SWISS BLOCKCHAIN FEDERATION

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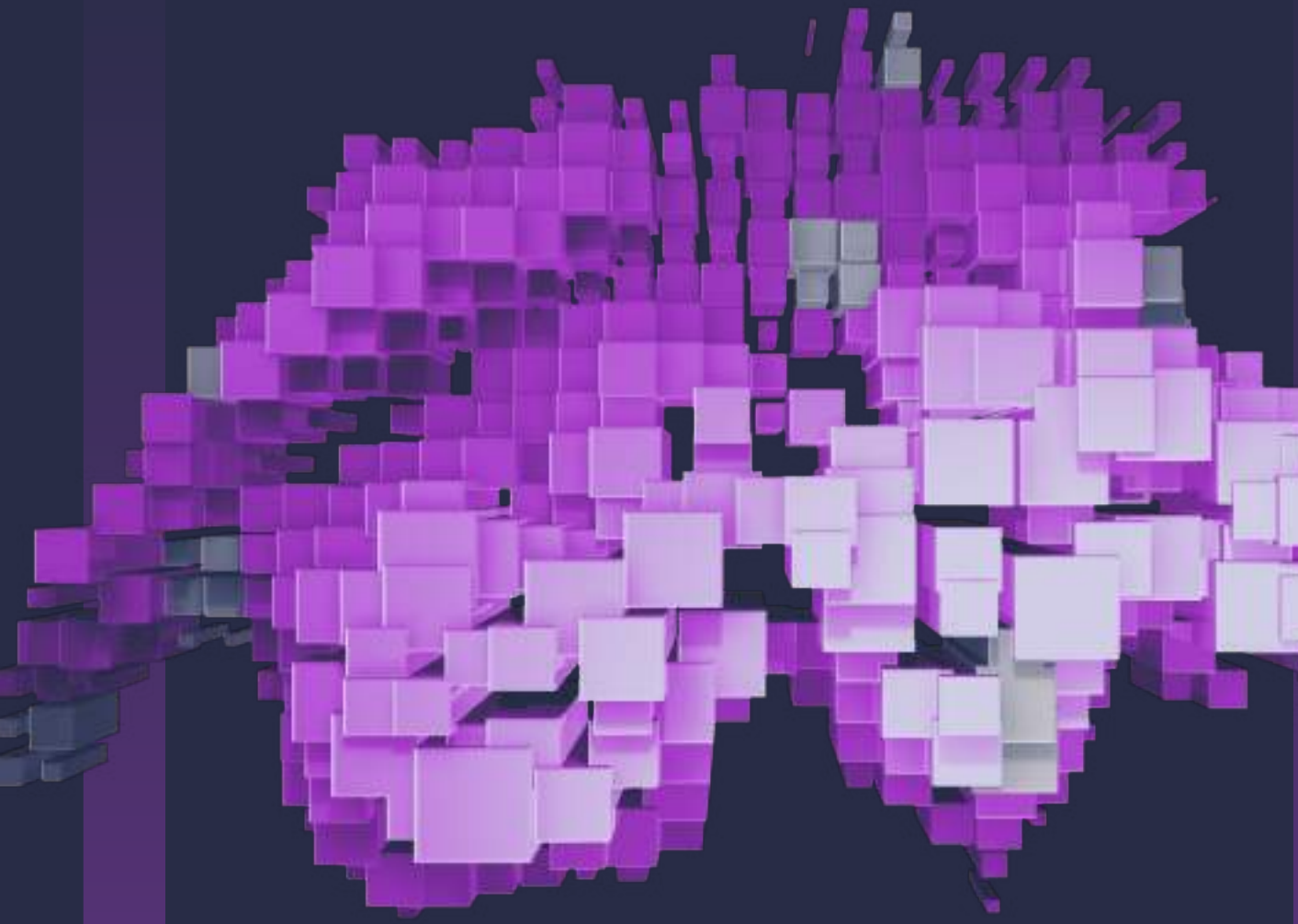


SWISS DIGITAL ASSET AND WEALTH MANAGEMENT REPORT 2021

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 approach guarantees the flexible integration of 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 create an exciting first-mover advantage. In global competition, Switzerland will be streets ahead of other jurisdictions.

Johann Schneider-Ammann

As this first "Swiss Digital Asset and Wealth Management Report 2021" impressively shows, the Swiss financial center has not only arrived in the new digital world but is perfectly positioned. With the establishment of digital assets and trading platforms, the Swiss financial center and "Crypto Nation Switzerland" can secure a leading position.

Johann N. Schneider-Ammann was a Federal Councillor and Head of the Federal Department of Economic Affairs, Education and Research from 2010 to 2018. Since 2020, the former President of the Swiss Confederation is 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

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 and future generations. The first wave of blockchain 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 this first Swiss Digital Asset Report. CV VC is not just an investment company that invests in early-stage startups worldwide. We have created our ecosystem with co-working spaces, events, community services and incubation programs in Zug, the heart of Crypto Valley, and, recently, in Dubai and Vaduz. We connect all players from industry, politics, science, and society.

To reflect this dynamism, diversity and breadth, 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.

With this Digital Asset Report, we are pursuing the same ambition: together with Alexander Brunner and the Swiss Blockchain Federation, we want to create a new reference publication for the financial industry. Digital assets are much more than


Mathias Ruch

cryptocurrencies. Thanks to tokenization, new types of investments are emerging. Demand for these new financial products is growing, as is interest from asset managers and family offices. There are 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 play a crucial role. Why? Because they will draw on the tradition, vision and innovation of the financial sector in Switzerland. This first Digital Asset Report is a guide and source of inspiration for the capital market of tomorrow.

Mathias Ruch, CEO and Founder of CV VC, has been an entrepreneur and investor in the digital startup scene for 20 years. He founded, managed and exited several 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 $20,000 to slightly above $3,000. While many in the community were nursing hefty losses, the traditional finance industry had its "I told you so" moment. 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 on its front page: "High flyer. Bitcoin value tops $30,000." Other financial observers started to comment as well, like renowned financial analyst Christopher Wood who wrote: "If 2020 has been the 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 opportunity for Switzerland and the financial ecosystem overall. However, the global competition is not sleeping.

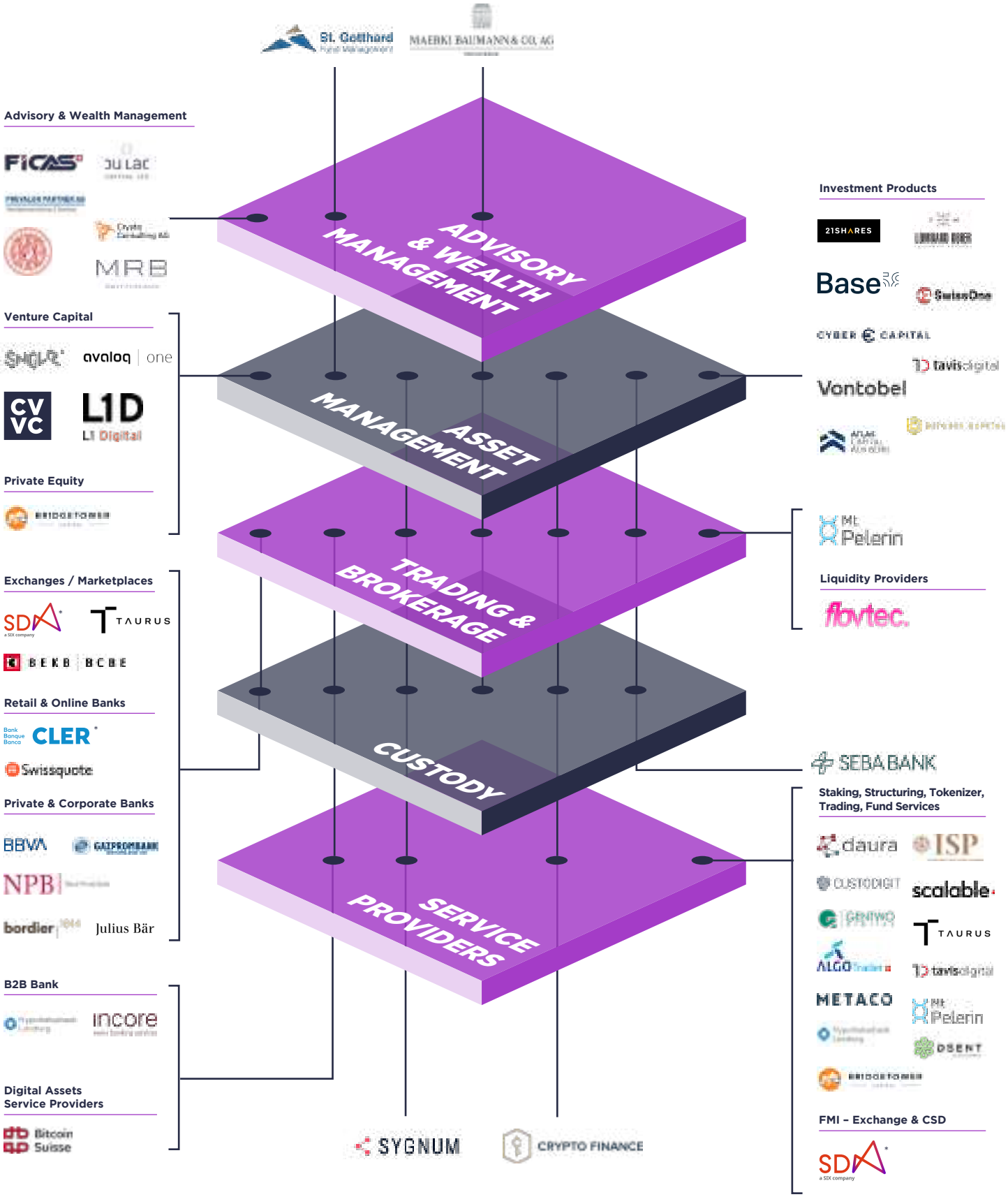
So what are digital assets: a new digital gold or just "thin air," as former private banker and fund of funds manager Erwin Brunner said? Who are the people building this new financial infrastructure and who is investing in it? Those are questions that shall be answered in this report.

Alexander E. Brunner, author

Alexander E. Brunner, author, studied economics and business at the University of St. Gallen HSG. Brunner worked for many years in alternative investments and family offices. In 2019, he published the book Crypto Nation Switzerland. Today, he works as an advisor to international deep tech startups and is a member of the parliament of the City of Zurich. He is also the founder of the Urban Innovation Association, which enables smart city innovations in Switzerland.

1. Grizzle,com, 2020: The year bitcoin became investable for institutions, 06.01.2021

SWISS DIGITAL ASSET ECOSYSTEM



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CONTENTS

10 STABLECOINS OR THE NEW CENTRAL BANK MONEY

11 THE SWISS DISTRIBUTED LEDGER TECHNOLOGY ACT

12 THE ROAD TO A WIDER ADOPTION

13 THE MONEY FOR THE INTERNET IS GROWING FAST

14 THE FUTURE IS HERE

ADDED VALUE IN CRYPTO VALLEY

By Heinz Tännler

01

The Swiss Blockchain Federation is probably a unique initiative worldwide: launched by two Federal Councillors, Finance Minister Ueli Maurer and Economics Minister Johann N. Schneider-Ammann in an effort to bring together 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.


