

# RISKS SPECIFIC TO DIGITAL ASSETS

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## ACKNOWLEDGEMENT OF RISKS

DIGITAL ASSETS ARE DEMATERIALIZED ASSETS CONSTITUTED AND EXISTING AS ENTRIES ON A PUBLIC, PERMISSIONED OR PRIVATE BLOCKCHAIN OR OTHER DIGITAL, DISTRIBUTED LEDGER ONLY.

BY ACCESSING THE INTERFACE OR SERVICES ON THIS WEBSITE, THE USER ACKNOWLEDGES AND ACCEPTS THE RISKS DESCRIBED IN THIS RISK DISCLOSURE. USERS THAT DO NOT UNDERSTAND THIS RISK DISCLOSURE SHOULD RETAIN COMPETENT COUNSEL OR REFRAIN FROM ENGAGING IN ACTIVITIES INVOLVING DIGITAL ASSETS.

## 1. Technology

Risks of Digital Assets stemming from or relating to the specific use of technology may include, without limitation:

**Risk of Digital Assets existing on a distributed ledger only.** The distributed ledgers by which and on which Digital Assets exist are outside of the sphere of this Website. Digital Assets can be exposed to events specific to the relevant distributed ledger such as hard or soft forks in a blockchain which may inter alia lead to the creation of new or competing Digital Assets, adversely affect the functionality, convertibility or transferability or result in a full or partial loss of units or reduction (including reduction to zero) of value of the User's Digital Assets.

**Risk of irreversibility of transactions/faulty instructions.** Base layer transactions on a blockchain or other distributed ledger are irreversible and final and the history of transactions is computationally impractical to modify (i.e. would require more computing power than is reasonably expected to be available to any one person or group at any time). As a consequence, if the User initiates or requests a transfer of Digital Assets using an incorrect digital ledger address, it will be impossible to identify the recipient and reverse the defective transaction.

**Risk of delayed execution.** The execution of transactions in Digital Assets on a blockchain or other distributed ledger is subject to verification and other processes involving multiple third party actors/nodes/oracles/validators using evolving technology. This may result in significant waiting periods and delays during which the User may be precluded from disposing over the relevant Digital Assets while their value may fluctuate significantly or which may otherwise result in loss or damages.

**Risk of security weaknesses within the underlying code or technology.** There is a risk that developers or other third parties may voluntarily or involuntarily introduce weaknesses or errors into the underlying code or technology of a Digital Asset, which may be exploited in various types of attacks. Successful attacks (or the perception of a technological weakness) might adversely affect the functionality, convertibility or transferability or result in a full or partial loss of units or reduction (including reduction to zero) of value of the User's Digital Assets.

**Risk of exploitable breakthroughs in the field of cryptography.** The state-of-the-art in cryptography, including digital encryption, may evolve over time. Advances in code decryption techniques and technical advances (including with regard to the computing power required to deploy such techniques) could pose risks to the security of Digital Assets and, if exploited, may lead to the theft, loss of units or reduction in value (including reduction to zero) of the User's Digital Assets.

**Risks inherent to consensus mechanisms and concentration risk.** Distributed ledger technologies may be contingent on independent validators or other forms of consensus formation or validation susceptible to external attacks. Potential attacks include e.g. collision attacks, 51% attacks, dusting attacks and censorship attacks. If successful, such attacks may e.g. enable a perpetrator to take control of Digital Assets, engage in double spending of the same Digital Asset and/or otherwise abuse the assets, identity or personal data of other Users. Furthermore, any such attack may adversely affect the functionality, convertibility or transferability or result in a full or partial loss of units or reduction (including reduction to zero) of value of the User's Digital Assets. The risk of a successful attack is elevated in Digital Assets based on distributed ledger technology architecture with a high degree of concentration of unit ownership or network functions with a small number of parties.

