



# ICO Considerations

July 2017

- Tokens sold in ICOs are usually structured as either use tokens (some times called app coins) or security tokens

## ICO Structuring Considerations

### Use/App Token

- Use tokens, or 'app coins', are a form of digital currency needed to access the service/product provided by the company
- ☒ Benefit from network effects if token model is well thought through / makes sense for the business
- ☐ Adds hurdles for adoption as users will have to buy tokens to transact
- ☐ Arguably not a security but complex legal rules still apply

### Security Token

- Similar to traditional equity shares, these tokens entitle holders to "dividends" in the form of revenue sharing
- ☒ No requirement to guarantee a certain level of dividend stream – investors are growth rather than income-oriented
- ☒ Can have debt or equity like characteristics; still non dilutive

- Blockchain Capital, a leading venture capital firm investing in the blockchain industry, disrupted its own illiquid, insider-only industry by creating the world's first Digital Liquid Venture Fund
- The \$10m fund was raised in less than 6 hours, reflecting strong investor demand for the product
- Anchor investors included Matt Roszak, Andrew Keys Vinny Lingham, Erik Voorhees, Anthony Dilorio, Craig Sellars, among others
- The Argon Group provided a turn-key solution, responsible for all aspects of the offering including utilizing its proprietary issuance platform TokenHub

## Blockchain Capital's \$10m BCAP token offering

10 April 2017

### Deal Overview

- Token offering (also called ICO) of the first digital liquid venture fund
- The BCAP tokens sold in the offering represented an indirect fractional non-voting economic interest in Blockchain Capital III Digital Liquid Venture Fund
- A splash page and teaser were launched on February 15. The offering was then formally pre-announced on March 16 at the DC Summit.
- The books open and closed to the public on April 10 after under six hours of bookbuilding, in addition to offline pre-funding, conducted using a proprietary set of documents, which allowed to open the books with c.\$7m of orders already in.
- BCAP was one of the first ICOs to be conducted in compliance with US Securities laws
- c.750 investors were allocated for an average order size of c.\$13k

### Blockchain Capital Overview

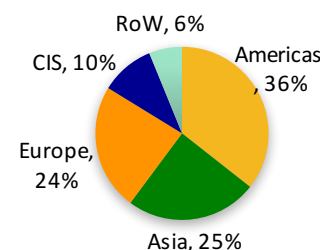
- Blockchain Capital is a sector specific, stage-agnostic, venture capital firm that seeks to gain diverse exposure to blockchain technology
- Launched in 2013, Blockchain Capital's initial fund was one of the first venture capital funds dedicated to the Bitcoin / blockchain ecosystem, and was also one of the first funds to accept capital calls in Bitcoin
- The firm was founded by Bart Stephens, Brad Stephens, and Brock Pierce

### Deal Statistics

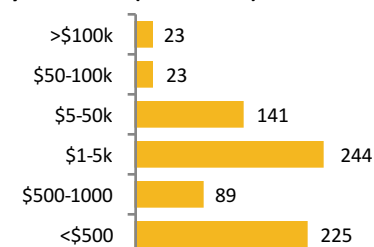
Deal size, \$m	10,000,000
Ticker	BCAP
Announcement	16 March 2017
Bookbuilding	10 April 2017
Listing	Liqui, Allcoin
US exemptions from registration	Regulation D in the US, Regulation S in RoW
Issuer	Blockchain Capital TokenHub Pte. Ltd (Singapore)
Underlying asset	Sole limited partner interest in BC's third fund
Issuance platform	TokenHub
Currencies accepted	USD, BTC, ETH
Lock-up	1 year for US Accredited

