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Our Ref: CG.2018.0036  
Your Ref:  
Date: 22 February 2018

**BY HAND**

**VPP FOUNDATION LTD.**

9 Temasek Boulevard  
#07-00 Suntec Tower Two  
Singapore 038989

Attention: Board of Directors

**VPP FOUNDATION LTD. (THE COMPANY) – INITIAL TOKEN OFFERING FOR VIRTUAL CURRENCY**

**1. Background and scope of opinion**

- 1.1 We refer to the proposed "initial token offering" project (**ITO**) to be conducted by the Company (and/or its affiliates). We are informed that pursuant to the ITO, contributors will exchange virtual currencies in exchange for a new virtual currency (**VPP**), which is intended to be utilised on a platform to be developed and operated by the Company (or its affiliates). Further details in relation to the background are set out in Annex A.
- 1.2 We have been instructed to provide an opinion solely on the question of whether the design of VPP would cause it to be considered a "security" for the purpose of the licensing requirements under the Securities and Futures Act (Chapter 289 of Singapore) (the **SFA**).
- 1.3 In connection with the ITO, we have been provided with the draft whitepaper, which is a non-binding document that sets out, *inter alia*, the proposed design of VPP to be issued. We are informed that the version of the whitepaper which will be finally released to contributors will be in substantially the same form as that provided in Annex A.
- 1.4 For the purposes of this opinion, we have relied only on the relevant facts and documents as informed to us in Annex A and we have not considered any other issues other than that set out above. We have also not conducted any independent enquiries or due diligence in respect of the ITO and the operation of the Company (or its affiliates).
- 1.5 This opinion is based on Singapore law as at the date hereof, and is limited to the matters specified herein. We have also not examined or expressed any views on, nor will we be deemed to have examined or expressed any views on, any regulatory requirements, restrictions or prohibitions (a) under the laws of any other jurisdictions that may be applicable or (b) in connection with the Company's (or its affiliates') activities, the platform, or the circumstances or conduct of the ITO (other than that relating solely to the design of VPP). Please also note that our advice does not cover tax advice or (save as mentioned at paragraph 2 below) any regulatory advice, and we do not assume any responsibility to update this opinion after the date hereof. This opinion should be read together with the annexes appended hereto, which form an integral part of this opinion and will be governed by, and construed in accordance with, Singapore law.
- 1.6 As of the date hereof, to our knowledge there has been no court case, no formal notice or regulations published by the Monetary Authority of Singapore (the **MAS**) which directly address

the issues raised in this opinion, save for various releases and papers. Accordingly, the MAS or a court may reach an alternative conclusion different from the one provided in this opinion.

## **2. Opinion**

2.1 Solely considering the design of VPP as set out in Annex A, we are of the view that, in itself, the design of VPP:

- (a) would not cause the issuance of VPP to be considered an issuance of a debt instrument within the meaning of "debenture" under the SFA;
- (b) would not cause the issuance of VPP to be considered the operation of a collective investment scheme;
- (c) includes significant utility in the usage and operation of ValPromise; and
- (d) accordingly would not cause VPP to be deemed a "security" for the purpose of the SFA.

2.2 Our detailed analysis is set out in Annex B.

## **3. Benefit of opinion**

Our opinion herein is addressed solely to yourselves solely for your benefit, and may be relied on solely for the purpose of listing VPP on a virtual currency exchange. It is not to be relied upon by any other person or quoted or referred to in any public document or filed with any governmental authority or agency or disclosed in any way to any other person without our prior written consent.

