

BTCetc™ – Points of Difference

Introduction

ETC Group is the issuer of the world's first centrally cleared, physically backed Bitcoin ETC (Primary ticker: BTCE), primarily listed on Deutsche Börse's Xetra, Europe's largest ETF exchange and one of the world's top 10 stock exchanges. BTCE is distributed in cooperation with HANetf and is passported across several European countries.



BTCetc – Bitcoin Exchange Traded Crypto (primary ticker: BTCE) allows investors to track the price of Bitcoin, and trades just like a share of a company on the stock exchange. BTCE is fully backed by Bitcoin, held in cold storage with a regulated custodian, and security over the collateral account is held by a trustee for additional investor protection.

BTCE product details

Listing venue	Deutsche Börse Xetra, SIX Swiss Exchange
Ticker	BTCE
Issuer	ETC Issuance GmbH
ISIN	DE000A27Z304
Asset Backed	100% backed by Bitcoin, held in cold storage with BitGo Trust Company
Custodian	BitGo Trust Company
Security Trustee	Apex Corporate Trust Services (UK) Limited APEX Trustee acts as security trustee for the Bitcoin held in custody as an additional layer of investor protection
Administrator	Apex Corporate & Advisory Services Ltd Apex Administrator independently verifies all of the Issuer's transactions on the primary market as an additional layer of investor protection
Total Expense Ratio (TER)	2.00% per annum
Redemption	Investors have the option to redeem their units of BTCE for Bitcoin with the issuer or through an authorized participant

An overview of relevant ETP product characteristics

The following table outlines the key product characteristics of BTCetc (or “BTCE”) and provides a general overview of important aspects investors should be aware of when choosing to trade an exchange traded product (ETP).

Taking a step back - What is an ETP?

In Europe, exchange-traded products (ETPs) are divided into the following three categories: ETFs (Exchange Traded Funds), ETCs (Exchange Traded Commodities), and ETNs (Exchange Traded Notes). They are types of securities that track financial instruments, underlying securities, or an index. Listed on stock exchanges, such products trade similar to stocks meaning their prices can fluctuate from day-to-day and intraday. However, the prices of ETPs are derived from the underlying investments that they track, as they are designed to replicate the return of an underlying asset or benchmark.

By definition, BTCE falls into the ETC product category as it is structured as a debt instrument (debt security under German law) that is collateralized (asset-backed), open-ended (no maturity date) and that pays no interest. ETCs trade on stock exchanges, like conventional stocks, but track the price of a commodity or a commodity index. This allows investors to gain exposure to the underlying commodity without directly buying the physical commodity or commodity futures contracts. In this sense, ETCs have a share price that moves up and down as the price of the underlying commodities fluctuate in value. Popular ETCs exist on e.g. precious metals (e.g. gold as the underlying commodity), and in case of BTCE, the underlying asset is the cryptocurrency bitcoin.

Feature	BTCE	Why it is relevant
Listing Venue	BTCetc™ (or “BTCE”) is listed on Deutsche Börse’s Xetra and SIX Swiss Exchange, and was the first Crypto ETP to be listed on one of the world’s Top-10 stock exchanges. Deutsche Börse is also Europe’s largest ETF Exchange and has 28% market share in Europe. Due to its listing on the top-tier stock exchange, investors have access to world leading liquidity and standards of regulation. ¹	Listings on smaller exchanges such as regional exchanges or exchanges located outside of the EU, can mean difficult access for investors. Some products might not be listed at all, and only trade over the counter, thus are not to be considered ETPs from a structuring and trading point of view at all.
Central Clearing	BTCE was the first centrally cleared open-ended Cryptocurrency ETP in the world. Central clearing of trades in BTCE are provided by EUREX Clearing eliminates the counterparty risk in trading BTCE on the XETRA exchange.	Bilateral clearing on exchanges often results in far less liquidity and increased trading risks.
Regulatory Oversight	BTCE is the only Bitcoin ETP listing prospectus that is approved by BaFin, the financial regulator of Germany, Europe’s biggest economy.	All other Bitcoin ETPs either: <ul style="list-style-type: none"> • Have their prospectus approved by minor regulators; or • Don’t have an approved prospectus (which means they can only be bought and sold over the counter, and not on recognized stock exchanges, and no regulator has scrutinized the offering at all)