### Demand Breakdown

#### By geography (\$mm)



#### By order size (# of orders)



# Indicative ICO Timeline

## Indicative ICO Timeline

			July					August				September				October					November				December				January																			
Workstreams	Deadline	Company Input	3	10	17	24	31	7	14	21	28	4	11	18	25	2	9	16	23	30	6	13	20	27	4	11	18	25	1	8	15																	
<b>Key Dates:</b>																																																
Pre-marketing with anchor investors	23-Oct	Sign-off on all documentation																																														
Pre-announce ICO	2-Oct	Sign-off on PR campaign																																														
Launch ICO	23-Oct	Sign-off on all documentation																																														
ICO bookbuilding	17-Nov	Management availability for investor dialogue																																														
Token trading	20-Nov	Continue generating PR opportunities																																														
<b>Preparation:</b>																																																
1 Legal & Regulatory		Agree with in-house /external lawyers																																														
Implement legal structure	21-Aug																																															
Implement payment flows and contracts	21-Aug																																															
Setup legal entity	18-Sep																																															
KYC / AML procedures	2-Oct																																															
2 Smart Contract:		Agree on selected providers																																														
Smart contract development	29-Sep																																															
Verify token economics	23-Oct																																															
External security audit (smart contract)	23-Oct																																															
3 Payment systems and functionality		Input on preferred funding mechanisms																																														
Set up ETH, BTC wallets - multi signature, escrow	29-Sep																																															
Set up hedging, OTC trade, wire acceptance	29-Sep																																															
Transfer proceeds to the company	20-Nov																																															
4 Disclosure Documents		Agree terms, provide input																																														
Termsheet with key transaction terms	24-Jul																																															
Positioning and key characteristics	7-Aug																																															
Cautionary language and disclosure advice	4-Sep																																															
Offering memorandum TOC	24-Jul																																															
Offering memorandum drafts	23-Oct																																															
Offering memorandum legal review	23-Oct																																															
Netroadshow presentation / video	29-Sep																																															
5 Fundraising		Availability for marketing																																														
Pre-marketing with anchor investors	23-Oct																																															
Negotiating and signing with anchor investors	23-Oct																																															
Roadshow	17-Nov																																															
6 PR Campaign / Marketing		Input on PR campaign																																														
Select PR provider	21-Aug																																															
PR campaign	After 22-Aug																																															
Develop landing page content	29-Sep																																															
Prepare Bitcointalk thread and bounty campaign	29-Sep																																															
Run Bitcointalk thread and bounty campaign	2-Oct																																															
Manage blog and social media	2-Oct																																															
Context ads Google Adword	2-Oct																																															
Retargeting (Facebook, Google, Twitter)	2-Oct																																															
Sponsored threads in professional forums	2-Oct																																															
Banners in forums and industry media	2-Oct																																															
Other advertising (targeted, finance apps)	2-Oct																																															
7 Listing and Trading		Availability for dialogue with exchanges																																														
Negotiate and list on exchange of choice	20-Nov																																															
Trader or bot in place to support placement	20-Nov																																															
Trading restrictions (no sales to US residents)	30-Dec																																															
Negotiate with additional exchanges	20-Nov																																															
List on additional exchanges	After 30-Dec																																															

## Key Legal Issues for App Coin Type ICOs

- Many legal advisors slip into the idea that if a coin isn't a security then there are no rules
- But that's simply not the case, in fact arguably app coin regulation is more complex than security token regulation
- Regulators include CFTC, FinCEN and the States
- The key advantages to a security type token are that (a) there's hundreds of years of precedent for the regime you are governed by and (b) Federal preemption means the States cannot have a voice and several Federal agencies are also excluded.
- App coins at this time cannot be sold into several States without a bitlicense, which by the same hand is almost impossible to get, including California, Florida, Hawaii, New York and Washington State.
- Receipt of funds for an app coin arguably make you a money transmitter, raising CFTC and FinCen compliance issues (although TokenHub is set up to do the necessary ID verification).
- One of the most complex questions in the ICO space at this time is what does good disclosure look like for an app coin. At Consensus, Valerie Szczepanik, the head of the SEC's distributed ledger group stated ""Whether or not you are regulated by the SEC, you still have fiduciary duties to your investors. . . if you want this industry to flourish, protection of investors should be at the forefront." Clearly good disclosure is more than most current white papers, but because there are few good precedents to look to, this remains a very tough topic. In contrast for a security it's a fairly clear standard.

## Key Legal Issues for Securities Type ICOs

- For many reasons both law and policy based, Singapore is the best jurisdiction by far to issue ICOs out of, where digital tokens are not securities
- There after the key issues relate to (a) the jurisdictions in which your assets will be based post ICO and (b) the jurisdictions you want to sell your ICO into
- Selling a security ICO into the US requires an exemption from registration under the Securities Act of 1933 (**'33 Act**)
- We recommend the exemptions under Regulation D 506(c) and Regulation S of the '33 Act and 3(c)(1) of the '40 Act.
- A 506(c) offering is the only way to be able to be comfortable marketing through a website and to be providing interviews and other such activities that would otherwise amount to a public solicitation. However, a 506(c) offering requires that every US investor be certified as an accredited investor, and furthermore, securities issued under Regulation D cannot trade for 12 months. We have an automated process in TokenHub that provides these certification records and trading restrictions.
- There are similar issues for every jurisdiction you sell into, although none quite as complex as the US.

