

**GRAYSCALE ETHEREUM TRUST (ETH)**  
**(F/K/A Ethereum Investment Trust)**

A Delaware Trust

*Sponsored by*

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Primary Standard Industrial Code: 6221

**OTC MARKETS GROUP**  
**INFORMATION AND DISCLOSURE STATEMENT**

Shares Representing Common Units of Fractional Undivided Beneficial Interest

No Par Value Per Share

Unlimited Shares Authorized

486,200 Shares Issued and Outstanding as of December 31, 2018

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes:  No:

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes:  No:

Indicate by check mark whether a change in control of the company has occurred over this reporting period:

Yes:  No:

**OTCQX: ETHE**

**Grayscale Investments, LLC (the "Sponsor"), on behalf of Grayscale Ethereum Trust (ETH) (the "Trust"), is responsible for the content of this Information and Disclosure Statement (the "Disclosure Statement"), which has been prepared to fulfill the disclosure requirements of the OTCQX U.S. marketplace. The information contained in this Disclosure Statement has not been filed with, or approved by, the U.S. Securities and Exchange Commission (the "SEC") or any state securities commission. Any representation to the contrary is a criminal offense.**

All references to "the Trust," "the Sponsor," "the Issuer," "Grayscale Ethereum Trust," "we," "us" or "our" refers to the Trust or the Sponsor, as the context indicates. The Trust is a passive entity with no operations, and where the context requires, we provide disclosure with respect to the Sponsor, which administers the Trust.

Dated as of May 23, 2019

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Exhibit 1 Audited Financial Statements for the year ended December 31, 2018 and for the period from December 13, 2017 (the inception of the Trust) to December 31, 2017

## Cautionary Note Regarding Forward-Looking Statements

This Disclosure Statement contains “forward-looking statements” with respect to the Trust’s financial conditions, results of operations, plans, objectives, future performance and business. Statements preceded by, followed by or that include words such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or “continue,” the negative of these terms and other similar expressions are intended to identify some of the forward-looking statements. All statements (other than statements of historical fact) included in this Disclosure Statement that address activities, events or developments that will or may occur in the future, including such matters as changes in market prices and conditions, the Trust’s operations, the Sponsor’s plans and references to the Trust’s future success and other similar matters are forward-looking statements. These statements are only predictions. Actual events or results may differ materially from such statements. These statements are based upon certain assumptions and analyses the Sponsor made based on its perception of historical trends, current conditions and expected future developments, as well as other factors appropriate in the circumstances. You should specifically consider the numerous risks outlined under “Risk Factors.” Whether or not actual results and developments will conform to the Sponsor’s expectations and predictions, however, is subject to a number of risks and uncertainties, including:

- the risk factors discussed in this Disclosure Statement, including the particular risks associated with new technologies such as Ethereum and blockchain technology;
- the inability to redeem Shares;
- the economic conditions in the Ethereum industry and market;
- general economic, market and business conditions;
- the use of technology by us and our vendors, including the Key Maintainer, in conducting our business, including disruptions in our computer systems and data centers and our transition to, and quality of, new technology platforms;
- changes in laws or regulations, including those concerning taxes, made by governmental authorities or regulatory bodies;
- the costs and effect of any litigation or regulatory investigations;
- our ability to maintain a positive reputation; and
- other world economic and political developments.

Consequently, all of the forward-looking statements made in this Disclosure Statement are qualified by these cautionary statements, and there can be no assurance that the actual results or developments the Sponsor anticipates will be realized or, even if substantially realized, that they will result in the expected consequences to, or have the expected effects on, the Trust’s operations or the value of the Shares. Should one or more of the risks discussed under “Risk Factors” or other uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those described in forward-looking statements. Forward-looking statements are made based on the Sponsor’s beliefs, estimates and opinions on the date the statements are made and neither the Trust nor the Sponsor is under a duty or undertakes an obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, other than as required by applicable laws. Moreover, neither the Trust, the Sponsor, nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. Investors are therefore cautioned against relying on forward-looking statements.

## Glossary

In this Disclosure Statement, each of the following terms has the meaning assigned to it here:

“Actual Exchange Rate” — With respect to any particular asset, at any time, the price per single unit of such asset (determined net of any associated fees) at which the Trust is able to sell such asset for U.S. dollars (or other applicable fiat currency) at such time to enable the Trust to timely pay any Additional Trust Expenses, through use of the Sponsor’s commercially reasonable efforts to obtain the highest such price.

“Additional Trust Expenses” — Together, any expenses incurred by the Trust in addition to the Sponsor’s Fee that are not Sponsor-paid Expenses, including, but not limited to, (i) taxes and governmental charges, (ii) expenses and costs of any extraordinary services performed by the Sponsor (or any other Service Provider) on behalf of the Trust to protect the Trust or the interests of Shareholders (including in connection with any Incidental Rights and any IR Virtual Currency), (iii) any indemnification of the Key Maintainer, any Backup Maintainer or other agents, service providers or counterparties of the Trust, (iv) the fees and expenses related to the listing, quotation or trading of the Shares on any Secondary Market (including legal, marketing and audit fees and expenses) to the extent exceeding \$600,000 in any given fiscal year and (v) extraordinary legal fees and expenses, including any legal fees and expenses incurred in connection with litigation, regulatory enforcement or investigation matters.

“Administrator” — Any Person from time to time engaged by the Sponsor to assist in the administration of the Shares.

“Administrator Fee” — The fee payable to the Administrator for services it provides to the Trust, which the Sponsor will pay the Administrator as a Sponsor-paid Expense.

“Agent” — A Person appointed by the Trust to act on behalf of the Shareholders in connection with any distribution of Incidental Rights and/or IR Virtual Currency

“Authorized Participant” — Certain eligible financial institutions that have entered into an agreement with the Trust and the Sponsor concerning the creation (and, should the Trust commence a redemption program, redemption) of Shares. Each Authorized Participant (i) is a registered broker-dealer, (ii) has entered into a Participant Agreement with the Sponsor and (iii) owns an Authorized Participant Self-Administered Account.

“Authorized Participant Self-Administered Account” — An ETH wallet address that is recognized by the Sponsor and the Key Maintainer as belonging to the Authorized Participant.

“Backup Contingency” — The Backup Maintainer’s receipt of (i) a notice in writing from the Trust certifying the Trust’s inability to reasonably effect transactions involving the ETH Account or (ii) a court order that states that the Trust is unable to reasonably effect transactions involving the ETH Account and identifies a Restore Party, which court order the Backup Maintainer believes, in good faith and after confirming with legal counsel, is valid.

“Backup Factor” — A Security Factor of the ETH Account held by a Backup Maintainer that, alone, is insufficient to effect transfers from the ETH Account but together with other Security Factors in existence and not held by the Backup Maintainer will allow transfers from the ETH Account.

“Backup Maintainer” — Persons who are engaged by the Sponsor to assist in the maintenance of the Trust’s ETH.

“Backup Security Factor Agreements” — The backup security factor agreements entered into between the Trust and each Backup Maintainer providing for the security of the Trust’s ETH through a multi-factor security system.

“Basket” — A block of 100 Shares.

“Basket ETH Amount” — On any trade date, the number of ETH required as of such trade date for each Creation Basket or Redemption Basket, as determined by dividing (x) the number of ETH owned by the Trust at 4:00 p.m.,

New York time, on such trade date, after deducting the number of ETH representing the U.S. dollar value of accrued but unpaid fees and expenses of the Trust (converted using the ETH Index Price at such time, and carried to the eighth decimal place), by (y) the number of Shares outstanding at such time (with the quotient so obtained calculated to one one-hundred-millionth of one ETH (*i.e.*, carried to the eighth decimal place)), and multiplying such quotient by 100.

“Bitcoin” or “BTC” — A type of digital asset based on an open-source cryptographic protocol existing on the Bitcoin network.

“Blockchain” or “Ethereum Blockchain” — The public transaction ledger of the Ethereum Network on which miners or mining pools solve algorithmic equations allowing them to add records of recent transactions (called “blocks”) to the chain of transactions in exchange for an award of ETH from the Ethereum Network and the payment of transaction fees, if any, from users whose transactions are recorded in the block being added.

“CEA” — Commodity Exchange Act of 1936, as amended.

“CFTC”—The U.S. Commodity Futures Trading Commission, an independent agency with the mandate to regulate commodity futures and option markets in the United States.

“Code” — The U.S. Internal Revenue Code of 1986, as amended.

“Covered Person” — As defined in the section “Material Contracts.”

“Creation Basket” — Basket of Shares issued by the Trust in exchange for deposits of the Basket ETH Amount required for each such Creation Basket.

“DCG” — Digital Currency Group, Inc.

“Disclosure Statement” — This Disclosure Statement for the fiscal year ended December 31, 2018.

“Distribution and Marketing Agreement”—The agreement among the Sponsor and the Distributor and Marketer, which sets forth the obligations and responsibilities of the Distributor and Marketer.

“Distributor” — Genesis, or any other person from time to time, who is engaged by the Sponsor to assist in the distribution of the Shares.

“DSTA” — The Delaware Statutory Trust Act, as amended.

“DTC” — The Depository Trust Company. DTC is a limited purpose trust company organized under New York law, a member of the U.S. Federal Reserve System and a clearing agency registered with the SEC. DTC will act as the securities depository for the Shares.

“DTC Participant” — A direct participant in DTC, such as a bank, broker, dealer or trust company.

“ETC” or “Ethereum Classic” — Ethereum Classic tokens, which are a type of digital asset based on an open-source cryptographic protocol existing on the Ethereum Classic Network.

“ETH”, “Ether” or “Ethereum” — Ethereum tokens, which are a type of digital asset based on an open-source cryptographic protocol existing on the Ethereum Network, comprising units that constitute the assets underlying the Trust’s Shares. See “Overview of the ETH Industry and Market.”

“ETH Account” — An account holding the Trust’s ETH which, in the discretion of the Sponsor, could be an on-blockchain hot or cold wallet or a collection of accounts or sub-accounts maintained by one or more security vendors engaged by the Trust that represent or relate to on-blockchain ETH accounts that hold the Trust’s ETH.

“ETH Benchmark Exchange” — An ETH Exchange that represents at least 10% of the aggregate trading volume of the ETH Exchange Market during the last 30 consecutive calendar days and that to the knowledge of the Sponsor is in substantial compliance with the laws, rules and regulations, including any anti-money laundering and know-your-customer procedures, of such ETH Exchange’s applicable jurisdiction. If there are fewer than three individual ETH Benchmark Exchanges each of which represent at least 10% of the aggregate trading volume on the ETH Exchange Market during the last 30 consecutive calendar days, then the ETH Benchmark Exchanges that will serve as the basis for the ETH Index Price calculation will be those ETH Benchmark Exchanges that meet the above-described requirements, as well as one or more additional ETH Exchanges, as selected by the Sponsor, that has a specified minimum monthly trading volume.

“ETH Exchange” — An electronic marketplace where exchange participants may trade, buy and sell ETH based on bid-ask trading. The largest ETH Exchanges are online and typically trade on a 24-hour basis, publishing transaction price and volume data.

“ETH Exchange Market” — The global exchange market for the trading of ETH, which consists of transactions on electronic ETH Exchanges.

“ETH Holdings” — The aggregate value, expressed in U.S. dollars, of the Trust’s assets (other than U.S. dollars or other fiat currency), less its liabilities (which include estimated accrued but unpaid fees and expenses), calculated in the manner set forth under “Valuation of ETH and Determination of the Trust’s ETH Holdings.” See also “Management’s Discussion and Analysis — Critical Accounting Policies — Valuation of Ethereum” for a description of the Trust’s NAV, as calculated in accordance with GAAP.

“ETH Holdings Fee Basis Amount” — The amount on which the Sponsor’s Fee is based, as calculated in the manner set forth under “Valuation of ETH and Determination of the Trust’s ETH Holdings”.

“ETH Index Price” — The U.S. dollar value of an ETH derived from the ETH Exchanges that are reflected in the Index, calculated at 4:00 p.m., New York time, on each business day. See “Description of the Trust — The Index and the ETH Index Price” for a description of how the ETH Index Price is calculated.

“Ethereum Classic Network” — The online, end-user-to-end-user network hosting a public transaction ledger, known as the Blockchain, and the source code comprising the basis for the cryptographic and algorithmic protocols governing the Ethereum Classic Network.

“Ethereum Network” — The online, end-user-to-end-user network hosting a public transaction ledger, known as the Ethereum Blockchain, and the source code comprising the basis for the cryptographic and algorithmic protocols governing the Ethereum Network. See “Overview of the ETH Industry and Market.”

“Evaluation Time” — Each business day at 4:00 p.m., New York time, or as soon thereafter as practicable.

“Exchange Act” — The Securities Exchange Act of 1934, as amended.

“FDIC” — The Federal Deposit Insurance Corporation.

“FinCEN” — The Financial Crimes Enforcement Network, a bureau of the U.S. Department of the Treasury.

“FINRA” — The Financial Industry Regulatory Authority, Inc., which is the primary regulator in the United States for broker-dealers, including Authorized Participants.

“GAAP” — United States generally accepted accounting principles

“Genesis” — Genesis Global Trading, Inc., a wholly owned subsidiary of Digital Currency Group, Inc., which as of the date of this Disclosure Statement is the only acting Authorized Participant.

“ICO” — Initial coin offering.

“Incidental Rights” — Rights to acquire, or otherwise establish dominion and control over, any virtual currency or other asset or right, which rights are incident to the Trust’s ownership of ETH and arise without any action of the Trust, or of the Sponsor or Trustee on behalf of the Trust.

“Index” — The TradeBlock ETX Index.

“Index License Agreement” — The license agreement entered into by the Index Provider and the Sponsor governing the Sponsor’s use of the Index for calculation of the ETH Index Price.

“Index Provider” — TradeBlock, Inc., a Delaware corporation that publishes the Index.

“Initial Purchasers” — Genesis Global Trading, Inc. and certain other institutional and individual investors, the purchasers of the initial Baskets.

“Investment Advisers Act” — Investment Advisers Act of 1940, as amended.

“Investment Company Act” — Investment Company Act of 1940, as amended.

“Investor” — Any investor that has entered into a Subscription Agreement with an Authorized Participant, pursuant to which such Authorized Participant will act as agent for the investor.

“IR Virtual Currency” — Any virtual currency tokens, or other asset or right, acquired by the Trust through the exercise (subject to the applicable provisions of the Trust Agreement) of any Incidental Right.

“IRS” — The U.S. Internal Revenue Service, a bureau of the U.S. Department of the Treasury.

“Key Maintainer” — Ledger SAS, who is engaged by the Sponsor to assist in the maintenance of the Trust’s ETH.

“Key Maintenance Agreement” — The key maintenance agreement entered into by the Trust and the Key Maintainer providing for the security of the Trust’s ETH through a multi-factor security system.

“Marketer” — Genesis or any other person from time to time engaged to provide marketing services or related services to the Trust pursuant to authority delegated by the Sponsor.

“Marketing Fee” — Fee payable to the Marketer for services it provides to the Trust, which the Sponsor will pay to the Marketer as a Sponsor-paid Expense.

“Mt. Gox” — Mt. Gox K.K., formerly a Japan-based Bitcoin exchange.

“NAV” — The net asset value of the Trust determined on a GAAP basis.

“NYDFS” — The New York State Department of Financial Services.

“NYDTF” — The New York State Department of Taxation and Finance.

“OTCQX” — The OTCQX tier of the OTC Markets Group Inc.

“Participant Agreement” — An agreement entered into by an Authorized Participant with the Sponsor that provides the procedures for the creation and, if permitted, redemption of Baskets and for the delivery of ETH required for Creation Baskets and the distribution of ETH from the Trust for Redemption Baskets.

“Protected Coins” — ETH held in the ETH Account.

“Redemption Basket” — Baskets of Shares redeemed in exchange for ETH in an amount equal to the Basket ETH Amount required for each such Redemption Basket.

“Restore Party” — The person or party that the Trust or a court with jurisdiction, as applicable, has chosen to receive the Backup Factors after a Backup Contingency.

“Rule 144” — Rule 144 under the Securities Act.

“SEC” — The U.S. Securities and Exchange Commission.

“Secondary Market” — Any marketplace or other alternative trading system, as determined by the Sponsor, on which the Shares may then be listed, quoted or traded, including but not limited to, the OTCQX tier of the OTC Markets Group Inc.

“Securities Act” — The Securities Act of 1933, as amended.

“Security Factor” — A password key or phrase that, together with other Security Factors, allows transfers of ETH.

“Service Providers” — Collectively, Grayscale Investments, LLC, Continental Stock Transfer & Trust Company, Genesis, TradeBlock, Inc., Ledger SAS and Digital Currency Group, Inc.

“Shareholder” — Any person that owns Shares.

“Shares” — Common units of fractional undivided beneficial interest in, and ownership of, the Trust.

“SIPC” — The Securities Investor Protection Corporation.

“Sponsor” — Grayscale Investments, LLC.

“Sponsor-paid Expenses” — The fees and expenses incurred by the Trust in the ordinary course of its affairs that the Sponsor is obligated to assume and pay, excluding taxes, but including: (i) the Marketing Fee, (ii) the Administrator Fee, if any; (iii) fees for the Key Maintainer, any Backup Maintainer and any other security vendor engaged by the Trust; (iv) the Transfer Agent fee; (v) the Trustee fee; (vi) the fees and expenses related to the listing, quotation or trading of the Shares on any Secondary Market (including customary legal, marketing and audit fees and expenses) in an amount up to \$600,000 in any given fiscal year; (vii) ordinary course legal fees and expenses, (viii) audit fees, (ix) regulatory fees, including, if applicable, any fees relating to the registration of the Shares under the Securities Act or the Exchange Act, (x) printing and mailing costs, (xi) costs of maintaining the Trust’s website; and (xii) applicable license fees; provided that any expense that qualifies as an Additional Trust Expense will be deemed to be an Additional Trust Expense and not a Sponsor-paid Expense.

“Sponsor’s Fee” — A fee, payable in ETH, which accrues daily in U.S. dollars at an annual rate of 2.5% of the ETH Holdings Fee Basis Amount of the Trust as of 4:00 p.m., New York time, on each day, provided that for a day that is not a business day, the calculation of the Sponsor’s Fee will be based on the ETH Holdings Fee Basis Amount from the most recent business day, reduced by the accrued and unpaid Sponsor’s Fee for such most recent business day and for each day after such most recent business day and prior to the relevant calculation date.

“Subscription Agreement” — An agreement between an Investor and an Authorized Participant pursuant to which the Investor can subscribe for Shares.

“Total Basket ETH Amount” — With respect to any creation or redemption order, the applicable Basket ETH Amount multiplied by the number of Baskets being created or redeemed.



“Transfer Agency and Service Agreement” — The agreement between the Sponsor and the Transfer Agent which sets forth the obligations and responsibilities of the Transfer Agent with respect to transfer agency services and related matters.

“Transfer Agent” — Continental Stock Transfer & Trust Company, a Delaware corporation.

“Transfer Agent Fee” — Fee payable to the Transfer Agent for services it provides to the Trust, which the Sponsor will pay to the Transfer Agent as a Sponsor-paid Expense.

“Treasury Regulations” — The regulations, including proposed or temporary regulations, promulgated under the Code.

“Trust” — Grayscale Ethereum Trust (ETH), a Delaware statutory trust, formed on December 13, 2017 under the DSTA and pursuant to the Trust Agreement.

“Trust Agreement” — The Amended and Restated Declaration of Trust and Trust Agreement between the Trustee and the Sponsor establishing and governing the operations of the Trust, as amended by Amendment No. 1 thereto and as may be further amended from time to time.

“Trustee” — Delaware Trust Company, a Delaware trust company, is the Delaware trustee of the Trust.

“U.S.” — United States.

“U.S. dollar,” “USD” or “\$” — United States dollar or dollars.

## **PART A. GENERAL COMPANY INFORMATION**

### **Item 1. The exact name of the issuer and its predecessor (if any).**

The name of the trust is Grayscale Ethereum Trust (ETH). The Trust was previously named Ethereum Investment Trust, whose name was changed pursuant to a Certificate of Amendment to the Certificate of Trust of Ethereum Investment Trust filed with the Delaware Secretary of State on January 11, 2019.

### **Item 2. The address of the issuer's principal executive offices.**

The address of the Sponsor is:           Grayscale Investments, LLC  
  250 Park Avenue South  
  New York, NY 10003

The Sponsor's telephone number is: (212) 668-1427

The Sponsor's facsimile number is: (212) 937-3645

The Sponsor's website:                 The Sponsor maintains a corporate website, [www.grayscale.co](http://www.grayscale.co), which contains general information about the Trust and the Sponsor. The reference to our website is an interactive textual reference only, and the information contained on our website shall not be deemed incorporated by reference herein.

Investor relations contact:             Michael Sonnenshein  
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  Email: [info@grayscale.co](mailto:info@grayscale.co)

### **Item 3. The jurisdiction(s) and date of the issuer's incorporation or organization.**

The Trust was formed as a statutory trust in the State of Delaware on December 13, 2017. The Trust is currently active in the State of Delaware.

## **PART B. SHARE STRUCTURE**

### **Item 4. The exact title and class of securities outstanding.**

The only class of securities outstanding is common units of fractional undivided beneficial interest (“Shares”), which represent ownership in the Trust. The Trust’s trading symbol on the OTCQX U.S. Marketplace of the OTC Markets Group Inc. is “ETHE” and the CUSIP number for its Shares is 389638107.

### **Item 5. Par or stated value and description of the security.**

#### **A. Par or Stated Value**

The Shares represent units of fractional undivided beneficial interest in and ownership of the Trust and have no par value.

#### **B. Common or Preferred Stock**

##### *General*

The Trust is authorized under the Trust Agreement to create and issue an unlimited number of Shares. The Trust issues Shares only in Baskets (a Basket equals a block of 100 Shares) in connection with creation orders. The Shares represent common units of fractional undivided beneficial interest in and ownership of the Trust and have no par value.

The Shares may be purchased from the Trust on an ongoing basis, but only upon the order of Authorized Participants and only in blocks of 100 Shares, which are referred to as Baskets. The Trust creates Shares on an ongoing basis, but only in Baskets. Initially, each Share represented 1/10<sup>th</sup> of an ETH. As of December 31, 2018, each Share represented approximately 0.0974 of one ETH. Shareholders that are not Authorized Participants may not purchase (or, if then permitted, redeem) Shares or Baskets from the Trust. At this time, the Trust is not operating a redemption program for Shares and therefore the Shares are not redeemable by the Trust.

##### *Description of Limited Rights*

The Shares do not represent a traditional investment and should not be viewed as similar to “shares” of a corporation operating a business enterprise with management and a board of directors. A Shareholder will not have the statutory rights normally associated with the ownership of shares of a corporation. Each Share is transferable, is fully paid and non-assessable and entitles the holder to vote on the limited matters upon which Shareholders may vote under the Trust Agreement. For example, Shareholders do not have the right to elect directors and will not receive dividends. The Shares do not entitle their holders to any conversion or pre-emptive rights or, except as discussed below, any redemption rights or rights to distributions.

##### *Voting and Approvals*

The Shareholders take no part in the management or control of the Trust. Under the Trust Agreement, Shareholders have limited voting rights. For example, in the event that the Sponsor withdraws, a majority of the Shareholders may elect and appoint a successor sponsor to carry out the affairs of the Trust. In addition, no amendments to the Trust Agreement that materially adversely affect the interests of Shareholders may be made without the vote of at least a majority (over 50%) of the Shares (not including any Shares held by the Sponsor or its affiliates). However, the Sponsor may make any other amendments to the Trust Agreement in its sole discretion without Shareholder consent, provided that the Sponsor provides 20 days’ notice of any such amendment.

### *Distributions*

Pursuant to the terms of the Trust Agreement, the Trust may make distributions on its Shares in cash or in kind, including in such form as is necessary or permissible for the Trust to facilitate its Shareholders' access to any Incidental Rights or to IR Virtual Currency.

In addition, if the Trust is terminated and liquidated, the Sponsor will distribute to the Shareholders any amounts of the cash proceeds of the liquidation remaining after the satisfaction of all outstanding liabilities of the Trust and the establishment of reserves for applicable taxes, other governmental charges and contingent or future liabilities as the Sponsor will determine. See "Description of the Trust Agreement—The Trustee—Termination of the Trust." Shareholders of record on the record date fixed by the Transfer Agent for a distribution will be entitled to receive their pro rata portions of any distribution.

### *Appointment of Agent*

Pursuant to the terms of the Trust Agreement, by holding the Shares, Shareholders will be deemed to agree that the Sponsor may cause the Trust to appoint an agent (any person appointed in such capacity, an "Agent") to act on behalf of the Shareholders in connection with any distribution of Incidental Rights and/or IR Virtual Currency if the Sponsor has determined in good faith that such appointment is reasonably necessary or in the best interests of the Trust and the Shareholders in order to facilitate the distribution of any Incidental Rights and/or IR Virtual Currency. The Sponsor may cause the Trust to appoint Grayscale Investments, LLC (acting other than in its capacity as Sponsor) or any of its affiliates to act in such capacity.

Any Agent appointed to facilitate a distribution of Incidental Rights and/or IR Virtual Currency will receive an in-kind distribution of Incidental Rights and/or IR Virtual Currency on behalf of the Shareholders of record with respect to such distribution, and following receipt of such distribution, will determine, in its sole discretion and without any direction from the Trust, or the Sponsor, in its capacity as Sponsor of the Trust, whether and when to sell the distributed Incidental Rights and/or IR Virtual Currency on behalf of the record date Shareholders. If the Agent is able to do so, it will remit the cash proceeds to the record date Shareholders. There can be no assurance as to the price or prices for any Incidental Rights and/or IR Virtual Currency that the Agent may realize, and the value of the Incidental Rights and/or IR Virtual Currency may increase or decrease between the date of distribution in-kind and the date of sale by the Agent or after any sale by the Agent.

Any Agent appointed pursuant to the Trust Agreement will not receive any compensation in connection with its role as agent. However, any Agent will be entitled to receive from the record-date Shareholders, out of the distributed Incidental Rights and/or IR Virtual Currency, an amount of Incidental Rights and/or IR Virtual Currency with an aggregate fair market value equal to the amount of administrative and other reasonable expenses incurred by the Agent in connection with its activities as agent of the record-date Shareholders, including expenses incurred by the Agent in connection with any post-distribution sale of such Incidental Rights and/or IR Virtual Currency.

In lieu of appointing an Agent and distributing Incidental Rights and IR Virtual Currency, the Trust may also determine to abandon Incidental Rights and IR Virtual Currency. The Trust has informed the Key Maintainer and Backup Maintainers that it is irrevocably abandoning, as of any date on which the Trust creates Shares, any Incidental Rights or IR Virtual Currency to which it would otherwise be entitled as of such date and with respect to which it has not taken any other action on or prior to such date. See "Description of the Trust—Incidental Rights and IR Virtual Currency."

### *Redemption of Shares*

Redemptions of Shares are currently not permitted, and the Trust is unable to redeem Shares. Subject to receipt of regulatory approval from the SEC and approval by the Sponsor in its sole discretion, the Trust may in the future

operate a redemption program. ***Because the Trust does not believe that the SEC would, at this time, entertain an application for the waiver of rules needed in order to operate an ongoing redemption program, the Trust currently has no intention of seeking regulatory approval from the SEC to operate an ongoing redemption program.***

Even if such relief is sought, no assurance can be given as to the timing of such relief or that such relief will be granted. If such relief is granted and the Sponsor approves a redemption program, the Shares will be redeemable only in accordance with the provisions of the Trust Agreement and the relevant Participant Agreement. See “Risk Factors—Risk Factors Related to the Trust and the Shares—The arbitrage mechanism intended to keep the price of the Shares closely linked to the ETH Index Price may not function properly due to multiple factors and the Shares may trade at a substantial premium over, or substantial discount to, the ETH Holdings per Share” and “Risk Factors—Risk Factors Related to the Trust and the Shares—The restrictions on transfer and redemption may result in losses on an investment in the Shares.”

### *Transfer Restrictions*

The Shares are restricted securities that may not be resold except in transactions exempt from registration under the Securities Act and state securities laws and any such transaction must be approved by the Sponsor. In determining whether to grant approval, the Sponsor will specifically look at whether the conditions of Rule 144 under the Securities Act and any other applicable laws have been met. Any attempt to sell Shares without the approval of the Sponsor in its sole discretion will be void *ab initio*. ***A minimum one year holding period will apply to all Shares purchased from the Trust.***

***Because of the one year holding period and the lack of an ongoing redemption program, the Shares should be considered an illiquid investment. No assurances are given that after the one year holding period, there will be any market for the resale of Shares, or, if there is such a market, as to the price at which such Shares may be sold into such a market.***

On a monthly basis, the Trust will aggregate the Shares that have been held over a year by non-affiliates of the Trust to assess whether the Rule 144 transfer restriction legends may be removed. Any Shares that qualify for the removal of the Rule 144 transfer restriction legends are presented to outside counsel, who may instruct the Transfer Agent to remove the transfer restriction legends from the Shares, allowing the Shares to then be resold without restriction, including on the OTCQX U.S. marketplace. The outside counsel requires that certain representations be made, providing that:

- the Shares subject to each sale have been held for more than a year by the selling Shareholder;
- the Shareholder is the sole beneficial owner of the Shares;
- the Sponsor is aware of no circumstances in which the Shareholder would be considered an underwriter or engaged in the distribution of securities for the Trust;
- none of the Shares are subject to any agreement granting any pledge, lien, mortgage, hypothecation, security interest, charge, option or encumbrance;
- none of the identified selling Shareholders is an affiliate of the Sponsor;
- the Sponsor consents to the transfer of the Shares; and
- outside counsel and the Transfer Agent can rely on the representations.

In addition, because the Trust Agreement prohibits the transfer or sale of Shares without the prior written consent of the Sponsor, the Sponsor must provide a written consent that explicitly states that it irrevocably consents to the

transfer and resale of the Shares. Once the transfer restriction legends have been removed from a Share and the Sponsor has provided its written consent to the transfer of that Share, no consent of the Sponsor is required for future transfers of that particular Share.

*Book-Entry Form*

Shares of the Trust are held primarily in book-entry form by the Transfer Agent. The Sponsor or its delegate will direct the Transfer Agent to credit the number of Creation Baskets (or, if the Trust receives the required permissions and the Sponsor subsequently decides to commence a redemption program, debit the number of Redemption Baskets) to the Authorized Participant. The Transfer Agent will issue Creation Baskets (and, if permitted, cancel Redemption Baskets). Transfers will be made in accordance with standard securities industry practice. The Sponsor may cause the Trust to issue Shares in certificated form in limited circumstances in its sole discretion.

*Share Splits*

In its discretion, the Sponsor may direct the Transfer Agent to declare a split or reverse split in the number of Shares outstanding and to make a corresponding change in the number of Shares constituting a Basket. For example, if the Sponsor believes that the per Share price in the secondary market for Shares has risen or fallen outside a desirable trading price range, it may declare such a split or reverse split.

**Item 6. The number of shares or total amount of the securities outstanding for each class of securities authorized.**

As of December 31, 2018 and 2017 the Trust had unlimited Shares authorized. As of December 31, 2018, and 2017 there were 486,200 and 175,300 Shares issued and outstanding, respectively.

The following table shows the number of the Shares outstanding:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>(i) Number of Shares authorized</b>	Unlimited	Unlimited
<b>(ii) Number of Shares outstanding</b>	486,200	175,300
<b>(iii) Number of Shares freely tradable (public float)</b>	0	0
<b>(iv) Number of beneficial holders owning at least 100 Shares</b>	40	6
<b>(v) Number of holders of record</b>	40	6

**Item 7. The name and address of the transfer agent.**

The Trust’s transfer agent is Continental Stock Transfer & Trust Company (the “Transfer Agent”). The Transfer Agent’s address is 1 State Street, 30<sup>th</sup> Floor, New York, New York 10004, and its telephone number is (212) 509-4000. Continental Stock Transfer & Trust Company is registered under the Securities Exchange Act and is regulated by the SEC.

## **PART C. BUSINESS INFORMATION**

### **Item 8. The nature of the issuer's business.**

#### **A. Business Development**

The activities of the Trust are limited to (i) issuing Baskets in exchange for ETH transferred to the Trust as consideration in connection with the creations, (ii) transferring or selling ETH, Incidental Rights and IR Virtual Currency as necessary to cover the Sponsor's Fee and/or any Additional Trust Expenses, (iii) transferring ETH in exchange for Baskets surrendered for redemption (subject to obtaining regulatory approval from the SEC and approval from the Sponsor), (iv) causing the Sponsor to sell ETH, Incidental Rights and IR Virtual Currency on the termination of the Trust, (v) making distributions of Incidental Rights and/or IR Virtual Currency or cash from the sale thereof and (vi) engaging in all administrative and security procedures necessary to accomplish such activities in accordance with the provisions of the Trust Agreement, the Key Maintenance Agreement, the Backup Security Factor Agreements, the Index License Agreement and the Participant Agreements.

In addition, the Trust may engage in any lawful activity necessary or desirable in order to facilitate Shareholders' access to Incidental Rights or IR Virtual Currency, provided that such activities do not conflict with the terms of the Trust Agreement. The Trust will not be actively managed. It will not engage in any activities designed to obtain a profit from, or to ameliorate losses caused by, changes in the market prices of ETH.

#### **Trust Objective**

The investment objective of the Trust is for the Shares to reflect the value of the ETH held by the Trust, determined by reference to the ETH Index Price, less the Trust's expenses and other liabilities. The Shares are intended to constitute a cost-effective and convenient means of gaining investment exposure to ETH. A substantial direct investment in ETH may require expensive and sometimes complicated arrangements in connection with the acquisition, security and safekeeping of the ETH and may involve the payment of substantial fees to acquire such ETH from third-party facilitators through cash payments of U.S. dollars. Although the Shares will not be the exact equivalent of a direct investment in ETH, they provide investors with an alternative that constitutes a relatively cost-effective way to participate in ETH markets through the securities market. Because the value of the Shares is correlated with the value of the ETH held by the Trust, it is important to understand the investment attributes of, and the market for, ETH.

*At this time, the Trust is not operating a redemption program for Shares and therefore Shares are not redeemable by the Trust. In addition, the Trust may halt creations for extended periods of time.* As a result, the value of the Shares of the Trust may not approximate, and if traded on any Secondary Market, the Shares may trade at a substantial premium over, or substantial discount to, the value of the ETH held by the Trust, less the Trust's expenses and other liabilities, because Authorized Participants may not be able to take advantage of arbitrage opportunities created when the market value of the Shares deviates from the value of the Trust's ETH Holdings per Share, causing the Shares to trade at a substantial premium to the value of ETH held by the Trust. The Shares may also trade at a substantial premium over, or a substantial discount to, the value of the Trust's ETH as a result of price volatility, trading volatility, trading volume and closings of Ethereum Exchanges due to fraud, failure, security breaches or otherwise. For a discussion of risks relating to the unavailability of a redemption program, see "Risk Factors—Risk Factors Related to the Trust and the Shares—The arbitrage mechanism intended to keep the price of the Shares closely linked to the ETH Index Price may not function properly due to multiple factors and the Shares may trade at a substantial premium over, or substantial discount to, the ETH Holdings per Share" and "Risk Factors—Risk Factors Related to the Trust and the Shares— The restrictions on transfer and redemption may result in losses on an investment in the Shares."

## Strategy Behind the Shares

The Shares are intended to offer investors an opportunity to participate in ETH markets through an investment in securities. As of December 31, 2018, each Share represented approximately 0.0974 of one ETH. The logistics of accepting, transferring and safekeeping of ETH are dealt with by the Sponsor, the Key Maintainer and the Backup Maintainers, and the related expenses are built into the price of the Shares. Therefore, Shareholders do not have additional tasks or costs over and above those generally associated with investing in any other privately placed security.

The Shares are intended to provide institutional and retail investors with a simple and cost-effective means, with minimal credit risk, of gaining investment benefits similar to those of directly holding ETH. The Shares offer an investment that is:

- *Easily Accessible and Relatively Cost Efficient.* Investors in the Shares can also directly access ETH markets through the ETH Exchange Market. The Sponsor believes that investors will be able to more effectively implement strategic and tactical asset allocation strategies that use ETH by using the Shares instead of directly purchasing and holding ETH, and for many investors, transaction costs related to the Shares will be lower than those associated with the direct purchase, storage and safekeeping of ETH.
- *Market Traded and Transparent.* Shares of the Trust that have become unrestricted in accordance with Rule 144 under the Securities Act are quoted and trade on the over-the-counter market, OTCQX, providing investors with an efficient means to implement various investment strategies. The Trust will not hold or employ any derivative securities. Furthermore, the value of the Trust's assets will be reported each day on <https://grayscale.co/ethereum-trust/#market-performance>.
- *Minimal Credit Risk.* The Shares represent an interest in actual ETH owned by the Trust. The Trust's ETH are not subject to borrowing arrangements with third parties or to counterparty or credit risks.
- *Safekeeping System.* The Key Maintainer and the Backup Maintainers have been appointed to, together with the Sponsor, secure the Trust's ETH through a multi-factor security system that prevents the Sponsor, Trust, Key Maintainer or Backup Maintainers from having the unilateral ability to transfer the Trust's ETH. The hardware, software, administration and continued technological development that are used by the Sponsor, the Key Maintainer and the Backup Maintainers may not be available or cost-effective for many investors.

The Trust differentiates itself from competing digital asset financial vehicles, to the extent that such digital asset financial vehicles may develop, in the following ways:

- *Directly Owned ETH.* The Trust directly owns actual ETH held on the Ethereum Blockchain, with the security facilitated by the Sponsor, Key Maintainer and Backup Maintainers. The direct ownership of ETH is not subject to counterparty or credit risks. This may differ from other digital asset financial vehicles that provide ETH exposure through other means, such as the use of financial or derivative instruments.
- *Sponsor's Fee.* The Sponsor's Fee is a competitive factor that may influence an investor's decision to purchase Shares.

## Secondary Market Trading

While the Trust's investment objective is for the Shares to reflect the value of the ETH held by the Trust, as determined by reference to the ETH Index Price, less the Trust's expenses and other liabilities, the Shares may trade in the Secondary Market on the OTCQX (or on another Secondary Market in the future) at prices that are lower or higher than the ETH Holdings per Share or NAV per Share. The amount of the discount or premium in the trading price relative to the ETH Holdings per Share may be influenced by non-concurrent trading hours and



liquidity between OTCQX and larger ETH Exchanges in the ETH Exchange Market. While the Shares are listed and trade on the OTCQX from 6:00 a.m. until 5:00 p.m., New York time, liquidity in the ETH Exchange Market may fluctuate depending upon the volume and availability of larger ETH Exchanges. As a result, during periods in which ETH Exchange Market liquidity is limited or a major ETH Exchange is off-line, trading spreads, and the resulting premium or discount, on the Shares may widen.

**1. The form of organization of the issuer.**

The Trust is a Delaware statutory trust.

**2. The year that the issuer (or any predecessor) was organized.**

The Trust was formed on December 13, 2017.

**3. The issuer's fiscal year end date.**

The Trust's fiscal year end date is December 31.

**4. Whether the issuer (or any predecessor) has been in bankruptcy, receivership or any similar proceeding.**

The Trust has not been in, and is not in the process of, any bankruptcy, receivership or any similar proceeding since its inception.

**5. Any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets.**

The Trust has not undergone any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets since its inception.

**6. Any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring the issuer to make payments.**

The Trust has not experienced any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring the Trust to make payments since its inception.

**7. Any change of control.**

The Trust has not experienced any change of control since its inception.

**8. Any increase of 10% or more of the same class of outstanding equity securities.**

The Trust has only one class of outstanding equity securities. The Trust has experienced increases of more than 10% of the Shares since inception of the Trust (December 13, 2017). The Trust is an investment trust that has no limit on the number of Shares that can be issued. The Trust publishes the total number of Shares outstanding as of the end of each month on the Sponsor's website at [www.grayscale.co](http://www.grayscale.co).

**9. Any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization.**

There are no past or pending share splits, dividends, recapitalizations, mergers, acquisitions, spin-offs, or reorganizations since the Trust's inception.

**10. Any delisting of the issuer’s securities by any securities exchange or deletion from the OTC Bulletin Board.**

There has not been any delisting of the Shares by any securities exchange or deletion from the OTC Bulletin Board.

**11. Any current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer’s business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator. State the names of the principal parties, the nature and current status of the matters, and the amounts involved.**

There are no current, past, pending or, to the Sponsor’s knowledge, threatened legal proceedings or administrative actions either by or against the Trust or the Sponsor that could have a material effect on the Trust’s or the Sponsor’s business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator.

**B. Business of Issuer.**

**OVERVIEW OF THE ETH INDUSTRY AND MARKET**

**Introduction to ETH and the Ethereum Network**

Ether, or ETH, is a digital asset that is created and transmitted through the operations of the peer-to-peer Ethereum network, a decentralized network of computers that operates on cryptographic protocols. No single entity owns or operates the Ethereum network, the infrastructure of which is collectively maintained by a decentralized user base. The Ethereum network allows people to exchange tokens of value, called Ether, which are recorded on a public transaction ledger known as a blockchain. ETH can be used to pay for goods and services, including computational power on the Ethereum network, or it can be converted to fiat currencies, such as the U.S. dollar, at rates determined on ETH Exchanges or in individual end-user-to-end-user transactions under a barter system. Furthermore, the Ethereum network also allows users to write and put on the network smart contracts—that is, general-purpose code that executes on every computer in the network and can instruct the transmission of information and value based on a sophisticated set of logical conditions. Using smart contracts, users can create markets, store registries of debts or promises, represent the ownership of property, move funds in accordance with conditional instructions and even create digital assets other than ETH on the Ethereum Network. Smart contract operations are executed on the Ethereum Blockchain in exchange for payment of ETH. The Ethereum Network is one of a number of projects intended to expand blockchain use beyond just a peer-to-peer money system.

The Ethereum Network was originally described in a 2013 white paper by Vitalik Buterin, a programmer involved with Bitcoin, with the goal of creating a global platform for decentralized applications powered by smart contracts. The formal development of the Ethereum Network began through a Swiss firm called Ethereum Switzerland GmbH in conjunction with several other entities. Subsequently, the Ethereum Foundation, a Swiss non-profit, was set up to oversee the protocol’s development. The initial funding for the Ethereum Network was conducted via an online crowdfunding sale of 60,000,000 ETH during the summer of 2014. At the same time, 12,000,000 ETH were created for the benefit of the Ethereum Foundation and certain other early contributors to the Ethereum Network. The Ethereum Network went live on July 30, 2015.