Heinz Tännler

- Networking: The SBF is the central platform for all of those interested in blockchain from business, industry, politics, administration, and science and offers a network for these players at home and 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.

Heinz Tännler is President of the Swiss Blockchain Federation and Finance Director of the Canton of Zug.

KEY FINDINGS

02

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 working behind the scenes on a digital asset offering and traditional hedge-funds start building exposure. Many service providers confirmed that 2021 was the 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

The combination of technology and finance in the form of digital assets has super-charged innovation from finance to the arts. From the initial-coin-offering (ICO) craze in 2017 to decentralized finance and non-fungible tokens, buoyant crypto prices have given a strong impetus to widespread experimentation. On the flip side, many established financial institutions are concerned with a perceived 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 offerings. It is clear that the entire ecosystem is 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 private banks expanding their offerings. In April 2021, for example, the large Swiss insurer AXA announced that it would start to accept bitcoin for payments. In May 2021, Geneva-based Taurus got the regulatory approval for the first independent, 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 of reputable family offices, wealth managers and private banks entered the industry at a rapid pace. Family offices in particular were early adopters of 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.

1. www.theblockcrypto.com, Morgan Stanley: 'Threshold being reached' on crypto as an investable asset class, 17.03.2021
2. Financial Times, Musk wakes up to bitcoin's fossil fuel issues, 14.05.2021

Larger banks preparing

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 various digital asset offerings. Many providers of digital asset services confirmed that large institutions are preparing for a digital asset offering behind the scenes. The digital asset 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.

Global 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 and venture capital firms in March 2021 showed 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 markets. 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 dragging its feet, Germany is making advances with 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] According to Niklaus Neddermann, Chief Growth Officer of the FiCAS AG in Zug, "Switzerland is the 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 and the overall financial sector. Digital assets are 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 taxation of digital assets. What is required is more focus and dedication by the established financial 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 Developments Report, 2021

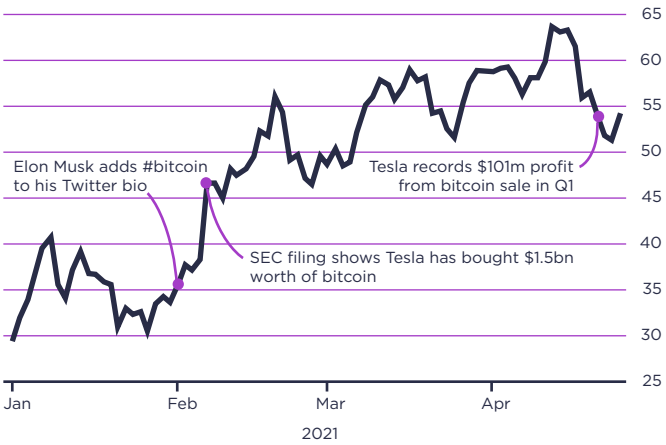
A NEW ASSET CLASS OR THE DIGITAL GOLD

03

Bitcoin was among the best performing assets in 2020. With the endorsement 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 way of showing this: he first added #bitcoin to his Twitter bio in his profile, leading to a double digit 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 profit of $101 million. Tesla also said it will start 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

Bitcoin price ($'000 per bitcoin)



Financial Times, 27.04.2021

Bitcoin was among the best performing assets in 2020

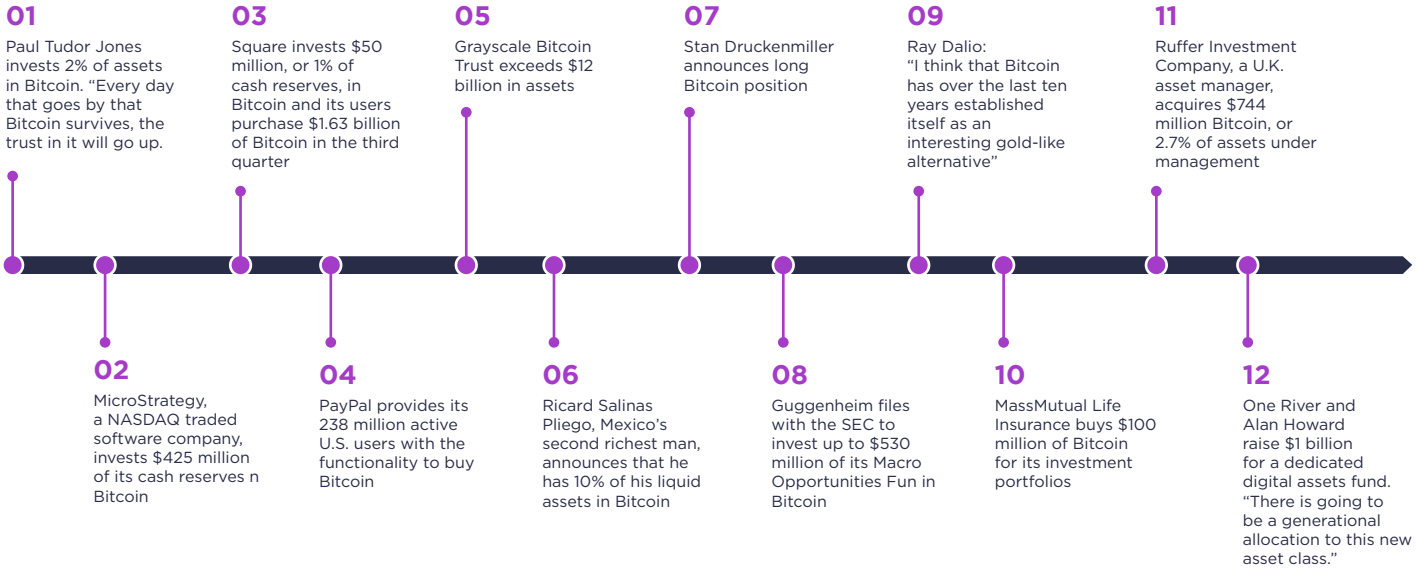
In late 2020 and early 2021, a big sentiment change occurred among sophisticated investors towards cryptocurrencies and digital assets. Many of them realized that cryptocurrencies and digital assets are here to stay. FOMO set in with many prominent investors allocating money to digital assets. This triggered a flurry of questions such as to what cryptocurrencies are, exactly: are they a currency or an asset?; is it a digital gold or digital money for the internet-age? In a short video in early 2021, Swiss 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 not a currency, what is it?

In contrast to fiat-currencies issued by governments, controlled by central banks and accepted as legal tender, cryptocurrencies or digital assets are not centrally managed by governments.[2] They are private, global digital money. Cathie Wood of Ark Invest, a prominent US fund manager with crypto exposure, calls bitcoin the "first global, rules-based

Ray Dalio, founder of Bridgewater Associates, the world's largest hedge fund, further considers investing into bitcoin a protection against the debasement of fiat money.

1. UBS Wealth Management, Are crypto currencies?, 18.01.2021
2. The exception is El Salvador that became the first country to make bitcoin legal tender in June 2021

BITCOIN IN 2020: GRADUALLY AND THEN SUDDENLY



Source: SkyBridge Bitcoin Fund L.P. presentation, 2020

monetary system."[3] Prof. Scott Galloway, a professor of marketing at the New York University Stern School of Business, defined bitcoin as "a reverse proxy on 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 an inflation hedge similar to gold.[4] This narrative first took hold in 2020 as more and more investors 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 him bitcoin is an inflation-hedge in a world where cash is not an asset but a liability. For Saylor, bitcoin is the "world's first monetary network similar to Facebook, Amazon, Google, Apple, Youtube etc. It 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 viewed by many investors as an inflation-hedge akin to gold, which is not directly connected to the global financial system.

Shay Gammer looks at bitcoin as a "fool's hedge" against a pending bout of inflation, and still regards the asset class mainly as a risk-on trade.

3. Consensus conference, Cathie Wood, 27.05.2021
4. Podcast, Pivot podcast hosted by Kara Swisher and Scott Galloway, 09.02.2021
5. Podcast State of Play: Bitcoin and cryptocurrencies, with Michael Saylor of MicroStrategy, 17.12.2020
6. Bloomberg.com, Ray Dalio Calls Bitcoin 'One Hell of an Invention,' Considers It for New Funds, 28.01.2021

BITCOIN IS GOLD 2.0

	BITCOIN	GOLD
Scarce	Fixed inelastic supply	Limited elastic supply
Transferable	Like sending an email	Like sending a ton of bricks
Storable	Low cost	High cost
Decentralized	Yes	Yes – but can be confiscated by a single authority in every jurisdiction
Durable	Yes – Digital Asset	Yes – Physical Asset
Fungible	Yes	Yes
Verifiable	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)

SkyBridge Bitcoin Fund L.P. presentation, 2020

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 confirmed that the storyline for bitcoin as a "digital gold" resonates strongly with investors. Investors with a strong belief in monetary devaluation and increasing inflation typically hold gold, but also start venturing into digital assets, as Roland Friedli from Prevalor mentioned. Shay Gammer, co-founder of the Geneva-based Montfort Family Office, has been 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 decentralized and can effortlessly move across boundaries, which gold cannot.

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

7. Podcast State of Play: Bitcoin and Cryptocurrencies, with Michael Sayler of MicroStrategy, 17.12.2020

COINBASE FINANCIAL RESULTS

Coinbase revenue in 2019 **$534m**

Coinbase revenue in 2020 **$1.3bn**

Coinbase losses in 2019 **-$30m**

Coinbase profits in 2020 **+$322m**

Financial Times, 26.02.2021

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]

8. Financial Times, Coinbases's $76bn debut puts seal on cryptocurrencies asset class, 15.04.2021

A RAPIDLY GROWING SWISS DIGITAL ASSET ECOSYSTEM

04

A HISTORY OF INNOVATION IN ASSET MANAGEMENT IN SWITZERLAND

In the 1980s and 90s, the financial industry 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 legendary investors such as George Soros, Paul Tudor Jones or Bruce Kovner made spectacular returns year-on-year. According to Erwin Brunner, who founded one of the first fund-of-funds in Switzerland, these new funds easily generated an annualized return of 20 percent. They were first introduced to Switzerland by secretive Genevan 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 such as Partners Group, RMF, Harcourt, Reichmuth, LGT, BrunnerInvest and many more.

