

# PREDICTED IMPACT OF THE UPCOMING MERGE AND ITS POTENTIAL HARD FORK ON WISDOMTREE'S EXCHANGE-TRADED PRODUCTS (ETPS)

## 01 What is the 'Merge'?

The Merge is part of an upgrade to Ethereum with its main goal being to move from a Proof-of-Work (PoW) to a Proof-of-Stake (PoS) consensus mechanism. A consensus mechanism is a way to verify the order of transactions and secure the Ethereum network.

The upgrade started in December 2020 when a parallel blockchain, called the Beacon Chain, went live. The Beacon Chain runs the PoS consensus layer of the network while the PoW takes place on the execution layer. The Merge is the event when these two layers merge; the PoW network will cease to exist and the Ethereum mainnet will move fully to PoS.

## 02 Is a miner hard fork possible?

Some miners have expressed an interest in hard forking the Ethereum blockchain so that the PoW consensus mechanism will continue to be used. This is because, with PoS, miners will lose the income they have generated while confirming transactions and receiving Ether as a reward combined with transaction fees.

## 03 What is a miner hard fork and what will happen to Ethereum if there is a miner hard fork?

A hard fork means that the Ethereum code base splits into two different networks. At present, it has been stated publicly that some miners intend on hard forking the Ethereum network to continue to run the PoW consensus mechanism. The version of Ethereum with the PoS consensus mechanism would retain the Ether as its native token whereas the forked PoW chain would have a new token (the naming of which is not yet certain, but as a placeholder could be referred to as ETH-POW).

If this series of events takes place, it is possible that Ether holders would receive ETHW<sup>1</sup>/ETH-POW for free, but this is not yet certain

## 04 Impact on WisdomTree ETPs

A number of WisdomTree ETPs may be affected if this chain of events occurs:

Product name	ISIN	% ETH as at 30.08.22
WisdomTree Ethereum	GB00BJYDH394	100
WisdomTree Crypto Mega Cap Equal Weight	GB00BMTP1626	50
WisdomTree Crypto Market	GB00BMTP1733	29

## 05 What is the WisdomTree policy on hard forks?

In the event that a hard fork is announced, which impacts the digital currency that is held on the custodian accounts, WisdomTree will assess with all custodians whether it is supported or not.

Whether WisdomTree is able to receive any of the ETH-POW is fully dependent on whether the custodians support and receive that asset.

If and once the custodians are able to provide custody of the ETH-POW and allocate the ETH-POW to WisdomTree, the Issuer will designate a record date for the affected WisdomTree ETPs as of the date of the hard fork (the 'Record Date').

The Issuer is and will closely monitor the impact of the hard fork and assess the options available to it after the hard fork with an aim to enable holders of the affected WisdomTree ETPs (as at the Record Date) to receive the benefit of ETH-POW. These options may depend on options made available by related third parties such as Custodians, Exchanges and Authorised Participants.

The Issuer notes that the hard fork will not impact the security or structure of the affected WisdomTree ETPs and that it can give no guarantee that it will be able to identify a way of providing the benefit of the ETH-POW to the holders of the affected securities (as of the Record Date).

Any holder of the affected WisdomTree ETPs who acquires the affected WisdomTree ETPs after the Record Date shall not receive any benefit from the ETH-POW.

## 06 Will creations / redemptions into the ETPs that hold Ether be available during the time of the potential hard fork?

As a Record Date will be designated, we do not expect disruptions to either primary or secondary market activity relating to WisdomTree ETPs that hold Ether as a result of the potential hard fork. However, we will closely monitor the situation and engage with market makers and other participants to manage any concerns that may arise.

## 07 Does the potential suspension of trading of Ether on various exchanges affect the WisdomTree ETPs?

We believe any suspensions of trading will be precautionary and temporary in nature and, hence, do not expect WisdomTree ETPs that hold Ether to be impacted. We continue to monitor the situation closely.

<sup>1</sup>Please note that some market participants started using "ETHW" as a short name for ETH-POW. This should not be confused with the exchange ticker under which WisdomTree Ethereum (GB00BJYDH394) trades on the SIX exchange in Switzerland.

## 08 What will happen to the value of WisdomTree ETPs that hold Ether?

To the extent that the product holds Ether, the WisdomTree ETP will continue to reflect only the price of Ether, and the product will not reflect any changes in price of the ETH-POW.

## 09 Will an investor receive any forked Ethereum directly?

No, in no case will an investor receive the forked Ethereum directly.

## IMPORTANT INFORMATION

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