

STO Wizard Development Highlights:

STO Wizard

PPM Wizard (MVP delivered-able to auto-create now-development ongoing)

Our goals for the issuer are: ease, low cost and speed to market. To assist with this, we aim to help an issuer build out a PPM in a cost-effective manner. We will have certain specific use case templates (such as real estate) providing a LegalZoom like PPM that can then be modified at far less expense by the issuer's legal counsel.

Contract upgradeability (Huge-MVP architected with from inception)

Our architecture uses proxy contracts everywhere. This allows us to quickly make changes if needed for legal compliance or security patching, where issuer tokens are updated without them needing to worry about making any updates on their own.

SERC Token

Concurrent offerings (MVP)

All offerings on the platform can be done concurrently. A sample use case would be that an issuer could do a 506c and attract accredited US investors and a Reg S at the same time. If our platform was combined with an exchange (like Malta), we could promise liquidity in the Reg S as soon as the offering ended. This would allow the issuer to promote 1 offering at a lower price to US folks (discount for token being non-liquid) and the other offering at a higher price to international folks who pay a liquidity premium.

Restriction on same class by offering (MVP)

Issuer above who did the 2 offerings described above- there is no problem at all for the SERC token bought by US folks to stay frozen from transfer while the token bought by international folks to become liquid, prohibited from purchase by a US resident until the restriction elapsed. In fact, it can even go a step further - an international person who was accredited could buy a token in the 506c and a token in the Reg S. Only the token bought in the Reg S would escape the lock up period, so only 1 of their 2 tokens could be traded.

Trading on an exchange (integration w/Exchange-possibly Singapore/Malta/other)

There are 2 types of exchanges – centralized and decentralized. A decentralized exchange can directly pair a buyer and seller, and the transfer rules can cleanly live within the token. A centralized exchange could hold token balances itself on behalf of an investor and facilitate token transfers. We have architected a process that would enable a SERC token to flow through a centralized exchange while still abiding by restrictions baked into the token. We can provide more details around how this would work if requested.

Wizard Dashboard

Token activation (MVP)

We are defining the process and procedures to activate a token created via the STO Wizard. Beyond having an account in good standing with us, we look at other factors in determining if a token is ready to be activated. Until activated, no transfers can occur with the token. An example criterion might be that an issuer must provide us legal opinion from their counsel that planned offerings are compliant within existing legal constraints. Another possible criterion might be that an issuer has been KYCd.

We have an activation level at both the token and offering level. This allows us to review offerings on a case by case basis before enabling investors to see and purchase from them.

Off chain offerings (MVP)

The STO Wizard provides a mechanism for an issuer to conduct an offering, totally off chain, for instance: an offering done on a FINRA registered crowdfunding portal like Start Engine. They can use our tools to airdrop tokens accordingly for the offering to known investor wallets.

Investor Purchase Page “IPP”

Investor purchasing of an offering (complete)

Currently the act of purchasing a token through any dApp or site such as myetherwallet.com can be intimidating and daunting. The PrefLogic IPP simplifies the purchase of an offering to a few clicks of a mouse, while providing high level offering details and a watermarked copy of the Private Placement Memorandum/Whitepaper for the investor to review. As we know, Security Offerings are regulated. In addition to streamlining the review and purchase process, the IPP detects who is viewing the page. If the user is not known, they are directed to a KYC system, which our partner company provides. If the user is known, checks are made to determine if they meet the regulatory requirements. If so, the investor is granted access to the required documents for review* and granted the ability to purchase. If they are not eligible, the investor is informed, and none of the offering details are made available.

*To further protect the issuer and insure disclosure has been met, the investor will be required to attest to his review of the material disclosure by typing “I have read the PPM, had the opportunity to ask questions and have none”. This protects the issuer against claim they weren’t provided full disclosure.

Investor purchasing different tokens (exists today)

As stated, our platform uses universal lists that enable token transfer and purchase. Once KYCd, an investor never has to be KYCd again (unless mandated by law). The issuer who sells the first token to an investor is charged a one-time fee for KYC.

KYC-AML provided by TokenHolders, LLC (partner company)

Security offerings are limited to eligible participants. In order to determine eligibility, would be investors must go through KYC as well as accreditation checks based on the type of offering. It is an expensive process to perform checks on international investors by US based issuers. KYC is a commoditized activity - the real differentiator is cost. Our KYC partner has been structured to make the cost as low as possible. This will be done by:

- 1) having a partner network of KYC providers that reside in various countries throughout the world, and
- 2) having a rules based workflow system that routes investor data to KYC providers who reside in the same jurisdiction as the investor. This model also allows for scalability - any number of KYC providers can be plugged into the workflow to view and process investors.

The beauty of the TokenHolders vision is that it holds the potential to create a near monopoly. Every token tapped into our whitelist would use our services for CAP table management and token holder notification. The system is white label and provides those services to other gateways to meet the needs of their issuers. This provides the potential to charge a fee every time a token holder is sent an email by an issuer - a lucrative opportunity if enough critical mass can be achieved.