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. In 2004 he started the first quantitative models 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 the years. However, the financial crisis in 2008 and 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 intransparent and inefficient markets. However, Lars Jaeger thinks there are notable differences as the market for cryptocurrencies is only about two trillion dollars in size and trading volumes are relatively small in comparison to traditional financial markets. 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

$4.1bn	BLOCK.ONE/EOS	June 2018
$320m	DRAGON COIN	March 2018
$300m	HUOBI	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

Financial Times Research

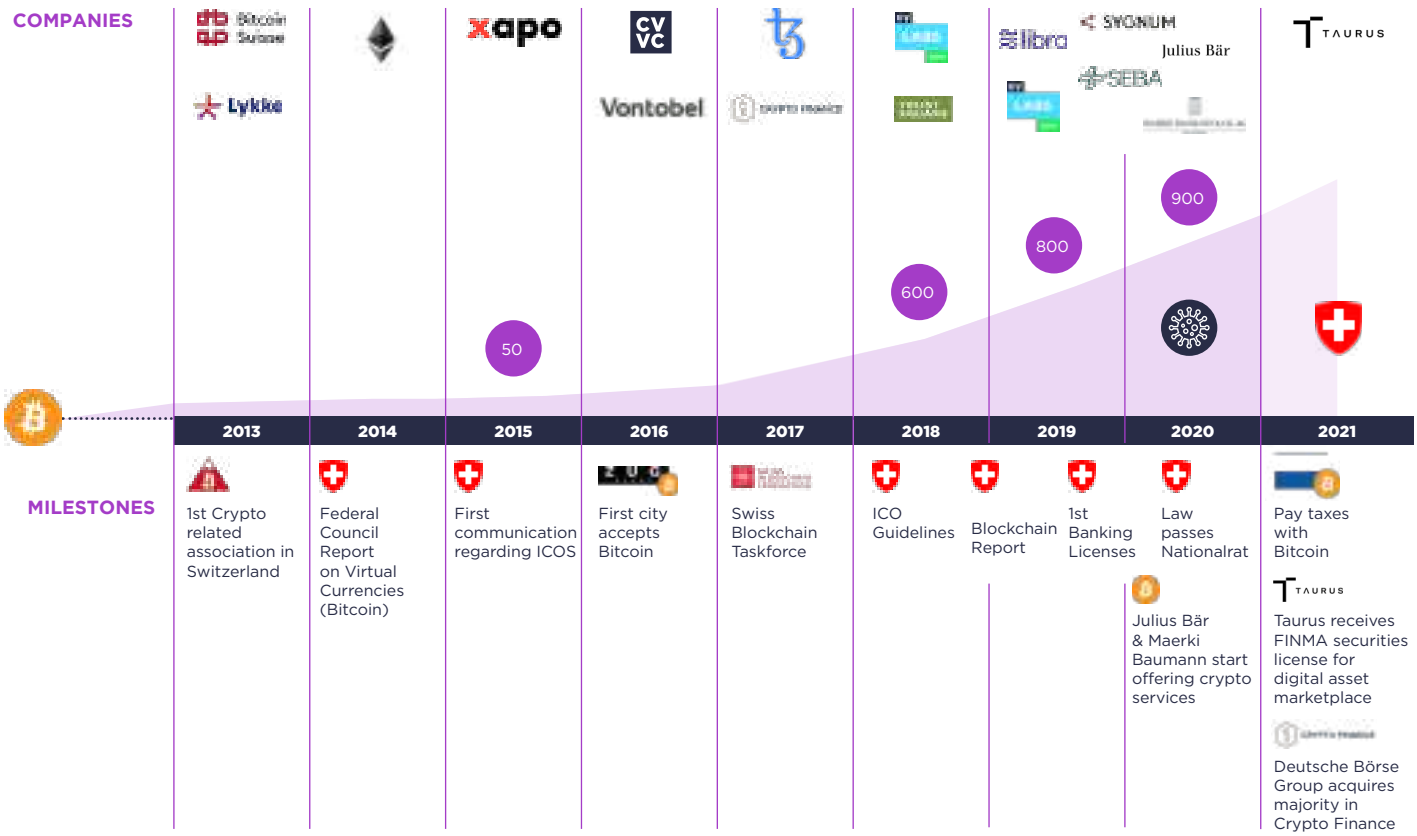
The Crypto Valley puts Switzerland on the global map

The financial crisis of 2008 gave birth to a completely new asset class: bitcoin. What started in California in a strongly libertarian cypherpunk community, would eventually find its way to Switzerland. With the 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 Switzerland, to the first initial-coin-offering (ICO)

guidelines by a financial regulator in 2018 and the licensing of the first nascent crypto banks in 2019, Switzerland developed a strong ecosystem for digital assets. Someone who specifically incorporated a company in Switzerland in 2019 because of its crypto-friendly ecosystem was Ali Mizani, founder of the FiCAS AG in Zug. According 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 engaging and caring communities. Anton Golub of Flovtec, who has been part of the Swiss crypto and blockchain ecosystem for many years, sees the community developing in phases. The first phase saw programmers entering the finance space both innocently and, sometimes, malevolently. This led to the ICO craze of 2016 and 2017. In 2018, the market went into a tail-spin following the first regulatory actions and a "crypto winter" set in. Then, in 2019, the first crypto banks were launched, which was the beginning of traditional finance and bankers entering the space. Nowadays, the third phase is blending the world of programming and algorithms with finance.

From 2013 until 2018 a nascent ecosystem was established, followed in 2019 by a new phase with the institutionalization and professionalization of services and offerings in Switzerland. Swiss private 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

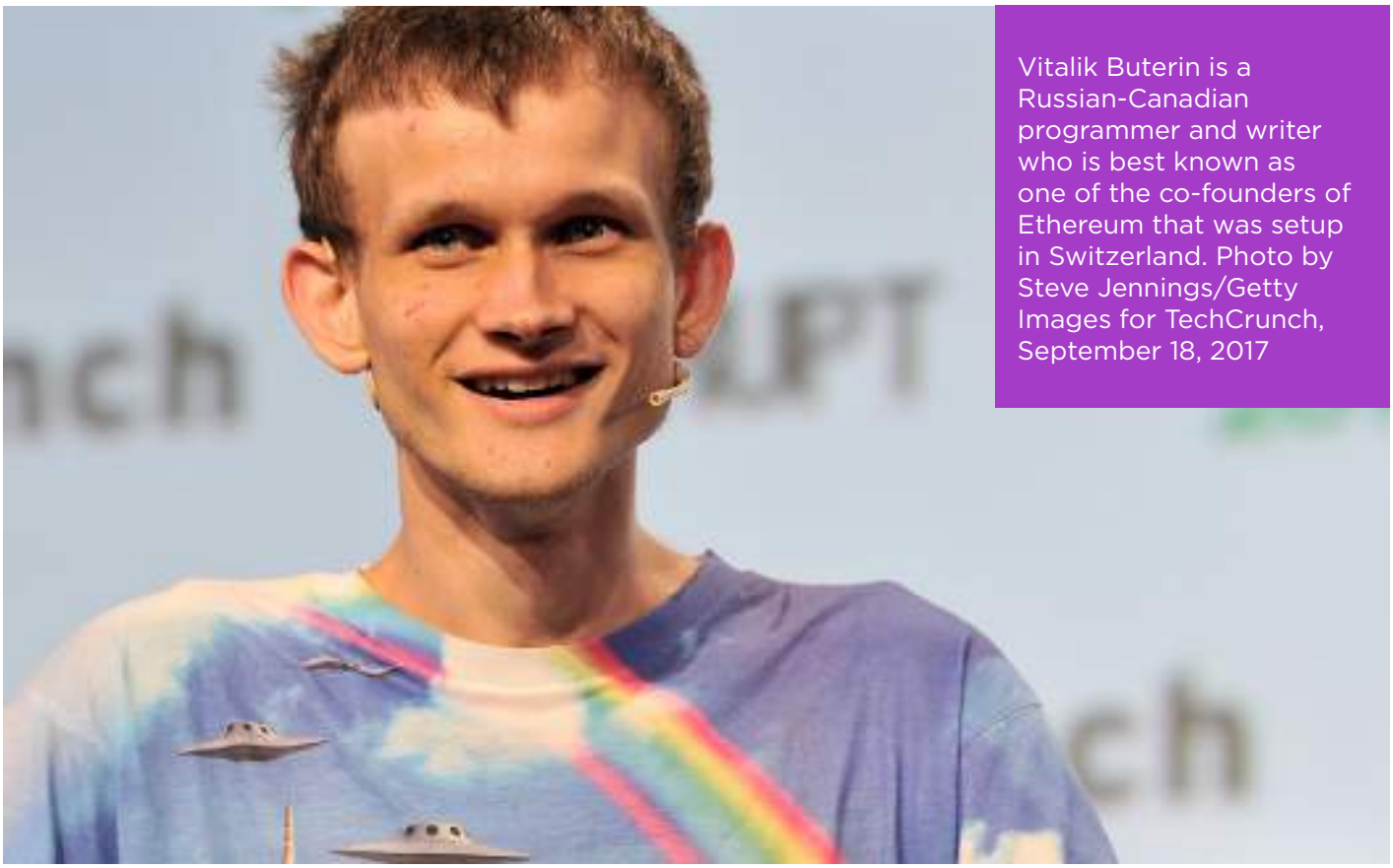
CV VC: THE HISTORY OF THE CRYPTO VALLEY, 2021



CV VC, The History of the Crypto Valley, 2021

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/Getty Images for TechCrunch, September 18, 2017

The Swiss regulator as enabler for digital assets

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 fintech desk since 2015, shot to worldwide fame in early 2018 when it issued the first token guidelines for different types of coins. FINMA cemented its global reputation as a regulatory trailblazer when it issued the first two banking licenses to SEBA and Sygnum in August 2019, followed by the first license for an independent regulated crypto exchange in 2021. With its proactive and enabling stance towards 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 confirmed that FINMA is one the most sophisticated 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.

CustoDigit CEO Peter Hofmann said that "Switzerland has a globally leading regulator that is a huge asset for the Swiss economy."

INTERVIEW WITH FORMER FINMA CEO MARK BRANSON

05

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 protection. So far, stablecoins do not offer the 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 as client protection, are basically sufficient. However, they may need some adjustments to handle new technologies. Innovation brings more competition and hopefully new jobs for the financial industry, an industry where jobs 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 project that offers customers clear value and 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.

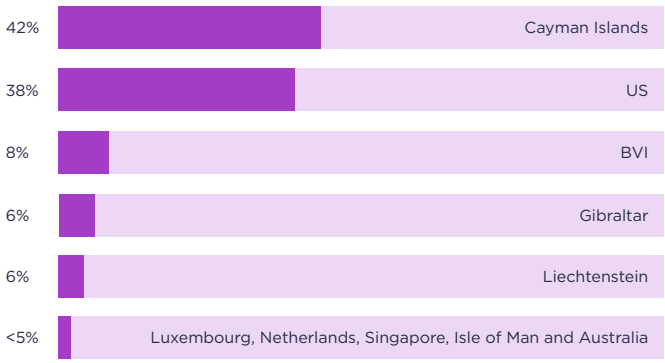
A simple regulatory principle for Mark Branson is "same risks, same rules"

Switzerland as an asset management hub for digital assets

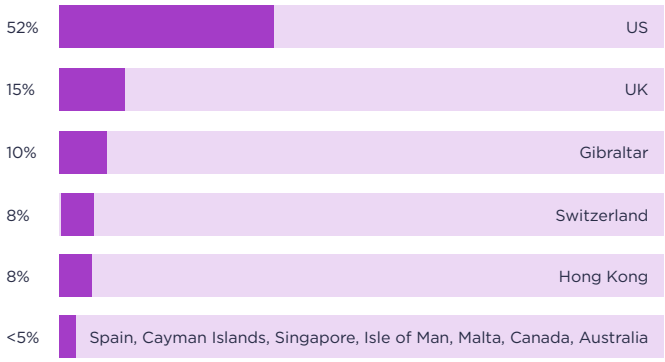
With the emergence of Crypto Valley as well as a strong ecosystem, tailored legislation and a competent regulator, Switzerland has a perfect setup to become a leading hub for digital asset wealth and digital asset management. Henri Arslanian, PwC Crypto Leader based in Hong Kong, publishes a global crypto hedge fund report every year. In an interview, he confirmed that Switzerland is very well positioned globally due to its brand and legacy. In the most recent PWC report, Switzerland

DIGITAL WEALTH & ASSET MANAGEMENT HUBS

Top Crypto Hedge Fund Domiciles



Top Crypto Hedge Fund Manager Locations



PwC Elwood Annual Crypto Hedge Fund Report 2020

ranks number four among the top crypto hedge fund manager locations, right after the US, the UK and Gibraltar. Switzerland remains one of the world's top wealth management destinations with a strong financial system and global brand. All these factors 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 are women in this field. Similarly, only about 6% of funding in related ventures is received by female founders, while a significant percentage of investors are middle-aged, white men.[1] As blockchain-technology is still in its early stages, the opportunity for women to influence and develop the ecosystem should not be missed.

