



WisdomTree Gold Token:

# DRIVING TOWARD GOLD YOU CAN SPEND

June 2023

<b>1. The Next Frontier for Financial Services</b>	4
The Importance of Choice	5
An Evolving Financial Services Industry	7
A New Chapter for Financial Services	8
<b>2. Real-World Asset Tokenization: What is it?</b>	10
<b>3. Real-World Asset Tokenization: Gold</b>	12
<b>4. Introducing the WisdomTree Gold Token</b>	14
Overview	15
About WisdomTree	17
About WisdomTree Digital	18
About WisdomTree Prime™	19
Risk Summary	19
<b>5. WisdomTree Gold Token: Unlocking the Power of Blockchain</b>	20
<b>6. WisdomTree Gold Token: Key Attributes</b>	23
Electronic Document of Title	24
Security	24
Transparency	24
Independent Gold Custodian	25
Independent Audits	25
Divisibility	25
Gold Quality	25
Pricing	25
WisdomTree Digital as a Regulated Entity	25
<b>7. WisdomTree Gold Token: Life Cycle</b>	26
Purchase and Sale; Retrieval of Physical Gold	27
Bid/Ask Spread and Fees	29
<b>8. WisdomTree Gold Token: Risk Disclosures</b>	30

## **IMPORTANT INFORMATION: DISCLOSURE STATEMENT**

You should carefully consider whether your financial condition permits you to invest in, hold and/or use a WisdomTree Gold Token (such references shall be deemed to include a fraction of a WisdomTree Gold Token) (sometimes referred to herein as a “Gold Token”). In doing so, you should be aware that there is the potential that a Gold Token may lose its value in part or in full, may not always be transferable, and may not be liquid, although Gold Token holders will have the right to retrieve physical gold for a Gold Token via WisdomTree Digital (as defined below). Please see the specific terms for retrieval of physical gold further specified herein and in the WisdomTree Prime User Agreement.

Gold Tokens and this document have not been registered pursuant the securities or commodity laws of any country and, accordingly, do not benefit from the protections of such laws, including in the United States, and holdings of Gold Tokens are not FDIC or SIPC insured. Accordingly, this document does not constitute a “prospectus” as referred to in such regulations. WisdomTree Digital is solely responsible for the content of this document and it has not been reviewed or approved by any regulatory authority and no regulator has determined that this document is truthful or complete.

This document includes statements which generally relate to future events. In some cases, you can identify such statements by terminology such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” and “potential.” All statements (other than statements of historical fact) included in this document that address activities, events or developments that will or may occur in the future, including such matters as the next frontier or new chapter for financial services, an evolving financial services industry, the emergence of decentralized finance (“DeFi”), the evolution to digital, and the expansion of choices and opportunities in investments, savings and payments, are forward-looking statements and relate to the potential utility and ecosystem for the Gold Token (e.g., use of a Gold Token with respect to payments). None of such events are expected to, and should not be expected to, impact the value of a Gold Token considering that a Gold Token is a document of title to gold, and its value reflects the price of gold. Hence, WisdomTree Digital will not seek to, or provide services to: (i) enhance the value of the gold; (ii) enhance the value of any Gold Token; or (iii) create any profit expectations apart from the potential for an increase in the market value of the underlying gold in the London Bullion Market, if any, but will provide information and education regarding gold, including material risks in owning gold via the Gold Token. Further, these statements are only predictions. Actual events may differ materially. These statements are based upon certain assumptions of WisdomTree Digital. Whether or not actual developments will conform to WisdomTree Digital’s expectations and predictions, however, is subject to a number of risks and uncertainties. Consequently, all the forward-looking statements made in this document are qualified by these cautionary statements.

By accessing this document, you hereby acknowledge and agree that you have read and understood the contents herein, including but not limited to the risks related to a Gold Token. This disclosure statement cannot disclose all the risks and other factors necessary to evaluate your investment in, holding and/or use of a Gold Token. Therefore, before you decide to buy a Gold Token, you should carefully read and assess the information in this document, including the Risk Disclosures on page [30](#).

# 1. THE NEXT FRONTIER FOR FINANCIAL SERVICES

**THE IMPORTANCE OF CHOICE**

**AN EVOLVING FINANCIAL SERVICES INDUSTRY**

**A NEW CHAPTER FOR FINANCIAL SERVICES**

## THE IMPORTANCE OF CHOICE

People need to be able to access reliable, durable, and transparent means of storing and transferring value. With greater choice, people can have access to a wider array of options to potentially accumulate wealth for themselves and wider prosperity for their families and their communities. This is a self-reinforcing cycle. When someone has accumulated wealth, they can potentially withstand greater risk of loss in seeking higher returns, more effectively save (particularly by mitigating inflation) and seek ways to lower costs when paying for day-to-day purchases. As returns potentially compound, greater wealth may be generated that can be used to further improve their lives. In seeking returns to generate greater wealth, it is also important to understand the risks.

### Financial Service Choice is Limited for Many

The choices available in saving, investing and spending differ widely according to a number of factors such as age, location, and income. However, the most important factor is already existing wealth (net worth).<sup>1</sup> People with the lowest net wealth tend to have the fewest options and hold cash. If they are able to accumulate more wealth, they tend to allocate more towards a primary residence, vehicles, cash savings, retirement savings, and life insurance. Those in the higher income brackets tend to have more diverse portfolios and invest a significant amount of their wealth in business interests.<sup>2</sup>

This becomes a self-reinforcing cycle. The more wealth one has, generally the more choice and options one has with saving, investing and spending. This means that there is the potential to withstand greater risk of loss in seeking higher returns. The issue is that not everyone has access to investment, saving and spending options to store and preserve their wealth. Choice is limited for many people. The financial services industry doesn't always provide products and services that are understandable, easy to use, efficient, and widely accessible to all. There are many reasons for this limited choice, and the consequences of this lack of choice put hurdles in front of people that can be difficult to overcome.<sup>3</sup>

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<sup>1</sup> Source: Sung and Hanna (1996), "Factors related to risk tolerance", Financial Counseling and Planning, Vol. 7, 1996; available from: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=8284](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=8284).

<sup>2</sup> Source: Federal Reserve Survey of Consumer Finances (2016); available from: <https://www.visualcapitalist.com/chart-assets-make-wealth/>.

<sup>3</sup> Source: Center for Global Policy Solutions (2014): "Beyond Broke: Why Closing the Racial Wealth Gap is a Priority for National Economic Security", available from: [http://globalpolicysolutions.org/wp-content/uploads/2014/04/Beyond\\_Broke\\_FINAL.pdf](http://globalpolicysolutions.org/wp-content/uploads/2014/04/Beyond_Broke_FINAL.pdf).

### **Investing Options are Limited**

Investing opens up the chance to make returns, thereby growing wealth. Riskier investments may have a better upside but this comes with a greater probability of loss. Those with more wealth can generally afford to pay for advice and wealth management services to navigate this terrain, which often includes access to certain investments. Certain investments require investors have a minimum net worth. These additional requirements are in place for good reason — they are meant to attract investors that are more sophisticated, understand the risk, and can afford the potential loss. One of the consequences though is that those below this wealth threshold simply cannot access these investment options.

Finally, those with a lower net worth may not be able to afford any losses. Moreover, knowing how to hedge an investment to mitigate downside potential is an important part of investing and portfolio management. This is not knowledge that all persons possess or have access to.

### **Savings and Other Options are Limited**

Saving is meant to preserve and potentially grow wealth over time. Part of this is preserving purchasing power from inflation, which has been elevated over recent years in many countries. One way investors can seek to protect their purchasing power and hedge against inflation is by holding precious metals, like gold, and currencies, which can require access to savings and other options beyond the country where they reside. These options aren't available to everyone, and those with lowest net worth may have fewer options for access, potentially leading to higher costs if they can access them.

For instance, investing in gold can have unique challenges, such as requiring a safe place to store the precious metal. Foreign currencies also have obstacles. Excessive fees make exchanging money into or out of foreign currencies or even holding foreign currencies unaffordable for many. Cross border remittance can be expensive, with fees ranging from 3-10% depending on the service provider.