- Our General Counsel has \$400bns worth of global Capital Markets experience, and preferred providers in all major jurisdictions
- Particularly with regard to security type ICOs, the advice has to be right first time
- We look for providers with a high level of expertise who offer relatively good value and a high risk tolerance
- Several major firms will not touch ICOs and even more claim expertise when they don't have it

## Key Preferred Legal Providers

### Skadden Arps London:

- Skadden Arps is a band 2 Capital Markets firm with approximately 2,000 attorneys world wide, which Forbes magazine has called "Wall Street's most powerful law firm."
- We use the London office because it offers both US and UK/EU qualified lawyers working side by side, well positioned time zone wise to deal with international compliance issues. We use other US offices of Skadden for Funds work and Blue Sky laws compliance.
- In particular, we use partners Danny Tricot, Skaddens head of its European Corporate Finance practice for international capital markets issues, Jim McDonald for US capital markets and Alex Jupp for Tax

### Wong Partnership Singapore:

- The Wong Partnership are an exceptional Singapore based law firm with a high degree of understanding of tokens and the risks.
- In particular we use partners Kah-Keong Low for Fund work, Sion Yoong for FinTech and Shao Tong Tan for Tax.

### Debevoise & Plimpton and Cooley; New York:

- For app coin work we use Lee Schneider at Debevoise New York and Marco Santori at Cooley New York.

## Summary of Argon Group Advisory Services

- The Argon Group provides a wide array of world-class strategic investment banking and financial advisory services to our clients in this new emerging and exciting space
  - Digital finance exists in a complex grey nexus of US and international securities laws, KYC and AML requirements, and represents a unique new piece of the capital structure stack that requires unique and considerable expertise
  - Issuers should not be forced to become experts in law and finance, but should focus on their core business and growth – and we will take care of the fundraising
- Initial Coin / Token Offering advisory
    - Disclosure drafting (whitepaper / prospectus), development, and distribution
    - Development of marketing materials, roadshow, financial models and the equity story
    - Smart contract development, testing and implementation
    - Risk Management, KYC, AML and compliance guidance
    - Placement platform, funds collection, asset distribution, and escrow services
    - Ability to act as issuer on your behalf and balance sheet your digital assets
    - Investor outreach, public relations, and placement
    - Private capital raising from accredited investors - standalone or ICO concurrent
  - Aftermarket support
    - Trading analysis and support
    - Smart contract administration
    - Liquidity solutions and risk management
  - Strategic and capital structure advisory




 ARGON  
GROUP

### Argon services (details in the EL):

- Advisory
- Legal structuring and incorporation
- Smart contract and audit of it
- Marketing and PR
- Collection of funds via TokenHub and offline
- Negotiation with exchanges

### Argon Fees:

- Success Fee of 8-10% of ICO funds raised
- \$100K retainer creditable against Success Fee
- Reimbursement of direct expenses

## Indicative Anticipated Expense Summary for an ICO

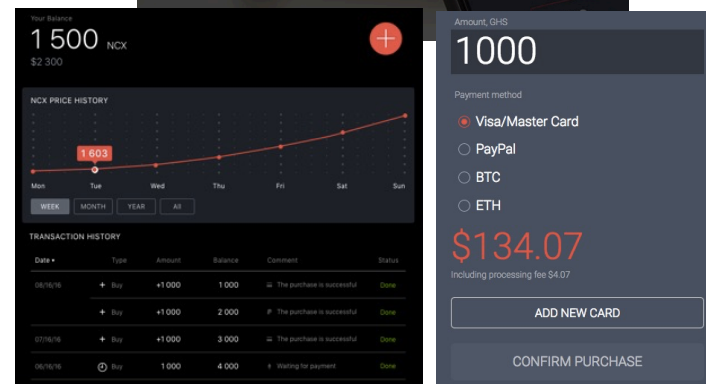
\$K	Combined Expenses
Securities Law Advice	250-300*
Compliance / KYC and Accreditation	20-30
Marketing and PR Campaign	60-90
Token issuance and Smart Contract audit	15-20
Exchange listing fees	20-25
Travel and Out-of-Pocket	10-15
<b>Total</b>	<b>375-480</b>
ICO Advisory	8-10% of token sale
ICO Retainer	\$100k creditable against final fees

\* For an app coin ICO this advice is usually about \$100-200k cheaper.

## Overview of TokenHub

### Purpose and Key Functions:

- Purchase of tokens
- AML / KYC
- Disclosure distribution
- Subscription / escrow
- Holding tokens
- SEO / landing
- Withdraw tokens to an exchange
- Collect fiat
- Other information on the sector
- Announcements



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