Yours faithfully,



Clarence Guo  
DIRECTOR | Advocate & Solicitor  
**TZEDEK LAW LLC**

## Annex A

### Background and relevant documents

1. We understand that the Company is working on developing the "ValPromise" platform (**ValPromise**), which is planned to be a blockchain-based, distributed promise contract release-trading mobile platform and ecosystem that addresses multi-variety and cross-region risk management across a global spectrum (insurance, futures, options contract issuance and trading, forecasting services) issues. Eventually, the goal is for ValPromise to include tools for the blockchain community and developers to design and build applications within the ecosystem.
2. Pursuant to the ITO, VPP will be issued in exchange for virtual currency from contributors. We are informed that VPP is designed to have the following features:
  - (a) VPP may only be utilised on ValPromise (when fully completed and deployed) as the unit of exchange for valuable services provided in the ecosystem on ValPromise. For each exchange of services on ValPromise, the costs are to be quantified in VPP and paid to ValPromise and/or the other party providing the service.
  - (b) VPP has the following specific features:
    - (i) As the only medium of exchange, issuance, mortgage and settlement in the ValPromise system, VPP are first exchanged from other mainstream digital tokens (such as BTC, ETH, LTC, etc.) in exchanges, and then may be used as collaterals for issuing promises or the purchase of value promise contracts.
    - (ii) The deposit mechanism on ValPromise causes the platform to automatically lock the corresponding VPP in creators' wallets as deposit once a promise is created, and this deposit cannot be transferred and traded until the expiry of the promise.
    - (iii) Participants will have to pay transaction fees in VPP while trading. All fees collected will be distributed to all parties which have participated in servicing the transaction, such as the exchange, delegators and market makers and promise template creators.
    - (iv) A promise template creator will be allocated a share of VPP transaction fees brought by each template created by himself according to a certain set percentage. In return, creators have the obligation to pay to ValPromise an issuance fee in VPP for creating the template.
    - (v) Delegators will get the appropriate transaction fee if they recruit traders successfully. As a prerequisite, delegators pay a certain VPP deposit upfront.
    - (vi) Users who provide market services are called market makers in ValPromise, they will be able to earn a certain amount of VPP from bid-offer spreads which is set by them. Similarly, they have to pay a VPP deposit first before being allowed to provide such services.
    - (vii) Transaction fees and the deposit should be paid by traders in VPP while transactions on ValPromise are in progress.
    - (viii) After the verification node confirms the contract in the contract initiation phase, it will lock in the amount of VPP compensation. The locked compensation amount will still be kept in the user's account, but it can't be used for any other transaction.
  - (c) VPP is non-refundable and cannot be exchanged for cash (or its equivalent value in any other virtual currency) or any payment obligation by the Company or any affiliate.

- (d) VPP does not represent any shareholding, participation, right, title, or interest in the Company or any other company, enterprise or undertaking.
  - (e) VPP is not for speculative investment, and (although VPP may eventually be traded on virtual currency exchanges), there is no guarantee or representation of value or liquidity for VPP.
  - (f) VPP is not intended to be a representation of money (including electronic money), security, commodity, bond, debt instrument or any other kind of financial instrument or investment.
  - (g) VPP is not intended to constitute securities in Singapore or any relevant jurisdiction, and will not entitle token holders to any promise of revenue, fees, profits or investment returns.
2. We also understand that contributions from the ITO will be applied towards the Company's objects, which include *inter alia*, promoting the research, design and development of, and advocacy for a fully trusted, more efficient and cost-effective collaboration system for global risk management which would empower regular individuals and organisations to easily find risk-hedging contracts and services tailored to their individual needs.
3. Further, it is indicated that to the extent a secondary market or exchange for trading VPP does develop, it would be run and operated wholly independently of the Company (or its affiliates), the sale of VPP and ValPromise. The Company will not create such secondary markets nor will it act as an exchange for VPP.



# **ValPromise**

## **Distributed Value Promise Protocol**

V 1. 3. 7

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This is only a conceptual whitepaper describing the future development goals for ValPromise to be developed. This Whitepaper may be amended or replaced from time to time. There are no obligations to update this Whitepaper or to provide recipients with access to any information beyond what is provided in this Whitepaper.