### **Payment Options are Limited**

Day-to-day payments are part of people acquiring goods and services that they need to live their lives. Most people pay for goods and services using their national currency (so-called 'fiat currency'). However, not all currencies have the same purchasing power and this purchasing power can vary significantly over time. It used to be that people would pay with gold, either physically with gold coins or using a currency that was pegged to the value of gold. However, during the past few decade, particularly since the U.S. abandoned the gold standard in 1971, fiat currencies have decoupled from real assets. After more than a decade of 'quantitative easing' by Central Banks, combined with current supply chain disruption, countries are experiencing high inflation, thereby eroding the purchasing power of cash.

### **More Choice Could Unlock More Potential**

If people across the net worth spectrum had access to more investment, saving and spending options then they would potentially be able to unlock greater prosperity for themselves, their families and their communities.

If people had more choice in the way they allocate their wealth, it would potentially allow them to either preserve their wealth via saving, generate more wealth via investing or reduce the cost that they incur when paying. The sum total of this across entire countries could shift the structure of the economy in a way that creates a win-win benefit for many, although applicable risks must be understood and mitigated. This change is very possible, as the history of financial service innovation shows.

## **AN EVOLVING FINANCIAL SERVICES INDUSTRY**

The financial services industry has shown that it can evolve over time to better meet the needs of people. Historically, when these changes occur, and people are presented with more choice, greater demand can follow. These changes have typically been the consequence of technological innovations coupled with novel business models.

Growth in the equity markets, for example, can be attributed in part to technological innovations. Trading used to be a high touch process in that traders in the trading floor pits used to communicate with hand signals. Individual investors bought and sold stocks by calling their brokers.

Computers and, eventually, the internet, changed this. In 1983, E-Trade made the first online trade over a network using CompuServe. In 1992, E-Trade started offering online brokerage services to investors and then launched etrade.com in 1996. Companies like Quick & Reilly, Charles Schwab, and Fidelity followed suit with their own platforms. The catch was that while brokers charged investors a percentage of the trade every time the investor traded, these online platforms charged flat fees to execute trades.

Typically investing in equities requires buying a whole share, which can range in price from a few dollars to hundreds of thousands of dollars. Interactive Brokers introduced fractional share trading in November 2019 that allowed investors to buy a dollar amount of shares as opposed to a number of whole shares. Fidelity, Charles Schwab, and Robinhood have since offered similar services to their account holders, allowing for investment exposures in smaller dollar amounts.

## **A NEW CHAPTER FOR FINANCIAL SERVICES**

The latest chapter in the story of providing more choice in financial services is here. A combination of new technologies makes it possible to provide cheaper, faster, more accessible and more transparent financial services if these technologies are put together in a way that people can access and use in a trusted and risk managed manner. To some it is not obvious that this moment has arrived but, by surveying different parts of the financial services landscape, especially the emergence of an alternate and decentralized part of this landscape, it becomes possible to see the opportunities to provide more choice in investing, saving and spending.

### **Evolution from Analog to Digital**

It is no secret that our lives have become more and more digitized over the last decade. This includes our money and assets, though compared to the way people communicate with one another, financial services have been noticeably slower to digitize. There are a number of reasons why this process has been slower for financial services, including regulatory requirements in place to ensure that stable, reliable and trustworthy services are provided to people. However, in spite of the many benefits that come from regulated financial services, this does not mean that financial services can't become even more digital in a responsible way.

We're already seeing signs of this change. Today, people are increasingly using digital wallets on mobile applications rather than physical wallets that hold paper bills.<sup>4</sup> Banks and 'neo-banks' keep track of money by storing data (0s and 1s) in database files.

This might seem as if the whole experience is already digitized, however, on the 'back-end' (i.e., the infrastructure behind the mobile UX) is generally a disjointed and relatively manual set of systems that remain. Most people don't know how many intermediaries are required to move financial messages from point A to point Z. Therefore, it still takes days for an automated clearing house (ACH) or international wire transfer to happen. It is also partly why there are such high fees and/or low savings rates on a traditional bank account.

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<sup>4</sup> Source: Federal Reserve Bank of San Francisco (2022), "2022 Findings from the Diary of Consumer Payment Choice", Fed Notes, May 2022; available from: <https://www.frbsf.org/cash/publications/fed-notes/2022/may/2022-findings-from-the-diary-of-consumer-payment-choice/>.



## **The Emergence of an Alternate, Decentralized Financial System**

Outside of this traditional financial system, the last decade has seen the emergence and growth of an alternative and entirely digital ecosystem. Some term this 'decentralized finance', or DeFi for short, which involves open-source software applications that provide financial services powered by blockchain. The open-source nature of these applications means that innovation can occur at a rapid rate as developers improve upon one another's code.

Cryptocurrencies and tokens have become synonymous with this DeFi ecosystem. The most well-known cryptocurrencies are Bitcoin and Ether (used on the Ethereum network). Bitcoin was released as open source in 2009, and as of April 2023, there were over 10,000 cryptocurrencies and tokens worldwide with a market cap of around US\$1.3 billion.<sup>5</sup>

The DeFi ecosystem has become a diverse array of protocols and applications that paved the way for tokenized assets. There are potential benefits from using this infrastructure. These exchanges never close, don't require going into a physical location to transact, and are thereby accessible by anyone with a cell phone and internet connection. However, there are also potential downsides to tokenized assets and decentralized exchanges, as intermediaries can serve as an important check to ensure that applicable functions in transaction processing are adequately performed in a safe and secure manner. In addition, transacting in digital assets can be more complex than most traditional retail investing as digital assets have unique operational risks, such as the need to hold such assets in a blockchain wallet.

However, the foregoing gives a hint as to where the new opportunities lie to provide more choice and options in financial services. Potential success will need to involve coupling the protections obtained through regulated or responsible financial services, including security and reliability, with the potential benefits that come from new DeFi infrastructure such as convenience, accessibility, transparency and low cost.

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<sup>5</sup> Source: CoinGecko (2023); available from: <https://www.coingecko.com>.

# 2. REAL-WORLD ASSET TOKENIZATION: WHAT IS IT?

Real-world asset tokenization enables financial institutions to bring mainstream financial assets into the digital world. These products have the potential to provide users with the transparency, convenience, and innovation associated with DeFi and can potentially be provided with the security and reliability associated with regulated or responsible financial services.

Tokenized assets make use of blockchain technology. A blockchain is an open, distributed ledger that digitally records transactions in a verifiable and immutable (i.e., permanent) way using cryptography. Cryptography is a method of storing and transmitting data in a particular form so that only those for whom it is intended can read and process it. A blockchain stores transaction data in “blocks” that are cryptographically linked together to form a “chain”, and hence the name “blockchain.” This configuration of distributed databases also means that settlement of trades can be done relatively quickly and potentially at lower cost than previous systems.

Blockchain technology generally operates without a central authority and replicates identical copies of the structured data to a network of nodes that communicate over peer-to-peer protocols. It allows tokenized assets to be accessed on a smartphone or other device in a digital wallet. While the physical asset’s primary function is to store wealth and generally can’t be used to transact, a tokenized asset has the potential to be transacted on various platforms and used similar to a physical currency to purchase goods and services.

There are two types of tokens: fungible tokenized assets that are interchangeable and divisible and nonfungible tokens that aren’t interchangeable as they represent a unique tangible asset like real estate, an antique, or art. Either way, the asset that backs or is otherwise associated with the token is held by a trustee or custodian to protect the physical asset. Once that asset doesn’t exist anymore, like when a commodity is sold or processed, the token is destroyed.

# 3. REAL-WORLD ASSET TOKENIZATION: GOLD

## HOW TOKENIZATION CAN IMPROVE UPON THE STATUS QUO

### Why Tokenized Gold?

Holding gold through a tokenized digital asset can provide a more accessible, safe, and affordable way to hold gold. As tokenized gold has the potential to be integrated within global financial services, tokenized gold has the ability to be used in a greater way as part of the daily financial lives of people to help them store and create wealth.