Lilian Roos

Why are there so few women in the Blockchain ecosystem?

With the rebound 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 in the two underlying areas, finance and technology. Women around the world have been more likely to lack access to finance. Even in Switzerland, married women were not allowed to open a bank account without their husbands' signature up until 1988. Furthermore, the finance industry was not seen as an

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 fields.[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 was identified as one of the key challenges for women entering the finance industry. Risk aversion can be identified in two areas; firstly, when 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 barriers for women to enter the finance 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 cryptocurrencies. With the help of women led and blockchain or cryptocurrencies focused communities and meetups, these women are getting more opportunities to get involved and not only gain knowledge and expertise but also find a supporting network to explore the opportunities within this rather new ecosystem.

By Lilian Roos and Priska Burkard, TechFace

DIGITAL ASSETS: A NEW AND EXCITING INVESTMENT UNIVERSE

06

Digital assets are a new alternative asset class based on decentralized blockchain-technology. Some investors see it as an inflation-hedge akin to gold, others see it as the emergence of a new platform-based internet-native money that is the foundation for an entirely new financial infrastructure.

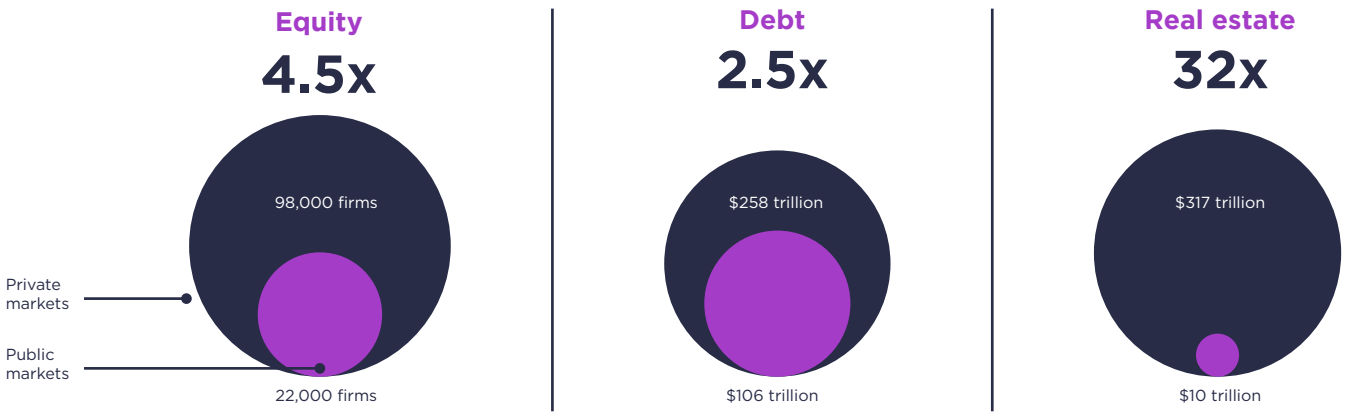
Many interviewees such as Guido Bühler, CEO of SEBA Bank, strongly believe that blockchain-technology will enable wider access to private markets, therefore delivering a more democractic investment universe.

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 settlement period for traditional financial markets. This reduces the capital needed for the settlement process

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

Private to public market ratios, global markets 2019



Bain & Company, Digital Assets, Private Markets Offer the Greatest Opportunities, 2020

THE DIGITAL ASSET INVESTMENT UNIVERSE

For sophisticated investors who invest their own or their client's money, a small allocation to bitcoin of 2-5% seems to be the natural first step to get 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

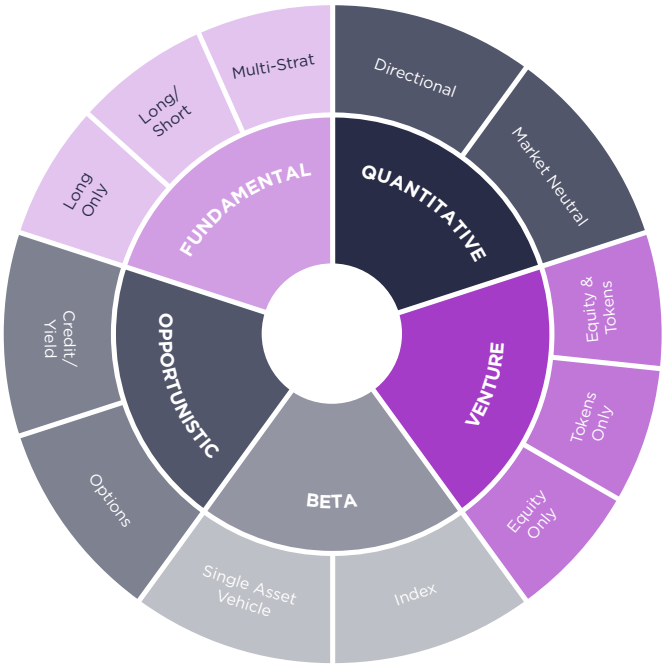
By far the largest cryptocurrency by market capitalization is bitcoin, followed by ethereum. With more than 4,500 other coins to choose from, investors can select coins that range in characteristics from payment to asset and utility tokens. However, it takes a lot of sophistication to select the more obscure coins being offered, with the largest coins offering the best liquidity. This is 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 exchanges and buying certificates, notes, trust or funds as well as officially traded futures. Custody 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 require. Whereas some investors interviewed feel 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 reporting of the portfolio, including verification of the transaction history, is of great importance for investors in order to avoid any conflicts with 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. Global estimates range from 400 to 800 funds that invest into digital assets. These replicate strategies from the hedge-fund industry, ranging from long-short to market-neutral and high-yield strategies. Professional managers also offer various managed investment vehicles such as certificates, notes or offshore funds. Trading strategies vary from holding the largest 50 coins to investing in the thousands of lesser coins and projects, so-called DeFi. These vehicles often offer terms and liquidity similar to traditional hedge-funds. Besides offering more sophisticated strategies, investing into investment products offers several advantages: ISIN numbers as well as investment and tax reportings.

DIGITAL ASSET INVESTMENT STRATEGIES



Vision Hill Group, An institutional take on the 2020 / 2021 Digital Asset Market

3. Venture capital

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 GP/LP structures, certificates and even fully tokenized funds. These investments typically have a longer investment horizon and require larger minimum investments.

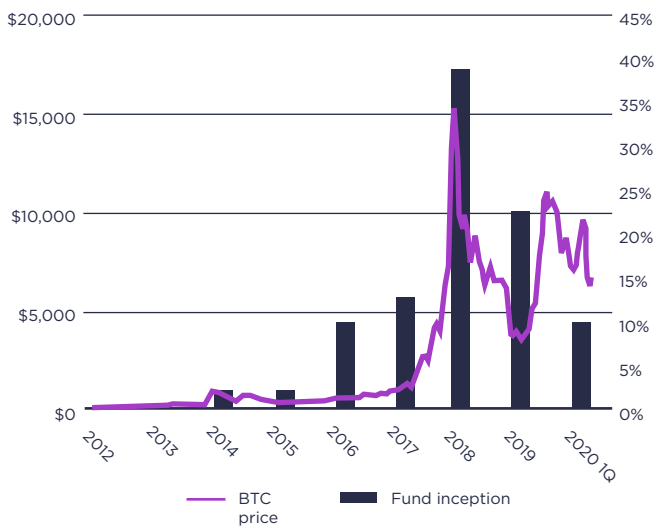
4. Tokenized assets

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 offering, with best-practices being adopted from the 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 the hedge fund industry in the early nineties. With many retail traders trading on sentiment, arbitrage opportunities between exchanges and strong momentum, digital assets are a highly inefficient market full of alternative risk premia. Joachim Nahmani of Lemvi calls digital assets a “generational trade” due to the unique opportunity set that does not exist in traditional financial markets anymore. Board member of Crypto Finance Group Marc P.

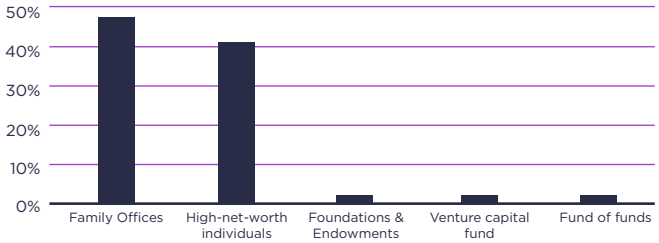
LAUNCH OF NEW CRYPTO HEDGE FUNDS CORRELATES TO THE PRICE OF BITCOIN



PwC & Elwood, 2020 Crypto Hedge Fund Report

INVESTORS IN CRYPTO HEDGE FUNDS

Most common investors in crypto hedge funds



Number of investors in crypto hedge funds and average ticket size

	Average	Median
Number of Investors	58.5	27.5
Average ticket size (US$m)	3.1	0.3

PwC & Elwood, 2020 PwC Elwood Annual Crypto Hedge Fund Report
2020 Crypto Hedge Fund Report

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: "We estimate that the total AuM (assets under 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 confirmed. In a nascent industry, staff with experience is in short supply.

1. PwC Elwood Annual Crypto Hedge Fund Report 2020

US$0.3 million. At the end of 2020, total assets in crypto hedge-funds increased to $3.8bn according to the PwC Global Crypto Hedge Fund Report 2021, with 84% of investors being high-net worth individuals and family offices. Nevertheless, the size 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

Global Venture Capital has seen a dramatic increase 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 economics are specific to the blockchain industry, 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, only a small proportion of the early dot-com firms managed to survive and achieve such successes.

A clear argument for a broad portfolio and risk diversification to any early stage start-up VC 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 firm Andresseen Horowitz, which launched two 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 almost unbounded design space. We find ourselves 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 asset exchange Coinbase. Their investment paid off 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

Olaf is CIO and Co-Founder at CV VC AG. His prior experience includes 20 years of Corporate Finance & Investment Banking at JPMorgan/Chase in Switzerland, the UK and Germany.

2. Financial Times, Andressen Horowitz plans $1bn crypto fund, 1/2 May 2021

Even prior to COVID-19, change was afoot in the venture capital markets in general, which also specifically relates to blockchain investments. Here are some of the key trends that stand out from our perspective:

COVID-19 initial impact and rebound

- Commitments to funds slowed initially, causing some VCs to focus on the financial condition of their portfolio companies. This had a significant 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.

General VC trends through Q2 2021

- New record highs in Q2 2021: total global startup funding (+157% vs. Q2 2020); new unicorns (136 new or 6x Q2 2020); deals over USD 100M (390); M&A / IPO exits (+109 YoY).
- Fintech remains mega-trend: 1 out of ever 5 USD goes to fintech, with over USD 33B capital investment in the quarter.
- Other sectors on the rise: Digital Health (USD 14B, more than doubled); Cybersecurity (USD 7B, up 2.6x); AI (USD 15B, more than doubled)
- 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).


