



Ethereum - The Merge

Iconic has received numerous requests about how the Iconic Physical Ethereum ETP will handle “the Merge”. With this document, we’d like to answer questions surrounding the Merge.

What is “the Merge”?

Ethereum is switching from PoW (“proof of work”) to a PoS (“proof of stake”) consensus mechanism. Reportedly, this will occur around 14 or 15 September 2022.

However, Ethereum miners (following the current PoW consensus mechanism) have invested heavily into mining equipment, such as hardware, infrastructure and electricity contracts. For their investment, they expected to be rewarded ETH by mining on the consensus chain.

To maintain their investment, ETH miners have proposed a hard fork to Ethereum to continue mining on a PoW chain. **This may, or may not, lead to an Ethereum PoW token (ETHW).**

How will an investment into the Iconic Physical Ethereum ETP be impacted by “the Merge”?

The **Iconic Physical Ethereum ETP** tracks the **CMBI Ethereum Index** (CMBIETH). As a passive investment vehicle, Iconic is following index rules to mirror the performance of the underlying index that is currently composed of ETH. CMBI (Coin Metrics Bletchley Indices, the index provider) has already communicated, that CMBIETH will track the PoS chain going forward.

CMBI has a strict set of rules of how and when to incorporate a hard fork:

- CMBI Single Asset Series Methodology:
<https://coinmetrics.io/wp-content/uploads/2022/06/CMBI-Single-Asset-Methodology.pdf>
- CMBI Fork Legitimacy Policy:
<https://coinmetrics.io/wp-content/uploads/2021/01/CMBI-Fork-Legitimacy-Policy.pdf>

Due to this ruleset, CMBI will determine after 30 days, if a contentious hard fork has occurred.

IF and **WHEN** a hard fork occurs, Iconic expects to accrue the forked token into the NAV resulting in an increased Coin Entitlement for all noteholders. This is strongly depending on two conditions:

- 1) Our custodian Coinbase Germany GmbH supports the forked asset
- 2) A centralized exchange/trading partner that Iconic Digital Assets AG (“the issuer”) is onboarded with supports trading of ETHW/ETH or ETHW/USD and ETH/USD

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The custodian has communicated the following: "Coinbase is committed to fully supporting the upgraded Ethereum PoS chain following the Merge. We will evaluate any ETH fork tokens following the Merge on a case by case basis in alignment with our standard asset listing policy. All potential forked tokens of Ethereum, including PoW forks, will go through the same strict listing review process that is done for any other asset listed on our exchange."

If both conditions are met, the issuer would likely sell the hard forked coin and invest the proceeds into the asset that is tracked by CMBIETH.

However, there could be unforeseen circumstances that prevent the issuer from incorporating the forked asset into the NAV of the note.