CRESTO

CRESTO

Whitepaper

1.0

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1. Executive Summary

CRESTO.IO is a platform for issuing and trading security tokens for private companies in real estate industry. Our aim is to introduce an alternative fundraising and investment vehicle, which would grant some additional values to private market through adoption of blockchain technology:

- more transparent in comparison to traditional alternative investments;
- less costly to issue and govern due to automated process and elimination intermediaries not creating value;
- with high potential boost liquidity, including cross-border trading;
- highly customizable;
- delinked from traditional securities market, making a great diversification tool

Security tokens issued on CRESTO represent a digital alternative to traditional investment instruments. In other words, security token is an “upgraded security” rather than an “upgraded utility token”.

Security tokens are governed by CRESTO during the whole investment lifecycle and fully comply with financial regulations.

Both types of capital – equity and debt – can be raised through security token offering. Such attributes as maturity, seniority, dividend payment structure, voting rights etc are programmed in smart contract individually for each issuer and automatically executed.

Companies running STO on CRESTO are professional asset managers, who gained multi year experience and investors’ trust on traditional investment market. Relations between parties are fully transparent and supported by private placement memorandum, regular performance reports and other traditional practices.

A few features differentiating CRESTO from other players in emerging STO industry:

- CRESTO aims to integrate into existing financial framework, rather than to disrupt it. We borrow proven and generally accepted fundraising instruments and convert them into digital form. It is essential to understand, why certain fundraising instruments have their features. For example, a private equity fund only wants to deal with limited amount of investors and doesn’t want them to trade their securities. There are certain reasons for it. “Disrupting” this model by bringing in liquidity and attracting retail investors is counterproductive.
- Industry specialization is a key driver for success. Fundraising and investing in commercial real estate has a lot of its peculiarities. Therefore, we CRESTO solution is crafted specifically for commercial real estate and is not designed to go into multiple directions.

2. Market Context

2.1 Real Estate as an asset class

Investing into real estate assets is one of the most efficient instruments to diversify investor's portfolio, composed of stocks (shares of public companies), fixed income instruments (government and corporate bonds) and money market (T-bills). Diversification becomes especially important in the context of current uncertainty on stock markets with their unprecedent growth over the last few years.

Real estate, especially residential properties portfolios generating cash flow from rent, is a good instrument against value loss at the times of recession, similar to stock of defensive industries. Rising M&A activity with premiums of 10-15% on average signals increasing interest of asset managers for property market[1].

Unique feature of the real estate market is that it is **dual nature**. On one hand, physical assets are traded directly. On the other hand, there is a whole bunch of securities and derivatives backed up by real estate assets which are traded on public stock exchanged and "over the counter" (OTC trading).

Within the real estate asset class itself there is a plenty of diversification opportunities in terms of geographies, property types, value creation model, etc:

- low risk/low return vs opportunistic investments;
- liquid, extensively covered by analytic assets vs unique and complex assets, requiring deep expertise;
- long investment horizon/evergreen funds vs short term "flip over" projects;
- generating cash and paying dividends vs appreciating event-driven projects with delayed harvesting stage;
- properties serving pro-cyclical industries (luxury retail, 5* hotels etc) vs ones serving defensive industries (hospitals, schools, senior houses etc)

Last, but not the least, real estate industry today is way less conservative and more dynamic. Technology advancement, social and life style changes, urbanization and environment challenges are the key drivers:

- Massive change in shopping behavior from brick and mortar to online created demand for advanced logistics facilities;
- Properties re-conception projects are developed for non-profitable assets (e.g. some shopping malls, old business centers and hotels). As a result, new event-driven investment strategies emerge.

