PostFinance Explanation of the risks involved in staking

1. General information

This document outlines the risks that PostFinance Ltd customers may be exposed to in connection with staking and applies in addition to the "Explanation of the risks involved in crypto". Cryptocurrencies are a new, highly speculative asset class. PostFinance customers should therefore stake cryptocurrencies only if they are able to withstand a total loss.

The list of risks in this document is not exhaustive. Because the underlying technology used with staking (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. Such risks may materialize in the form of unforeseen variations or combinations of the risks described here or other risks.

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

2. Terms

Staking refers to the process of locking up cryptocurrencies to ensure the security and governance of a proof of stake (PoS) blockchain through validator nodes. The network selects a validator node at random based on the number of cryptocurrencies staked and grants it the right to create or validate a new block in the blockchain. In return for this, validator nodes receive so-called staking rewards. Staking and the associated requirements differ depending on the PoS blockchain; such requirements may refer to the minimum staking amount, the lock-up and waiting periods, the frequency of staking rewards and participation in blockchain governance, for example. PostFinance has no influence in this regard, and these requirements may change at any time. PostFinance customers can arrange for certain cryptocurrencies to be staked for a specific period of time in accordance with the relevant network's regulations by fulfilling a performance guarantee whereby staking rewards can be generated.

3. Staking rewards

Staking rewards are compensation payments for the collateral provided by customers (locking up crypto-assets with the provision of a performance guarantee) as part of the staking process.

The payment of staking rewards is not guaranteed, and PostFinance customers have no entitlement to staking rewards that are not received by PostFinance. No conclusions on future staking rewards can be drawn from the payment of past staking rewards. The value of the reward is dependent on factors that are outside PostFinance's area of influence and is conditional on, for example, delays in issuing staking orders and the actual staking, the amount staked by a validator node, the time of the staking and other factors. PostFinance guarantees neither a specific percentage rate nor a return during a given time period. All information in brochures, on the PostFinance website, in e-finance or comparable channels on expected returns refers to specific network conditions and historic data that may change over the course of time and serve only as non-binding guidelines.

4. Lock-up and waiting periods

When staking, lock-up and waiting periods may apply, during which customers do not have access to their cryptocurrencies and, therefore, cannot transfer or sell them. This concerns both the agreed and/or the blockchain-specific minimum staking duration. Additionally, most cryptocurrencies must be staked for some time before they generate staking rewards. The process of unstaking may also involve a lock-up or waiting period, which results in a delay to the return of staked cryptocurrencies from the point at which the unstaking order is issued. With the exception of contractually agreed minimum staking durations, PostFinance has no influence on the existence, extent, duration or expiry of lock-up and waiting periods.

5. Slashing

Certain PoS blockchains may implement so-called slashing. This is designed to support network security, availability and participation. Each PoS blockchain sets its own slashing events, for example if the validator node is unavailable or if execution is faulty, slow or malicious. In the event a validator node acts improperly in this way, cryptocurrencies locked as part of staking and/or staking rewards are forfeited either partially or completely. This can result in a total loss. These slashing risks are borne by the customer.

6. Fiduciary claims

Customers instruct PostFinance to stake cryptocurrencies in the name of PostFinance but for the account and at the risk of the customer as provider of the collateral. PostFinance may select the staking provider at its own discretion whereby the customer may issue individual instructions concerning an investment or staking provider. Customers bear the currency and transfer risk as well as the risk that the staking provider may default (del credere risk), while any (liability) risk pertaining to PostFinance is excluded. PostFinance receives a commission as compensation and only remits to the customer what it has received from the staking provider, or it assigns to the customer the claims it has acquired (unless these claims have already otherwise been transferred to the customer). PostFinance has concluded an offsetting waiver agreement with the staking provider. PostFinance avoids conflicts of interests with its customers.

7. Market risk

Cryptocurrencies can be very volatile. Consequently, there is a risk that the market price of the staked cryptocurrencies may be significantly higher or lower than before during the lock-up and waiting periods or after these periods have expired. In a volatile phase, this can mean that cryptocurrencies are not sold at the right time, resulting in losses for the customer. Depending on the PoS blockchain, a high number of unstaking orders may result in a very long lock-up or waiting period or the temporary inability for cryptocurrencies to be sold on technical grounds. PostFinance has no influence in this regard, and such events may arise without prior warning.

8. Statutory and regulatory risks

Staking involves a counterparty risk in the event of bankruptcy. In Switzerland, depending on the case there is a legal uncertainty about how staked cryptocurrencies are handled under bankruptcy law. Particularly if the staking is pursued on behalf of and for the account of customers, the specific staking mechanism of the PoS blockchain must be assessed on a case-by-case basis. If the cryptocurrencies are subject to a slashing risk or a lock-up or waiting period during unstaking, it is unclear whether the cryptocurrencies can be kept available for customers at all times and can therefore be segregated or separated on the basis of Art. 242a(2) DEBA or Art. 16(1^{bis}) BankA in the event of bankruptcy. On this matter, there is currently no applicable case law, bankruptcy court practice or international recommendations. If the operation of a validator node within a staking chain is delegated to a third party, a fiduciary claim within the meaning of Art. 16(2) BankA may exist under certain conditions. If custody or staking is delegated to foreign institutes, the legal uncertainty is accentuated, as the handling of cryptocurrencies in a bankruptcy law context is often not specifically regulated in foreign countries. In certain countries, the approach to taxing staking and its rewards can also be associated with legal uncertainties.

9. Cyber risks and technical risks

Staking involves various technical risks. In particular, there is a risk that the staking protocol or the underlying blockchain may malfunction, which can lead to a total loss of the cryptocurrencies staked. In addition, staking may require cryptocurrencies to be transferred to smart contracts, which are outside of PostFinance's area of influence. Depending on the PoS blockchain, staking may constitute an experimental process. Moreover, hackers can attempt to disrupt staking protocols and services in a wide variety of different ways.

10. Changes and 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 also find information in the brochure "Risks Involved in Trading Financial Instruments", issued by the Swiss Bankers Association.

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