¹www.xetra.com/resource/blob/59130/080ca33ee4e455c7dbda9469bd11724b/data/Exchange-Traded-Funds-ETFs-Xetra_en.pdf

Liquidity	BTCE is one of the most liquid exchange-traded and physically backed products on Bitcoin in the world ² : The median daily buy-sell spread on screen on XETRA is often as low as 4 basis points ³ , which makes trading in BTCE more commercially attractive than in other products or on Bitcoin exchanges themselves.	Less liquidity means higher market impact and this raises considerably the total cost of trading to get in and out of a position. Spreads can significantly decrease the overall return on investment.
Physical Redemption & Creation (Subscription)	BTCE is fully fungible with Bitcoin. This means that investors in BTCE can at any time redeem their holdings for actual Bitcoin. It gives investors a further level of comfort that the product is 100% backed by the underlying asset. Additionally, investors can create or redeem BTCE with Authorised Participants in exchange for actual Bitcoin for fees as low as 10 basis points ⁴ . Low-cost physical creations / redemptions allow investors to use BTCE e.g. as Bitcoin acquisition vehicle taking advantage of unparalleled liquidity of BTCE without the exposure to annual management fees.	It might be relevant to investors to verify if a product only allows for market-makers to create / redeem the product, or -specifically regarding the ability to redeem – if all types of investors are able to redeem the product. Non-fungibility of an exchange traded product creates friction and harms liquidity.
Tracking Error	BTCE has no maturity date. It is an open-ended product and subscriptions ⁵ & redemptions are allowed at any time. This results in an extremely narrow tracking error in relation to the price of the underlying Bitcoin.	ETPs can be structured close-ended or semi-closed ended as well, restricting subscriptions and/or redemptions in some way. This can routinely result in severe mis-pricings relative to the price of Bitcoin. Some products may therefore trade at a significant and shifting premium to the price of the underlying asset.
Security of Assets Under Management	BTCE's unique structuring was done putting investor security front and centre: (1) Each unit of BTCE is 100% backed by actual Bitcoin held in secured, institutional-grade, regulated, and insured ⁶ cold storage, operated by BitGo Trust Company - a specialized organization purpose-built for the safekeeping of digital assets. BitGo pioneered much of the new technology related to cryptocurrency custody and, being one of the market leaders, has an excellent reputation.	As of today, we understand that no other Bitcoin ETP products matches BTCE in terms of asset security. BTCE is the only Bitcoin ETP using BitGo Trust Company as a custodian, and none of the other products use both an independent trustee and independent administrator with veto rights over any operational transfer of assets. Some of the other products are unsecured ETPs, which means that investors are not guaranteed (through a legal claim enforced by a trustee) the repayment of their investment in case of e.g. issuer bankruptcy.

² Xetra <https://www.boerse-frankfurt.de/en/etfs>

³ HANetf Capital Markets

⁴ <https://iticapital.com/btce-redemption>

⁵ Only Authorised Participants appointed by the issuer are able to subscribe to BTCE against bitcoin with the issuer of BTCE

⁶ See <https://www.bitgo.com/resources/digital-asset-insurance> and <http://pages.bitgo.info/rs/978-TPI-136/images/Insurance%20Whitepaper.pdf>

(2) All of the Bitcoin backing BTCE is legally pledged as a security in order to guarantee repayment of BTCE units. This means that even if the issuer ceases to exist, investors are protected by an independent and reputable security trustee (APEX) who holds security interest over the pledged assets and can distribute assets in an orderly fashion.

(3) ETC Group has incorporated an anti-fraud protection mechanism in its operational structuring. At the inception of BTCE, an independent administrator was appointed and granted legally enforceable veto rights over any asset movements (both BTCE units and Bitcoin collateral) within the issuer's operating cycle. This administrator, part of the APEX Group, has to approve every operational transaction directly to the depository or the issuing agent. This means that ETC Group, as the issuer, cannot physically misplace investors' funds, and the possibility for operational mistakes or white-collar crime within the issuer has been massively mitigated if not eradicated.