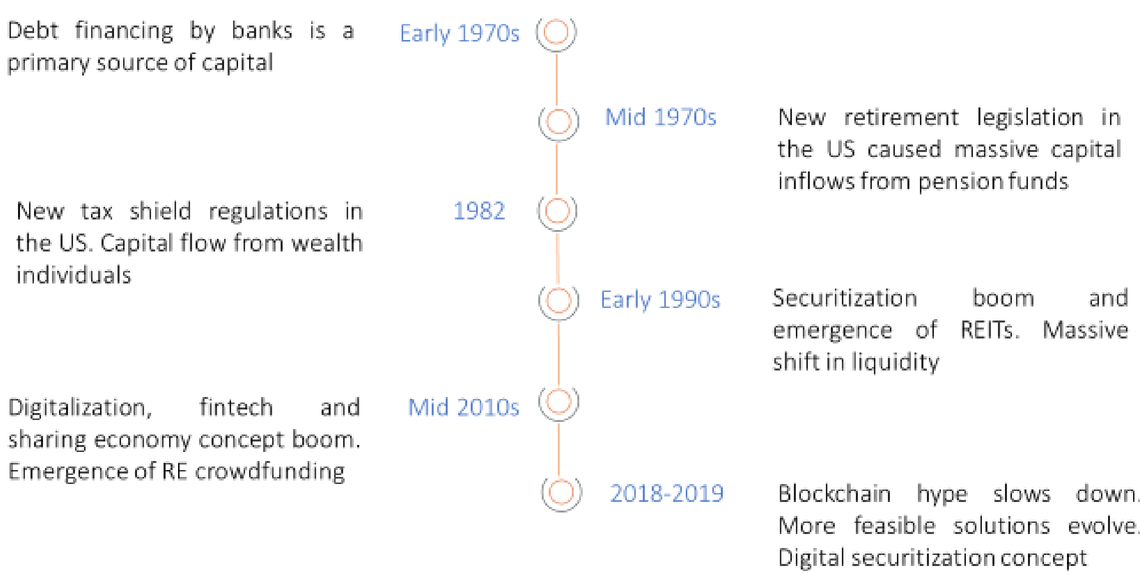
[1] Cohen & Steers Global Real Estate Securities Strategy. Investment commentary June 2018

- A whole new property types emerge and gain massive interest from investors (e.g. data centers)
- IoT and AI give a lot of opportunities to make homes and public spaces more agile, safe and comfortable. Increase in construction costs is outweighed by decrease in operational costs and higher expected returns;
- Sharing economy trend drives emergence of previously unknown concepts of co-working and co-living, community building and resources sharing;
- Sustainability becomes a new value driver on real estate market: “green premium” and “brown discount” can already be traces in developed economies;
- Growing urbanization requires cities to become “smart”. The innovation process is driven bottom up by private companies, which in turn require more agile and diverse fundraising instruments.

Financial innovation is a natural element of this vibrant ecosystem. Real estate fundraisers and investors require more efficient, customizable and transparent instruments. This is where CRESTO team is exploring opportunities and creates values.

2.2 Real Estate Capital Markets

In order to understand current trends and predict future trends in commercial real estate financing, it is important to understand, how the capital raising instruments have evolved over times:



Today the real estate capital market is split into major segments – public and private. They are quite far apart from each other, creating a certain fundraising gap for private companies willing to scale. This gap gave ground for alternative hybrid instruments.

Public real estate market gained its power 1990's. commercial real estate market liquidity was boosted by "securitization revolution". Until now major players here are public real estate investment trusts (REITs), which raise equity capital from both retail and institutional investors.

Going public allows to reach out to a whole new universe of investors and boost growth. REITs stocks have always been a desirable investment tool. REITs' shares are normally traded with a premium higher then for most industries.

REITs stock have multiple advantages for buy side. It is thoroughly liquid, offering low entrance barrier, continuously priced and thus closely tracking changes in net asset value. It is extensively covered by analytics, thus being safe for unsophisticated investors.

However, shares of public REITs generate only a moderate yield. They are not the most efficient way of portfolio diversification. Shares price is initially defined by net value of underlying assets plus liquidity premium. But once traded on secondary market, REITs stock correlates a lot with S&P500, thus losing its diversification advantage.

From the fundraiser's point of view, IPO is a very cumbersome and expensive procedure, which heavily affects all sides of the business. It can expose a company to unpredictable market forces and public scrutiny. Another factor against IPO for private companies exposing strategic roadmap to competitors.

Private equity real estate market is predominantly financed by large institutional investors, rather than by retail investors or small companies. Three major reasons for it.