Vitalik Buterin and the Ethereum Foundation continue to exert significant influence over the direction of the development of the protocol. For example, Buterin and the Ethereum Foundation were responsible for implementing the upgrade called Metropolis, which was designed to enhance the usability of the Ethereum Network. Metropolis has been rolled out in two stages. The first stage, called Byzantium, introduced privacy-enhancing and other features to the Ethereum Network. The second stage, called Constantinople, was the first in a series of steps toward switching the Ethereum Network to a proof-of-stake consensus algorithm called Casper.

For more information on Metropolis, Casper and other upgrades, see “—Creation of New ETH—Mining Process” below. The current version of the Ethereum Network contains a “difficulty bomb” under which mining will become extraordinarily difficult over time, rendering older versions of the Ethereum Network unusable and encouraging miners to join the Metropolis hard fork. The presence of the difficulty bomb in the current version of the Ethereum Network therefore further enhances the influence of Buterin and the Ethereum Foundation over the direction of the development of the Ethereum Network’s protocol.

The Ethereum Network is decentralized and does not require governmental authorities or financial institution intermediaries to create, transmit or determine the value of ETH. Rather, ETH is created and allocated by the Ethereum Network protocol through a “mining” process subject to an issuance cap of 12 million ETH per year. The value of ETH is determined by the supply of and demand for ETH on the ETH Exchanges or in private end-user-to-end-user transactions.

New ETH are created and rewarded to the miners of a block in the Ethereum Blockchain for verifying transactions. The Ethereum Blockchain is effectively a decentralized database that includes all blocks that have been solved by miners and it is updated to include new blocks as they are solved. Each ETH transaction is broadcast to the Ethereum Network and, when included in a block, recorded in the Ethereum Blockchain. As each new block records outstanding ETH transactions, and outstanding transactions are settled and validated through such recording, the Ethereum Blockchain represents a complete, transparent and unbroken history of all transactions of the Ethereum Network. For further details, see “—Creation of New ETH.”

Among other things, ETH is used to pay for transaction fees and computational services (i.e., smart contracts) on the Ethereum Network; users of the Ethereum Network pay for the computational power of the machines executing the requested operations with ETH. Requiring payment in ETH on the Ethereum Network incentivizes developers to write quality applications and increases the efficiency of the Ethereum Network because wasteful code costs more. It also ensures that the Ethereum Network remains economically viable by compensating people for their contributed computational resources.

### *The DAO and Ethereum Classic*

In July 2016, the Ethereum Network experienced what is referred to as a permanent hard fork that resulted in two slightly different versions of its blockchain: Ethereum and Ethereum Classic.

In April 2016, a blockchain solutions company known as Slock.it announced the launch of a decentralized autonomous organization, known as “The DAO” on the Ethereum Network. The DAO was designed as a decentralized crowdfunding model, in which anyone could contribute ETH tokens to The DAO in order to become a voting member and equity stakeholder in the organization. Members of The DAO could then make proposals about different projects to pursue and put them to a vote. By committing to profitable projects, members would be rewarded based on the terms of a smart contract and their proportional interest in The DAO. As of May 27, 2016, \$150 million, or approximately 14% of all ETH outstanding, was contributed to, and invested in, The DAO.

On June 17, 2016, an anonymous hacker exploited The DAO smart contract code to syphon approximately \$60 million, or 3.6 million ETH, into a segregated account. Upon the news of the breach, the price of ETH was quickly cut in half, as investors liquidated their holdings and members of the Ethereum community worked to determine a solution.

In the days that followed, several attempts were made to retrieve the stolen funds and secure the Ethereum Network. However, it soon became apparent that direct interference with the protocol (*i.e.*, a hard fork) might be necessary. The argument for the hard fork was that it would create an entirely new version of the Ethereum blockchain, erasing any record of the theft, and restoring the stolen funds to their original owners. The counterargument was that it would be antithetical to the core principle of immutability of the Ethereum blockchain.

The decision over whether or not to hard fork the Ethereum blockchain was put to a vote of Ethereum community members. Holders of less than 6% of the ETH in circulation voted over a narrow 12-day period, and the majority of votes were cast in favor of a hard fork. On July 15, 2016, a hard fork specification was implemented by the Ethereum Foundation. On July 20, 2016, the Ethereum Network completed the hard fork, and a new version of the blockchain, without recognition of the theft, was born.

Many believed that after the hard fork the original version of the Ethereum blockchain would dissipate entirely. However, a group of miners continued to mine the original Ethereum blockchain for philosophical and economic reasons. On July 20, 2016, the original Ethereum protocol was rebranded as Ethereum Classic, and its native token as ether classic (“ETC”), preserving the untampered transaction history (including The DAO theft). Following the hard fork of Ethereum, each holder of ETH automatically received an equivalent number of ETC tokens.

### *Overview of the Ethereum Network’s Operations*

In order to own, transfer or use ETH directly on the Ethereum Network (as opposed to through an intermediary, such as a custodian), a person generally must have internet access to connect to the Ethereum Network. ETH transactions may be made directly between end-users without the need for a third-party intermediary. To prevent the possibility of double-spending ETH, a user must notify the Ethereum Network of the transaction by broadcasting the transaction data to its network peers. The Ethereum Network provides confirmation against double-spending by memorializing every transaction in the Ethereum Blockchain, which is publicly accessible and transparent. This memorialization and verification against double-spending is accomplished through the Ethereum Network mining process, which adds “blocks” of data, including recent transaction information, to the Ethereum Blockchain.

### *Brief Description of ETH Transfers*

Prior to engaging in ETH transactions directly on the Ethereum Network, a user generally must first install on its computer or mobile device an Ethereum Network software program that will allow the user to generate a private and public key pair associated with an ETH address, commonly referred to as a “wallet.” The Ethereum Network software program and the ETH address also enable the user to connect to the Ethereum Network and transfer ETH to, and receive ETH from, other users.

Each Ethereum Network address, or wallet, is associated with a unique “public key” and “private key” pair. To receive ETH, the ETH recipient must provide its public key to the party initiating the transfer. This activity is analogous to a recipient for a transaction in U.S. dollars providing a routing address in wire instructions to the payor so that cash may be wired to the recipient’s account. The payor approves the transfer to the address provided by the recipient by “signing” a transaction that consists of the recipient’s public key with the private key of the address from where the payor is transferring the ETH. The recipient, however, does not make public or provide to the sender its related private key.

Neither the recipient nor the sender reveal their private keys in a transaction, because the private key authorizes access to, and transfer of, the funds in that address to other users. Therefore, if a user loses his private key, the user may permanently lose access to the ETH contained in the associated address. Likewise, ETH is irretrievably lost if the private key associated with them is deleted and no backup has been made. When sending ETH, a user’s Ethereum Network software program must validate the transaction with the associated private key. The resulting digitally validated transaction is sent by the user’s Ethereum Network software program to the Ethereum Network to allow transaction confirmation.

Some ETH transactions are conducted “off-blockchain” and are therefore not recorded in the Ethereum Blockchain. Some “off-blockchain transactions” involve the transfer of control over, or ownership of, a specific digital wallet holding ETH or the reallocation of ownership of certain ETH in a pooled-ownership digital wallet, such as a digital wallet owned by an ETH Exchange. In contrast to on-blockchain transactions, which are publicly

recorded on the Ethereum Blockchain, information and data regarding off-blockchain transactions are generally not publicly available. Therefore, off-blockchain transactions are not truly ETH transactions in that they do not involve the transfer of transaction data on the Ethereum Network and do not reflect a movement of ETH between addresses recorded in the Ethereum Blockchain. For these reasons, off-blockchain transactions are subject to risks as any such transfer of ETH ownership is not protected by the protocol behind the Ethereum Network or recorded in, and validated through, the blockchain mechanism.

### *Summary of an ETH Transaction*

In an ETH transaction directly on the Ethereum Network (as opposed to through an intermediary, such as a custodian) between two parties, the following circumstances must initially be in place: (i) the party seeking to send ETH must have an Ethereum Network public key, and the Ethereum Network must recognize that public key as having sufficient ETH for the transaction; (ii) the receiving party must have an Ethereum Network public key; and (iii) the spending party must have internet access with which to send its spending transaction.

Next, the receiving party must provide the spending party with its public key and allow the Ethereum Blockchain to record the sending of ETH to that public key.

After the provision of a recipient's Ethereum Network public key, the spending party must enter the address into its Ethereum Network software program along with the number of ETH to be sent. The number of ETH to be sent will typically be agreed upon between the two parties based on a set number of ETH or an agreed upon conversion of the value of fiat currency to ETH. Since every computation on the Ethereum Network requires the payment of ETH, including verification and memorialization of ETH transfers, there is a transaction fee involved with the transfer, which is based on computation complexity and not on the value of the transfer and is paid by the payor with a fractional number of ETH.

After the entry of the Ethereum Network address, the number of ETH to be sent and the transaction fees, if any, to be paid, will be transmitted by the spending party. The transmission of the spending transaction results in the creation of a data packet by the spending party's Ethereum Network software program, which is transmitted onto the decentralized Ethereum Network, resulting in the distribution of the information among the software programs of users across the Ethereum Network for eventual inclusion in the Ethereum Blockchain.

As discussed in greater detail below in “—Creation of New ETH,” Ethereum Network miners record transactions when they solve for and add blocks of information to the Ethereum Blockchain. When a miner solves for a block, it creates that block, which includes data relating to (i) the solution to the block, (ii) a reference to the prior block in the Ethereum Blockchain to which the new block is being added and (iii) transactions that have occurred but have not yet been added to the Ethereum Blockchain. The miner becomes aware of outstanding, unrecorded transactions through the data packet transmission and distribution discussed above.

Upon the addition of a block included in the Ethereum Blockchain, the Ethereum Network software program of both the spending party and the receiving party will show confirmation of the transaction on the Ethereum Blockchain and reflect an adjustment to the ETH balance in each party's Ethereum Network public key, completing the ETH transaction. Once a transaction is confirmed on the Ethereum Blockchain, it is irreversible.

### *Smart Contracts and Development on the Ethereum Network*

A smart contract is a collection of code (its functions) and data (its state) that resides at a specific address on the Ethereum Blockchain. Smart contracts are loaded into an address in exchange for a transaction fee, and can be called into action by sending them ETH. Contract accounts are able to pass messages between themselves as well as do practical Turing complete computation. Contracts live on the Ethereum Blockchain in an Ethereum-specific binary format called Ethereum Virtual Machine bytecode. Smart contracts can interact with other contracts, execute or instruct action, store data and send ETH to others. Contracts are defined by their creators, but their execution, and by extension the services they offer, is provided by the Ethereum Network itself.

Development on the Ethereum Network involves building more complex tools on top of smart contracts, such as decentralized apps (DApps) or even organizations that are autonomous, known as decentralized autonomous organizations (DAOs). For example, Alice, a company that distributes charitable donations on behalf of users, holds donated funds in smart contracts that are paid to charities only if the charity makes an impact.

Moreover, the Ethereum Network has very recently started to be used as a platform for newer digital assets and their associated ICOs. As of December 31, 2018, and based on estimates using publicly available data, over one-half of the digital assets listed on CoinMarketCap were built on the Ethereum Network, with such assets representing a significant amount of the total market value of all listed assets on the platform.

## **Creation of New ETH**

### *Initial Creation of ETH*

The initial creation of ETH was in connection with a crowd funding transaction in 2014 in which 60,000,000 ETH were pre-sold. Another 12,000,000 ETH were given to the Ethereum Foundation and certain other early contributors to the Ethereum Network. Following the hard fork, 72,000,000 ETH created in 2014 were rebranded as ETC and holders of ETC received an equivalent amount of the new ETH. All additional ETH have been created through the mining process.

### *Mining Process*

The Ethereum Network is kept running by computers all over the world. In order to incentivize those who incur the computational costs of securing the network by validating transactions, there is a reward that is given to the computer that was able to create the latest block on the chain. Every 15 seconds, on average, a new block is added to the Ethereum Blockchain with the latest transactions processed by the network, and the computer that generated this block is currently awarded five ETH. In certain mining scenarios, two to three ETH are sometimes sent to another miner if they are also able to find a solution, but their block was not included. This is referred to as an uncle/aunt reward. Due to the nature of the algorithm for block generation, this process (generating a “proof-of-work”) is guaranteed to be random. Over time rewards are expected to be proportionate to the computational power of each machine.

The process by which ETH is “mined” results in new blocks being added to the Ethereum Blockchain and new ETH tokens being issued to the miners. Computers on the Ethereum Network engage in a set of prescribed complex mathematical calculations in order to add a block to the Ethereum Blockchain and thereby confirm ETH transactions included in that block’s data.

To begin mining, a user can download and run Ethereum Network mining software, which turns the user’s computer into a “node” on the Ethereum Network that validates blocks. Each block contains the details of some or all of the most recent transactions that are not memorialized in prior blocks, as well as a record of the award of ETH to the miner who added the new block. Each unique block can only be solved and added to the Ethereum Blockchain by one miner. Therefore, all individual miners and mining pools on the Ethereum Network are engaged in a competitive process of constantly increasing their computing power to improve their likelihood of solving for new blocks. As more miners join the Ethereum Network and its processing power increases, the Ethereum Network adjusts the complexity of the block-solving equation to maintain a predetermined pace of adding a new block to the Ethereum Blockchain approximately every fifteen seconds. A miner’s proposed block is added to the Ethereum Blockchain once a majority of the nodes on the Ethereum Network confirms the miner’s work. Miners that are successful in adding a block to the Ethereum Blockchain are automatically awarded ETH for their effort and may also receive transaction fees paid by transferors whose transactions are recorded in the block. This reward system is the method by which new ETH enter into circulation to the public.

In 2019 or 2020, the Ethereum ecosystem may switch from proof-of-work to a proof-of-stake algorithm called Casper. Proof-of-work uses miners to solve exceptionally difficult math problems and may require an enormous

amount of computing power and electricity. Additionally, the costs of attacking a proof-of-work system are equal to what is spent to run the system. High security thus can only be achieved at high operating costs. Under a proof-of-stake ecosystem, the miner, known as a validator, locks up an amount of his or her coins to verify a block of transactions in a process that requires less computing power and electricity. Validators can participate in block production by posting a security deposit, or bond. After posting a bond, one may bet on which block will be included next. Validators make money by betting with the eventual consensus and lose money by betting against the consensus. Any cryptographically-provable misbehavior results in the forfeiture of the bond. Moreover, an honest validator is expected to have very low costs, compared to the costs an attacker would incur. Ethereum supports around seven to 15 transactions per second. Research into potential approaches to increase throughput is ongoing.

### **Limits on ETH Supply**

The rate at which new ETH are mined and put into circulation is expected to vary. ETH issuances are currently capped at 18 million ETH per year, but there is no aggregate cap on the total number of ETH outstanding. In 2019, the Ethereum Network underwent an upgrade, called Constantinople, that reduced the yearly ETH issuance from 18 million to 12 million. Also in 2019 or 2020, the Ethereum Network may undergo another upgrade, called Serenity, that will switch the consensus algorithm from proof-of-work to Casper, a new proof-of-stake consensus algorithm under development. The attributes of Casper are subject to change, but the new algorithm may implement a maximum cap on total ETH issuance.

As of December 31, 2018, approximately 104 million ETH were outstanding.

### **Modifications to the ETH Protocol**

ETH is an open source project with no official developer or group of developers that controls the Ethereum Network. However, the Ethereum Network's development is overseen by a core group of developers. The core developers are able to access, and can alter, the Ethereum Network source code and, as a result, they are responsible for quasi-official releases of updates and other changes to the Ethereum Network's source code. The release of updates to the Ethereum Network's source code does not guarantee that the updates will be automatically adopted. Users and miners must accept any changes made to the Ethereum source code by downloading the proposed modification of the Ethereum Network's source code. A modification of the Ethereum Network's source code is only effective with respect to the Ethereum users and miners that download it. If a modification is accepted only by a percentage of users and miners, a division in the Ethereum Network will occur such that one network will run the pre-modification source code and the other network will run the modified source code. Such a division is known as a "fork." See "Risk Factors—Risk Factors Related to Digital Assets—A temporary or permanent "fork" could adversely affect an investment in the Shares". Consequently, as a practical matter, a modification to the source code becomes part of the Ethereum Network only if accepted by participants collectively having a majority of the processing power on the Ethereum Network.

Core development of the Ethereum source code has increasingly focused on modifications of the Ethereum protocol to increase speed and scalability and also allow for non-financial, next generation uses. The Trust's activities will not directly relate to such projects, though such projects may utilize ETH as tokens for the facilitation of their non-financial uses, thereby potentially increasing demand for ETH and the utility of the Ethereum Network as a whole. Conversely, projects that operate and are built within the Ethereum Blockchain may increase the data flow on the Ethereum Network and could either "bloat" the size of the Ethereum Blockchain or slow confirmation times. At this time, such projects remain in early stages and have not been materially integrated into the Ethereum Blockchain or Ethereum Network.

## ETH Value

### *ETH Exchange Valuation*

The value of ETH is determined by the value that various market participants place on ETH through their transactions. The most common means of determining the value of an ETH is by surveying one or more ETH Exchanges where ETH is traded publicly and transparently (e.g., Bitstamp, Coinbase Pro, Kraken, Bittrex and Poloniex). Additionally, there are over-the-counter dealers or market makers that transact in ETH.

### *ETH Exchange Public Market Data*

On each online ETH Exchange, ETH is traded with publicly disclosed valuations for each executed trade, measured by one or more fiat currencies such as the U.S. dollar or Euro or by the cryptocurrency Bitcoin. Over-the-counter dealers or market makers do not typically disclose their trade data. Additionally, there are over-the-counter dealers or market makers that transact in ETH. The below tables reflect the trading volume in ETH and market share of the ETH-U.S. dollar and ETH-BTC trading pairs of each of the ETH Exchanges eligible for inclusion in the Index from December 14, 2017 (date of the first Creation Basket of the Trust) to December 31, 2018, using data reported by each ETH Exchange:

#### **Ethereum Exchanges included in the Index as of December 31, 2018**

	<b>Volume (ETH)</b>	<b>Market Share <sup>1</sup></b>
Coinbase Pro	55,705,902	25.54%
Kraken	26,249,604	12.03%
Bitstamp	15,054,812	6.90%
<b>Total ETH-U.S. dollar trading pair</b>	<b>97,010,318</b>	<b>44.47%</b>

#### **Ethereum Exchanges included in the Index as of December 31, 2018**

	<b>Volume (ETH)</b>	<b>Market Share</b>
Poloniex	11,885,110	17.62%
Bittrex	9,205,945	13.65%
<b>Total ETH-BTC trading pair</b>	<b>21,091,055</b>	<b>31.27%</b>

## Forms of Attack Against the Ethereum Network

All networked systems are vulnerable to various kinds of attacks. As with any computer network, the Ethereum Network contains certain flaws. For example, the Ethereum Network is currently vulnerable to a “51% attack” where, if a mining pool were to gain control of more than 50% of the hash rate for a digital asset, a malicious actor would be able to gain full control of the network and the ability to manipulate the Ethereum Blockchain. The Ethereum Network may be vulnerable to a 51% attack.

Moreover, The DAO was hacked in 2016, leading to the theft of 3.6 million ETH and, ultimately, a hard fork in the Ethereum Blockchain. See “—Introduction to ETH and the Ethereum Network” above.

<sup>1</sup> Market share is calculated using trading volume (in ETH) provided by the Index Provider which include, Binance (included as of October 18, 2018), Bitfinex, Bitstamp, Bittrex, Coinbase Pro, Gemini, itBit (included as of December 27, 2018), Kraken, OkCoin (included as of December 25, 2018) and Poloniex.



In addition, many digital asset networks have been subjected to a number of denial of service attacks, which has led to temporary delays in block creation and in the transfer of ETH. Any similar attacks on the Ethereum Network that impact the ability to transfer ETH could have a material adverse effect on the price of ETH and the value of an investment in the Shares.

## **Market Participants**

### *Miners*

Miners range from ETH enthusiasts to professional mining operations that design and build dedicated machines and data centers, including mining pools, which are groups of miners that act cohesively and combine their processing to solve blocks. When a pool solves a new block, the pool operator receives the ETH and, after taking a nominal fee, splits the resulting reward among the pool participants based on the processing power each of them contributed to solve for such block. Mining pools provide participants with access to smaller, but steadier and more frequent, ETH payouts. See “—Creation of New ETH” above.

### *Investment and Speculative Sector*

This sector includes the investment and trading activities of both private and professional investors and speculators. Historically, larger financial services institutions are publicly reported to have limited involvement in investment and trading in digital assets, although the participation landscape is beginning to change.

### *Retail Sector*

The retail sector includes users transacting in direct peer-to-peer ETH transactions through the direct sending of ETH over the Ethereum Network. The retail sector also includes transactions in which consumers pay for goods or services from commercial or service businesses through direct transactions or third-party service providers, although the use of ETH as a means of payment is still developing and has not been accepted in the same manner as Bitcoin due to ETH’s relative infancy and because ETH has a slightly different purpose than Bitcoin.

### *Service Sector*

This sector includes companies that provide a variety of services including the buying, selling, payment processing and storing of ETH. Bitstamp, Coinbase Pro, Kraken, Bittrex and Poloniex are some of the largest ETH Exchanges by volume traded. Ledger SAS, the Key Maintainer for the Trust, is a multi-service security technology company that provides digital wallets that store ETH for users. As the Ethereum Network continues to grow in acceptance, it is anticipated that service providers will expand the currently available range of services and that additional parties will enter the service sector for the Ethereum Network.

## **Competition**

More than 2,000 other digital assets have been developed since the inception of Bitcoin, currently the most developed digital asset because of the length of time it has been in existence, the investment in the infrastructure that supports it, and the network of individuals and entities that are using Bitcoin in transactions. While ETH has enjoyed some success in its limited history, the aggregate value of outstanding ETH is smaller than that of Bitcoin and may be eclipsed by the more rapid development of other digital assets. In addition, while ETH was the first digital asset with a network that served as a smart contracts platform, a number of newer digital assets also function as smart contracts platforms, including Ethereum Classic, Qtum, EOS, Lisk and Neo. Some industry groups are also creating private, permissioned blockchain versions of Ethereum. For example, J.P. Morgan and others are developing an open source platform called Quorum, which is described as a version of Ethereum designed for use by the financial services industry.

## Government Oversight

As digital assets have grown in both popularity and market size, the U.S. Congress and a number of U.S. federal and state agencies (including FinCEN, SEC, CFTC, FINRA, the Consumer Financial Protection Bureau (“CFPB”), the Department of Justice, the Department of Homeland Security, the Federal Bureau of Investigation, the IRS and state financial institution regulators) have been examining the operations of digital asset networks, digital asset users and the digital asset exchange markets, with particular focus on the extent to which digital assets can be used to launder the proceeds of illegal activities or fund criminal or terrorist enterprises and the safety and soundness of exchanges or other service providers that hold digital assets for users. Many of these state and federal agencies have issued consumer advisories regarding the risks posed by digital assets to investors. In addition, federal and state agencies, and other countries have issued rules or guidance about the treatment of digital asset transactions or requirements for businesses engaged in digital asset activity.

In addition, the SEC, U.S. state securities regulators and several foreign governments have issued warnings that digital assets sold in ICOs may be classified as securities and that both those digital assets and ICOs may be subject to securities regulations. Ongoing and future regulatory actions may alter, perhaps to a materially adverse extent, the nature of an investment in the Shares or the ability of the Trust to continue to operate. Additionally, U.S. state and federal, and foreign regulators and legislatures have taken action against virtual currency businesses or enacted restrictive regimes in response to adverse publicity arising from hacks, consumer harm, or criminal activity stemming from virtual currency activity. See “Risk Factors—Risk Factors Related to the Regulation of the Trust and the Shares—Regulatory changes or actions may alter the nature of an investment in the Shares or restrict the use of ETH, mining activity or the operation of the Ethereum Network or the ETH Exchange Market in a manner that adversely affects an investment in the Shares.”

Law enforcement agencies have often relied on the transparency of blockchains to facilitate investigations. Europol, the European Union’s law enforcement agency, released a report in October 2017 noting the increased use of privacy-enhancing digital assets like Zcash and Monero in criminal activity on the internet and in May 2018 it was reported that Japan’s Financial Service Agency has been pressuring Japanese digital asset exchanges to delist privacy-enhancing digital assets. Although no regulatory action has been taken to treat Zcash, Monero or other privacy-enhancing digital assets differently, this may change in the future.

Various foreign jurisdictions have, and may continue to, in the near future, adopt laws, regulations or directives that affect the Ethereum Network, the ETH Exchange Market and their users, particularly ETH Exchanges and service providers that fall within such jurisdictions’ regulatory scope. For example, on December 28, 2017, the South Korean government announced measures to ban the opening of anonymous digital asset accounts, which went into effect beginning on January 30, 2018. Those measures also provide the government with the authority to close digital asset exchanges that do not comply with specified KYC processes. The Chinese and South Korean governments have also banned ICOs (although proposed legislation in South Korea would remove the ban if passed) and there are reports that Chinese regulators have taken action to shut down a number of China-based digital asset exchanges. Further, on January 11, 2018, the South Korean Justice Minister announced that it was preparing a bill to ban trading in all digital assets (although the Ministry of Finance has disputed such a ban) and on January 19, 2018, a Chinese news organization reported that the People’s Bank of China had ordered financial institutions to stop providing banking or funding to “any activity related to cryptocurrencies.” Similarly, in April 2018, the Reserve Bank of India banned the entities it regulates from providing services to any individuals or business entities dealing with or settling digital assets, although this ban is currently being challenged in Indian courts. There remains significant uncertainty regarding the South Korean, Indian and Chinese governments’ future actions with respect to the regulation of digital assets and digital asset exchanges. Such laws, regulations or directives may conflict with those of the United States and may negatively impact the acceptance of one or more digital assets by users, merchants and service providers outside the United States and may therefore impede the growth or sustainability of the digital asset economy in the European Union, China, Japan, Russia and the United States and globally, or otherwise negatively affect the value of ETH. See “Risk Factors—Risk Factors Related to the Regulation of the Trust and the Shares—Regulatory changes or actions may alter the nature of an

investment in the Shares or restrict the use of ETH, mining activity or the operation of the Ethereum Network or the ETH Exchange Market in a manner that adversely affects an investment in the Shares.”

The effect of any future regulatory change on the Trust or ETH is impossible to predict, but such change could be substantial and adverse to the Trust and the value of the Shares.

### **Not a Regulated Commodity Pool**

The Trust will not trade, buy, sell or hold ETH derivatives, including ETH futures contracts, on any futures exchange. The Trust is authorized solely to take immediate delivery of actual ETH. The Sponsor does not believe the Trust’s activities are required to be regulated by the CFTC under the CEA as a “commodity pool” under current law, regulation and interpretation. The Trust will not be operated by a CFTC-regulated commodity pool operator because it will not trade, buy, sell or hold ETH derivatives, including ETH futures contracts, on any futures exchange. Investors in the Trust will not receive the regulatory protections afforded to investors in regulated commodity pools, nor may the COMEX division of the New York Mercantile Exchange or any futures exchange enforce its rules with respect to the Trust’s activities. In addition, investors in the Trust will not benefit from the protections afforded to investors in ETH futures contracts on regulated futures exchanges.

## GRAYSCALE ETHEREUM TRUST (ETH)

### Description of the Trust

The Trust is a Delaware Statutory Trust that was formed on December 13, 2017 by the filing of the Certificate of Trust with the Delaware Secretary of State in accordance with the provisions of the Delaware Statutory Trust Act (“DSTA”). The Trust operates pursuant to the Trust Agreement.

In general, the Trust will hold only ETH and is expected from time to time to issue Baskets in exchange for ETH and, subject to the Trust’s obtaining regulatory approval from the SEC to operate an ongoing redemption program and the consent of the Sponsor, to distribute ETH in connection with redemptions of Baskets. The investment objective of the Trust is for the Shares to reflect the value of the ETH held by the Trust, determined by reference to the ETH Index Price, less the Trust’s expenses and other liabilities. The Sponsor believes that, for many investors, the Shares will represent a cost-effective and convenient investment relative to a direct, outright investment in ETH. The foregoing notwithstanding, the redemption of Shares is not currently contemplated, and the Trust does not currently operate a redemption program. In addition, the Trust may from time to time halt creations of Shares. As a result, there can be no assurance that the value of the Shares, if traded on any Secondary Market, will reflect the value of the Trust’s ETH, and the Shares may trade at a substantial premium over, or a substantial discount to, the value of the Trust’s ETH. The Shares may also trade at a substantial premium over, or a substantial discount to, the value of the Trust’s ETH as a result of price volatility, trading volume and closings of Ethereum Exchanges due to fraud, failure, security breaches or otherwise.

The Shares represent units of fractional undivided beneficial interest in, and ownership of, the Trust. The Trust is passive and is not managed like a corporation or an active investment vehicle. The Trust’s ETH are held in a blockchain account, the security of which is facilitated by the Sponsor, the Key Maintainer, the Backup Maintainers and any other security vendor engaged by the Trust. The Trust’s ETH will be transferred out of the ETH Account only in the following circumstances: (i) transferred to pay the Sponsor’s Fee or any Additional Trust Expenses, (ii) distributed in connection with the redemption of Baskets (subject to the Trust’s obtaining regulatory approval from the SEC to operate an ongoing redemption program and the consent of the Sponsor), (iii) sold on an as-needed basis to pay Additional Trust Expenses or (iv) sold on behalf of the Trust in the event the Trust terminates and liquidates its assets or as otherwise required by law or regulation. Assuming that the Trust is treated as a grantor trust for U.S. federal income tax purposes, each delivery or sale of ETH by the Trust to pay the Sponsor’s Fee or any Additional Trust Expenses will be a taxable event for Shareholders. See “Certain U.S. Federal Income Tax Consequences—Tax Consequences to U.S. Holders.”

The Trust is not registered as an investment company under the Investment Company Act and the Sponsor believes that the Trust is not required to register under the Investment Company Act. The Trust will not hold or trade in commodity futures contracts or other derivative contracts regulated by the CEA, as administered by the CFTC. The Sponsor believes that the Trust is not a commodity pool for purposes of the CEA, and that neither the Sponsor nor the Trustee is subject to regulation as a commodity pool operator or a commodity trading adviser in connection with the operation of the Trust.

The Trust expects to create (and, should the Trust commence a redemption program, redeem) Shares from time to time but only in Baskets. A Basket equals a block of 100 Shares. The number of outstanding Shares is expected to increase and decrease from time to time as a result of the creation (and, should the Trust commence a redemption program, redemption) of Baskets. The creation or, if permitted, redemption of Baskets will require the delivery to the Trust or the distribution by the Trust, as applicable, of the number of ETH represented by the Baskets being created or redeemed. The creation and redemption of a Basket will be made only in exchange for the delivery to the Trust, or the distribution by the Trust, of the number of whole and fractional ETH represented by each Basket being created or redeemed, the number of which is determined by dividing (x) the number of ETH owned by the Trust at 4:00 p.m., New York time, on the relevant trade date, after deducting the number of ETH representing the U.S. dollar value of accrued but unpaid fees and expenses of the Trust (converted using the ETH

Index Price at such time, and carried to the eighth decimal place) by (y) the number of Shares outstanding at such time (with the quotient so obtained calculated to one one-hundred-millionth of one ETH (i.e., carried to the eighth decimal place)), and multiplying such quotient by 100.

As of December 31, 2018, each Share represented approximately 0.0974 of one ETH. Each Share in the initial Baskets represented approximately one-tenth (0.1) of an ETH. The number of ETH required to create or, if permitted, to redeem a Basket is expected to continue to gradually decrease over time due to the transfer or sale of the Trust's ETH to pay the Sponsor's Fee and any Additional Trust Expenses. The Trust will not accept or distribute cash in exchange for Baskets, other than upon its dissolution. Authorized Participants may sell to other investors the Shares they purchase from the Trust only in transactions exempt from registration under the Securities Act. For a discussion of risks relating to the Trust's unavailability of a redemption program, see "Risk Factors—Risk Factors Related to the Trust and the Shares—The arbitrage mechanism intended to keep the price of the Shares closely linked to the ETH Index Price may not function properly due to multiple factors and the Shares may trade at a discount to, or premium over, the ETH Holdings per Share" and "Risk Factors—Risk Factors Related to the Trust and the Shares—The restrictions on transfer and redemption may result in losses on an investment in the Shares."

The Sponsor will determine the Trust's ETH Holdings on each business day as of 4:00 p.m., New York time, or as soon thereafter as practicable. The Sponsor will also determine the ETH Holdings per Share, which equals the ETH Holdings of the Trust divided by the number of outstanding Shares. Each business day, the Sponsor will publish the Trust's ETH Holdings and ETH Holdings per Share on the Trust's website, <https://grayscale.co/ethereum-trust/#market-performance>, as soon as practicable after the Trust's ETH Holdings and ETH Holdings per Share have been determined by the Sponsor. See "Valuation of ETH and Determination of the Trust's ETH Holdings."

The Trust's assets will consist solely of ETH, Incidental Rights, IR Virtual Currency, proceeds from the sale of ETH, Incidental Rights and IR Virtual Currency pending use of such cash for payment of Additional Trust Expenses or distribution to the Shareholders and any rights of the Trust pursuant to any agreements, other than the Trust Agreement, to which the Trust is a party. Each Share will represent a proportional interest, based on the total number of Shares outstanding, in each of the Trust's assets as determined in the case of ETH by reference to the ETH Index Price, less the Trust's expenses and other liabilities (which include accrued but unpaid fees and expenses). The Sponsor expects that the market price of the Shares will fluctuate over time in response to the market prices of ETH. In addition, because the Shares will reflect the estimated accrued but unpaid expenses of the Trust, the number of ETH represented by a Share will gradually decrease over time as the Trust's ETH are used to pay the Trust's expenses. The Trust does not expect to take any Incidental Rights or IR Virtual Currency it may hold into account for purposes of determining the Trust's ETH Holdings or the ETH Holdings per Share.

Investors may obtain on a 24-hour basis ETH pricing information from various financial information service providers or Ethereum Network information sites such as Tradeblock.com, CoinCap.io or CoinMarketCap.com. The spot prices and bid/ask spreads for ETH may also be available directly from ETH Exchanges. As of December 31, 2018, the constituent ETH Exchanges of the Index were Coinbase Pro, Poloniex, Kraken, Bitstamp and Bittrex.

ETH is carried at fair value for financial reporting purposes. Unlike the procedure used for determining the ETH Index Price and the Trust's ETH Holdings, which are calculated using a volume weighted average calculated across multiple ETH Exchanges, the fair value of ETH and NAV presented in the financial statements are calculated in accordance with GAAP based on the price provided by the ETH Exchange that the Trust considers its principal market as of 4:00 p.m., New York time, on the valuation date. The Trust determines its principal market annually and conducts a quarterly analysis to determine (i) if there have been recent changes to each ETH Exchange's transaction volume in the prior trailing twelve months, (ii) if any ETH Exchanges have fallen out of, or come into, compliance with applicable regulatory requirements, (iii) if there have been any exchanges that have added an ETH/USD pairing, (iv) if the Trust has engaged any new Authorized Participant that, due to being

registered to do business in another jurisdiction, would make ETH Exchanges previously inaccessible to the Trust now accessible, (v) if recent changes to each ETH Exchange's price stability have occurred that would materially impact the selection of the principal market and necessitate a change in the Trust's determination of its principal market, or (vi) if the principal market is included in the TradeBlock ETX Index (the "Index"). The Trust determined that as of December 31, 2018 and 2017 the principal market for purposes of determining the value of the ETH held by the Trust was Coinbase Pro.

The Trust has no fixed termination date.

#### *Valuation of ETH and Determination of the Trust's ETH Holdings*

The Sponsor will evaluate the ETH held by the Trust and determine the ETH Holdings of the Trust in accordance with the relevant provisions of the Trust Documents. The following is a description of the material terms of the Trust Documents as they relate to valuation of the Trust's ETH and the ETH Holdings calculations.

On each business day at 4:00 p.m., New York time, or as soon thereafter as practicable (the "Evaluation Time"), the Sponsor or its delegate will evaluate the ETH held by the Trust and calculate and publish the ETH Holdings of the Trust. To calculate the ETH Holdings, the Sponsor will:

1. Determine the ETH Index Price as of such business day;
2. Multiply the ETH Index Price by the aggregate number of ETH owned by the Trust as of 4:00 p.m., New York time, on the immediately preceding day, less the aggregate number of ETH payable as the accrued and unpaid Sponsor's Fee as of 4:00 p.m., New York time, on the immediately preceding day;
3. Add the U.S. dollar value of ETH, calculated using the ETH Index Price, receivable under pending creation orders, if any, determined by multiplying the number of Creation Baskets represented by such creation orders by the Basket ETH Amount and then multiplying such product by the ETH Index Price;
4. Subtract the U.S. dollar amount of accrued and unpaid Additional Trust Expenses, if any;
5. Subtract the U.S. dollar value of the ETH, as calculated using the ETH Index Price, to be distributed under pending redemption orders, if any, determined by multiplying the number of Redemption Baskets represented by such redemption orders by the Basket ETH Amount and then multiplying such product by the ETH Index Price (the amount derived from steps 1 through 5 above, the "ETH Holdings Fee Basis Amount"); and
6. Subtract the U.S. dollar value of the Sponsor's Fee that accrues for such business day, as calculated based on the ETH Holdings Fee Basis Amount for such business day.

In the event that the Sponsor determines that the primary methodology used to determine the ETH Index Price is not an appropriate basis for valuation of the Trust's ETH, the Sponsor will utilize the cascading set of rules as described in "Description of the Trust—The Index and the ETH Index Price." In addition, in the event that the Trust holds any Incidental Rights and/or IR Virtual Currency, the Sponsor may, in its discretion, include the value of such Incidental Rights and/or IR Virtual Currency in the determination of the Trust's ETH Holdings, provided that the Sponsor has determined in good faith a method for assigning an objective value to such Incidental Rights and/or IR Virtual Currency. At this time, the Trust does not expect to take any Incidental Rights or IR Virtual Currency it may hold into account for purposes of determining the Trust's ETH Holdings or the ETH Holdings per Share.

The Sponsor will publish the ETH Index Price, the Trust's ETH Holdings and the ETH Holdings per Share on the Trust's website as soon as practicable after its determination by the Sponsor. If the ETH Holdings and ETH Holdings per Share have been calculated using a price per ETH other than the ETH Index Price for such

Evaluation Time, the publication on the Trust’s website will note the valuation methodology used and the price per ETH resulting from such calculation.

In the event of a hard fork of the Ethereum Network, the Sponsor will, if permitted by the terms of the Trust Agreement, use its discretion to determine, in good faith, which peer-to-peer network, among a group of incompatible forks of the Ethereum Network, is generally accepted as ETH and should therefore be considered “Ethereum” for the Trust’s purposes. The Sponsor will base its determination on a variety of then relevant factors, including (but not limited to) the following: (i) the Sponsor’s beliefs regarding expectations of the core developers of ETH, users, services, businesses, miners and other constituencies and (ii) the actual continued acceptance of, mining power on, and community engagement with the Ethereum Network.

The Shareholders may rely on any evaluation furnished by the Sponsor. The determinations that the Sponsor makes will be made in good faith upon the basis of, and the Sponsor will not be liable for any errors contained in, information reasonably available to it. The Sponsor will not be liable to the Authorized Participants, the Shareholders or any other person for errors in judgment. However, the preceding liability exclusion will not protect the Sponsor against any liability resulting from gross negligence, willful misconduct or bad faith in the performance of its duties.

#### *Incidental Rights and IR Virtual Currency*

From time to time, the Trust may come into possession of Incidental Rights and/or IR Virtual Currency by virtue of its ownership of ETH, generally through a fork in the Ethereum Blockchain, an airdrop offered to holders of ETH or other similar event. Pursuant to the terms of the Trust Agreement, the Trust may take any lawful action necessary or desirable in connection with the Trust’s ownership of Incidental Rights, including the acquisition of IR Virtual Currency, unless such action would adversely affect the status of the Trust as a grantor trust for U.S. federal income tax purposes or otherwise be prohibited by the Trust Agreement. These actions include selling Incidental Rights and/or IR Virtual Currency and distributing the cash proceeds to Shareholders or distributing Incidental Rights and/or IR Virtual Currency in kind to Shareholders, or to an agent acting on behalf of the Shareholders if such distribution would otherwise be infeasible. The Trust may also use Incidental Rights and/or IR Virtual Currency to pay the Sponsor’s Fee and Additional Trust Expenses, if any, as discussed below under “—Trust Expenses.” However, the Trust does not expect to take any Incidental Rights or IR Virtual Currency it may hold into account for purposes of determining the Trust’s ETH Holdings, the ETH Holdings per Share, the NAV or the NAV per Share.

With respect to any fork, airdrop or similar event, the Sponsor may, in its discretion, decide to cause the Trust to distribute the Incidental Rights or IR Virtual Currency in kind to an agent of the Shareholders for resale by such agent, or to irrevocably abandon the Incidental Rights or IR Virtual Currency. In the case of a distribution in kind, the Shareholders’ agent would attempt to sell the Incidental Rights or IR Virtual Currency, and if the agent is able to do so, remit the cash proceeds to Shareholders. There can be no assurance as to the price or prices for any Incidental Rights or IR Virtual Currency that the agent may realize, and the value of the Incidental Rights or IR Virtual Currency may increase or decrease after any sale by the agent. In the case of abandonment, the Trust would not receive any direct or indirect consideration for the Incidental Rights or IR Virtual Currency and thus the value of the Shares will not reflect the value of the Incidental Rights or IR Virtual Currency.

On March 29, 2018 the Sponsor delivered to the Key Maintainer, a notice (the “Prospective Abandonment Notice”) indicating that the Trust will abandon irrevocably for no direct or indirect consideration (each such abandonment, a “Prospective Abandonment”), effective immediately prior to any time at which the Trust creates Shares or units (each such time, a “Creation Time”), all Incidental Rights and IR Virtual Currency of the Trust; provided that a Prospective Abandonment immediately prior to any Creation Time will not apply to any Incidental Rights and IR Virtual Currency if (i) the Trust has taken an “Affirmative Action” to acquire or abandon such Incidental Rights and IR Virtual Currency at any time prior to such Creation Time or (ii) such Incidental Rights and IR Virtual Currency has been subject to a previous Prospective Abandonment. An Affirmative Action refers

to a written notification from the Sponsor to the Key Maintainer of the Trust’s intention (i) to acquire and/or retain an Incidental Rights and IR Virtual Currency or (ii) to abandon, with effect prior to the relevant Creation Time, an Incidental Rights and IR Virtual Currency.

