Monochrome

Reference Guide

Monochrome Bitcoin Trust (IBTC)

ARSN 661 385 244 10 March 2023

www.monochrome.au

What is the Monochrome Bitcoin Trust?	This Reference Guide and the PDS relate to Bitcoin Interests in a bare trust managed investment scheme which has been registered with ASIC. The Bitcoin Interests offered under the PDS are designed to provide investors with a beneficial interest in bitcoin without taking on the technical challenges associated with storing and protecting Digital Assets. The issue of Bitcoin Interests under the PDS is covered by the Responsible Entity's Australian financial services licence.
What is the investment objective of the Monochrome Bitcoin Trust?	The investment objective of the Monochrome Bitcoin Trust is to provide investors with an investment return that tracks the performance of the price of bitcoin in Australian dollars (before taking into account fees, costs and tax) by reference to the CME CF Bitcoin Reference Rate. The Responsible Entity will not borrow money to implement the investment strategy.
Labour standards and environmental, social or ethical standards	The Responsible Entity and the Investment Manager do not take into account labour standards or environmental, social or ethical considerations in the selection, retention or realisation of an investment by the Fund.
What is a Bitcoin Interest?	Each Bitcoin Interest confers on the Holder a beneficial interest in an amount of bitcoin held in a Separate Trust. The amount of bitcoin represented by such beneficial interest from time to time is known as the Bitcoin Allocation.
Assets of the Monochrome Bitcoin Trust	The Monochrome Bitcoin Trust will invest in bitcoin, which shall be held by the Bitcoin Custodian, a third party service provider which specialises in the secure storage of Digital Assets. The Responsible Entity will maintain a separate record of the Bitcoin Allocation corresponding to each Separate Trust.

About this Reference Guide

This Reference Guide (**"RG"**) has been prepared and issued by Vasco Trustees Limited ABN 71 138 715 009 (**'Vasco Trustees", "we", "us"** or **"Responsible Entity"**). The information in this document forms part of the PDS for the Monochrome Bitcoin Trust (**"Fund"**).

The information provided in this RG is for general information only and does not take account your individual objectives, personal financial situation or needs. You should obtain professional financial advice tailored to your personal circumstances and consider the suitability of the Fund in view of your financial position, investment objectives and needs before making an investment decision.

Updated information

Information in the PDS and this RG is subject to change. Before making an investment in the Fund, you should ensure that you have read the current PDS and RG as at the date of your investment.

You can request a copy of the PDS and RG by visiting https://vascofm.com/ or by calling the Responsible Entity. A paper copy of the updated information will also be provided free of charge on request.

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Overview of Bitcoin Interests

The PDS relates to the issue of Bitcoin Interests in the Fund which is a registered managed investment scheme that invests in bitcoin.

Bitcoin Interests confer on the Holder a beneficial interest in an amount of bitcoin referred to as the Bitcoin Allocation. Under the Fund's Constitution, a Separate Trust is established for each Bitcoin Interest. Each Bitcoin Allocation represents the beneficial interest in bitcoin that is held by the Responsible Entity in a bare trust for the relevant Holder. The Fund has been established to provide investors with an accessible way of gaining exposure to bitcoin without investors being responsible for the technical intricacies associated with acquiring, holding and designing a secure storage solution.

The Fund will be asset-backed. Under the Fund's Constitution, the Responsible Entity is required to hold the bitcoin that is the subject of the Separate Trusts.

Investment objective

The investment objective of the Fund is to provide Holders with an investment return that tracks the performance of the price of Bitcoin in Australian dollars (before taking into account fees, costs and tax) by reference to the CME Bitcoin Reference Rate ("Index Price"). There is no assurance or guarantee that the Fund will meet its investment objective.

The Responsible Entity will implement a buy and hold investment strategy for bitcoin. The Responsible Entity will not borrow money to implement the investment strategy.

Key Features of a Bitcoin Interest

Ownership of a Bitcoin Interest confers on the Holder a beneficial interest in a Bitcoin Allocation held by the Responsible Entity in a bare trust. Bitcoin Allocations will be held by the Responsible Entity on trust in accordance with the terms of the Fund's Constitution. The Responsible Entity has appointed experienced third party service providers to provide a range of services including administration, registry and custody.

On the issue date for the first Bitcoin Interest, the Bitcoin Allocation shall be equal to 0.0001 bitcoin. The Bitcoin Allocation on all Bitcoin Interests will be reduced daily by the management fees and costs. The Bitcoin Allocation for every Bitcoin Interest shall be equal, ensuring that all Bitcoin Interests are fully fungible.

The Bitcoin Allocation for each Bitcoin Interest will be calculated daily by the Responsible Entity, to six decimal places and shall be published on https://monochrome.au/.

Investment benefits

Bitcoin Interests provide an indirect method of investing in bitcoin for investors who do not wish to manage the risks of direct ownership and custody.

By investing in Bitcoin Interests, an investor can gain exposure to bitcoin without having to personally handle the operational and technological risks associated with bitcoin ownership and storage. An investment in bitcoin can be lost entirely if an investor loses access to their Private Key. However, unlike bitcoin, the ownership of Bitcoin Interests is not contingent upon possession of a Private Key. The Fund enables Holders to outsource storage and security of their bitcoin investment to third party service providers experienced in Digital Assets.

In Australia, Bitcoin Interests are subject to more robust regulatory standards than bitcoin. Bitcoin Interests are regulated as a financial product. ASIC does not currently treat bitcoin as a financial product, resulting in bitcoin falling outside securities and financial services licensing legislation. Holders of Bitcoin Interests benefit from certain consumer protections afforded to clients of Australian financial services licensees and registered managed investment schemes, which are otherwise not available in the context of a direct investment in bitcoin.

The Responsible Entity has access to well established and experienced Digital Asset liquidity providers. The Investment Manager oversees trade execution, investment and operational risk management.

Applications

The Offer contained in the PDS is a continuous offer.

Investors can acquire Bitcoin Interests by completing the online Application Form and providing requested identification documents to the Registry along with payment for the purchase of Bitcoin Interests.

By transferring the Application Price paid in cash to the Applications bank account, the investor directs the Responsible Entity to use it to purchase bitcoin from an OTC Provider.

You can make additional investments into the Fund at any time by submitting an additional application to the Registry or by making a correctly referenced BPAY payment. You can pay EFT or BPay®. The minimum additional investment into the Fund is $1,000.

Redemptions

Investors can redeem Bitcoin Interests using the Bitcoin Delivery Method or the Bitcoin Sale Method by sending a Redemption Request to the Registry.

A $500 Redemption Fee is payable for the Bitcoin Delivery Method and a 0.25% sell spread is payable for the Bitcoin Sale Method (see section 6 of the PDS).

An election for the Bitcoin Delivery Method is only valid if the requesting investor has nominated a Digital Wallet for the transfer which they can prove their ownership of to the satisfaction of the Responsible Entity and have completed all know your client and anti-money laundering checks as may be requested by the Responsible Entity. The Responsible Entity will generally require that the Holder's Digital Wallet is one which is associated with the Bitcoin Custodian.

Under certain circumstances, the Responsible Entity may carry out a Compulsory Redemption following 60 days' notice to the relevant Holder.

As at the date of the PDS, there is no minimum number of Bitcoin Interests required for a Redemption Request, and there is no minimum residual holding required.

Holders can redeem their investment using the Bitcoin Delivery Method or the Bitcoin Sale Method (subject to any suspension of Redemptions by the Responsible Entity).

Bitcoin Interests subject to a Redemption Request cannot be transferred. Upon receipt of a valid Redemption Request, the Responsible Entity will do everything necessary to process the Redemption Request. A Redemption Request is valid only if:

- it contains all the information required; and
- the Holder has agreed that the Responsible Entity may disclose information provided by the Holder within the Redemption Request to the third party specified in the Redemption Request as being the party that shall be responsible for effective delivery or storage of the specific number of bitcoin once the Bitcoin Interest is collapsed and where the Holder has nominated the Bitcoin Delivery Method.

The Responsible Entity may in its absolute discretion determine whether a Redemption Request is valid and will promptly notify the Holder if a Redemption Request is invalid. In such cases the Holder must lodge a new and valid Redemption Request in respect of those Bitcoin Interests. Subject to the Corporations Act, a Redemption Request for Bitcoin Interests may not be revoked without the consent of the Responsible Entity.

Following the transfer of the Sale Proceeds or the bitcoin:

- each relevant Bitcoin Interest will be redeemed and cancelled; and
- the Separate Trusts associated with those Bitcoin Interests will be dissolved.

The Responsible Entity shall not be responsible or liable for any failure by the Bitcoin Custodian or Cash Custodian or a sale counterparty to affect a delivery or payment in respect of the bitcoin in accordance with the instructions of the Holder. However, in the event of such failure, the Responsible Entity shall to the extent practicable assign to the redeeming Holder its claims in relation to such bitcoin or cash (as applicable) in satisfaction of all claims of such Holder in respect of the Bitcoin Interests to be redeemed and the Holder shall have no further claims against the Fund or the Responsible Entity.