- Private placements have normally long investment horizon and are held to maturity. Early exit is complicated and entails a huge discount to net asset value. Pension funds, insurance companies, endowments successfully \ use long term investment strategy for decades. Exactly the opposite for retail investors and smaller institutions; they often require more flexible cash flows and cannot afford locking capital in private placements.
- Private real estate players tend to build long term relations with a limited number of institutional investors. Dealing with hundreds and thousands of individuals is not efficient: it raises operational costs, leads to more information disclosure and prolongates a fundraising campaign.
- Entrance barrier into private real estate market is high for individuals and small corporates.

Alternative types of securities[2] - hybrid investment instruments: non-traded Real Estate Investment Trusts (REITs), private REITs, Tenants-in-Common (TICs). There are also so-called junk bonds or high yield bonds, which would be rated by credit agencies below BBB level. Most of these

[2] In capital markets industry the whole real estate asset class is considered to be an alternative investment instrument, while traditional instruments are stocks, fixed income securities and money market. In this whitepaper term "alternative investment instrument" is used for the more rare and complicated types of securities in real estate market.

securities are not sold to retail investors and have very limited demand from accredited investors due to a number of drawbacks:

- being a long-term investment tool, they lack transparency and create and illusion of low price volatility. Securities prices are not being updated and do not reflect changes in net asset values of their portfolios. This creates a loophole for information distortion by sponsors, issuers and brokers, who might mislead unsophisticated investors;
- high intermediary fees create a significant conflict of interests, incentivizing brokers to sell as many shares as possible, regardless of individual's financial objectives;
- there is no control over debt/equity ratio of private companies. Inability to pay dividends from FFO (funds from operations) could be hidden though paying dividends from debt.

As a result, secondary market for trading alternative securities was never given a way by authorities in order to protect unsophisticated investors and financial sanity in general.

3. Security Token Offering

Security Token Offering (STO) can be regarded as a next milestone in capital markets evolution. Security token is customizable and can replicate in detail all types of traditional public and private investment instruments. In other words, security token is a digital security. Through obtaining additional features it becomes a more advanced fundraising instrument.

There are two potential scenarios for STO's implementation in public and private markets:

1) traditional exchanges keep driving stock prices; only transaction settlement part is shifted to blockchain;

2) crypto exchanges get authorization to trade security tokens; tokens prices are driven by issuers' performance and have some correlation with other tokens performance.

3.1. STO values for market in general:

- **Liquidity**. Security token secondary trading is not taking place yet neither on qualified security exchanges, nor on traditional exchanges. However, there has been positive dynamic in this direction in a number of countries, including the US, Switzerland, Germany, Singapore, Philippines, Japan, Malta, Estonia etc. Even though STO ecosystem and regulations are still on early stage, there are no obvious hinders to formation of secondary market. At least for accredited investors.

- **Cross border capital flow**. Geographic diversification can help real estate investors to hedge market risks, political and currency risks. However, due to high transaction and information costs and regulatory restrictions it is not always viable to invest abroad. The growing security tokens ecosystem can mitigate these problems, giving investors access to multiple markets with diverse return/risks equilibriums. Decentralized resources of transaction information can create more transparency and credibility on a particular market, thus allowing overseas investors to make educated decisions. This is especially important for emerging markets players, struggling to win trust of foreign investors. On the other hand, fund managers from mature economies are constantly looking into emerging markets offering higher yield. However, opaque nature of these opportunities creates risks unaffordable for professional investors.

- **Cost and time efficiency**. The underwriting and governance process are automated, meaning that a less parties are involved or on a greatly smaller scale. Participants not adding value to the process but rather speculating on access to certain information should be eliminated. There is obviously a reason why there are so many counterparties in securitizing process: the system is designed to prevent conflicts of interests, eliminate loopholes for malpractices, create reliable benchmark for the market. Thus, unsophisticated investors are protected and guided. Blockchain technology due to its embedded attributes provides an opportunity to achieve the same and even higher level of transparency, reliability and security without involving all the counterparties.

- **More flexibility in refinancing process** due to cutting middlemen costs and creating multiple pools of capital from investors with diverse requirements.