Olaf Hannemann

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

Blockchain Technology and VC

- General tech funds continue to grow exposure to blockchain tech; though often indirectly 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.
- Energy efficiency continues to be a topic, often 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 base camp, AE Venture`s Starfleet Accelerator, LongHash Ventures, Chain Accelerator, and so on.

- Many sectors that blockchain tech addresses are likely to be mid- to long-term net beneficiaries 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 deploy blockchain efficiently".

- 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

With CV VC, investors achieve long-term capital 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 the following verticals: Future of Work, Lifestyle & 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 future change across many industries, from finance 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 to achieve a diversified portfolio with regards to industries/geographies and weighting of the underlying portfolio companies, thereby minimizing any cluster risks.

SOPHISTICATED INVESTORS ARRIVED

07

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, family offices and private banks for the report, a growing interest among wealthy investors was clearly palpable. The opinions were widely dispersed from ardent believers into the digital gold and inflation-hedge narrative to the outright sceptics who dismiss digital assets as thin air.

According to Mattia Rattaggi, president of the board of FiCAS AG, digital assets attract investors who believe that this new class is here to stay and offers a positive diversification opportunity.

Starting in 2020, Rattaggi saw more and more professional and institutional investors entering the market offering institutional-grade expertise and products. Wealth managers of all sizes registered a growing interest from clients in 2020 and 2021, with particularly younger and more tech-savvy investors being interested in the space.

According to providers, even the first Swiss pension funds started to pay attention to digital assets in 2020. It can be expected that in the near future, family offices and private banks will continue to play a significant role as allocator of risk capital to the nascent industry.

Mathias Imbach of Sygnum has seen more and more family offices and wealth managers invest.

Family offices charging ahead

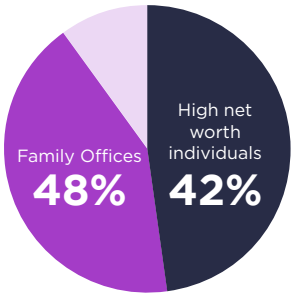
In the nineties, the hedge-fund boom in Switzerland started with the help of Geneva-based private banks. Back then, private banks did not have the same regulatory and compliance shackles as of today, making them more adventurous and entrepreneurial. They easily invested into innovative products such 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, was part of many of these financial innovations. 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 products in the past, today, family offices have taken on this role in Switzerland.

Family offices have a larger degree of freedom in what they invest. They also have become a significant market player: the number of family

21Shares witnessed that in 2020, family offices, wealth managers and private banks allocated more funds into regulated crypto products like crypto ETPs.

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

Doubled



Northern Trust, 3 Key Considerations for Crypto Hedge Funds, April 2021

offices has grown to 7'000 globally, with total assets amounting to $6 trillion USD, according to a report by Insead.[1] According to Tobias Prestel from Prestel and Partner, who works with family offices globally, digital assets are interesting as they represent a new technology, disruption and plenty of investment cases. And beyond being investors in funds, family offices with private equity and venture capital know-how are often the financial power behind digital asset and blockchain companies. According to Marc P. Bernegger, investor and board member of Crypto Finance Group, family offices and wealthy individuals who do not have to adhere to an investment process and can test the waters with a small allocation are often among the first movers. They can easily allocate 2-5 percent of their overall portfolio to digital assets without a large and cumbersome investment process. Henri Arslanian of PwC confirms this in his 2020 Crypto Hedge Fund Report: "The majority of investors into crypto hedge-funds are family offices." Sina Meier from the pioneering ETP issuer 21Shares witnessed that in 2020, family offices, wealth managers and private banks allocated more funds and portfolio allocation into regulated crypto products like crypto ETPs. Large and sophisticated family offices based in Switzerland will play a key role in developing digital assets due to their financial clout and unrestrained investment process. Thomas Wind, former head of trading at Swiss family office Woodman Asset Management put it simply: "You need a bit of crypto in your portfolio".[2]

Often managers of family offices start investing into digital assets privately first, as was revealed in many interviews with numerous wealth managers and family offices. Lukas Dörig, managing partner at the multi-family office Marcuard Family Office, ranks 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 interest. Most often the first step is a long-only allocation to bitcoin. This is a simple first-step in 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, highlighting the importance of larger banks offering custody services for a wider adoption.

Private banks and wealth managers appear on the scene

As highlighted previously, Swiss private banks were often the innovators in offering new investments to their affluent clients. The plethora of new rules and regulations for private banks and wealth managers, courtesy of the aftermath of the financial crisis 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 offering investment advisory services in the first quarter of 2021. This entails advice on traditional as

1. Financial Times, The $6tn family office world, 3/4 April 2021
2. Financial Times, Record-setting bitcoin faces crucial test after volatile week, 27/29.11.2020

well as digital assets. In fact, they even have an in-house diversified product, a so-called Crypto Actively Managed Certificate currently in development. At the same time, private banks and wealth managers realized that offering digital asset services brings in a new generation of younger and more open clientele. Fred Devillard from the Geneva based private bank Bordier & Cie. sees the next generation of "execution only" clients approaching this new asset class more playfully. The venerable Geneva-based private bank started offering custody and trading for cryptocurrencies in June 2020. As a bank they can offer their clients a robust custody setup 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 offering, which started recently. A very positive sign for Switzerland as a global digital banking hub is the new digital asset offering by the internationally 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." BBVA chose Switzerland for the first global roll-out of their cryptocurrency offering: "This is due to the strength of Switzerland's ecosystem and legal framework," according to Rubio.

Asked about the main risks in regard to the digital asset offering of the private bank, Mr. Zwahlen of 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." What Mr. Zwahlen finds remarkable is that at the 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. With the entrance of the two Swiss crypto banks Sygnum and SEBA in 2019 and a strong FINMA endorsement, this has since changed a lot. Today, whenever another bank inquires about the digital asset offering, it is often no longer the key account 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 offer services to clients. Wealth managers are also making their first forays into digital assets. Among them are the Zurich-based wealth manager DuLac Capital, who recently started offering tailor-made 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.

He sees digital assets as an inflation hedge similar to gold. Dominik Zehnder of Kehrli & Zehnder in Zurich first started with some personal investments while 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 Raphael Ostfeld, who manages a single family office, 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 Sound 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 numbers. This affords him easy access and inclusion in traditional investment portfolios. Much like other private banks, building expertise in crypto and digital assets enabled him to attract a younger clientele. Whether it be for private banks, wealth managers or family offices, simply ignoring the rapidly expanding 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 BridgeWaters 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 catchy as it was simple: let's kill the banks! With 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 needed traditional bank accounts. Then, with the emergence of the first crypto banks in Switzerland in mid 2019, a new phase started, with bold new players entering the regulated field of traditional banking. When the 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.

At about the same time, the first traditional banks such as private bank Maerki Baumann and online bank Swissquote started to offer custody and trading services for cryptocurrencies. They were shortly followed by larger traditional banks such as Julius Bär. In parallel, the first retail banks were planning to enter the fray. Bank Cler, fully owned by the Basler Kantonalbank, for example, is planning to offer digital asset services to its retail clients.

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.

Besides offering basic custody and trading for cryptocurrencies, banks such as Sygnum, InCore and Julius Bär are exploring the tokenization of assets. Tokenization is expected to enlarge the bank's private market offering as well as increasing the efficiency of their extensive back office 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

While officially still highly critical of cryptocurrencies 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, none of the traditional banks in Switzerland offer active advice or portfolio management for digital assets: therein lies an obvious business opportunity. Many industry experts and crypto service providers confirmed that a considerable number of Swiss banks are working behind-the-scenes on digital asset offerings. On the condition of anonymity, senior executives at larger banks have confirmed that they are applying a 'fast follower' strategy. When larger banks perceive that valuable business might get lost due to the lack of an offering, it can be expected that the adoption of digital assets will accelerate. Once the blueprints are in place and best-practices are established by the regulator, larger financial institutions can easily ramp up an in-house offering or alternatively buy companies with the respective offering.

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 private banking and digital asset offerings as clients 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 for the financing of the growth of crypto companies.

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 bet to assume that there will be a domino-effect as soon as more Swiss banks join the fray, triggering even more client inquiries. For financial institutions to refuse to engage with digital assets became plain silly in 2021.

For Maerki Baumann, the digital asset offering 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.

The hedge funds are piling in

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 for new funds offering clients protection against the debasement of fiat money."[1] SkyBridge Capital, a leading global alternative investment firm led by well-known investor Anthony Scaramucci, announced the launch of its SkyBridge Bitcoin Fund LP, which shall provide mass-affluent investors with an institutional-grade vehicle to gain exposure to bitcoin in January 2021. Additionally, on behalf of its flagship funds, SkyBridge initiated a position valued at approximately $310 million in late 2020.[2] Anthony Scaramucci echoed many sophisticated investors' views when he said: "Bitcoin started out in the Wild West and is now an asset being institutionalized."[3] Another reputable US investor that became strongly bullish on bitcoin is Stanley Druckenmiller, who ran several hedge funds and managed money for George Soros.[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 ever: "we are in the first inning."[6] He called bitcon "a gold-like hedge against inflation and the 'fastest horse' in a field of alternatives to cash."[7]

Such wide-spread prominent endorsement clearly helped bitcoin and digital assets gain legitimacy in the wider financial community. Despite JPMorgan CEO Jamie Dimon's very well-known scepticism about bitcoin, the bank's analyst Nikolaos Panigirtzoglou wrote in December 2020:

1. Bloomberg.com, Ray Dalio Calls Bitcoin 'One Hell of an Invention,' Considers It for New Funds, 28.01.2021
2. Prnewswire.com, SkyBridge Enters Bitcoin Market With New Allocation, Fund Offering, 04.01.2021
3. Financial Times, SkyBridge pins hopes on bitcoin fund after enduring 'rough year', 05.01.2021
4. Theblockcrypto.com, Billionaire Stanley Druckenmiller says that he's placed a bet on bitcoin, 09.11.2020
5. Coindesk.com, Bitcoin Manager With $1B Crypto Goal Is Backed by Hedge Fund Vet Alan Howard: Report, 16.12.2020
6. Theblockcrypto.com, Paul Tudor Jones says he likes bitcoin more than ever, says 'we are in the first inning', 22.10.2020
7. Bloomberg.com, Ray Dalio Calls Bitcoin 'One Hell of an Invention,' Considers It for New Funds, 28.01.2021

THE TOKENIZATION OF EVERYTHING

08

In late 2020, a buzzword started to re-appear in the digital asset community: tokenization. Tokenization is defined as a 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 its essence, tokenization is the representation of assets on the blockchain, and therefore, it is a structuring tool with growing potential for banking and financial markets, according to Jan Brzezek, CEO and founder of the Crypto Finance Group.

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 different digital format. From Sygnum and SDX to Taurus, GenTwo Digital and InCore Bank, many 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 financial market infrastructure that is blockchain-based and decentralized, Philippe A. Naegeli, co-founder and Chief Vision Officer of GenTwo, and 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 and new financial infrastructure is Roger Studer of the eponymous family office. The former head of investment banking at Vontobel Bank sees massive potential in tokenization that will lead to large-scale disintermediation. According to him, it will also lead to new global financial networks.