Bitcoin Delivery Method

Where a Holder lodges a Redemption Request for the Bitcoin Delivery Method, they must nominate a Digital Wallet into which the Responsible Entity will arrange for delivery of the Bitcoin Allocation and the Holder must also pay the Redemption Fee. The Holder must prove ownership of this Digital Wallet to the satisfaction of the Responsible Entity and have completed all know your client and anti-money laundering checks as may be requested by the Responsible Entity. The Responsible Entity will generally require that the Holder's Digital Wallet is one which is associated with the Bitcoin Custodian.

Redemptions using the Bitcoin Delivery Method shall be made by withdrawing bitcoin in an amount equal to the aggregate Bitcoin Allocation of the Bitcoin Interest being redeemed (rounded up to the nearest six decimal places) and procuring delivery of that amount of bitcoin. The bitcoin will be transferred to the Digital Wallet nominated by the Holder and such transfer shall settle the Responsible Entity obligations in respect of such Bitcoin Interests. In order to manage operational risk for Holders electing the Bitcoin Delivery Method, the Responsible Entity will generally require Holders to nominate a Digital Wallet associated with the Bitcoin Custodian. The Responsible Entity may permit a Digital Wallet which is to be used for a Holder's redemption to be held with another Digital Asset custodian or Digital Wallet provider at the sole discretion of the Responsible Entity.

The Responsible Entity's obligations will be satisfied by transferring bitcoin using the Digital Wallet details specified by the Holder in the Redemption Request. Upon transfer of the Bitcoin Allocation using the Digital Wallet details specified in the Redemption Request, all title to the bitcoin and all risk in and relating to the bitcoin pass to the Holder.

The Responsible Entity is not responsible or liable for any theft, loss, inability to recover or damage whatsoever that occurs to the bitcoin after such transfer.

Bitcoin Sale Method

Under the Bitcoin Sale Method, Redemptions will follow the same procedures as the Bitcoin Delivery Method except that the Responsible Entity will sell the Bitcoin Allocation of the Bitcoin Interest being redeemed and will pay those funds less the sell spread in Australian dollars to the bank account nominated by the Holder. There is no Redemption Fee for the Bitcoin Sale Method.

If the Bitcoin Sale Method applies:

1) the Responsible Entity is irrevocably authorised to procure that the Bitcoin Allocation is sold for and on behalf of the Holder;
2) the Holder irrevocably authorises the Responsible Entity to procure the sale of the Bitcoin Allocation at the current market price at the time of the disposal, and the Holder irrevocably directs and authorises the Responsible Entity or any of its nominees to take all action necessary or desirable to effect the sale by the Responsible Entity of the bitcoin;
3) the Responsible Entity will pay the Sale Proceeds as soon as reasonably practicable to the Holder as instructed by the Holder in the Redemption Request and the Holder acknowledges and agrees that:
    a) the Responsible Entity agrees to procure the sale of the Bitcoin Allocation on behalf of the Holder, as agent for the Holder, at the price achieved in the spot market;
    b) the Holder agrees to accept the price obtained by the Responsible Entity in accordance with the PDS, this RG and the Constitution and to sell its bitcoin at that price;

c) the Responsible Entity makes no representations or warranties as to the price at which the Bitcoin Allocation will be sold or the amount of the Sale Proceeds;

d) to the maximum extent permitted by law, the Responsible Entity is not responsible or liable for any loss, costs or expense incurred by or on behalf of the Holder as a result of the sale of the Bitcoin Allocation on behalf of the Holder, except to the extent that such loss, cost or expense arises as a result of the Responsible Entity's gross negligence, default, fraud or dishonesty; and

e) when the Responsible Entity directs the Cash Custodian to transfer the Sale Proceeds to the Holder, the Responsible Entity will have discharged all of its obligations to the Holder and the Holder will cease to have any right, title or interest in respect of the redeemed Bitcoin Interest, the Responsible Entity or the Fund (other than in respect of other Bitcoin Interests that were not redeemed, and any other rights that survive termination of membership if any).

Compulsory Redemption

Under certain prescribed circumstances, the Responsible Entity can compulsorily redeem all or a portion of the Bitcoin Interests for some or all Holders. The Responsible Entity must give the affected Holders 60 days' notice of any such compulsory redemption (see section below titled "Constituent documents" for more detail), unless the Responsible Entity determines it is not practicable to provide the Holder with notice.

By purchasing the Bitcoin Interests, the Holder is deemed to have instructed the Responsible Entity to apply the Bitcoin Sale Method for the purposes of Compulsory Redemption. A Holder may elect to change its instruction to the Bitcoin Delivery Method instead for the purposes of Compulsory Redemption by providing written notice at least five Business Days prior to the relevant Compulsory Redemption Date. A Compulsory Redemption Election Fee of $500 applies if a Holder wishes to change the Compulsory Redemption to the Bitcoin Delivery Method (see section 6 of the PDS).

If an affected Holder fails to provide updated information requested by the Responsible Entity by 5.00pm at least two Business Days prior to the Compulsory Redemption Date, then the Responsible Entity may process the Compulsory Redemption as previously advised to the relevant Holder.

Lodgement of Applications and Redemptions

Requests for Applications and Redemptions must be in the form provided by the Responsible Entity and available at the website of the Unit Registry:

Applications – https://apply.automic.com.au/ibtc

Redemptions – https://investor.automic.com.au/#/home

Information about Bitcoin

What is Bitcoin?

Bitcoin, with an upper-case B, is an open-source software project that first introduced the concept of using a shared digital ledger, distributed among a large, voluntary, distributed network of computers (or 'nodes'), requiring real-world energy to be spent by miners to process and verify transactions, to create provable digital scarcity and ownership of data. In the Bitcoin Network's case, this data is its underlying monetary unit, bitcoin, with a lower-case b. Anybody in the world with basic hardware and a communications link can be a node in the network. Bitcoin's ledger, referred to in the original source code as 'the Timechain', but more popularly known as 'the Blockchain', forms the basis of Blockchain technology throughout the wider Digital Asset ecosystem.

The Bitcoin Network's underlying Digital Asset is bitcoin. Launched in January 2009, bitcoin was initially issued as rewards to miners based on a predetermined controlled supply algorithm. Every time a block of transactions was added to bitcoin's Blockchain, programmatically every 10 minutes or so, miners were rewarded with 50 bitcoins, alongside transaction fees paid by users. Every 210,000 blocks, or roughly 4 years, this reward is halved. In May 2020, Bitcoin's reward halved for the 3rd time, with the current block reward being 6.25 bitcoins, with almost 90% of all bitcoins having now been mined. The application of this formula enshrines a maximum number of 21 million bitcoins in another 28 reward halvings' time. However, 95% of bitcoins will be mined by 2025, and 99% by 2035. The final percentage will take an additional century, at which point the mining incentive model switches to transaction fees only.

Bitcoin is created by a mining protocol. Bitcoin miners are responsible for producing blocks of transactions for the users and timestamping them into bitcoin's ledger. Miners are rewarded for this service with transaction fees and a block reward, as mining requires the expenditure of energy in order to link the physical world to the digital one, known as Proof-of-Work. Since the nodes ban any peers or miners who attempt to submit a block that violates the rules, the high energy and specialised hardware costs associated with the Proof-of-Work disincentivises dishonest play and potential bad actors.

Fundamentally, a bitcoin holding is linked to a string of text known as a Public Key that exists on the Bitcoin Network. The Bitcoin Network is recorded on the hard-drives of tens of thousands of nodes all around the world. Every Public Key has a corresponding Private Key, which is required to authorise transactions for that Public Key. As a bearer asset, whoever is in possession of the Private Key, whether legitimately or not, has full control over the bitcoin associated with a Digital Wallet.

Bitcoin's position in the Digital Asset market

Bitcoin holds a unique position in the Digital Asset market in that it introduced distributed ledger technology. Bitcoin is decentralised, and importantly, largely competes in the space of money, rather than in the space of technology where almost all other Digital Assets compete.

These attributes are referenced by investment giant Fidelity in their detailed January 2022 report on Bitcoin and the wider digital asset ecosystem, entitled, 'Bitcoin First: Why Investors Need to Consider Bitcoin Separately From Other

Digital Assets'.[1] In this report, Fidelity noted that 'other non-bitcoin projects should be evaluated from a different perspective than bitcoin', and 'investors should hold two distinctly separate frameworks for considering investment in this digital asset ecosystem.' The first framework examines the inclusion of bitcoin as an emerging monetary good, and the second considers the addition of other Digital Assets that exhibit venture capital-like properties. As the industry continues to mature, it is possible that this will become the predominant institutional approach to Digital Asset investment.

General risks

This section is not an exhaustive statement of all potential risk factors applicable to the Bitcoin Interests. Applicants should consult their professional advisers before deciding whether to invest in the Fund.

Service provider risk

The price of the Bitcoin Interests could be adversely affected if any of the various parties involved in the operation of the Fund, including the Responsible Entity, Investment Manager or other underlying agents or service providers fail to perform or breach their obligations. This risk is mitigated (but not eliminated) by undertaking due diligence on all third-party service providers to the Fund, and using third party service providers who are well regarded in the Australian market or in their respective overseas markets.