- Long term, some fundamental rations for real estate investment market can be affected by STO: Shift of cost/liquidity & price/risk balance. As a result, **weighted average cost of capital (WACC) can be affected.**

- Looking on a more global level, real estate sector and **national economy are tightly related and affect each other**. Corporate and individual financing often rely on real estate assets as a collateral. Sharp decline in assets value effects borrowing and spending on a large scale and can be a factor provoking financial instability nationwide. At the same time lack of capital inflow into real estate and infrastructure at the time of massive urban growth can lead to disruptions and inefficiencies of city operations. Japan faced this kind of problem in around 2010s and reacted with creating "Committee on Real Estate Investment Market Strategy". The goal was to "re-examine real estate investment market as a key intermediate channel of capital from such angles as "debt and equity," "short-term funds and medium- to long-term funds" and "domestic funds and overseas funds" with respect to public and private sector challenges and countermeasures, along with also studying securitization techniques, challenges in taxation and accounting, etc"[3]. CRESTO is pursuing a similar objective: developing new securitization technics for more efficient capital flow in real estate market, by employing blockchain technology.

[3] Report of the Committee on Real Estate Investment Market Strategy: Chair - Kohtaro TAMURA Attorney-at-Law Ushijima & Partners; Vice-Chair - Atsuo AKAI Managing Director Morgan Stanley MUFG Securities Co., Ltd

3.2. STO values for involved participants

Values for Fundraisers

- Access to new sources of capital – small and medium institutional investors, qualified individual investors and potentially in future – whole range or retail investors. This creates opportunities to reduce funding costs and fasten the process;
- Diversification of funding sources helps to reduce dependence on large and powerful investors and gain more bargaining power;
- Alternative exit strategy for shareholders;
- Alternative debt financing instrument with less restrictive covenants in comparison to a bank loan.

Values for Investors

- New investment instruments with more diverse risk and return profiles;
- Access to private market opportunities with higher yield for minor corporates and individual investors, which they didn't have before;
- Addressing more specific requirements of different investor classes due to flexibility in securities structuring. For example, sustainability trend drives "green" building business projects in developed economies. High quality and environment friendly buildings incur higher construction costs but are expected to generate higher yield and return. Many investors would be scared off by financial uncertainty of the new concept and prefer to go with a safer and proven developments. However, there is a growing class of impact investors who are willing to undertake extra risk and invest in such projects. Doing so my means of digital securities is more efficient and simple.

3.3 STO as an alternative to IPO

Currently real estate asset managers and developers have an option of scaling through issuing and trading shares. Benefits and drawbacks of an IPO were mentioned above. IPO is not an easy solution at all. More than that, every year a few delisting of public REITs happen. blockchain technology's major value is optimizing the issuance and governance process. For

- Option to raise equity with lower issuance costs and shorter timeframe;
- Automated governance process allows to decrease operating costs;
- less information disclosure (prospectus only);
- digital securities will be traded 24/7 on crypto exchanges and delinked from traditional S&P500exchanges (one of the scenarios anticipated by STO community);

- security tokens have potential to boost cross border capital flow through trading on crypto exchanges.

3.3 STO for private market

Private real estate market can benefit from STO twofold. Firstly – similar process automation and optimizations. But more important – blockchain technology can efficiently address problems of alternative investment instruments, mention in section 2 of this whitepaper. A quick recap on those drawbacks:

- Low transparency + conflict of interest -> loopholes for deceiving investors.
- High fees based on sales volume -> highly incentivized brokers target their campaigns at non-sophisticated investors -> risk of loss, unaffordable for regular individual -> secondary market is banned by authorities -> no liquidity.

If securities of private real estate companies are issued in form of security tokens, the following essential changes are possible:

- lower middlemen fees drive out wrong incentives for brokers. Those who have valuable skills and knowledge will still be required by the market, but more in form of consultants and advisors. They would shift towards portfolio management practices
- opaque players will be driven out of market as they would not be able to conceal unfeasibility of their capital structure
- disclosure requirements and dynamic trading will boost more accurate and frequent updates on underlying assets value
- all forms of derivatives and their trading mechanisms can be issued in for of security tokens and operated automatically based on terms encoded into smart contract.

As a result, the real estate market can get an investment instrument with middle risk/return balance, which is a better solution for acquiring non-core assets for refurbishment, change od concept etc. However, position of these securities on risk/yield curve will be as transparent and liquidity opportunities are high.