### Obstacles to Holding Gold

Gold has been used for centuries as a currency, store of value and for jewelry and, more recently, industrial products. Gold is recognized around the world and is renowned for its durability, relative scarcity and many uses.

However, there remain numerous obstacles today for investors and consumers of gold:

- **Access to gold as an investment is limited.** Investors have retail access only in areas where the market has a developed investment infrastructure.
- **Gold isn't very usable for daily interactions and purchases.** Gold is held in either a tightly controlled investment product ecosystem or in small but indivisible physical holdings. Since gold is difficult to access, this asset class is separate from the daily payments segment of the economy and highly impractical for consumption purposes.
- **Securing gold holdings can be risky.** Seeking to ensure the physical safety and security of gold holdings can be risky and becomes increasingly difficult as gold holdings increase.
- **Verifying the authenticity of gold holdings is difficult.** Determining the purity of the physical gold or reliability of those purporting to provide gold custodian services is challenging and requires diligence and oversight.

Today, direct access to gold is largely institutionalized as gold reserves are held in vaults generally accessible only to large banks and institutional investors. These gold markets represent the majority of the liquid gold market, i.e., gold that's easily bought or sold at a fair market price.

As a result, it can be difficult for a broad spectrum of people to access gold. While banking and payments have become electronic during the past 50 years, gold holdings have not extensively entered the financial system.

### Risk Summary

An investment in, or purchase of, one or more Gold Tokens involves risks and you could lose money. Some of the risks you may face include: Blockchain Ecosystem Risk, Gold Value Risk, Gold Custody and Insurance Risk, Gold Delivery Risk, Cybersecurity Risk, Regulatory Risk, Operational Risk, Capital Controls and Sanctions Risk, Coronavirus Disease (COVID-19) Risk and Conflict of Interest Risk. A more extensive discussion of these risks can be found in the Risk Disclosures below.

### WisdomTree Digital's Solution

WisdomTree Digital is seeking to solve the obstacles to holding gold by creating WisdomTree Gold Token, a digital token recorded on the Stellar blockchain that grants the holder title to gold held in a custodian's vault.

# 4. INTRODUCING THE WisdomTree GOLD TOKEN

**OVERVIEW**

**ABOUT WisdomTree**

**ABOUT WisdomTree DIGITAL**

**ABOUT WisdomTree PRIME™**

**RISK SUMMARY**

## OVERVIEW

DeFi concepts of transparency, convenience and innovation coupled with security and reliability.

### Background

Each WisdomTree Gold Token is a tokenized means of owning gold. Tokenized assets make use of blockchain technology. Instead of holdings and transactions being held on many databases across multiple financial service providers, these entries are stored on an open, decentralized database called a 'blockchain'. It is digital and open source software, meaning that anyone with a cell phone or computer can potentially have access.

Blockchain technology has the potential to provide people with the ability to access reliable, durable, and transparent means of storing and transferring value. While physical gold has historically been one of the most recognized and accepted ways in which to store value, many people may find it difficult to conveniently invest in gold, save in gold and/or make payments supported by physical gold.

WisdomTree Digital Movement, Inc. ("WisdomTree Digital" or "WisdomTree Digital")<sup>6</sup> acts as the issuer of the WisdomTree Gold Token ("Gold Token"), which is a digital token recorded on the Stellar blockchain or Ethereum blockchain representing electronic document of title to physical gold.<sup>7</sup> Each Gold Token functions as a document of title to the underlying gold meeting the LBMA's good delivery standards. Each Gold Token represents ownership of a one-troy ounce portion of an LBMA gold bar. All gold associated with a Gold Token conforms to the LBMA's good delivery standards and is maintained with an independent gold custodian, HSBC, via its vaulting facilities located in London. HSBC has contractually committed to maintain a continuous allocation (i.e., segregation) process whereby each gold bar associated with a Gold Token is segregated within the gold custodian's vaults with a serial number in accordance with LBMA's good delivery standards.

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<sup>6</sup>WisdomTree Digital Holdings, Inc. ("WDH", the parent company of WisdomTree Digital Movement, Inc.), currently acts as the issuer of the Gold Token and has the contractual relationship with HSBC Bank, PLC (the "Custodian" or "HSBC") until migrated to WisdomTree Digital Movement, Inc. Accordingly, references herein to WisdomTree Digital in the foregoing capacities shall mean WDH until updated.

<sup>7</sup>A document of title, such as the Gold Token, is a contract with, not an interest in, the bailee (i.e., WisdomTree Digital or its affiliate). A Gold Token user's ability to obtain gold in exchange for a Gold Token depends upon WisdomTree Digital's maintenance of the gold with the Custodian and compliance with the conditions for retrieval described below. The gold will be held in a customer account that would not be subject to the insolvency of WisdomTree Digital.

## How Can Consumers Use a Gold Token?

WisdomTree Gold Tokens can be purchased via the WisdomTree Prime™ mobile phone application (“WisdomTree Prime”). WisdomTree Gold Tokens are designed to provide consumers with an ownership interest in gold bullion in digital form that they can potentially use for a variety of purposes, including to:

- Save via WisdomTree Prime.
- Hold as an investable asset (i.e., gold) via WisdomTree Prime.
- Support spending via a debit card connected to WisdomTree Prime; and<sup>8</sup>
- Exchange back into physical gold, or for US dollars, or one of many tokenized assets<sup>9</sup> that WisdomTree Digital or its affiliates make available. Leveraging the power of blockchain technology, transactions may be settled more quickly than traditional financial transactions.

In other words, WisdomTree Digital is seeking to empower consumers to invest, save and/or support spending with a Gold Token and hopes that Gold Token holders will use WisdomTree Prime and other means to enable mobile savings and payments. This may facilitate using gold via a Gold Token and associated debit card as a medium of exchange in a variety of commercial transactions.

Each Gold Token will be available as either an Ethereum ERC-20<sup>10</sup> or a Stellar SEP-8<sup>11</sup> compatible token. That gives users the benefits that come from holding one of the most recognizable and accepted assets in the world — gold — in a way that is accessible conveniently from any cell phone and transportable across borders, with physical gold associated with the Gold Tokens held by one of the world’s most experienced and trusted gold custodians.

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<sup>8</sup> Please note that this feature is not currently available and will be facilitated through a separate banking relationship and may give rise to a taxable transaction. Please consult your tax advisor with respect to applicable tax treatment.

<sup>9</sup> Other tokenized assets include digital assets such as Bitcoin or Ether, which are considered to be speculative and involve a high degree of risk. Exchanges or sales of such digital assets may give rise to a taxable transaction. Please consult your tax advisor with respect to applicable tax treatment.

<sup>10</sup> Source: Ethereum Foundation (2023), "ERC-20 Token Standard", Ethereum Developers Documentation; available from: <https://ethereum.org/en/developers/docs/standards/tokens/erc-20/>.

<sup>11</sup> Source: Stellar Development Foundation (2023), "SEP-8: Regulated Assets", Stellar Ecosystem Proposals; available from: <https://github.com/stellar/stellar-protocol/blob/master/ecosystem/sep-0008.md>.



## **ABOUT WisdomTree**

WisdomTree, Inc. is a Delaware corporation and a public company with its common stock listed on the NYSE (symbol: WT). Since 2006, WisdomTree, Inc., together with its subsidiaries (“WisdomTree”), has been a global financial innovator with a track record of strong performance and thought leadership. WisdomTree’s global headquarters are in New York, with European headquarters in London.

WisdomTree manages over US\$90 billion<sup>12</sup> in assets globally across innovative solutions that are designed to meet investors’ needs across asset classes and market cycles, including exchange traded funds (“ETFs”) and exchange traded commodities (“ETCs”).<sup>13</sup> WisdomTree deploys smart ways to bring value to the investor by offering flexibility to meet the many different investment and trading objectives that its clients have.

WisdomTree’s address is 250 West 34th Street, 3rd Floor, New York, NY 10119.