## **2. Legal and Regulatory Risks**

Risks of Digital Assets relating to the legal and regulatory environment may include, without limitation:

**Risk of non-compliance or change of legal and regulatory framework.** The legal and regulatory framework governing Digital Assets in and outside of Saint Kitts and Nevis is far from settled and continuously evolving. Existing laws and regulations, changes to the legal and regulatory framework and related measures by regulators or other governmental authorities may affect the compliant issuance, domestic and international tradability and transferability or convertibility of the User's Digital Assets and may potentially result in a full or partial loss of units or reduction of value (including reduction to zero) thereof.

**Risk of supervisory measures in one or more jurisdictions.** Digital Assets, their issuers or other involved parties, financial and other service providers may become subject to regulatory

investigations, injunctions or other measures which may potentially result in a full or partial loss or reduction of value of the User's Digital Assets, impact the ability to offer Digital Assets to the User or otherwise affect the User. Further, such measures may impede, restrict or prohibit the User from holding or transacting in Digital Assets.

**Risk of seizure of Digital Assets.** The technology underlying Digital Assets enables thorough forensic investigations that may be able to reach back and cover a period of time and number of transactions that would not be possible with similar effort in the context of traditional assets. Depending on the individual case, such forensic investigations could cover a period reaching back to the generation of the relevant Digital Asset. As a result, the User's Digital Assets may be subject to a risk of seizure by courts or governmental authorities where they have been previously used for or in connection with criminal activities or may otherwise be considered "tainted". Depending on the way the User invests in or holds Digital Assets and/or on the types of trades or transactions regarding Digital Assets that the User engages in, the User may from time to time hold be assigned, or receive in exchange, different units in the same Digital Asset, some of which may be subject to an elevated risk of seizure or may be "tainted" to differing degrees. Release of seized Digital Assets may be subject to foreign laws or regulations and the relevant procedures may result in costs, delays or other adverse effects to the User.

**Risk of legal ineffectiveness of tokenisation or transfer of tokenised rights.** Where Digital Assets are intended to constitute, embed or represent securities or other financial instruments, the legal effectiveness of such construct may be subject to differing rules in the potentially relevant jurisdictions, including in particular the jurisdiction of the issuer or the holder of the relevant Digital Asset. There is a risk that tokenisation of the supposedly underlying rights and obligations and/or the transfer of such rights and obligations by transfer of a Digital Asset may not be legally effective and that, consequently, the User's Digital Assets may not include the expected rights and obligations, potentially resulting in a full or partial loss of units or reduction of value (including reduction to zero) thereof.

### **3. Market Risks**

Risks of Digital Assets relating to the relevant markets, trading platforms and systems may include, without limitation:

**Markets in Digital Assets are evolving.** The markets in Digital Assets are evolving and may be subject to elevated volatility and limited transparency and reliability, execution delays or failures, all of which may potentially result in losses or other adverse effects for the User.

**Limited regulation.** Trading platforms and systems in Digital Assets and their participants are unregulated or subject to limited regulation and may not provide for the same or similar safeguards as would apply in traditional financial markets, including with respect to market

manipulation or insider trading. All of these inherent particularities may potentially result in losses or other adverse effects for the User.

**Delays in execution or settlement of transactions in Digital Assets.** Execution and settlement of transactions in Digital Assets may be dependent on particularities of the relevant distributed ledger or on the participation of third parties on the relevant network, in particular on the availability of miners, validators or other processing entities. Delays or failures to execute or settle transactions may potentially result in losses or other adverse effects for the User.

**Valuation risk of Digital Assets and Stablecoins in particular.** Stablecoins are not linked to any national or supranational currency or to any asset or commodity traded on a regulated market and may be subject to elevated volatility. Market exchange rates of Digital Assets may change between issuance of an instruction for sale or purchase and execution.

**USDFI IS NOT RESPONSIBLE, UNDER ANY CIRCUMSTANCE, FOR ANY LOSS OR DAMAGE RESULTING FROM THE REALISATION OF RISKS KNOWN OR UNKNOWN AND UNDER NO OBLIGATION TO INFORM THE USER OF THE REALISATION OR POSSIBILITY OF REALISATION OF ANY OF THE RISKS DESCRIBED ABOVE OR ANY OTHER RISKS RELATING TO DIGITAL ASSETS.**