4. Market response to STO

4.1. Traditional Exchanges' response

Market response is there not only crypto exchanges, but also traditional stock exchanges and financial institutions demonstrated meaningful progress in developing the product and obtaining necessary licenses to permit trading of security tokens:

- Coinbase secured a set of licenses through acquisitions of three financial institutions (Venovate Marketplace Inc, Keystone Capital Corp, and Digital Wealth LLC) – alternative trading system license, broker-dealer license and registered investment advisor license. This package makes them all set for trading security tokens;
- Templum received ATS license through acquiring Liquid M Capital;
- tZero has been heavily invested by a private equity company, clearly playing a major role in future their future fundraising plans;
- Six Swiss exchanged is building an end-to-end infrastructure for digital asset trading;
- Australian stock exchange is developing their own blockchain, i.e. "permissioned blockchain", to tokenize securities for the equity market in Australia;
- Malta stock exchange, is partnering with Neufund.org in order to provide compliant marketplace compliant with EU regulations for secondary trading of security tokens;
- London Stock exchange is going to use its platforms - Turquoise and Nivaura – to issue tokenized equities of a UK based company "20|30" in full compliance with the regulations of UK's Financial Conduct Authority.

4.2. Legal response

Upon realizing speculative nature of ICOs allowing for easy fundraising and resulting in numerous scams, regulators across the world duly reacted. Legal treatment of token issuance is yet unclear and constantly evolving. Multiple jurisdictions are involved, compounding the complexity even more. Nevertheless, a positive trend is being witnessed in most countries regarding authorities' response to token economy initiatives.

CRESTO is currently choosing the country for entity incorporation. The choice of jurisdiction is driven by a few factors:

- relatively developed legal system in regards to coin offering and actively continuing to evolve;
- authorities' recognition of future potential of blockchain technology in financial industry and willingness to have first-mover competitive advantage by supporting innovators. Adequate regulations allowing compliant companies to efficiently progress. Eliminating opportunities for unregulated actions and scams are equally important;
- jurisdiction with long history, trusted by international community;

- attractive taxation regime.

Taking into account the above criteria, Switzerland seems to be a very attractive place for crypto fintech entrepreneurs. Being on the edge of financial innovations, Swiss authorities are naturally favoring development of token economy. Lastly, in comparison to a number of geographies with similar strategy, Switzerland has a long history of an attractive financial center, globally recognized as appreciated.

Therefore, CRESTO considers Switzerland as a prime location for company registration.

5. Security Token Offering vs Initial Coin Offering

Security token is profoundly different from utility token, and should be regarded as **an upgraded version of off-chain securities rather than a "fixed" version of utility token.**

However, there is currently quite a lot of confusion between the two concepts – ICO and STO. It would be practical to point out some differentiations between the two types of tokens.

5.1 Drawbacks of ICO

Blockchain technology at early stages was spotted by many as a potential tool for solving a few impediments in private real estate market. The most often mentioned ones were liquidity, cross-border capital flow and lower entrance barriers for investors – the same ones as mentioned above. A number of startups came up with the concept of raising funds through ICO with further investing into real estate assets. Unfortunately, the industry failed to deliver impressive results. Many startups have raised substantial funds, but never moved to next stages of property investment cycle. Major reasons for it are:

- The tokens generated during ICOs were sold to investors before the purchase of assets, in many cases – before the investment strategy was even defined. Instead of being directly correlated to NAV and stabilized by it, ICO tokens followed the fluctuation of Bitcoin, Ether and other crypto assets.
- "Utility" tokens, as they were defined in order to avoid securities regulations, did not comply with any legal standing and existing financing framework and soon were challenged by the authorities in many countries.
  3. Speculative nature of ICOs drove institutional investors away, which never allowed ICOs to become a credible fundraising tool on traditional financial market.
- Most of early stage ICOs for real estate were run predominantly by tech teams, lacking on business and financial focus. Real estate asset class, as any other type of investment, requires deep industry knowledge and experience, professional network and understanding of macro trends. Technology is only a tool for the business.