Bitcoin Custodian risk

Under the Custody Agreement, the Bitcoin Custodian is only liable for losses that are the direct result of its own gross negligence, fraud or wilful default in the performance of its duties, and then only up to the market value of the bitcoin lost or damaged at the time such gross negligence, fraud or wilful default is discovered by the Bitcoin Custodian. In addition, the Bitcoin Custodian is not liable for any delay in performance or any non-performance of any of its obligations under the Custody Agreement by reason of any cause beyond its reasonable control, including breakdown, malfunction or failure of transmission, communication or computer facilities. If any bitcoin forming part of the Assets attributable to any Bitcoin Interests is lost, damaged, stolen or destroyed under circumstances in which the Bitcoin Custodian is liable, the liability will be attributable to the Responsible Entity, because the Responsible Entity is ultimately liable to Holders for the acts and omissions of the Bitcoin Custodian. The Responsible Entity may not have the financial resources (including liability insurance coverage) sufficient to satisfy the claim or may not readily be identifiable and the Fund and/or the Responsible Entity would not be able to satisfy its obligations in respect of the Bitcoin Interests resulting in a loss to Holders.

Although the Bitcoin Custodian currently maintains insurance in respect of its custody services, there is a risk that it may not continue to do so. Consequently, a loss may be suffered with respect to the bitcoin which is not covered by insurance. Accordingly, there is a risk that some or all of the bitcoin could be lost, stolen or damaged and that the Fund would not be able to satisfy its obligations in respect of each Separate Trust or recover the Fund's losses from the Bitcoin Custodian or its insurer.

The Bitcoin Custodian is entitled to terminate the Custody Agreement upon 90 days' written notice to the Responsible Entity. If following such a notice of termination, the Responsible Entity is not able to appoint a new custodian, it may be forced to redeem some or all of the Bitcoin Interests which may lead to a Holder realising their investment earlier than desired and potentially crystallising investment losses.

Regulatory risk

Returns may be affected by any adverse regulatory changes in Australia or elsewhere, which could have an impact on the Fund's existing investments or adversely affect the Fund's ability to trade in the future. The Responsible Entity monitors the factors influencing the Fund's regulatory status on a regular basis and maintains a working knowledge of the proposed regulatory changes that may impact the Fund. Where appropriate, the Responsible Entity and/or the Investment Manager will make submissions to regulators with a view to ensuring investors' interests are represented.

Taxation and legislative change risk

Changes in taxation rates, tax rules or tax law interpretation may impact Holders' investment returns. The taxation assumptions made in this PDS are based on existing Australian tax legislation. Any changes to such legislation may materially impact the returns of the Fund. It is recommended that you seek advice from a tax adviser before making an investment into the Fund. To mitigate risk, the Responsible Entity maintains a working knowledge of proposed legislative and taxation changes that may impact the Fund and where relevant, the Responsible Entity and/or the Investment Manager will make submissions to regulators with a view to ensuring investors' interests are represented.

Product risk

Changes may be made to the Fund from time to time including changes to the Fund's investment strategy, fees or minimum investment amounts. These changes could impact the Fund's returns.

The portfolio of the Fund may be subject to change if it is considered to be in the best interests of the Holders. Furthermore, the Fund may not achieve its investment objective. This might mean that the return generated may differ from the stated investment objective.

Industry risk

The Digital Asset sector is rapidly changing and there may be risks that arise which are currently unforeseen by the Responsible Entity. The Responsible Entity will use its best endeavours to identify these risks as they arise and mitigate them to manage any potential impacts to the Fund. An investment in Bitcoin Interests can be extremely risky and is highly speculative, with the price of bitcoin also potentially being exposed to or correlated with the failures of other, higher risk crypto assets. Anyone who acquires bitcoin directly or indirectly, should be aware that there is a high risk that their investment could fall in value and, in the event of an unforeseen or unforeseeable catastrophic failure, be lost.

Limited recourse risk

Upon Redemption, the Holder only has recourse to an entitlement to receive delivery of an amount of bitcoin or its cash equivalent equal to the amount of bitcoin represented by the Bitcoin Interest from the Responsible Entity pursuant to the Separate Trust over that bitcoin, less the sell spread (if applicable).

Should there be insufficient bitcoin in the Separate Trust, the Holder will have no recourse to any other assets of the Responsible Entity or the Fund (except to the extent that the shortfall is due to fraud, wilful default or gross negligence). If the Bitcoin Custodian should fail to deliver the bitcoin from the relevant account, the Responsible Entity may transfer its rights against the Bitcoin Custodian to the Holder in settlement of the Responsible Entity's obligation to deliver the bitcoin.

Bare trust risk

The tax treatment of this product depends on the investor being 'absolutely entitled' (for tax purposes) to the Assets. The state of the law relating to absolute entitlement is subject to some uncertainty and it is important that investors are aware of the general risks relating to the tax treatment of custodial or bare trust investments such as the Bitcoin Interests. These risks are discussed in further detail below under the heading "Taxation".

Responsible Entity risk

There is a risk that an investment in the Fund could be adversely impacted by the termination of the Fund, changes to fees and expenses, or the retirement or replacement of the Responsible Entity. Further, operational risks which arise as a result of carrying on a funds management business require the Responsible Entity and its external service providers to implement sophisticated systems and procedures. Some of these systems and procedures are specific to the operation of the Fund, and inadequacies within these systems and procedures or the people operating them could lead to a problem with the Fund's operation.

Compulsory Redemption of Bitcoin Interests

The Fund may in certain circumstances redeem all or a portion of a Holder's Bitcoin Interests. Compulsory Redemption of Bitcoin Interests may have a detrimental impact on a Holder's investment if the timing of the Redemption does not suit the Holder's personal circumstances and investment strategy.

Circumstances which may result in the Responsible Entity compulsorily redeeming a Holder's Bitcoin Interests, and the relevant notice requirements are summarised below under the heading "Constituent documents". Compulsory Redemption may occur where the Responsible Entity forms the view that the continued operation of the Fund has become uneconomic, or in circumstances where the Responsible Entity is unable to find an appropriate Bitcoin Custodian.

Digital Asset risks

Digital Assets can be extremely volatile and are usually highly speculative. Anyone who invests in Digital Assets directly or indirectly should be aware that there is a high risk that their investment could dramatically fall in value or, in some cases, be lost entirely. By acquiring exposure to bitcoin, you are exposed to various risks including those set out below.

Bitcoin Network risks

The slowing or stopping of the development or acceptance of bitcoin may impact an investment.

The further development and acceptance of bitcoin is subject to a variety of factors that are difficult to predict. The slowing or stopping of the development or acceptance of bitcoin may adversely affect an investment in the Fund.

Bitcoin is a new and rapidly evolving form of payment, store of value, and unit of account that employs a computer-generated mathematical and cryptographic protocol. The growth of this industry in general is subject to a high degree of uncertainty. The factors affecting the further development of this industry include, but are not limited to:

1) continued worldwide growth in the adoption and use of bitcoin

2) government and quasi-government regulation of bitcoin and its use, or restrictions on or regulation of access to and operation of the Bitcoin Network

3) changes in consumer demographics and public tastes and preferences

4) the maintenance and development of the open-source software protocol of the Bitcoin Network

5) the availability and popularity of other forms or methods of buying and selling goods and services or stores of value

6) general economic conditions and the regulatory environment relating to bitcoin, and

7) negative consumer perception of bitcoin in general.

The Bitcoin Core Contributors or other programmers could propose amendments to the Bitcoin Network that, if accepted and authorised by the Bitcoin Network community, could adversely affect bitcoin.

Bitcoin uses a cryptographic protocol to govern the peer-to-peer interactions between computers connected to the Bitcoin Network ('nodes'). The code that sets forth the protocol is informally managed by a development team typically known as the Bitcoin Core Contributors. The members of the Bitcoin Core Contributors evolve over time, largely based on self-determined participation in bitcoin. The Bitcoin Core Contributors can propose amendments to the Bitcoin Network's source code through updates that alter the protocols and software of the Bitcoin Network and the properties of bitcoin.

To the extent that a significant majority of the users and miners on the Bitcoin Network install such software upgrade(s), the Bitcoin Network would be subject to new protocols and software that may adversely affect an investment. An example of an attempt to gather majority consensus for the purpose of altering the Bitcoin Network is the 'block size war' that took place between 2015 and 2017, where miners and large players in the space attempted (but failed) to increase the block size limit. It is important to note that a majority of miners must consent to such software modifications by supporting the altered software part of the software or upgrade, otherwise the modifications do not become a part of the Bitcoin Network.

Technology risk and operational disruptions

The loss or destruction of a Private Key required to access bitcoin may be irreversible.

Bitcoin is controllable only by the possessor of both the unique Public Key and Private Key relating to the local or online Digital Wallet in which the coins are held. While each bitcoin requires a Public Key relating to a Digital Wallet to be published when used in a spending transaction, Private Keys must be safeguarded and kept private in order to prevent a third party from accessing the bitcoin held in such wallets. To the extent that a Private Key is lost, destroyed or otherwise compromised and no backup of the Private Key is accessible, the Fund will be unable to access the bitcoin held in the related Digital Wallet. The Responsible Entity attempts to reduce this risk through the use of a professional custodian, where Digital Wallets and Private Keys are stored in guarded, monitored, and access-controlled facilities that are geographically distributed.