In determining whether to take an Affirmative Action to acquire and/or retain an Incidental Rights and IR Virtual Currency, the Trust takes into consideration a number of factors, including:

- the Key Maintainer’s agreement to provide access to the IR Virtual Currency;
- the availability of a safe and practical way to custody the IR Virtual Currency;
- the costs of taking possession and/or maintaining ownership of the IR Virtual Currency and whether such costs exceed the benefits of owning such IR Virtual Currency;
- whether there are any legal restrictions on, or tax implications with respect to, the ownership, sale or disposition of the Incidental Right or IR Virtual Currency, regardless of whether there is a safe and practical way to custody and secure such Incidental Right or IR Virtual Currency;
- the existence of a suitable market into which the Incidental Right or IR Virtual Currency may be sold; and
- whether the Incidental Right or IR Virtual Currency is, or may be, a security under federal securities laws.

In determining whether the IR Virtual Currency is, or may be, a security under federal securities laws, the Sponsor takes into account a number of factors, including the definition of a “security” under Section 2(a)(1) of the Securities Act and Section 3(a)(10) of the Exchange Act, *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946) and the case law interpreting it, as well as reports, orders, press releases, public statements and speeches by the SEC providing guidance on when a digital asset is a “security” for purposes of the federal securities laws.

As a result of the Prospective Abandonment Notice, since March 29, 2018, the Trust has irrevocably abandoned, prior to the creation of any Shares, any Incidental Right or IR Virtual Currency that it may have any right to receive at such time. The Trust has no right to receive any Incidental Right or IR Virtual Currency abandoned in this manner. Furthermore, the Key Maintainer has no authority, pursuant to the Key Maintenance Agreement or otherwise, to exercise, obtain or hold, as the case may be, any such abandoned Incidental Right or IR Virtual Currency on behalf of the Trust.

The Sponsor intends to evaluate each fork or airdrop on a case-by-case basis in consultation with the Trust’s legal advisors, tax consultants and Key Maintainer, and may decide to abandon any Incidental Rights or IR Virtual Currency resulting from a hard fork or airdrop should the Sponsor conclude, in its discretion, that such abandonment is in the best interests of the Trust.

#### *The Index and the ETH Index Price*

The Index is designed to have limited exposure to the interruption of individual ETH Exchanges by collecting transaction data from top ETH Exchanges in real-time. The Index Provider evaluates the data of each ETH Exchange to determine whether it will be included in the Index, and if so, its weighting on the Index. The weighting considers recent- and long-term trading volumes at each ETH Exchange and the variance in price across all data points over a 24- hour period starting at 4:00 p.m., New York time. Specifically, the Index Provider reduces the weighting of data inputs as they get further from the mean price across the trading venues and ultimately excludes any trade with a price that deviates beyond a certain predetermined threshold level from the mean. In addition, the Index groups trade bursts, or movements during off-peak trading hours, on any given venue into single data inputs, which reduces the potentially erratic price movements caused by small, individual orders. The Index Provider formally re-evaluates the weighting algorithm quarterly, but maintains discretion to change the way in which the Index is calculated based on its periodic review or in extreme circumstances. The Index is



designed to limit exposure to trading or price distortion of any individual ETH Exchange that experiences periods of unusual activity or limited liquidity by discounting, in real-time, anomalous price movements at individual ETH Exchanges.

The Sponsor believes the Index calculation methodology provides a more accurate picture of ETH price movements than a simple average of ETH Exchange spot prices, and that the weighting of ETH prices on the constituent ETH Exchanges limits the inclusion of data that is influenced by temporary price dislocations that may result from technical problems or limited liquidity.

The Index Provider reviews and periodically updates which ETH Exchanges are included in the Index by utilizing a methodology that is guided by the International Organization of Securities Commissions principles for financial benchmarks. Specifically, the Index Provider looks at the following considerations: liquidity in the ETH/Bitcoin and ETH/U.S. dollar markets, trading volume that represents a minimum of total ETH/Bitcoin and ETH/U.S. dollar trading volumes, programmatic trading of the ETH/Bitcoin and ETH/U.S. dollar spot prices, ETH Exchange data reliability, lack of restrictions on deposits and/or withdrawals of ETH, lack of restrictions on deposits and/or withdrawals of U.S. dollars and U.S. domicile, publicly known ownership entity, compliance with relevant regulations (e.g., anti-money laundering and know-your-customer procedures) and the discretion of the Index Provider's analysts. The Index Provider does not currently include data from over-the-counter markets or derivatives platforms in the Index. Over-the-counter data is not currently included because of the potential for trades to include a significant premium or discount paid for larger liquidity, which creates an uneven comparison relative to more active markets. There is also a higher potential for over-the-counter transactions to not be arms-length, and thus not be representative of a true market price. Digital asset derivative markets are also not currently included as the markets remain relatively thin, in particular for ETH. The Index Provider will consider International Organization of Securities Commissions principles for financial benchmarks and the management of trading venues of digital asset derivatives when considering inclusion of over-the-counter or derivative platform data in the future.

The Index Provider may change the trading venues that are used to calculate the Index or otherwise change the way in which the Index is calculated at any time. The Index Provider does not have any obligation to consider the interests of the Sponsor, the Trust, the Shareholders, or anyone else in connection with such changes. The Index Provider is not required to publicize or explain the changes, or to alert the Sponsor to such changes.

The Trust values its ETH for operational and non-GAAP purposes by reference to the ETH Index Price. The ETH Index Price is the value of an ETH as represented by the Index, calculated at 4:00 p.m., New York time, on each business day. The Index Provider develops, calculates and publishes the Index on a continuous basis using the volume-weighted price at the ETH Benchmark Exchanges, as selected by the Index Provider.

The Sponsor will use the following cascading set of rules to calculate the ETH Index Price. For the avoidance of doubt, the Sponsor will employ the below rules sequentially and in the order as presented below, should one or more specific rule(s) fail:

1. ETH Index Price = The price set by the Index as of 4:00 p.m., New York time, on the valuation date. If the Index becomes unavailable, or if the Sponsor determines in good faith that the Index does not reflect an accurate ETH price, then the Sponsor will, on a best efforts basis, contact the Index Provider to obtain the ETH Index Price directly from the Index Provider. If after such contact the Index remains unavailable or the Sponsor continues to believe in good faith that the Index does not reflect an accurate ETH price, then the Sponsor will employ the next rule to determine the ETH Index Price.
2. ETH Index Price = The volume-weighted average ETH price for the immediately preceding 24-hour period at 4:00 p.m., New York time, on the trade date as published by a third party's public data feed that is reasonably reliable, subject to the requirement that such data is calculated based upon a volume-weighted price obtained from the major ETH Exchanges (the "Source"). Subject to the next sentence, if the Source becomes unavailable (e.g., data sources from the Source for ETH prices become unavailable,

unwieldy or otherwise impractical for use) or if the Sponsor determines in good faith that the Source does not reflect an accurate ETH price, then the Sponsor will, on a best efforts basis, contact the Source in an attempt to obtain the relevant data. If after such contact the Source remains unavailable after such contact or the Sponsor continues to believe in good faith that the Source does not reflect an accurate ETH price, then the Sponsor will employ the next rule to determine the ETH Index Price.

3. ETH Index Price = The volume-weighted average price as calculated by dividing the sum of the total volume of ETH transactions in U.S. dollar by the total volume of transactions in ETH, in each case for the immediately preceding 24-hour period as of 4:00 p.m., New York time, on the trade date as published by a third party's public data feed that is reasonably reliable, subject to the requirement that such data is calculated based upon a volume-weighted price obtained from the major ETH Exchanges (the "Second Source"). Subject to the next sentence, if the Second Source becomes unavailable (e.g., data sources from the Second Source become unavailable, unwieldy or otherwise impractical for use) or if the Sponsor determines in good faith that the Second Source does not reflect an accurate ETH price, then the Sponsor will, on a best efforts basis, contact the Second Source in an attempt to obtain the relevant data. If after such contact the Second Source remains unavailable after such contact or the Sponsor continues to believe in good faith that the Second Source does not reflect an accurate ETH price, then the Sponsor will employ the next rule to determine the ETH Index Price.
4. ETH Index Price = The volume-weighted average price as calculated by dividing the sum of the total volume of ETH transactions in U.S. dollar by the total volume of transactions in ETH, in each case for the immediately preceding 24-hour period as of 4:00 p.m., New York time, on the trade date on the ETH benchmark exchanges that represent at least 10% of the aggregate trading volume of the ETH Exchange Market during the last 30 consecutive calendar days and that to the knowledge of the Sponsor are in substantial compliance with the laws, rules and regulations, including any anti-money laundering and know-your-customer procedures (collectively, "ETH Benchmark Exchanges"). If there are fewer than three individual ETH Benchmark Exchanges each of which represent at least 10% of the aggregate trading volume on the ETH Exchange Market during the last 30 consecutive calendar days, then the ETH Benchmark Exchanges that will serve as the basis for the ETH Index Price calculation will be those ETH Benchmark Exchanges that meet the above-described requirements, as well as one or more additional ETH Exchanges, as selected by the Sponsor, that meets a monthly minimum trading volume requirement.

The Sponsor will review the composition of the exchanges that comprise the ETH Benchmark Exchanges at the beginning of each month in order to ensure the accuracy of such composition.

Subject to the next sentence, if one or more of the ETH Benchmark Exchanges become unavailable (e.g., data sources from the ETH Benchmark Exchanges of ETH prices becomes unavailable, unwieldy or otherwise impractical for use) or if the Sponsor determines in good faith that one or more ETH Benchmark Exchanges do not reflect an accurate ETH price, then the Sponsor will, on a best efforts basis, contact the ETH Benchmark Exchange that is experiencing the service outages in an attempt to obtain the relevant data. If after such contact one or more of the ETH Benchmark Exchanges remain unavailable after such contact or the Sponsor continues to believe in good faith that one or more ETH Benchmark Exchanges do not reflect an accurate ETH price, then the Sponsor will employ the next rule to determine the ETH Index Price.

5. ETH Index Price = The Sponsor will use its best judgment to determine a good faith estimate of the ETH Index Price.

In the event of a fork, the Index Provider may calculate the ETH Index Price based on a virtual currency that the Sponsor does not believe to be the appropriate asset that is held by the Trust. In this event, the Sponsor has full discretion to use a different index provider or calculate the ETH Index Price itself using its best judgment.

## *Creation and Redemption of Shares*

The Trust is currently unable to redeem Shares. Subject to receipt of regulatory approval from the SEC and approval by the Sponsor in its sole discretion, the Trust may in the future operate a redemption program. ***Because the Trust does not believe that the SEC would, at this time, entertain an application for the waiver of rules needed in order to operate an ongoing redemption program, the Trust currently has no intention of seeking regulatory approval from the SEC to operate an ongoing redemption program.***

The Trust will issue Shares to Authorized Participants from time to time, but only in one or more Baskets (with a Basket being a block of 100 Shares). The Trust will not issue fractions of a Basket. The creation (and, should the Trust commence a redemption program, redemption) of Baskets will be made only in exchange for the delivery to the Trust, or the distribution by the Trust, of the number of whole and fractional ETH represented by each Basket being created (or, should the Trust commence a redemption program, redeemed), which is determined by dividing (x) the number of ETH owned by the Trust at 4:00 p.m., New York time, on the trade date of a creation or redemption order, after deducting the number of ETH representing the U.S. dollar value of accrued but unpaid fees and expenses of the Trust (converted using the ETH Index Price at such time, and carried to the eighth decimal place), by (y) the number of Shares outstanding at such time (with the quotient so obtained calculated to one one-hundred-millionth of one ETH (i.e., carried to the eighth decimal place)), and multiplying such quotient by 100 (the “Basket ETH Amount”). All questions as to the calculation of the Basket ETH Amount will be conclusively determined by the Sponsor and will be final and binding on all persons interested in the Trust. The Basket ETH Amount multiplied by the number of Baskets being created or redeemed is the “Total Basket ETH Amount.” The number of ETH represented by a Share will gradually decrease over time as the Trust’s ETH are used to pay the Trust’s expenses. Each Share represented approximately 0.0974 and 0.0999 of one ETH as of December 31, 2018 and 2017, respectively.

From time to time, the Trust may create and issue Baskets to persons other than Authorized Participants in exchange for a deposit of the Total Basket ETH Amount into the Trust’s ETH Account; provided that the Trust will create and issue Baskets directly to a person other than an Authorized Participant only if such person has signed a purchase agreement with the Trust and only if the Sponsor has determined in good faith that such creation and issuance does not otherwise conflict with the terms of the Trust Agreement or with applicable law.

Authorized Participants are the only persons that may place orders to create (and, should the Trust commence a redemption program, redeem) Baskets. Each Authorized Participant must (i) be a registered broker-dealer, (ii) enter into a Participant Agreement with the Sponsor and (iii) own an ETH wallet address that is recognized by the Sponsor and the Key Maintainer as belonging to the Authorized Participant (an “Authorized Participant Self-Administered Account”). An Authorized Participant may act for its own account or as agent for investors who have entered into a subscription agreement (each such agreement, a “Subscription Agreement”) with the Authorized Participant (each such investor, an “Investor”). An investor that enters into a Subscription Agreement with an Authorized Participant subscribes for Shares by submitting a purchase order and paying a subscription amount to the Authorized Participant.

Shareholders who are not Authorized Participants will be able to redeem their Shares only through an Authorized Participant.

The creation of Baskets requires the delivery to the Trust of the Total Basket ETH Amount. The redemption of Baskets, if permitted, would require the distribution by the Trust of the Total Basket ETH Amount, and Shareholders who are not Authorized Participants would be able to redeem their Shares only through an Authorized Participant.

The Participant Agreement provides the procedures for the creation and, if permitted, redemption of Baskets and for the delivery of the whole and fractional ETH required for such creations and, if permitted, redemptions. The Participant Agreement and the related procedures attached thereto may be amended by the Sponsor and the

relevant Authorized Participant. Under the Participant Agreement, the Sponsor has agreed to indemnify each Authorized Participant against certain liabilities, including liabilities under the Securities Act.

Authorized Participants do not pay a transaction fee to the Trust in connection with the creation or, if permitted, redemption of Baskets, but there may be transaction fees associated with the validation of the transfer of ETH by the Ethereum Network. Authorized Participants who deposit ETH with the Trust in exchange for Baskets will receive no fees, commissions or other form of compensation or inducement of any kind from either the Sponsor or the Trust, and no such person has any obligation or responsibility to the Sponsor or the Trust to effect any sale or resale of Shares.

The following description of the procedures for the creation and redemption of Baskets is only a summary and investors should refer to the relevant provisions of the Trust Agreement and the form of Participant Agreement for more detail.

### *Creation Procedures*

On any business day, an Authorized Participant may order one or more Creation Baskets from the Trust by placing a creation order with the Sponsor no later than 4:00 p.m., New York time, which the Sponsor will accept or reject. By placing a creation order, an Authorized Participant agrees to transfer the Total Basket ETH Amount from the Authorized Participant Self-Administered Account to the ETH Account.

All creation orders are accepted (or rejected) by the Sponsor on the business day on which the relevant creation order is placed. If a creation order is accepted, the Sponsor will calculate the Total Basket ETH Amount on the same business day, which will be the trade date, and will communicate the Total Basket ETH Amount to the Authorized Participant. The Authorized Participant must transfer the Total Basket ETH Amount to the Trust no later than 6:00 p.m., New York time, on the trade date. The expense and risk of delivery, ownership and safekeeping of ETH will be borne solely by the Authorized Participant until such ETH have been received by the Trust.

Following receipt of the Total Basket ETH Amount, the Transfer Agent will credit the number of Shares to the account of the Investor on behalf of which the Authorized Participant placed the creation order by no later than 6:00 p.m., New York time, on the trade date. The Authorized Participant may then transfer the Shares directly to the relevant Investor.

### *Redemption Procedures*

Redemptions of Shares are currently not permitted and the Trust is unable to redeem Shares. Subject to receipt of regulatory approval from the SEC and approval by the Sponsor in its sole discretion, the Trust may in the future operate a redemption program. ***Because the Trust does not believe that the SEC would, at this time, entertain an application for the waiver of rules needed in order to operate an ongoing redemption program, the Trust currently has no intention of seeking regulatory approval from the SEC to operate an ongoing redemption program.*** For a discussion of risks relating to the Trust's inability to redeem Shares, see "Risk Factors—Risk Factors Related to the Trust and the Shares—The arbitrage mechanism intended to keep the price of the Shares closely linked to the ETH Index Price may not function properly due to multiple factors and the Shares may trade at a discount to, or premium over, the ETH Holdings per Share" and "Risk Factors—Risk Factors Related to the Trust and the Shares—The restrictions on transfer and redemption may result in losses on an investment in the Shares."

If permitted, the procedures by which an Authorized Participant can redeem one or more Baskets will mirror the procedures for the creation of Baskets. On any business day, an Authorized Participant may place a redemption order no later than 4:00 p.m., New York time, which the Sponsor will accept or reject. By placing a redemption order, an Authorized Participant agrees to deliver to the Sponsor the Baskets to be redeemed through the book-

entry system to the Trust. The redemption procedures do not allow a Shareholder other than an Authorized Participant to redeem Shares.

All redemption orders are accepted (or rejected) by the Sponsor on the business day on which the relevant redemption order is placed. If a redemption order is accepted, the Sponsor will calculate the Total Basket ETH Amount on the same business day, which will be the trade date, and will communicate the Total Basket ETH Amount to the Authorized Participant. The Sponsor will then direct the Transfer Agent to debit the account of the Investor on behalf of which the Authorized Participant placed the redemption order the number of Redemption Baskets ordered no later than 6:00 p.m., New York time, on the trade date.

Following receipt of confirmation by the Transfer Agent that the Redemption Baskets have been debited, the Sponsor or its delegates will (by utilizing their own Security Factors and sending valid instruction to the Key Maintainer) send the Authorized Participant the Total Basket ETH Amount by no later than 6:00 p.m., New York time, on the trade date.

#### *Suspension or Rejection of Orders and Total Basket ETH Amount*

The creation or, if permitted, redemption of Shares may be suspended generally, or refused with respect to particular requested creations or redemptions, during any period when the transfer books of the Transfer Agent are closed or if circumstances outside the control of the Sponsor or its delegates make it for all practical purposes not feasible to process such creation orders or redemption orders. The Sponsor may reject an order or, after accepting an order, may cancel such order by rejecting the Total Basket ETH Amount, in the case of creations, or the Baskets to be redeemed, in the case of redemptions, if (i) such order is not presented in proper form as described in the Participant Agreement, (ii) the transfer of the Total Basket ETH Amount, in the case of creations, comes from an account other than an Authorized Participant Self-Administered Account or (iii) the fulfillment of the order, in the opinion of counsel, might be unlawful, among other reasons. None of the Sponsor or its delegates will be liable for the suspension, rejection or acceptance of any creation order, redemption order or Total Basket ETH Amount.

In particular, upon the Trust's receipt of any Incidental Rights and/or IR Virtual Currency in connection with a fork, airdrop or similar event, the Sponsor will suspend creations and redemptions until it is able to cause the Trust to sell or distribute such Incidental Rights and/or IR Virtual Currency.

None of the Sponsor or its delegates will be liable for the suspension, rejection or acceptance of any creation order, redemption order or Total Basket ETH Amount.

#### *Tax Responsibility*

Authorized Participants or, if Shares are issued directly to persons other than Authorized Participants, such persons, are responsible for any transfer tax, sales or use tax, stamp tax, recording tax, value-added tax or similar tax or governmental charge applicable to the creation (or, should the Trust commence a redemption program, redemption) of Baskets, regardless of whether such tax or charge is imposed directly on the Authorized Participant or other person, and agree to indemnify the Sponsor and the Trust if the Sponsor or the Trust is required by law to pay any such tax, together with any applicable penalties, additions to tax or interest thereon.

#### *Trust Expenses*

The Trust's only ordinary recurring expense is expected to be the Sponsor's Fee. The Sponsor's Fee will accrue daily in U.S. dollars at an annual rate of 2.5% of the ETH Holdings Fee Basis Amount of the Trust as of 4:00 p.m., New York time, on each day; provided that for a day that is not a business day, the calculation will be based on the ETH Holdings Fee Basis Amount from the most recent business day, reduced by the accrued and unpaid Sponsor's Fee for such most recent business day and for each day after such most recent business day and prior to the relevant calculation date. The dollar amount for each daily accrual will then be converted into ETH by

reference to the same ETH Index Price used to determine such accrual. The Sponsor's Fee is payable to the Sponsor monthly in ETH in arrears.

To cause the Trust to pay the Sponsor's Fee, the Sponsor will, by instructing the Key Maintainer and Backup Maintainers as necessary, withdraw from the ETH Account the number of ETH equal to the accrued but unpaid Sponsor's Fee and transfer such ETH to the Sponsor's account at such times as the Sponsor determines in its absolute discretion.

If the Trust holds any Incidental Rights and/or IR Virtual Currency at any time, the Trust may also pay the Sponsor's Fee, in whole or in part, with such Incidental Rights and/or IR Virtual Currency by entering into an agreement with the Sponsor and transferring such Incidental Rights and/or IR Virtual Currency to the Sponsor at a value to be determined pursuant to such agreement. However, the Trust may use Incidental Rights and/or IR Virtual Currency to pay the Sponsor's Fee only if such agreement and transfer do not otherwise conflict with the terms of the Trust Agreement. The value of any such Incidental Rights and/or IR Virtual Currency will be determined on an arm's-length basis. The Trust currently expects that the value of any such Incidental Rights and/or IR Virtual Currency would be determined by reference to an index provided by the Index Provider or, in the absence of such an index, by reference to the cascading set of rules described in "Description of the Trust—Valuation of ETH and Determination of the Trust's ETH Holdings." If the Trust pays the Sponsor's Fee in Incidental Rights and/or IR Virtual Currency, in whole or in part, the amount of ETH that would otherwise have been used to satisfy such payment will be correspondingly reduced. The Sponsor, from time to time, may temporarily waive all or a portion of the Sponsor's Fee in its discretion. Presently, the Sponsor does not intend to waive any of the Sponsor's Fee.

After the Trust's payment of the Sponsor's Fee to the Sponsor, the Sponsor may elect to convert the ETH, Incidental Rights and/or IR Virtual Currency received as payment of the Sponsor's Fee into U.S. dollars. The rate at which the Sponsor converts such ETH, Incidental Rights and/or IR Virtual Currency into U.S. dollars may differ from the rate at which the Sponsor's Fee was determined. The Trust will not be responsible for any fees and expenses incurred by the Sponsor to convert ETH, Incidental Rights and/or IR Virtual Currency received in payment of the Sponsor's Fee into U.S. dollars.

As partial consideration for its receipt of the Sponsor's Fee, the Sponsor has assumed the obligation to pay the Sponsor-paid Expenses. The Sponsor has not assumed the obligation to pay Additional Trust Expenses. Any expense that qualifies as an Additional Trust Expense will be deemed to be an Additional Trust Expense and not a Sponsor-paid Expense. If Additional Trust Expenses are incurred, the Sponsor (i) will withdraw from the ETH Account ETH, Incidental Rights and/or IR Virtual Currency in such quantity as may be necessary to permit payment of such Additional Trust Expenses and (ii) may either (x) cause the Trust (or its delegate) to convert such ETH, Incidental Rights and/or IR Virtual Currency into U.S. dollars or other fiat currencies at the Actual Exchange Rate or (y) cause the Trust (or its delegate) to deliver such ETH, Incidental Rights and/or IR Virtual Currency in kind in satisfaction of such Additional Trust Expenses. However, the Trust may use Incidental Rights and/or IR Virtual Currency to pay Additional Trust Expenses only if doing so does not conflict with the terms of the Trust Agreement. The value of any such Incidental Rights and/or IR Virtual Currency will be determined on an arm's-length basis. The Trust currently expects that the value of any such Incidental Rights and/or IR Virtual Currency would be determined by reference to an index provided by the Index Provider or, in the absence of such an index, by reference to the cascading set of rules described in "Description of the Trust—The Index and the ETH Index Price." If the Trust pays the Additional Trust Expenses in Incidental Rights and/or IR Virtual Currency, in whole or in part, the amount of ETH that would otherwise have been used to satisfy such payment will be correspondingly reduced.

The number of ETH represented by a Share will decline each time the Trust pays the Sponsor's Fee or any Additional Trust Expenses by transferring or selling ETH. The quantity of ETH, Incidental Rights or IR Virtual Currency to be delivered to the Sponsor or other relevant payee in payment of the Sponsor's Fee or any Additional Trust Expenses, or sold to permit payment of Additional Trust Expenses, will vary from time to time depending

on the level of the Trust's expenses and the value of ETH, Incidental Rights or IR Virtual Currency held by the Trust. See "Trust Expenses." Assuming that the Trust is a grantor trust for U.S. federal income tax purposes, each delivery or sale of ETH, Incidental Rights and IR Virtual Currency by the Trust for the payment of expenses will be a taxable event to Shareholders. See "Certain U.S. Federal Income Tax Consequences—Tax Consequences to U.S. Holders".

*Impact of Trust Expenses on the Trust's ETH Holdings*

The Trust will pay the Sponsor's Fee to the Sponsor in ETH, Incidental Rights and/or IR Virtual Currency. In addition, the Trust will sell ETH, Incidental Rights and/or IR Virtual Currency to raise the funds needed for the payment of any Additional Trust Expenses or will pay Additional Trust Expenses in ETH, Incidental Rights and/or IR Virtual Currency. The Trust's ETH, Incidental Rights and IR Virtual Currency, and the purchase price received as consideration for sales of ETH, Incidental Rights and IR Virtual Currency, will be the Trust's sole source of funds to cover the Sponsor's Fee and any Additional Trust Expenses. Because the number of ETH held by the Trust will decrease when ETH are used to pay the Sponsor's Fee or Additional Trust Expenses or are sold to permit the payment of Additional Trust Expenses, it is expected that the fractional number of ETH represented by each Share will gradually decrease over the life of the Trust. Accordingly, the Shareholders will bear the cost of the Sponsor's Fee and Additional Trust Expenses. New ETH that is transferred into the ETH Account in exchange for additional new Baskets issued by the Trust will not reverse this trend.

## RISK FACTORS

*You should consider carefully the risks described below before making an investment decision. You should also refer to the other information included in this Disclosure Statement, including the Trust's financial statements and related notes thereto. See "Glossary" for the definition of certain capitalized terms used in this Disclosure Statement.*

### **Risk Factors Related to Digital Assets**

*Digital assets such as ETH were only introduced within the past decade, and the medium- to-long term value of an investment in the Shares is subject to a number of factors relating to the capabilities and development of blockchain technologies and to the fundamental investment characteristics of digital assets.*

Digital assets such as ETH were only introduced within the past decade, and the medium-to long-term value of an investment in the Shares is subject to a number of factors relating to the capabilities and development of blockchain technologies, such as the infancy of their development, their dependence on the internet and other technologies, their dependence on the role played by miners and developers and the potential for malicious activity. For example, the realization of one or more of the following risks could materially adversely affect the value of an investment in the Shares:

- The trading prices of many digital assets, including ETH, have experienced extreme volatility in recent periods and may continue to do so. For instance, there were steep increases in the value of certain digital assets, including ETH, over the course of 2017, multiple market observer asserted that digital assets were experiencing a "bubble." These increases were followed by steep drawdowns throughout 2018 in digital asset trading prices. These drawdowns notwithstanding, the digital asset markets may still be experiencing a bubble or may experience a bubble again in the future. Extreme volatility in the future, including further declines in the trading prices of digital assets held by the Trust, could have a material adverse effect on the value of the Shares and the Shares could lose all or substantially all of their value.
- Digital asset networks and the software used to operate them are in the early stages of development. Digital assets have experienced, and we expect will experience in the future, sharp fluctuations in value. Given the infancy of the development of digital asset networks, parties may be unwilling to transact in digital assets, which would dampen the growth, if any, of digital asset networks.
- Digital asset networks are dependent upon the internet. A disruption of the internet or a digital asset network would affect the ability to transfer digital assets and, consequently, their value.
- In many open-source virtual currency protocols, there is no official developer or group of developers that formally controls digital asset networks. However, in the Ethereum Network, a team of scientists and engineers from the Ethereum Foundation offer updates to the ETH protocol which the public may choose to implement or ignore. The acceptance of software patches or upgrades by a significant, but not overwhelming, percentage of the users and miners in a digital asset network, such as the Ethereum Network, could result in a "fork" in such network's blockchain, resulting in the operation of multiple separate networks.
- The loss or destruction of a private key required to access digital assets such as ETH may be irreversible. If a private key is lost, destroyed or otherwise compromised and no backup of the private key is accessible, the Trust will be unable to access the ETH held in the related digital wallet corresponding to that private key and the private key will not be capable of being restored by the Ethereum Network.
- Digital assets such as ETH are not currently widely accepted as a means of payment by retail and commercial outlets, and use of ETH by consumers to pay any retail or commercial outlets remains limited. Banks and other established institutions may refuse to process funds for ETH transactions; process wire



transfers to or from ETH Exchanges, ETH related companies or service providers; or maintain accounts for persons or entities transacting in ETH. As a result, the price of ETH is largely determined by speculators and miners, thus contributing to price volatility that makes retailers less likely to accept it as a form of payment in the future.

- Miners, developers and users may switch to or adopt certain digital assets at the expense of their engagement with other digital asset networks, which may negatively impact those networks, including the Ethereum Network.
- Over the past several years, digital asset mining operations have evolved from individual users mining with computer processors, graphics processing units and first generation application specific integrated circuit (“ASIC”) machines to “professionalized” mining operations using proprietary hardware or sophisticated machines. If the profit margins of digital asset mining operations are not sufficiently high, digital asset miners are more likely to immediately sell tokens earned by mining, resulting in an increase in liquid supply of that digital asset, which would generally tend to reduce that digital asset’s market price.
- To the extent that any miners cease to record transactions that do not include the payment of a transaction fee in solved blocks or do not record a transaction because the transaction fee received by miners is too low, such transactions will not be recorded on the blockchain until a block is solved by a miner who does not require the payment of transaction fees or is willing to accept a lower fee. Any widespread delays in the recording of transactions could result in a loss of confidence in the digital asset network.
- Many digital asset networks face significant scaling challenges and are being upgraded with various features to increase the speed and throughput of digital asset transactions. These attempts to increase the volume of transactions may not be effective.
- The open-source structure of digital asset network protocols, such as the protocol for the Ethereum Network, means that developers and other contributors are generally not directly compensated for their contributions in maintaining and developing such protocols. As a result, the developers and other contributors of a particular digital asset may lack a financial incentive to maintain or develop the network, or may lack the resources to adequately address emerging issues. Alternatively, some developers may be funded by companies whose interests are at odds with other participants in a particular digital asset network. A failure to properly monitor and upgrade the protocol of the Ethereum Network could damage that network.
- Banks may not provide banking services, or may cut off banking services, to businesses that provide digital asset-related services or that accept digital assets such as ETH as payment, which could dampen liquidity in the market and damage the public perception of digital assets generally or any one digital asset in particular, such as ETH, and their or its utility as a payment system, which could decrease the price of digital assets generally or individually.
- Certain privacy-enhancing features have been or are expected to be introduced to a number of digital asset networks, such as the Ethereum Network, and exchanges or businesses that facilitate transactions in those digital assets may be at increased risk of having banking services cut off if there is a concern that these features interfere with the performance of anti-money laundering duties and economic sanctions checks.

Moreover, because digital assets, including ETH, have been in existence for a short period of time and are continuing to develop, there may be additional risks in the future that are impossible to predict as of the date of this Disclosure Statement.

***A determination that ETH is a “security” may adversely affect the value of ETH and an investment in the Shares, and result in potentially extraordinary, nonrecurring expenses to, or termination of, the Trust.***

The SEC has stated that certain digital assets may be considered “securities” under the federal securities laws. The test for determining whether a particular digital asset is a “security” is complex and the outcome is difficult to predict. Public statements by senior officials at the SEC, including a June 2018 speech by the director of the SEC’s division of Corporation Finance, indicate that the SEC does not intend to take the position that Bitcoin or Ether are currently securities. Subsequently in a March 2019 statement, the chairman of the SEC expressed agreement with certain statements from the June 2018 speech by the director of the SEC’s division of Corporation Finance, including the analysis of federal securities laws that the director applied to Bitcoin and Ethereum. Such statements are not official policy statements by the SEC and reflect only the speaker’s views, which are not binding on the SEC or any other agency or court and cannot be generalized to any other digital asset.

If ETH is determined to be a “security” under federal or state securities laws by the SEC or any other agency, or in a proceeding in a court of law or otherwise, it may have material adverse consequences for ETH as a digital asset. For example, it may become more difficult for ETH to be traded, cleared and custodied as compared to other digital assets that are not considered to be securities, which could in turn negatively affect the liquidity and general acceptance of ETH and cause users to migrate to other digital assets. Further, if any other digital asset is determined to be a “security” under federal or state securities laws by the SEC or any other agency, or in a proceeding in a court of law or otherwise, it may have material adverse consequences for such digital asset due to negative publicity or a decline in the general acceptance of digital assets. As such, any determination that ETH is a security under federal or state securities laws may adversely affect the value of the ETH and, as a result, an investment in the Shares.

To the extent that ETH is determined to be a security, the Trust and the Sponsor may also be subject to additional regulatory requirements, including under the Investment Company Act, and the Sponsor may be required to register as an investment adviser under the Investment Advisers Act. See “Risk Factors—Risks Relating to the Regulation of the Trust and the Shares—Regulatory changes or interpretations could cause the Trust and the Sponsor to register and comply with new regulations, resulting in potentially extraordinary, nonrecurring expenses to the Trust.” If the Sponsor determines not to comply with such additional regulatory and registration requirements, the Sponsor will terminate the Trust. Any such termination could result in the liquidation of the Trust’s ETH at a time that is disadvantageous to Shareholders.

***Changes in the governance of a digital asset network may not receive sufficient support from users and miners, which may negatively affect that digital asset network’s ability to grow and respond to challenges.***

The governance of decentralized networks, such as the Ethereum network, is by voluntary consensus and open competition. As a result, there may be a lack of consensus or clarity on the governance of any particular decentralized digital asset network, which may stymie such network’s utility and ability to grow and face challenges. The foregoing notwithstanding, the protocols for some decentralized networks, such as the Ethereum network, are informally managed by a group of core developers that propose amendments to the relevant network’s source code. Core developers’ roles evolve over time, largely based on self-determined participation. If a significant majority of users and miners adopt amendments to a decentralized network based on the proposals of such core developers, such network will be subject to new protocols that may adversely affect the value of ETH.

As a result of the foregoing, it may be difficult to find solutions or marshal sufficient effort to overcome any future problems, especially long-term problems, on digital asset networks.

***Digital asset networks face significant scaling challenges and efforts to increase the volume of transactions may not be successful.***

Many digital asset networks face significant scaling challenges due to the fact that public blockchains generally face a tradeoff regarding security and scalability. One means through which public blockchains achieve security is decentralization, meaning that no intermediary is responsible for securing and maintaining these systems. For example, a greater degree of decentralization generally means a given digital asset network is less susceptible to manipulation or capture. In practice, this typically means that every single node on a given digital asset network is responsible for securing the system by processing every transaction and maintaining a copy of the entire state of the network. As a result, a digital asset network may be limited in the number of transactions it can process by the capabilities of each single fully participating node in the network.

As of December 31, 2018, the Bitcoin network, for instance, could handle, on average, three to seven transactions per second and the Ethereum Network could handle approximately 15 transactions per second. In an effort to increase the volume of transactions that can be processed on a given digital asset network, many digital assets are being upgraded with various features to increase the speed and throughput of digital asset transactions. For example, in August 2017, the Bitcoin network was upgraded with a technical feature known as “Segregated Witness” that potentially doubles the transactions per second that can be handled on-chain. More importantly, Segregated Witness also enables so-called second layer solutions, such as the Lightning Network, or payment channels that greatly increase transaction throughput (i.e., millions of transactions per second). Wallets and “intermediaries,” or connecting nodes that facilitate payment channels, that support Segregated Witness or Lightning Network-like technologies have not seen wide-scale use as of December 31, 2018. Additionally, questions remain regarding Lightning Network services, such as its cost and who will serve as intermediaries.

As corresponding increases in throughput lag behind growth in the use of digital asset networks, average fees and settlement times may increase considerably. For example, the Bitcoin network has been, at times, at capacity, which has led to increased transaction fees. Since January 1, 2017, Bitcoin transaction fees have increased from \$0.35 per Bitcoin transaction, on average, to a high of \$55.16 per transaction on December 22, 2017, on average. As of December 31, 2018, Bitcoin transaction fees stood at \$0.23 per Bitcoin transaction, on average. Increased fees and decreased settlement speeds could preclude certain uses for digital assets including ETH (e.g., micropayments), and could reduce demand for and the price of, digital assets including ETH, which could adversely impact an investment in the Shares.

Many developers are actively researching and testing scalability solutions for public blockchains that do not necessarily result in lower levels of security or decentralization (e.g., off-chain payment channels like the Lightning Network, sharding, or off-chain computations). However, there is no guarantee that any of the mechanisms in place or being explored for increasing the scale of settlement of Bitcoin or any other digital asset network, including the Ethereum Network, transactions will be effective, or how long these mechanisms will take to become effective, which could adversely impact an investment in the Shares.

***If a malicious actor or botnet obtains control of more than 50% of the processing power on the Ethereum Network, or otherwise obtains control over the Ethereum Network through its influence over core developers or otherwise, such actor or botnet could manipulate the Blockchain to adversely affect an investment in the Shares or the ability of the Trust to operate.***

If a malicious actor or botnet (a volunteer or hacked collection of computers controlled by networked software coordinating the actions of the computers) obtains a majority of the processing power dedicated to mining on the Ethereum Network, it may be able to alter the Ethereum Blockchain on which transactions in ETH rely by constructing fraudulent blocks or preventing certain transactions from completing in a timely manner, or at all. The malicious actor or botnet could also control, exclude or modify the ordering of transactions. Although the malicious actor or botnet would not be able to generate new tokens or transactions using such control, it could “double-spend” its own tokens (i.e., spend the same tokens in more than one transaction) and prevent the confirmation of other users’ transactions for so long as it maintained control. To the extent that such malicious actor or botnet did not yield its control of the processing power on the Ethereum Network or the Ethereum community did not reject the fraudulent blocks as malicious, reversing any changes made to the Ethereum

Blockchain may not be possible. Further, a malicious actor or botnet could create a flood of transactions in order to slow down the Ethereum Network.

Although there are no other known reports of malicious activity on, or control of, the Ethereum Network, it is believed that certain mining pools may have exceeded the 50% threshold on some digital asset networks, such as the Bitcoin network. The possible crossing of the 50% threshold indicates a greater risk that a single mining pool could exert authority over the validation ETH transactions, and this risk is heightened if over 50% of the processing power on the network falls within the jurisdiction of a single governmental authority. For example, it is believed that more than 50% of the processing power on the Bitcoin network is located in China. Because the Chinese government has subjected digital assets to heightened levels of scrutiny recently, reportedly forcing several Digital Asset Exchanges to shut down, there is a risk that the Chinese government could also achieve control over more than 50% of the processing power on the Bitcoin network. To the extent that similar events occur on the Ethereum Network, if the network participants, including the core developers and the administrators of ETH mining pools, do not act to ensure greater decentralization of ETH mining processing power, the feasibility of a malicious actor obtaining control of the processing power on the Ethereum Network will increase, which may adversely affect an investment in the Shares.

A malicious actor may also obtain control over the Ethereum Network through its influence over core developers by gaining direct control over a core developer or an otherwise influential programmer. To the extent that the ETH ecosystem does not grow, the possibility that a malicious actor may be able obtain control of the processing power on the ETH Network in this manner will remain heightened.

***The Ethereum Network represents a new and rapidly evolving industry, and the value of an investment in the Shares depends on the development and acceptance of the Ethereum Network.***

Many digital asset networks, such as the Ethereum Network, have only recently been established. In general, the Ethereum Network and other cryptographic and algorithmic protocols governing the issuance of digital assets represent a new and rapidly evolving industry that is subject to a variety of factors that are difficult to evaluate. For example, the realization of one or more of the following risks could materially adversely affect the value of an investment in the Shares:

- Many digital asset networks, such as the Ethereum Network, are still in the process of developing and making significant decisions, such as decisions that will affect monetary policies that govern the supply and issuance of their respective tokens, and if the Ethereum Network does not successfully do so, there may not be sufficient network level support for such network, which could lead to a decline in support of and the price of Ethereum. Further, as the Ethereum Network develops and grows, certain technical issues might be uncovered, and the trouble-shooting and resolution of such issues requires the attention and efforts of ETH’s global development community.
- Many digital asset networks, such as the Ethereum Network, are in the process of implementing software upgrades and other changes to their protocols.
- Some digital asset networks may be the target of ill will from users of other digital asset networks. For example, the hard forks that resulted in the creation of the Bitcoin Cash and Ethereum Classic networks were contentious, and as a result some users of the Bitcoin or Ethereum networks, respectively, may harbor ill will toward the Bitcoin Cash and Ethereum Classic networks, respectively, and vice versa. These users may attempt to negatively impact the use or adoption of the other networks, respectively.
- Some digital asset networks, such as the Ethereum network, contain a “difficulty bomb” under which mining will become extraordinarily difficult over time, rendering older versions of the applicable network unusable and encouraging miners to join hard forks upgrading the protocol. These upgrades may fail to work as expected or miners may choose to not join these forks, leading to a decline in support of and the price of such digital asset.

- Many digital assets have concentrated ownership. For example, as of December 31, 2018, the largest 100 ETH wallets hold over 33% of the ETH in circulation and the largest 100 Bitcoin wallets hold over 16% of the Bitcoin in circulation, and it is possible that some of these wallets are controlled by the same person or entity. Moreover, it is possible that other persons or entities control multiple wallets that collectively hold a significant number of digital assets, even if they individually only hold a small amount, and it is possible that some of these wallets are controlled by the same person or entity. As a result of this concentration of ownership, large sales or distributions by such holders could have an adverse effect on the market price of certain digital assets with highly concentrated ownership.