5.2 Security vs Utility Tokens

These fundamental differences between security and utility tokens are not exclusive for real estate, but are generally the same forall industries exposed to financial markets:

Security Token	Utility Token
Represents securities (stocks, bonds etc) of an existing asset portfolio or an operating company, which (in most cases) already raised capital in traditional ways. Can as well represent equity of startups	Represents future access to not yet existing product / service / portfolio. High risk profile fundraisers see it as an alternative to more expensive and restrictive VC capital
Pays regular dividends (unless decided otherwise by shareholders), as an operating company or portfolio is generating cashflow	dividend payments are not common, as no cash is being generated
Token value appreciates due to increase in net asset value over time (given the investment strategy is successful)	Subject to extreme volatility; appreciation is driven by crypto community expectations
Compliant with existing financial regulations	Unregulated
Can be programmed as a digital form of traditional securities (combining features of public and private ones), derivatives (stocks, bonds, futures, equities, swaps, forwards etc) applied to a new category of issuers. All attributes of traditional shares can be programmed into smart contract, execution automated (dividend payment, waterfall structure, voting rights, hurdle rate, carry structure etc). Organic development of financial instruments through technology implementation	A new form of value representation, non-compliant with existing financial framework and attempting to “disrupt” it
Investors are subject to KYC/AML procedures	High risk of being misused for illegal capital flows

6. Target Real Estate Assets

CRESTO’s approach to due diligence of a real estate asset is as serios as in traditional market. To qualify for digital securitization, an asset pool has to satisfy certain legal and economic criteria.

- Asset pool managed by industry professionals with proven track record;
- Assets backed up by solid business plan and financial projections presented in private placement memorandum;
- Generating stable cashflow or with feasible short-term plan of generating cashflow;
- Core/core+ assets in strategic locations with potential of mid/long term value appreciation;
- Event-driven properties with potential of high value growth in short term;

- Assets with history of data allowing to quantify credit risk (delayed rental payments, credit standing of the debtor, etc.);
- Minimum transaction size (except for trial rounds of STO) is expected to be USD 100 million. Alternatives of pooling originators into multi-seller models can be explored.

One of the flawed trends in the emerging STO community is wiliness to securitize non-investable assets. CRESTO does NOT intend to securitize properties in own use of companies and individuals, because:

- they are not designed to generate value for external investors (e.g. an apartment which is owner's prime residence);
- cannot be used as collateral: in current legal framework it is close to impossible to sell off a residential property (where individuals live) to cover loss.

7. Fundraisers perspective: business cases

There are multiple types of fundraisers on private real estate market with different objectives. They can raise both equity and debt capital through STO, maintaining regular capital structure. We spot out some peculiarities for three business cases – for real estate private equity company, for a non-traded real estate investment trust and for a private developer.

7.1 Real Estate Private Equity

One of the key success drivers for real estate private equity firms is ability to source a lucrative deal and have the funds disposable immediately in order to close it. Therefore PE, when raising a new fund, forms the pool of committed equity capital even before a target real estate asset is defined. Once an opportunity is spotted, funds committed by limited partners have to be at disposal. It means that hundreds of millions of USD need to be transferred within a few weeks or even days. The capital raised for another fund cannot be employed.

Therefore, when running an STO for private equity firms, CRESTO will adopt a similar framework: a feasible amount of committed funds will be secured. Institutional investors will be the major source of equity capital.

PE Funds normally do not pay out dividends. Instead a big paycheck comes when the fund is liquidated. The reasons are asset appreciation strategy and long investment horizon. Therefore, security tokens should be structured accordingly: appreciation vs dividend payment. In most cases, a lockup period will be naturally driven, as in the first few years cashflow can be negative.

Private equity firm normally adopts flexible strategy towards their assets and can deviate from initial plan if the market conditions urge to do so. This kind of change however needs to be approved by limited partners. Therefore, voting rights should be also embedded into security tokens.

On the other hand, the value of the tokens should reflect the stage of the fund. It will greatly change during the fund's lifecycle – fundraising, investment, management and harvesting stages. It does not necessarily has to be the same token throughout the whole cycle. Token exchange can be done. As long as token's value will be always growing as the fund gets more mature, investors will be incentivized to do the exchange.

Debt STO for a private equity company can be structured differently. If a PE firm has a portfolio of cashflow generating assets with low or zero leverage ratio, they can be used as collateral for raising both senior and mezzanine debt. Security tokens in this case can be structured as corporate bonds.