A 2020 Bain & Company report offered a closer look at the potential of tokenization. It concluded that private capital markets, which overshadow public markets in value and growth and are dogged by inefficient, opaque processes, as a prime target

Tokenization is a structuring tool with growing potential for banking and financial markets," Jan Brzezek, CEO & founder, Crypto Finance.

for tokenization.[1] According to Bain, the biggest opportunity lies in private debt, equity and real estate, given their relative inefficiency compared to public market infrastructure.

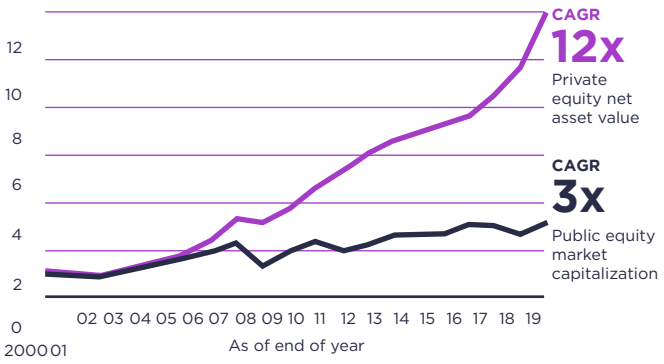
Digitized financial assets and distributed ledger technology platforms will substantially improve transparency of information, automation, distribution and, ultimately, liquidity. Many of the bankers interviewed for this report share this view. They identify the biggest opportunity in the tokenization of private markets such as private debt, private equity and real estate. Meanwhile, they remain more sceptical towards cryptocurrencies. The opportunity to deliver efficiency gains, cost savings and more liquidity are benefits that are also confirmed by a paper by Bain & Company.

However, as tokenization sits at the intersection of financial markets, blockchain-technology and regulations, it is faced with uncertainties ranging from unclear legislation and competing technologies to questions surrounding the trustworthiness of emerging firms. Tokenization is not a miracle that will make very small companies easy or more desirable to invest in. Industry participants expect breakthroughs in the near term in automating workflows and data handling, ranging from capitalization tables to share transfers and dividend or interest payments. Digital asset platforms are expected to bring benefits in efficiency and cost

1. Bain & Company, For Digital Assets, Private Markets Offer the Greatest Opportunities, 16.12.2020

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

Global private equity net asset value and public equity market capitalization indexed (2000 = 1)



Bain & Company, For Digital Assets, Private Markets Offer the Greatest Opportunities, 2020

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 into effect in June 2021, it triggered a flurry of novel 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, 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 A. Naegeli from GentTwo concluded. However, 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

2. Finews.ch, Die Kryptobank Sygnum hat den ersten Asset-Token unter dem neuen DLT-Gesetz geschaffen. Ein Wein-Portfolio wird nun investierbar, 01.02.2021
3. Finews.ch, Seba Aktien Tokenisierung, 01.02.2021

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 paper certificates representing securities: the paper certificates are not the securities themselves, but they serve as a proof of ownership of the securities.

By Ariel Ben Hattar, CMTA

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, namely banks and central securities depositories (CSD). The trust is not given blindly: it is the result of significant regulatory duties, audits and ongoing supervision by regulators.

Why fix 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. It has two significant drawbacks, however. First, due to the trust placed in few participants, it is heavily centralized, which creates gatekeeper effects. Second, it is costly to operate, and those costs are inevitably passed on to those who use the infrastructure, investors and issuers alike. That situation becomes evident when considering public offerings. To sell their securities to capital markets investors, companies generally rely on underwriters, i.e. financial institutions who act as the first acquirers of the securities. Underwriters act as the point of entry to the markets and, as such, fulfill a critical function. There are however relatively few firms active in this business, because doing so is a complex and costly exercise.

How tokenization can shake capital markets

As we have seen, a great deal of inefficiency in 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 gatekeeper effects, as the number of companies 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 gives entrepreneurs more flexibility as to the 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-ups can not find funding in Switzerland, or if they are only left with sub-par options to grow, a significant part of this effort will have been in vain. Increasing 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 more diversity in terms of risk profiles. Perhaps 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 specifically recognizes tokenized securities. The new law clarifies the treatment of tokenized assets and 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.

Switzerland also enjoys the flexibility of its rules 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 in Switzerland, where banks and securities firms can operate trading venues on which securities (including shares) are traded, without the need to link the venue to a CSD.

By Ariel Ben Hattar, Secretary of CMTA's executive 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, "...NFTs are similar to certificates of ownership 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, 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

4. A16z podcast, The creator economy: NFTs and beyond, 03.04.2021
5. A16z podcast, The creator economy: NFTs and beyond, 03.04.2021
6. Financial Times, Chasing a piece of the crypto action, 14.05.2021
7. Financial Times, Chasing a piece of the crypto action, 14.05.2021
8. A16z podcast, The creator economy: NFTs and beyond, 03.04.2021

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 the original creator will retain some financial interest 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 Gees already released a tokenized art project back in 2019. However, tokenization initially struggled to find valid use-cases. In 2021, this idea strongly 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 represented a digital certificate of the artwork.[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 that it was "the first major auction house to offer a purely digital work with a unique NFT, effectively a 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 to Andreas Ritter, founder of law firm Ritter & 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 objects such as paintings, cars or houses, the lack of user-friendliness and the regulatory uncertainty surrounding the financial aspects of tokens. In the aftermath of the ICO craze in 2017, it can be

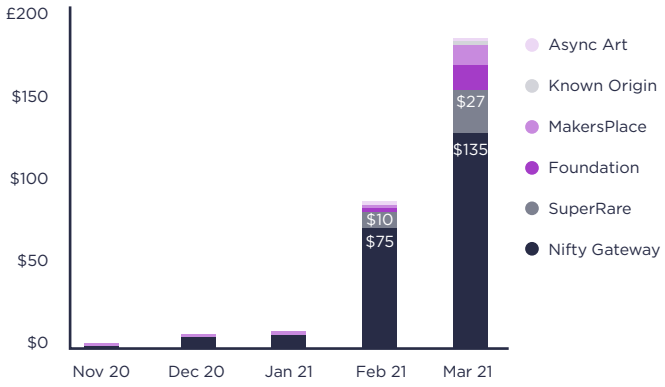
9. 16z podcast, The creator economy: NFTs and beyond, 03.04.2021
10. www.coindesk.com, BT, Trance Trailblazer, Unveils 24-Hour Crypto Artwork, 25.05.2021
11. www.christies.com, Beeple's opus. Created over 5,000 days by the groundbreaking artist, this monumental collage was the first purely digital artwork (NFT) ever offered at Christie's, 07.04.2021
12. Financial Times, Gimmicks are creating a market of their own, 03./04.04.2021
13. Financial Times, Hirst hands NFTs to eco-platform Palm, 03./04.04.2021

expected that the financial regulators will start to 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-driven ecosystem. While this new digital art or even digital world might be baffling for traditional art collectors, it holds tremendous potential for pushing the art world into the age of the Web 3.0. For a 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 within a game with real money. While possessing a digital item is important, sharing and displaying it is equally important to this digital-native generation. For them, purchasing digital certificates or NFTs comes easily as they intuitively understand that digital memories or experiences have an intrinsic value. When the artist Banksy destroyed his $1.4 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 a digital certificate that can be transacted virtually.

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. 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.

NFT VOLUME HAS EXPLODED OVER THE PAST FEW MONTHS

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



CB Insights, April 2021

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 strongly believes that the Greater Zurich Area, with 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 quality assessment of different art: the Christie's 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 surrounding the financial aspects of tokens. In the aftermath of the ICO craze in 2017, it can be

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DECENTRALIZED FINANCE AS THE NEW FRONTIER IN FINANCE

09

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 many new blockchain-based projects that offer a new decentralized financial infrastructure and are modelled on services in the traditional financial industry, such as lending, trading or financing. DeFi is touted as the underpinning of a new financial infrastructure with currencies, exchanges, lending, insurance and leverage. With 72 DeFi companies backed by private investors in 2021, proponents of DeFi hope that it will disrupt intermediaries or rent-seekers in financial markets by letting market participants directly trade with each other, enabled by smart contracts.[1]

DeFi is a free-wheeling and unregulated global laboratory of new financial infrastructure and concepts and a test-bed of fresh financial ideas.

Reto Stiffler of Crypto Consulting AG described DeFi as a new type of global finance based on open-source software without an intermediary.

It potentially serves as a fast and cheap alternative to the traditional legacy banking system. According to Stiffler, among the myriad of projects, the 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 new financial infrastructure runs 24/7, it does not require deposits as the classical banking world does. In consequence, this new and code-based financial infrastructure is faster and more efficient than the legacy banking world. At the same time, however, DeFi is exposed to hacking and suffers under the 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 in traditional finance. Ferreux suggests that the gap 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.

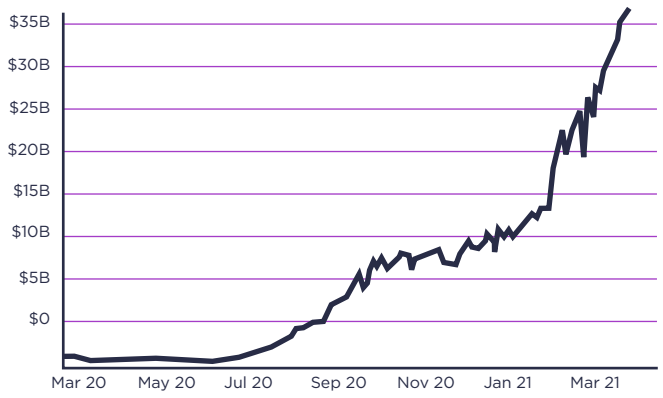
According to Anton Golub of Flovtec, more than 30 new coins, or DeFi projects, were launched in 2020 every single day.

Currently, DeFi is very small in comparison to traditional financial markets. According to analysts at 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 financial infrastructure as an opportunity. At the same time, the decentralized, open-source

1. Financial Times, Silicon Valley bets on crypto start-ups to disrupt finance, 04.06.2021
2. Financial Times, Billionaires back $10bn crypto asset exchange, 12.05.2021

TOTAL VALUE LOCKED (USD) IN DEFI



Sygnum Digital Asset Outlook 2021

and unregulated nature of DeFi raises legal and regulatory questions that might impede wider adoption. According to Hansjörg Hettich executive director of the Multichain Asset Managers Association in Switzerland, DeFi is highly innovative and remains, at least for the time being, an unregulated parallel world to traditional finance

While some industry experts see DeFi as a huge opportunity to modernize and decentralize finance, 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 intersection of blockchain-technology and finance..