Moreover, in the past, flaws in the source code for digital assets have been exposed and exploited, including flaws that disabled some functionality for users, exposed users' personal information and/or resulted in the theft of users' digital assets. The cryptography underlying ETH could prove to be flawed or ineffective, or developments in mathematics and/or technology, including advances in digital computing, algebraic geometry and quantum computing, could result in such cryptography becoming ineffective. In any of these circumstances, a malicious actor may be able to take the Trust's ETH, which would adversely affect an investment in the Shares. Moreover, functionality of the Ethereum Network may be negatively affected such that it is no longer attractive to users, thereby dampening demand for ETH. Even if another digital asset other than ETH were affected by similar circumstances, any reduction in confidence in the source code or cryptography underlying digital assets generally could negatively affect the demand for digital assets and therefore adversely affect an investment in the Shares.

The Trust is not actively managed and will not have any formal strategy relating to the development of the Ethereum Network.

***Smart contracts are a new technology and ongoing development may magnify initial problems, cause volatility on the networks that use smart contracts and reduce interest in them, which could have an adverse impact on the value of ETH.***

Smart contracts are computer protocols that facilitate the negotiation or performance of a contract and are a new technology. Since smart contracts typically cannot be stopped or reversed, vulnerabilities in their programming can have damaging effects. For example, a vulnerability in the smart contracts underlying The DAO, a distributed autonomous organization for venture capital funding, allowed an attack by a hacker to siphon approximately \$60 million worth of ETH from The DAO's accounts into a segregated account. In the aftermath of the theft, certain developers and core contributors pursued a "hard fork" of the Ethereum Network in order to erase any record of the theft. Despite these efforts, the price of ETH dropped approximately 35% in the aftermath of the attack and subsequent hard fork. In addition, in July 2017, a vulnerability in a smart contract for a multi-signature wallet software developed by Parity led to a \$30 million theft of ETH, and in November 2017, a new vulnerability in Parity's wallet software led to roughly \$160 million worth of ETH being indefinitely frozen in an account. Initial problems and continued problems with the deployment and development of smart contracts may have an adverse effect on the value of ETH.

***A temporary or permanent "fork" could adversely affect an investment in the Shares.***

The Ethereum Network operates using open-source protocols, meaning that any user can download the software, modify it and then propose that the users and miners of the currency adopt the modification. When a modification is introduced and a substantial majority of users and miners consent to the modification, the change is implemented and the network remains uninterrupted. However, if less than a substantial majority of users and miners consent to the proposed modification, and the modification is not compatible with the software prior to its modification, the consequence would be what is known as a "hard fork" of the Ethereum Network, with one group running the pre-modified software and the other running the modified software. The effect of such a fork would be the existence of two versions of ETH running in parallel, yet lacking interchangeability. For example, Bitcoin Cash is a product of a hard fork in the Bitcoin network that occurred on August 1, 2017 that resulted from a several-year dispute over how to increase the rate of transactions that the Bitcoin network can process.

Forks may also occur as a network community's response to a significant security breach. For example, in June of 2016, an anonymous hacker exploited a smart contract running on the Ethereum network to siphon approximately \$60 million of ETH held by the DAO, a distributed autonomous organization, into a segregated account. In response to the hack, most participants in the Ethereum community elected to adopt a fork that effectively reversed the hack. However, a minority of users continued to develop the original blockchain, now referred to as "Ethereum Classic" with the digital asset on that blockchain now referred to as Ether Classic, or ETC. ETC now trades on several digital asset exchanges.

A fork may also occur as a result of an unintentional, unanticipated software flaw in the various versions of otherwise compatible software users run. Such a fork could lead to user and miners abandoning the digital asset with the flawed software. It is possible, however, that a substantial number of users and miners could adopt an incompatible version of the digital asset while resisting community-led efforts to merge the two chains. This could result in a permanent fork, as in the case of Ether and Ether Classic.

In addition, many developers have recently initiated hard forks in the Bitcoin blockchain to launch new digital assets, such as Bitcoin Cash, Bitcoin Gold, Bitcoin Silver and Bitcoin Diamond, as well as the Bitcoin Cash blockchain to launch a new digital asset, Bitcoin Satoshi's Vision. To the extent such digital assets compete with ETH held by the Trust, such competition could impact demand for ETH and could adversely impact an investment in the Shares of the Trust.

Furthermore, a hard fork can lead to new security concerns. For example, when the Ethereum and Ethereum Classic networks split in July 2016, replay attacks, in which transactions from one network were rebroadcast to nefarious effect on the other network, plagued Ethereum exchanges through at least October 2016. An Ethereum exchange announced in July 2016 that it had lost 40,000 Ether Classic, worth about \$100,000 at that time, as a result of replay attacks. Similar replay attack concerns occurred in connection with the Bitcoin Cash and Bitcoin Satoshi's Vision networks split in November 2018. Another possible result of a hard fork is an inherent decrease in the level of security due to significant amounts of mining power remaining on one network or migrating instead to the new forked network. After a hard fork, it may become easier for an individual miner or mining pool's hashing power to exceed 50% of the processing power of the digital asset network that retained or attracted less mining power, thereby making digital assets that rely on proof-of-work more susceptible to attack.

A future fork in the Ethereum Network could adversely affect an investment in the Shares or the ability of the Trust to operate.

***Shareholders may not receive the benefits of any forks or "airdrops."***

In addition to forks, a digital asset may become subject to a similar occurrence known as an "airdrop." In an airdrop, the promoters of a new digital asset announce to holders of another digital asset that such holders will be entitled to claim a certain amount of the new digital asset for free, based on the fact that they hold such other digital asset.

Shareholders may not receive the benefits of any forks, the Trust may not choose, or be able, to participate in an airdrop, and the timing of receiving any benefits from a fork, airdrop or similar event is uncertain. We refer to the right to receive any such benefit as an "Incidental Right" and any such virtual currency acquired through an Incidental Right as "IR Virtual Currency." There are likely to be operational, tax, securities law, regulatory, legal and practical issues that significantly limit, or prevent entirely, Shareholders' ability to realize a benefit, through their interests in the Trust, from any such Incidental Rights or IR Virtual Currency. For instance, the Key Maintainer and Backup Maintainers may not agree to provide access to the IR Virtual Currency. In addition, the Sponsor may determine that there is no safe or practical way to custody the IR Virtual Currency, or that trying to do so may pose an unacceptable risk to the Trust's holdings in ETH, or that the costs of taking possession and/or maintaining ownership of the IR Virtual Currency exceed the benefits of owning the IR Virtual Currency. Additionally, laws, regulation or other factors may prevent Shareholders from benefitting from the Incidental Right or IR Virtual Currency even if there is a safe and practical way to custody and secure the IR Virtual

Currency. For example, it may be illegal to sell or otherwise dispose of the Incidental Right or IR Virtual Currency, or there may not be a suitable market into which the Incidental Right or IR Virtual Currency can be sold (immediately after the fork or airdrop, or ever). The Sponsor may also determine, in consultation with its legal advisors, that the Incidental Right or IR Virtual Currency is, or is likely to be deemed, a security under federal or state securities laws. In such a case, the Sponsor would irrevocably abandon, as of any date on which the Trust creates Shares, such Incidental Right or IR Virtual Currency if holding it would have an adverse effect on the Trust and it would not be practicable to avoid such effect by disposing of the Incidental Right or IR Virtual Currency in a manner that would result in Shareholders of the Trust receiving more than insignificant value thereof. In making such a determination, the Sponsor expects to take into account a number of factors, including the definition of a “security” under Section 2(a)(1) of the Securities Act and Section 3(a)(10) of the Exchange Act, *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946) and the case law interpreting it, as well as reports, orders, press releases, public statements and speeches by the SEC providing guidance on when a digital asset is a “security” for purposes of the federal securities laws.

The Trust has informed the Key Maintainers and Backup Maintainers that it is irrevocably abandoning, as of any date on which the Trust creates Shares, any Incidental Rights or IR Virtual Currency to which it would otherwise be entitled as of such date and with respect to which it has not taken any other action on or prior to such date. In order to avert abandonment of an Incidental Right or IR Virtual Currency, the Trust will send a notice to the Key Maintainer and Backup Maintainers of its intention to retain such Incidental Right or IR Virtual Currency. The Sponsor intends to evaluate each future fork or airdrop on a case-by-case basis in consultation with the Trust’s legal advisors, tax consultants, Key Maintainer and Backup Maintainers. Any inability to recognize the economic benefit of a hard fork or airdrop could adversely affect an investment in the Shares. See “Description of the Trust—Incidental Rights and IR Virtual Currency.”

***In the event of a hard fork of the Ethereum Network, the Sponsor will, if permitted by the terms of the Trust Agreement, use its discretion to determine which network should be considered “ETH” for the Trust’s purposes, and in doing so may adversely affect the value of the Shares.***

In the event of a hard fork of the Ethereum Network, the Sponsor will, if permitted by the terms of the Trust Agreement, use its discretion to determine, in good faith, which peer-to-peer network, among a group of incompatible forks of the Ethereum Network, is generally accepted as the Ethereum Network and should therefore be considered “ETH” for the Trust’s purposes. The Sponsor will base its determination on a variety of then relevant factors, including, but not limited to, the Sponsor’s beliefs regarding expectations of the core developers of ETH, users, services, businesses, miners and other constituencies, as well as the actual continued acceptance of, mining power on, and community engagement with, the Ethereum Network. There is no guarantee that the Sponsor will choose the digital asset that is ultimately the most valuable fork, and the Sponsor’s decision may adversely affect the value of the Shares as a result. The Sponsor may also disagree with investors, security vendors and the Index Provider on what is generally accepted as ETH and should therefore be considered “ETH” for the Trust’s purposes, which may also adversely affect the value of the Shares as a result.

***If the digital asset award for solving blocks and transaction fees for recording transactions on the Ethereum Network are not sufficiently high to incentivize miners, miners may cease expending processing power or demand high transaction fees, which could negatively affect the value of ETH and an investment in the Shares.***

If the digital asset awards for solving blocks and the transaction fees for recording transactions on the Ethereum Network are not sufficiently high to incentivize miners, miners may cease expending processing power to solve blocks and confirmations of transactions on the Ethereum Blockchain could be slowed. A reduction in the processing power expended by miners on the Ethereum Network could increase the likelihood of a malicious actor or botnet obtaining control.

Miners have historically accepted relatively low transaction confirmation fees on most digital asset networks. If miners demand higher transaction fees for recording transactions in the Ethereum Blockchain or a software

upgrade automatically charges fees for all transactions on the Ethereum Network, the cost of using ETH may increase and the marketplace may be reluctant to accept ETH as a means of payment. Alternatively, miners could collude in an anti-competitive manner to reject low transaction fees on the Ethereum Network and force ETH users to pay higher fees, thus reducing the attractiveness of the Ethereum Network. Higher transaction confirmation fees resulting through collusion or otherwise may adversely affect the attractiveness of the Ethereum Network, the value of ETH and an investment in the Shares.

***Any name change and any associated rebranding initiative by the core developers of ETH may not be favorably received by the digital asset community, which could negatively impact the value of ETH and an investment in the Shares of the Trust.***

From time to time, digital assets may undergo name changes and associated rebranding initiatives. For example, Bitcoin Cash may sometimes be referred to as Bitcoin ABC in an effort to differentiate itself from any Bitcoin Cash hard forks, such as Bitcoin Satoshi's Vision, and in the third quarter of 2018, the team behind Zen rebranded and changed the name of ZenCash to "Zen." We cannot predict the impact of any name change and any associated rebranding initiative on ETH. After a name change and an associated rebranding initiative, a digital asset may not be able to achieve or maintain brand name recognition or status that is comparable to the recognition and status previously enjoyed by such digital asset. The failure of any name change and any associated rebranding initiative by a digital asset may result in such digital asset not realizing some or all of the anticipated benefits contemplated by the name change and associated rebranding initiative, and could negatively impact the value of ETH and an investment in the Shares of the Trust.

### **Risk Factors Related to the ETH Exchange Market and the Index**

***The value of the Shares relates directly to the value of ETH, the value of which may be highly volatile and subject to fluctuations due to a number of factors.***

The value of the Shares relates directly to the value of the ETH held by the Trust and fluctuations in the price of ETH could adversely affect an investment in the Shares. The market price of ETH may be highly volatile, and subject to a number of factors, including:

- An increase in the global ETH supply;
- Manipulative trading activity on ETH Exchanges, which are largely unregulated;
- The adoption of ETH as a medium of exchange, store of value or other consumptive asset and the maintenance and development of the open-source software protocol of the Ethereum Network;
- Forks in the Ethereum Network;
- Investors' expectations with respect to interest rates, the rates of inflation of fiat currencies or ETH, and digital asset exchange rates;
- Consumer preferences and perceptions of ETH specifically and digital assets generally;
- Fiat currency withdrawal and deposit policies and the liquidity of ETH Exchanges;
- Investment and trading activities of large investors that invest directly or indirectly in ETH;
- A "short squeeze" resulting from speculation on the price of ETH, if aggregate short exposure exceeds the number of Shares available for purchase;
- An active derivatives market for ETH or for digital assets generally;



- Monetary policies of governments, trade restrictions, currency devaluations and revaluations and regulatory measures or enforcement actions, if any, that restrict the use of ETH as a form of payment or the purchase of ETH in the ETH market;
- Global or regional political, economic or financial conditions, events and situations;
- Fees associated with processing an ETH transaction and the speed at which ETH transactions are settled;
- Interruptions in service from or failures of major digital asset exchanges;
- Decreased confidence in ETH Exchanges due to the unregulated nature and lack of transparency surrounding the operations of ETH Exchanges;
- Increased competition from other forms of digital asset or payment services; and
- The Trust's own acquisitions or dispositions of ETH, since there is no limit on the number of ETH that the Trust may acquire.

In addition, investors should be aware that there is no assurance that ETH will maintain its value in the long or intermediate term. In the event that the price of ETH declines, the Sponsor expects the value of an investment in the Shares to decline proportionately.

The value of ETH as represented by the ETH Index Price (non-GAAP) and principal market price (GAAP) may also be subject to momentum pricing due to speculation regarding future appreciation in value, leading to greater volatility that could adversely affect an investment in the Shares. Momentum pricing typically is associated with growth stocks and other assets whose valuation, as determined by the investing public, accounts for future appreciation in value, if any. The Sponsor believes that momentum pricing of ETH has resulted, and may continue to result, in speculation regarding future appreciation in the value of ETH, inflating and making the ETH Index Price (non-GAAP) and principal market price (GAAP) more volatile. As a result, ETH may be more likely to fluctuate in value due to changing investor confidence, which could impact future appreciation or depreciation in the ETH Index Price (non-GAAP) and principal market price (GAAP) and could adversely affect an investment in the Shares.

***Due to the unregulated nature and lack of transparency surrounding the operations of ETH Exchanges, the ETH Exchanges may experience fraud, security failures or operational problems, which may adversely affect the value of ETH and, consequently, an investment in the Shares.***

The ETH Exchanges are relatively new and, in some cases, unregulated. Furthermore, while many prominent ETH Exchanges provide the public with significant information regarding their ownership structure, management teams, corporate practices and regulatory compliance, many ETH Exchanges do not provide this information. As a result, the marketplace may lose confidence in ETH Exchanges, including prominent exchanges that handle a significant volume of ETH trading.

Over the past several years, some digital asset exchanges have been closed due to fraud and manipulative activity, business failure or security breaches. In many of these instances, the customers of such exchanges were not compensated or made whole for the partial or complete losses of their account balances in such exchanges. While smaller exchanges are less likely to have the infrastructure and capitalization that make larger exchanges more stable, larger exchanges are more likely to be appealing targets for hackers and malware and may be more likely to be targets of regulatory enforcement action. For example, the collapse of Mt. Gox, which filed for bankruptcy protection in Japan in late February 2014, demonstrated that even the largest digital asset exchanges could be subject to abrupt failure with consequences for both users of digital asset exchanges and the digital asset industry as a whole. In particular, in the two weeks that followed the February 7, 2014 halt of Bitcoin withdrawals from Mt. Gox, the value of one Bitcoin fell on other exchanges from around \$795 on February 6, 2014 to \$578 on

February 20, 2014. Additionally, in January 2015, Bitstamp announced that approximately 19,000 Bitcoin had been stolen from its operational or “hot” wallets. Further, in August 2016, it was reported that almost 120,000 Bitcoins worth around \$78 million were stolen from Bitfinex, a large digital asset exchange. The value of Bitcoin immediately decreased over 10% following reports of the theft at Bitfinex. In July 2017, the Financial Crimes Enforcement Network (“FinCEN”) assessed a \$110 million fine against BTC-E, a now defunct digital asset exchange, for facilitating crimes such as drug sales and ransomware attacks. In addition, in December 2017, Yopian, the operator of Seoul-based cryptocurrency exchange Yobit, suspended digital asset trading and filed for bankruptcy following a hack that resulted in a loss of 17% of Yopian’s assets. Following the hack, Yobit users were allowed to withdraw approximately 75% of the digital assets in their exchange accounts, with any potential further distributions to be made following Yopian’s pending bankruptcy proceedings. In addition, in January 2018, the Japanese digital asset exchange, Coincheck, was hacked, resulting in losses of approximately \$535 million, and in February 2018, the Italian digital asset exchange, Bitgrail, was hacked, resulting in approximately \$170 million in losses.

A lack of stability in the ETH Exchange Market and the closure or temporary shutdown of ETH Exchanges due to fraud, business failure, hackers or malware, or government-mandated regulation may reduce confidence in the Ethereum Network and result in greater volatility in the prices of ETH. Furthermore, the closure or temporary shutdown of an ETH Exchange used in calculating the ETH Index Price may result in a loss of confidence in the Trust’s ability to determine its ETH Holdings on a daily basis. These potential consequences of such an ETH Exchange’s failure could adversely affect an investment in the Shares.

***The ETH Index Price used to calculate the value of the Trust’s ETH may be volatile, and purchasing activity in the ETH Exchange Market associated with Basket creations or selling activity following Basket redemptions, if permitted, may affect the ETH Index Price and Share trading prices, adversely affecting an investment in the Shares.***

The ETH Index has a limited history and is an average composite reference rate calculated using volume-weighted trading price data from various ETH Exchanges chosen by the Index Provider. The price of ETH on public ETH Exchanges has a very limited history, and during this history, ETH prices on the ETH Exchange Market as a whole, and on ETH Exchanges individually, have been volatile and subject to influence by many factors, including operational interruptions. While the ETH Index is designed to limit exposure to the interruption of individual ETH Exchanges, the ETH Index Price, and the price of ETH generally, remains subject to volatility experienced by ETH Exchanges, and such volatility can adversely affect an investment in the Shares.

Furthermore, because the number of ETH Exchanges is limited, the ETH Index will necessarily be composed of a limited number of ETH Exchanges. If an ETH Exchange were subjected to regulatory, volatility or other pricing issues, the Index Provider would have limited ability to remove such ETH Exchange from the ETH Index, which could skew the price of ETH as represented by the ETH Index. Trading on a limited number of ETH Exchanges may result in less favorable prices and decreased liquidity of ETH and, therefore, could have an adverse effect on an investment in the Shares.

Purchasing activity associated with acquiring ETH required for the creation of Baskets may increase the market price of ETH on the ETH Exchange Market, which will result in higher prices for the Shares. Increases in the market price of ETH may also occur as a result of the purchasing activity of other market participants. Other market participants may attempt to benefit from an increase in the market price of ETH that may result from increased purchasing activity of ETH connected with the issuance of Baskets. Consequently, the market price of ETH may decline immediately after Baskets are created. The Trust currently has no intention of seeking regulatory approval from the SEC to operate an ongoing redemption program. If, however, regulatory approval is obtained in the future by the Trust, the selling activity associated with sales of ETH withdrawn from the Trust in connection with the redemption of Baskets may decrease the market price of ETH on the ETH Exchange Market, which will result in lower prices for the Shares. Decreases in the market price of ETH may also occur as

a result of sales in Secondary Markets by other market participants. If the ETH Index Price declines, the trading price of the Shares will generally also decline.

***Competition from the emergence or growth of other digital assets or methods of investing in ETH could have a negative impact on the price of ETH and adversely affect an investment in the Shares.***

As of December 31, 2018, ETH was the third largest digital asset by market capitalization, behind Bitcoin. As of the date of this Disclosure Statement, there were over 2,000 alternative digital assets tracked by CoinMarketCap.com, having a total market capitalization of approximately \$128.9 billion (including the approximately \$14.3 billion market cap of ETH), as calculated using market prices and total available supply of each digital asset. In addition, many consortiums and financial institutions are also researching and investing resources into private or permissioned smart contracts platforms rather than open platforms like the Ethereum Network. Competition from the emergence or growth of alternative digital assets and smart contracts platforms, such as Ethereum Classic, QTUM, EOS, Lisk and Neo, could have a negative impact on the demand for, and price of, ETH and thereby adversely affect an investment in the Shares.

Investors may invest in ETH through means other than an investment in Shares, including through direct investments in ETH and other potential financial vehicles, possibly including securities backed by or linked to ETH and digital assets financial vehicles similar to the Trust. Market and financial conditions, and other conditions beyond the Sponsor's control, may make it more attractive to invest in other financial vehicles or to invest in ETH directly, which could limit the market for Shares and reduce the liquidity of the Shares. In addition, to the extent digital asset financial vehicles other than the Trust tracking the price of ETH are formed and represent a significant proportion of the demand for ETH, large purchases or redemptions of the securities of these digital asset financial vehicles, or private funds holding ETH, could negatively affect the ETH Index Price, the ETH Holdings, the price of the Shares, the NAV and the NAV per Share.

***Failure of funds that hold digital assets or that have exposure to digital assets through derivatives to receive SEC approval to list their shares on exchanges could adversely affect an investment in the Shares.***

There have been a growing number of attempts to list on national securities exchanges the shares of funds that hold digital assets or that have exposures to digital assets through derivatives. These investment vehicles attempt to provide institutional and retail investors exposure to markets for digital assets and related products. The SEC has repeatedly denied such requests. On January 18, 2018, the SEC's Division of Investment Management outlined several questions that sponsors would be expected to address before the SEC will consider granting approval for funds holding "substantial amounts" of cryptocurrencies or "cryptocurrency-related products." The questions, which focus on specific requirements of the Investment Company Act of 1940, generally fall into one of five key areas: valuation, liquidity, custody, arbitrage and potential manipulation. The SEC has not explicitly stated whether each of the questions set forth would also need to be addressed by entities with similar products and investment strategies that instead pursue registered offerings under the Securities Act, although such entities would need to comply with the registration and prospectus disclosure requirements of the Securities Act. Furthermore, the Sponsor previously withdrew its application with the SEC to list Grayscale Bitcoin Trust (BTC), an entity affiliated with the Trust, on a national security exchange. Requests to list the shares of other funds on national securities exchanges have also been submitted to the SEC. The exchange listing digital asset funds would create more opportunities for institutional and retail investors to invest in the digital asset market. If exchange-listing requests are not approved by the SEC and the outstanding requests are ultimately denied by the SEC, increased investment interest by institutional or retail investors could fail to materialize, which could reduce the demand for digital assets generally and therefore adversely affect an investment in the Shares.

## **Risk Factors Related to the Trust and the Shares**

***An investment in the Shares may be influenced by a variety of factors unrelated to the value of ETH.***

An investment in the Shares may be influenced by a variety of factors unrelated to the price of ETH and the ETH Exchanges included in the Index that may have an adverse effect on the price of the Shares. These factors include the following factors:

- Unanticipated problems or issues with respect to the mechanics of the Trust's operations and the trading of the Shares may arise, in particular due to the fact that the mechanisms and procedures governing the creation, redemption if permitted, and offering of the Shares and storage of ETH have been developed specifically for this product;
- The Trust could experience difficulties in operating and maintaining its technical infrastructure, including in connection with expansions or updates to such infrastructure, which are likely to be complex and could lead to unanticipated delays, unforeseen expenses and security vulnerabilities;
- The Trust could experience unforeseen issues relating to the performance and effectiveness of the security procedures used to protect the ETH Account, or the security procedures may not protect against all errors, software flaws or other vulnerabilities in the Trust's technical infrastructure, which could result in theft, loss or damage of its assets; or
- Service Providers may decide to terminate their relationships with the Trust due to concerns that the privacy-enhancing features of ETH increase the potential for ETH to be used to facilitate crime, exposing such service providers to potential reputational harm or liability.

Any of these factors could affect the value of the Shares, either directly or indirectly through their effect on the Trust's assets.

***Shareholders do not have the protections associated with ownership of shares in an investment company registered under the Investment Company Act or the protections afforded by the CEA.***

The Investment Company Act is designed to protect investors by preventing insiders from managing investment companies to their benefit and to the detriment of public investors, such as: the issuance of securities having inequitable or discriminatory provisions; the management of investment companies by irresponsible persons; the use of unsound or misleading methods of computing earnings and asset value; changes in the character of investment companies without the consent of investors; and investment companies from engaging in excessive leveraging. To accomplish these ends, the Investment Company Act requires the safekeeping and proper valuation of fund assets, restricts greatly transactions with affiliates, limits leveraging, and imposes governance requirements as a check on fund management.

The Trust is not registered as an investment company under the Investment Company Act, and the Sponsor believes that the Trust is not required to register under such act. Consequently, Shareholders do not have the regulatory protections provided to investors in investment companies.

The Trust will not hold or trade in commodity interests regulated by the CEA, as administered by the CFTC. Furthermore, the Sponsor believes that the Trust is not a commodity pool for purposes of the CEA, and that neither the Sponsor nor the Trustee is subject to regulation by the CFTC as a commodity pool operator or a commodity trading advisor in connection with the operation of the Trust. Consequently, Shareholders will not have the regulatory protections provided to investors in CEA-regulated instruments or commodity pools.

***The restrictions on transfer and redemption may result in losses on an investment in the Shares.***

The Shares may not be resold except in transactions exempt from registration under the Securities Act and state securities laws, and any such transaction must be approved in advance by the Sponsor. In determining whether to grant approval, the Sponsor will specifically look at whether the conditions of Rule 144 under the Securities Act and any other applicable laws have been met. Any attempt to sell Shares without the approval of the Sponsor in its sole discretion will be void ab initio. See “Share Structure— Transfer Restrictions” for more information.

At this time the Sponsor is not accepting redemption requests from Shareholders. Therefore, unless the Trust is permitted to, and does, establish a Share redemption program, investors will be unable to (or could be significantly impeded in attempting to) sell or otherwise liquidate investments in the Shares, which could have a material adverse impact on an investment in the Shares.

Investors should consider an investment in the Shares to be an illiquid investment and should invest only if prepared to hold the Shares indefinitely. Furthermore, because the Trust does not have the ability to redeem Shares of the Trust until given authorization by the SEC, the Shares could trade below the ETH Holdings per Share due to the fact that investors cannot currently realize any increase in the value of the Trust’s ETH through redemption. Therefore, the Trust may not meet its objective for investment, which is to provide investors a cost-effective and convenient way to invest in ETH while avoiding the complication of directly holding ETH.

***There is no guarantee that an active trading market for the Shares will develop.***

The Sponsor has applied to qualify the Shares for public trading on the OTCQX. However, there can be no assurance that an active trading market will develop or be maintained or continue to develop. In addition, the OTCQX can halt the trading of the Shares for a variety of reasons. To the extent that the OTCQX halts trading in the Shares, whether on a temporary or permanent basis, investors may not be able to buy or sell Shares, which could adversely affect an investment in the Shares. If an active trading market for the Shares does not continue to exist, the market prices and liquidity of the Shares may be adversely affected.

***As the Sponsor and its management have limited history of operating an investment vehicle like the Trust, their experience may be inadequate or unsuitable to manage the Trust.***

The past performances of the Sponsor’s management in other investment vehicles, including their experiences in the ETH or other digital asset and venture capital industries, are no indication of their ability to manage an investment vehicle such as the Trust. If the experience of the Sponsor and its management is inadequate or unsuitable to manage an investment vehicle such as the Trust, the operations of the Trust may be adversely affected.

Furthermore, the Sponsor is currently engaged in the management of other investment vehicles which could divert their attention and resources. If the Sponsor were to experience difficulties in the management of such other investment vehicles that damaged the Sponsor or its reputation, it could have an adverse impact on the Sponsor’s ability to continue to serve as Sponsor for the Trust.

***The arbitrage mechanism intended to keep the price of the Shares closely linked to the ETH Index Price may not function properly due to multiple factors and the Shares may trade at substantial premium over, or substantial discount to, the ETH Holdings per Share.***

The Trust relies on arbitrage opportunities resulting from differences between the price of the Shares and the price of ETH to keep the price of the Shares closely linked to the ETH Index Price. If Authorized Participants are unable to redeem the Shares, as is the case as of the date of this Disclosure Statement, or if the Trust halts creations for an extended period of time, this arbitrage mechanism is unlikely to function properly and the value of the Shares of the Trust may not approximate, and the Shares may trade at a substantial premium over, or discount to, the value of the ETH held by the Trust, less the Trust’s expenses and other liabilities, if traded on any Secondary

Market because Authorized Participants will not be able to take advantage of arbitrage opportunities created when the market value of the Shares deviates from the value of the Trust's ETH Holdings per Share. The Shares may also trade at a substantial premium over, or a substantial discount to, the value of the Trust's ETH as a result of price volatility, trading volume and closings of Ethereum Exchanges due to fraud, failure, security breaches or otherwise.

Moreover, even if a redemption program is authorized, this arbitrage mechanism may not function properly if the Trust experiences unanticipated operational difficulties with the order process or if Authorized Participants are required to purchase or sell large aggregations of ETH in the open market to fulfill orders at prices that are materially higher or lower than the ETH Index Price. Although the Index is designed to accurately capture the market price of ETH, Authorized Participants may also be able to purchase and sell ETH on public or private markets not included among the constituent ETH Exchanges of the Index, and such transactions may take place at prices materially higher or lower than the ETH Index Price. Furthermore, while the Index provides Bitcoin- and U.S. dollar-denominated composite reference rates for the price of ETH based on the volume-weighted price of ETH on certain constituent ETH Exchanges at any given time, the prices on each such ETH Exchange may not be equal to the value of an ETH as represented by the ETH Index Price. It is possible that the price of ETH on the constituent ETH Exchange(s) used by an Authorized Participant will be materially higher or lower than the ETH Index Price.

In addition, under the Trust Agreement, the Sponsor may suspend or reject creation or, if permitted, redemption orders, as applicable, for a variety of permitted reasons under certain circumstances. The creation and, if permitted, redemption of Baskets may also encounter unanticipated difficulties, including, but not limited to, technical difficulties such as the disruption of the timely transfer of ETH to and from the Trust's accounts. To the extent orders are suspended, rejected or otherwise disrupted, potential market participants may not be willing or able to take advantage of any potential arbitrage opportunities and the arbitrage mechanism may fail to closely link the price of the Shares to the value of the underlying ETH, as measured using the ETH Index Price. If this is the case, the liquidity of the Shares may decline and the price of the Shares may fluctuate independently of the ETH Index Price and may fall.

***The Shares may trade at a price that is at, above or below the Trust's ETH Holdings per Share as a result of the non-current trading hours between the OTCQX and the ETH Exchange Market.***

The Trust's ETH Holdings per Share will fluctuate with changes in the market value of ETH, and the Sponsor expects the trading price of the Shares to fluctuate in accordance with changes in the Trust's ETH Holdings per Share, as well as market supply and demand. However, the Shares may trade on the OTCQX at, above or below the Trust's ETH Holdings per Share for a variety of reasons. For example, the OTCQX is open for trading in the Shares for a limited period each day, but the ETH Exchange Market is a 24-hour marketplace. During periods when the OTCQX is closed but ETH Exchanges are open, significant changes in the price of ETH on the ETH Exchange Market could result in a difference in performance between the value of ETH as measured by the Index and the most recent ETH Holdings per Share or closing trading price. Even during periods when the OTCQX is open, large ETH Exchanges (or a substantial number of smaller ETH Exchanges) may be lightly traded or are closed for any number of reasons, which could increase trading spreads and widen any premium or discount on the Shares. For example, if the price of ETH on the ETH Exchange Market, and the value of ETH as measured by the Index, moves significantly in a negative direction after the close of the OTCQX, the trading price of the Shares may "gap" down to the full extent of such negative price shift when the OTCQX reopens. If the price of ETH on the ETH Exchange Market drops significantly during hours the OTCQX is closed, investors may not be able to sell their Shares until after the "gap" down has been fully realized, resulting in an inability to mitigate losses in a rapidly negative market.

Premiums or discounts may have an adverse effect on an investment in the Shares if a Shareholder sells or acquires its Shares during a period of discount or premium, respectively.

***Security threats to the ETH Account could result in the halting of Trust operations, the suspension of redemptions (if redemptions would otherwise be authorized), and a loss of Trust assets or damage to the reputation of the Trust, each of which could result in a reduction in the price of the Shares.***

Security breaches, computer malware and computer hacking attacks have been a prevalent concern in relation to digital assets. The Sponsor believes that the Trust's ETH held in the ETH Account will be an appealing target to hackers or malware distributors seeking to destroy, damage or steal the Trust's ETH and will only become more appealing as the Trust's assets grow. To the extent that the Trust, the Sponsor, the Key Maintainer or any Backup Maintainer is unable to identify and mitigate or stop new security threats or otherwise adapt to technological changes in the digital asset industry, the Trust's ETH may be subject to theft, loss, destruction or other attack.

The Sponsor believes that the Security Procedures, including multi-factor redundancy, segregation and offline data storage protocols (i.e., the maintenance of data on computers and/or storage media that is not directly connected to or accessible from the internet and/or networked with other computers, also known as "cold storage") are reasonably designed to safeguard the Trust's ETH. Nevertheless, the Security Procedures cannot guarantee the prevention of any loss due to a security breach, software defect or act of God that may be borne by the Trust.

The Security Procedures and operational infrastructure may be breached due to the actions of outside parties, error or malfeasance of an employee of the Sponsor, the Key Maintainer, any Backup Maintainer, or otherwise, and, as a result, an unauthorized party may obtain access to the ETH Account, private keys (and therefore ETH) or other data. Additionally, outside parties may attempt to fraudulently induce employees of the Sponsor, the Key Maintainer or any Backup Maintainer to disclose sensitive information in order to gain access to the Trust's infrastructure. As the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, or may be designed to remain dormant until a predetermined event and often are not recognized until launched against a target, the Sponsor and the Key Maintainer may be unable to anticipate these techniques or implement adequate preventative measures.

An actual or perceived breach of the ETH Account could harm the Trust's operations, result in loss of the Trust's assets, damage the Trust's reputation and negatively affect the market perception of the effectiveness of the Trust, all of which could in turn reduce demand for the Shares, resulting in a reduction in the price of the Shares. The Trust may also cease operations or suspend redemptions (if redemptions would otherwise be authorized), the occurrence of each of which could similarly result in a reduction in the price of the Shares.

The Backup Maintainers are acting as backup maintainers to the Trust and may be acting as backup maintainers to trusts or other investment vehicles sponsored or managed by the Sponsor. In the event of a Backup Contingency with respect to the Trust or to another trust or investment vehicle sponsored or managed by the Sponsor, under the Backup Security Factor Agreements with the Backup Maintainers, the Backup Maintainers have the right to temporarily to access, but not the right to use, the Backup Factor for the Trust. After such a Backup Contingency, the Backup Maintainers are required to re-secure the Backup Factor for the Trust, and do not have further rights to access the Backup Factor for the Trust until a subsequent Backup Contingency. While ordinarily more than the Backup Factors are required to transfer the Trust's ETH, during the period following a Backup Contingency until the Backup Factors for the Trust are re-secured, the security risk to the ETH Accounts may be heightened.

***ETH transactions are irrevocable and stolen or incorrectly transferred ETH may be irretrievable. As a result, any incorrectly executed ETH transactions could adversely affect an investment in the Shares.***

ETH transactions are typically 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 Ethereum Blockchain, an incorrect transfer or theft of ETH generally will not be reversible and the Trust may not be capable of seeking compensation for any such transfer or theft. Although the Trust's transfers of ETH will regularly be made to or from the ETH Account, it is possible that, through computer or human error, or through theft or criminal action, the Trust's ETH could be transferred from the Trust's ETH Account in incorrect amounts or to unauthorized third parties, or to uncontrolled accounts.

Such events have occurred in connection with digital assets in the past. For example, in September 2014, the Chinese digital asset exchange Huobi announced that it had sent approximately 900 Bitcoins and 8,000 Litecoins (worth approximately \$400,000 at the prevailing market prices at the time) to the wrong customers. To the extent that the Trust is unable to seek a corrective transaction with such third party or is incapable of identifying the third party which has received the Trust's ETH through error or theft, the Trust will be unable to revert or otherwise recover incorrectly transferred ETH. The Trust will also be unable to convert or recover its ETH transferred to uncontrolled accounts. To the extent that the Trust is unable to seek redress for such error or theft, such loss could adversely affect an investment in the Shares.

***The Sponsor may need to quickly find and appoint a replacement Key Maintainer, which could pose a challenge to the safekeeping of the Trust's ETH.***

The Sponsor could decide to replace the Key Maintainer. Transferring key maintenance responsibilities to another party will likely be complex and could subject the Trust's ETH to the risk of loss during the transfer, which could have a negative impact on the performance of the Shares or result in loss of the Trust's assets.

If the Sponsor decides to replace a Key Maintainer, the Sponsor may not be able to find a party willing to serve as the replacement Key Maintainer under the same terms as the current Key Maintenance Agreement. To the extent that Sponsor is not able to find a suitable party willing to serve as the replacement Key Maintainer, the Sponsor may be required to terminate the Trust and liquidate the Trust's ETH. In addition, to the extent that the Sponsor finds a suitable party but must enter into a modified Key Maintenance Agreement that is less favorable for the Trust or Sponsor, an investment in the Shares could be adversely affected.

***The lack of insurance and Shareholders' limited rights of legal recourse against the Trust, Trustee, Sponsor, Transfer Agent, Key Maintainer and Backup Maintainers expose the Trust and its Shareholders to the risk of loss of the Trust's ETH for which no person or entity is liable.***

The Trust is not a banking institution or otherwise a member of the Federal Deposit Insurance Corporation ("FDIC") or Securities Investor Protection Corporation ("SIPC") and, therefore, deposits held with or assets held by the Trust are not subject to the protections enjoyed by depositors with FDIC or SIPC member institutions. In addition, the Trust does not directly insure the Trust's ETH. Shareholders cannot be assured that the Sponsor, the Key Maintainer or the Backup Maintainers will maintain adequate insurance or any insurance with respect to the Trust's ETH.

Furthermore, the security of the Trust's ETH is facilitated by multiple parties, including the Sponsor, the Key Maintainer and the Backup Maintainers, and there is no custodian or single party solely responsible for securing the Trust's ETH. As such, it may be difficult to prove that any particular party caused losses relating to the Trust's ETH or otherwise recover such losses if the Trust's ETH are lost, stolen or destroyed. In some circumstances, the Key Maintainer may use third-party technology provided to it by Sponsor in the performance of its duties under the Key Maintenance Agreement. If a loss of ETH were to result from a failure of one of these technologies caused by the creator of the third-party technology, the Trust may have no recourse with respect to the Key Maintainer or the creator of the third-party technology.

Moreover, even if the Trust were able to prove that a particular party was responsible for losses relating to its ETH, the responsible party may not have the financial resources sufficient to satisfy the Trust's claim or Shareholders' recourse against them may be limited under New York law governing their roles in facilitating the security of the Trust's ETH, pursuant to the terms of the agreement governing the Trust's relationship with such a party or due to other factors. For example, under the Key Maintenance Agreement, the Key Maintainer's liability with respect to the Trust is capped at the greater of \$1 million or 10% of the loss caused by and directly attributable to a breach of the Key Maintainer's obligations under the Key Maintenance Agreement. Under the Key Maintenance Agreement, the Key Maintainer will not be liable for any delay in performance or any non-performance of any of its obligations under the Key Maintenance Agreement by reason of any cause beyond its reasonable control, including acts of God, war or terrorism. The Key Maintainer will also not be liable for any



system failure or third-party penetration of the ETH Account, unless such system failure or third-party penetration is the result of its gross negligence, bad faith or willful misconduct. Similarly, the liability of the Backup Maintainers is also significantly limited, for example to situations in which the Backup Maintainer has engaged in willful misconduct.

The Shareholders' recourse against the Sponsor and Transfer Agent for the services they provide to the Trust, including those relating to the provision of instructions relating to the movement of ETH, is limited.

Consequently, a loss may be suffered with respect to the Trust's ETH that is not covered by insurance and for which no person is liable in damages. As a result, the recourse of the Trust or the Shareholders, under New York law, is limited.

***The Trust may be required, or the Sponsor may deem it appropriate, to terminate and liquidate at a time that is disadvantageous to Shareholders.***

If the Trust is required to terminate and liquidate, or the Sponsor determines in accordance with the terms of the Trust Agreement that it is appropriate to terminate and liquidate the Trust, such termination and liquidation could occur at a time that is disadvantageous to Shareholders, such as when the Actual Exchange Rate of ETH is lower than the ETH Index Price was at the time when Shareholders purchased their Shares. In such a case, when the Trust's ETH are sold as part of its liquidation, the resulting proceeds distributed to Shareholders will be less than if the Actual Exchange Rate were higher at the time of sale. See "Material Contracts. The Trust Agreement, Key Maintenance Agreement and the Backup Security Factor Agreements —The Trustee—Termination of the Trust" for more information about the termination of the Trust, including when the termination of the Trust may be triggered by events outside the direct control of the Sponsor, the Trustee or the Shareholders.

***The Trust Agreement includes provisions that limit Shareholders' voting rights and restrict Shareholders' right to bring a derivative action.***

Under the Trust Agreement, Shareholders have limited voting rights and the Trust will not have regular Shareholder meetings. Shareholders take no part in the management or control of the Trust. Accordingly, Shareholders do not have the right to authorize actions, appoint service providers or take other actions as may be taken by Shareholders of other trusts or companies where shares carry such rights. The Shareholders' limited voting rights give almost all control under the Trust Agreement to the Sponsor and the Trustee. The Sponsor may take actions in the operation of the Trust that may be adverse to the interests of Shareholders and may adversely affect an investment in the Shares.