Technology risk

The Digital Asset sector is relatively new and as a result there are very few investment providers that have experience globally in operating an investment vehicle that holds Digital Assets.

Bitcoin transactions are not reversible without the consent and active participation of the transferee. Once a transaction has been verified and recorded on the Blockchain, an incorrect transfer or theft of bitcoin will not be reversible. It is possible that, through computer or human error, or through theft or other criminal action, the Fund's bitcoin held by the Bitcoin Custodian could be irretrievably transferred to unauthorised third parties, or to uncontrolled accounts.

If a malicious actor or botnet obtains control of more than 50% of the processing power of bitcoin miners, that actor or botnet could manipulate the Bitcoin Network to adversely affect an investment.

If a malicious actor obtains a majority of the processing power dedicated to mining the Bitcoin Network, it may be able to alter the Blockchain by constructing fraudulent blocks or preventing certain transactions from completing in a timely manner, or at all. The malicious actor could control, exclude or modify the ordering of transactions, though it could not generate new coins nor access other peoples' coins. The malicious actor could 'double-spend' its own coins (i.e., spend the same coins in more than one transaction) and prevent the confirmation of other users' transactions for so long as it maintains control.

If fees increase for recording transactions on the Blockchain, demand for coins may be reduced and prevent the expansion of the Bitcoin Network to retail merchants and commercial businesses, resulting in a reduction in the price of bitcoin that could adversely affect an investment.

As the number of bitcoins awarded for solving a block in the Blockchain decreases, the incentive for miners to contribute processing power to the Bitcoin Network will transition from a set reward to transaction fees. Decreased use and demand for bitcoins may adversely affect their value and result in a reduction in an investment. Although on-chain transaction fees are increasing, scaling solutions such as the lightning network are being developed to introduce a faster and cheaper 'payments layer' to bitcoin.

The acceptance of network software modifications or upgrades by a significant percentage of the users and miners in the Bitcoin Network could result in a 'fork' in the Blockchain, resulting in the operation of two separate networks.

There is no official developer or group of developers that formally controls the majority of the Bitcoin Network. Any individual can download the Bitcoin Network software and make any desired modifications, which are proposed to users and miners on the Bitcoin Network through software downloads and upgrades. There have been many examples of this occurring in the Bitcoin Network since its inception.

Modifications to the Bitcoin Network have been accepted by the vast majority of users and miners, ensuring that the Bitcoin Network remains a coherent economic system. If however, a proposed modification is not accepted by a vast majority of miners and users but is nonetheless accepted by a substantial population of participants in the Bitcoin Network, a 'fork' in the Blockchain could develop, resulting in two separate Bitcoin Networks.

If a permanent fork were to occur, the Fund would look to divest the fork determined to not be the dominant chain and reinvest the proceeds into the dominant chain. The decisions regarding which is the dominant chain, and the timing of these transactions are to be determined by the Investment Manager in its sole discretion.

As this is a new sector, there is very little meaningful history in operating an investment vehicle which invests in Digital Assets. As a result, there may be some aspects of an investment which are not fully understood that could impact on an investment.

This sector is relatively new and as a result there are very few investment providers that have experience globally in operating an investment vehicle that holds Digital Assets. A commitment to continuous research in this sector and fostering an environment in which meaningful knowledge growth is collated and built upon is critical to endeavouring to ensure the Fund meets its investment objectives.

Digital Asset transactions are irrevocable. If stolen or incorrectly transferred, coins may be irretrievable. As a result, any incorrectly executed Digital Asset transactions could adversely affect an investment.

Digital Asset transactions are not reversible without the consent and active participation of the recipient of the transaction. Once a transaction has been verified and recorded in a block that is added to the Blockchain, an incorrect transfer of coins or a theft of coins will generally not be reversible and you may not be capable of seeking compensation for any such transfer or theft. It is possible that, through computer or human error, or through theft or criminal action, the Fund's coins could be irretrievably transferred to unauthorised third parties, or to uncontrolled accounts.

Regulation of bitcoin

Regulatory changes or actions may alter the nature of an investment or restrict the use of Digital Assets in a manner that adversely affects an investment.

Bitcoin currently faces an uncertain regulatory landscape, not only in Australia but internationally. The treatment varies between jurisdictions and any adjustments in one jurisdiction may adversely impact the value of an investment.

The effect of any future regulatory change on bitcoin or an entity dealing or holding bitcoin is impossible to predict, but such change could be substantial and adverse.

Banks may not provide banking services, or may cut off banking services, to businesses that provide bitcoin-related services or that accept bitcoin as payment, which could damage the public perception of bitcoin and the utility of bitcoin as a payment system, and could decrease the price of bitcoin and adversely affect an investment in the Fund.

It may be illegal now, or in the future, to acquire, own, hold, sell or use bitcoin in one or more countries.

Although presently bitcoin is not regulated, or is lightly regulated in some countries, one or more countries may take regulatory actions in the future that severely restrict the right to acquire, own, hold, sell, or use bitcoin or to exchange bitcoin for fiat currency. Such an action may result in the restriction of ownership, holding, or trading in bitcoin and cause the price of bitcoin to substantially decrease.

Regulatory changes or interpretations could create the need for the Fund, the Responsible Entity and/or the Investment Manager to comply with new regulations or apply for new licences, resulting in potentially extraordinary, non-recurring and unanticipated expenses.

Current and future legislation may impact the manner in which bitcoin is treated for classification and clearing purposes. Such changes could involve gaining professional accounting and legal advice, applying for licences or being imposed with other costs in order to continue to hold bitcoin.

Future developments in the tax treatment of bitcoin could adversely affect an investment in the Fund.

The interpretation and application of taxation legislation in this industry is subject to change and it is expected to evolve as bitcoin is better understood by the Australian Government. As such there is a possibility that changes to the taxation treatment could adversely impact an investment in Bitcoin Interests.

Banking risk

A number of companies that provide bitcoin-related services have been unable to find banks that are willing to provide them with bank accounts and banking services. Similarly, a number of such companies have had their existing bank accounts closed by their banks. Banks may refuse to provide bank accounts and other banking services to bitcoin-related companies or companies that accept bitcoin for a number of reasons, such as perceived compliance risks or costs.

The difficulty that many businesses that provide bitcoin-related services have and may continue to have in finding banks willing to provide them with bank accounts and other banking services may be currently decreasing the usefulness of bitcoin as a payment system and harming public perception of bitcoin or could decrease its usefulness and harm its public perception in the future. Similarly, the usefulness of bitcoin as a payment system and the public perception of bitcoin could be damaged if banks were to close the accounts of many or a few key businesses providing bitcoin-related services. This could decrease the market value of bitcoin and therefore adversely affect an investment in Bitcoin Interests.

Bitcoin exchange market

Some Digital Asset exchanges have experienced severe operational problems such as trading disruptions. Consumers have suffered losses during these disruptions as it has restricted their ability to buy and sell cryptocurrencies.

The value of a Holder's Bitcoin Interest relates directly to the value of the Bitcoin Allocation and fluctuations in the price could materially and adversely affect an investment.

Bitcoin Interests are designed to track as closely as possible the performance of the price of bitcoin, net of fees and charges and before taxation. Several factors may affect the bitcoin price, including but not limited to:

- the total amount of bitcoin in existence
- global supply and demand, which is influenced by, amongst other things, the growth of retail merchants' and commercial businesses' acceptance of bitcoin as payment for goods and services, the security of online Digital Asset exchanges and Digital Wallets that hold bitcoins, the perception that the use and holding of bitcoin is safe and secure, the lack of regulatory restrictions on their use and the reputation of bitcoin for illicit use
- the bitcoin block reward and halving events
- investors' expectations with respect to the rate of inflation of fiat currencies
- interest rates
- currency exchange rates, including the rates at which Digital Assets, in particular bitcoin, may be exchanged for fiat currencies
- fiat currency withdrawal and deposit policies of Digital Asset exchanges and liquidity of such Digital Asset exchanges
- interruptions in service from or failures of major Digital Asset exchanges
- cyber theft from online wallet providers, or news of such theft from such providers, or from individuals' wallets
- investment and trading activities of large investors, including private and registered funds, that may directly or indirectly invest in Digital Assets

- monetary policies of central banks, trade restrictions, currency devaluations and revaluations
- regulatory measures, if any, that restrict the use of Digital Assets as a form of payment or the purchase of Digital Assets on the Digital Asset market
- the availability and popularity of businesses that provide Digital Asset related services
- the maintenance and development of the open-source software protocol of the Bitcoin Network
- increased competition from other forms of Digital Asset or payments services
- global or regional political, economic or financial events and situations
- expectations among Digital Asset economy participants that the value of Digital Assets will soon change, and
- fees associated with processing bitcoin transactions.