Custody

Bitcoin backing BTCE is kept in deep cold storage at a reputable, safe, regulated and insured custodian called BitGo Trust Company. Deposits of bitcoin backing BTCE exclusively serve as collateral and are never lent out or used for staking. Furthermore, insurance by Lloyds of London is in place against hacking and white-collar crime as well as loss of private keys up to the value of \$100 million⁷. BitGo is a regulated trust and all Bitcoin is stored air-gapped in cold storage in their vaults.

Each custodian offers their own individual custody arrangements. Not all of these custodians are regulated or insured and might not offer equally high standards of protection to investors.

Split (Fork) Policy

BTCE, in accordance with its prospectus, legally entitles investors to the proceeds of a fork (split). The issuer of BTCE has even negotiated special terms with the custodian to ensure these proceeds will always be made available to investors.

Full discretion over the handling of a split / fork event might bring along potential losses to investors. If, for example, a day from now bitcoin suddenly splits into two equally valuable cryptocurrencies, investors could risk losing 50% of their investment overnight.

EU Passport

BTCE is approved by the German regulator BaFin, and was passported into many EU/EEA countries and can be passported into the remaining countries as well.

ETP products approved by regulators outside of the EEA and might not have any passporting rights. Some products have not been approved at all, and operate simply under exemptions and trade over the counter, which means lack of any real regulatory scrutiny.

⁷ <http://pages.bitgo.info/rs/978-TPI-136/images/Insurance%20Whitepaper.pdf>

<p>AML / Source of Bitcoin</p>	<p>BTCE can <i>only</i> be created through issuer appointed Authorised Participants who are all regulated financial institutions within EU/EEA and are therefore under strict AML obligations.</p> <p>By accepting in-kind subscriptions from regulated entities only, the issuer is ensuring that all bitcoin received into custody comes in via regulated sources and therefore has undergone strict AML and source of funds analysis.</p>	<p>Sourcing the underlying assets from other entities instead of through in-kind creations (subscriptions) by Authorised Participants who are regulated institutions, could potentially bring along concerns in terms of source of funds or available liquidity at such external sources.</p>
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Risks of Investing in BTCE:

- ETC's are a highly volatile digital asset and performance is unpredictable
- Like equities, an investor's capital is fully at risk and you may not get back the amount originally invested.
- Exchange rate fluctuations can also have both a positive and negative effect on returns.
- Past performance of Bitcoin is no guarantee of future performance.
- The product may not be a suitable investment for all investors and each investor should determine the suitability of its investment in light of their own circumstances.
- For a full, list of risks associated with the BTCE product, please consult the prospectus.

When you trade ETCs, your capital is at risk. For professional investors only. This content is issued by HANetf Limited), an appointed representative of Mirabella Advisers LLP, which is authorised and regulated by the Financial Conduct Authority. For professional clients only.

Contact Us

If you would like more information about BTCE, please visit the [BTCE fund page](#).

For further details on BTCE, please visit HANetf.com or contact HANetf on: Tel: +44(0) 203 794 1800,

Email: info@hanetf.com

About HANetf

ETC Group has partnered with HANetf to market and distribute BTCE in Europe.

HANetf is an independent ETF specialist working with third-party asset managers to bring differentiated, modern and innovative ETF exposures to European investors.

Founded by two of Europe's leading ETF entrepreneurs, Hector McNeil and Nik Bienkowski, HANetf provides a complete operational, regulatory, distribution and marketing solution for asset managers who want to successfully launch and manage UCITS ETFs.

Important Information

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ETC's are a highly volatile digital asset and performance is unpredictable. Past performance is not a reliable indicator of future performance. The price of the ETC may vary and does not offer a fixed income. The value of any investment may be affected by exchange rate and underlying price movements.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. Therefore, readers are cautioned not to place undue reliance on these forward-looking statements.

The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment. An investment in an ETC is dependent on the performance of the underlying cryptocurrency, less costs, but it is not expected to match that performance precisely. ETCs involve numerous risks including among others, general market risks relating to underlying adverse price movements and currency, liquidity, operational, legal and regulatory risks.

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The decision and amount to invest should take into consideration your specific circumstances after seeking independent investment, tax and legal advice.