Moreover, pursuant to the terms of the Trust Agreement, Shareholders' statutory right under Delaware law to bring a derivative action (i.e., to initiate a lawsuit in the name of the Trust in order to assert a claim belonging to the Trust against a fiduciary of the Trust or against a third-party when the Trust's management has refused to do so) is restricted. The Trust Agreement provides that in addition to any other requirements of applicable law, no Shareholder will have the right, power or authority to bring or maintain a derivative action, suit or other proceeding on behalf of the Trust unless two or more Shareholders who (i) are not affiliates of one another and (ii) collectively hold at least 10.0% of the outstanding Shares join in the bringing or maintaining of such action, suit or other proceeding. Therefore, the Trust Agreement limits the likelihood that a Shareholder could successfully assert a derivative action.

***The Sponsor is solely responsible for determining the value of the ETH Holdings and ETH Holdings per Share, and any errors, discontinuance or changes in such valuation calculations may have an adverse effect on the value of the Shares.***

The Sponsor will determine the Trust's ETH Holdings and ETH Holdings per Share on a daily basis as soon as practicable after 4:00 p.m., New York time, on each business day. The Sponsor's determination is made utilizing data from the operations of the Trust and the ETH Index Price, calculated at 4:00 p.m., New York time, on such

day. To the extent that the ETH Holdings or ETH Holdings per Share are incorrectly calculated, the Sponsor may not be liable for any error and such misreporting of valuation data could adversely affect an investment in the Shares.

***Extraordinary expenses resulting from unanticipated events may become payable by the Trust, adversely affecting an investment in the Shares.***

In consideration for the Sponsor's Fee, the Sponsor has contractually assumed all ordinary-course operational and periodic expenses of the Trust. See "Description of the Trust—Trust Expenses." Extraordinary expenses incurred by the Trust, such as taxes and governmental charges; expenses and costs of any extraordinary services performed by the Sponsor (or any other service provider) on behalf of the Trust to protect the Trust or the interests of Shareholders (including in connection with any Incidental Rights and any IR Virtual Currency) or extraordinary legal fees and expenses are not assumed by the Sponsor and are borne by the Trust. The Sponsor will cause the Trust to either (i) sell ETH, Incidental Rights and/or IR Virtual Currency held by the Trust or (ii) deliver ETH, Incidental Rights and/or IR Virtual Currency in kind to pay Trust expenses not assumed by the Sponsor on an as-needed basis. Accordingly, the Trust may be required to sell or otherwise dispose of ETH, Incidental Rights or IR Virtual Currency at a time when the trading prices for those assets are depressed.

The sale or other disposition of assets of the Trust in order to pay extraordinary expenses could have a negative impact on the value of the Shares for several reasons. These include the following factors:

- The Trust is not actively managed and no attempt will be made to protect against or to take advantage of fluctuations in the prices of ETH, Incidental Rights or IR Virtual Currency. Consequently, if the Trust incurs expenses in U.S. dollars, the Trust's ETH, Incidental Rights or IR Virtual Currency may be sold at a time when the values of the disposed assets are low, resulting in a negative impact on the value of the Shares.
- Because the Trust does not generate any income, every time that the Trust pays expenses it will deliver ETH, Incidental Rights or IR Virtual Currency to the Sponsor or sell ETH, Incidental Rights or IR Virtual Currency. Any sales of the Trust's assets in connection with the payment of expenses will decrease the amount of the Trust's assets represented by each Share each time its assets are sold or transferred to the Sponsor.
- Assuming that the Trust is a grantor trust for U.S. federal income tax purposes, each delivery or sale of ETH, Incidental Rights or IR Virtual Currency by the Trust to pay the Sponsor's Fee and/or Additional Trust Expenses will be a taxable event to beneficial owners of Shares. Thus, the Trust's payment of expenses could result in beneficial owners of Shares incurring tax liability without an associated distribution from the Trust. Any such tax liability could adversely affect an investment in the Shares. See "Certain U.S. Federal Income Tax Consequences."

***The Trust's delivery or sale of ETH to pay expenses or other operations of the Trust could result in Shareholders' incurring tax liability without an associated distribution from the Trust.***

Assuming that the Trust is treated as a grantor trust for U.S. federal income tax purposes, each delivery of ETH by the Trust to pay the Sponsor's Fee or other expenses and each sale of ETH by the Trust to pay Additional Trust Expenses will be a taxable event to beneficial owners of Shares. Thus, the Trust's payment of expenses could result in beneficial owners of Shares incurring tax liability without an associated distribution from the Trust. Any such tax liability could adversely affect an investment in the Shares. See "Certain U.S. Federal Income Tax Consequences."

***The value of the Shares will be adversely affected if the Trust is required to indemnify the Sponsor, the Trustee, the Transfer Agent, the Key Maintainer or any Backup Maintainer under the Trust Documents.***

Under the Trust Documents, each of the Sponsor, the Trustee, the Transfer Agent, the Key Maintainer and the Backup Maintainers has a right to be indemnified by the Trust for certain liabilities or expenses that it incurs without gross negligence, bad faith or willful misconduct on its part. Therefore, the Sponsor, Trustee, Transfer Agent, the Key Maintainer or any Backup Maintainer may require that the assets of the Trust be sold in order to cover losses or liability suffered by it. Any sale of that kind would reduce the ETH Holdings of the Trust and the value of the Shares.

***Intellectual property rights claims may adversely affect the Trust and an investment in the Shares.***

The Sponsor is not aware of any intellectual property rights claims that may prevent the Trust from operating and holding ETH, Incidental Rights or IR Virtual Currency. However, third parties may assert intellectual property rights claims relating to the operation of the Trust and the mechanics instituted for the investment in, holding of and transfer of ETH, Incidental Rights or IR Virtual Currency. Regardless of the merit of an intellectual property or other legal action, any legal expenses to defend or payments to settle such claims would be extraordinary expenses that would be borne by the Trust through the sale or transfer of its ETH, Incidental Rights or IR Virtual Currency. Additionally, a meritorious intellectual property rights claim could prevent the Trust from operating and force the Sponsor to terminate the Trust and liquidate its ETH, Incidental Rights or IR Virtual Currency. As a result, an intellectual property rights claim against the Trust could adversely affect an investment in the Shares.

#### **Risk Factors Related to the Regulation of the Trust and the Shares**

***Regulatory changes or actions may alter the nature of an investment in the Shares or restrict the use of ETH, mining activity or the operation of the Ethereum Network or the ETH Exchange Market in a manner that adversely affects an investment in the Shares.***

As digital assets have grown in both popularity and market size, the U.S. Congress and a number of U.S. federal and state agencies (including FinCEN, SEC, CFTC, FINRA, the Consumer Financial Protection Bureau, the Department of Justice, The Department of Homeland Security, the Federal Bureau of Investigation, the IRS and state financial institution regulators) have been examining the operations of digital asset networks, digital asset users and digital asset exchange markets, with particular focus on the extent to which digital assets can be used to launder the proceeds of illegal activities or fund criminal or terrorist enterprises and the safety and soundness of exchanges and other service providers that hold digital asset for users. Many of these state and federal agencies have issued consumer advisories regarding the risks posed by digital assets to investors. Ongoing and future regulatory actions with respect to digital assets generally or ETH in particular may alter, perhaps to a materially adverse extent, the nature of an investment in the Shares or the ability of the Trust to continue to operate.

Law enforcement agencies have often relied on the transparency of blockchains to facilitate investigations. However, certain privacy-enhancing features have been, or are expected to be, introduced to a number digital asset networks like the ETH Network, and these features may provide law enforcement agencies have less visibility into transaction-level data. Europol, the European Union’s law enforcement agency, released a report in October 2017 noting the increased use of privacy-enhancing digital assets like Zcash and Monero in criminal activity on the internet. Although no regulatory action has been taken to treat ETH or other privacy-enhancing digital assets differently, this may change in the future.

Many blockchain startups use digital asset networks, such as the Ethereum network, to launch their initial coin offerings (“ICOs”). In July 2017, the SEC determined that tokens issued by The DAO, for instance, are securities under the U.S. securities laws. The SEC reasoned that the unregistered sale of digital asset tokens can, in certain circumstances, including ICOs, be considered illegal public offering of securities. The SEC could make a similar determination with respect to digital tokens distributed in other ICOs, including for any digital assets held by the Trusts. If the SEC were to determine that ETH is a security, the Trust and the Sponsor would be subject to

additional regulatory and compliance requirements under U.S. federal securities laws, including the Investment Company Act and, with respect to the Sponsor, the Investment Advisers Act. In addition, the SEC's determination or a market expectation of the SEC's determination that ETH is a security could adversely affect the market price of ETH or digital assets generally and thus an investment in the Shares.

Furthermore, a number of foreign jurisdictions have, like the SEC, also recently opined on the sale of digital asset tokens, including through ICOs. For example, China and South Korea have banned ICOs entirely (although proposed legislation in South Korea would remove the ban if passed) and other jurisdictions, including Canada, Singapore and Hong Kong, have opined that ICOs may constitute securities offerings subject to local securities regulations. A determination that ETH is a security under U.S. or foreign law could adversely affect an investment in the Shares.

Additionally, concerns have been raised about the electricity required to secure and maintain the ETH Network. As of December 31, 2018, in connection with mining on the Bitcoin Network, for example, over 42 quintillion hashing operations are performed every second on the Bitcoin Network. Although measuring the electricity consumed by this process is difficult because these operations are performed by various machines with varying levels of efficiency, the process consumes a significant amount of energy. The operations of other digital asset networks, including the Ethereum Network, also consume significant amounts of energy. Further, in addition to the direct energy costs of performing calculations on any given digital asset network, there are indirect costs that impact a network's total energy consumption, including the costs of cooling the machines that perform these calculations. In 2018, due to these concerns around energy consumption, particularly as such concerns relate to public utilities companies, various states and cities have implemented, or are considering implementing, moratoriums on mining activity in their jurisdictions. A significant reduction in mining activity as a result of such actions could adversely affect the security of the Ethereum Network by making it easier for a malicious actor or botnet to manipulate the Ethereum Blockchain. See “—If a malicious actor or botnet obtains control of more than 50% of the processing power on the Ethereum Network, or otherwise obtains control over the Ethereum Network through its influence over core developers or otherwise, such actor or botnet could manipulate the Ethereum Blockchain to adversely affect an investment in the Shares or the ability of the Trust to operate.”

***If regulatory changes or interpretations of an Authorized Participant's, the Trust's or the Sponsor's activities require the regulation of an Authorized Participant, the Trust or the Sponsor as a money service business under the regulations promulgated by FinCEN under the authority of the U.S. Bank Secrecy Act or as a money transmitter or digital asset business under state regimes for the licensing of such businesses, an Authorized Participant, the Trust or the Sponsor may be required to register and comply with such regulations, which could result in extraordinary, recurring and/or nonrecurring expenses to the Authorized Participant, Trust or Sponsor or increased commissions for the Authorized Participant's clients, thereby reducing the liquidity of the Shares.***

To the extent that the activities of any Authorized Participant, the Trust or the Sponsor cause it to be deemed a “money services business” under the regulations promulgated by FinCEN under the authority of the U.S. Bank Secrecy Act, such Authorized Participant, Trust or Sponsor may be required to comply with FinCEN regulations, including those that would mandate the Authorized Participant to implement anti-money laundering programs, make certain reports to FinCEN and maintain certain records. Similarly, the activities of an Authorized Participant, the Trust or the Sponsor may require it to be licensed as a money transmitter or as a digital asset business, such as under NYDFS' BitLicense scheme.

Such additional regulatory obligations may cause the Authorized Participant, the Trust or the Sponsor to incur extraordinary expenses. If the Authorized Participant, the Trust or the Sponsor decide to seek the required licenses, there is no guarantee that they will timely receive them. The Authorized Participant may also instead decide to terminate its role as Authorized Participant of the Trust, or the Sponsor may decide to terminate the Trust. Termination by the Authorized Participant may decrease the liquidity of the Shares, which may adversely

affect the value of the Shares, and any termination of the Trust in response to the changed regulatory circumstances may be at a time that is disadvantageous to the Shareholders.

Additionally, to the extent an Authorized Participant, the Trust or the Sponsor is found to have operated without appropriate state or federal licenses, it may be subject to investigation, administrative or court proceedings, and civil or criminal monetary fines and penalties, all of which would harm the reputation of the Trust or the Sponsor, decrease the liquidity of the Trust, and have a material adverse effect on the price of the Shares.

***Regulatory changes or interpretations relating to the custody of digital assets could require the Trust, the Sponsor, the Key Maintainer and the Backup Maintainers to be required to apply for licenses, and could subject these parties to investigations and penalties, which could adversely affect an investment in the Shares.***

The Trust, the Sponsor, the Key Maintainer and the Backup Maintainers believe that because of the multi-factor security system and the terms of the agreements governing their use of their security factors, none of them are required to apply for a BitLicense from the NYDFS or register as a money transmitter or party engaged in digital assets business activity (or equivalent designation) under state law in any other state in which the Trust operates. In the event that regulatory changes or interpretations would require such registrations or licenses, there may be extraordinary, nonrecurring expenses to the Trust. The Sponsor may also decide to terminate the relationship with the Key Maintainer or Backup Maintainer or terminate the Trust. Any termination of the relationship with the Key Maintainer or Backup Maintainer or termination of the Trust in response to the changed regulatory circumstances may be at a time that is disadvantageous to Shareholders. The Sponsor may not be able to find a successor Key Maintainer or Backup Maintainer that has the appropriate licenses.

***Regulatory changes or interpretations could cause the Trust and the Sponsor to register and comply with new regulations, resulting in potentially extraordinary, nonrecurring expenses to the Trust.***

Current and future legislation, CFTC and SEC rulemaking and other regulatory developments may impact the manner in which ETH are treated for classification and clearing purposes. In particular, ETH may be classified by the CFTC as a “commodity interest” under the CEA or may be classified by the SEC as a “security” under U.S. federal securities laws. As of the date of this Disclosure Statement, the Sponsor is not aware of any rules that have been proposed to regulate ETH as a commodity interest or a security. Although several U.S. federal district courts have recently held for certain purposes that other digital assets such as ETH are currency or a form of money, these rulings are not definitive. In 2018, the SEC and U.S. Congress have focused their attention and brought increased scrutiny to these issues. The Sponsor and the Trust cannot be certain as to how future regulatory developments will impact the treatment of ETH under the law. In the face of such developments, the required registrations and compliance steps may result in extraordinary, nonrecurring expenses to the Trust. If the Sponsor decides to terminate the Trust in response to the changed regulatory circumstances, the Trust may be dissolved or liquidated at a time that is disadvantageous to Shareholders.

To the extent that ETH is deemed to fall within the definition of a “commodity interest” under the CEA, the Trust and the Sponsor may be subject to additional regulation under the CEA and CFTC regulations. The Sponsor may be required to register as a commodity pool operator or commodity trading advisor with the CFTC and become a member of the National Futures Association and may be subject to additional regulatory requirements with respect to the Trust, including disclosure and reporting requirements. These additional requirements may result in extraordinary, recurring and/or nonrecurring expenses of the Trust, thereby materially and adversely impacting the Shares. If the Sponsor determines not to comply with such additional regulatory and registration requirements, the Sponsor will terminate the Trust. Any such termination could result in the liquidation of the Trust’s ETH at a time that is disadvantageous to Shareholders.

To the extent that ETH is deemed to fall within the definition of a security under U.S. federal securities laws, the Trust and the Sponsor may be subject to additional requirements under the Investment Company Act and the Sponsor may be required to register as an investment adviser under the Investment Advisers Act. Such additional registration may result in extraordinary, recurring and/or non-recurring expenses of the Trust, thereby materially

and adversely impacting the Shares. If the Sponsor determines not to comply with such additional regulatory and registration requirements, the Sponsor will terminate the Trust. Any such termination could result in the liquidation of the Trust's ETH at a time that is disadvantageous to Shareholders.

***The treatment of the Trust for U.S. federal income tax purposes is uncertain.***

The Sponsor intends to take the position that the Trust is properly treated as a grantor trust for U.S. federal income tax purposes. Assuming that the Trust is a grantor trust, the Trust will not be subject to U.S. federal income tax. Rather, if the Trust is a grantor trust, each beneficial owner of Shares will be treated as directly owning its pro rata share of the Trust's assets and a pro rata portion of the Trust's income, gain, losses and deductions will "flow through" to each beneficial owner of Shares.

The Trust has taken certain positions with respect to the tax consequences of its receipt of Incidental Rights and IR Virtual Currency. If the IRS were to disagree with, and successfully challenge, any of these positions, the Trust might not qualify as a grantor trust. In addition, the Trust has informed the Key Maintainer and Backup Maintainers that it is irrevocably abandoning, as of any date on which the Trust creates Shares, any Incidental Rights or IR Virtual Currency to which it would otherwise be entitled as of such date and with respect to which it has not taken any other action on or prior to such date. There can be no complete assurance that this prospective abandonment will be treated as effective for U.S. federal income tax purposes. If the Trust were treated as owning any asset other than ETH as of any date on which it creates Shares, it would likely cease to qualify as a grantor trust for U.S. federal income tax purposes.

Because of the evolving nature of digital currencies, it is not possible to predict potential future developments that may arise with respect to digital currencies, including forks, airdrops and other similar events. Assuming that the Trust is currently a grantor trust for U.S. federal income tax purposes, certain future developments could render it impossible, or impracticable, for the Trust to continue to be treated as a grantor trust for such purposes.

If the Trust is not properly classified as a grantor trust, the Trust might be classified as a partnership for U.S. federal income tax purposes. However, due to the uncertain treatment of digital currency for U.S. federal income tax purposes (as discussed in "Certain U.S. Federal Income Tax Consequences—Uncertainty Regarding the U.S. Federal Income Tax Treatment of Digital Currency"), there can be no assurance in this regard. If the Trust were classified as a partnership for U.S. federal income tax purposes, the tax consequences of owning Shares generally would not be materially different from the tax consequences described herein, although there might be certain differences, including with respect to timing of the recognition of taxable income or loss. In addition, tax information reports provided to Shareholders would be made in a different form. If the Trust were not classified as either a grantor trust or a partnership for U.S. federal income tax purposes, it would be classified as a corporation for such purposes. In that event, the Trust would be subject to entity-level U.S. federal income tax (currently at a maximum rate of 21%) on its net taxable income and certain distributions made by the Trust to Shareholders would be treated as taxable dividends to the extent of the Trust's current and accumulated earnings and profits. Any such dividend distributed to a beneficial owner of Shares that is a non-U.S. person for U.S. federal income tax purposes would be subject to U.S. federal withholding tax at a rate of 30% (or such lower rate as provided in an applicable tax treaty).

See "Certain U.S. Federal Income Tax Consequences" for more information.

***The treatment of digital currency for U.S. federal income tax purposes is uncertain.***

As discussed in the section entitled "Certain U.S. Federal Income Tax Consequences—Uncertainty Regarding the U.S. Federal Income Tax Treatment of Digital Currency" below, assuming that the Trust is properly treated as a grantor trust for U.S. federal income tax purposes, each beneficial owner of Shares in the Trust will be treated for U.S. federal income tax purposes as the owner of an undivided interest in ETH (and, if applicable, any Incidental Rights and/or IR Virtual Currency) held in the Trust. Due to the new and evolving nature of digital currencies and a general absence of clearly controlling authority with respect to digital currencies, many

significant aspects of the U.S. federal income tax treatment of digital currency are uncertain. On March 25, 2014, the Internal Revenue Service (“IRS”) released a notice (the “Notice”) discussing certain aspects of the treatment of digital currencies for U.S. federal income tax purposes. In the Notice, the IRS stated that, for U.S. federal income tax purposes, (i) digital currency is “property” that is not currency and (ii) digital currency may be held as a capital asset. There can be no assurance, however, that the IRS will not alter its position with respect to digital currency in the future or that a court would uphold the treatment set forth in the Notice. In addition, legislation has been introduced that likely would, if enacted, cause digital currency to be treated as currency for U.S. federal income tax purposes. If digital currency were properly treated as currency for U.S. federal income tax purposes, gains recognized on the disposition of digital currency, and on a disposition of Shares, would constitute ordinary income, and losses recognized on the disposition of digital currency, and on a disposition of Shares, could be subject to special reporting requirements applicable to “reportable transactions.”

The Notice does not address other significant aspects of the U.S. federal income tax treatment of digital currency, including: (i) whether digital currency is properly treated as a “commodity” for U.S. federal income tax purposes and (ii) whether and how a holder of digital currency acquired at different times or at varying prices may designate, for U.S. federal income tax purposes, which units of the digital currency are transferred in a subsequent sale, exchange or other disposition. The Notice addressed only digital currency that is “convertible virtual currency,” defined as digital currency that has an equivalent value in fiat currency or that acts as a substitute for fiat currency. It is conceivable that certain IR Virtual Currency the Trust may receive in the future in connection with its ownership of a digital currency would not be within the scope of the Notice. The Notice also does not address the U.S. federal income tax treatment of a fork or airdrop of digital currency or other similar occurrence, and it is possible that such an occurrence would be treated as a taxable event, even if the Trust does not claim the relevant IR Virtual Currency.

Prospective investors are urged to consult their tax advisers regarding the substantial uncertainty regarding the tax consequences of an investment in the Trust and in digital currencies in general.

***Future developments regarding the treatment of digital currency for U.S. federal income tax purposes could adversely affect an investment in the Shares.***

As discussed above, many significant aspects of the U.S. federal income tax treatment of digital currency, such as ETH, are uncertain, and it is unclear what guidance on the treatment of digital currency for U.S. federal income tax purposes may be issued in the future. It is possible that any such guidance would have a negative effect on the prices of digital currency, including on the price of ETH in the ETH Exchange Market, and therefore may have an adverse effect on the value of the Shares.

Because of the evolving nature of digital currencies, it is not possible to predict potential future developments that may arise with respect to digital currencies, including forks, airdrops and other similar events. Such developments may result in uncertain tax consequences and may increase the uncertainty with respect to the treatment of digital currencies more generally. Certain future developments could render it impossible, or impracticable, for the Trust to continue to be treated as a grantor trust for U.S. federal income tax purposes.

***Future developments in tax treatment of digital currency for tax purposes other than U.S. federal income tax purposes could adversely affect an investment in the Shares.***

The NYDTF has issued guidance regarding the application of New York State tax law to digital currencies such as ETH. The NYDTF determined that New York State would follow the Notice with respect to the treatment of digital currencies for state income tax purposes. Furthermore, the NYDTF took the position that digital currencies such as ETH are a form of “intangible property,” with the result that the purchase and sale of ETH for fiat currency is not subject to New York state sales tax (although exchanges of ETH for other goods and services may be subject to sales tax under barter transaction treatment). The New Jersey Division of Taxation has issued similar guidance, while the taxing authorities of various states other than New York and New Jersey have issued guidance exempting the acquisition and/or disposition of digital currencies from sales tax.

It is unclear what further guidance on the treatment of digital currencies for state tax purposes may be issued in the future. If a state does not follow the Notice, or issues other guidance with respect to digital currency, such state's treatment of digital currency may have negative consequences, including the imposition of a greater tax burden on investors in digital currency or the imposition of a greater cost on the acquisition and disposition of digital currency generally. Any such treatment may have a negative effect on prices of digital currency, including on the price of ETH in the ETH Exchange Market, and therefore may adversely affect the value of the Shares.

The treatment of digital currencies for tax purposes by non-U.S. jurisdictions may differ from the treatment of digital currencies by the IRS or any state. If a foreign jurisdiction imposes onerous tax burdens on ETH users, or imposes sales or value-added tax on purchases and sales of ETH for fiat currency, such actions could result in decreased demand for ETH in such jurisdiction, which could adversely affect the price of ETH and the value of the Shares.

### **Risk Factors Related to Potential Conflicts of Interest**

*Potential conflicts of interest may arise among the Sponsor or its affiliates and the Trust. The Sponsor and its affiliates have no fiduciary duties to the Trust and its Shareholders, other than as provided in the Trust Agreement, which may permit them to favor their own interests to the detriment of the Trust and its Shareholders.*

The Sponsor will manage the affairs of the Trust. Conflicts of interest may arise among the Sponsor and its affiliates, including the Index Provider, the Authorized Participants and the Initial Purchaser on the one hand, and the Trust and its Shareholders, on the other hand. As a result of these conflicts, the Sponsor may favor its own interests and the interests of its affiliates over the Trust and its Shareholders. These potential conflicts include, among others, the following:

- The Sponsor has no fiduciary duties to, and is allowed to take into account the interests of parties other than, the Trust and its Shareholders in resolving conflicts of interest;
- The Trust has agreed to indemnify the Sponsor and its affiliates pursuant to the Trust Agreement;
- The Sponsor is responsible for allocating its own limited resources among different clients and potential future business ventures, to each of which it owes fiduciary duties;
- The Sponsor's staff also services affiliates of the Sponsor, including other digital asset investment vehicles, and their respective clients and cannot devote all of its, or their, respective time or resources to the management of the affairs of the Trust;
- The Sponsor, its affiliates and their officers and employees are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with the Trust;
- Affiliates of the Sponsor have substantial direct investments in ETH that they are permitted to manage taking into account their own interests without regard to the interests of the Trust or its Shareholders, and any increases, decreases or other changes in such investments could affect the ETH Index Price and, in turn, the price of Shares;
- There is an absence of arm's-length negotiation with respect to certain terms of the Trust, and, where applicable, there has been no independent due diligence conducted with respect to the Trust;
- Several employees of the Sponsor and the Sponsor's parent company, Digital Currency Group, Inc., are FINRA-registered representatives who maintain their licenses through Genesis;
- Barry E. Silbert, the Chief Executive Officer of the Sponsor, acts as an advisor to the Index Provider and owns approximately 0.5% of the Index Provider's voting equity as of the date of this Disclosure Statement;



- Digital Currency Group, Inc., the sole member and parent company of the Sponsor and Genesis, the only acting Authorized Participant, owns (i) approximately 1.9% of the Index Provider’s voting equity and owns warrants representing approximately 1.1% of the Index Provider’s voting equity; (ii) approximately 1.0% of the Key Maintainer’s voting equity, as of the date of this Disclosure Statement; (iii) a minority interest holder in Coinbase, which operates Coinbase Pro, one of the exchanges included in the ETH Index and the exchange considered to be the Trust’s principal market as of December 31, 2018 and 2017, representing less than 1.0% of its equity; and (iv) a minority interest holder in Circle Internet Financial Limited, which is the parent company of Poloniex, one of the exchanges included in the ETH Index as of December 31, 2018 and 2017, representing less than 1.0% of its equity
- Digital Currency Group, Inc. has investments in a large number of digital assets and companies involved in the digital asset ecosystem, including exchanges and custodians. Digital Currency Group, Inc.’s positions on changes that should be adopted in the Ethereum Network could be adverse to positions that would benefit the Trust or its Shareholders. Additionally, before or after a hard fork, Digital Currency Group, Inc.’s position regarding which fork among a group of incompatible forks of the Ethereum Network should be considered the “true” ETH could be adverse to positions that would most benefit the Trust;
- Digital Currency Group, Inc. has been vocal in the past about its support for digital assets other than ETH. Any investments in, or public positions taken on, digital assets other than ETH by Digital Currency Group, Inc. could have an adverse impact on the price of ETH;
- The Sponsor decides whether to retain separate counsel, accountants or others to perform services for the Trust;
- The Sponsor and the Authorized Participant, Distributor and Marketer are affiliated parties that share a common parent company, Digital Currency Group, Inc.;
- Genesis, the only acting Authorized Participant, the Distributor and the Marketer, is also an Initial Purchaser;
- While the Index Provider does not currently utilize data from over-the-counter markets or derivatives platforms, it may decide to include pricing from such markets or platforms in the future, which could include the affiliated Authorized Participant or Distributor and Marketer;
- The Sponsor or an affiliate of the Sponsor may enter into contracts with the Trust, which are not required to be negotiated at arm’s length; and
- The Sponsor may appoint an agent to act on behalf of the Shareholders, including in connection with the distribution of any Incidental Rights and/or IR Virtual Currency, which agent may be the Sponsor or an affiliate of the Sponsor.

In addition, there may be conflicts of interest involving the Backup Maintainers, such as investment in them by the Sponsor, the Sponsor’s affiliates or their executive officers or other service relationships between the Backup Maintainer and the Trust, the Sponsor or the Sponsor’s affiliates. To maintain the security of the Trust’s ETH, the identity of the Backup Maintainers and details of potential conflicts that could identify the Backup Maintainers are not being disclosed.

By investing in the Shares, investors agree and consent to the provisions set forth in the Trust Agreement. See “Material Contracts. The Trust Agreement, Key Maintenance Agreement and the Backup Security Factor Agreements —Description of the Trust Agreement.”

For a further discussion of the conflicts of interest among the Sponsor, the Distributor, the Marketer, the Authorized Participant, the Index Provider, the Trust and others, see “Conflicts of Interest.”

***Shareholders cannot be assured of the Sponsor’s continued services, the discontinuance of which may be detrimental to the Trust.***

Shareholders cannot be assured that the Sponsor will be willing or able to continue to serve as sponsor to the Trust for any length of time. If the Sponsor discontinues its activities on behalf of the Trust and a substitute sponsor is not appointed, the Trust will terminate and liquidate the ETH held by the Trust.

Appointment of a substitute sponsor will not guarantee the Trust’s continued operation, successful or otherwise. Because a substitute sponsor may have no experience managing a digital asset financial vehicle, a substitute sponsor may not have the experience, knowledge or expertise required to ensure that the Trust will operate successfully or to continue to operate at all. Therefore, the appointment of a substitute sponsor may not necessarily be beneficial to the Trust or an investment in the Shares and the Trust may terminate. See “Conflicts of Interest—The Sponsor.”

***The Key Maintainer and Backup Maintainers owe no fiduciary duties to the Trust or the Shareholders, are not required to act in the best interests of the Trust or the Sponsor and could resign or be removed by the Sponsor, which would trigger early termination of the Trust.***

The Key Maintainer and Backup Maintainers are not trustees for, and owe no fiduciary duties to, the Trust or the Shareholders. In addition, the Key Maintainer and Backup Maintainers have no duty to continue to act for the Trust. The Key Maintainer and any Backup Maintainer can terminate their roles for any reason whatsoever upon the notice period provided under the Key Maintenance Agreement and the Backup Security Factor Agreements, respectively. The Key Maintainer and any Backup Maintainer may also be terminated by the Trust for any reason whatsoever upon the notice periods provided in these agreements. If the Key Maintainer or any Backup Maintainer resigns or is removed without replacement, the Trust will dissolve in accordance with the terms of the Trust Agreement.

***Shareholders may be adversely affected by the lack of independent advisers representing investors in the Trust.***

The Sponsor has consulted with counsel, accountants and other advisers regarding the formation and operation of the Trust. No counsel has been appointed to represent an investor in connection with the offering of the Shares. Accordingly, an investor should consult his, her, or its own legal, tax and financial advisers regarding the desirability of an investment in the Shares. Lack of such consultation may lead to an undesirable investment decision with respect to investment in the Shares.

***An affiliate of the Sponsor is a leading online news publication and data provider in the digital asset industry whose publications could influence trading prices and demand for digital assets held by the Trust.***

Both the Sponsor and CoinDesk are subsidiaries of Digital Currency Group, Inc. CoinDesk is a leading news publication and data provider, which plays a large role in aggregating, creating and disseminating news and other editorial content across the global digital asset industry. Although CoinDesk’s policy is to shield its editorial operations from Digital Currency Group, Inc.’s control, it is possible that CoinDesk’s news coverage could influence trading prices and demand for digital assets, including those held by the Trust, and it is also possible that consumers of CoinDesk content may not appreciate that CoinDesk’s owner has substantial financial interests in digital assets, despite information to that effect on CoinDesk’s website. As a result, some consumers of CoinDesk’s content may place greater weight on such content than they would if they were aware of Digital Currency Group Inc.’s ownership stake, and this could cause the trading prices of digital assets, including ETH, to be higher than they would be otherwise.

## TRADEBLOCK ETX INDEX

The Trust values its ETH by reference to the “ETH Index Price,” which is the volume-weighted index price of an ETH in U.S. dollars calculated by applying a weighting algorithm to the price and trading volume data of ETH for the immediately preceding 24-hour period as of 4:00 p.m., New York time, on each business day derived from the trading venues selected by the Index Provider and included in the TradeBlock ETX Index (the “Index”). The ETH Index Price is calculated using non-GAAP methodology and is not used in the Trust’s financial statements.

### *Description of the Index*

The Index is a U.S. dollar-denominated composite reference rate for the price of ETH based on the volume-weighted price at trading venues selected by TradeBlock, Inc. (the “Index Provider”). Trading venues used to calculate the Index may include ETH Exchanges, over-the-counter markets or derivatives platforms. The Index Provider includes trading venues on the Index using standardized eligibility criteria such as depth of liquidity, compliance with applicable legal and regulatory requirements and data availability, and gives priority to U.S.-domiciled ETH Exchanges. See “Risk Factors— Risk Factors Related to the ETH Exchange Market—The ETH Index Price used to calculate the value of the Trust’s ETH may be volatile, and purchasing activity in the ETH Exchange Market associated with Basket creations or selling activity following Basket redemptions, if permitted, may affect the ETH Index Price and Share trading prices, adversely affecting an investment in the Shares.”

To calculate the ETH Index Price, trade data is cleansed and compiled in such a manner as to algorithmically reduce the impact of anomalous or manipulative trading. This is accomplished by adjusting the weight of each data input based on price deviation relative to the observable set of data for the relevant trading venue, as well as recent and long-term trading volume at each venue relative to the observable set for the relevant trading venues. The Index Provider formally reevaluates the weighting algorithm quarterly, but maintains discretion to change it in extreme circumstances which could necessitate immediate updates to the algorithm or included exchanges.

Index rate data and the description of the Index are based on information publicly available at the Index Provider’s website at <https://tradeblock.com/markets/indices/>. ***None of the information on the Index Provider’s website is incorporated by reference into this Disclosure Statement.***

The Index Provider may change the trading venues that are used to calculate the ETH Index Price or otherwise change the way in which the ETH Index Price is calculated based on its periodic review of trading venues and its discretion described above.

If the ETH Index Price becomes unavailable, or if the Sponsor determines in good faith that the ETH Index Price does not reflect an accurate ETH price, then the Sponsor will, on a best efforts basis, contact the Index Provider to obtain the ETH Index Price directly from the Index Provider. If after such contact, the Index remains unavailable or the Sponsor continues to believe in good faith that the ETH Index Price does not reflect an accurate ETH price, then the Sponsor will employ a cascading set of rules to determine the ETH Index Price, as described in “Description of the Trust—The Index and the ETH Index Price.”

### *Certain Relationships*

The Index Provider and the Sponsor have entered into an index license agreement (the “Index License Agreement”) governing the Sponsor’s use of the Index for calculation of the ETH Index Price. The Index Provider may adjust the calculation methodology for the Index without notice to, or consent of, the Trust or its Shareholders. Under the Index License Agreement, the Sponsor pays a monthly fee and a fee based on the ETH Holdings of the Trust to the Index Provider in consideration of its license to the Sponsor of Index-related intellectual property.

Barry E. Silbert, the founder of Digital Currency Group, Inc. and the Chief Executive Officer of the Sponsor, acts as an advisor to the Index Provider and owns approximately 0.5% of the Index Provider's voting equity as of the date of this Disclosure Statement.

Digital Currency Group, Inc., the sole member and parent company of the Sponsor and Genesis, the only acting Authorized Participant as of December 31, 2018, owns approximately 1.9% of the Index Provider's voting equity and owns warrants representing approximately 1.1% of the Index Provider's voting equity as of the date of this Disclosure Statement.

## CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES

The following discussion addresses the material U.S. federal income tax consequences of the ownership of Shares. This discussion does not describe all of the tax consequences that may be relevant to a beneficial owner of Shares in light of the beneficial owner's particular circumstances, including tax consequences applicable to beneficial owners subject to special rules, such as:

- financial institutions;
- dealers in securities or commodities;
- traders in securities or commodities that have elected to apply a mark-to-market method of tax accounting in respect thereof;
- persons holding Shares as part of a hedge, "straddle," integrated transaction or similar transaction;
- Authorized Participants (as defined below);
- U.S. Holders (as defined below) whose functional currency is not the U.S. dollar;
- entities or arrangements classified as partnerships for U.S. federal income tax purposes;
- real estate investment trusts;
- regulated investment companies; and
- tax-exempt entities, including individual retirement accounts.

This discussion applies only to Shares that are held as capital assets and does not address alternative minimum tax consequences or consequences of the Medicare contribution tax on net investment income.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes holds Shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding Shares and partners in those partnerships are urged to consult their tax advisers about the particular U.S. federal income tax consequences of owning Shares.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations as of the date hereof, changes to any of which subsequent to the date hereof may affect the tax consequences described herein. For the avoidance of doubt, this summary does not discuss any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction. Prospective investors are urged to consult their tax advisers about the application of the U.S. federal income tax laws to their particular situations, as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

### **Tax Treatment of the Trust**

The Sponsor intends to take the position that the Trust is properly treated as a grantor trust for U.S. federal income tax purposes. Assuming that the Trust is a grantor trust, the Trust will not be subject to U.S. federal income tax. Rather, if the Trust is a grantor trust, each beneficial owner of Shares will be treated as directly owning its pro rata share of the Trust's assets and a pro rata portion of the Trust's income, gain, losses and deductions will "flow through" to each beneficial owner of Shares.

The Trust has taken certain positions with respect to the tax consequences of its receipt of Incidental Rights and IR Virtual Currency. If the IRS were to disagree with, and successfully challenge, any of these positions, the Trust might not qualify as a grantor trust. In addition, the Trust has informed the Key Maintainer and Backup Maintainers that it is irrevocably abandoning, as of any date on which the Trust creates Shares, any Incidental

Rights or IR Virtual Currency to which it would otherwise be entitled as of such date and with respect to which it has not taken any other action on or prior to such date. There can be no complete assurance that this prospective abandonment will be treated as effective for U.S. federal income tax purposes. If the Trust were treated as owning any asset other than the Relevant Digital Currency as of any date on which it creates Shares, it would likely cease to qualify as a grantor trust for U.S. federal income tax purposes.

Because of the evolving nature of digital currencies, it is not possible to predict potential future developments that may arise with respect to digital currencies, including forks, airdrops and other similar events. Assuming that the Trust is currently a grantor trust for U.S. federal income tax purposes, certain future developments could render it impossible, or impracticable, for the Trust to continue to be treated as a grantor trust for such purposes.

If the Trust is not properly classified as a grantor trust, the Trust might be classified as a partnership for U.S. federal income tax purposes. However, due to the uncertain treatment of digital currency for U.S. federal income tax purposes, there can be no assurance in this regard. If the Trust were classified as a partnership for U.S. federal income tax purposes, the tax consequences of owning Shares generally would not be materially different from the tax consequences described herein, although there might be certain differences, including with respect to timing of the recognition of taxable income or loss. In addition, tax information reports provided to Shareholders would be made in a different form. If the Trust were not classified as either a grantor trust or a partnership for U.S. federal income tax purposes, it would be classified as a corporation for such purposes. In that event, the Trust would be subject to entity-level U.S. federal income tax (currently at a maximum rate of 21%) on its net taxable income and certain distributions made by the Trust to Shareholders would be treated as taxable dividends to the extent of the Trust's current and accumulated earnings and profits. Any such dividend distributed to a beneficial owner of Shares that is a non-U.S. person for U.S. federal income tax purposes would be subject to U.S. federal withholding tax at a rate of 30% (or such lower rate as provided in an applicable tax treaty).

The remainder of this discussion is based on the assumption that the Trust will be treated as a grantor trust for U.S. federal income tax purposes.

### **Uncertainty Regarding the U.S. Federal Income Tax Treatment of Digital Currency**

Each beneficial owner of Shares will be treated for U.S. federal income tax purposes as the owner of an undivided interest in the ETH (and any Incidental Rights and/or IR Virtual Currency) held in the Trust. Due to the new and evolving nature of digital currencies and a general absence of clearly controlling authority with respect to digital currencies, many significant aspects of the U.S. federal income tax treatment of digital currency are uncertain. On March 25, 2014, the Internal Revenue Service ("IRS") released a notice (the "Notice") discussing certain aspects of the treatment of digital currencies, such as ETH, for U.S. federal income tax purposes. In the Notice, the IRS stated that, for U.S. federal income tax purposes, (i) digital currency is property that is not currency and (ii) digital currency may be held as a capital asset. There can be no assurance, however, that the IRS will not alter its position with respect to digital currency in the future or that a court would uphold the treatment set forth in the Notice. In addition, legislation has been introduced that likely could, if enacted, cause digital currency to be treated as currency for U.S. federal income tax purposes. If digital currency were properly treated as currency for U.S. federal income tax purposes, gains recognized on the disposition of digital currency, and on a disposition of Shares, would constitute ordinary income, and losses recognized on the disposition of digital currency, and on a disposition of Shares, could be subject to special reporting requirements applicable to "reportable transactions." The remainder of this discussion is based on the assumption that digital currency is properly treated for U.S. federal income tax purposes as property that is not currency.

The Notice does not address other significant aspects of the U.S. federal income tax treatment of digital currency, including: (i) whether digital currency is properly treated as a "commodity" for U.S. federal income tax purposes and (ii) whether and how a holder of digital currency acquired at different times or at varying prices may designate, for U.S. federal income tax purposes, which of the units of digital currency are transferred in a

subsequent sale, exchange or other disposition. It is unclear what guidance on the treatment of digital currency for U.S. federal income tax purposes may be issued in the future.

Prospective investors are urged to consult their tax advisers regarding the substantial uncertainty regarding the tax consequences of an investment in the Trust and ETH.

### **Incidental Rights and IR Virtual Currency**

It is possible that, in the future, the Trust will hold Incidental Rights and/or IR Virtual Currency that it receives in connection with its investment in ETH. The uncertainties with respect to the treatment of digital currency for U.S. federal income tax purposes, described above, apply to Incidental Rights and IR Virtual Currency, as well as to ETH. Moreover, the Notice addressed only digital currency that is “convertible virtual currency,” defined as digital currency that has an equivalent value in fiat currency or that acts as a substitute for fiat currency. It is conceivable that certain IR Virtual Currency the Trust may receive in the future would not be within the scope of the Notice. The discussion that follows assumes that any Incidental Right or IR Virtual Currency is properly treated for U.S. federal income tax purposes as property that may be held as a capital asset.