Counterparty risk with Digital Asset exchanges

Due to the unregulated nature and lack of transparency surrounding the operations of Digital Asset exchanges, the marketplace may lose confidence in Digital Asset exchanges. The Digital Asset exchanges on which the Digital Assets trade are relatively new and often unregulated or subject to minimal regulatory oversight.

Over the past eight years, several Digital Asset exchanges have shut down due to fraud, business failure or security breaches. In many of these instances, the customers of those exchanges were not able to withdraw their account balances and were not otherwise compensated.

A lack of stability in the Digital Asset exchange market and the closure or temporary shutdown of Digital Asset exchanges due to fraud, business failure, hackers, malware or government-mandated regulation may reduce confidence in the Bitcoin Network and result in greater volatility in the Index Price. Furthermore, the permanent or temporary closure of an exchange used in the calculation of the Index Price may result in the loss of confidence in the valuation of the Fund on a daily basis. However, the Index Price provider has documented procedures to mitigate against this scenario and to continue to publish the index. These potential consequences of a Digital Asset exchange's failure could adversely affect an investment in the Bitcoin Interests.

Due to the 24-hour nature of the spot market, the price of bitcoin can move negatively outside of Australian business hours and result in a significant difference in the end of day price for a Bitcoin Interest compared to the Index Price. Furthermore, spot bitcoin market activity may adversely impact the Index Price and therefore adversely affect the NAV. This effect on the Index Price may also be a result of market activity in the purchase or sale of other investment vehicles and products that track the price of bitcoin.

Purchasing or selling large volumes of bitcoin on Digital Asset exchanges can cause significant market impact or price slippage if any of the exchanges selected have low liquidity or execution is performed during periods of low market liquidity. An alternative approach is to use specialised over-the-counter providers to source liquidity; however, this may incur additional or different costs.

The impact of geopolitical or economic events on the supply and demand for Digital Assets, in particular bitcoin, is uncertain, but could motivate large-scale sales of Digital Assets, which could result in a reduction in the price and adversely affect an investment.

As an alternative to fiat currencies that are backed by central governments, bitcoin is subject to supply and demand forces based upon the desirability of an alternative, decentralised means of buying and selling goods and services, and it is unclear how such supply and demand will be impacted by geopolitical events. Nevertheless, political or economic crises may motivate large-scale acquisitions or sales of bitcoin either globally or locally. Large-scale sales of Digital Assets that are not met with countervailing demand would result in a reduction in the Index Price and could adversely affect an investment.

Demand for bitcoin is driven, in part, by its status as the most prominent and cryptographically secure Digital Asset. It is possible that a Digital Asset could have features that make it more desirable to a material portion of the Digital Asset user base, resulting in a reduction in demand for bitcoin which could have a negative impact on the investment.

The Bitcoin Network, and bitcoin as an asset, hold a 'first-to-market' advantage over other Digital Assets. This advantage is driven in large part by having the largest market capitalisation and, more importantly, the largest combined mining power in use to secure its Blockchain and transaction verification system. Having a large mining network results in greater user confidence regarding the security and long-term stability of a Digital Asset's network and its Blockchain. As a result, the advantage of more users and miners makes a Digital Asset more secure, which makes it more attractive to new users and miners, resulting in a network effect that strengthens the first-to-market advantage.

However, despite the marked first-mover advantage of the Bitcoin Network over other Digital Assets, it is still possible that another Digital Asset could become materially more popular due to either a perceived or exposed shortcoming of the Bitcoin Network protocol that is not immediately addressed by the Bitcoin Core contributors, or a perceived advantage of another Digital Asset that includes features not incorporated into bitcoin.

Index reference rate risk

There may be times that the pricing methodology used by the Fund falls short of capturing market conditions.

CF Benchmarks may experience outages or errors which may impact the availability or quality of the Index Price. If the Index Price is not available, trading of Bitcoin Interests may be suspended for a period of time. The Index Price is used for calculating the NAV and consequently, any losses or costs associated with these errors or risks will generally be borne by the Holders.

Extreme volatility

Most Digital Assets are subject to extreme price volatility.

Before investing in Bitcoin Interests, investors should be aware that they could lose a large amount, or even all, of the money invested. In addition, the price formation of Digital Assets is often not transparent. There is a high risk that investors may not receive a fair and accurate price when buying or selling products that invest in Digital Assets.

Unsuitability of Digital Assets for most purposes, including investment

The high volatility of Digital Assets, the uncertainty about their future and the risks associated with Digital Asset exchanges and wallet providers make Digital Assets unsuitable for many consumers, particularly those with a short to medium term investment horizon or less than a very high tolerance to risk.

Government regulation

Regulatory changes or actions may alter the nature of an investment or restrict the use of Digital Assets in a manner that adversely affects an investment.

Bitcoin currently faces an uncertain regulatory landscape, both in Australia and internationally. The treatment varies between jurisdictions and any regulatory changes in one jurisdiction may adversely impact the value of an investment in Bitcoin Interests.

The effect of any future regulatory change on Digital Assets or an entity dealing or holding Digital Assets is impossible to predict but such changes could be substantial and adverse.

As mentioned above, banks may not provide banking services, or may cut off banking services, to businesses that provide bitcoin-related services or that accept bitcoin as payment (commonly referred to as 'de-banking'), which could damage the public perception of Digital Assets and the utility of Digital Assets as a payment system, and could decrease the price of Digital Assets and adversely affect an investment in Bitcoin Interests.

A number of companies that provide exposure to Digital Assets such as bitcoin have been unable to find banks that are willing to provide them with banking services. Similarly, a number of such companies have had their existing bank accounts closed by their banks. Banks may refuse to provide banking services to bitcoin-related companies or companies that accept bitcoin for a number of reasons, such as perceived compliance risks or costs. The difficulty that many businesses that provide bitcoin-related services have had and may continue to have in finding banks willing to provide them with bank accounts and other banking services may be currently decreasing the usefulness of bitcoin as a payment system and harming public perception of bitcoin or could decrease its usefulness and harm its public perception in the future. Similarly, the usefulness of bitcoin as a payment system and the public perception of bitcoin could be damaged if banks were to close the accounts of many or of a few key businesses providing bitcoin-related services. This could decrease the price of bitcoin and therefore adversely affect an investment in Bitcoin Interests.

Valuation and Net Asset Value

Valuation pricing of Bitcoin Interests

The valuation methods applied by the Responsible Entity to value the Fund's assets and liabilities must be consistent with ordinary commercial practice for valuing property of the relevant kind and the production of a value that is reasonably current at the relevant time.

The Net Asset Value of a Bitcoin Interest will be the AUD value of the Bitcoin Allocation held in the Separate Trust less daily charged Management Fees and Costs.

The Net Asset Value of the Fund and of the Bitcoin Interests will be determined in AUD.

Calculation of Bitcoin Interests

The Bitcoin Allocation is the amount of bitcoin represented by each Bitcoin Interest. The Bitcoin Allocation on the first day of issue will be 0.0001 bitcoin. On each day thereafter, the Bitcoin Allocation will reduce by the daily charged management fees and costs and other applicable expenses.

Liabilities of the Fund

The Responsible Entity retains the right to deduct extraordinary expenses (if any) in calculating each Bitcoin Allocation and the aggregate Net Asset Value of the Fund if any are incurred by the Responsible Entity.

Pricing policy

The Fund's portfolio will be priced based on the Fund's Net Asset Value. The Net Asset Value of the Fund is calculated by deducting from the aggregate value of the Assets of the Fund all liabilities such as charged fees and other costs and provisions relating to the Fund.

Management fees and costs are normally charged daily. The value of any assets or liabilities denominated in a foreign currency is converted to Australian dollars using the applicable closing spot and forward rates as at the valuation time for the Fund. The valuation methods applied by the Responsible Entity to value the Fund's assets and liabilities are consistent with applicable industry standards and result in Net Asset Value per Bitcoin Interest calculations that are independently verifiable.

The value of the Bitcoin Allocation for Bitcoin Interests will be calculated using the Index Price. The Index Price is a twice-a-day benchmark index price for bitcoin denominated in USD. Launched on November 14, 2016, the Index Price is a registered benchmark under the European Union's Benchmark Regulation regime and its provider, CF Benchmarks, is authorised and regulated by the United Kingdom Financial Conduct Authority (FRN 847100). This supervision ensures CF Benchmarks is required to act in compliance with all aspects of UK Benchmarks Regulation ('BMR') requirements. Compliance with the UK BMR has been audited by Deloitte with the full audit report being publicly available.

Taxation

The tax treatment of a bitcoin managed investment scheme (Scheme) in Australia has not been the subject of any published binding guidance by the Commissioner of Taxation ('Commissioner'), nor have any bitcoin Scheme ATO product

product rulings been obtained at this date of the PDS, and there are uncertainties regarding the application of traditional tax principles to a bitcoin Scheme.

To obtain greater certainty, Monochrome had commenced an early engagement process with the Commissioner with respect to the 'absolute entitlement' issue in addition to the 'foreign currency' issue (each set out below). The Commissioner advised that they would not provide a ruling or comfort letter for either issue, and since commencing the early engagement the Government has announced that it seeks to introduce retrospective legislation to clarify that bitcoin is not treated as a foreign currency for tax purposes. The Board of Taxation is also conducting its review into the tax treatment of Digital Assets and Digital Asset transactions ('BoT Review').

