# SECURITIES & TOKEN CLASSIFICATION REPORT

Last Updated: February 25th, 2025

## 1. INTRODUCTION

This report assesses whether MAGIC WORLD Tokens ("Tokens") qualify as securities under UK law and evaluates their classification in compliance with the UK Financial Conduct Authority (FCA) guidelines. The objective is to ensure regulatory compliance and mitigate risks associated with digital asset issuance.

## 2. LEGAL FRAMEWORK & REGULATORY GUIDANCE

The classification of Tokens is determined by:

1. The UK Financial Services and Markets Act 2000 (FSMA)
2. The Financial Conduct Authority (FCA) Guidance on Crypto assets (PS19/22)
3. The Electronic Money Regulations 2011 (EMR 2011)
4. The Markets in Financial Instruments Directive II (MiFID II)
5. The UK Money Laundering Regulations 2017 (MLR 2017)
6. HMRC Taxation Guidelines for Crypto Transactions

The FCA classifies crypto assets into three categories:

1. Security Tokens – Tokens that provide ownership, voting rights, or entitlements to future profits. These are regulated under FSMA.
2. E-Money Tokens – Tokens that function as digital cash equivalents under the EMR 2011.
3. Utility Tokens – Tokens used to access digital services/products and are not considered regulated investments.

## 3. CLASSIFICATION OF MAGIC WORLD TOKENS

After a comprehensive legal assessment, MAGIC WORLD Tokens are classified as Utility Tokens based on the following characteristics:

1. No Ownership Rights: Tokens do not grant equity, dividends, or corporate voting rights.
2. Functional Use Case: Tokens are solely used for in-game transactions, rewards, and digital asset purchases within the MAGIC WORLD ecosystem.
3. Not an Investment Vehicle: Tokens do not generate returns based on the efforts of a third party.
4. No E-Money Features: Tokens are not pegged to fiat currency and cannot be redeemed for cash.
5. Restricted Trading: Tokens are not designed for speculative trading or financial gain but serve as a medium for in-game functionalities.

## 4. FCA COMPLIANCE & LEGAL IMPLICATIONS

Since MAGIC WORLD Tokens are Utility Tokens, they fall outside direct FCA securities regulations. However, the Company must still comply with:

1. Anti-Money Laundering (AML) & Know Your Customer (KYC) Regulations under the UK’s Money Laundering Regulations (MLR 2017).
2. Marketing Restrictions to avoid misleading claims about token value appreciation or speculative investment potential.
3. Consumer Protection Laws to ensure transparency and fairness in token sales and usage within the MAGIC WORLD ecosystem.
4. Taxation Compliance under HMRC guidelines for crypto transactions, ensuring users are aware of their tax obligations.
5. Data Protection & Privacy Laws under UK GDPR, ensuring user information related to token transactions is handled securely.

## 5. RISK FACTORS

While MAGIC WORLD Tokens are not classified as securities, the following risks remain:

1. Regulatory Changes: Future UK laws may impose additional compliance obligations, requiring modifications to token usage.
2. Market Volatility: The value of Tokens may fluctuate due to supply-demand dynamics, affecting user adoption and engagement.
3. Operational Risks: Security vulnerabilities, hacking, or smart contract failures could impact token functionality and integrity.
4. Jurisdictional Risks: Users outside the UK must ensure compliance with local laws and regulations concerning crypto assets.
5. Liquidity Risks: Limited exchanges or trading platforms may support the token, affecting its transferability and usability outside the MAGIC WORLD ecosystem.

## 6. CONCLUSION & RECOMMENDATIONS

Based on the legal analysis, MAGIC WORLD Tokens are classified as Utility Tokens, meaning they are not subject to UK securities regulations. However, to maintain compliance and mitigate risks, the following recommendations should be implemented:

1. Conduct regular legal audits to monitor evolving FCA and international crypto regulations.
2. Implement robust AML/KYC procedures to prevent illicit activities and ensure regulatory compliance.
3. Ensure clear disclaimers in marketing materials to avoid misrepresentation of token functionality and legal status.
4. Maintain transparency regarding token functionality, limitations, and user responsibilities.
5. Establish contingency plans to adapt to potential regulatory changes impacting digital assets.

For further legal inquiries, please contact: support@magicworld.com.