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# Abstract

**Value Promise – The ValPromise Project, is committed to building a blockchain-based, distributed promise contract release-trading platform (“ValPromise”) that addresses multi-variety and cross-region risk management across a global spectrum (insurance, futures, options contract issuance and trading, forecasting services) issues.**

ValPromise determines if promises are honored, basing on the public monitoring of data via Internet. It allows any individual or organisations that satisfy the rules of accessing the system to release their own promises (contracts), while any user may accept promises (contracts) issued by counterparties with their trust on the fairness and enforceability of the contract itself, which solves problems of collaboration regardless of geographical differences and regulatory differences. Specifically, the ValPromise project will focus on the risk management area which scales up to over \$1 trillion annually and deliver with a decentralised promise mechanism involving releasing and trading. The Foundation aims to build a fully trusted, more efficient and cost-effective collaboration system for global risk management.

The exponentially growing weather insurance market will be ValPromise’s first mature application. So far, as the leading unattended system in automatic pricing and risk control in China, ValPromise has matched a great volume of business successfully and has resulted in the issue of over 200,000 guarantee contracts on weather risk in the past 6 months. Over 200,000 customers from the tourism and agriculture industries are served and they have reached a business relationship with Ink Weather, Tujia, Sunshine Insurance Company, major travel agencies and so on.

ValPromise’s system will empower regular individuals and organisations to easily find risk-hedging contracts and services tailored to their individual needs, which potentially will help build a more efficient ecosystem of risk management globally. ValPromise’s risk management system intends to develop a wide range of applications in the future such as index insurance, commodity futures, foreign exchange futures, entertainment and others.

**Unique attributes of the ValPromise project that deserve serious**

**consideration are as follows:**

- **Excellent and Complementary**

The ValPromise team consists of outstanding talents (high-level technical staff) like Doctorate mathematicians, data scientists. They have reached a tacit understanding after working together for years and have received support from many celebrated investors such as VC LiJie Wang, Wang Gang (from DiDi), Wu XiaoGuang (an early founding member of TenCent).

- **Years of Industry Accumulation**

Years of accumulation in data, algorithm, contract design, product promotion and community operation have been fully collected to prepare for this project. Considering its highly complementary nature with that of block chain technology, the business will potentially have easy access to other related areas of influence including futures, options, index insurance and forecasting service, which will create favorable conditions of the construction of an ecosystem. Based on daily weather data (up to over 100 years from 20,000 meteorological stations) gathered from around the world, The Foundation has the first and leading dynamic system in automatic pricing and risk control. To the Foundation's joy, countless customers have enjoyed our service, hailing from the tourism; agricultural production industries and even concert audiences. That alone is the testimony of our strength.

- **The massive Market in Global Risk Management**

Using The Climate Corporation as the point of reference, this portion of the global risk management market has been acquired at a \$1 billion by Monsanto and has been expected to scale up to over 1 trillion annually. Therefore, it will have a huge expectation in growth after launching startup business successfully.

# 1 Background

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With the development of information technology, the means of division and collaboration have changed a lot in the past half-century. Goods are created prevalently by division of labor without the limit of fields, countries and others. It is believed that collaboration creates wealth. The more extensive and far-reaching the collaboration is, the more efficiently one creates wealth. However, it is more pronounced that there are various obstacles during collaboration because of cognitive differences, prejudices, differences in state regulatory and legal.

There are many problems in issuance and trading contracts (insurance, various futures or options). Limited contracts issued by centralised trading institutions (insurance companies, exchanges) can't catch up with the increase in people's needs. What's more, as a result of serious dependence on labor and personal opinions, it is hard to be fair and efficient and let alone to gain trust. To be specific, in the traditional insurance field, problems such as the lack of fairness in the measurement of loss claims and low productivity at work are brought by centralised structures. People's unmet potential demands seriously impede the further development of the insurance industry; similar problems in the futures and the options market also exists.