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<sup>12</sup> As of April 30, 2023.

<sup>13</sup> A Gold Token, as a document of title to gold, is not an ETF or ETC.

## **ABOUT WisdomTree DIGITAL**

WisdomTree Digital operates the platform for the purchase, sale and exchange of the WisdomTree Gold Token and other blockchain-based digital assets, while also providing digital wallet services related thereto to facilitate such activity.

WisdomTree Digital is leveraging its foundational principles of innovation and responsible “DeFi” to be an innovator in the digital asset and blockchain space through the utilization of advanced technology, while embracing regulation, transparency, accessibility, security, reliability, and liquidity. The WisdomTree Gold Token is intended to embody the aforementioned foundational principles, as further detailed in this document.

WisdomTree Digital was formed as a Delaware corporation on April 25, 2022. WisdomTree Digital registered with the Financial Crimes Enforcement Network (“FinCEN”) as a Money Services Business on June 7, 2022, and is currently engaged in money transmission (or similar activity) in applicable U.S. states (NMLS ID: 2372500). WisdomTree Digital is a wholly-owned subsidiary of WisdomTree Digital Holdings, Inc. (a holding company for WisdomTree’s digital asset-related operating entities and contractually maintaining the current relationship with HSBC), which is a wholly-owned subsidiary of WisdomTree, Inc.

WisdomTree Digital’s address is 250 West 34th Street, 3rd Floor, New York, New York 10119.

## **ABOUT WisdomTree PRIME™**

Invest, save and spend in one place. From the start, WisdomTree has been committed to the idea of creating a better way to invest. WisdomTree's guiding principles of always do the right thing, no short cuts and no exceptions have resulted in WisdomTree being the world's largest, independent ETF sponsor, with a reputation grounded in security, trust, and reliability.

WisdomTree Digital has leveraged these core values and used them as the foundation for the WisdomTree Prime financial services mobile phone application ("App"). Just as WisdomTree became a pioneer in the ETF space, WisdomTree Digital is now striving to be at the forefront of the DeFi transformation taking place across financial services.

WisdomTree Prime is a financial services App built from the ground up on blockchain rails with DeFi concepts. Powered by these revolutionary technologies, WisdomTree Digital sees the possibility of an equitable financial ecosystem that embodies ownership, transparency, and inclusivity. One that over time reduces intermediaries and the outdated processes that come with them, while seeking to do so in a responsible way in a regulated environment. And one that empowers individuals and puts the consumer at the heart of the financial eco-system, giving them total control and choice over their financial lives.

This is the first step on a journey to change the way people interact with their finances and how they interact with each other.

### **Risk Summary**

An investment in, or purchase of, one or more Gold Tokens involves risks and you could lose money. Some of the risks you may face include: Blockchain Ecosystem Risk, Gold Value Risk, Gold Custody and Insurance Risk, Gold Delivery Risk, Cybersecurity Risk, Regulatory Risk, Operational Risk, Capital Controls and Sanctions Risk, Coronavirus Disease (COVID-19) Risk and Conflict of Interest Risk. A more extensive discussion of these risks can be found in the Risk Disclosures below.

## 5. WisdomTree Gold Token

# UNLOCKING THE POWER OF BLOCKCHAIN

When restrictions on the private ownership of gold<sup>14</sup> by United States citizens terminated on December 31, 1974, several banks and brokers began offering "gold certificates" to their customers. These financial institutions would offer to buy and sell gold ingots or bars. Customers who purchased gold had the option of storing the gold with their financial institution and receiving a certificate representing the gold they purchased. A customer that subsequently sold the gold could deliver the certificate back to the financial institution in exchange for payment. Customers could also transfer their certificates to other customers through the financial institution.

Paper certificates proved too cumbersome, so financial institutions found ways to "securitize" gold by creating special purpose companies that held bullion and selling shares of these companies. These shares could be listed on securities exchanges and transferred in the paperless settlement system used by the stock markets.

#### **Gold Tokens: Back to the Future**

The WisdomTree Gold Token is essentially an updated version of a gold certificate that uses blockchain technology to eliminate the limitations of paper certificates. As an electronic document of title, the Gold Token provides its holders with direct ownership of the underlying gold, rather than a share in a company that owns gold. The Gold Token will evidence the gold acquired by a purchaser and can be delivered to complete a sale of the gold. The App can be used to purchase and sell gold at the London Bullion Market price, subject to applicable fees and charges. The App also permits users to transfer their Gold Tokens to someone with a Prime digital wallet.

#### **The Power of Blockchain Technology**

Accessing a blockchain requires the creation of a smart contract<sup>15</sup> (often referred to as a "coin" or "token") using the blockchain protocol. The Ethereum and Stellar blockchain operates globally, twenty-four hours a day, using a decentralized network. Transfers can be transmitted directly to the blockchain by anyone running the appropriate software without the need for an intermediary. The blockchain protocols and practices of their users seek to ensure that transfers are secure. The relatively low cost of transfers can make it economical to transfer smaller amounts. Blockchains have the flexibility to support a variety of legal instruments, including electronic documents of title such as the Gold Tokens. Gold Tokens can thus provide a more flexible and low-cost means of holding gold than other options.

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<sup>14</sup> See No-Action Position Relating to Certain Offerings of Gold, SEC Securities Act Release No. 5552, (Dec. 26, 1974).

<sup>15</sup> A smart contract is executable code stored on a blockchain that performs various functions enabling versatility in the system.

In order to facilitate the use of blockchain technology, a potential holder of a Gold Token (“User”) must have a blockchain wallet. WisdomTree Digital provides a Stellar-based wallet service through WisdomTree Prime. A blockchain wallet is a software application which stores a user’s “private key” and related digital assets and is used to facilitate sending digital assets on a particular blockchain. A “private key” is one of two numbers in a cryptographic “key pair.” A key pair consists of a “public key” and its corresponding private key, both of which are lengthy alphanumeric codes, derived together and possessing a unique relationship. The private key is used by the owner of a digital wallet to send (i.e., digitally sign and authenticate) digital assets and is private to the wallet owner. The public key is, as the name implies, public and open to others on the applicable blockchain to send digital assets to. The blockchain will only record public key information.

While the blockchain technology behind digital assets can be quite complex, WisdomTree Digital provides the requisite digital wallet services and security infrastructure in seeking to ensure that the digital assets are secure. For Users, WisdomTree Digital maintains the private key(s) for the Gold Tokens held in the digital wallet in seeking to ensure that these will not be lost or stolen.

This technology will allow Users of the App to buy, sell and transfer gold to other Users' wallets without having to keep track of and send paper certificates. Transactions can be completed in minutes, rather than days. When the debit card becomes available, Users will also be able to effectively spend their gold through existing payment channels by opting to sell gold to cover charges on the debit card.

## 6. WisdomTree Gold Token

# KEY ATTRIBUTES

**ELECTRONIC DOCUMENT OF TITLE**

**SECURITY**

**TRANSPARENCY**

**INDEPENDENT GOLD CUSTODIAN**

**INDEPENDENT AUDITS**

**DIVISIBILITY**

**GOLD QUALITY**

**PRICING**

**WisdomTree DIGITAL AS A REGULATED ENTITY**

The WisdomTree Gold Token has a number of key attributes. Each Gold Token serves as a document of title to physical gold, with secure storage of physical gold at an independent gold custodian and transparency into the actual gold bars held at the Custodian. Gold is held to quality standards and is valued via an independent price source, while the amount of gold in the Custodian's vault associated with Gold Tokens is independently audited. Each Gold Token is divisible into smaller units, while gold can be physically retrieved for whole Gold Tokens.

### **Electronic Document of Title**

Each Gold Token represents a document of title to gold of uniform grade held by WisdomTree Digital at the Custodian.

### **Security**

Safe storage of assets is a concern for holders of physical gold since this asset is a literal store of wealth. Tokenizing gold, such as through a Gold Token, provides for more use cases while continuing to benefit from institutional grade storage solutions. WisdomTree Digital oversees the Custodian in seeking to ensure safekeeping of assets, whereby the Custodian also employs physical security measures.

