a history of wealth management to a savvy regulator.

Digital assets have clearly made a big step towards institutional adoption with many prominent investors investing into digital assets, helped by a strong price-surge in 2021. Bitcoin has established itself as a speculative asset class and a store of YDOXHOLNHQHWGLJLWDOJROGLQYHVWRUVJHWWLQJ increasingly familiar with bitcoin, this has also led to an increased interest in other digital asset projects and blockchain technologies. According to Justin %RQVRXQHURI&HEHU&DSLWDOKHOHEUWLRQV

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> According to Andy Flury, CEO of AlgoTrader, "2021 was seminal for the adoption of crypto assets among banks globally. With the help of institutional-grade service providers, many well-known financial institutions are planning to launch their crypto and digital asset offering. 2021 is clearly a tipping point."

still dominant by market capitalization, in practice, Ethereum is the clear market leader, continuously expanding use cases and adoption with DeFi, which [illegible] blockchain technology."

The decentralization paradox

In 2021, the decentralized and largely non-regulated DeFi ecosystem started to accelerate rapidly, catching investors' interest with juicy returns and eye-watering interests on "staking," a form of crypto lending. At the same time, traditional [illegible] accelerated rolling-out crypto and digital assets as well as venturing into DeFi: in June 2021, Swiss [illegible] clients.[4] [illegible] one highly regulated as well as centralized and one decentralized and highly innovative, started to move towards each other, creating friction and rubbing the heads of regulators and politicians. Awareness as well as scrutiny from regulators and politicians increased dramatically in 2021. The Financial Times summarized the mood as follows: "Rise of [illegible][5]

Originally, decentralized and permissionless digital assets such as bitcoin were intended to side-step [illegible] [illegible] very idea of bitcoin was to create an independent [illegible] of more professional and institutional investors demanding regulated and robust services as well as tax reporting, this led to friction and uncovered a decentralization paradox: how do you combine [illegible] [illegible] [illegible] amount of regulation and governance that allows innovation but prohibits abuse. For traditional, professional investors who want to simultaneously engage in this new asset class while retaining the

[illegible] 'Staking Is a Core Element for Portfolios', 07.07.2021
[illegible] 30.06.2021

VDIHWDQGUHJXODWLRQRIWUDGLWLRQDO4QDQFH□WKLV becomes a very real conundrum.

Technically, digital assets can be stored □QHSHQHQWRDQEDQNVHWKHURQRUQH□ However, being responsible for the custody of digital assets can be a true burden, as they need to be SURSHUOVWRUHHUHSRUWDQWDQVHUUHHWKH□ industry full of hacks and scams, the threat of the loss of assets is very real. These challenges have led to the emergence of a regulated digital asset ecosystem in Switzerland and abroad.

:KLOHWKHHHQWDOODWRQSDUDERWR□ SURIRXQOHUHQWWKHPVZLOOPRVWOLNHO□ exist for the near future, it has already created VRPHWKLQJYHUSRVLWYHKRLFHRULQYHVWRUVLW□ the emergence of bitcoin and a broader digital asset ecosystem, investors nowadays have a choice EHWZHHQHHQWDOOHDQHHQWDOOH4QDQFHDOO□ systems that did not exist before 2008. This is clearly a very positive development that has reinvigorated a debate between entrepreneurs, regulators, SROLWLFLDQVDQWKH4QDQFLDOHVWDEOLVKPHQWDERXW ZKDW4QDQFHVKRXOGEHDQZKRVKRXOGEHLQ□ control. It has also led to innovation being embraced EWKH4QDQFLDOLQGXVWULQ6ZLWUODQGDQDEURD□ Only time will tell whether the future will be purely decentralized or a hybrid between the two worlds. However, the choice investors have is already real.

Switzerland making a mark

Thanks to its Crypto Valley ecosystem, Switzerland has almost ten years of experience with blockchain and digital assets. This gives Switzerland a clear edge and a strong global position.

The recent EU Blockchain Ecosystem Development Report agrees:

“Switzerland is one of the most advanced nations when it comes to blockchain and crypto-assets, not only in Europe, but also globally. It has been called the ‘crypto nation’ and is home to the world-famous ‘Crypto Valley’ of the Zug canton. The country is home to a very large number of blockchain companies, among them some of the most well-known industry names, such as the Ethereum Foundation, Polkadot, Cardano and Libra (comment by the author: Libra recently moved back to the US). Companies and organizations operating nationwide have collectively raised more funds than in any other country. Moreover, there is a very active venture capital and startup support ecosystem, including two regulated digital currency banking entities. The country moved early to clarify the legal situation of crypto- assets, with the earliest report by the federal government published in 2018, analyzing the applicability of existing legal framework on EORFNFKDLQ6LQFHWKHQVSHFL4FUHJXODWRU□ initiatives have been announced, most notably by the Swiss Financial Market Supervisory Authority (FINMA), but also by regional authorities in some of the country’s cantons. Several universities have launched blockchain-focused academic degrees or specialized courses.”[6]

According to Ulrich Sauter, who advises the Tezos Foundation, Switzerland is - with respect to legal certainty - clearly ahead of the US.

Switzerland should be proud of this recognition. Industry experts that were interviewed for the report fully agree.

Roland Friedli of wealth manager Prevalor believes that Switzerland still has strong advantages as a wealth management center, ranging from an independent currency and a neutral government to DVWDEOH4QDQFLDOPDUNHWDQGSHUFHQWD□

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Switzerland is one of the most advanced nations when it comes to blockchain and crypto-assets, not only in Europe, but also globally.

engaging regulator, a business-friendly government and new blockchain-regulation, Switzerland has a clear competitive edge. This, paired with being one of the global leading centers for wealth management, ensures that Switzerland has the potential to be at the forefront of the digital asset megatrend. BridgeTower, which recently opened DQRIILFHLQ=XULFKRIIHUVZHDOWKJHQHUDWLRQYLDD JOREDOO\LQWHJUDWHGFRPSDQ\RIIHULQJDFFHVVWRD broad set of blockchain opportunities. Originally from the US, it strategically selected Switzerland as the base for operations.

There are also encouraging signs from Swiss-based IDPLO\RIILFHVDQGZHDOWKPDQDJHUV$VD4UVWVWHS many of their employees started investing into GLJLWDODVVHWVWKHUHE\GHYHORSLQJ4UVWKDQGH[SHULHQFHZLWK this new asset class. At the same time, Switzerland KDVDORQJWUDGLWLRQDVDEDQNHHSLQJ4QDQFLDODVVHWV This reputation can be easily transferred to the custody of digital assets. Not that Switzerland is without competition. Fabio Federici of Base58 Capital sees (besides the US) Singapore and Hong Kong as particularly strong potential contenders IURP$VLDZKHUHDV0DULDQQH:LOGL&(2RI +\SRWKHNDUEDQN/HQ]EXUJLGHQWL4HG/LHFKWHQVWHLQ

Marianne Wildi, CEO of Hypothekarbank Lenzburg, identified Liechtenstein with its EU access as a potential contender.

with its EU access as a potential contender. In DGGLWLRQPDQ\QHZFRPSHWLWRUVDQGQHZSURMHFWV are emerging from other geographies such as the US and Asia.

Next to an early lead and a strong ecosystem, Switzerland has another strong advantage: the proximity of investors and digital asset providers. Among the many investors interviewed for the report, it was obvious that geographically close providers are clearly preferred, as this helps build trust and learn about the space. Even in a global and decentralized industry, proximity is required to build trust among investors and providers.

Cory Pugh of BridgeTower empathizes that Switzerland has a mature ecosystem with highly-skilled partners.

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