Refinancing of existing debt can be also done through STO.

Incentive system in a private equity firm is quite complicated and includes fixed management fee, performance fee (distributed through the so called waterfall system), hurdle rate, above which the percentage of performance fees increases. In general, fee structure and lack of transparency are the two main concern of private equity investors. Terms defined and programmed in smart contract are executed in automated and transparent way, thus potentially mitigating this tension.

7.2. Private Real Estate Investment Trust

Unlike other private investment entities, Real estate investment trust is a tax instrument above all: Income generated by REITs is tax exempt on corporate level. Only personal income tax is paid by investors on dividends received.

REITs have to distribute 90% of their profits as dividends on a regular basis. Therefore, those instruments are more suitable for investors seeking for stable cashflow.

Security tokens can be programmed accordingly. Based on the terms embedded smart contract dividends and personal income tax will be automatically paid.

Normally a REIT will define their investment strategy and should not deviate regardless of market conditions and circumstances. Due to the dividend payment structure, REITs are looking for fully-leased, stabilized properties with no repositioning or renovation requirements, as opposed to private equity companies

Fee structure is more simple and fixed: management team gets paid salaries and bonuses.

7.3 Real estate developers

Traditionally, real estate developers resort to bank loans for launching new projects. Thus, their cost of capital is driven by bank interest rates, which in return change based on the market cyclicality. Therefore, in times of recession, construction industry is one of the first to slow down.

Developers could potentially take advantage of cyclicality and lower construction costs, if they had alternative sources of capital from growth strategy investors. In fact, many retail investors practice this approach by buying off-plan properties cheap (when developers are desperate to complete projects) and selling them later once the market recovers and demand drives prices up. But this source of capital is very fragmented; individuals often compete with each other, fostering speculation and chaos on the market.

Agile security tokens could potentially serve well to cover this timing gap. Programmed accordingly, they should be sold to investors with mid term appreciation strategy. Pooling minor investors into multi-buyer model is also an option/

8. CRESTO.IO

8.1 How CRESTO is different from other players

CRESTO team do not really see other startups working on similar solutions as competitors. At this nascent stage our concern is not competition, but rather proving feasibility of STO to fundraisers, figuring out the way to be compliant with jurisdictions involved and earning trust of investors. The business opportunity is enormous, but it can be lost or delayed due to malaise practices of some players. This should be prevented by responsible community.

A few conceptual differences of CRESTO's approach.

- We put accents differently. The challenge is not to raise funds but to spot investment opportunities. Therefore, at early stage of CRESTO we put maximum effort on crafting our solution for fundraisers.
- We aim to integrate into existing financial framework, not to disrupt it. We borrow proved and generally accepted fundraising instruments and convert them into digital form.
- We see Industry specialization as a key driver for success. Therefore, we craft our solution specifically for commercial real estate and do not intend to go into multiple directions.
- As a startup we choose to be financed by VC rather than through token offering. Funds received from professional investors give more credibility to an early stage venture.

8.2. Team

MARIIA KUTKINA

Above 10 years of experience in commercial real estate markets in UAE, Spain & Russia

Above 8 years of entrepreneurial experience, 2 startups successfully launched

IESE / CEIBS MBA

Business Strategy

in

BRIAN BIAN

Above 7 years of experience in real estate investments, development projects & asset management

Co-founder of Vnet blockchain project for real estate

CEIBS MBA & CFA level 3

Finance and Due Diligence

in

JON RUZIKULOV

Co-Founder & CTO at OBORCHAIN Blockchain enthusiast and developer

15 years of software development experience. Information security professional

Computer Science Lecturer at a University and PhD candidate

Technology

in

MOBIN ARABLOU

8 years of experiences in software development (Machine learning, Blockchain, App development)

White Hat Hacker

Holds degrees in computer engineering, computer science and electronics & biotechnology

Technology

in

9. STO process stepwise

1) Originator registers on CRESTO.IO and submits the following information and documents:

- on legal status of the company (legal name and form, jurisdiction, information on shareholders etc)
- on financial status of the company (P&L, balance sheet)
- on legal representatives authorized to act on CRESTO platform on behalf of the originator

2) CRESTO team jointly with partners conducts due diligence on the Originator: assessment of credibility, legal and financial standings of the Originator, track record, professional reputation, potential risks etc.