- **Centralised Organisations: Limited products can't meet all demands**

There are insufficient choices of financial derivatives and risk management contracts issued by various exchanges and insurance companies to choose from. Especially in China, there are only 48 commodity futures and options and 5 financial futures supported by the four major futures exchanges in 2017. As a result, there are few opportunities for investors and many more risk management needs that cannot be met in other areas.

- **Centralised mechanism in product design: lengthy, slow, inefficiency**

All new commodity trading contracts or insurance products, usually have to go through a long and lengthy process to comply with the centralised mechanism before they can go to the market, this results in much difficulty in satisfying increasing various

transactions and demands.

- **OTC Market: distortion of risk measurement, uncontrollable credit risk and inefficient market operation**

It is a common phenomenon that most financial derivatives in OTC market rely on the risk measurement model used financial institutions to measure the risks, which leads to the distortion of risk measurement and unsatisfactory risk management. Furthermore, it is difficult to control credit risk during OTC transactions due to the complexity of having participants from different fields. What's worse, the market operates inefficiently badly on account of heavy dependence on manual participation in the whole process of the contract.

- **The Validity of the Contract: uneconomic and inefficient**

Typically, insurances and contracts require human intervention in delivery and liquidation, which brings about high settlement costs but low efficiency. The lower the degree of intelligence in contracts, the higher the costs and correspondingly the lower the operating efficiency.

# 2 Solution

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## 2.1 ValPromise

Fundamentally, both risk hedging contracts and financial speculation contracts can each be individually defined by a specific objective and quantifiable “value promise”. **Value Promise defines what he/she will do under •**

- Promised object
- Conditions on promise honored (including judgment time and standards which are objective indicators monitored through the Internet like temperature data released at the Weather Bureau, detected precipitation, indices at the stock exchange, random numbers generated in some networked sensor within the designated time and many more)
- The agreed amount relating to the promised object will be paid when the conditions on promise are met
- Promised price

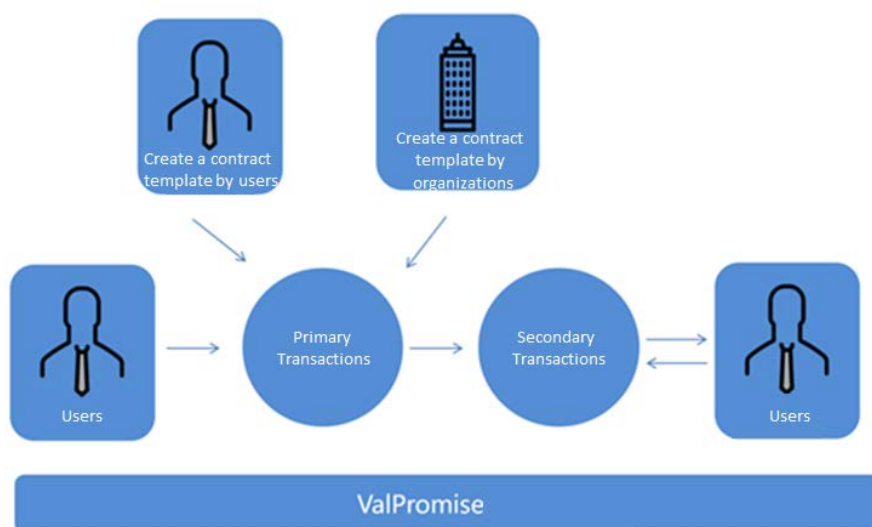
It will be a comprehensive technology which could complete asset registration, preparation of lists, exchange of value and registration and execution of contracts and also is a new type of organisation to achieve quantitative presentation, assessment and delivery for intangible assets (vote, creativity, credit, intention and so on).

ValPromise will be a mobile platform and ecosystem based on Ethereum's promise of value. With the technology of block chain and smart contracts, any individual or organisation could participate in the trading of Value Promise contracts freely and easily, and even customise their own contracts in a simple and high-efficiency way via Mobile APP and the ValPromise SDK and API to address personalisation needs.