In addition, WisdomTree Digital provides hosted digital wallets to Users and has put in place measures in seeking to securely manage the private keys associated with such wallets on behalf of Users. WisdomTree Digital maintains a robust security program that employs reasonable and industry-standard security protocols. As part of the digital wallet service, each User's digital wallet is structurally distinct and has its own private key, which is sharded and subject to additional protection measures. Additionally, WisdomTree Digital also requires Users to log into their account via the App and authenticate their identify via multi-factor authentication or biometrics.

### **Transparency**

To create trust, WisdomTree Digital believes that digital assets that represent physical assets like gold need to provide the same transparency as a direct physical gold holding. This is accomplished by providing full visibility into the gold associated with the Gold Tokens, which is provided through the publication of a daily list of gold bars held with the Custodian, including the serial number of each gold bar. The Custodian updates and publishes the gold bar list daily, which WisdomTree Digital then makes available along with information regarding Gold Tokens outstanding to allow Gold Token holders to confirm that the amount of gold held with the Custodian is at least equal to the Gold Tokens outstanding. The specific gold bars associated with Gold Tokens can change on any given day, as can the value of the Gold Token as gold prices move, but the amount of gold that one Gold Token represents will always be one troy ounce.



### **Independent Gold Custodian**

The physical gold associated with each Gold Token is stored in one or more vaults that are located in London. HSBC serves as the Custodian responsible for safekeeping the physical gold. The Custodian maintains a continuous allocation process whereby each gold bar associated with the Gold Tokens ultimately is segregated within the Custodian's vault with a serial number in accordance with LBMA's good delivery standards. Only the Custodian has access to stored gold and manages all movements in and out of allocated gold holdings. HSBC is one of the five clearing members of LBMA, and its investment in the gold market began in the 1960s.

### **Independent Audits**

An independent metal audit firm will review the amount of physical gold held by the Custodian, which is expected to occur twice a year.

### **Divisibility**

While each Gold Token represents one ounce of gold, a purchaser can buy a fraction of a Gold Token, making the purchase of gold more accessible and inclusionary, while opening up ownership of gold to a wider and more diverse population.

### **Gold Quality**

Gold bars held by the Custodian conform to the LBMA good delivery standards, which ensures consistent quality regarding weight, purity, and physical appearance (including marking and surface quality). Each gold bar weighs approximately 400 troy ounces.

### **Pricing**

The physical gold associated with each Gold Token is gold traded on the LBMA market, which is the oldest and most established gold bullion market in the world. The transactions that occur on the LBMA market are used as reference points for gold prices (and, accordingly, Gold Token values) provided by an independent pricing source, subject to a bid-ask spread (including at least 0.50% applied by WisdomTree Digital on each bid and ask price). LBMA [Trade Data](#) reports the weekly turnover for gold and other precious metals.

### **WisdomTree Digital as a Regulated Entity**

WisdomTree's investment products are subject to, some of the most stringent regulations in the world, including the United States and Europe. Through those foundational principles, WisdomTree Digital is focused on providing products and services in a responsible manner with prudent risk management. WisdomTree Digital registered with the Financial Crimes Enforcement Network (FinCEN) as a Money Services Business on June 7, 2022, and is a U.S. state licensed money transmitter. States where WisdomTree Digital is able to operate can be found at WisdomTree Prime's website.<sup>16</sup>

In addition, WisdomTree Digital's Financial Statements are audited by an independent registered public accounting firm at least annually.

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<sup>16</sup> <https://www.wisdomtreeprime.com/>.

# 7. WisdomTree Gold Token LIFE CYCLE

**PURCHASE AND SALE; RETRIEVAL OF PHYSICAL GOLD  
BID/ASK SPREAD AND FEES**

## **PURCHASE AND SALE; RETRIEVAL OF PHYSICAL GOLD**

### **Acquiring Gold Tokens**

Users may set up an account and complete the onboarding process with WisdomTree Digital via WisdomTree Prime. Users must purchase, hold, sell or transfer their Gold Tokens through WisdomTree Prime. For an order to be valid, the order must: (i) specify the number of Gold Tokens or dollar amount to be transacted; (ii) provide all forms of documentation required for the purposes of any compliance and identification checks; and (iii) comply with any additional requirements specified in any notice made by WisdomTree Digital.

WisdomTree Digital will purchase physical gold from external gold markets and issue corresponding Gold Tokens as needed to meet demand for Users' purchases via WisdomTree Prime. WisdomTree Digital will establish a digital wallet for purposes of issuing Gold Tokens that will distribute Gold Tokens to Users. Users will receive their Gold Tokens into their WisdomTree Digital hosted wallet as Stellar-network assets. WisdomTree Digital may hold Gold Tokens in inventory for sale to Users who are its customers.

WisdomTree Digital expects to offer to purchase Gold Tokens from Users at the current gold price (subject to bid/ask spreads as received via an independent price source and fees, as described below), although it is not obligated to do so. WisdomTree Digital may recover the purchase price for the Gold Tokens either by reselling them out of inventory or by selling the corresponding gold in the gold market. In the latter case, WisdomTree Digital will cancel Gold Tokens at the same time that it directs the Custodian to deliver the gold to a gold metal agent for delivery to the account of a Gold Token holder seeking such retrieval and on the applicable terms and conditions.

## **Retrieval of Physical Gold**

Since each Gold Token represents title to physical gold, such gold can be retrieved upon instruction by WisdomTree Digital from the Custodian's vault and physically delivered as directed by the Gold Token's holder. WisdomTree Digital is obligated to deliver one troy ounce of gold upon the surrender of a Gold Token. Any Gold Token holder may process an order to retrieve gold for a Gold Token through WisdomTree Prime, as applicable. WisdomTree Digital will cancel the Gold Tokens being surrendered and instruct delivery of the gold as directed by the Gold Token holder. At the time of retrieval, the physical gold would be delivered via a metal agent to a financial institution according to the Gold Token holder's arrangements for gold storage.

There are minimum requirements for retrieval, which include: (i) a minimum retrieval amount of one Gold Token and minimum increments of whole Gold Tokens; (ii) an account with a financial institution that can accept delivery in the jurisdiction in which WisdomTree Digital's metal agent(s) will deliver; (iii) payment of relevant fees which includes a minimum of one troy ounce of gold or 2% of the retrieval amount (whichever is higher); and (iv) satisfying relevant know-your-customer screening requirements. To the extent retrieval associated with a Gold Token involves residual cash, all residual cash amounts provided to a Gold Token holder seeking retrieval will be determined based on the price for the same grade and quality of gold at the time of retrieval. Residual cash will generally be provided in WisdomTree Dollar Tokens via WisdomTree Prime. The Gold Token holder seeking gold retrieval will be responsible for all applicable fees, taxes and shipping charges in retrieving the gold.

Please see the separate WisdomTree Prime User Agreement for additional information.

## **BID/ASK SPREAD AND FEES**

Account or transaction fees implemented by WisdomTree Digital or any affiliate will be subject to the terms and conditions of such relationship and be the responsibility of the Gold Token holder. WisdomTree Digital will charge direct and/or indirect fees for transacting in Gold Tokens (e.g., at least 0.50%, or 50 basis points of each purchase order and each sale order total for Gold Tokens, which may be in the form of a bid-ask spread<sup>17</sup>). Those fees are updated periodically and can be found in WisdomTree Prime, as applicable, up to a maximum of 2.00% for each purchase or sale order).

WisdomTree Digital may, in the future, also charge transaction fees for Gold Token transfers, which to the extent charged can be found in WisdomTree Prime, as applicable. Such fees are not expected to exceed 0.02% (2 basis points) of the number of Gold Tokens transferred. A Gold Token's smart contracts will automatically deduct this fee and transfer the Gold Tokens to WisdomTree Digital's wallet.