3) Once step 2 is successfully completed, Originator submits request for STO in a form of term sheet with the following details:

- type of securities (debt/equity), maturity;

- information on the assets (legal, financial, technical)
- structure and strategy of fund, investment objective, tenure
- projected yield and ROI
- jurisdiction: SPV domicile, regulations applicable to STO
- financial structure of asset acquisition (equity vs debt, sources of capital apart from STO)
- investment terms: min and max offering, redemption and lockup period etc
- cash distribution: priority of interest / dividend payments
- fee structure: general partner’s incentives, loan servicing fee etc
- voting rights
- risk factors

4) CRESTO team jointly with partners evaluates the STO request. If the STO request is approved by CRESTO, the originator received Issuance Proposal with the following details:

- deal structure
- investor qualification;
- currencies (crypto and/or fiat) used between all participants
- list of documents required for STO
- opening and closing dates of STO
- filing expenses paid to authorities
- expected legal and other expenses in favor of external services providers
- detailed description of all procedures: SVP registration, prospectus filing, pre-sale roadshow and open sale marketing campaign, etc.
- CRESO fee structure

5) If Originator accepts proposal from CRESTO, Private Placement Memorandum is created (based on the terms agreed in Originator’s term sheet and CRESTO’s proposal)

6) CRESTO jointly with partners (legal, tax) proceed with all the necessary registrations with financial authorities. Originator commits to provide all necessary documents and cover all related expenses for third parties and governmental authorities.

7) Once STO is duly registered and approved, Digital securities are issued on CRESTO platform. CRESTO jointly with a marketing partner starts the fundraising campaign for pre-sale and crowd sale: leveraging own and partners’ crypto communities; roadshows, PR campaign, SMM, bounty program, listing on calendars and rating websites etc.

8) Interested investor registers on CRESTO platform, fills in company/personal data and submits necessary documents. KYC/AML procedure is performed by CTRESTO jointly with a qualified partner (e.g. a commercial bank). If investor is approved, digital wallet is created on his dashboard.

9) Investment transactions are processed on CRESTO platform:

a) by now the private placement memorandum on STO is signed off by Originator and published on CRESTO
b) Investment contract template is published on CRESTO. This is the contract between Originator and Investor. It is automatically generated based on 3 documents generated by now: Term Sheet, Issuance Proposal, PPM.
c) Investor, once happy with the Investment contract, goes into his/her dashboard and completes the investment transaction:
    - signs smart contract,
    - transfers the money (bitcoin or ether from his digital wallet; alternatively – USD or EUR from his bank account) to CRESTO.
    - receives the security tokens to his digital wallet

d) Originator receives the funds in form of crypto or fiat currency (according to Issuance Proposal).

Alternative scenario: funds received from investors are kept on escrow account until the minimum required capital is raised. Once the target is achieved – funds transferred to Originator, STO is successfully complete. If target is not achieved – security tokens are bought back from investors and funds are returned. STO is cancelled. This alternative scenario is applicable, for example, when originator is raising debt for new development, which cannot be started unless full funds are raised.

10. Tokens security and governance

In the event of lost private wallet keys or theft of security tokens there is a security feature programmatically added to smart contracts whereby an investor who has lost access to their shares, would be able to contact CRESTO and have their shares frozen (this prevents the stolen/lost shares to be traded or sold on any exchange) and then have the shares reissued. have KYC and AML steps are added to the sign-up process, thus providing an additional layer of security. However, to reissue shares the originator's authorized individual and 3 of the CRESTO's team members must sign the smart contract reissue function, which has a multisignature feature. This security feature provides stability to the ecosystem and the platform in general and serves as a deterrence to attacks and bad players. Old shares which are frozen shall be deleted from the Smart Contract.

Due to the inherent safety of multisignature function, this process will be added to every Security Token Offering. Because 3 of CRESTO team and the originator must sign on the process, this will significantly reduce hacks and bad players affecting the system. In the unlikely event that a wallet private key of the members or asset owners is lost or stolen, other members will be able to replace the public wallet address and restore their full account privileges.