STABLECOINS OR THE NEW CENTRAL BANK MONEY

10

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 the most important influencer of crypto prices in 2021. However, for a currency to function well, it needs to offer price-stability, as UBS chief economist Jason Donovan emphasized in a video. A potential remedy are stablecoins that are tied to underlyings such as fiat-currencies or gold and therefore reduce volatility: "Stablecoins are fine in theory. They combine the supposed efficiency of digital asset transfer with the privacy of decentralised finance 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 basket of different currencies, solely focusing on the US dollar.[2]

At the same time, central banks from Sweden and Switzerland to China are experimenting with stablecoin configurations of their own, termed 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 would allow them to program specific features, such 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 tender. CBDCs are different to cryptocurrencies as they represent a claim on a central bank.[4] It remains to be seen how exactly they will fit into the ecosystem of traditional fiat-currencies and decentralized cryptocurrencies. Stablecoins have already irked regulators, with the Bank of England stating: "For stablecoins to be used alongside commercial bank money, the bank must be satisfied that they are safe ... and they must not rely on making promises that they cannot guarantee to keep over time."[5]

The digital asset community has high hopes for stable coins as a stable transaction currency with the DeFI ecosystem

1. Financial Times, Stablecoins/bitcoin: unThetered to reality, 03.06.2021
2. Finextra.com, Facebook Diem shifts operations from Switzerland to US, 13.05.2021
3. Financial TImes, Digital currencies: control experiment, 23./24.05.2021
4. Financial Times, Digital currencies: control experiment, 23./24.05.2021
5. Financial Times, Stablecoins must face hard scrutiny, warns BoE, 08.06.2021

INTERVIEW WITH THOMAS MOSER, PRESIDENT OF THE SWISS CENTRAL BANK

What are Central Bank Digital Currencies and how are they different from cryptocurrencies?

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, especially fiat currencies such as the US Dollar. They thus have the same inflation risk that a CBDC would have, but, in contrast to CBDCs, most stablecoins – particularly the most popular ones like Tether – are exposed to credit- and liquidity risks.


Thomas Moser

What advantages do CBDCs offer?

This has not been conclusively answered and is likely to differ from country to country. It is important to separate interbank or wholesale and retail CBDCs. Wholesale CBDCs are only available to financial institutions such as banks. If in future more and more digital assets were traded on the blockchain, a wholesale CBDC would offer the advantage of a risk-free means of payment.

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

Globally, the majority of projects are wholesale CBDCs, while only a minority of projects focus on retail versions. With very few exceptions, hardly any countries have confirmed that they will actually issue 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 legal issues to be addressed first.

How does China compare to the EU and the US?

China is already very advanced with their pilot CBDC program. It will probably be the first large country to issue a retail CBDC. This was most likely triggered by rapid changes in the payment landscape initiated by WeChat and Alipay dominating the payment 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.

What are the main challenges for CBDCs?

Apart from the question, "what would a CBDC mean for the banking sector?," privacy protection is a main 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?

We have no plan to issue a CBDC. Nevertheless, 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 positioned globally when it comes to digital assets?

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.

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THE SWISS DISTRIBUTED LEDGER TECHNOLOGY ACT

By Tina Balzli

11

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, spanning from civil law to financial market law and insolvency law. With this approach, the Swiss legislator consciously refrained from creating a specific technology law for digital assets, the popular path taken by Liechtenstein, Gibraltar or Malta, for example. 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 uncertificated securities are created when 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 financial instruments.

The remaining provisions of the DLT-Act enter into force on 1 August 2021. Amongst others, they introduce a new financial market 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 least, the DLT-Act also introduces significant clarifications to Swiss insolvency and banking 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 allocated to a client. Off-chain segregation will be deemed sufficient, thus, allowing the 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.

By Tina Balzli, Attorney-at-law, LL.M. (NYU), LL.M. (NUS)

THE ROAD TO A WIDER ADOPTION

12

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 Guido Bühler 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, compliant 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 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 research note in January 2021 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 pointed out. In addition, banks are still very much occupied

1. www.nau.ch, UBS warnt: Bitcoin könnte auf null fallen, 18.01.2021
2. Financial Times, US banks voice caution over dealing in crypto, 27.05.2021

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 and regulatory certainty around the fiat-crypto conversion. A global and decentralized blockchain often sits uneasily next to a highly centralized and territorial financial regulation. At the same time, 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 financing.[3]

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 confirmed an increasing interest from established financial institutions. Marc Dambacher, CEO of the Swiss B2B service provider InCore Bank, is adamant that large international banks have to join the ecosystem for further adoption. Without them, the digital asset space will remain a niche. Lothar Cerjak, head of institutional services and products at Bitcoin Suisse, believes that in 2021 additional well-known banks will offer custody and trading for cryptocurrencies. With Julius Bär Bank offering custody and trading since early 2020 and Bank Cler preparing for a launch this year, this seems to be a fair bet.

3. Financial Times, Basel banking panel pushes for stringent crypto regime, 11.06.2021

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."

Custody solutions on the rise

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 and director of studies in the field of economic 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 great value by offering custody services.

From a wealth manager point of view, the custody services currently offered are still too limited, as only large tokens are supported.

Nowadays, Swiss service providers or dedicated banks such as Custodigit, Crypto Storage, InCore Bank, Metaco, AlgoTrader, SEBA, Sygnum or Taurus are offering specific services and solutions for the 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 mind. Nevertheless, it shows that there is a trade-off 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.

Growing 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-fund managers, family offices and the first payment providers. With a market-cap of approximately one trillion dollars, bitcoin is, in relation to global financial markets, still insignificant. The limited volume is a barrier for larger investors allocating sizable amounts into a market with a limited liquidity and volume.

A lack of size and track-record is a stumbling block for sophisticated investors, according to the Marcuard Family Office.

On the other hand, according to Marc P. Bernegger of Crypto Finance, the first Swiss pension funds 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 asset ecosystem is a further risk factor. Whereas traditional administrators, custodians and auditors are slowly building their digital asset and crypto service offerings, new dedicated digital asset only service providers are slowly building a brand name and improving their service quality.

Overall, as traditional finance is slowly approaching this new digital asset sphere, both sides will learn from each other and improve their offerings over 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 Flurin Grond of Progressive Capital or providers such as Crypto Consulting or Bitcoin Suisse affirmed. The lack of understanding and education is a considerable roadblock to wider adoption and will take a concentrated ecosystem-effort to overcome.

With the higher visibility of digital assets, more and 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 traditional, centralized financial infrastructure, is a 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 traditional financial industry will co-exist with its

According to CustoDigit Switzerland has become the global leader in digital asset custody and trading services.

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 to the recent Global Crypto Hedge Fund Report 2021, 82% of investors cite regulatory uncertainty as the biggest barrier to investing.[4] This is reflected by the many concerns among asset and wealth managers entering the space that struggle with the lack of clear regulation. Giorgio Saraco of Belvedere 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 Reporting Standard). Markus Ruffner, CEO of 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.

With skyrocketing crypto prices, a lot of media-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 concerns about terrorist financing in connection to cryptocurrencies: "The technologies to accomplish this (terrorist financing) change over time and we need to make sure that our methods for dealing with these matters, with tech terrorist financing, change along with changing technology, cryptocurrencies are a particular concern."[6] Crypto trading and digital assets are clearly on many regulators' agenda. Gary Gensler, the new chair of the US Securities and 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

4. Global Crypto Hedge Fund Report 2021, PwC & Elwood Asset Management, May 2021.
5. https://www.reuters.com/article/us-crypto-currency-ecb/ecbs-lagarde-calls-for-regulating-bitcoins-funny-business-idUSKBN29I1B1
6. Coindesk.com, Janet Yellen Says Cryptocurrencies Are a 'Concern' in Terrorist Financing, 19.01.20201
7. Financial Times, Watchdogs get to grips with crypto incursions, 8./9.05.2021

nor a currency, therefore putting them outside the reach of US financial market regulators. In May 2021, 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 finance.

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 digital assets rarely fit within existing territorial 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 clearly-defined location. Furthermore, this global, decentralized and code-based ecosystem does not always show strong interest for regulatory and legal frameworks, claiming to operate outside the regulations of traditional finance. Today, the community is still very proud of its libertarian roots. It is truly a new frontier for finance, strongly driven 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.

With a new administration in place in the US, there is also hope for a more pro-innovation approach to finance. The new SEC chairman Gary Gensler, for example, who previously taught about 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. With the growth of the digital asset ecosystem and the entry of providers from traditional finance, 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 asset boom. While Switzerland offers a robust and 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.

8. Financial Times, Cryptocurrency holders take on central banks at their peril, 22./23.05.2021
9. Coindesk.com, Gensler said to be named SEC chairman: Reuters, 12.01.2021

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 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."

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

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 50% sell-off.

In 2021, Telegram groups and enthusiastic day-traders developed an enthusiasm for piling in on meme-stocks or cryptocurrencies, catching established players off-guard. Some traditional investors see spiking volatility driven by fear-and-greed as a part of the price discovery process of a new asset class. With established traders 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 a flawed-process at best. In a client note, Ray Dalio of Bridgewater Associates admitted that putting a value on digital assets is difficult.[11] Executives at Swiss private banks agree. Markus Ruffner, CEO of 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 to offer advisory services to clients. Kenny Hearn, 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 power behind network effects on a completely 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 a value on different coins very much depends on what investors believe them to be: a currency, a risky asset or digital gold. Only time will tell.

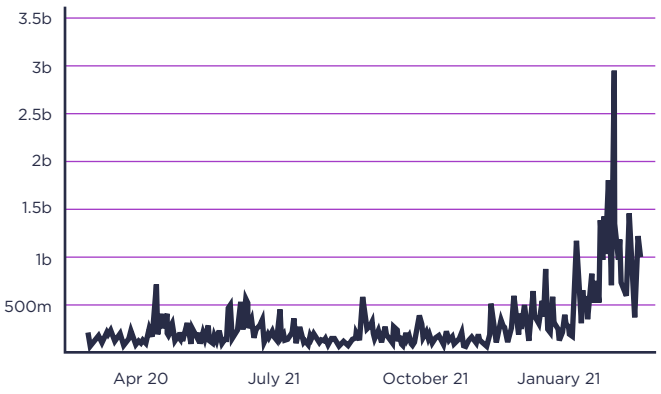
Regulated exchanges wanted

In any financial market, market places and regulated exchanges are an important part of the financial infrastructure, creating liquidity for buyers and sellers as well as assisting the price-discovery process. Currently, large exchanges from Coinbase to Binance offer crypto trading and lending. As these exchanges are often either not or only loosely regulated, the service quality varies widely, with down-times and drops in liquidity being anything but uncommon. Gary Gensler, chair of the US SEC, 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

10. Financial Times, Biden administration targets crypto transfers in tax crackdown, 20.05.2021
11. Bloomberg.com, Ray Dalio Calls Bitcoin 'One Hell of an Invention,' Considers It for New Funds, 28.01.2021
12. Financial Times, Bitcoin ETF applications gather dust as SEC chair Gensler points to 'gaps', 03.06.2021

TOTAL USD TRADING VOLUME ON MAJOR BITCOIN EXCHANGES

USD Exchange trade volume



Sygnum Digital Asset Outlook 2021

starkly highlighted the shortcomings of existing crypto exchanges. The volatility forced exchanges to limit trading due to massive spikes in volume. During market turbulences it is not uncommon for different digital exchanges to experience stability issues, with interfaces often stalling or being inaccessible altogether.

Steffen Bassler of Swiss One Capital, a crypto asset manager, also sees the lack of liquidity as a prevailing issue for market growth, as larger trades can move the market. Guido Bühler, CEO of SEBA 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 industry. This is being confirmed by Daniel Diemers of SNGLR Group: "Big, missing gaps in the emerging digital assets infrastructure are: liquidity, market makers, institutional-grade pricing data, and most notably, good places to trade and list security tokens." Gary Gensler, the SEC chair, shares this view and ultimately aims to bring similar protections to crypto exchanges as one might expect from the New York Stock Exchange.[13] Without robust liquidity provided by regulated exchanges and market-makers, institutional investors will be limited in their exposure.