WisdomTree Digital is not charging any asset-based fee to holders of the Gold Token. WisdomTree Digital will be responsible for paying the fees and expenses charged by the Custodian. WisdomTree Digital, however, intends to retain the ability to charge certain reasonable account-maintenance fees, such as if the above fees do not provide sufficient revenue to cover the ongoing expenses of maintaining the Gold Token (such as paying the fees to the Custodian).

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<sup>17</sup> A bid/ask spread is the difference between the bid price and the ask price for a given asset. The bid price represents the highest price a buyer is willing to pay for the asset, while the ask price represents the lowest price a seller is willing to accept.

# 8. WisdomTree Gold Token

## RISK DISCLOSURES

There are risks associated with purchasing and holding a Gold Token, including the possible loss of principal. Such risks are described below. These risks may adversely affect a Gold Token's value.

### **Blockchain Ecosystem Risk**

Blockchain technology is a relatively new and untested technology which operates as a distributed ledger. Blockchain systems could be vulnerable to fraud, particularly if a significant minority of participants colluded to defraud the rest. Access to a given blockchain requires an individualized key, which, if compromised, could result in loss due to theft, destruction or inaccessibility. Risks can also differ by blockchain. For instance, the process by which Ethereum transactions are verified (i.e., achieve consensus) is called proof-of-stake. In proof-of-stake, users (referred to as "validators") stake a minimum amount of capital in the form of ether (the currency of Ethereum) into a smart contract, or computer program, stored on Ethereum. Validators process proposed transactions and bundle them into a data packet known as a "block." A randomly chosen validator is permitted to add a block of transactions to the Ethereum blockchain after attestation by other validators and is rewarded by a grant of newly-issued ether. This type of process is susceptible to a 51% attack, with such applicable risk further described below. In contrast, the Stellar network's transactions are verified on the Stellar blockchain through a federated Byzantine agreement. A federated Byzantine agreement is a system in which each participant knows of others it considers important. It waits for the vast majority of those others to agree on any transaction before considering the transaction settled. In turn, those important participants do not agree to the transaction until the participants they consider important agree as well, and so on. Eventually, enough of the network accepts a transaction for verification (i.e., achieve consensus) that it becomes infeasible for an attacker, including a 51% attack, to roll it back, or for a fork to occur.

In addition, blockchain technology risk can carry with it additional sub-risks, including: (1) Regulation of Blockchain Technology Risk; (2) Information Availability Risk; (3) Functionality and Transaction Processing Risk; (4) Fork Risk; (5) 51% Attack Risk; and (6) Risk of the Ethereum Blockchain's Change to a Proof-of-Stake Consensus Mechanism.

### **Regulation of Blockchain Technology Risk**

There is little regulation of blockchain technology other than the intrinsic public nature of the blockchain system. Any future regulatory developments could affect the viability and expansion of the use of blockchain technology. Because blockchain technology systems may operate across many national boundaries and regulatory jurisdictions, it is possible that blockchain technology may be subject to widespread and inconsistent regulation. Blockchain technology is not a product or service that provides identifiable revenue for companies that implement, or otherwise use it. Currently, blockchain technology is commonly used for the recording of transactions in digital assets, which can be extremely speculative and volatile. Problems in digital assets markets could have a wider effect on companies associated with blockchain technology. Blockchain technology also may never be implemented to a scale that provides identifiable economic benefit. There are currently a number of competing blockchain platforms with competing intellectual property claims. The uncertainty inherent in these competing technologies could cause companies to use alternatives to blockchain.

### **Information Availability Risk**

Gold Token holders will interact through a digital wallet, such as the digital wallet service provided in the App, with such interactions generally performed in a similar manner to non-blockchain based Apps used to transact in other assets. However, information recorded on the Stellar or Ethereum blockchains will be available to the public and will record the complete history from transacting in Gold Tokens on the applicable blockchain. As a result, robust and transparent data, other than Gold Token holder personal identifying information, will be publicly available through one or more “block explorer” tools capable of displaying activity on the applicable blockchain. Accordingly, the Gold Token transaction data (but not a Gold Token holder’s personal identifying information) will be exposed to the public via the blockchain. The personal identifying information necessary to associate a given Gold Token with the record owner of that Token will be maintained by WisdomTree Digital in a separate database that is not available to the public. However, if there are data security breaches with respect to such database(s) resulting in theft of the information necessary to link personal identity with the public key and related Gold Token transactions, the stolen information could be used to determine a Gold Token holder’s identity and complete transaction history.

### **Functionality and Transaction Processing Risk**

Delays in transaction processing have been known to occur on each blockchain. Such a delay may occur on account of, among other things, the inability of nodes to reach consensus on transactions. Nodes, which are typically hosted by third parties with specific hardware, form the infrastructure of a blockchain. Nodes on a blockchain are connected to each other and they exchange the latest blockchain data and verification and confirmation of transactions requires a consensus of nodes. Blockchain systems could also be subject to internet connectivity disruptions, consensus failures or cybersecurity attacks, and the date or time that you initiate a transaction may be different then when it is recorded on the blockchain. Access to a given blockchain requires an individualized key, which, if compromised, could result in loss due to theft, destruction or inaccessibility. During a delay in transaction processing, it will not be possible to record transactions in Gold Tokens on the blockchain. Digital asset transactions are generally irreversible, which means that a digital asset may be unrecoverable in instances where: (i) it is sent to an incorrect address, (ii) the incorrect amount is sent, or (iii) transactions are made fraudulently from an account.

### **Fork Risk**

Blockchain software is generally open-source. Any user can download the software, modify it and then propose that network adopt the modification. When a modification is introduced and a substantial majority of users consent to the modification, the change is implemented and the blockchain network remains uninterrupted. However, if less than a substantial majority of users consent to the proposed modification, and the blockchain consensus mechanism, such as that used by Ethereum, allows for the modification to nonetheless be implemented by some users and the modification is not compatible with the software prior to its modification, the consequence would be what is known as a “fork” (i.e., “split”) of the blockchain network (and the blockchain), with one version running the pre-modified software and the other running the modified software. The effect of such a fork would be the existence of two (or more) versions of the blockchain network running in parallel, but with each version’s native asset lacking interchangeability. Additionally, a fork could be introduced by an unintentional, unanticipated software flaw in the multiple versions of otherwise compatible software users run. If a fork occurs, the original blockchain and the forked blockchain could potentially compete with each other for users and other participants, leading to a loss of these for the original blockchain.



### **51% Attack Risk**

If a majority of staked native cryptocurrency on a blockchain using a proof-of-stake consensus mechanism, such as Ethereum, is controlled by a bad actor, whether singularly or as a group (often referred to as a “51% attack”), it may be able to alter the blockchain on which the blockchain network and network transactions rely. This could occur if the bad actor were to construct fraudulent blocks or prevent certain transactions from being completed in a timely manner, or at all. It could be possible for the malicious actor to control, exclude or modify the ordering of transactions, though it could not generate new network coins or transactions. Further, a bad actor could “double-spend” its own network native digital asset (i.e., spend the same network digital asset in more than one transaction) and prevent the confirmation of other users’ transactions for so long as it maintained control. If the network community did not reject the fraudulent blocks as malicious or to the extent that such bad actor did not yield its control, reversing any changes made to the blockchain network may be impossible. The possible crossing of this threshold indicates a greater risk that a single validator (or group of validators working together) could exert authority over the validation of network transactions. If the feasibility of a bad actor gaining control of the blockchain network increases, it may negatively affect the ability of Gold Tokens to be held on the blockchain undergoing a 51% Attack.

The 51% threshold is the level which would almost guarantee a malicious actor’s success. However, such attacks could in theory occur at thresholds lower than 51% of the staked cryptocurrency. In addition, a malicious actor may also obtain control over the blockchain network through its influence over core developers by gaining direct control over a core developer or an otherwise influential programmer. To the extent that a blockchain network’s ecosystem does not grow, the possibility that a malicious actor may be able to obtain control of the processing power or development control on the blockchain network in this manner will remain heightened.

