COMMERZBANK

Product Group

Financial Instruments with Investment Focus on Cryptocurrencies

In this information sheet, Commerzbank provides information on the underlying characteristics as well as the opportunities and risks of the financial instruments with investment focus on cryptocurrencies product group.

General characteristics and investment opportunities

Cryptocurrencies are digitally displayed tokens, also referred to as coins. The tokens can be deposited in various forms (e.g., through property rights or contracts). The so-called cryptocurrencies are considered a means of payment in the respective digital network. In contrast to traditional means of payment, the transaction does not take place via a clearing house but instead directly between the two transaction partners.
Cryptocurrencies are stored in a digital wallet, which also applies to crypto securities and other crypto assets. Cryptocurrencies can also serve as an underlying in structured bonds and other debt instruments, such as certificates, exchange traded notes (ETNs) and leveraged products. Furthermore, investment funds may directly hold cryptocurrencies or invest in them via suitable derivatives in line with their investment principles.
Typically, investors who invest in these financial instruments do not receive interest or other current income from the underlying cryptocurrencies. Investors can only earn a positive return, if a cryptocurrency or related financial instrument increases in value between purchase and sale or redemption, taking into account the sometimes very high bid/offer spreads and any transaction costs.

Typical product characteristics

Cryptocurrency prices are often subject to elevated volatility. The factors affecting cryptocurrency prices are very complex, multilayered and depend on the design of the cryptocurrencies. Some cryptocurrencies are linked to the exchange rates of conventional currencies such as the US dollar or the euro, or even track them in the digital environment. The market for cryptocurrencies is barely regulated yet, which is why future interference by governments, national or international regulatory authorities may have a significant impact on cryptocurrency prices. As cryptocurrencies are settled solely digitally, investors are exposed to the risk that the underlying IT systems may fail and that access to the underlying IT systems may not be available or may be denied by third parties.
Before acquiring one of these financial instruments, investors need to carefully examine the specific design and the associated opportunities and risks of the respective product.

Material risks of the product group

Cryptocurrencies, crypto securities and other crypto assets built on blockchain or other digital technologies and are subject to general risks arising from the fact that these technologies are new and thus have yet to be proven to be reliable, legally secure and suitable for everyday use. Furthermore, many technological, processing and legal issues have not yet been addressed in a satisfactory or conclusive manner, to the extent that they have been even raised at all.
Generally, the objective of using blockchain or other digital technologies is to reduce or eliminate the need for service providers (such as banks or securities exchanges) for the exchange of digital assets. The elimination of service providers also removes any contact person and guarantor for users of these technologies for clarification and in the event that any issues or damages arise in these transactions with potentially negative implications for the issuer.

By investing in financial instruments with an investment focus on cryptocurrencies, investors benefit from return opportunities, but are also exposed to additional risks beyond the aforementioned specific risks. These include the following:
Risk of loss - investors may receive a lower sales price due to a fall in the price of the underlying or other parameters that have a negative impact on the product price. This can result in a total loss of capital, e.g., if the underlying becomes worthless. The price of an underlying and the issuer are also affected by sustainability-related decisions regarding the environment, social

aspects and corporate governance.
Investors in these instruments are exposed to a very high probability of suffering a loss or even a total loss of the capital invested.
Counterparty risk - typically so-called swaps are used to replicate the performance of cryptocurrencies. Swaps are over-the-counter derivatives. A swap-based replication adds the particular risk that the swap partner may no longer be able to meet its payment obligations under the swap transaction. To minimise the default risk of the swap counterparty, it provides e.g., cash, securities or cryptocurrencies in sufficient amounts as collateral. Bond issuers or the fund company are exposed to the risk that, in the event of insolvency, this collateral may not be sufficient to fully satisfy the claims.
Foreign currency risk - financial instruments may be denominated in either euro or a foreign currency. If denominated in a foreign currency, investors are exposed to adverse changes in the exchange rate of the foreign currency.
Liquidity risk - during the term of the financial instruments held in the fund, the fund may not be able to sell a security or may only be able to sell it at a possibly much lower price.

Specific characteristics of debt securities
Issuer risk - also referred to as default risk - when the issuer fails to meet its obligations or can only meet them in part, for example as a result of insolvency. The issuer is usually a bank. If the bank runs into financial difficulties, a regulatory intervention may result in a bailout of the bank, partial or total loss of the investment, or a compulsory conversion into equity, such as shares. Generally: The worse the credit rating of an issuer, the higher the default risk, but also the risk premium. Any such debt securities are generally not covered by deposit insurance.
Early redemption and reinvestment risk - investors are exposed to the risk that the issuer may exercise an ordinary or extraordinary option to call the fixed income security at a time or in a financial market environment that is unfavourable for the investor, as the investor can reinvest the redemption amount only on less favourable terms. An extraordinary termination with immediate effect can be exercised, for example, if the issuer no longer has the ability to carry out necessary hedging transactions in the corresponding cryptocurrency.

Special characteristics of investment funds
Holders of investment fund units are subject to the basic risk that unit redemption may be temporarily suspended due to insufficient fund liquidity, e.g., in the event that many investors wish to redeem their units at the same time, or that a fund may be liquidated in an orderly manner.
In the event of liquidity squeezes, investment fund companies have certain options to address them in accordance with the respective investment terms and conditions of the fund.
They may, for example, introduce redemption notice periods. This means investors would have to notify the fund company of their intention to redeem their fund units some time in advance. The fund company may also impose redemption restrictions. In the event that investors intend to redeem so many units that a certain threshold is exceeded, the fund company may decide not to satisfy these redemption requests at all or only in part at that time. The third instrument allows transaction costs arising from unit redemptions or unit issues to be allocated based on the cost originators. Costs may be included in the calculation of the net asset value of a fund, up to a predefined rate.
These redemption management instruments are intended to prevent fund management companies from having to completely suspend unit redemption. This would be even more detrimental for the fund investors.

Further information and costs
For further details on these aspects and the product, please refer to the relevant sales prospectus and basic information sheet. In principle, inflation trends impact your investment performance. A resulting loss of purchasing power affects both the income generated and your capital invested. When acquiring, holding and eventually selling securities and derivatives, costs will impact returns. For further details, please refer to the respective cost information before entering into a securities transaction.

For further details on the characteristics and risks of the products, please refer to the brochure “Basic Information on Securities and Other Investments”.