In general, it is expected that the Trust would receive Incidental Rights and IR Virtual Currency as a consequence of a fork, an airdrop or a similar event related to its ownership of ETH. The Notice does not address the U.S. federal income tax treatment of a fork, airdrop or similar event. It is possible that the Trust’s receipt of Incidental Rights or IR Virtual Currency in connection with a fork, airdrop or similar event would be a taxable event, giving rise to taxable income for the Shareholders, even if the Trust does not claim the relevant IR Virtual Currency. It is also not clear whether any portion of the tax basis of the ETH held in the Trust would be apportioned to any Incidental Right or IR Virtual Currency received by the Trust and, if so, how that apportionment would be done. Moreover, the Trust’s receipt of Incidental Rights or IR Virtual Currency may give rise to other tax issues. The possibility that the Trust will receive Incidental Rights and/or IR Virtual Currency thus increases the uncertainties and risks with respect to the U.S. federal income tax consequences of an investment in Shares.

The Trust may distribute Incidental Rights or IR Virtual Currency, or cash from the sale of Incidental Rights or IR Virtual Currency, to the Shareholders. Alternatively, the Trust may form a liquidating trust to which it contributes Incidental Rights or IR Virtual Currency and distribute interests in the liquidating trust to the Shareholders. Any such distribution will not be a taxable event for a U.S. Holder (as defined below). A U.S. Holder’s tax basis in the Incidental Rights or IR Virtual Currency distributed, whether directly or through the medium of a liquidating trust, will be the same as the U.S. Holder’s tax basis in the distributed assets immediately prior to the distribution, and the U.S. Holder’s tax basis in its *pro rata* share of the Trust’s remaining assets will not include the amount of such basis. As noted above, if a U.S. Holder holds Shares at the time the Trust acquires any Incidental Rights or IR Virtual Currency, it is not clear how the U.S. Holder’s basis in its *pro rata* share of any Incidental Rights or IR Virtual Currency will be determined. Immediately after any such distribution, the U.S. Holder’s holding period with respect to the distributed Incidental Rights or IR Virtual Currency will be the same as the U.S. Holder’s holding period with respect to the distributed assets immediately prior to the distribution. A subsequent sale of the distributed Incidental Rights or IR Virtual Currency will generally be a taxable event for a U.S. Holder.

For simplicity of presentation, the remainder of this discussion assumes that the Trust will hold only ETH. However, the principles set forth in the discussion below apply to all of the assets that the Trust may hold at any time, including Incidental Rights and IR Virtual Currency, as well as ETH. Without limiting the generality of the foregoing, each beneficial owner of Shares generally will be treated for U.S. federal income tax purposes as owning an undivided interest in any Incidental Rights and/or IR Virtual Currency held in the Trust, and any transfers or sales of Incidental Rights and/or IR Virtual Currency by the Trust (other than distributions by the Trust as described in the preceding paragraph) will be taxable events to Shareholders with respect to which Shareholders will generally recognize gain or loss in a manner similar to the recognition of gain or loss on a taxable disposition of ETH, as described below.

## Tax Consequences to U.S. Holders

As used herein, the term “U.S. Holder” means a beneficial owner of a Share for U.S. federal income tax purposes that is:

- an individual who is a citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

For U.S. federal income tax purposes, each U.S. Holder will be treated as owning an undivided interest in the ETH held in the Trust and will be treated as directly realizing its *pro rata* share of the Trust’s income, gains, losses and deductions. When a U.S. Holder purchases Shares for cash, the U.S. Holder’s initial tax basis in its *pro rata* share of the ETH held in the Trust will be equal to the amount paid for the Shares. **This discussion assumes that each U.S. Holder will acquire all of its Shares for cash on the same date and at the same price per Share. U.S. Holders that acquire, or contemplate acquiring, multiple lots of Shares at different times or prices are urged to consult their tax advisers regarding their tax bases and holding periods in their *pro rata* shares of the ETH held in the Trust.**

When the Trust transfers ETH to the Sponsor as payment of the Sponsor’s Fee, or sells ETH to fund payment of any Additional Trust Expenses, each U.S. Holder will be treated as having sold its *pro rata* share of those units of ETH for their fair market value at that time (which, in the case of ETH sold by the Trust, generally will be equal to the cash proceeds received by the Trust in respect thereof). As a result, each U.S. Holder will recognize gain or loss in an amount equal to the difference between (i) the fair market value of the U.S. Holder’s *pro rata* share of the ETH transferred and (ii) the U.S. Holder’s tax basis for its *pro rata* share of the ETH transferred. Assuming that ETH are not treated as currency for U.S. federal income tax purposes, any such gain or loss will be short-term capital gain or loss if the U.S. Holder has held its Shares for one year or less and long-term capital gain or loss if the U.S. Holder has held its Shares for more than one year. A U.S. Holder’s tax basis in its *pro rata* share of any ETH transferred by the Trust generally will be determined by multiplying the tax basis of the U.S. Holder’s *pro rata* share of all of the ETH held in the Trust immediately prior to the transfer by a fraction the numerator of which is the amount of ETH transferred and the denominator of which is the total amount of ETH held in the Trust immediately prior to the transfer. Immediately after the transfer, the U.S. Holder’s tax basis in its *pro rata* share of the ETH remaining in the Trust will be equal to the tax basis of its *pro rata* share of the ETH held in the Trust immediately prior to the transfer, less the portion of that tax basis allocable to its *pro rata* share of the ETH transferred.

U.S. Holders’ *pro rata* shares of the expenses incurred by the Trust will be treated as “miscellaneous itemized deductions” for U.S. federal income tax purposes. As a result, for taxable years beginning after December 31, 2017 and before January 1, 2026, a non-corporate U.S. Holder’s share of these expenses will not be deductible for U.S. federal income tax purposes. For taxable years beginning on or after January 1, 2026, a non-corporate U.S. Holder’s share of these expenses will be deductible for regular U.S. federal income tax purposes only to the extent that the U.S. Holder’s share of the expenses, when combined with other “miscellaneous itemized deductions,” exceeds 2% of the U.S. Holder’s adjusted gross income for the particular year, will not be deductible for U.S. federal alternative minimum tax purposes and will be subject to certain other limitations on deductibility.

On a sale or other disposition of Shares, a U.S. Holder will be treated as having sold the ETH underlying such Shares. Accordingly, the U.S. Holder generally will recognize gain or loss in an amount equal to the difference between (i) the amount realized on the sale of the Shares and (ii) the portion of the U.S. Holder’s tax basis in its *pro rata* share of the ETH held in the Trust that is attributable to the Shares disposed of. Such tax basis generally will be determined by multiplying the tax basis of the U.S. Holder’s *pro rata* share of all of the ETH held in the Trust immediately prior to such sale or other disposition by a fraction the numerator of which is the number of



Shares disposed of and the denominator of which is the total number of Shares held by such U.S. Holder immediately prior to such sale or other disposition. Assuming that digital currency is not treated as currency for U.S. federal income tax purposes, gain or loss recognized by a U.S. Holder on a sale or other disposition of Shares will generally be short-term capital gain or loss if the U.S. Holder has held its Shares for one year or less and long-term capital gain or loss if the U.S. Holder has held its Shares for more than one year. The deductibility of capital losses is subject to significant limitations.

As explained above in “Description of the Trust,” the Trust has not obtained authorization from the SEC to operate a redemption program. If such authorization is obtained and the Trust redeems all or portion of a U.S. Holder’s Shares in exchange for the underlying ETH represented by the redeemed Shares, such redemption will not be a taxable event to the U.S. Holder. The U.S. Holder’s tax basis in the ETH received in the redemption will be the same as the U.S. Holder’s tax basis for the portion of its *pro rata* share of the ETH held in the Trust immediately prior to the redemption that is attributable to the Shares redeemed, determined as described above. The U.S. Holder’s holding period with respect to the ETH received will include the period during which the U.S. Holder held the Shares so redeemed. A subsequent sale of the ETH received in such redemption will generally be a taxable event.

After any sale, redemption or other disposition of fewer than all of a U.S. Holder’s Shares, the U.S. Holder’s tax basis in its *pro rata* share of the ETH held in the Trust immediately after the disposition will equal the tax basis in its *pro rata* share of the total amount of the ETH held in the Trust immediately prior to the disposition, less the portion of that tax basis that is taken into account in determining the amount of gain or loss recognized by the U.S. Holder on the disposition (or, in the case of a redemption, that is treated as the tax basis of the ETH received by the U.S. Holder in the redemption).

Any brokerage or other transaction fee incurred by a U.S. Holder in purchasing Shares generally will be added to the U.S. Holder’s tax basis in the underlying assets of the Trust. Similarly, any brokerage fee or other transaction fee incurred by a U.S. Holder in selling Shares generally will reduce the amount realized by the U.S. Holder with respect to the sale.

### **Tax Consequences to Non-U.S. Holders**

As used herein, the term “non-U.S. Holder” means a beneficial owner of a Share for U.S. federal income tax purposes that is not a U.S. Holder. The term “non-U.S. Holder” does not include (i) a nonresident alien individual who is present in the United States for 183 days or more in a taxable year, (ii) a former U.S. citizen or U.S. resident or an entity that has expatriated from the United States; (iii) a person whose income in respect of Shares is effectively connected with the conduct of a trade or business in the United States; or (iv) an entity that is treated as a partnership for U.S. federal income tax purposes. Prospective investors described in the preceding sentence should consult their tax advisers regarding the U.S. federal income tax consequences of owning Shares.

A non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax with respect to its share of any gain recognized on the Trust’s transfer of ETH in payment of the Sponsor’s Fee or any Additional Trust Expenses or on the Trust’s sale of ETH. In addition, assuming that the Trust holds no asset other than ETH, a non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax with respect to any gain it recognizes on a sale of Shares. A non-U.S. Holder also will generally not be subject to U.S. federal income or withholding tax with respect to any distribution received from the Trust, whether in cash or in kind. However, there is uncertainty with respect to the proper treatment of “forks”, “airdrops” and similar events for U.S. federal income tax purposes, and it is possible that a non-U.S. Holder would be subject to U.S. federal income or withholding tax if such an event were treated as a taxable event for U.S. federal income tax purposes. Moreover, given the evolving nature of digital currency, it is conceivable that a non-U.S. Holder’s *pro rata* share of income derived from an IR Virtual Currency that the Trust may hold in the future, and any gain or proceeds received by a non-U.S. Holder upon a sale of Shares to the extent attributable to such IR Virtual Currency, would be subject to U.S. federal income or withholding tax.

## **U.S. Information Reporting and Backup Withholding**

The Trust or the appropriate broker will file certain information returns with the IRS and provide Shareholders with information regarding their annual income (if any) and expenses with respect to the Trust in accordance with applicable Treasury regulations.

A U.S. Holder will generally be subject to information reporting requirements and backup withholding unless (i) the U.S. Holder is a corporation or other exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. In order to avoid the information reporting and backup withholding requirements, a non-U.S. Holder may have to comply with certification procedures to establish that it is not a U.S. person. The amount of any backup withholding will be allowed as a credit against the Shareholder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is furnished to the IRS.

**1. The issuer’s primary and secondary SIC Codes.**

The Trust’s primary SIC Code is 6221. The Trust’s secondary SIC code is 6199.

**2. If the issuer has never conducted operations, is in the development stage, or is currently conducting operations.**

The Trust is a passive entity with no operations, and the Sponsor administers and manages the Trust as described in “Description of the Trust.”

**3. Whether the issuer has at any time been a “shell company.”**

The Trust has not at any time been a “shell company.”

**4. The names of any parent, subsidiary, or affiliate of the issuer, and its business purpose, its method of operation, its ownership, and whether it is included in the financial statements attached to this Disclosure Statement.**

The Sponsor of the Trust is Grayscale Investments, LLC. Genesis Global Trading, Inc., a wholly owned subsidiary of Digital Currency Group, Inc. and a registered broker dealer, is the Marketer and Distributor of the Trust. Genesis Global Trading, Inc. was also an initial purchaser and is currently an Authorized Participant. The financial results of these entities are not included in the Trust’s financial statements.

**The Sponsor**

The Trust’s Sponsor is Grayscale Investments, LLC, a Delaware limited liability company formed on May 29, 2013 and a wholly owned subsidiary of Digital Currency Group, Inc. The Sponsor’s principal place of business is 250 Park Avenue South, New York, NY 10003 and its telephone number is (212) 668-1427. Under the Delaware Limited Liability Company Act and the governing documents of the Sponsor, Digital Currency Group, Inc., the sole member of the Sponsor, is not responsible for the debts, obligations and liabilities of the Sponsor solely by reason of being the sole member of the Sponsor.

The Sponsor is neither an investment adviser registered with the SEC nor a commodity pool operator registered with the CFTC, and will not be acting in either such capacity with respect to the Trust, and the Sponsor’s provision of services to the Trust will not be governed by the Investment Advisers Act or the CEA.

**The Sponsor’s Role**

The Sponsor arranged for the creation of the Trust and the quotation of the Shares on the OTCQX. As partial consideration for its receipt of the Sponsor’s Fee from the Trust, the Sponsor is obligated to pay the Sponsor-paid Expenses. The Sponsor also paid the costs of the Trust’s organization and the costs of the initial sale of the Shares.

The Sponsor is generally responsible for the day-to-day administration of the Trust under the provisions of the Trust Agreement. This includes (i) preparing and providing periodic reports and financial statements on behalf of the Trust to investors, (ii) processing orders to create (and, should the Trust commence a redemption program, redeem) Baskets and coordinating the processing of such orders with the Key Maintainer and the Transfer Agent, (iii) calculating and publishing the ETH Holdings and the ETH Holdings per Share of the Trust each business day as of 4:00 p.m., New York time, or as soon thereafter as practicable, (iv) selecting and monitoring the Trust’s Service Providers and from time to time engaging additional, successor or replacement Service Providers, (v) instructing the Key Maintainer and Backup Maintainers as necessary to transfer the Trust’s ETH, as needed to pay the Sponsor’s Fee and any Additional Trust Expenses, (vi) upon dissolution of the Trust, distributing the Trust’s remaining ETH, Incidental Rights and IR Virtual Currency or the cash proceeds of the sale thereof to the owners of record of the Shares and (vii) establishing the principal market for GAAP valuation. In addition, if there is a fork in the Ethereum Network after which there is a dispute as to which network resulting from the fork

is the Ethereum Network, the Sponsor has the authority to select the network that it believes in good faith is the Ethereum Network, unless such selection or authority would otherwise conflict with the Trust Agreement.

The Sponsor does not store, hold, or maintain custody or control of the Trust's ETH but instead has entered into the Key Maintenance Agreement with the Key Maintainer and a Backup Security Factor Agreement with each of the Backup Maintainers to facilitate the security of the Trust's ETH. Under these agreements, the Key Maintainer must act on valid instructions given to it by the Sponsor, and the Backup Maintainers, upon receipt of certain notice or court order, must deliver the Backup Factors to a party identified by the Trust or a court. Each party to the agreement holds a certain number of security passwords, keys or phrases (each, a "Security Factor") that, together with other Security Factors, allows transfers of ETH. Using its Security Factors, the Sponsor cannot unilaterally effect any transfer of the Trust's ETH. Instead the Key Maintainer must also use its Security Factors, in addition to the Sponsor's Security Factors, to effect any transfer of the Trust's ETH. Under certain circumstances, the Sponsor may also be able to effect transactions by using its Security Factors together with the Security Factors of one or more of the Backup Maintainers. In addition, the Sponsor cannot unilaterally and indefinitely prevent transfer of the Trust's ETH. Under certain circumstances, two or more of the Key Maintainer and Backup Maintainers could effect a transfer of the Trust's ETH. See "The Key Maintainer" and "The Backup Maintainer."

The Sponsor intends to enter into a Distribution and Marketing Agreement with Genesis to assist the Sponsor in developing an ongoing marketing plan for the Trust, preparing marketing materials regarding the Shares of the Trust, including the content on the Trust's website, executing a marketing plan for the Trust, and providing strategic and tactical research to the Trust on the global digital asset market. See "The Distributor and Marketer" for more information.

The Sponsor may transfer all or substantially all of its assets to an entity that carries on the business of the Sponsor if at the time of the transfer the successor assumes all of the obligations of the Sponsor under the Trust Agreement. In such an event, the Sponsor will be relieved of all further liability under the Trust Agreement.

The Sponsor's Fee is paid by the Trust to the Sponsor as compensation for services performed under the Trust Agreement and as partial consideration for the Sponsor's agreement to pay the Sponsor-paid Expenses. See "Description of the Trust—Trust Expenses."

### **Initial Purchaser**

On December 14, 2017, Genesis Global Trading, Inc. (the "Initial Purchaser") contributed 10,260 ETH with a total value of \$7,152,246 to the Trust in exchange for 102,600 Shares. The ratio of Shares to ETH purchased by the Initial Purchaser was ten-to-one at the effective time of creation of this initial Basket.

### **Authorized Participants**

An Authorized Participant must enter into a "Participant Agreement" with the Sponsor and the Trust to govern its placement of orders to create (and, should the Trust commence a redemption program, redeem) Baskets. The Participant Agreement sets forth the procedures for the creation and redemption of Baskets and for the delivery of ETH required for creations and redemptions. A copy of the form of Participant Agreement is available for inspection at the Sponsor's principal office identified herein.

Each Authorized Participant must (i) be a registered broker-dealer, (ii) enter into a Participant Agreement with the Sponsor and (iii) own an Authorized Participant Self-Administered Account. A list of the current Authorized Participants can be obtained from the Sponsor. As of the date of this Disclosure Statement, Genesis is the only acting Authorized Participant. The Sponsor intends to engage additional Authorized Participants who are unaffiliated with the Trust in the future.

No Authorized Participant has any obligation or responsibility to the Sponsor or the Trust to effect any sale or resale of Shares.

### **The Distributor and Marketer**

Genesis Global Trading, Inc., a Delaware corporation, is the Distributor and Marketer of the Shares. The Distributor and Marketer is a registered broker-dealer with the SEC and is a member of FINRA.

The Distributor and Marketer assists the Sponsor in developing an ongoing marketing plan for the Trust; preparing marketing materials regarding the Shares, including the content on the Trust's website, <https://grayscale.co/ethereum-trust/>; executing the marketing plan for the Trust; and providing strategic and tactical research to the Trust on the global ETH market. The Distributor and Marketer and the Sponsor are affiliates of one another.

The Sponsor may engage additional or successor Distributors and Marketers in the future.

### **Conflicts of Interest**

#### **General**

The Sponsor has not established formal procedures to resolve all potential conflicts of interest. Consequently, investors may be dependent on the good faith of the respective parties subject to such conflicts to resolve them equitably. Although the Sponsor attempts to monitor these conflicts, it is extremely difficult, if not impossible, for the Sponsor to ensure that these conflicts do not, in fact, result in adverse consequences to the Trust.

Prospective investors should be aware that the Sponsor presently intends to assert that Shareholders have, by subscribing for Shares of the Trust, consented to the following conflicts of interest in the event of any proceeding alleging that such conflicts violated any duty owed by the Sponsor to investors.

#### **Digital Currency Group, Inc.**

Digital Currency Group, Inc., the sole member and parent company of the Sponsor, is also the sole shareholder and parent company of Genesis, which is currently the only acting Authorized Participant. Digital Currency Group, Inc. owns (i) approximately 1.9% of the Index Provider's voting equity and owns warrants representing approximately 1.1% of the Index Provider's voting equity; ii) approximately 1.0% of the Key Maintainer's voting equity, as of the date of this Annual Report; (iii) a minority interest holder in Coinbase, which operates Coinbase Pro, the exchange considered to be the Trust's principal market as of December 31, 2018 and 2017, representing less than 1.0% of its equity; and (iv) a minority interest holder in Circle Internet Financial Limited, which is the parent company of Poloniex, one of the exchanges included in the ETH Index as of December 31, 2018 and 2017, representing less than 1.0% of its equity.

Digital Currency Group, Inc. has investments in a large number of digital assets and companies involved in the digital asset ecosystem, including exchanges and custodians. Digital Currency Group, Inc.'s positions on changes that should be adopted in the Ethereum Network could be adverse to positions that would benefit the Trust or its Shareholders. Additionally, before or after a hard fork, Digital Currency Group, Inc.'s position regarding which fork among a group of incompatible forks of the Ethereum Network should be considered the "true" ETH could be adverse to positions that would most benefit the Trust.

#### **The Sponsor**

The Sponsor has a conflict of interest in allocating its own limited resources among, when applicable, different clients and potential future business ventures, to each of which it owes fiduciary duties. Additionally, the professional staff of the Sponsor also services other affiliates of the Trust, including other digital asset investment vehicles, and their respective clients. Although the Sponsor and its professional staff cannot and will not devote

all of its or their respective time or resources to the management of the affairs of the Trust, the Sponsor intends to devote, and to cause its professional staff to devote, sufficient time and resources to manage properly the affairs of the Trust consistent with its or their respective fiduciary duties to the Trust and others.

The Sponsor and the Distributor and Marketer are affiliates of each other, and the Sponsor may engage other affiliated service providers in the future. Because of the Sponsor's affiliated status, it may be disincentivized from replacing affiliated service providers. In connection with this conflict of interest, Shareholders should understand that affiliated service providers will receive fees for providing services to the Trust. Clients of the affiliated service providers may pay commissions at negotiated rates which are greater or less than the rate paid by the Trust.

The Sponsor and any affiliated service provider may, from time to time, have conflicting demands in respect of their obligations to the Trust and, in the future, to other clients. It is possible that future business ventures of the Sponsor and affiliated service providers may generate larger fees, resulting in increased payments to employees, and therefore, incentivizing the Sponsor and/or the affiliated service providers to allocate it/their limited resources accordingly to the potential detriment of the Trust.

There is an absence of arm's length negotiation with respect to some of the terms of the Trust, and, where applicable, there has been no independent due diligence conducted with respect to the Trust. The Sponsor will, however, not retain any affiliated service providers for the Trust which the Sponsor has reason to believe would knowingly or deliberately favor any other client over the Trust.

### **The Authorized Participant**

As of the date of this Disclosure Statement, the only Authorized Participant is Genesis, an affiliate of the Trust and the Sponsor. As a result of this affiliation, the Sponsor has an incentive to resolve questions between Genesis, on the one hand, and the Trust and Shareholders, on the other hand, in favor of Genesis (including, but not limited to, questions as to the calculation of the Basket ETH Amount).

In addition, Genesis may engage in ETH trading with the Trust's affiliated entities. For example, when the Sponsor receives the Sponsor's Fee in ETH, it sells the ETH through Genesis. For this service, Genesis charges the Sponsor a transaction fee, which is not borne by the Trust. Additionally, the Sponsor's parent company, Digital Currency Group, Inc., is the sole shareholder and parent company of Genesis, in addition to a customer of Genesis and may buy or sell ETH through Genesis from time to time, independent of the Trust. Lastly, several employees of the Sponsor and Digital Currency Group, Inc. are FINRA-registered representatives who maintain their licenses through Genesis. Genesis is also an initial purchaser.

### **Proprietary Trading/Other Clients**

Because the officers of the Sponsor may trade ETH for their own personal trading accounts (subject to certain internal trading policies and procedures) at the same time as they are managing the account of the Trust, prospective investors should be aware that the activities of the officers of the Sponsor, subject to their fiduciary duties, may, from time-to-time, result in their taking positions in their personal trading accounts which are opposite of the positions taken for the Trust. Records of the Sponsor's officers' personal trading accounts will not be available for inspection by Shareholders.

### **Relationships of the Index Provider with the Sponsor and management of the Sponsor**

The Sponsor and its affiliates rely on services provided by the Index Provider (in addition to the calculation of the ETH Index Price), and may otherwise be interested in the success of the Index Provider. These relationships include:

- Barry E. Silbert, the Chief Executive Officer of the Sponsor, acts as an advisor to the Index Provider and owns approximately 0.5% of the Index Provider's voting equity as of the date of this Disclosure Statement;

- Digital Currency Group, Inc., the sole member and parent company of the Sponsor owns approximately 1.9% of the Index Provider’s voting equity and owns warrants representing approximately 1.1% of the Index Provider’s voting equity as of the date of this Disclosure Statement; and
- Genesis licenses and uses a trading software platform provided by the Index Provider to operate its ETH trading desk and to facilitate Genesis’s actions as an Authorized Participant. Although the Index Provider does not currently utilize data from over-the-counter markets or derivative platforms, per the terms of the license, the Index Provider is entitled to use the over-the-counter trading data from Genesis to calculate the ETH Index Price.

Under the rules governing the calculation of the ETH Index Price, if the Sponsor determines in good faith that the ETH Index Price does not reflect an accurate ETH price, then the Sponsor will employ an alternative method to determine the ETH Index Price. Because such a determination could reflect negatively upon the Index Provider, lead to a decrease in the Index Provider’s revenue or otherwise adversely affect the Index Provider, and because of the relationships listed above, the Sponsor has a conflict of interest with respect to the Index Provider.

**5. The effect of existing or probable governmental regulations on the business.**

Please refer to “Risk Factors – Risk Factors Related to the Regulation of the Trust and the Shares” for a discussion of the effect of existing or probable governmental regulations on the Trust’s operations.

**6. An estimate of the amount spent during each of the last two fiscal years on research and development activities, and, if applicable, the extent to which the cost of such activities are borne directly by customers.**

Not applicable.

**7. Costs and effects of compliance with environmental laws (federal, state and local).**

Not applicable.

**8. The number of total employees and number of full-time employees.**

The Trust has no employees. The Sponsor had 9 employees as of December 31, 2018.

**Item 9. The nature of products and services offered.**

**A. Principal products or services, and their markets.**

Not applicable.

**B. Distribution methods of the products or services.**

Not applicable.

**C. Status of any publicly announced new product or service.**

Not applicable.

**D. Competitive business conditions, the issuer’s competitive position in the industries, and methods of competition.**

More than 2,000 other digital assets have been developed since the inception of Bitcoin, currently the most developed digital asset because of the length of time it has been in existence, the investment in the infrastructure that supports it, and the network of individuals and entities that are using Bitcoin in transactions. While ETH has enjoyed some success in its limited history, the aggregate value of outstanding ETH is much smaller than that of Bitcoin and may be eclipsed by the more rapid development of other digital assets.

**E. Sources and availability of raw materials and the names of principal suppliers.**

Not applicable.

**F. Dependence on one or a few major customers.**

Not applicable.

**G. Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts, including their duration.**

Not applicable.

**H. The need for any government approval of principal products or services and the status of any requested government approvals.**

See the discussion set forth under the heading “The effect of existing or probable governmental regulations on the business” above.

**Item 10. The nature and extent of the issuer’s facilities.**

The Trust is a passive entity with no operations, and the Sponsor administers and manages the Trust as described in the “Description of the Trust.” The principal office of the Sponsor is located at 250 Park Avenue South, New York, NY 10003. The Sponsor utilizes a portion of the space leased by Digital Currency Group, Inc. The lease expires on September 30, 2023.



## **PART D. MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION**

**Item 11. The name of the chief executive officer, members of the board of directors, as well as control persons.**

### **Management of the Sponsor**

Under the Trust Agreement, all management functions of the Trust have been delegated to and are conducted by the Sponsor, its agents and its affiliates, including without limitation, the Key Maintainer and its agents. As officers of the Sponsor, Barry E. Silbert, the principal executive officer of the Sponsor, Simcha Wurtzel, the principal financial officer of the Sponsor, and Michael Sonnenshein, as Managing Director of the Sponsor, may take certain actions and execute certain agreements and certifications for the Trust, in their capacity as the principal officers of the Sponsor.

The following individuals are the officers of the Sponsor responsible for overseeing the business and operations of the Trust.

#### ***Barry E. Silbert, Chief Executive Officer***

Barry E. Silbert, 42, has been Chief Executive Officer of the Sponsor since its formation in 2013. Mr. Silbert is the founder of Digital Currency Group, Inc. (“DCG”), which builds and supports digital assets and blockchain companies through its insights, network and access to capital. Starting in 2012, Mr. Silbert became one of the first and most active investors in the digital asset space, providing seed funding for Coinbase, Ripple, BitPay and a number of other companies that have gone on to define the industry. Prior to founding DCG, Mr. Silbert founded SecondMarket, an online platform and registered broker-dealer that enabled private companies to customize, control and execute secondary transactions for the benefit of their employees and investors. SecondMarket was acquired by NASDAQ in 2015. Before becoming an entrepreneur, Mr. Silbert was an investment banker at Houlihan Lokey and graduated with honors from the Goizueta Business School at Emory University. Mr. Silbert has received several honors including being named Entrepreneur of the Year by Ernst & Young and Crain’s and being selected to Fortune’s prestigious “40 under 40” list. Mr. Silbert also owns approximately 0.5% of the Index Provider’s voting equity and acts as an advisor to the Index Provider.

#### ***Simcha Wurtzel, Vice President, Finance***

Simcha Wurtzel, 37, has been Vice President, Finance of the Sponsor since December 2018. Mr. Wurtzel previously served as Vice President, Finance and Controller of the Sponsor from May 2013 to April 2018. In addition to his role at the Sponsor, Mr. Wurtzel is the Vice President of Finance of Digital Currency Group, Inc. From 2007 to 2015 he served as the Financial and Operations Principal for DCG Holdco, Inc. (formerly known as SecondMarket Holdings, Inc.). Mr. Wurtzel holds a B.S. degree in accounting from Touro College, New York.

#### ***Michael Sonnenshein, Managing Director***

Michael Sonnenshein, 32, has been Managing Director of the Sponsor since 2018. From 2015 to 2017, Mr. Sonnenshein was Director of Sales & Business Development for the Sponsor. From 2014 to 2015, Mr. Sonnenshein served as an Account Executive for the Sponsor (formerly known as Alternative Currency Asset Management LLC). Prior to working at Grayscale, Mr. Sonnenshein was an Associate at J.P. Morgan Securities, covering high net worth individuals and institutions. Mr. Sonnenshein worked in a similar capacity at Barclays Wealth, providing coverage to middle-market hedge funds and institutions. Mr. Sonnenshein holds an MBA from the Leonard N. Stern School of Business at New York University and a BBA from the Goizueta School of Business at Emory University.

## **Executive Compensation**

The Trust has no employees or directors and is managed by the Sponsor. None of the officers or members of the Sponsor receive compensation from the Trust. The Sponsor's Fee accrues daily at an annual rate of 2.5% of the Trust's ETH Holdings Fee Basis Amount and is payable monthly in arrears. For the year ended December 31, 2018 and for the period from December 13, 2017 (the inception of the Trust) to December 31, 2017, the Sponsor earned \$432,390 and \$10,943, respectively, from the Trust. As of December 31, 2018 and 2017, the fair market value of the accrued and unpaid Sponsor's Fee was \$37,588 and \$11,149, respectively. In addition, the Sponsor may pay Additional Trust Expenses on behalf of the Trust and be reimbursed by the Trust. For the year ended December 31, 2018 and for the period from December 13, 2017 (the inception of the Trust) to December 31, 2017, the Trust incurred no Additional Trust Expenses.

## **Compensation of Directors**

Not applicable.

## **Business Address**

The business address for each of the Sponsor's officers is c/o Grayscale Investments, LLC, 250 Park Avenue South New York, NY 10003.

## **B. Legal/Disciplinary History**

None.

## **C. Disclosure of Family Relationships**

None.

## **D. Disclosure of Related Party Transactions**

See "Conflicts of Interest" above.

**Item 12. Financial information for the issuer’s most recent fiscal period.**

The Trust’s audited financial statements as of and for the year ended December 31, 2018 and for the period from December 13, 2017 (the inception of the Trust) to December 31, 2017 are attached as Exhibit 1 to this Disclosure Statement. The historical results presented herein are not necessarily indicative of financial results to be achieved in future periods. The Trust’s audited financial statements attached as exhibits to this Disclosure Statement are incorporated herein by reference and are considered as part of this Disclosure Statement.

**Item 13. Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.**

See “Financial information for the issuer’s most recent fiscal period” above.

**Item 14. Beneficial Owners.**

As of December 31, 2018, Genesis beneficially owned 0.53% of the Trust’s Shares. Genesis is a wholly owned subsidiary of DCG and, as such, DCG beneficially owned 21.62% of the Trust’s Shares. The addresses of the aforementioned is c/o Grayscale Investments LLC, 250 Park Avenue South New York, NY 10003.

**Item 15. The name, address, telephone number, and email address of each of the following outside providers that provide services to the issuer on matters relating to operations, business development and disclosure.**

**1. Counsel**

Joseph A. Hall, Esq.  
Davis Polk & Wardwell LLP  
450 Lexington Avenue  
New York, NY 10017  
Telephone: (212) 450-4565  
Facsimile: (212) 701-5565  
Email: joseph.hall@davispolk.com

Andrew D. Thorpe, Esq.  
Orrick, Herrington & Sutcliffe LLP  
The Orrick Building  
405 Howard Street  
San Francisco, California 94105  
Telephone: (415) 773-5970  
Facsimile: (415) 773-5759  
Email: athorpe@orrick.com

**2. Independent Auditor**

Friedman LLP  
100 Eagle Rock Ave. Suite 200  
East Hanover, NJ 07936  
Telephone: (973) 929-3500

**3. Any other advisor(s) that assisted, advised, prepared or provided information with respect to this Disclosure Statement - the information shall include the telephone number and email address of each advisor.**

Not applicable.

## **Item 16. Management’s Discussion and Analysis.**

*The following discussion and analysis of our financial condition and results of operations should be read together with, and is qualified in its entirety by reference to, our audited financial statements and related notes included elsewhere in this Disclosure Statement, which have been prepared in accordance with GAAP. The following discussion may contain forward-looking statements based on current expectations that involve risks and uncertainties. Our actual results could differ materially from those discussed in these forward-looking statements as a result of various factors, including those set forth under “Risk Factors,” “Cautionary Note Regarding Forward-Looking Statements” or in other sections of this Disclosure Statement.*

### **Trust Overview**

The investment objective of the Trust is for the Shares to reflect the value of the ETH held by the Trust, as determined by reference to the ETH Index Price, less the Trust’s expenses and other liabilities. The Shares are intended to constitute a cost-effective and convenient means of gaining investment exposure to ETH. A substantial direct investment in ETH may require expensive and sometimes complicated arrangements in connection with the acquisition, security and safekeeping of ETH and may involve the payment of substantial fees to acquire such ETH from third-party facilitators through cash payments of U.S. dollars. Although the Shares will not be the exact equivalent of a direct investment in ETH, they provide investors with an alternative that constitutes a relatively cost-effective way to participate in ETH markets through the securities market. Because the value of the Shares is tied to the value of the ETH held by the Trust, it is important to understand the investment attributes of, and the market for, ETH.

The activities of the Trust are limited to (i) issuing Baskets in exchange for ETH transferred to the Trust as consideration in connection with the creations, (ii) transferring or selling ETH, Incidental Rights and IR Virtual Currency as necessary to cover the Sponsor’s Fee and/or any Additional Trust Expenses, (iii) transferring ETH in exchange for Baskets surrendered for redemption (subject to obtaining regulatory approval from the SEC and approval from the Sponsor), (iv) causing the Sponsor to sell ETH, Incidental Rights and IR Virtual Currency on the termination of the Trust, (v) making distributions of Incidental Rights and/or IR Virtual Currency or cash from the sale thereof, and (vi) engaging in all administrative and security procedures necessary to accomplish such activities in accordance with the provisions of the Trust Agreement, the Key Maintenance Agreement, the Backup Security Factor Agreements, the Index License Agreement and the Participant Agreements.

In addition, the Trust may engage in any lawful activity necessary or desirable in order to facilitate Shareholders’ access to Incidental Rights or IR Virtual Currency, provided that such activities do not conflict with the terms of the Trust Agreement. The Trust will not be actively managed. It will not engage in any activities designed to obtain a profit from, or to ameliorate losses caused by, changes in the market prices of ETH.

### ***Incidental Rights and IR Virtual Currency***

From time to time, the Trust may come into possession of Incidental Rights and/or IR Virtual Currency by virtue of its ownership of ETH, generally through a fork in the Ethereum Blockchain, an airdrop offered to holders of ETH or similar event. During the year ended December 31, 2018 and during the period from December 13, 2017 (the inception of the Trust) to December 31, 2017 the Trust did not come into possession of any Incidental Rights and/or IR Virtual Currency. Pursuant to the terms of the Trust Agreement, the Trust may take any lawful action necessary or desirable in connection with the Trust’s ownership of Incidental Rights, including the acquisition of IR Virtual Currency, unless such action would adversely affect the status of the Trust as a grantor trust for U.S. federal income tax purposes or otherwise be prohibited by the Trust Agreement. These actions include selling Incidental Rights and/or IR Virtual Currency and distributing the cash proceeds to Shareholders or distributing Incidental Rights and/or IR Virtual Currency in kind to Shareholders, or to an agent acting on behalf of the Shareholders if such distribution would otherwise be infeasible. The Trust may also use Incidental Rights and/or IR Virtual Currency to pay the Sponsor’s Fee and Additional Trust Expenses, if any, as discussed below under “—Trust Expenses.” However, the Trust does not expect to take any Incidental Rights or IR Virtual Currency it

may hold into account for purposes of determining the Trust's ETH Holdings or the ETH Holdings per Share, the NAV and the NAV per Share.

### ***Trust Expenses***

The Trust's only ordinary recurring expense is expected to be the Sponsor's Fee. The Sponsor's Fee will accrue daily in U.S. dollars at an annual rate of 2.5% of the ETH Holdings Fee Basis Amount of the Trust as of 4:00 p.m., New York time, on each day; provided that for a day that is not a business day, the calculation of the Sponsor's Fee will be based on the ETH Holdings Fee Basis Amount from the most recent business day, reduced by the accrued and unpaid Sponsor's Fee for such most recent business day and for each day after such most recent business day and prior to the relevant calculation date. This dollar amount for each daily accrual will then be converted into ETH by reference to the same ETH Index Price used to determine such accrual. The Sponsor's Fee is payable to the Sponsor monthly in ETH in arrears.

To cause the Trust to pay the Sponsor's Fee, the Sponsor will, by instructing the Key Maintainer and Backup Maintainers as necessary, withdraw from the ETH Account the number of ETH equal to the accrued but unpaid Sponsor's Fee and transfer such ETH to the Sponsor's account at such times as the Sponsor determines in its absolute discretion.

If the Trust holds any Incidental Rights and/or IR Virtual Currency at any time, the Trust may also pay the Sponsor's Fee, in whole or in part, with such Incidental Rights and/or IR Virtual Currency by entering into an agreement with the Sponsor and transferring such Incidental Rights and/or IR Virtual Currency to the Sponsor at a value to be determined pursuant to such agreement. However, the Trust may use Incidental Rights and/or IR Virtual Currency to pay the Sponsor's Fee only if such agreement and transfer do not otherwise conflict with the terms of the Trust Agreement. The value of any such Incidental Rights and/or IR Virtual Currency will be determined on an arm's-length basis. The Trust currently expects that the value of any such Incidental Rights and/or IR Virtual Currency would be determined by reference to an index provided by the Index Provider or, in the absence of such an index, by reference to the cascading set of rules described in "Description of the Trust—The Index and the ETH Index Price." If the Trust pays the Sponsor's Fee in Incidental Rights and/or IR Virtual Currency, in whole or in part, the amount of ETH that would otherwise have been used to satisfy such payment will be correspondingly reduced. The Sponsor, from time to time, may temporarily waive all or a portion of the Sponsor's Fee in its discretion for stated periods of time. Presently, the Sponsor does not intend to waive any of the Sponsor's Fee.

After the Trust's payment of the Sponsor's Fee to the Sponsor, the Sponsor may elect to convert the ETH, Incidental Rights and/or IR Virtual Currency received as payment of the Sponsor's Fee into U.S. dollars. The rate at which the Sponsor converts such ETH, Incidental Rights and/or IR Virtual Currency into U.S. dollars may differ from the rate at which the Sponsor's Fee was determined. The Trust will not be responsible for any fees and expenses incurred by the Sponsor to convert ETH, Incidental Rights and/or IR Virtual Currency received in payment of the Sponsor's Fee into U.S. dollars.

As partial consideration for its receipt of the Sponsor's Fee, the Sponsor has assumed the obligation to pay the Sponsor-paid Expenses. The Sponsor has not assumed the obligation to pay Additional Trust Expenses. Any expense that qualifies as an Additional Trust Expense will be deemed to be an Additional Trust Expense and not a Sponsor-paid Expense.