Monochrome has engaged Mills Oakley to prepare this summary of Australian tax considerations for Australian tax residents that acquire Bitcoin Interests and remain an Australian tax resident for the duration of holding the Bitcoin Interest. We recommend that foreign residents seek independent professional tax advice about the applicable tax laws, proposed laws and the application of the relevant double tax agreement, if any.

Due to this Fund being structured as a series of bare trusts, a data statement will be prepared and distributed in lieu of a typical tax statement. Vasco is not in the position of a typical trustee of a trust estate and cannot make tax determinations or tax statements for investors. Instead, each investor can access a data statement that documents key data components relevant for an investor's record keeping for tax purposes in relation to their Bitcoin Interests and which can be provided to the investor's tax agent.

This summary does not consider the tax implications for taxpayers that invest in the Fund:

- in their capacity as trustee of a self-managed superannuation fund, and
- in their capacity as trustee of a trust.

This summary is a guide only and is not a complete statement of the relevant tax law nor does it take account of your individual circumstances. This summary is based on our interpretation of the Australian tax law and administrative practice at the date of publication of this PDS, including applicable case law and published guidance by the Commissioner, which may be subject to change. The ultimate interpretation of taxation law rests with the Courts and the way the Commissioner and state and territory revenue authorities administer the law, and may change at any time and with respect to Digital Assets is anticipated to be modified following the BoT Review, including with possible retrospective effect. Accordingly, we recommend that you seek independent, professional taxation advice about the tax implications of investing in Bitcoin Interests in your specific circumstances. It is possible for you to obtain certainty regarding the tax treatment of this product by applying for a private ruling from the Commissioner.

The draft public ruling TR 2004/D25 represents the Commissioner's current interpretation of the law with regard to 'absolute entitlement'. This should mean that, if the Commissioner changes his position in relation to this concept a taxpayer may still be liable for any resulting tax payable, but should not be subject to administrative penalties or interest as a result of relying on the public ruling, which represents the Commissioner's current view of the law.

References in this section to the '1936 Act' and the '1997 Act' are references to the Income Tax Assessment Act 1936 (Cth) and the Income Tax Assessment Act 1997 (Cth) respectively. References to taxpayer are references to Australian resident taxpayers only.

Australian taxation comments

Typically, a taxpayer may hold an interest in a fund on revenue or capital account, depending on their individual circumstances and general tax comments are set out below for the two main categories of ETP participants – investors dealing on capital account and traders dealing on revenue account.

It is possible for an investor to trade a portion of their Digital Asset portfolio as trading stock on revenue account without tainting the portfolio assets held for investment; and likewise, for a trader to hold a portion of their portfolio as investments on capital account without tainting the assets used for trading. In such cases, accurate and contemporaneous record-keeping is essential to demonstrate that a split portfolio is being maintained.

i) *Preliminary comments – 'absolute entitlement'*

The Australian income tax consequences of acquiring, disposing or redeeming a Bitcoin Interest are discussed below. If a taxpayer is not 'absolutely entitled' (for Capital Gains Tax ('CGT') purposes) to the Bitcoin Allocation for that Bitcoin Interest, the alternative tax treatment is also discussed below.

The state of law relating to the concept of absolute entitlement, and interpretation of that law by the Commissioner, is subject to uncertainty. The Commissioner's views are set out in a draft public ruling – TR 2004/D25 – that has remained in draft since its release in 2004. As a general rule, the Commissioner takes the approach that if there is more than one beneficiary with interests in a trust asset, it is not possible for any single beneficiary to call for the asset to be transferred to them, because their entitlement is not to the entire asset.

However, the Commissioner may treat a taxpayer as absolutely entitled to an asset if:

- the assets are fungible
- the beneficiary is entitled against the trustee to have their interest in those assets satisfied by a distribution or allocation in their favour of a specific number of them, and
- there is a clear understanding between the parties that the beneficiary is entitled to that specific number of the trust's assets.

Given the extended period of time in which the Commissioner has kept TR 2004/D25 in 'draft form' and the ongoing

Treasury review, the Investment Manager, on behalf of the Responsible Entity, had commenced an early engagement process with the Commissioner seeking to confirm that the Commissioner will not seek to disturb the current administrative treatment of bare trusts in relation to this Fund. The Commissioner advised that it was unwilling to provide a ruling or comfort letter with respect to the interpretation of 'absolute entitlement'. At the date of this PDS the Commissioner reiterates that in the event of a change in view or treatment, the Commissioner would follow the administrative practice set out in PS LA 2011/27 which describes the circumstances in which the Commissioner would not apply compliance resources to review and challenge positions adopted by taxpayers prior to the Commissioner's change in view or treatment.

ii) *Bitcoin as a 'foreign currency'*

On 22 June 2022, the Australian Government published a joint media release stating that parliament would introduce legislation to exclude crypto-assets such as bitcoin from being treated as a foreign currency for Australian income tax purposes ('Media Release').

Subsequent to the Media Release, the Australian Government has released exposure draft legislation 'Treasury Laws Amendment (Measures for Consultation) Bill 2022: Taxation treatment of digital currency' ('Exposure Draft') for public consultation. In short, the draft legislation seeks to exclude crypto-assets (including bitcoin) from being treated as foreign currency for Australian taxation purposes, in response to El Salvador (and other countries) recognising bitcoin as legal tender. The Exposure Draft purports to amend the existing definition of 'digital currency' in the GST legislation and excluding 'digital currency' from the definition of 'foreign currency' in the 1997 Act (and therefore from the Foreign Currency Rules). It appears that the Exposure Draft aims to ensure that the relevant crypto-assets (such as bitcoin) continue being subject to the CGT rules if they are capital assets in the hands of the taxpayer, rather than the Foreign Currency Rules. However, submissions made have argued for taxpayers to be permitted to choose to apply the Foreign Currency Rules, so until the detail is legislated it is difficult to convey the extent of law reform that will be introduced.

For completeness, we note that if bitcoin were characterised as a 'foreign currency', then the Foreign Currency Rules of the tax law take priority and a taxpayer's assessable income would include a foreign exchange realisation gain or their allowable deductions include a foreign exchange realisation loss that the taxpayer makes as a result of a foreign exchange realisation event when dealing with bitcoin (via their Bitcoin Interest and associated Bitcoin Allocation).

iii) *Traditional capital versus revenue treatment if bitcoin not a 'foreign currency'*

If bitcoin is not a 'foreign currency', the potential income tax consequences for an Australian resident taxpayer in relation to an investment in the Fund depends on whether the investor holds their Bitcoin Interest (or rather, the associated Bitcoin Allocation) on revenue account or on capital account. Whether an investor holds their investment on revenue or capital account will generally depend on the investor's particular circumstances, including their purpose in acquiring their investment.

b) *Capital account*

If the 'Foreign Currency' Rules do not apply and you are an Australian resident investor dealing on capital account, you may be liable for CGT when you redeem all or a portion of your Bitcoin Interests electing to use the Bitcoin Sale Method. No CGT event should occur if you take delivery of bitcoin on Redemption via the Bitcoin Delivery Method. You must calculate your capital gain or loss on sale or redemption under the CGT rules in the 1997 Act. If you are an eligible taxpayer and have held your Bitcoin Interest (including the associated Bitcoin Allocation) for at least 12 months, you may be entitled to claim the general CGT discount.

If your capital proceeds exceed your cost base upon disposal, a capital gain will arise. If the capital proceeds are less than your reduced cost base of your Bitcoin Interest, a capital loss will arise.

Where bitcoin is used to pay fees and expenses, a transfer of ownership of bitcoin arises which requires the taxpayer to calculate their capital gain or loss on disposal of that bitcoin. The capital proceeds would equal the amount of the expense being paid in Australian dollar terms and the capital gain or loss determined by subtracting the CGT cost base or reduced CGT cost base from those capital proceeds. The Australian dollar value of the expense may be added to the CGT cost base of the remaining Bitcoin Allocation unless the nature of fees is such that it is not appropriate to add them to the CGT cost base of the remaining Bitcoin Allocation.

c) *Revenue account*

If the 'Foreign Currency' Rules do not apply and you are an Australian resident investor dealing on revenue account as part of a business of buying and selling bitcoin or Bitcoin Interests, the trading stock rules in Division 70 of the 1997 Act apply.

Where a taxpayer's activities are on revenue account as a profit-making scheme, the taxpayer would be liable to income tax on a net profit basis.

A taxpayer dealing on revenue account who opts for the Bitcoin Delivery Method on Redemption should not be taxed on the proceeds of Redemption because no transfer of ownership occurs (subject to the paragraph below). On Redemption, the Separate Trust and Bitcoin Interest collapses and the bitcoin is transferred to its beneficial owner.