There is clearly an opportunity for more efficiency and liquidity. For the time being, the lack of liquidity is as much a stumbling block as it is an opportunity. With a growing number of blue-chip FX trading desks the likes of Goldman Sachs and Morgan Stanley entering the digital markets, the transformation to a more robust institutional setup is well under way.

The official Swiss stock exchange SIX, under its 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 regulated digital assets. The initial product offering 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. Gotthard Fund Management highlighted that despite the digital nature of digital assets, it can be surprisingly hard to transfer money from one provider to another.

13. Financial Times, Cryptocurrency concerns push US watchdogs to take more active role, 31.05.2021

SwissOne CAPITAL

Top 50 Smart Strategy

A strategy built to capture crypto's vast return potential.

The Crypto asset class is not just the largest coins like Bitcoin & Ethereum, or the most attention-grabbing assets. There is an entire lattice of cutting-edge projects that are constructing the scaffolding on which this new decentralized financial ecosystem is built upon. Intelligent investors recognize this and understand that simply investing in the top layer isn't enough.

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Performance year to date
Source: SwissOne Capital. Bloomberg, Coinmarketcap.
data as at 31 May 2021

+257% SwissOne Top50

+23.1% Bitcoin

+11.9% S&P 500

0.0% Bond ETF

-2.2% Gold per ounce (USD)

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SwissOne Capital is a Zug-based investment firm which offers seamless access to the Crypto asset ecosystem via traditional licensed and regulated market channels. Offering the Top 50 Crypto assets equally-weighted, SwissOne brings you direct and sensible exposure to this uncorrelated and high growth asset class. We provide a safe and secure passage from traditional markets into Crypto.

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"... it was disappointing to see that most crypto funds either were limited to only Bitcoin and Ethereum and a handful of cherry-picked projects ... SwissOne's Smart Strategy provides implicit coverage for a wide array of crypto token types."

Jonathan Els – SwissOne Client

Philipp Cottier, co-founder of L1 Digital, sees the limited size of the Swiss financial market is a big stumbling block.

field open for smaller and more nimble operators. In April 2021, the Geneva-based startup Taurus, which was founded only back in 2018, was the first company to receive a securities firm license from the Swiss regulator FINMA. In May 2021, they started operating the first global, independent regulated marketplace for digital assets.[14] This is an important step towards a regulated and robust financial 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 offshore jurisdictions such as the Cayman Islands or Guernsey in recent years.

Given the strong digital asset ecosystem, it should 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. With more and more established Swiss financial 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.

14. Startup.ch, Taurus launches marketplace for digital assets after obtaining FINMA license, 19.04.2021

THE MONEY FOR THE INTERNET IS GROWING FAST

13

Digital platforms of money

We all have become accustomed to the benefits of global digital platforms such as Facebook, Amazon, Apple or Twitter. These digital platforms have irreversibly changed the business landscape in the last decade: think books, music, films or clothes. They have become dominant because of network effects and economies of scale, making them de-facto monopolies. Cryptocurrencies and digital assets are the logical next step in this expansion of digital platforms into an internet of value, sometimes coined Web 3.0.

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 intersection of code and finance. They are internet-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.

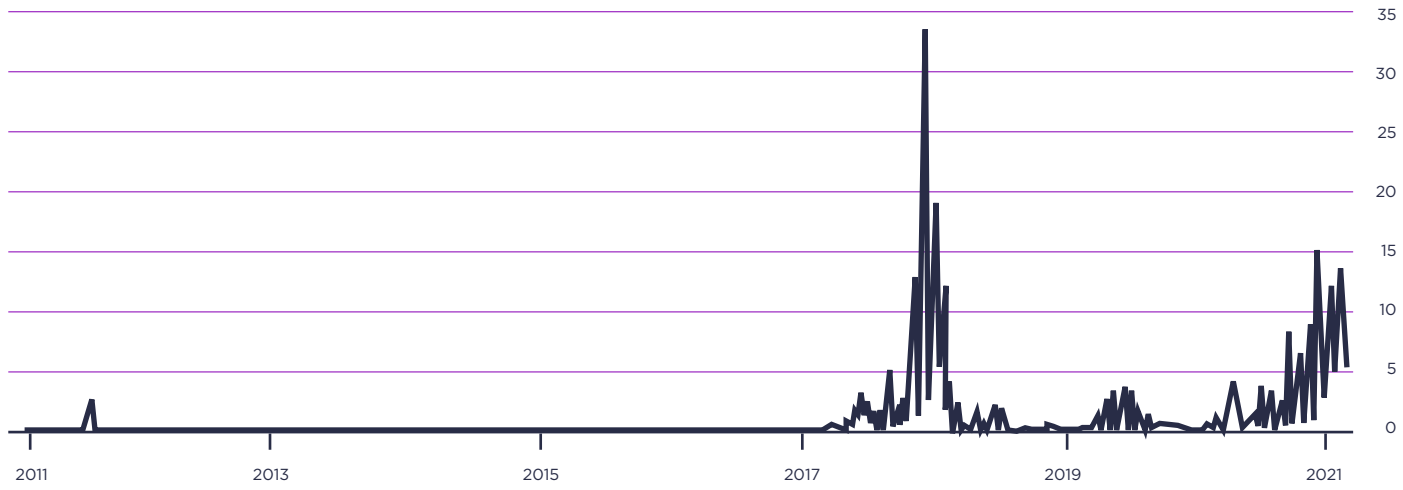
New generation of investors

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 time, the financial industry is contemplating how 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, retail traders rocketed shares of GameStop and BlackBerry. GameStop, according to the Financial 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 Twitter bio to #bitcoin and subsequently moved 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.

1. Financial Times, Amateur traders fuel outsized gains for US picks, 26.01.2021

TRADING CRYPTO PAYS OFF AS TRANSACTION FEES CLIMB

Daily media bitcoin transaction fee ($)



Financial Times, 17./18.04.2021

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 on the GameStop rally initiated by an army of retail day traders: "...this is a cautionary tale of how social media can be co-opted to attack the financial establishment. Reddit may be changing Wall Street 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.

2. Financial Times, GameStop: flash mob vs Wall Street, 29.01.2021

THE FUTURE IS HERE

14

In 2020, according to the Financial Times, bitcoin was among the best performing assets.[1] Christopher Wood, a renowned financial analyst, wrote: "2020 was the year bitcoin came of age. The first money to be built for the internet with no competitor in sight... Bitcoin should also be a massive beneficiary of the network effect, which, as it is clear from the examples of Google and 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 the first money to be built for the internet. And it 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 likely, the traditional and centralized world of finance will co-exist for many years alongside the new decentralized finance ecosystem. The 2021 IPOs of 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 such as artificial intelligence, technological advances often follow an S-curve. The most famous representation of that is the Gartner hype cycle. Adoption moves from gradual to sudden, as has happened with cryptocurrencies in 2020.

Toni Nijm, a Swedish serial entrepreneur, believes blockchain technology, artificial intelligence and the internet-of-things will lead to a paradigmshift in our lives.

These technologies, in combination, will lead to the next phase in digitalization, creating an internet of value. Successful Swiss entrepreneur and investor Francisco Fernandez identified three use cases for blockchain technology: first, an increase in efficiency in banking processes. Secondly, decentralized finance will enable disintermediation and the rise 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 in. While it became quieter in 2019, a reflection of the stronger focus of regulators around the world, a wider institutional offering was shaping 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, Switzerland has to fight hard in order to compete 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 value likened to digital gold. With investors getting increasingly familiar with bitcoin, this has also led to an increased interest in other digital asset projects and blockchain technologies. According to Justin Bons, founder of Cyber Capital: "While bitcoin is

1. Financial Times, Bitcoin's trading jolts unnerve traditional money managers, 13.01.2021
2. Grizzle,com, 2020: The year bitcoin became investable for institutions, 06.01.2021
3. Neue Zürcher Zeitung, Das Geld der Zukunft heisst Bitcoin, 06.12.2020

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 represents the most significant breakthrough of 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 financial institutions from banks to asset managers accelerated rolling-out crypto and digital assets as well as venturing into DeFi: in June 2021, Swiss SEBA Bank started to offer Ethereum "staking" to its clients.[4] Essentially, two starkly different systems, 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 decentralized finance catches watchdogs off guard."[5]

Originally, decentralized and permissionless digital assets such as bitcoin were intended to side-step highly centralized and regulated traditional finance. As a response to the financial crisis of 2008, the very idea of bitcoin was to create an independent alternative to traditional finance. With the entry 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 and fit a permissionless, decentralized and code-based financial system with the staid world of legacy finance? Or, to be more precise: what is the right 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

4. Bitcoin.com, Sygnum Bank Launches ETH 2.0 Staking - Business Unit Head Says 'Staking Is a Core Element for Portfolios', 07.07.2021
5. Financial Times, Rise of decentralised finance catches watchdogs off guard, 30.06.2021

safety and regulation of traditional finance, this becomes a very real conundrum.

Technically, digital assets can be stored independently of any banks either on- or offline. However, being responsible for the custody of digital assets can be a true burden, as they need to be properly stored, reported and transferred. With the 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.

While the decentralization paradox of two profoundly different systems will most likely exist for the near future, it has already created something very positive: choice for investors. With the emergence of bitcoin and a broader digital asset ecosystem, investors nowadays have a choice between centralized and decentralized financial systems that did not exist before 2008. This is clearly a very positive development that has reinvigorated a debate between entrepreneurs, regulators, politicians and the financial establishment about what finance should be and who should be in control. It has also led to innovation being embraced by the financial industry in Switzerland and abroad. 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 blockchain. Since then, specific guidance and 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 a stable financial market. With an experienced and

6. European Commission, EU Blockchain Ecosystem Developments Report, 2021

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 an office in Zurich, offers wealth generation via a globally tokenized company offering access to a 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 family offices and wealth managers. As a first step, many of their employees started investing into digital assets, developing first-hand experience with this new asset class. At the same time, Switzerland has a long tradition of safe-keeping financial assets. 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 from Asia, whereas Marianne Wildi, CEO of Hypothekarbank Lenzburg, identified Liechtenstein with its EU access as a potential contender. In addition, many new decentralized finance projects are emerging from other geographies such as the US and Asia.

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

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 emphasizes that Switzerland has a mature ecosystem with highly-skilled partners.

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BRIDGETOWER CAPITAL

It is expected that the first cantonal banks will start offering cryptocurrency services in 2021. Executives of large Swiss banks confirmed behind closed doors that once the space matures, they are ready to act as "fast followers." Further, many service-providers catering to banks confirmed in interviews that larger banks are actively preparing for digital asset services. Not very long ago, bankers might have gotten fired for mentioning cryptocurrencies. Nowadays, they get fired if they ignore digital assets. 2021 will likely be a tipping-point for the wider institutional adoption of digital assets both in Switzerland and globally. For those not part of this new frontier of finance, the fear of missing out will most likely become very hard to bear. Switzerland has huge advantages from Crypto Valley to a new legal framework and a savvy regulator. The digital asset revolution is happening here and now.

Switzerland is extremely lucky to be part of this incredible journey to a nascent internet-of-value. Amazingly, this digital transformation is happening right here at our doorstep. What we need now are a few big success stories that transpire globally. Let's be bold and build on the lead that we have!

As Chris Thomas of Swissquote Bank nicely put it: "We must wake up and realize that the rest of the world is innovating a lot quicker."

INTERVIEW LIST

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