If Additional Trust Expenses are incurred, the Sponsor (i) will withdraw from the ETH Account ETH, Incidental Rights and/or IR Virtual Currency in such quantity as may be necessary to permit payment of such Additional Trust Expenses and (ii) may either (x) cause the Trust (or its delegate) to convert such ETH, Incidental Rights and/or IR Virtual Currency into U.S. dollars or other fiat currencies at the Actual Exchange Rate or (y) cause the Trust (or its delegate) to deliver such ETH, Incidental Rights and/or IR Virtual Currency in kind in satisfaction of such Additional Trust Expenses. However, the Trust may use Incidental Rights or IR Virtual Currency to pay Additional Trust Expenses only if doing so does not conflict with the terms of the Trust Agreement. The value of

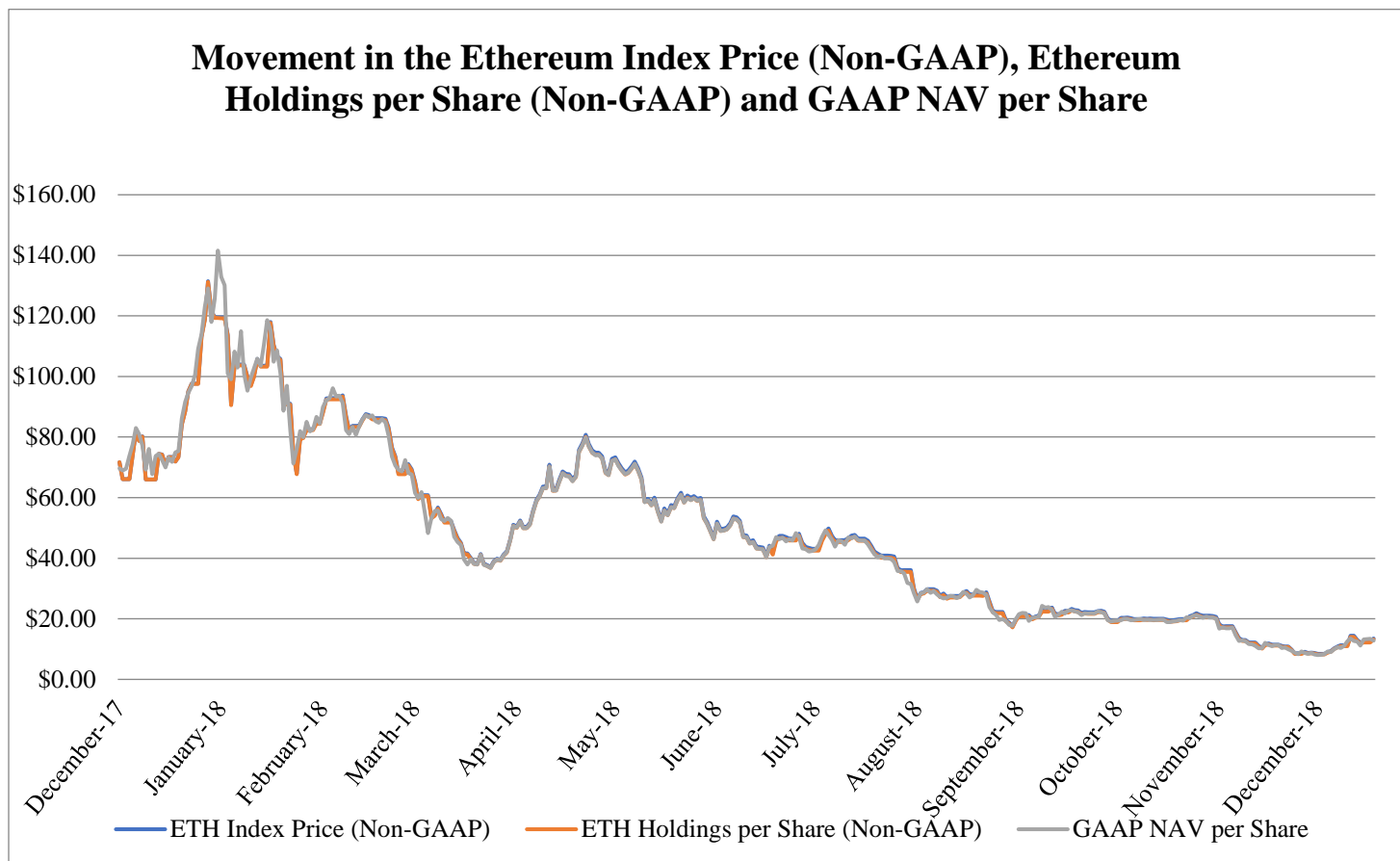
any such Incidental Rights and/or IR Virtual Currency will be determined on an arm’s-length basis. The Trust currently expects that the value of any such Incidental Rights and/or IR Virtual Currency would be determined by reference to an index provided by the Index Provider or, in the absence of such an index, by reference to the cascading set of rules described in “Description of the Trust— The Index and the ETH Index Price.” If the Trust pays the Additional Trust Expenses in Incidental Rights and/or IR Virtual Currency, in whole or in part, the amount of ETH that would otherwise have been used to satisfy such payment will be correspondingly reduced.

The number of ETH represented by a Share will decline each time the Trust pays the Sponsor’s Fee or any Additional Trust Expenses by transferring or selling ETH.

***Impact of Trust Expenses on the Trust’s ETH Holdings***

The Trust will pay the Sponsor’s Fee to the Sponsor in ETH, Incidental Rights and/or IR Virtual Currency. In addition, the Trust will sell ETH, Incidental Rights and/or IR Virtual Currency to raise the funds needed for the payment of any Additional Trust Expenses or will pay Additional Trust Expenses in ETH, Incidental Rights and/or IR Virtual Currency. The Trust’s ETH, Incidental Rights and IR Virtual Currency, and the purchase price received as consideration for sales of ETH, Incidental Rights and IR Virtual Currency, will be the Trust’s sole source of funds to cover the Sponsor’s Fee and any Additional Trust Expenses. Because the number of ETH held by the Trust will decrease when ETH are used to pay the Sponsor’s Fee or Additional Trust Expenses or are sold to permit the payment of Additional Trust Expenses, it is expected that the fractional number of ETH represented by each Share will gradually decrease over the life of the Trust. Accordingly, the Shareholders will bear the cost of the Sponsor’s Fee and Additional Trust Expenses. New ETH that is transferred into the ETH Account in exchange for additional new Baskets issued by the Trust will not reverse this trend.

Investing in the Shares does not insulate the investor from certain risks, including price volatility. The following table illustrates the movement in the ETH Holdings per Share (non-GAAP) versus the ETH Index Price (non-GAAP) and the Trust’s GAAP NAV per Share from December 14, 2017 to December 31, 2018:



For more information about how we determine the ETH Holdings per Share, see “Grayscale Ethereum Trust — Valuation of ETH and Determination of the Trust’s ETH Holdings.”

## **Critical Accounting Policies**

### *Investment Transactions and Revenue Recognition*

The Trust considers investment transactions to be the receipt of ETH for Share creations or payment of expenses in ETH. At this time, the Trust is not accepting redemption requests from Shareholders. The Trust records its investment transactions on a trade date basis and changes in fair value are reflected as net change in unrealized appreciation (depreciation) on investments. Realized gains and losses are calculated using an average cost method. Realized gains and losses are recognized in connection with transactions including settling obligations for the Sponsor’s Fee in ETH.

### *Principal Market and Fair Value Determination*

To determine which exchange is the Trust’s principal market for purposes of calculating the Trust’s NAV, the Trust considers only ETH Exchanges that are U.S. dollar-denominated, have an online platform and publish transaction price and volume data publicly. Based on these requirements, the Trust prepares a list of eligible ETH Exchanges and considers the following criteria to select its principal market: (i) the volume of ETH traded on an ETH Exchange in the prior trailing twelve months, (ii) an ETH Exchange’s regulatory compliance with applicable federal and state licensing requirements and practices regarding Anti-Money Laundering (“AML”) and Know Your Customer (“KYC”) procedures and (iii) the degree of intra-day price fluctuations an ETH Exchange experiences as well as the degree of variance in prices across ETH Exchanges.

In determining which of the eligible ETH Exchanges is the Trust’s principal market, the Trust reviews these criteria in the following order:

First, the Trust sorts the list of eligible ETH Exchanges from high to low by volume of ETH traded on each ETH Exchange in the trailing twelve months. The Trust moves down the list until it reaches an ETH Exchange that has a volume of ETH traded for the trailing twelve months that is less than 10% of the next largest ETH Exchange and excludes this and all smaller ETH Exchanges from the list. However, the list will always contain a minimum of three ETH Exchanges, even if the percentage of volume drops to less than 10% of the next largest ETH Exchange.

Second, the Trust reviews the remaining ETH Exchanges and excludes any ETH Exchanges that do not comply with the federal and state licensing requirements that are applicable to the Trust and the Authorized Participant. The Trust or an Authorized Participant can only do business with those ETH Exchanges that meet the regulatory requirements of the jurisdiction in which the Trust or an Authorized Participant is registered to do business. The Trust also assesses each ETH Exchange’s practices regarding AML and KYC procedures.

Third, the Trust then reviews intra-day pricing fluctuations and the degree of variances in price on ETH Exchanges to identify any material notable variances that may impact the volume or price information of a particular ETH Exchange. The Trust then selects an ETH Exchange as its principal market based on highest trade volume and price stability in comparison to the other ETH Exchanges on the list.

The Trust determines its principal market annually and conducts a quarterly analysis to determine (i) if there have been recent changes to each ETH Exchange’s transaction volume in the trailing twelve months, (ii) if any ETH Exchanges have fallen out of, or come into, compliance with applicable regulatory requirements, (iii) if there have been any exchanges that have added an ETH/USD pairing, (iv) if the Trust has engaged any new Authorized Participant that, due to being registered to do business in another jurisdiction, would make ETH Exchanges previously inaccessible to the Trust now accessible, (v) if recent changes to each ETH Exchange’s price stability have occurred that would materially impact the selection of the principal market and necessitate a change in the

Trust’s determination of its principal market, or (vi) if the principal market is included in the TradeBlock ETX Index.

The cost basis of the investment in ETH recorded by the Trust for financial reporting purposes is the fair value of ETH at the time of transfer. The cost basis recorded by the Trust may differ from proceeds collected by the Authorized Participant from the sale of the corresponding Shares to investors.

### *Investment Company Considerations*

The Trust is an investment company for GAAP purposes and follows accounting and reporting guidance in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946, *Financial Services – Investment Companies*. The Trust uses fair value as its method of accounting for ETH in accordance with its classification as an investment company for accounting purposes. The Trust is not registered under the Investment Company Act of 1940. GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates and those differences could be material.

### **Review of Financial Results**

#### *Financial Highlights for the Year Ended December 31, 2018 and for the Period from December 13, 2017 (the Inception of the Trust) to December 31, 2017*

(All amounts in the following table and the subsequent paragraphs, except Share and per Share amounts, are in thousands of U.S. dollars)

	<b>For the Year Ended December 31, 2018</b>	<b>December 13, 2017 (the inception of the Trust) to December 31, 2017</b>
Net realized and unrealized (loss) gain on investment in Ethereum	\$ (28,759)	\$ 723
Net (decrease) increase in net assets resulting from operations	\$ (29,191)	\$ 712
Net assets	\$ 6,200	\$ 13,135

Net realized and unrealized loss on investment in Ethereum for the year ended December 31, 2018 was (\$28,759), which includes a realized loss of (\$160) on the transfer of ETH to pay the Sponsor’s Fee, net change in unrealized depreciation on Sponsor’s Fee payable of \$9 and net change in unrealized depreciation on investment in ETH of (\$28,608). Net realized and unrealized loss on investment in ETH was driven by ETH price depreciation from \$750.11 per ETH on December 31, 2017 to \$130.90 per ETH as of December 31, 2018. Net decrease in net assets resulting from operations was (\$29,191) for the year ended December 31, 2018, which consisted of the net realized and unrealized loss on investment in ETH, plus the Sponsor’s Fee of \$432. Net assets decreased to \$6,200 at December 31, 2018, a 53% decrease for the year. The decrease in net assets resulted from the aforementioned ETH price depreciation and the withdrawal of 723 ETH to pay the foregoing Sponsor’s Fee, partially offset by the contribution of approximately 30,851 ETH with a value of \$22,256 to the Trust in connection with Share creations.

Net unrealized gain on investment in ETH for the period from December 13, 2017 (the inception of the Trust) to December 31, 2017 was \$723, which includes a (\$0.21) net change in unrealized appreciation on the Sponsor’s Fee payable and \$723 net change in unrealized appreciation on investment in ETH. Net unrealized gain on



investment in ETH was driven by ETH price appreciation from \$697.10 per ETH as of December 14, 2017 (the first Creation Basket of the Trust) to \$750.11 per ETH as of December 31, 2017. Net increase in net asset resulting from operations was \$712 for the period ended December 31, 2017, which consisted of the net unrealized gain on investment in ETH less the Sponsor's Fee of \$11. Net assets increased to \$13,135 at December 31, 2017. The increase in net assets was due to the aforementioned ETH price appreciation and the contribution of approximately 17,525 ETH with a value of \$12,423 to the Trust in connection with Share creations during the period.

#### *Off-Balance Sheet Arrangements*

The Trust is not a party to any off-balance sheet arrangements.

#### *Cash Resources and Liquidity*

The Trust has not had a cash balance at any time since inception. When selling ETH, Incidental Rights and/or IR Virtual Currency to pay Additional Trust Expenses, the Sponsor endeavors to sell the exact number of ETH, Incidental Rights and/or IR Virtual Currency needed to pay expenses in order to minimize the Trust's holdings of assets other than ETH. As a consequence, the Sponsor expects that the Trust will not record any cash flow from its operations and that its cash balance will be zero at the end of each reporting period.

In exchange for the Sponsor's Fee, the Sponsor has agreed to assume most of the expenses incurred by the Trust. As a result, the only ordinary expense of the Trust during the periods covered by this Disclosure Statement was the Sponsor's Fee. The Trust is not aware of any trends, demands, conditions or events that are reasonably likely to result in material changes to its liquidity needs.

#### **Quantitative and Qualitative Disclosures about Market Risk**

The Trust Agreement does not authorize the Trustee to borrow for payment of the Trust's ordinary expenses. The Trust does not engage in transactions in foreign currencies which could expose the Trust or holders of Shares to any foreign currency related market risk. The Trust does not invest in derivative financial instruments and has no foreign operations or long-term debt instruments.

#### **Selected Supplemental Data**

	<b>For the Year Ended December 31, 2018</b>	<b>December 13, 2017 (the inception of the Trust) to December 31, 2017</b>
<b>Ethereum:</b>		
Opening balance	17,525	-
Creations	30,851	17,525
Sponsor's Fee, related party	(723)	-
Closing balance	47,653	17,525
Accrued but unpaid Sponsor's Fee, related party	(287)	(15)
Net closing balance	47,366	17,510
<b>Number of Shares:</b>		
Opening balance	175,300	-
Creations	310,900	175,300
Closing balance	486,200	175,300

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Price of ETH on principal market <sup>1</sup>	\$ 130.90	\$ 750.11
NAV per Share <sup>2</sup>	\$ 12.75	\$ 74.93
ETH Index Price	\$ 135.07	\$ 719.60
ETH Holdings per Share <sup>3</sup>	\$ 13.16	\$ 71.88

During the year ended December 31, 2018 an additional 310,900 Shares (3,109 Baskets) were created in exchange for approximately 30,851 ETH, approximately 723 ETH were deducted from the Trust's holdings and used to pay the Sponsor's Fee, and approximately 287 ETH were accrued and unpaid related to the Sponsor's Fee.

For the period from December 13, 2017 (the inception of the Trust) to December 31, 2017, 175,300 Shares (1,753 Baskets) were created in exchange for approximately 17,525 ETH, and approximately 15 ETH were accrued and unpaid related to the Sponsor's Fee.

For accounting purposes, the Trust reflects creations and the ETH receivable with respect to such creations on the date of receipt of a notification of a creation, but does not issue Shares until the requisite number of ETH is received. At this time, the Trust is not operating a redemption program and is not accepting redemption requests from Shareholders. Subject to receipt of regulatory approval from the SEC and approval by the Sponsor in its sole discretion, the Trust may in the future operate a redemption program. The Trust currently has no intention of seeking regulatory approval to operate an ongoing redemption program.

As of December 31, 2018, the Trust had a net closing balance of approximately 47,366 ETH, with a value of \$6,397,768, based on the ETH Index Price of \$135.07 on December 31, 2018 (non-GAAP methodology). As of December 31, 2017, the Trust had a net closing balance of approximately 47,366 ETH, with a market value of \$6,200,250, based on the principal market (Coinbase Pro) of \$130.90 on December 31, 2017.

### **Historical Ethereum Prices**

As movements in the price of ETH will directly affect the price of the Shares, investors should understand recent movements in the price of ETH. Investors, however, should also be aware that past movements in the ETH price are not indicators of future movements. Movements may be influenced by various factors, including, but not limited to, government regulation, security breaches experienced by service providers, as well as political and economic uncertainties around the world.

During the period from December 14, 2017 (the first Creation Basket of the Trust) to December 31, 2018, the ETH price, based on the price reported by the Trust's principal market as of 4:00 p.m., New York time, traded between \$82.34 (December 14, 2017) and \$1,418.61 (January 13, 2018), the average was \$491.98, and the median

<sup>1</sup> The Trust performed an assessment of the principal market at December 31, 2018 and 2017 and identified the principal market as Coinbase Pro.

<sup>2</sup> As of December 31, 2018 and 2017, respectively, the NAV per Share was calculated using the fair value of ETH based on the price provided by Coinbase Pro, the ETH Exchange that the Trust currently considers its principal market, as of 4:00 p.m., New York time, on the valuation date.

<sup>3</sup> The Trust's ETH Holdings per Share is derived from the ETH Index Price as represented by the Index as of 4:00 p.m., New York time, on the valuation date. The Trust's ETH Holdings per Share is calculated using a non-GAAP methodology where the volume-weighted average price is derived from multiple ETH Exchanges. See the section entitled "Grayscale Ethereum Trust – Valuation of ETH and Determination of the Trust's ETH Holdings" above for a description of the Trust's ETH Holdings per Share. The ETH Exchanges used to calculate the ETH Index Price as of December 31, 2018 were Coinbase Pro, Kraken, Bitstamp, Poloniex and Bittrex.

was \$465.66. The average, high, low and end-of-period ETH prices for the year ended December 31, 2018, for the period from December 14, 2018 (the first Creation Basket of the Trust) to December 31, 2017, and for the period from December 14, 2018 (the first Creation Basket of the Trust) to December 31, 2018, based on the price reported by the Trust's principal market as of 4:00 p.m., New York time, on the applicable dates were:

<b>Period</b>	<b>Avg</b>	<b>High</b>	<b>Date</b>	<b>Low</b>	<b>Date</b>	<b>End of period</b>	<b>Last business day</b>
December 14, 2017 (the first Creation Basket of the Trust) to December 31, 2017	\$736.08	\$829.91	12/19/2017	\$677.76	12/24/2017	\$750.11	\$733.50
Twelve Months Ended December 31, 2018	\$479.95	\$1,418.61	1/13/2018	\$82.34	12/14/2018	\$130.90	\$130.90
December 14, 2017 (the first Creation Basket of the Trust) to December 31, 2018	\$491.98	\$1,418.61	1/13/2018	\$82.34	12/14/2018	\$130.90	\$130.90

## **PART E. ISSUANCE HISTORY**

### **Item 17. List of securities offerings and shares issued for services in the past two years.**

From December 14, 2017 (the first Creation Basket of the Trust) to December 31, 2018, the Trust has offered the Shares pursuant to Rule 506 of the Regulation D under the Securities Act. The Shares offered by the Trust have not been registered under the Securities Act, or any state or other securities laws, and were offered and sold only to “accredited investors” within the meaning of Rule 501(a) of Regulation D under the Securities Act, and in compliance with any applicable state or other securities laws.

The table below describes the Shares offered, the Shares sold and the average and range of prices at which the Shares were offered and sold by the issuer. All Shares initially offered and sold by the Trust are restricted securities pursuant to Rule 144 under the Securities Act. Until the Shares sold by the Trust become unrestricted in accordance with Rule 144, the certificates or other documents evidencing the Shares will contain legends stating that the Shares have not been registered under the Securities Act and referring to the restrictions on transferability and sale of the Shares under the Securities Act. Such legends are removed upon Shares becoming unrestricted in accordance with Rule 144. From December 14, 2017 (the first Creation Basket of the Trust) to December 31, 2018, no Shares, other securities of the Trust, or options to acquire such other securities were issued in exchange for services provided by any person or entity.

<u>Period</u>	<u>Shares Offered</u>	<u>Shares Sold</u>	<u>No. of Purchasers</u>	<u>Avg<sup>1</sup></u>	<u>High<sup>1</sup></u>	<u>Date</u>	<u>Low<sup>1</sup></u>	<u>Date</u>
December 14, 2017 (the first Creation Basket of the Trust) to December 31, 2017	Unlimited	175,300	6	\$71.54	\$81.86	12/19/2017	\$65.98	12/25/2017
Twelve Months Ended December 31, 2018	Unlimited	310,900	40	\$47.31	\$131.23	1/10/2018	\$8.22	12/16/2018

<sup>1</sup> The prices reflected represent the ETH Index Price (non-GAAP methodology)

## **PART F. EXHIBITS**

### **Item 18. Material Contracts.**

#### **Description of the Trust Agreement**

The following is a description of the material terms of the Trust Agreement. The Trust Agreement establishes the roles, rights and duties of the Sponsor and the Trustee.

#### **The Sponsor**

##### *Liability of the Sponsor and Indemnification*

The Sponsor and its affiliates (each a “Covered Person”) will not be liable to the Trust or any Shareholder for any loss suffered by the Trust which arises out of any action or inaction of such Covered Person if such Covered Person determined in good faith that such course of conduct was in the best interests of the Trust. However, the preceding liability exclusion will not protect any Covered Person against any liability resulting from its own willful misconduct, bad faith or gross negligence in the performance of its duties.

Each Covered Person will be indemnified by the Trust against any loss, judgment, liability, expense incurred or amount paid in settlement of any claim sustained by it in connection with the Covered Person’s activities for the Trust, provided that (i) the Covered Person was acting on behalf of, or performing services for, the Trust and had determined, in good faith, that such course of conduct was in the best interests of the Trust and such liability or loss was not the result of fraud, gross negligence, bad faith, willful misconduct or a material breach of the Trust Agreement on the part of such Covered Person and (ii) any such indemnification will be recoverable only from the property of the Trust. Any amounts payable to an indemnified party will be payable in advance under certain circumstances.

##### *Fiduciary and Regulatory Duties of the Sponsor*

The Sponsor is not effectively subject to the duties and restrictions imposed on “fiduciaries” under both statutory and common law. Rather, the general fiduciary duties that would apply to the Sponsor are defined and limited in scope by the Trust Agreement.

The Trust Agreement provides that in addition to any other requirements of applicable law, no Shareholder will have the right, power or authority to bring or maintain a derivative action, suit or other proceeding on behalf of the Trust unless two or more Shareholders who (i) are not affiliates of one another and (ii) collectively hold at least 10% of the outstanding Shares join in the bringing or maintaining of such action, suit or other proceeding.

Beneficial owners may have the right, subject to certain legal requirements, to bring class actions in federal court to enforce their rights under the federal securities laws and the rules and regulations promulgated thereunder by the SEC. Beneficial owners who have suffered losses in connection with the purchase or sale of their beneficial interests may be able to recover such losses from the Sponsor where the losses result from a violation by the Sponsor of the anti-fraud provisions of the federal securities laws.

##### *Actions Taken to Protect the Trust*

The Sponsor may, in its sole discretion, prosecute, defend, settle or compromise actions or claims at law or in equity that it considers necessary or proper to protect the Trust or the interests of the Shareholders. The expenses incurred by the Sponsor in connection therewith (including the fees and disbursements of legal counsel) will be expenses of the Trust and are deemed to be Additional Trust Expenses. The Sponsor will be entitled to be reimbursed for the Additional Trust Expenses.

### *Successor Sponsors*

If the Sponsor is adjudged bankrupt or insolvent, the Trust may dissolve and a liquidating Trustee may be appointed to terminate and liquidate the Trust and distribute its remaining assets. The Trustee will have no obligation to appoint a successor sponsor or to assume the duties of the Sponsor, and will have no liability to any person because the Trust is or is not terminated. However, if a certificate of dissolution or revocation of the Sponsor's charter is filed (and ninety (90) days have passed after the date of notice to the Sponsor of revocation without a reinstatement of the Sponsor's charter) or the withdrawal, removal, adjudication or admission of bankruptcy or insolvency of the Sponsor has occurred, Shareholders holding at least a majority (over 50%) of the Shares may agree in writing to continue the affairs of the Trust and to select, effective as of the date of such event, one or more successor Sponsors within ninety (90) days of any such event.

### **The Trustee**

The Trustee is a fiduciary under the Trust Agreement and must satisfy the requirements of Section 3807 of the Delaware Trust Statute. However, the fiduciary duties, responsibilities and liabilities of the Trustee are limited by, and are only those specifically set forth in, the Trust Agreement.

### *Limitation on Trustee's Liability*

Under the Trust Agreement, the Sponsor has exclusive control of the management of all aspects of the activities of the Trust and the Trustee has only nominal duties and liabilities to the Trust. The Trustee is appointed to serve as the trustee for the sole purpose of satisfying Section 3807(a) of the DSTA which requires that the Trust have at least one trustee with a principal place of business in the State of Delaware. The duties of the Trustee are limited to (i) accepting legal process served on the Trust in the State of Delaware and (ii) the execution of any certificates required to be filed with the Delaware Secretary of State which the Trustee is required to execute under the DSTA.

To the extent the Trustee has duties (including fiduciary duties) and liabilities to the Trust or the Shareholders under the DSTA, such duties and liabilities will be replaced by the duties and liabilities of the Trustee expressly set forth in the Trust Agreement. The Trustee will have no obligation to supervise, nor will it be liable for, the acts or omissions of the Sponsor, Key Maintainer, any Backup Maintainer or any other security vendor engaged by the Trust. Neither the Trustee, either in its capacity as trustee or in its individual capacity, nor any director, officer or controlling person of the Trustee is, or has any liability as, the issuer, director, officer or controlling person of the issuer of Shares. The Trustee's liability is limited solely to the express obligations of the Trustee as set forth in the Trust Agreement.

Under the Trust Agreement, the Sponsor has the exclusive management, authority and control of all aspects of the activities of the Trust. The Trustee has no duty or liability to supervise or monitor the performance of the Sponsor, nor does the Trustee have any liability for the acts or omissions of the Sponsor. The existence of a trustee should not be taken as an indication of any additional level of management or supervision over the Trust. The Trust Agreement provides that the management authority with respect to the Trust is vested directly in the Sponsor. The Trust Agreement provides that the Trustee is not responsible or liable for the genuineness, enforceability, collectability, value, sufficiency, location or existence of any of the ETH or other assets of the Trust.

### *Possible Repayment of Distributions Received by Shareholders; Indemnification by Shareholders*

The Shares are limited liability investments. Investors may not lose more than the amount that they invest plus any profits recognized on their investment. Although it is unlikely, the Sponsor may, from time to time, make distributions to the Shareholders. However, Shareholders could be required, as a matter of bankruptcy law, to return to the estate of the Trust any distribution they received at a time when the Trust was in fact insolvent or in violation of its Trust Agreement. In addition, the Trust Agreement provides that Shareholders will indemnify the Trust for any harm suffered by it as a result of Shareholders' actions unrelated to the activities of the Trust.

The foregoing repayment of distributions and indemnity provisions (other than the provision for Shareholders indemnifying the Trust for taxes imposed upon it by a state, local or foreign taxing authority, which is included only as a formality due to the fact that many states do not have statutory trust statutes therefore the tax status of the Trust in such states might, theoretically, be challenged) are commonplace in statutory trusts and limited partnerships.

#### *Indemnification of the Trustee*

The Trustee and any of the officers, directors, employees and agents of the Trustee will be indemnified by the Trust as primary obligor and DCG as secondary obligor and held harmless against any loss, damage, liability, claim, action, suit, cost, expense, disbursement (including the reasonable fees and expenses of counsel), tax or penalty of any kind and nature whatsoever, arising out of, imposed upon or asserted at any time against such indemnified person in connection with the performance of its obligations under the Trust Agreement, the creation, operation or termination of the Trust or the transactions contemplated therein; provided, however, that neither the Trust nor DCG will be required to indemnify any such indemnified person for any such expenses which are a result of the willful misconduct, bad faith or gross negligence of such indemnified person. If the Trust has insufficient assets or improperly refuses to pay such an indemnified person within 60 days of a request for payment owed under the Trust Agreement, DCG will, as secondary obligor, compensate or reimburse the Trustee or indemnify, defend and hold harmless such an indemnified person as if it were the primary obligor under the Trust Agreement. Any amount payable to such an indemnified person under the Trust Agreement may be payable in advance under certain circumstances and will be secured by a lien on the Trust property. The obligations of DCG and the Trust to indemnify such indemnified persons under the Trust Agreement will survive the termination of the Trust Agreement.

#### *Holding of Trust Property*

The Trust will hold and record the ownership of the Trust's assets in a manner such that it will be owned for the benefit of the Shareholders for the purposes of, and subject to and limited by the terms and conditions set forth in, the Trust Agreement. The Trust will not create, incur or assume any indebtedness or borrow money from or loan money to any person. The Trustee may not commingle its assets with those of any other person.

The Trustee may employ agents, attorneys, accountants, auditors and nominees and will not be answerable for the conduct or misconduct of any such custodians, agents, attorneys or nominees if such custodians, agents, attorneys and nominees have been selected with reasonable care.

#### *Resignation, Discharge or Removal of Trustee; Successor Trustees*

The Trustee may resign as Trustee by written notice of its election so to do, delivered to the Sponsor with at least 60 days' notice. The Sponsor may remove the Trustee in its discretion. If the Trustee resigns or is removed, the Sponsor, acting on behalf of the Shareholders, will appoint a successor trustee. The successor Trustee will become fully vested with all of the rights, powers, duties and obligations of the outgoing Trustee.

If the Trustee resigns and no successor trustee is appointed within 180 days after the Trustee notifies the Sponsor of its resignation, the Trustee will terminate and liquidate the Trust and distribute its remaining assets.

#### *Amendments to the Trust Agreement*

In general, the Sponsor may amend the Trust Agreement without the consent of any Shareholder. In particular, the Sponsor may, without the approval of the Shareholders, amend the Trust Agreement if the Trust is advised at any time by the Trust's accountants or legal counsel that the amendments are necessary to permit the Trust to take the position that it is a grantor trust for U.S. federal income tax purposes. However, the Sponsor may not make an amendment, or otherwise supplement the Trust Agreement, if such amendment or supplement would permit the Sponsor, the Trustee or any other person to vary the investment of the Shareholders (within the meaning of

applicable Treasury Regulations) or would otherwise adversely affect the status of the Trust as a grantor trust for U.S. federal income tax purposes. In addition, no amendments to the Trust Agreement that materially adversely affect the interests of Shareholders may be made without the vote of at least a majority (over 50%) of the Shares (not including any Shares held by the Sponsor or its affiliates). A Shareholder will be deemed to have consented to a modification or amendment of the Trust Agreement if the Sponsor has notified the Shareholders in writing of the proposed modification or amendment and the Shareholder has not, within 20 calendar days of such notice, notified the Sponsor in writing the Shareholder objects to such modification or amendment.

### ***Termination of the Trust***

The Trust will dissolve if any of the following events occur:

- a U.S. federal or state regulator requires the Trust to shut down or forces the Trust to liquidate its ETH, or seizes, impounds or otherwise restricts access to Trust assets;
- any ongoing event exists that either prevents the Trust from making or makes impractical the Trust's reasonable efforts to make a fair determination of the ETH Index Price;
- any ongoing event exists that either prevents the Trust from converting or makes impractical the Trust's reasonable efforts to convert ETH to U.S. dollars; or
- the filing of a certificate of dissolution or revocation of the Sponsor's charter (and the expiration of 90 days after the date of notice to the Sponsor of revocation without a reinstatement of its charter) or the withdrawal, removal, adjudication or admission of bankruptcy or insolvency of the Sponsor has occurred unless (i) at the time there is at least one remaining Sponsor and that remaining Sponsor carries on the Trust or (ii) within 90 days of any such event Shareholders holding at least a majority (over 50%) of Shares agree in writing to continue the activities of the Trust and to select, effective as of the date of such event, one or more successor Sponsors.

The Sponsor may, in its sole discretion, dissolve the Trust if any of the following events occur:

- the SEC determines that the Trust is an investment company required to be registered under the Investment Company Act of 1940;
- the CFTC determines that the Trust is a commodity pool under the CEA;
- the Trust is determined to be a "money service business" under the regulations promulgated by FinCEN under the authority of the U.S. Bank Secrecy Act and is required to comply with certain FinCEN regulations thereunder;
- the Trust is required to obtain a license or make a registration under any state law regulating money transmitters, money services businesses, providers of prepaid or stored value or similar entities, or virtual currency businesses;
- the Trust becomes insolvent or bankrupt;
- a security vendor to the Trust, such as the Key Maintainer or one of the Backup Maintainers, resigns or is removed without replacement;
- all of the Trust's assets are sold;
- the determination of the Sponsor that the aggregate net assets of the Trust in relation to the expenses of the Trust make it unreasonable or imprudent to continue the Trust;



- the Sponsor receives notice from the IRS or from counsel for the Trust or the Sponsor that the Trust fails to qualify for treatment, or will not be treated, as a grantor trust under the Code;
- if the Trustee notifies the Sponsor of the Trustee’s election to resign and the Sponsor does not appoint a successor trustee within 180 days; or
- the Sponsor determines, in its sole discretion, that it is desirable or advisable for any reason to discontinue the affairs of the Trust.

The death, legal disability, bankruptcy, insolvency, dissolution, or withdrawal of any Shareholder (as long as such Shareholder is not the sole Shareholder of the Trust) will not result in the termination of the Trust, and such Shareholder, his or her estate, custodian or personal representative will have no right to a redemption or value such Shareholder’s Shares. Each Shareholder (and any assignee thereof) expressly agrees that in the event of his or her death, he or she waives on behalf of himself or herself and his or her estate, and he or she directs the legal representative of his or her estate and any person interested therein to waive the furnishing of any inventory, accounting or appraisal of the assets of the Trust and any right to an audit or examination of the books of account for the Trust, except for such rights as are set forth in Article VIII of the Trust Agreement relating to the books of account and reports of the Trust.

Upon dissolution of the Trust and surrender of Shares by the Shareholders, Shareholders will receive a distribution in U.S. dollars or ETH, Incidental Rights and/or IR Virtual Currency, at the sole discretion of the Sponsor, after the Sponsor has sold the Trust’s ETH, Incidental Rights and IR Virtual Currency, if applicable, and has paid or made provision for the Trust’s claims and obligations.

If the Trust is forced to liquidate, the Trust will be liquidated under the Sponsor’s direction. The Sponsor, on behalf of the Trust, will engage directly with either accessible ETH Exchanges or over-the-counter ETH Exchanges to liquidate the Trust’s ETH as promptly as possible while obtaining the best fair value possible. The proceeds therefrom will be applied and distributed in the following order of priority: (a) to the expenses of liquidation and termination and to creditors, including Shareholders who are creditors, to the extent otherwise permitted by law, in satisfaction of liabilities of the Trust other than liabilities for distributions to Shareholders and (b) to the holders of Shares pro rata in accordance with the respective percentage of percentages of Shares that they hold. It is expected that the Sponsor would be subject to the same regulatory requirements as the Trust, and therefore, the exchanges available to the Sponsor will be the same exchanges available to the Trust.

### *Governing Law*

The Trust Agreement and the rights of the Sponsor, Trustee and Shareholders under the Trust Agreement are governed by the laws of the State of Delaware. Each Participant Agreement is also governed by the laws of the State of Delaware.

### **Description of the Key Maintenance Agreement**

The Key Maintenance Agreement establishes the rights and responsibilities of the Key Maintainer and the Trust with respect to the Protected Coins in the Trust’s ETH Account, which is established by the Key Maintainer on behalf of the Trust. For a general description of the Key Maintainer’s obligations, see “—The Key Maintainer’s Role.”

### *Description of the Key Maintainer*

Ledger SAS, a French company, is authorized to serve as the Trust’s key maintainer under the Trust Agreement and pursuant to the terms and provisions of the Key Maintenance Agreement. The Key Maintainer has its principal office in Paris, France. A copy of the Key Maintenance Agreement is available for inspection at the Sponsor’s principal office identified herein.

### *The Key Maintainer's Role*

Under the Key Maintenance Agreement, the Key Maintainer is responsible for keeping its Security Factors to the Trust's digital wallet safe, secure and confidential. Pursuant to a request from the Trust, the Key Maintainer will establish an account and any necessary subaccounts on the Ethereum Network solely for the Trust (together, the "ETH Account"). The Key Maintainer will follow valid instructions given by the Trust or Sponsor to use its Security Factors to effect transfers from the ETH Account.

Fees paid to the Key Maintainer are a Sponsor-paid Expense.

Under the Key Maintenance Agreement, the Key Maintainer must indemnify the Trust for damages arising out of or caused by the Key Maintainer or by the Sponsor's and the Trust's reasonable reliance on the Key Maintainer's untrue representations and warranties. The Key Maintainer must also indemnify the Sponsor and Trust from any loss or damage caused by and directly attributable to any employee, agent, representative or independent contractor engaged by the Key Maintainer, whether or not such act or omission occurred within the scope of his employment or engagement.

The Key Maintainer and its affiliates may from time to time purchase or sell ETH for their own accounts and as agent for their customers or Shares for their own accounts.

If the Key Maintainer resigns in its capacity as Key Maintainer, the Sponsor may appoint an additional or replacement Key Maintainer and enter into a key maintenance agreement on behalf of the Trust with such Key Maintainer.

### *Location of ETH; Account*

The Key Maintainer will hold Security Factors of an on-blockchain ETH account on behalf of the Trust, the ETH Account. The ETH in this account are referred to as the "Protected Coins." Under the Key Maintenance Agreement, the Trust and Key Maintainer agree that the location of the Protected Coins is the United States.

The Key Maintenance Agreement does not specify the location where the Security Factors must be held but requires that they not be held in jurisdictions that present an elevated risk of hostile regulatory treatment and social, economic or political unrest. The Key Maintainer must have written approval from the Sponsor or the Trust to change the location of the Security Factors held by the Key Maintainer or records relating to the ETH Account.

### *Access to the ETH Account; Deposits, Withdrawals and Storage*

The Key Maintainer will use its best efforts to keep safe and secure the Security Factors of the ETH Account that it holds, and will not be accessible or disclosed to affiliates or subsidiaries of the Key Maintainer, the Trust, Sponsor, or any other party. The Key Maintenance Agreement provides that all Protected Coins credited to the ETH Account must be appropriately identified as being held for the Sponsor or Trust and held in the ETH Account on a non-fungible basis. The Protected Coins cannot be commingled with other ETH held by the Key Maintainer and cannot be deposited or held with any third-party depository, Key Maintainer, clearance system or wallet without prior written consent of the Sponsor or Trust.

The Trust will be able to transfer ETH from the ETH Account to another ETH account that is not maintained or controlled by the Key Maintainer. Except in the case of certain prohibited activities of the Trust and the Sponsor, the Key Maintainer will not suspend the Trust's access to the Key Maintainer's Services unless the Trust or Sponsor engages in certain prohibited activities, and any suspension of access to the Key Maintainer's Services will constitute a breach of the Key Maintenance Agreement. The Key Maintainer may restrict access or use of the ETH Account by any Authorized Participants if, in the Key Maintainer's good faith belief, it is reasonably necessary to comply with the Key Maintainer's anti-money laundering programs and policies or any requirements

under applicable law, and would, except with respect to the Trust or Sponsor's actions that caused or contributed to such restriction, constitute a Loss as defined in the Key Maintenance Agreement.

The Key Maintainer will provide the Sponsor with the information that is necessary for Authorized Participants to transfer ETH to the ETH Account. The Key Maintainer will only allow withdrawals of ETH from the ETH Account by authorized representatives of the Trust. The Key Maintainer will use its best efforts to design and put in place a secure procedure to allow the Sponsor to receive such addresses, and to facilitate such withdrawals.

The Key Maintenance Agreement provides that the Trust and Authorized Persons will be able to access the ETH Account via the Key Maintainer's services at all times, in order to check information about the ETH Account, add ETH to the ETH Account, withdraw ETH from the ETH Account, and otherwise use the Key Maintainer's services.

Authorized persons of the Trust will initiate withdrawals by sending a valid instruction to the Key Maintainer. Under the Key Maintenance Agreement, the Key Maintainer will timely carry out any valid Instructions given to it with respect to the Security Factors of the ETH Account that it holds. Timely will mean acting within the same business day, or, if the instruction is received after 5:00 p.m., New York time, the next business day.

#### *Security of the Account*

Under the Key Maintenance Agreement, the Key Maintainer must use its best efforts to keep the Security Factors of the ETH Account that it holds safe and secure. Such Security Factors may only be controlled and accessed by the Key Maintainer and will not be controlled, accessible, or disclosed to any other party, including third parties, affiliates or subsidiaries of Key Maintainer, or the Trust. Such Security Factors will be used by Key Maintainer only in compliance with Instructions it has received.

The Trust, Sponsor and Key Maintainer will comply with certain security procedures with respect to the delivery or authentication of instructions and will use its best efforts to reasonably safeguard any codes, passwords or similar devices. Under the Key Maintenance Agreement, the Key Maintainer must exercise best efforts in all Ethereum Network transactions executed in connection with its services.

#### *Record Keeping*

The Key Maintainer will keep appropriate records of its services pursuant to the Key Maintenance Agreement, and such records must be retained by the Key Maintainer for no less than seven years. The Key Maintenance Agreement also provides that the Key Maintainer will permit, to the extent it may legally do so, the Trust or Sponsor's auditors or third-party accountants, upon reasonable notice, to inspect, take extracts from and audit the records that it maintains. The Key Maintainer is obligated to provide a copy of any audit report prepared by its internal or independent auditors to the Trust or Sponsor.

#### *Standard of Care; Limitations of Liability*

The Key Maintainer will use best efforts in performing its obligations under the Key Maintenance Agreement. The Key Maintainer is liable to the Sponsor and the Trust for the loss of any Protected Coins to the extent that such loss is caused by and directly attributable to the Key Maintainer, even if the Key Maintainer meets its duty of exercising best efforts.

The Key Maintainer's monetary liability is limited to the greater of \$1 million or 10% of the loss caused by and directly attributable to a breach of the Key Maintainer's obligations under the Key Maintenance Agreement.

Under the Key Maintenance Agreement, the Trust and Key Maintainer agreed that any liability relating to a number of ETH should be valued in terms of the market value of the ETH at the time that payment of damages will be made to the other party. Alternatively, such portion of damages can be satisfied by actual delivery of the relevant quantity of ETH.

The Key Maintainer and Trust are not liable to each other for any indirect, incidental, special or consequential damages whether or not such losses were foreseeable. Furthermore, the Key Maintainer is not responsible or liable to the Trust for a failure to perform under the Key Maintenance Agreement or for loss of Protected Coins due to circumstances beyond its reasonable control when exercising best efforts, including acts of God, terrorist activities, war, rebellion, military or usurped power or confiscation. A cybersecurity attack, hack or other intrusion by a third party or by someone associated with Key Maintainer is not a circumstance that is beyond Key Maintainer's reasonable control when exercising best efforts.

Pursuant to the Key Maintenance Agreement, the Key Maintainer does not guarantee the value of the Protected Coins. The Key Maintainer is not responsible for the services provided by the Ethereum Network, such as verifying and confirming transactions that are submitted to the Ethereum Network. Furthermore, the Key Maintainer cannot cancel or reverse a transaction that has been submitted to the Ethereum Network. To the extent the Key Maintainer does not cause or contribute to a loss that the Trust or Sponsor suffers in connection with any ETH transaction initiated pursuant to the Key Maintainer's services, the Key Maintainer will have no liability for such loss.