Addition of New Jurisdictions:

Compliance for a new jurisdiction (MVP)

We use a concept of wallet types to restrict transfers. One example type is the “international wallet” - tokens in this wallet type can freely trade into or out of other wallets tagged as this same type. We can add new wallet types to support different use cases. A possible example might be the creation of a “Spain Wallet”, and a token might only be able to transfer in and out of this wallet type, effectively allowing it to only trade amongst investors who were able to get this wallet type via our KYC system. Our system is flexible and scalable with the ability to add 1-off wallet types combined with related offering contracts as makes sense to do so in order to maintain legal compliance.

Dashboard Features for Q1 2019:

Notifications

Many projects are purely focused on the token - we are focused on the entire token ecosystem. Issuers will need to send legal notices and other communications to token holders. The PrefLogic ecosystem is based on our own universal lists that all tokens share. Any token created via the STO Wizard is positioned for the issuer to send mass communications to out the gate.

Cap table

The TokenHolders KYC application maintains the master lists that enable token transfer. Within this system exists off chain data tied to a wallet address. This is used to create the Cap table for the issuer, as a token owner is always known.

Token pausing

Tokens created via the STO Wizard can be paused by a few different entities if the use case arises for them to do so. Pausing a token will essentially freeze it, meaning that no transfers can take place. The entities that could pause a token:

1. Token issuer
2. PrefLogic
3. Regulators – a regulator that has on boarded with our platform could pause a token

The functionality of pausing the token by the issuer or by PrefLogic exists today, but only via direct contract call. Roadmap includes updating the STO Wizard to allow for token pausing via clicking a button within our platform. Roadmap also includes adding in support for regulator pausing.

Investor lost private key

The TokenHolders KYC application requires an investor to digitally sign a message in order to connect a wallet to his or her personal data. Due to this, an investor can simply connect a 2nd wallet. An issuer can easily see that 2 wallets are owned by the same person and then act accordingly in the event an investor lost their private key. A possible solution is that the wallet in question can be added to our universal blacklist. This would prevent transfers in or out of the wallet. The issuer could then airdrop tokens to another wallet as appropriate.

Expanding on this, an issuer may be mandated by law force transfers (ie. a court order in the context of a divorce). This could currently be handled via similar processes. The process for an issuer to recall or burn tokens in a blacklisted wallet is still being architected.

Token transfer authorization by issuer

For restricted tokens, the platform will provide a mechanism for investors to request transfer between a counterpart that they identify and for the issuer to approve it if so desired by the issuer. This allows an issuer to maintain full control of their CAP table if this is a feature they require.

Voting contracts (coming soon)

We will allow issuers to create voting contracts as needed. We have architected it so that an issuer with 2 different classes of token could give different voting weights. This is subject to change a little as we are still kicking around ideas on what will make most sense for the issuer.

Dividend disbursement

A token might exist as a derivative product with the intent to pay out on cash flow or another metric. We are formulating a few options where the STO Wizard will have a mechanism to allow issuers to airdrop Eth to token holders or we can facilitate the back-end data to enable issuers to send checks in the mail to investors.

Regulator Portal

Regulators portal (in discussions with Malta/Digital Innovation)

PrefLogic will allow a regulator to onboard our platform. This will give them the ability to view issuer docs, view pending tokens, and play a role as necessary in the process of activating an issuer's token.

Some thoughts around KYC and investor data:

From our perspective, anyone who hasn't already thought of their own KYC-esque entity hasn't put a good plan in place. It appears that most KYC companies hold data for a month or so, placing the burden on the issuer to maintain that. This thinking is a show stopper. If you think about the implications of that, the ecosystem would be littered with friction.

As an example, post offering, how would a new investor purchase the token? They'd have to figure out how to get onto the token's whitelist. They'd have to go get KYC'd somewhere that perhaps the issuer directed them to. Let's say this investor wants to purchase 10 different tokens all post offering - they are going to have to get KYC'd 10 times? Let's say they have a change of address, they need to notify 10 issuers? If all 10 issuers wanted to send communication to the investor, each would have to develop that process.

The reality is - and it is a bit utopian - the world needs a universal whitelist. A master list that maps wallet addresses to information necessary to restrict transfers. The larger the list, the less friction there is in the space, as users will be able to more easily do direct transfers back and forth if legally able to do so.

***To engage a jurisdiction who would define legislation as Singapore and Malta are close to doing, would present a first mover opportunity to establish a master whitelist.**

The idea that every token would have its own whitelist means that folks have to get KYC'd potentially over and over again. That just puts money into the pockets of lawyers/accountants and is a huge waste. Someone could argue that a token could just include many whitelists in aggregation - and this is doable - but the caveat is that the issuer needs to know the actual people who make up their CAP table, so just using a whitelist that assists with transfer restriction is not enough.

Summary

For the STO wave to really gain momentum, things need to be incredibly easy for both issuer and investor - issuer to create tokens and the investor to purchase them. There are plenty of folks in the space, but our architectural design choices give PrefLogic an advantage.