PostFinance Explanation of the risks involved in crypto

1. General information

This document outlines the risks that PostFinance Ltd customers may be exposed to when purchasing or selling cryptocurrencies and holding them for safekeeping. Cryptocurrencies are a new, highly speculative asset class. PostFinance customers should therefore invest in cryptocurrencies only if they are able to withstand a total loss.

The list of risks in this document is not exhaustive. Because the technology used to issue and transfer cryptocurrencies (blockchain or *distributed ledger technology (DLT)*) is still in its relative infancy and is developing fast, we have to assume that additional risks may emerge in future.

This explanation of risks is not a substitute for a consultation. PostFinance advises that customers familiarize themselves with the technical basics before they purchase cryptocurrencies and that they seek professional advice if necessary. Properties and technical basics may differ from cryptocurrency to cryptocurrency. It is solely the customer's responsibility to ensure that they are familiar with the features of a specific cryptocurrency.

2. Terminology

Cryptocurrencies are assets that are issued on a decentralized register and are transferable. They are accepted by natural or legal entities as a means of exchange, but they are not issued or guaranteed by a central bank or any other public body and are not classified as legal tender.

3. The value and risk of a total loss

The value of a cryptocurrency depends primarily on the continued willingness of a sufficient number of market participants to accept it as a means of exchange or to exchange it for legal currency or other cryptocurrencies. There is no guarantee that this willingness on the part of other market participants will continue in future. If there is a loss of trust, the value of a cryptocurrency may fall to zero, meaning that a total loss cannot be completely ruled out.

Cryptocurrencies are not a form of legal tender or an official currency. As a result, there is no central bank or other public body that can intervene to stabilize the value of a cryptocurrency. With the exception of certain stablecoins, cryptocurrencies also do not represent a legal claim against a particular person for payment of a sum of money or for delivery of financial assets. In particular, if a person buys cryptocurrencies, they have no claim against an issuer for repayment of the purchase price.

4. Volatility

As the price of cryptocurrencies is determined solely by supply and demand, their value can fluctuate significantly at short notice. This so-called volatility was higher in the past than for practically any other asset class. Very quick and hectic price fluctuations, as well as wide spreads between supply and demand prices, are common above all during periods of low liquidity. The general rule is that fluctuations on the markets for cryptocurrencies cannot be predicted. Volatility, and consequently the unpredictability of the price of a cryptocurrency, can result in major losses in a very short space of time (i.e. a matter of hours or minutes).

5. Liquidity

The cryptocurrencies that PostFinance offers are traded 24/7 on a number of trading platforms. However, it is possible that the liquidity of a particular cryptocurrency may be limited, especially in the case of one-off events or activities. This means that PostFinance is occasionally unable to execute orders to purchase or sell cryptocurrencies promptly or at the customer's preferred price. In such circumstances, it is above all possible that a customer may be unable to dispose of cryptocurrencies during a certain period of time. This can result in major losses, especially in times of increased volatility.

Liquidity may be limited at weekends or outside business hours in particular. This may mean that orders can no longer be executed promptly or at all.

6. Statutory and regulatory risks

While Switzerland may have a robust legal framework for cryptocurrencies, this is not the case in many other countries. Some states are averse to cryptocurrencies, which can have a negative impact on their distribution and consequently on the market volume. New regulations can make trading with cryptocurrencies more difficult or unfeasible. A tightening of supervisory regulations can increase transaction costs or cause cryptocurrency trade to become more difficult or even impossible. Cryptocurrencies are also used in attempts at extortion (these are known as ransomware attacks). Even a total ban on cryptocurrencies is not out of the question in certain countries. The lack of a sufficiently clear legal framework for cryptocurrencies and digital assets may also pose legal risks when it comes to transferring or safekeeping cryptocurrencies. Swiss law has clarified that under certain circumstances cryptocurrencies can, as crypto-based assets, be separated or segregated as customer assets in the event that a depository becomes insolvent (Art. 242a of DEBA, Art. 16, para. 1bis of BankA). However, this requires safekeeping in Switzerland. If the assets are held in safekeeping abroad, segregation may not be possible or may be a grey area if the depository becomes insolvent.

7. Cyberrisks and technical risks

Cryptocurrencies entail risks that stem from the underlying blockchain technology and the associated functionalities (e.g. smart contracts). For example, transactions (transfers) are generally irreversible, even if a transfer was made by mistake or was the result of fraudulent activities. Losing the private key can result in the total and irreversible loss of access to cryptocurrencies. Hacker attacks are a regular occurrence and can lead to the loss of substantial assets.

The blockchains used to issue and transfer cryptocurrencies are based on software whose source code is freely accessible and can be viewed and potentially altered by third parties (open-source software). Changes to the software can result in a division of the blockchain (known as a fork), which can in turn have a negative impact on the liquidity and value of a cryptocurrency.

Blockchains with a consensus mechanism that is based on computer performance (i.e. proof of work) occasionally use vast amounts of energy. When energy prices are higher, this can have a negative impact on the number of participants who validate transactions (known as miners) and consequently on the security of the network. Additionally, some people are calling for a ban on energy-efficient blockchains, but no such ban has been announced to date.

8. Changes and additional information

PostFinance reserves the right to modify this explanation of risks at any time. Customers are responsible for finding out about changes to the explanation of risks. New versions will be published on postfinance.ch. You can find more information in the brochure "Risks Involved in Trading Financial Instruments", issued by the Swiss Bankers Association.

460.376 en (dok.pf) 10.2023

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