### *Indemnity*

Each of the Key Maintainer and the Trust may agree to indemnify and hold harmless the other such parties from and against any and all damages arising out of or caused by (whether directly or indirectly) a third-party claim relating to the nonperformance or misperformance by the Key Maintainer or Trust, as the case may be, of its duties and obligations under the Key Maintenance Agreement as well as a party's reasonable reliance on any representations or warranties made by the Key Maintainer or Trust, as the case may be, under the Key Maintenance Agreement that were or become in fact untrue. The Key Maintainer has further agreed to indemnify and hold harmless the Trust from the holding of Security Factors by the Key Maintainer, including any loss or damage caused by any act or omission of any employee of the Key Maintainer or any agent, representative or independent contractor engaged by the Key Maintainer, whether or not such act or omission occurred within the scope of his employment or engagement

### *Fees and Expenses*

The Key Maintainer is entitled to fees for services, which may be increased upon 30 days written notice to the Sponsor or Trust. The Trust must pay the Key Maintainer such fees within 30 days of the Key Maintainer's invoice. The Sponsor and the Trust will be liable for all taxes with respect to any ETH held on its behalf or any transaction related to these ETH. The Trust, as primary obligor, and the Sponsor as secondary obligor, will defend and indemnify the Key Maintainer for any damages related to any such tax, other than a tax arising out of the Key Maintainer's negligence or willful misconduct.

### *Termination*

The Key Maintenance Agreement provides an initial period of 30 days from its effective date within which the Trust may terminate the agreement upon two days' notice. Otherwise, generally, the Key Maintainer, Trust or Sponsor may terminate the Key Maintenance Agreement for any reason upon 60 days' written prior notice. The Key Maintenance Agreement provides for annual, automatically renewable terms. In certain situations, including a material breach or failure to perform obligations of the Key Maintenance Agreement, the Key Maintainer, Sponsor and Trust may terminate the Key Maintenance Agreement immediately after providing written notice. Upon termination of the Key Maintenance Agreement, the Key Maintainer must promptly deliver all the Trust's ETH to the Trust as of the effective date of termination, together with copies of the records maintained pursuant to the Key Maintenance Agreement.

### *Governing Law*

The Key Maintenance Agreement is governed by New York law.

## **Description of the Backup Security Factor Agreements**

The Backup Security Factor Agreements establish the rights and responsibilities of the Backup Maintainers, the Sponsor and the Trust with respect to the Security Factors of the Trust's ETH Account held by the Backup Maintainers. For a general description of the Backup Maintainers' obligations, see "The Backup Maintainers—The Backup Maintainers' Role."

Each Backup Security Factor Agreement is structured as a master agreement between one Backup Maintainer and the Sponsor on behalf of one or more trusts or other investment vehicles, including the Trust. Additional trusts or other investment vehicles sponsored or managed by the Sponsor may be added to an appendix attached to the agreement. The Sponsor enters into the Backup Security Factor Agreements on behalf of each trust or other investment vehicle, including the Trust, individually. No trust or other investment vehicle is responsible for any obligation or liability incurred under the Backup Security Factor Agreements by another trust or other investment vehicle, or by the Sponsor acting on behalf of another trust or other investment vehicle.

## **Description of the Backup Maintainers**

The identities of the Backup Maintainers are not being disclosed to facilitate security of the Trust's ETH.

### *The Backup Maintainers' Roles*

Under the Backup Security Factor Agreements, each Backup Maintainer is responsible for keeping its Backup Factors to the Trust's digital wallet safe, secure and confidential. Each Backup Maintainer does not have the right to access or use its Backup Factors until a Backup Contingency occurs. "Backup Contingency" means that, under the Backup Security Factor Agreement between any Backup Maintainer and the Trust, the Backup Maintainer has received (i) a notice in writing from the Trust certifying the Trust's inability to reasonably effect transactions involving the ETH Account or (ii) a court order that states that the Trust is unable to reasonably effect transactions involving the ETH Account and identifies a Restore Party, which court order the Backup Maintainer believes, in good faith and after confirming with legal counsel, is valid. The "Restore Party" is the person or party that the Trust or a court with jurisdiction, as applicable, has chosen to receive the Backup Factors after a Backup Contingency. After the Backup Contingency, the Backup Maintainer must timely deliver the Backup Factors solely to any person or party of the Trust's choosing, and the Backup Security Factor Agreement will terminate with respect to the Trust and the Backup Maintainer(s) will have no further obligations to the Trust after 30 days from the date of such delivery.

Backup Maintainers may have the operational ability to access, but not the right to use, the Trust's Backup Factor after a Backup Contingency with respect to a trust other than the Trust for which it also acts as Backup Maintainer. After such Backup Contingency, the Backup Maintainer is required to re-secure the Trust's Backup Factor, such that it will not have the operational ability to access the Trust's Backup Factor until a subsequent Backup Contingency.

Under the Backup Security Factor Agreement with the Trust, a Backup Maintainer has the right to temporarily access, but not the right to use, the Trust's Backup Factor after a Backup Contingency with respect to a trust or other investment vehicle other than the Trust for which it also acts as Backup Maintainer. After such Backup Contingency, the Backup Maintainer is required to re-secure the Trust's Backup Factor, and does not have further rights to access the Trust's Backup Factor until a subsequent Backup Contingency.

Under the Backup Security Factor Agreements, the Trust will indemnify and hold harmless each Backup Maintainer from and against any and all damages arising out of or caused by (whether directly or indirectly) a third-party claim relating to or arising out of the Backup Security Factor Agreements or in some cases only with respect to such a third-party claim relating to (i) the breach by the Trust of its duties and obligations under the Backup Security Factor Agreements or (ii) the Backup Maintainer's reasonable reliance on any representations or warranties made by the Trust under the Backup Security Factor Agreements that were or become in fact untrue.

However, the Trust will not indemnify a Backup Maintainer to the extent damages are caused by willful misconduct (or in certain circumstances, gross negligence or bad faith) on the part of the Backup Maintainer.

Fees paid to the Backup Maintainers are a Sponsor-paid Expense.

The Backup Maintainers and their affiliates may from time to time purchase or sell ETH for their own accounts and as agent for their customers or Shares for their own accounts.

If a Backup Maintainer resigns in its capacity as Backup Maintainer, the Sponsor may appoint an additional or replacement Backup Maintainer and enter into a Backup Security Factor Agreement on behalf of the Trust with such Backup Maintainer.

#### *Obligations of the Backup Maintainers*

Each Backup Maintainer will hold Backup Factors of the Trust's ETH Account and will not give access to the Backup Factors to the Trust, the Sponsor, the Backup Maintainer's affiliates, or any other party. Each Backup Maintainer will not have the right or ability to access or use its Backup Factors until the occurrence of a Backup Contingency. "Backup Contingency" means that, under the Backup Security Factor Agreement between any Backup Maintainer and the Trust, the Backup Maintainer has received (i) a notice in writing from the Trust certifying the Trust's inability to reasonably effect transactions involving the ETH Account or (ii) a court order that states that the Trust is unable to reasonably effect transactions involving the ETH Account and identifies a Restore Party, which court order the Backup Maintainer believes, in good faith and after confirming with legal counsel, is valid. The "Restore Party" is the person or party that the Trust or a court with jurisdiction, as applicable, has chosen to receive the Backup Factors after a Backup Contingency. After the Backup Contingency, the Backup Maintainer(s) must timely deliver the Backup Factors solely to any person of the Trust's or a court's choosing, and the Backup Security Factor Agreement will terminate with respect to the Trust and the Backup Maintainer(s) will have no further obligations to the Trust after 30 days from the date of such delivery.

#### *Standard of Care; Limitations of Liability*

Each Backup Maintainer will exercise reasonable care in performing its obligations under each Backup Security Factor Agreement.

The Backup Maintainers and Trust are not liable to each other for any indirect, incidental, special or consequential damages whether or not such losses were foreseeable. The Backup Maintenance Agreements contain additional provisions that significantly limit the liability of the Backup Maintainers, for example, limiting liability to situations in which the Backup Maintainer has engaged in willful misconduct.

#### *Indemnity*

Under the Backup Security Factor Agreements, the Trust will indemnify and hold harmless each Backup Maintainer from and against any and all damages arising out of or caused by (whether directly or indirectly) a third-party claim relating to or arising out of the Backup Security Factor Agreements or in some cases only with respect to such a third-party claim relating to (i) the breach by the Backup Maintainer or the Trust, as the case may be, of its duties and obligations under the Backup Security Factor Agreement or (ii) the Trust's or Backup Maintainer's reasonable reliance on any representations or warranties made by the Backup Maintainer or the Trust, as the case may be, under the Backup Security Factor Agreements that were or become in fact untrue. However, the Trust will not indemnify a Backup Maintainer to the extent damages are caused by willful misconduct (or in certain circumstances, gross negligence or bad faith) on the part of the Backup Maintainer.

### *Fees and Expenses*

Each Backup Maintainer is entitled to fees for services, which may be increased upon 60 days written notice to the Sponsor or Trust. The Trust must pay each Backup Maintainer such fees within 30 days of the Backup Maintainer's invoice.

### *Term, Termination and Succession*

Each Backup Security Factor Agreement is subject to a one-year term with automatic renewal if neither the Backup Maintainer who is party to the agreement nor the Trust provide notice of termination at least 60 days before the end of the term. The Trust may terminate the agreement upon fourteen days' notice. Backup Maintainers may be able to terminate their respective Backup Security Factor Agreement quickly under certain circumstances. Terminations caused by actions of the trusts or other investment vehicles that are parties to the Backup Security Factor Agreement or by a Backup Contingency will generally apply only with respect to the relevant fund or other investment vehicle. In other cases, the Sponsor and Backup Maintainer may agree that the termination will apply only with respect to one or more funds or other investment vehicles. The Backup Security Factor Agreements allow a successor Backup Maintainer to be appointed with the approval of the Trust, which will not be unreasonably withheld.

### *Governing Law*

The Backup Security Factor Agreements are governed by New York and Delaware law.

### **Item 19. Articles of Incorporation and Bylaws.**

Attached as an exhibit hereto is a copy of the Amended and Restated Declaration of Trust and Trust Agreement of Grayscale Ethereum Trust (ETH) dated as of July 3, 2018, as amended by Amendment No. 1 thereto dated January 11, 2019.

### **Item 20. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

Not applicable.

**Item 21. Issuer's Certifications.**

**Certification**

I, Barry E. Silbert, certify that:

1. I have reviewed the Information and Disclosure Statement, exhibits, and all notes thereto of Grayscale Ethereum Trust (ETH);
2. Based on my knowledge, this Information and Disclosure Statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Information and Disclosure Statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Information and Disclosure Statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Information and Disclosure Statement.

Dated May 23, 2019

/s/ Barry E. Silbert

By: Barry E. Silbert

Title: Chief Executive Officer of  
Grayscale Investments, LLC



## Certification

I, Simcha Wurtzel, certify that:

1. I have reviewed the Information and Disclosure Statement, exhibits, and all notes thereto of Grayscale Ethereum Trust (ETH);
2. Based on my knowledge, this Information and Disclosure Statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Information and Disclosure Statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Information and Disclosure Statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Information and Disclosure Statement.

Dated: May 23, 2019

/s/ Simcha Wurtzel

By: Simcha Wurtzel

Title: Vice President, Finance (Principal Financial Officer) of  
Grayscale Investments, LLC

Exhibit 1

Audited Financial Statements for the Year Ended December 31, 2018 and for the Period from December 13, 2017 (the Inception of the Trust) to December 31, 2017

**FINANCIAL STATEMENTS**  
**Grayscale Ethereum Trust (ETH)**  
**For the Year Ended December 31, 2018 and For the Period From**  
**December 13, 2017 (the Inception of the Trust) to December 31, 2017**  
**With Independent Auditors' Report**

**Grayscale**  
**Ethereum Trust (ETH)<sup>TM</sup>**

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**Grayscale Ethereum Trust (ETH)**  
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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Sponsor of  
Grayscale Ethereum Trust (ETH)

We have audited the accompanying financial statements of Grayscale Ethereum Trust (ETH) (the "Trust"), which comprise the statements of assets and liabilities, including the schedules of investment, as of December 31, 2018 and 2017, and the related statements of operations, and change in net assets, for the year ended December 31, 2018 and the period from December 13, 2017 (the inception of the Trust) until December 31, 2017, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2018 and 2017, the results of its operations for the year ended December 31, 2018 and the period from December 13, 2017 (the inception of the Trust) until December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter – Investments in Ethereum**

In forming our opinion we have considered the adequacy of the disclosures included in Note 7 to the financial statements concerning among other things the risks and uncertainties related to the Trust's investment in Ethereum. The risks and rewards to be recognized by the Trust associated with its investment in Ethereum will be dependent on many factors outside of the Trust's control. The currently unregulated and immature nature of the Ethereum market including clearing, settlement, custody and trading mechanisms, the dependency on information technology to sustain Ethereum continuity, as well as valuation and volume volatility all subject Ethereum to unique risks of theft, loss, or other misappropriation. Furthermore, these factors also contribute to the significant uncertainty with respect to the future viability and value of Ethereum. Our opinion is not qualified with respect to this matter.

A handwritten signature in black ink that reads "Friedman LLP". The signature is written in a cursive, fluid style.

East Hanover, New Jersey  
February 22, 2019

**Grayscale Ethereum Trust (ETH)**  
**Statements of Assets and Liabilities**

**December 31,**

	<b>2018</b>	<b>2017</b>
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(Amounts in U.S. dollars, except Share amounts)

**Assets:**

Investment in Ethereum, at fair value (cost \$34,123,087 and \$12,423,141 as of December 31, 2018 and 2017, respectively)	\$ 6,237,838	\$ 13,145,830
<b>Total assets</b>	<b>\$ 6,237,838</b>	<b>\$ 13,145,830</b>

**Liabilities:**

Sponsor's Fee payable, related party	\$ 37,588	\$ 11,149
<b>Total liabilities</b>	<b>37,588</b>	<b>11,149</b>
<b>Net assets</b>	<b>\$ 6,200,250</b>	<b>\$ 13,134,681</b>

**Net Assets consists of:**

Paid-in-capital	34,679,581	12,423,141
Accumulated net investment loss	(443,333)	(10,943)
Accumulated net realized loss on investment in Ethereum	(159,836)	-
Accumulated net change in unrealized depreciation (appreciation) on Sponsor's Fee payable	9,087	(206)
Accumulated net change in unrealized (depreciation) appreciation on investment in Ethereum	(27,885,249)	722,689
	<b>\$ 6,200,250</b>	<b>\$ 13,134,681</b>

Shares issued and outstanding, no par value (unlimited Shares authorized)

	486,200	175,300
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Net asset value per Share

	\$ 12.75	\$ 74.93
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*See accompanying notes to financial statements.*

**Grayscale Ethereum Trust (ETH)**  
**Schedules of Investment**

<u>December 31, 2018</u>				
	Number of Ethereum	Cost	Fair Value	% of Net Assets
Investment in Ethereum	47,653.46189973	\$ 34,123,087	\$ 6,237,838	100.61%
Total liabilities			(37,588)	(0.61%)
Net assets			<u>\$ 6,200,250</u>	<u>100.00%</u>
<u>December 31, 2017</u>				
	Number of Ethereum	Cost	Fair Value	% of Net Assets
Investment in Ethereum	17,525.20229323	\$ 12,423,141	\$ 13,145,830	100.08%
Total liabilities			(11,149)	(0.08%)
Net assets			<u>\$ 13,134,681</u>	<u>100.00%</u>

*See accompanying notes to financial statements.*



**Grayscale Ethereum Trust (ETH)**  
**Statements of Operations**

	<b>Year Ended December 31, 2018</b>	<b>December 13, 2017 (the inception of the Trust) to December 31, 2017</b>
(Amounts in U.S. dollars)		
<b>Investment income:</b>		
Investment income	\$ -	\$ -
<b>Expenses:</b>		
Sponsor's Fee, related party	432,390	10,943
<b>Net investment loss</b>	<u>(432,390)</u>	<u>(10,943)</u>
<b>Net realized and unrealized (loss) gain on investment in Ethereum:</b>		
Net realized loss on investment in Ethereum	(159,836)	-
Net change in unrealized depreciation (appreciation) on Sponsor's Fee payable	9,293	(206)
Net change in unrealized (depreciation) appreciation on investment in Ethereum	<u>(28,607,938)</u>	<u>722,689</u>
<b>Net realized and unrealized (loss) gain on investment in Ethereum</b>	<u>(28,758,481)</u>	<u>722,483</u>
<b>Net (decrease) increase in net assets resulting from operations</b>	<u>\$ (29,190,871)</u>	<u>\$ 711,540</u>

*See accompanying notes to financial statements.*

**Grayscale Ethereum Trust (ETH)**  
**Statements of Changes in Net Assets**

	<u>Year Ended December 31, 2018</u>	<u>December 13, 2017 (the inception of the Trust) to December 31, 2017</u>
(Amounts in U.S. dollars, except change in Shares outstanding)		
<b>(Decrease) increase in net assets from operations:</b>		
Net investment loss	\$ (432,390)	\$ (10,943)
Net realized loss on investment in Ethereum	(159,836)	-
Net change in unrealized depreciation (appreciation) on Sponsor's Fee payable	9,293	(206)
Net change in unrealized (depreciation) appreciation on investment in Ethereum	(28,607,938)	722,689
Net (decrease) increase in net assets resulting from operations	<u>(29,190,871)</u>	<u>711,540</u>
<b>Increase in net assets from capital share transactions:</b>		
Shares issued	<u>22,256,440</u>	<u>12,423,141</u>
Net increase in net assets resulting from capital share transactions	<u>22,256,440</u>	<u>12,423,141</u>
Total (decrease) increase in net assets from operations and capital share transactions	<u>(6,934,431)</u>	<u>13,134,681</u>
<b>Net assets:</b>		
Beginning of period	<u>13,134,681</u>	-
End of period	<u>\$ 6,200,250</u>	<u>\$ 13,134,681</u>
<b>Change in Shares outstanding:</b>		
Shares outstanding at the beginning of the period	<u>175,300</u>	-
Shares issued	<u>310,900</u>	175,300
Net increase in Shares	<u>310,900</u>	175,300
Shares outstanding at the end of the period	<u>486,200</u>	<u>175,300</u>

*See accompanying notes to financial statements.*

## **Grayscale Ethereum Trust (ETH)** **Notes to Financial Statements**

### **1. Organization**

Grayscale Ethereum Trust (ETH) (the “Trust”, formerly known as Ethereum Investment Trust) is a Delaware Statutory Trust that was formed on December 13, 2017 and commenced operations on December 14, 2017. In general, the Trust will hold only Ethereum (“ETH”) and is expected from time to time to issue common units of fractional undivided beneficial interest (“Shares”) (in minimum baskets of 100 Shares, referred to as “Baskets”) in exchange for ETH. The redemption of Shares is not currently contemplated and the Trust does not currently operate a redemption program. Subject to receipt of regulatory approval and approval by the Sponsor in its sole discretion, the Trust may in the future operate a redemption program. The Trust currently has no intention of seeking regulatory approval to operate an ongoing redemption program. The investment objective of the Trust is for the Shares to reflect the value of ETH held by the Trust, less the Trust’s expenses and other liabilities. The Trust may also receive Incidental Rights and/or IR Virtual Currency as a result of the Trust’s investment in ETH, in accordance with the terms of the Trust Agreement.

Incidental Rights are rights to claim, or otherwise establish dominion and control over, any virtual currency or other asset or right, which rights are incident to the Trust’s ownership of ETH and arise without any action of the Trust, or of the Sponsor or Trustee on behalf of the Trust; while IR Virtual Currency is any virtual currency tokens, or other asset or right, received by the Trust through the exercise (subject to the applicable provisions of the Trust Agreement) of any Incidental Right. The Trust currently holds no Incidental Rights or IR Virtual Currency, nor were any held during the year ended December 31, 2018 or during the period from December 13, (the inception of the Trust) to December 31, 2017.

Grayscale Investments LLC (“Grayscale” or the “Sponsor”) acts as the sponsor of the Trust and is a wholly owned subsidiary of Digital Currency Group, Inc. (“DCG”). The Sponsor is responsible for the day-to-day administration of the Trust pursuant to the provisions of the Trust Agreement. Grayscale is responsible for preparing and providing annual and quarterly reports on behalf of the Trust to investors and is also responsible for selecting and monitoring the Trust’s service providers. As partial consideration for the Sponsor’s services, the Trust pays Grayscale, a Sponsor’s Fee as discussed in Note 6.

Authorized Participants of the Trust are the only entities who may place orders to create or, if permitted, redeem Baskets. Genesis Global Trading, Inc. (“Genesis” or the “Authorized Participant”), a registered broker-dealer and wholly owned subsidiary of DCG, is the only Authorized Participant and is party to a participant agreement with the Sponsor and the Trust. Additional Authorized Participants may be added at any time, subject to the discretion of the Sponsor.

## **Grayscale Ethereum Trust (ETH)** **Notes to Financial Statements**

### **1. Organization (continued)**

The Sponsor does not store, hold, or maintain custody or control of the Trust's ETH but instead has entered into a Key Maintenance Agreement with the Key Maintainer and a Backup Security Factor Agreement with each of the Backup Maintainers to facilitate the security of the Trust's ETH. Under these agreements, the Key Maintainer must act on valid instructions given to it by the Sponsor, and the Backup Maintainers, upon receipt of certain notice or court order, must deliver the Backup Factors to a party identified by the Trust or a court. Each party to the agreement holds a certain number of security passwords, keys or phrases (each, a "Security Factor") that, together with other Security Factors, allows transfers of ETH. Using its Security Factors, the Sponsor cannot unilaterally effect any transfer of the Trust's ETH. Instead, the Key Maintainer must also use its Security Factors, in addition to the Sponsor's Security Factors, to effect any transfer of the Trust's ETH. Under certain circumstances, the Sponsor may also be able to effect transactions by using its Security Factors together with the Security Factors of one or more of the Backup Maintainers. In addition, the Sponsor cannot unilaterally and indefinitely prevent transfer of the Trust's ETH. The Key Maintainer since inception of the Trust has been Ledger SAS ("Ledger"), a third-party service provider.

The transfer agent for the Trust (the "Transfer Agent") is Continental Stock Transfer & Trust Company. The responsibilities of the transfer agent are to maintain creations, redemptions, transfers, and distributions of the Trust's Shares which are primarily held in book-entry form.

### **2. Summary of Significant Accounting Policies**

The following is a summary of significant accounting policies followed by the Trust:

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). The Trust qualifies as an investment company for accounting purposes pursuant to the accounting and reporting guidance under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946, *Financial Services – Investment Companies*. The Trust uses fair value as its method of accounting for ETH in accordance with its classification as an investment company for accounting purposes. The Trust is not registered under the Investment Company Act of 1940. GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates and these differences could be material.

The Trust conducts its transactions in ETH, including receiving ETH for the creation of Shares and delivering ETH for the redemption of Shares (if a redemption program were to be established) and for the payment of the Sponsor's Fee. Since its inception, the Trust has not held cash or cash equivalents.

#### **Principal Market and Fair Value Determination**

To determine which exchange is the Trust's principal market for purposes of calculating the Trust's net asset value ("NAV"), the Trust considers only ETH exchanges that are U.S. dollar-denominated, have an online platform and publish transaction price and volume data publicly. Based on these requirements, the Trust prepares a list of eligible ETH exchanges and considers the following criteria to select its principal market: (i) the volume of ETH traded on an ETH exchange in the prior trailing twelve months, (ii) an ETH exchange's regulatory compliance with applicable federal and state licensing requirements and practices regarding Anti-Money Laundering ("AML") and Know-Your-Customer ("KYC") procedures and (iii) the degree of intra-day price fluctuations an ETH exchange experiences as well as the degree of variance in prices across ETH exchanges.

## **Grayscale Ethereum Trust (ETH) Notes to Financial Statements**

### **2. Summary of Significant Accounting Policies (continued)**

In determining which of the eligible ETH exchanges is the Trust's principal market, the Trust reviews these criteria in the following order:

First, the Trust sorts the list of eligible ETH exchanges from high to low by volume of ETH traded on each ETH exchange in the prior trailing twelve months. The Trust moves down the list until it reaches an ETH exchange that has a volume of ETH traded for the prior trailing twelve months that is less than 10% of the next largest ETH exchange and excludes this and all smaller ETH exchanges from the list. However, the list will always contain a minimum of three ETH exchanges, even if the percentage of volume drops to less than 10% of the next largest ETH exchange.

Second, the Trust reviews the remaining ETH exchanges and excludes any ETH exchanges that do not comply with the federal and state licensing requirements that are applicable to the Trust and the Authorized Participant. The Trust or an Authorized Participant can only do business with those ETH exchanges that meet the regulatory requirements of the jurisdiction in which the Trust or an Authorized Participant is registered to do business. The Trust also assesses each ETH exchange's practices regarding AML and KYC procedures.

Third, the Trust then reviews intra-day pricing fluctuations and the degree of variances in price on ETH exchanges to identify any material notable variances that may impact the volume or price information of a particular ETH exchange. The Trust then selects an ETH exchange as its principal market based on highest trade volume and price stability in comparison to the other ETH exchanges on the list.

The Trust determines its principal market annually and conducts a quarterly analysis to determine (i) if there have been recent changes to each ETH exchange's transaction volume in the prior trailing twelve months, (ii) if any ETH exchanges have fallen out of, or come into, compliance with applicable regulatory requirements, (iii) if there have been any exchanges that have added ETH/USD pairing, (iv) if the Trust has engaged any new Authorized Participant that, due to being registered to do business in another jurisdiction, would make ETH exchanges previously inaccessible to the Trust now accessible or (v) if recent changes to each ETH exchanges' price stability have occurred that would materially impact the selection of the principal market and necessitate a change in the Trust's determination of its principal market, or (vi) if the principal market is included in the TradeBlock ETX Index (the "Index").

The cost basis of the investment in ETH recorded by the Trust for financial reporting purposes is the fair value of ETH at the time of transfer. The cost basis recorded by the Trust may differ from proceeds collected by the Authorized Participant from the sale of the corresponding Shares to investors.

### **Investment Transactions and Revenue Recognition**

The Trust considers investment transactions to be the receipt of ETH for Share creations or payment of expenses in ETH. At this time, the Trust is not accepting redemption requests from Shareholders. The Trust records its investment transactions on a trade date basis and changes in fair value are reflected as net change in unrealized appreciation (depreciation) on investments. Realized gains and losses are calculated using an average cost method. Realized gains and losses are recognized in connection with transactions including settling obligations for the Sponsor's Fee in ETH.

**Grayscale Ethereum Trust (ETH)  
Notes to Financial Statements**

**2. Summary of Significant Accounting Policies (continued)**

**Fair Value Measurement**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the ‘exit price’) in an orderly transaction between market participants at the measurement date.

GAAP utilizes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Trust. Unobservable inputs reflect the Trust’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Trust has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, these valuations do not entail a significant degree of judgment.
- Level 2 – Valuations based on quoted prices in markets that are not active or for which significant inputs are observable, either directly or indirectly.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary by investment. To the extent that valuations are based on sources that are less observable or unobservable in the market, the determination of fair value requires more judgment. Fair value estimates do not necessarily represent the amounts that may be ultimately realized by the Trust.

	<u>Amount at Fair Value</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>December 31, 2018</b>				
<b>Assets</b>				
Investment in ETH	\$ 6,237,838	\$ -	\$ 6,237,838	\$ -
<b>Liabilities</b>				
Sponsor's Fee payable, related party	\$ 37,588	\$ -	\$ 37,588	\$ -
<b>December 31, 2017</b>				
<b>Assets</b>				
Investment in ETH	\$ 13,145,830	\$ -	\$ 13,145,830	\$ -
<b>Liabilities</b>				
Sponsor's Fee payable, related party	\$ 11,149	\$ -	\$ 11,149	\$ -

**Grayscale Ethereum Trust (ETH)**  
**Notes to Financial Statements**

**3. Fair Value of Ethereum**

ETH is carried at fair value. As of December 31, 2018 and 2017, the Trust held 47,653.46189973 and 17,525.20229323 ETH, respectively.

The Trust determined the fair value per ETH to be \$130.90 on December 31, 2018 and \$750.11 on December 31, 2017 using the price provided at 4:00 p.m., New York time, by the ETH exchange considered to be the Trust's principal market.

The Trust performed an assessment of the principal market during the year ended December 31, 2018 and identified its principal market as Coinbase Pro (formerly known as Global Digital Asset Exchange), which is consistent with the determination at December 31, 2017.

The following represents the changes in quantity of ETH and the respective fair value:

	<u>Ethereum</u>	<u>Fair Value</u>
<b>Balance at December 13, 2017 (the inception of the Trust)</b>	-	\$ -
ETH contributed	17,525.20229323	12,423,141
Net change in unrealized appreciation on investment in ETH	-	<u>722,689</u>
<b>Balance at December 31, 2017</b>	<u>17,525.20229323</u>	<u>13,145,830</u>
ETH contributed	30,851.21025117	22,256,440
ETH distributed for Sponsor's Fee, related party	(722.95064467)	(396,658)
Net change in unrealized depreciation on investment in ETH	-	(28,607,938)
Net realized loss on investment in ETH	-	<u>(159,836)</u>
<b>Balance at December 31, 2018</b>	<u><u>47,653.46189973</u></u>	<u><u>\$ 6,237,838</u></u>

**4. Creations and Redemptions of Shares**

At December 31, 2018 and 2017, there were an unlimited number of Shares authorized by the Trust. The Trust creates (and, should the Trust commence a redemption program, redeems) Shares from time to time, but only in one or more Baskets. The creation and redemption of Baskets on behalf of investors are made by the Authorized Participant in exchange for the delivery of ETH to the Trust or the distribution of ETH by the Trust. The number of ETH required for each creation Basket or redemption Basket is determined by dividing (x) the number of ETH owned by the Trust at such time, after deducting the number of ETH representing the U.S. dollar value of accrued but unpaid fees and expenses of the Trust, by (y) the number of Shares outstanding at such time and multiplying the quotient obtained by 100. Each Share represented approximately 0.0974 and 0.0999 of one ETH at December 31, 2018 and 2017, respectively.

**Grayscale Ethereum Trust (ETH)**  
**Notes to Financial Statements**

**4. Creations and Redemptions of Shares (continued)**

The cost basis of investments in ETH recorded by the Trust is the fair value of ETH, as determined by the Trust, at 4:00 p.m., New York, time on the date of transfer to the Trust by the Authorized Participant based on the creation Baskets. The cost basis recorded by the Trust may differ from proceeds collected by the Authorized Participant from the sale of each Share to investors. The Authorized Participant may realize significant profits buying, selling, creating, and, if permitted, redeeming Shares as a result of changes in the value of Shares or ETH.

At this time, the Trust is not operating a redemption program and is not accepting redemption requests. Subject to receipt of regulatory approval and approval by the Sponsor in its sole discretion, the Trust may in the future operate a redemption program. The Trust currently has no intention of seeking regulatory approval to operate an ongoing redemption program.

**5. Income Taxes**

The Sponsor takes the position that the Trust is properly treated as a grantor trust for U.S. federal income tax purposes. Assuming that the Trust is a grantor trust, the Trust will not be subject to U.S. federal income tax. Rather, if the Trust is a grantor trust, each beneficial owner of Shares will be treated as directly owning its pro rata Share of the Trust's assets and a pro rata portion of the Trust's income, gain, losses and deductions will "flow through" to each beneficial owner of Shares.

If the Trust were not properly classified as a grantor trust, the Trust might be classified as a partnership for U.S. federal income tax purposes. However, due to the uncertain treatment of digital currency, including forks, airdrops and similar occurrences for U.S. federal income tax purposes, there can be no assurance in this regard. If the Trust were classified as a partnership for U.S. federal income tax purposes, the tax consequences of owning Shares generally would not be materially different from the tax consequences described herein, although there might be certain differences, including with respect to timing. In addition, tax information reports provided to beneficial owners of Shares would be made in a different form. If the Trust were not classified as either a grantor trust or a partnership for U.S. federal income tax purposes, it would be classified as a corporation for such purposes. In that event, the Trust would be subject to entity-level U.S. federal income tax (currently at a maximum rate of 21%) on its net taxable income and certain distributions made by the Trust to Shareholders would be treated as taxable dividends to the extent of the Trust's current and accumulated earnings and profits.

In accordance with GAAP, the Trust has defined the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the applicable taxing authority and requires measurement of a tax position meeting the "more-likely-than-not" threshold, based on the largest benefit that is more than 50% likely to be realized. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as a tax benefit or expense in the current period. As of and during the year ended December 31, 2018 and for the period from December 13, 2017 (the inception of the Trust) to December 31, 2017, the Trust did not have a liability for any unrecognized tax amounts. However, the Sponsor's conclusions concerning its determination of "more-likely-than-not" tax positions may be subject to review and adjustment at a later date based on factors including, but not limited to, further implementation guidance, and on-going analyses of and changes to tax laws, regulations and interpretations thereof.

The Sponsor of the Trust has evaluated whether or not there are uncertain tax positions that require financial statement recognition and has determined that no reserves for uncertain tax positions related to federal, state and local income taxes existed as of December 31, 2018 and 2017.



## **Grayscale Ethereum Trust (ETH)**

### **Notes to Financial Statements**

#### **6. Related Parties**

The Trust considers the following entities, their directors and employees to be related parties of the Trust: DCG, Genesis, and Grayscale. As of December 31, 2018, and 2017, 105,098 and 102,828 Shares of the Trust were held by related parties of the Trust, respectively.

DCG holds a minority interest in the Key Maintainer that represents approximately 1.0% of the Key Maintainer's voting equity.

In accordance with the Trust Agreement governing the Trust, the Trust pays a fee to the Sponsor, calculated as 2.5% of the aggregate value of the Trust's assets, less its liabilities (which include any accrued but unpaid expenses up to but excluding, the date of calculation), as calculated and published by the Sponsor or its delegates (the "Sponsor's Fee"). The Sponsor's Fee accrues daily in U.S dollars and is payable in ETH, monthly in arrears. The amount of ETH payable in respect of each daily U.S. dollar accrual will be determined by reference to the same U.S. dollar value of ETH used to determine such accrual. For purposes of these financial statements, the U.S. dollar value of ETH is determined by reference to the ETH Exchange that the Trust considers its principal market as of 4:00 p.m., New York time, on each valuation date.

As partial consideration for receipt of the Sponsor's Fee, the Sponsor is obligated under the Trust Agreement to assume and pay all fees and other expenses incurred by the Trust in the ordinary course of its affairs, excluding taxes, but including marketing fees; administrator fees, if any; fees for the Key Maintainer, the Backup Maintainers and any other security vendor engaged by the Trust; transfer agent fees; trustee fees; the fees and expenses related to the listing, quotation or trading of the Shares on any secondary market (including customary legal, marketing and audit fees and expenses) in an amount up to \$600,000 in any given fiscal year; ordinary course legal fees and expenses; audit fees; regulatory fees, including, if applicable, any fees relating to the registration of the Shares under the Securities Act or the Exchange Act; printing and mailing costs; the costs of maintaining the Trust's website; and applicable license fees (the "Sponsor-paid Expenses"), provided that any expense that qualifies as an Additional Trust Expense will be deemed to be an Additional Trust Expense and not a Sponsor-paid Expense.

The Trust may incur certain extraordinary, non-recurring expenses that are not Sponsor-paid Expenses, including but not limited to, taxes and governmental charges, expenses and costs of any extraordinary services performed by the Sponsor (or any other service provider) on behalf of the Trust to protect the Trust or the interests of Shareholders (including in connection with any Incidental Rights and any IR Virtual Currency), any indemnification of the Key Maintainer, Backup Maintainers or other agents, service providers or counterparties of the Trust, the fees and expenses related to the listing, quotation or trading of the Shares on any secondary market (including legal, marketing and audit fees and expenses) to the extent exceeding \$600,000 in any given fiscal year and extraordinary legal fees and expenses, including any legal fees and expenses incurred in connection with litigation, regulatory enforcement or investigation matters (collectively "Additional Trust Expenses"). In such circumstances, the Sponsor or its delegate (i) will withdraw from the ETH account ETH, Incidental Rights and/or IR Virtual Currency in such quantity as may be necessary to permit payment of such Additional Trust Expenses and (ii) may either (x) cause the Trust (or its delegate) to convert such ETH, Incidental Rights and/or IR Virtual Currency into U.S. dollars or other fiat currencies at the Actual Exchange Rate or (y) cause the Trust (or its delegate) to deliver ETH, Incidental Rights and/or IR Virtual Currency in kind in satisfaction of such Additional Trust Expenses.

**Grayscale Ethereum Trust (ETH)**  
**Notes to Financial Statements**

**7. Risks and Uncertainties**

For the year ended December 31, 2018 and for the period from December 13, 2017 (the inception of the Trust) to December 31, 2017, the Trust incurred Sponsor's Fees of \$432,390 and \$10,943, respectively. As of December 31, 2018, and 2017, the fair market value of the accrued and unpaid Sponsor's Fee was \$37,588 and \$11,149, respectively. In addition, the Sponsor may pay Additional Trust Expenses on behalf of the Trust, which are reimbursable by the Trust to the Sponsor. For the year ended December 31, 2018 and the period from December 13, 2017 (the inception of the Trust) to December 31, 2017, the Sponsor did not pay any Additional Trust Expenses on behalf of the Trust.

The Trust is subject to various risks including market risk, liquidity risk, and other risks related to its concentration in a single asset, ETH. Investing in ETH is currently unregulated, highly speculative, and volatile.

The net asset value of the Trust relates primarily to the value of ETH held by the Trust, and fluctuations in the price of ETH could materially and adversely affect an investment in the Shares of the Trust. The price of ETH has a limited history. During such history, ETH prices have been volatile and subject to influence by many factors including the levels of liquidity. If ETH exchanges continue to experience significant price fluctuations, the Trust may experience losses. Several factors may affect the price of ETH, including, but not limited to, global ETH supply and demand, theft of ETH from global exchanges or vaults, and competition from other forms of digital currency or payment services.

The ETH held by the Trust are commingled and the Trust's Shareholders have no specific rights to any specific ETH. In the event of the insolvency of the Trust, its assets may be inadequate to satisfy a claim by its Shareholders.

There is currently no clearing house for ETH, nor is there a central or major depository for the custody of ETH. There is a risk that some or all of the Trust's ETH could be lost or stolen. The Trust does not have insurance protection on its ETH which exposes the Trust and its Shareholders to the risk of loss of the Trust's ETH. Further, ETH transactions are irrevocable. Stolen or incorrectly transferred ETH may be irretrievable. As a result, any incorrectly executed ETH transactions could adversely affect an investment in the Trust.

The Securities and Exchange Commission (the "SEC") has stated that certain digital assets may be considered "securities" under the federal securities laws. The test for determining whether a particular digital asset is a "security" is complex and the outcome is difficult to predict. Public statements by senior officials at the SEC, including a June 2018 speech by the director of the SEC's division of Corporation Finance, indicate that the SEC does not intend to take the position that Bitcoin or Ethereum are currently securities. Such statements are not official policy statements by the SEC and reflect only the speaker's views, which are not binding on the SEC or any other agency or court and cannot be generalized to any other digital asset.

**Grayscale Ethereum Trust (ETH)**  
**Notes to Financial Statements**

**7. Risks and Uncertainties (continued)**

If ETH is determined to be a security under federal or state securities laws by the SEC or any other agency, or in a proceeding in a court of law or otherwise, it may have material adverse consequences for ETH. For example, it may become more difficult for ETH to be traded, cleared and custodied as compared to other digital assets that are not considered to be securities, which could in turn negatively affect the liquidity and general acceptance of ETH and cause users to migrate to other digital assets. As such, any determination that ETH is a security under federal or state securities laws may adversely affect the value of ETH and, as a result, an investment in the Shares. To the extent that ETH is determined to be a security, the Trust and the Sponsor may also be subject to additional regulatory requirements, including under the Investment Company Act of 1940, and the Sponsor may be required to register as an investment adviser under the Investment Advisers Act of 1940. If the Sponsor determines not to comply with such additional regulatory and registration requirements, the Sponsor will terminate the Trust. Any such termination could result in the liquidation of the Trust's digital assets at a time that is disadvantageous to Shareholders.

To the extent private keys for ETH addresses are lost, destroyed or otherwise compromised and no backup of the private keys are accessible, the Trust may be unable to access the ETH held in the associated address and the private key will not be capable of being restored by the ETH network. The processes by which ETH transactions are settled are dependent on the ETH peer-to-peer network, and as such, the Trust is subject to operational risk. A risk also exists with respect to previously unknown technical vulnerabilities, which may adversely affect the value of ETH.

**8. Financial Highlights Per Share Performance**

	<b>For the Year Ended December 31, 2018</b>	<b>December 13 (the inception of the Trust) to December 31, 2017</b>
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 74.93	\$ -
Net (decrease) increase in net assets from investment operations		
Net investment loss	(1.07)	(0.06)
Net realized and unrealized (loss) gain	(61.11)	74.99
Net (decrease) increase in net assets resulting from operations	(62.18)	74.93
Net asset value, end of period	\$ 12.75	\$ 74.93
Total return	-82.98%	1458.49%
<i>Ratios to average net assets:</i>		
Net investment loss	-2.50%	-2.50%
Expenses	-2.50%	-2.50%

**Grayscale Ethereum Trust (ETH)**  
**Notes to Financial Statements**

**8. Financial Highlights Per Share Performance (continued)**

Ratios of net investment loss and expenses to average net assets have been annualized.

An individual Shareholder's return, ratios, and per Share performance may vary from those presented above based on the timing of Share transactions.

Total return is calculated assuming an initial investment made at the net asset value at the beginning of the period and assuming redemption on the last day of the period and has been annualized

**9. Indemnifications**

In the normal course of business, the Trust enters into certain contracts that provide a variety of indemnities, including contracts with the Sponsor and affiliates of the Sponsor, DCG and its officers, directors, employees, subsidiaries and affiliates, and the Key Maintainer as well as other service providers to the Trust. More specifically, under the Key Maintenance Agreement, the Key Maintainer's monetary liability is capped at the greater of \$1 million or 10% of the loss caused by and directly attributable to a breach of the Key Maintainer's obligations as defined in the Key Maintenance Agreement. The Trust's maximum exposure under these and its other indemnities is unknown. However, no liabilities have arisen under these indemnities in the past and, while there can be no assurances in this regard, there is no expectation that any will occur in the future. Therefore, the Sponsor does not consider it necessary to record a liability in this regard.

**10. Subsequent Events**

As of the close of business on February 15, 2019 the fair value of ETH determined in accordance with the Trust's accounting policy was \$120.16 per ETH.

There are no known events that have occurred that require disclosure other than that which has already been disclosed in these notes to the financial statements.