### **Additional Risks of the Ethereum Blockchain’s Recent Change to a Proof-of-Stake Consensus Mechanism**

Ethereum previously used a consensus protocol called proof-of-work, similar to Bitcoin. This allowed the nodes of the Ethereum network to agree on the state of all information recorded on the Ethereum blockchain and prevented certain kinds of economic attacks. The Ethereum blockchain recently changed to a proof-of-stake consensus mechanism. One risk of the Ethereum blockchain moving to proof-of-stake is centralization of staking power in a relatively small number of validators, which could occur, for example, as a result of validators ceasing operations or if staked ether is otherwise concentrated in a small number of validators. As a result, it may adversely affect the confirmation process for transactions (i.e., temporarily decreasing the speed at which blocks are added to a blockchain until the next scheduled adjustment in difficulty for block solutions or otherwise be possible for a bad actor to manipulate the Ethereum blockchain and hinder transactions). Any reduction in confidence in the confirmation process or processing power of the Ethereum blockchain may adversely affect the ability to transact in a Gold Token. Another risk of the Ethereum blockchain moving to proof-of-stake is that segments of the mining community and other users were against this change, and it is possible that two Ethereum blockchains (among potentially others) will endure and compete going forward, which may slow or impede transactions.

## Gold Value Risk

The value of a Gold Token, as a document of title to gold, reflects the price of gold as provided by an independent price source, subject to bid-ask spreads and applicable fees. Purchasers of a Gold Token should be aware that a Gold Token can go down in price as well as up and Gold Token holders may lose the value of all or part of the amount of capital used to purchase a Gold Token. Adverse movements in the price of gold will negatively affect the value of a Gold Token, such that if a Gold Token holder sells a Gold Token and the price of the relevant gold has decreased since the time they purchased a Gold Token, the Gold Token holder will experience a loss. Gold prices may fluctuate widely and may be negatively affected by numerous factors, including: (a) global or regional political, economic or financial events and situations, particularly war, terrorism, expropriation and other activities (particularly unexpected activities) which might lead to disruptions to supply from countries that are major gold producers; (b) global metal supply and demand, which is influenced by such factors as exploration success, mine production and net forward selling activities by metal producers, jewelry demand, investment demand and industrial demand, central bank purchases and sales, and production and cost levels in major gold-producing countries such as China, the United States and Australia, net of any recycling and any shortages of a particular type of gold could result in a spike in prices of that type of gold; (c) financial activities including investment trading, hedging or other activities conducted by large trading houses, producers, users, hedge funds, commodities funds, governments or other speculators which could impact global supply or demand; and (d) financial market factors such as investors' expectations with respect to the future rates of inflation, movements in world equity, financial and property markets, interest rates and currency exchange rates, particularly the strength of and confidence in the US dollar. General movements in local and international markets and factors that affect the investment climate and investor sentiment could all affect the level of trading and, therefore, the price of gold and this may lead to a fall in the price gold, which will have an adverse impact on any Gold Token holder that purchased a Gold Token at a higher price. In addition, crises may motivate large-scale sales of gold which could decrease the price of gold and adversely affect the value of a Gold Token. For example, the 2008 financial crisis resulted in significant sales of gold by individuals which depressed the price of gold. While gold can function as a store of value over time, even if a Gold Token holder is able to hold a Gold Token for the long-term, such holder may never experience a profit and may experience sharp value fluctuations over certain periods. In addition, Gold Token purchasers should be aware that while gold is used to preserve wealth by holders of gold around the world, gold has not necessarily maintained its value in terms of purchasing power in periods of social or economic instability.

While gold can offer holders a number of benefits, including the potential for price appreciation, there are several downsides to holding gold, as there are with any asset class, including that: (a) gold has no cash flows unlike other asset classes such as equities, bonds and property. This means that for holders to profit from gold (and, accordingly, for Gold Token holders to profit), the price of gold must increase; (b) gold's lack of cash flows also means that it is hard to place an intrinsic value on the price of the precious metal. Whereas other assets can be valued based on metrics such as the present value of all future cash flows, gold cannot be valued this way; and (c) gold can be volatile and have negative returns. Gold is a potentially attractive diversifier to a portfolio because it generally behaves differently than equities and bonds and is considered a store of value over time, but gold does have periods of volatility. For instance, while gold has posted nearly 30% gains in 2010, gold posted nearly 30% losses in 2013.

## **Gold Custody and Insurance Risk**

In respect of gold attributable to a Gold Token, it is held by the Custodian at its London vault premises. Access to such gold could be restricted by natural events, such as flooding or an earthquake, or human actions, such as a terrorist attack. Insurance and/or bonding is the responsibility of the Custodian and WisdomTree Digital is not responsible for ensuring that adequate insurance arrangements have been made, or for insuring or bonding the gold held at the Custodian, and will not be required to make any inquiry regarding such matters. Accordingly, there is a risk that the gold associated with a Gold Token could be lost, stolen or damaged resulting in a loss to a Gold Token holder. Gold in custody at the Custodian moves from an unallocated account to an allocated (i.e., segregated account) (the agreements associated with such accounts, the “Custodian Agreements”) under a continuous allocation process. Under the Custodian Agreements, while the Custodian will use reasonable care and skill in the performance of its duties, the Custodian is only liable for losses that are the direct result of negligence, fraud or willful default in the performance of its duties and then only up to the market value of the gold lost or damaged at the time such negligence, fraud or willful default is discovered. In addition, the Custodian is not liable for any delay in performance or any nonperformance of any of its obligations under the Custodian Agreements by reason of any cause beyond its reasonable control, including breakdown, malfunction or failure of transmission, communication or computer facilities. If any gold attributable to a Gold Token is lost, damaged, stolen or destroyed, the responsible party may not have the financial resources (including liability insurance coverage) sufficient to satisfy the claim or may not readily be identifiable to satisfy its obligations in respect of a Gold Token resulting in a loss to a Gold Token holder. The ability of WisdomTree Digital to monitor the performance of the Custodian is limited because, under the Custodian Agreement, WisdomTree Digital has only limited rights (and Gold Token holders have no rights) to visit the premises of the Custodian for the purpose of examining the gold and certain related records maintained by the Custodian. In addition, while gold attributable to a Gold Token is generally held in allocated form and the Custodian has contractually agreed to a continuous allocation process of gold from an unallocated account to the allocated account, gold will be held in an unallocated account until the time of allocation (generally each business day). Further, if the Custodian fails to allocate gold in a timely manner, in the proper amounts or otherwise in accordance with the terms of the allocated account agreement, unallocated gold will not be segregated from the Custodian’s assets. During such time as the gold is held in an unallocated account, such unallocated account does not give proprietary rights to specific bars of gold but instead gives an unsecured claim against the Custodian for the amount of gold held in those accounts and is not segregated from the assets of the Custodian as is the case with the allocated account. As a result, in the event of the insolvency of the Custodian it may not be possible to recover any or the full amount of any gold held in the unallocated account. In addition, in the event of the Custodian’s insolvency, there may be a delay and costs incurred in identifying the gold bars held in the allocated gold account. The Custodian may enter into arrangements with sub-custodians, for which the risks noted above would apply and be heightened. The Custodian is entitled to terminate the Custodian Agreements upon 90 days written notice. If following such notice of termination, WisdomTree Digital is not able to appoint a new Custodian it would be forced to retrieve the affected Gold Tokens for gold or otherwise liquidate the gold for cash and pay Gold Token holders cash, which may not be an opportune time for a Gold Token holder and could lead to a loss for a Gold Token holder.