With respect to bitcoin used to pay fees, a taxpayer dealing in Bitcoin Interests on revenue account as:

- trading stock, should treat that amount of bitcoin debited from their Bitcoin Allocation on account of fees as an ordinary expense and allowable deduction as part of carrying on a trading business, or
- part of a profit-making scheme, should treat that amount of bitcoin debited from their Bitcoin Allocation on account of fees as an expense to be taken into account as part of the net profit calculation.

The taxpayer would also be required to calculate and include in assessable income or allowable deductions the revenue gain or loss, respectively, on the bitcoin disposed of to pay the expense.

i) *Alternative treatment*

For completeness, if an investor is not treated as being absolutely entitled to their bitcoin (for tax purposes), then the tax consequences of the investment would be different to those described above. Broadly:

a) each Separate Trust for each investor would be recognised for tax purposes and the investor would be subject to tax under Division 6 of the 1936 Act on the net income of the Separate Trust

b) a taxing event may happen to the investor if the investor transfers bitcoin in order to pay the Application Price (if applicable)

c) similarly, a taxing event may happen to the Responsible Entity (in its capacity as trustee of a Separate Trust) if the Holder makes a Redemption Request using the Bitcoin Delivery Method, and

d) any loss made in respect of an investment in Bitcoin Interests may be trapped in the separate trust estate.

There may be other tax consequences for the investors if the alternative treatment applies.

ii) *Part IVA of the 1936 Act*

Part IVA of the 1936 Act contains the general anti-avoidance regime for income tax. Broadly, Part IVA can apply to a taxpayer's investment if any party has entered into the arrangement for the dominant purpose of enabling the investor to obtain a tax benefit.

iii) *Taxation of financial arrangements (TOFA)*

Division 230 of the 1997 Act contains rules relating to the taxation of financial arrangements, for which there are a number of exclusions. Specifically, the TOFA rules do not mandatorily apply to managed investment schemes and superannuation entities with assets of less than $100 million, or individuals. However, taxpayers may elect to opt into the TOFA regime.

iv) *Stamp duty*

As the Bitcoin Interests (and corresponding Bitcoin Allocations) should not constitute 'dutiable property' as that term is defined in each State and Territory's respective stamp duty laws, no stamp duty should be payable on the issue or transfer of Bitcoin Interests.

v) *Australian Goods and Services Tax (GST)*

Applications for, and purchase of, Bitcoin Interests should not be subject to GST. The sale of Bitcoin Interests should also not be subject to GST.

Fees, including those paid in bitcoin, are subject to GST and, unless otherwise stated, are quoted in this document on a GST-inclusive basis.

v) *Tax paid by investors*

The Responsible Entity is not liable for any taxes, duty or other charges payable by an investor in relation to or in connection with their investment in the Fund or, as a consequence of, or in connection with, the purchase, sale or transfer of Bitcoin Interests. Investors are responsible for payment of all taxes (including GST) and other charges for which the investor becomes liable in relation to their investment in the Fund.

Other important information

Constituent documents

The operation of the Fund is governed under the Corporations Act and the Constitution of the Fund which has been lodged with, and registered by, ASIC as a managed investment scheme under Chapter 5C of the Corporations Act.

The Constitution and the Corporations Act govern the rights and obligations of investors in Bitcoin Interests. The Constitution sets out the conditions under which the Fund will operate, terminate, and the rights, obligations and liability of the Responsible Entity.

The Constitution also addresses matters such as pricing, applications, redemptions, the transfer of Bitcoin Interests, investors' rights, the Investment Manager's powers to invest, borrow and generally manage the Fund, and the Responsible Entity's fee entitlements.

A Bitcoin Interest confers a beneficial interest on the Holder in the assets of the Separate Trust relating to the Bitcoin Interest. The Constitution provides that the liability of each Holder is limited to the amount subscribed, or agreed to be subscribed by the Holder, for Bitcoin Interests. Recourse of the Responsible Entity and Fund creditors is limited to the Assets.

The Responsible Entity may convene meetings of Holders at any time (e.g., to approve certain amendments to the Constitution or to wind up the Fund). Holders also have limited rights to call meetings and have the right to vote at any Holder meetings.

Except where the Constitution provides otherwise, or the Corporations Act requires otherwise, to pass, a resolution of Holders must be passed by Holders who hold Bitcoin Interests exceeding 50% of the total value of all Bitcoin Interests held by Holders who vote on the resolution. A resolution passed at a meeting of Holders held in accordance with the Constitution binds all Holders of the Fund.

No significant change to the investment objective will be made unless such change is approved by a resolution of Holders passed by Holders representing at least 75% of votes cast. The Constitution states that while the Bitcoin Interests are quoted, the Responsible Entity will not acquire any property unless it reasonably believes the property is and will be likely to remain a 'liquid' asset as the Corporations Act defines that term, or unless ASIC relief is otherwise provided.

The Responsible Entity may alter the Constitution if it reasonably considers the amendments will not adversely affect Holders' rights. Otherwise, the Responsible Entity must obtain Holders' approval at a meeting of Holders. Under the Constitution, if the Corporations Act or ASIC Relief (including ASIC Class Order) on which the Responsible Entity has determined it wishes to rely on or which is expressly applicable to the Fund and the Responsible Entity, requires the Constitution to contain certain provisions ('Regulatory Required Provisions'), then to the extent Corporations Act allows, the Constitution is taken to be amended so that the relevant Regulatory Required Provisions are included as separate provisions. The Holders authorise the Responsible Entity to make the amendments required in this respect in a deed and, if required, lodge it with ASIC.

The Holders are deemed to agree that, subject to the Corporations Act, their rights under the Constitution do not include or extend to a right not to have the Constitution amended to comply with the relevant regulatory requirements or to include the Regulatory Required Provisions. The Responsible Entity may retire or be required to retire (if Holders vote for its removal). No Bitcoin Interests may be issued after the 80th anniversary of the date of the Constitution. The Responsible Entity may exercise a right to terminate the Fund earlier. Following the winding up of the Fund, the Responsible Entity must distribute the Bitcoin Allocation in each Separate Trust (after deducting liabilities and expenses referable to that Separate Trust) to the relevant Holders.

The Responsible Entity of the Fund is indemnified out of the Assets for any liability incurred by it in properly performing or exercising any of its powers or duties in relation to the Fund. To the extent permitted by the Fund's Constitution and at law, this indemnity includes any liability incurred as a result of any act or omission of a delegate or agent appointed by the Responsible Entity.

The Fund may retain and pay out of any money in its hands all sums necessary to affect such an indemnity. Holders can inspect a copy of the Fund's Constitution at the head office of the Responsible Entity during normal business hours or it will provide Holders with a copy free of charge.

The Constitution provides for circumstances in which the Responsible Entity may compulsorily redeem all or a portion of the Bitcoin Interests held by any or all Holders. The Responsible Entity may, in its absolute discretion and upon a minimum of 60 days' notice to a Holder or Holders, redeem all or a portion of the Bitcoin Interests held by any or all Holders if:

- the Responsible Entity believes that the Bitcoin Interests are held in breach of prohibitions contained within the Constitution
- the Responsible Entity determines that the Fund is uneconomical to operate
- a Holder made a misrepresentation in acquiring its Bitcoin Interests
- a Holder is a registered holder of Bitcoin Interests having an aggregate value of less than the minimum holding, provided that it does so in accordance with the terms of the Constitution and the Corporations Act (including any ASIC Relief). Note that as at the date of this PDS there is no minimum holding for Bitcoin Interests.
- the Bitcoin Custodian terminates the Custody Agreement and the Responsible Entity is unable to find a suitable replacement Bitcoin Custodian, or
- subject to the Corporations Act, such other circumstances as the Responsible Entity determines in its absolute discretion.

The Responsible Entity may, in its absolute discretion and upon a minimum of 3 Business Days' notice to a Holder or Holders, redeem all or a portion of the Bitcoin Interests held by any or all Holders if:

- the Responsible Entity believes that the Bitcoin Interests are held in circumstances which might result in a violation of an applicable law or regulation, or subject the Fund to taxation or otherwise adversely affect the Fund in any material respect, or
- the Responsible Entity determines that the continued participation of a Holder might cause the Responsible Entity or any Holder to violate any law or if any litigation is commenced or threatened against the Responsible Entity or any Holder arising out of the participation of the Holder in the Fund.

Compliance Plan

The Responsible Entity has prepared and lodged a Compliance Plan for the Fund with ASIC. The Compliance Plan sets out a compliance framework designed to ensure that the Fund complies with the requirements of the Corporations Act and the Constitution. A copy of the Compliance Plan is available free of charge from the office of the Responsible Entity during normal business hours. If the Compliance Plan is breached in a significant way such that the breach has an adverse effect on Holders, the Responsible Entity is obliged to report such a breach to ASIC.

Investment management agreement

The investment management agreement between the Responsible Entity and the Investment Manager appoints the Investment Manager to provide investment management services to the Fund. The investment management agreement sets out the Investment Manager's obligations to the Responsible Entity and to the Fund. The agreement also contains the arrangements in relation to Fees and Costs that are summarised in section 6 of the PDS.

