Announcement

SMART VALOR AG, Switzerland

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Letter from SMART VALOR's co-founder Olga Feldmeier on recent events at FTX exchange and SMART VALOR's ten points of soundness

During the current week FTX exchange experienced a severe liquidity crunch and stopped fiat withdrawals. Binance, the world largest crypto exchange, initially entered into discussions to acquire FTX but subsequently withdrew.

This event heavily impacted prices of digital assets overall and put pressure on companies involved in operations with FTX exchange and its investment arm Alameda Research. Being in the crypto investment space for the last ten years, I hardly remember distress of such magnitude. In times like this, it is particularly important to make a public statement to reassure our customers and investors that their assets and Smart Valor itself had zero exposure and no connection to the FTX exchange. Smart Valor drives a conservative product approach, providing a limited amount of services and complies with all respective regulatory requirements.

The collapse of FTX was due to mistakes in these three areas:

1. Transparency and contagion risks need to be taken very seriously. Events such as the Terra LUNA collapse, the algorithmic stablecoin experiment, were so big that they pulled a string of large businesses into bankruptcy such as Celsius, Voyager, BlockFi and more.

2. The native token of any company or project should never be used as collateral. The prices of such assets are normally too volatile to serve as solid collateral. In most cases such assets should be activated on the balance sheet with a maximum value of $1. This is how native digital assets of companies are treated according to Swiss accounting principles. At Smart Valor the value of all VALOR tokens we own is conservatively put on the asset side of the balance sheet with total value of 1 Swiss franc. For comparison, Alameda Research valued theirs at over $3b.

3. Customer funds should never be used to finance other investments or operations. It is not just a bad practice, it is fraud. Banking practice and supervision evolved over hundreds of years to prevent events like this. The problem today is that there are too many unregulated exchanges, or exchanges operating from certain islands or countries with no regulation.

More than that, even here in Europe we still have no unified regulation and requirements. For example, Smart Valor AG is authorized to act as Financial Intermediary based on its membership in VQF, financial services standards association, which is a self-regulatory organization supervised by FINMA, the Swiss financial supervision authority. On the exchange side we are registered with FMA, financial supervision authority of Liechtenstein, a neighbouring country of Switzerland. Here we were the first exchange to open its doors back in 2019 and one of the first to achieve registration as custodian and exchange under the Blockchain Act Law (TVTG), which is seen by many as one of the most comprehensive regulatory frameworks for crypto today in Europe.

One of the requirements of such registration and AML supervision is that customer assets are held in segregated (separate) accounts and never used for operational or any other purposes. This requirement was absolutely sacred and self-evident to us at all times. But the regulation and requirements are not the same in all European countries and what is a must-do for us, might not be the same in some other jurisdictions for companies operating there.

This is a big problem. We saw this problem ever since our inception in 2017. Yet we saw growing demand from the side of traditional finance players to engage with legitimate crypto players. So we took the long road of receiving all necessary registrations and authorisation as an exchange, custodian and asset manager, which enabled us to operate from such trusted jurisdictions as Switzerland and Liechtenstein. These jurisdictions impose on industry players one of the strictest AML requirements in the world. Even though we got this Herculean job done, we felt we can do more.

Going public – our path to maximum transparency

We found the way to deliver the extra mile in trust and security by applying for listing on the most prestigious and world's largest technology stock exchange, Nasdaq. We knew that the requirements are very high. We knew that it would be very difficult. The Nasdaq rule book and the list of requirements is long, so there is a lot of process work connected to being compliant with it, which includes among other things:

- Providing transparency publishing quarterly financial statements and quarterly reports;
- Publishing audited annual financial statements done through independent external auditors;
- Being subject to market abuse regulation, which in stock markets evolved over a hundred years and became very strict and explicit;
- Being subject to disclosure/publication requirements whenever something important happens in the company which could have a material influence on the market price;
- Having to implement an independent board and high standards of corporate governance.

Clearly, to comply with all of the Nasdaq requirements about transparency, disclosures and good governance is tough even for large companies. For a young crypto company, it is a big endeavour. Yet we decided to go this way. So last year, to receive approval from Nasdaq for listing, we went through in-depth legal, business and regulatory due diligence. We worked on this mission for almost one year and have shown that we comply with regulatory requirements, have sufficiently stable finances, have good corporate governance and no legal disputes. As a result, in December 2021 we received Nasdaq approval to list on the European branch of Nasdaq: Nasdaq First North in Sweden. It was a big victory for us.

Today as the FTX storm burns the sea in crypto markets, we feel confident that we can weather such a situation. Because safe and stable was in our DNA from day one. This is visible not only in our product offering, but also our compliance with regulation, choice of jurisdiction, handling of customer assets and accounting practices. Our ten points of soundness include:

1. We hold our customers assets on segregated/separate accounts and have never used them for any type of operational activity or investments.

2. We never used our native token as collateral for any investment or operational activity, activating them on balance sheet with total value equal to 1 CHF.

3. On the side of our own financial reserves, we never held any FTT tokens and have no direct or indirect exposure either to FTX exchange nor to Alameda Research.

4. On the exchange side, we have no integration with FTX exchange and never held any funds there.

5. We never offered any yield farming products, nor margin trading, nor lending products and never used any type of leverage.

6. We went through multiple AML audits during the last four years and proved to regulators that we operate according to regulatory requirements.

7. We have no debt or loans owed to external parties.

8. We are headquartered in Switzerland and Germany and are registered for service offering in Switzerland authorized to act as Financial Intermediary and in Liechtenstein authorized by FMA.

9. We were the first and the only Swiss digital asset exchange to be listed on Nasdaq First North, complying with strict rules and regulations.

10. As a public company we provide audited annual financial statements and quarterly reports accessible to the public via our Investor Relations page.

With this, I hope we can give our customers and investors a bit of peace of mind and reassurance during these difficult times. Please remember that, while events like the FTX collapse cast a shadow on the whole industry for the time being, it is also clear that by far, not all players are gambling with customers' money and leverage inappropriate collateral.

There are many legitimate companies out there. Just as we do, they deliver the hard work of providing the transparency and complying with all regulatory requirements day after day. Jointly, we do all of this to earn the trust of our customers, to prove to them and the world that crypto companies can be trusted. On days like this it feels like all the hard work we are putting in building trust is the most important mission and an achievement that should not be taken for granted.

Olga Feldmeier, Co-founder & Board chair of SMART VALOR

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About SMART VALOR

SMART VALOR is a Swiss company that became the first European digital asset exchange listed on Nasdaq First North. The company's mission is to provide a trusted gateway to blockchain technology for investors and institutions. On the B2C side, it operates a retail digital asset exchange, custody, and asset management. On the B2B side, the company works with banks and fintech companies offering its technology as a white-label Crypto-as-a-Service solution. SMART VALOR was one of the first crypto companies to receive financial intermediary status in Switzerland and to be registered as an exchange and token custodian under the Blockchain Act of Liechtenstein.