## **Gold Delivery Risk**

Where a Gold Token holder lodges a valid retrieval request (i.e., requesting gold to be delivered for Gold Token(s)), the gold being retrieved is transferred out of the allocated account at the Custodian for delivery into the unallocated account of the metal agent, and then into the account at the metal agent of the person surrendering the Gold Token for gold (“Former Gold Token holder”), where it will be held for such Former Gold Token holder. The risk of non-receipt of the gold will remain with the Former Gold Token holder until such gold is deposited by the metal agent into the account designated by the Former Gold Token holder. Such gold held in an unallocated account does not give proprietary rights to gold in such account but instead gives an unsecured claim against the metal agent for the amount of gold held in that account and such gold is not segregated from the assets of the metal agent. WisdomTree Digital will not be responsible or liable for any failure by any metal agent to effect a delivery of the relevant gold in accordance with applicable instructions of the Former Gold Token holder or otherwise will not have recourse to WisdomTree Digital. In the event of the insolvency or default of the metal agent, or the failure of the metal agent to procure delivery of the gold to the Former Gold Token holder on Former Gold Token holder’s instruction, it may not be possible to recover any or all of the gold held in such account at the metal agent. This may mean that the Former Gold Token holder may not receive delivery of the relevant gold owed to it under such retrieval. In these circumstances the Former Gold Token holder may suffer a loss as they will not have received all or part of the gold which they are entitled to receive.

Retrieval orders are subject to postponement, suspension or rejection by WisdomTree Digital under certain circumstances. For example, WisdomTree Digital may, in its discretion, suspend the right of retrieval or postpone the retrieval settlement date, (1) for any period during which an emergency exists as a result of which the delivery, disposal or evaluation of gold is not reasonably practicable, or (2) for such other period as WisdomTree Digital determines to be necessary, such as for gold protection. In addition, WisdomTree Digital will reject a retrieval order if the order is not in proper form, if the fulfillment of the order might be unlawful or if fees are not paid. Any such postponement, suspension or rejection could adversely affect a retrieving Gold Token holder and WisdomTree Digital disclaims any liability for any loss or damage that may result from any such suspension or postponement.

## **Cybersecurity Risk**

WisdomTree Digital, its service providers, the App, wallets and blockchain networks may be susceptible to operational and information security risks resulting from a breach in cybersecurity, including cyber-attacks. A breach in cybersecurity, intentional or unintentional, may adversely impact a Gold Token holder in many ways, including, but not limited to, disruption of WisdomTree Digital’s operational capacity, loss of proprietary information, theft or corruption of data maintained online or digitally, denial-of-service attacks on websites or network resources, and the unauthorized release of confidential or personal information. Cyber-attacks affecting WisdomTree Digital's third-party service providers, App, wallets or blockchain networks may subject WisdomTree Digital (and Gold Token holders) to many of the same risks of associated with direct cybersecurity breaches.

## **Operational Risk**

WisdomTree Digital, its service providers, the App, wallets and blockchain networks may experience disruptions from human error, processing and communications errors, counterparty or third-party errors, technology or systems failures, any of which may have an adverse impact on a Gold Token. Although WisdomTree Digital and its service providers seek to mitigate these operational risks through their internal controls and operational risk management processes, these measures may not identify or may be inadequate to address all such risks.

## Regulatory Risk

The combination of the nature of WisdomTree Digital's activities, the markets to which it is exposed, the institutions with which it does business and the digital assets which it issues makes it particularly exposed to national, international and supranational regulatory action and taxation changes. The scope and requirements of regulation and taxation applicable to WisdomTree Digital, a Gold Token, the App or digital wallets continues to change and evolve and there is a risk that as a result it may prove more difficult or impossible, or more expensive, for WisdomTree Digital to continue to carry on its functions or to provide the products and services in the manner currently contemplated. Regulation of digital assets and digital asset platforms is currently developing and likely to rapidly evolve, varies significantly among international, federal, state and local jurisdictions and is subject to significant uncertainty. Various legislative and executive bodies in the United States and in other countries are currently considering, or may in the future consider, laws, regulations, guidance, or other actions. Changes such as those described above may impact the ability of WisdomTree Digital to issue Gold Tokens, may require changes in the future to the agreements applicable to the Gold Token and may result in changes to the commercial terms associated therewith, which may also lead to delays in the ability to retrieve gold in relation to a Gold Token.

While WisdomTree Digital is subject to regulation, such as by being a licensed money transmitter in various U.S. states, WisdomTree Digital and Gold Tokens have not been subjected to regulation under the securities or commodity laws of any country and, accordingly, do not benefit from the protections of such laws, including in the United States, and holdings of Gold Tokens are not FDIC or SIPC insured. Information provided by WisdomTree Digital should not be considered or relied upon as investment or other advice, as a recommendation from WisdomTree Digital, including regarding the use or suitability of any particular digital asset, crypto asset, blockchain network or any particular strategy. WisdomTree Digital is not acting and has not agreed to act in an investment advisory, fiduciary or quasi-fiduciary capacity to any advisor, end client or investor, and has no responsibility in connection therewith, with respect to any digital assets, crypto assets or blockchain networks.

The Custodian is regulated in the United Kingdom by the Financial Conduct Authority ("FCA"), but the custodial services provided by the Custodian and any sub-custodian under the Custodian Agreements are presently not a regulated activity subject to the supervision and rules of the FCA and are not subject to specific governmental regulatory supervision. In addition, the obligations of the Custodian are governed by English law. The Custodian may enter into arrangements with sub-custodians, which arrangements may also be governed by English law. The WisdomTree Prime User Agreement, which governs Gold Token holder rights, is governed by New York law. Any federal, New York, or other court situated in the United States may have difficulty interpreting English law (which, insofar as it relates to custody arrangements, is largely derived from court rulings rather than statute), LBMA rules or the customs and practices in the London custody market. It may be difficult or impossible to sue in relation to custodian arrangements in a United States, New York or other court situated in the United States. In addition, it may be difficult, time consuming and/or expensive to enforce in a foreign court a judgment rendered by a federal, New York, or other court situated in the United States.

Although the Custodian is a market maker, clearer and approved weigher under the rules of the LBMA (which sets out good practices for participants in the bullion market), the LBMA is not an official or governmental regulatory body. Accordingly, there is a dependency on the Custodian to comply with the best practices of the LBMA and to implement satisfactory internal controls for its gold bullion custody operations in order to keep the gold associated with Gold Tokens secure.

### **Capital Controls and Sanctions Risk**

Economic conditions, political events, military action and other conditions may, without prior warning, lead to government intervention (including intervention by the government of an investor's country of residence with respect to other governments, economic sectors, foreign companies and related securities and interests) and the imposition of capital controls and/or sanctions, which may also include retaliatory actions of one government against another government, such as the freezing or seizure of assets. Capital controls and/or sanctions include the prohibition of, or restrictions on, the ability to own or transfer currency, securities or other assets, which may potentially include assets related thereto. Capital controls and/or sanctions may also impact the good delivery standards of bullion such as gold. For instance, in 2022, and in response to sanctions imposed on Russia by the United Kingdom, United States and European Union as a result of the Russia/Ukraine conflict, the LBMA suspended six Russian refiners from the Good Delivery List. While it is difficult to predict how such sanctions and the conflict between Russia and Ukraine will affect the prices of gold and hence the value of a Gold Token, there may be increased volatility and unpredictability of gold or sanctions may impact retrievability.

### **Coronavirus Disease (COVID-19) Risk**

COVID-19 has had an impact on the price of commodities, including an initial decrease in the price of gold following the initial onset of COVID-19 in March 2020. The potential future impact of the pandemic on the price of gold is dependent on what action governments choose to take in the future. For example, if governments choose to respond to their specific COVID-19 situation with further lockdowns, the risk becomes akin to anything that would represent a demand shock due to declining economic activity. China has been an example of this policy, and as the world's second biggest economy and a major demand source of all commodities, the result of lockdowns imposed by China has been the evident downward price pressure on precious metals in 2022. It cannot be predicted how COVID-19, the ongoing global response and public sentiment will affect gold prices. Such effects may be significant, may be long term in nature and may lead to a decline in the price of gold and Gold Token holders thereby suffering unexpected losses.

### **Conflicts of Interest Risk**

Potential conflicts of interest may arise among WisdomTree Digital or its affiliates and Gold Token holders. As a result of these conflicts, WisdomTree Digital may favor its own interests and the interests of its affiliates over Gold Token holders. As an example, WisdomTree Digital its affiliates and their officers and employees are not prohibited from engaging in other businesses or activities, including purchasing or selling gold or managing investment products that invest in gold.