The investment management agreement will remain in force until the Fund is wound up, unless the agreement is terminated earlier in accordance with its provisions. The agreement can be terminated by the Responsible Entity if the Investment Manager is in material breach of the agreement, and that breach has not been remedied after a certain time. There are also provisions allowing the Responsible Entity to terminate if, for example, the Investment Manager becomes insolvent.

If the Responsible Entity is replaced then the investment management agreement will continue to operate on the same terms as between the Investment Manager and the new responsible entity of the Fund.

Reporting and information requests

Documents lodged with ASIC

The Responsible Entity is subject to reporting and disclosure obligations in relation to the Fund, as though the Fund were a 'disclosing entity' under the Corporations Act. Documents lodged by the Responsible Entity with ASIC in relation to the Fund can be obtained from ASIC's website or are otherwise available for inspection at ASIC's offices.

The following documents are available to Holders from the Responsible Entity upon request:

- the annual report for the Fund most recently lodged with ASIC
- half-yearly reports lodged with ASIC after the lodgement of the annual report referred to above and before the date of this PDS, and
- any continuous disclosure notices given in respect of the Fund after the lodgement of the annual report referred to above and before the date of this PDS.

Other information requests

The following information is available from the Responsible Entity upon request:

- the daily NAV of the Fund
- the daily NAV per Bitcoin Interest, and
- the latest PDS and RG for the Fund.

Related party transactions

The Responsible Entity is not aware of any related party transactions requiring disclosure in this PDS.

Except as set out in this PDS, no amount has been paid or agreed to be paid, and no benefit has been given or agreed to be given, to a Director to induce them to become a Director or for services provided in connection with the formation or promotion of the Responsible Entity, Monochrome or the Offer.

Where a related party arrangement is being considered by the Responsible Entity, the Responsible Entity's policy is to seek appropriate legal and financial advice as part of the decision-making process. The Directors and senior management are responsible for monitoring this policy.

Litigation

The Responsible Entity is not involved in any pertinent legal or arbitration proceedings nor, as far as the Directors of Vasco are aware, are any such proceedings pending or threatened against it.

Monochrome is not involved in any legal or arbitration proceedings nor, so far as the Directors of Monochrome are aware, are any such proceedings pending or threatened against Monochrome.

Consents

All named parties have given their written consent to be named in this PDS in regards to the Offer, in the form and context in which they are named.

Privacy Policy

The Responsible Entity manages Holders' personal information in accordance with both the Privacy Act 1988 (Cth) and the Responsible Entity's own Privacy Policy. The Responsible Entity's Privacy Policy outlines how investors may access the information it holds about investors and how they may seek to correct this information if believed to be incorrect or out of date. It also contains information about how complaints may be made about a possible breach of privacy and how the Responsible Entity will deal with such a complaint. A copy of the Privacy Policy and any additional information relating to how personal information is managed is available by contacting the Responsible Entity.

AML/CTF procedures

The Responsible Entity, Registry and Administrator must comply with anti-money laundering laws, including the AML/CTF Act, which requires the Responsible Entity of the Fund to have an AML/CTF Program and comply with a range of other requirements. Subject to exclusions for exempt financial market operator issues, under its AML/CTF Program and the AML/CTF Act, the Responsible Entity is required to collect and verify certain identification information (Know Your Customer (KYC)) from Holders of Bitcoin Interests. If KYC Information is not provided when requested, processing of Applications or Redemptions may be delayed or refused.

The Responsible Entity may be required to disclose personal information or transactions to AUSTRAC. Under the AML/CTF Act, the Responsible Entity may be required to deny (on a temporary or permanent basis) access to a Holder's investment. This could result in a loss of the capital invested, or significant delays when wishing to transact. The Responsible Entity and the Investment Manager shall not be liable for any loss suffered as a result of the Responsible Entity's compliance or attempted compliance with the AML/CTF Act.

Enquiries

Enquiries regarding this PDS should be directed to the Responsible Entity at info@vascofm.com.

Making a complaint

Persons who wish to make a complaint about the Fund should contact the Responsible Entity by telephone on (03) 8352 7120, by email to info@vascofm.com, or in writing addressed to:

The Complaints Officer
Vasco Trustees Limited
Level 4,99 William Street
Melbourne VIC 3000

The Responsible Entity will acknowledge a complaint as soon as practicable after receiving it and will notify the complainant of its decision, remedies and other information within 30 days of the complaint being made.

A 'Dispute Resolution Guide' is available on the Responsible Entity's website at www.vascofm.com.

Complaints that cannot be resolved internally by the Responsible Entity can be taken to the Australian Financial Complaints Authority (AFCA). AFCA provides fair and independent financial services complaint resolution that is free to consumers. You can contact AFCA as follows:

Website: www.afca.org.au
Telephone: 1800 931 678 (free call within Australia)
Facsimile: (03) 9613 6399
Email: info@afca.org.au
Post: GPO Box 3, Melbourne Victoria, 3001.

Glossary of Terms

Administrator means State Street Australia Limited ACN 002 965 200, or such other administrator appointed by the Responsible Entity from time to time to provide administrative services for the Fund.

AFSL means Australian financial services licence.

Application Price means the price at which applications for Bitcoin Interests are acquired as determined in accordance with the Constitution.

ASIC means the Australian Securities and Investments Commission.

Assets means in respect of each Bitcoin Interest issued under this PDS, the bitcoin together with any income, capital, property and rights of the Fund referable to that Bitcoin Interest.

bitcoin means the asset native to the Bitcoin Network, the issuance of which is governed by the Bitcoin Network's monetary policy and will not exceed a total supply of 21 million bitcoins.

Bitcoin Allocation means the amount of bitcoin held in a Separate Trust for each Bitcoin Interest less fees and costs. On the first issue date, the Bitcoin Allocation is equal to 0.0001 bitcoin.

Bitcoin Custodian or **Gemini** means Gemini Trust Company, LLC.

Bitcoin Delivery Method means a method used by the Responsible Entity to discharge its obligations whereby the bitcoin represented by the Bitcoin Interests to be redeemed is transferred to the redeeming Holder as set out in the PDS and the Constitution.

Bitcoin Interest means an interest in the Fund issued under the terms of the PDS and in accordance with the Constitution pursuant to which the Holder has a beneficial interest in the Assets which are held on a Separate Trust.

Bitcoin Sale Method means a method used by the Responsible Entity to discharge its obligations whereby the bitcoin representing the Bitcoin Interests to be redeemed is sold and the Sale Proceeds (less the Sell spread) are transferred to the redeeming Holder as set out in the PDS and the Constitution.

Business Day means a day other than a Saturday or Sunday on which banks are open for general banking business in Sydney, New South Wales.

Buy/Sell spread means the amount deducted from an investor's investment representing costs incurred in transactions.

Cash Custodian means State Street Australia Limited ABN 21 002 965 200.

Constitution means the constitution of the Fund, as amended from time to time.

Corporations Act means the Corporations Act 2001 (Cth).

Custody Agreement means the custody agreement between the Responsible Entity and the Bitcoin Custodian.

Digital Asset means a digitally stored property interest in which encryption techniques are used to secure ownership and verify the transfer of funds, including without limitation bitcoin, ethereum, litecoin, virtual currencies, central bank digital assets, and e-Cash.

Digital Wallet means a system or software-based program that stores user payment and password information and allows the user to send, receive, and store Digital Assets. For the purposes of redemptions from the Fund, the Responsible Entity will generally require that the Holder's Digital Wallet is one which is associated with the Bitcoin Custodian.

Fund means the Monochrome Bitcoin Trust ARSN 661 385 244.

GST means Australian goods and services tax.

Holder means the person recorded in the Register as the holder of a Bitcoin Interest (including persons jointly registered).

Investment Manager means Monochrome Asset Management ABN 80 647 701 246.

Net Asset Value means:

- for a Bitcoin Interest, the AUD value of the Bitcoin Allocation held in the Separate Trust less any charged Management Fees and Costs attributable to the Separate Trust; and
- for the Fund, the AUD value of all of the Bitcoin Interests for the Fund plus cash, less its total liabilities

OTC Provider means an entity that enters into over-the-counter bitcoin transactions with the Fund.

PDS means the Product Disclosure Statement for the Monochrome Bitcoin Trust ARSN 661 385 244, which includes this Reference Guide.

Privacy Policy means the policy of the Responsible Entity which governs how it manages investor privacy.

Redemption Request means a written request lodged by a Holder in a form approved by the Responsible Entity from time to time to redeem Bitcoin Interests which includes sufficient instructions to allow the Responsible Entity to effect the delivery or sale of the Bitcoin relating to the relevant Bitcoin Interests.

Reference Guide means this Reference Guide to the PDS.

Registry means Automic Pty Ltd ABN 27 152 260 814.

Sale Proceeds means the cash amount received for the sale of a Bitcoin Allocation, less any applicable fees and costs in respect of the Bitcoin Allocation being redeemed.

Separate Trust means each separate trust constituted in respect of each Bitcoin Interest under the Constitution.

Wholesale Investor means persons or entities defined as such under the Corporations Act.

Vasco Trustees Limited or **we, us, Vasco** or **Responsible Entity** means Vasco Trustees Limited ABN 71 138 715 009, AFSL No. 344486.