

Digital Assets

PKB INVESTMENT SOLUTIONS

Digital Assets



Terminology

Cryptocurrencies are virtual currencies based on blockchain technology and are used to purchase goods or services and exchange value. Cryptocurrencies are composed of cryptographic codes, they are autonomous, they are not traded through traditional financial and banking channels and are typically not subject to supervision by governments or central banks.

A blockchain is an open, distributed digital ledger capable of storing data records, usually referred to as 'transactions', in a secure, verifiable and permanent manner. The blockchain exploits the characteristics of a computer network of nodes and allows a registry containing data and information (such as transactions) to be managed and updated in an open, shared and distributed manner without the need for a central control and verification entity.

The history of Bitcoin

Bitcoin emerged in 2008 and was conceived by the mysterious Satoshi Nakamoto as a decentralised, peer-to-peer currency, challenging the traditional banking system in the midst of a financial crisis. Its journey from a niche currency initially associated with illicit activities to a billion-dollar capitalisation highlights the growing interest in the underlying technology, the blockchain. Despite initial scepticism, the blockchain technology has stimulated global interest, leading to the exploration of Central Bank Digital Currencies (CBDCs) and the inclusion of cryptocurrencies in regulatory frameworks. The post-2020 period marked significant innovation, with the rise of decentralised applications (DApps), non-fungible tokens (NFTs) and the Web3 concept, signaling a shift towards a decentralised digital ecosystem supported by blockchain technology.



Definition of Bitcoin and Ethereum



Bitcoin uses peer-to-peer technology to operate without central authorities or banks. The handling of transactions and the issuing of Bitcoin are done collectively by the network. Bitcoin is open-source, its design is public, no one owns or controls Bitcoin and everyone can participate.



Ethereum is a technology that hosts digital money, global payments and applications. The Ethereum community has built a booming digital economy, bold new ways for creators to make money online and much more. It is open to everyone, wherever you are in the world, via simple internet access.

The use of Cryptocurrencies

The most frequent use of cryptocurrencies is as a **payment method**, which remains their original and most obvious function. Many people and companies accept cryptocurrencies as a method of payment for goods and services, especially in international transactions or in contexts where financial privacy is a priority. Cryptocurrencies also facilitate micropayments, making it economically practical to send small amounts of money for services such as online content, scores or donations.

The second most common use is as **speculative investments**. With the growing popularity of cryptocurrencies, many people have seen them as an investment opportunity, hoping to make profits as the value of the coins increases. Bitcoin is often compared by the market to a store of value similar to gold, protecting against the loss of value of traditional fiat currencies (Swiss franc, euro, US dollar, etc.). Blockchain technology can be used to create secure and unalterable digital identity systems. This can help reduce fraud and fictitious identities.

Other uses of cryptocurrencies include: the **'tokenization' of physical assets**, transforming the ownership or share of an asset (such as a work of art, real estate or shareholding) into a digital token that can be easily traded and transferred. Also, **fundraising** through Initial Coin Offerings (ICOs), where start-ups and companies can use cryptocurrencies to raise capital through new coin offerings (ICOs) or variants such as Security Token Offerings (STOs).

The main risks of Cryptocurrencies

- **Volatility:** cryptocurrencies are characterised by high market price volatility. While they have enabled high returns in the past due to rapid appreciation, they have also resulted in large losses for investors due to a rapid loss in value. High volatility probably remains one of the biggest risks associated with cryptocurrencies to be taken into account by any investor or user.
- **Technical risks:** another risk of cryptocurrencies is the safekeeping of access data. If these are not kept at a bank or cryptocurrency exchange, they are usually stored in a wallet. If access to the wallet is lost, the cryptocurrencies



can no longer be used and are irretrievably lost. There is no central authority that can help restore access.

- **Fraud:** if adequate protection measures are not taken, cryptocurrencies could become the target of cyber attacks, phishing attempts and other security breaches.
- **Poor protection for investors:** in case of losses or fraud, those who invest in cryptocurrencies often cannot sue a central authority or make a claim through an insurance company.
- **Uncertain regulation:** the legal status of cryptocurrencies and the way they are regulated varies from country to country. Although governments and authorities around the world have started to develop legal framework conditions to regulate them, these are very lengthy processes. This creates uncertainty for companies as well as investors, as regulations can change quickly.

The future of the market

In January 2024 the environment was enriched by the approval of the first Bitcoin Spot Exchange Traded Funds (ETFs) in the United States, an event that marked a significant turning point, in the adoption of cryptocurrencies, demonstrating a growing institutional interest in Bitcoin as a legitimate asset. The long-awaited approval of the Bitcoin ETF led to substantial institutional investment, improving liquidity and market stability.

Bitcoin is widely considered an alternative to traditional asset classes such as stocks, bonds and commodities. Cryptocurrencies allow investors to diversify their investment portfolio as a whole. By integrating them into their portfolio, investors can diversify their risk and benefit from the return opportunities offered by this emerging asset class. Moreover, cryptocurrencies often have little correlation with traditional investments. This means that they can perform independently of other assets, thus contributing to positive portfolio diversification.

The role of Switzerland

Switzerland has positioned itself as a global leader in Distributed Ledger Technology (DLT) and blockchain, fostering a favourable legal and regulatory environment that encourages innovation while ensuring the integrity and security of the financial system. With over 1,000 fintech and blockchain companies thriving within its borders, Switzerland's approach is characterised by technological neutrality, meaning that it does not regulate the technology itself but the activities facilitated by it. The Financial Market Supervisory Authority (FINMA) oversees the regulation and supervision of financial institutions, including those dealing with cryptocurrencies and the blockchain. The Swiss National Bank (SNB) plays a key role in maintaining financial stability and is actively exploring central bank



digital currencies (CBDCs). Furthermore, initiatives such as the City of Lugano's Plan B (www.planb.lugano.ch) exemplify Switzerland's commitment to integrating blockchain technology into everyday financial transactions and broader municipal functions, underlining the country's pioneering position in blockchain.

The PKB service

In light of the scenario described, PKB decided to expand its range of services, adding digital assets to its investment solutions offer to clients through a partnership with Sygnum, a global banking group specialising in digital assets, regulated in the Swiss and Singapore financial centres.

To find out more, visit www.pkb.ch, its [Media | PKB](#) section and www.sygnium.com.



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