ValPromise can be applied easily, but is not limited to, the following areas:

- Index Insurance, such as weather insurance
- OTC & Precious Metal Futures, Options
- OTC Foreign Exchange Futures, Options
- Various Types of Off-hook Stocks, Futures, Foreign Exchange Index Options
- Subjective Forecast Contracts with Public Indicators

## 2.2 Innovations



- **Distributed smart contract**

Traditional derivatives marketed through offline one-on-one paper or traditional centralised electronic contract signing models can replace their model with a blockchain smart contract signing model, with the use of intelligent contract programmability and automatic implementation of technical features, to prevent counterparty non-performance of credit risk.

- **Unified trading medium**

VPP is intended to be the only medium of exchange supported by the platform, all legal coins and other digital currency need to be converted into VPP in the external secondary market first before their holders can participate in promise hedging deals. The unified trading medium will break limitations of currency type and geographical region and allow



better access for users to global markets. In return, the ability for the VPP Promise token to circulate globally will make VPP more powerful and unsurpassed.

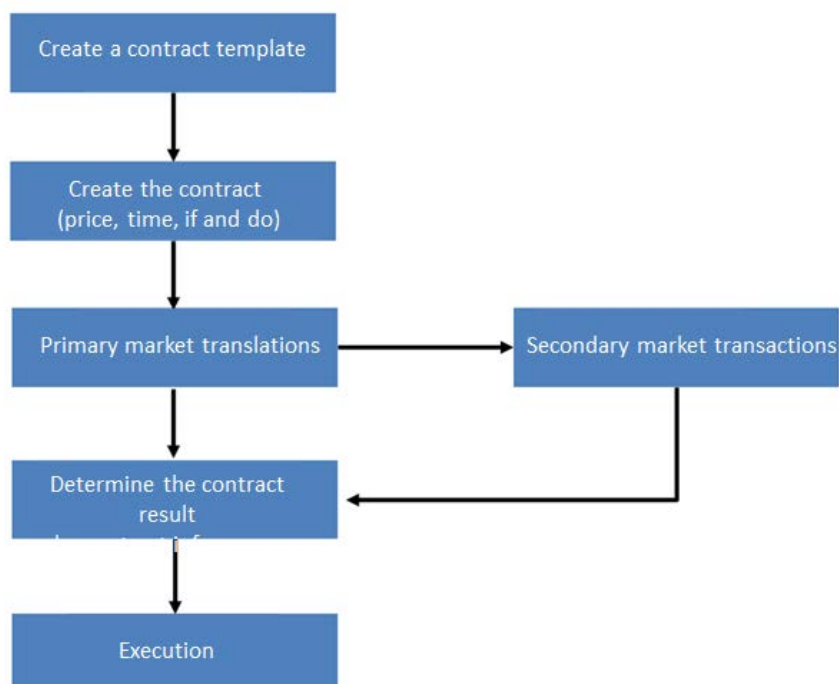
- **Decentralised mechanism in contract creation**

Anyone or any organisation will have the ability to create a promise template for themselves and others to use. That is to say, "massive intelligence" will be adopted in the decentralised mechanism to meet the needs of all parties better by providing personalised, more efficient promise contracts for them.

- **Light consensus suitable for mobile devices and low-power IOT devices**

By leveraging the front-end applications suitable for Mobile and IOT, the Foundation intends reduce the costs involved in blockchain and put more energy in ecosystem construction.

## 2.3 Working Mechanism



- **Phase and verification of contract initiation**

The user who initiates a contract enters the contract element by completing the contract generation through invoking the pre-provided smart contract template and the open API.

The contract users are required to verify certain information including: whether the balance of the account can cover the total amount of compensation for the insurance sales of the company and the operating expenses (including pumping and contractual operation and maintenance expenses) to be paid for contract operation.

- **Verification and Consensus Mechanism**

The above verification includes two parts: formal verification at the local end and trusted third-party verification. Formal verification at the local end can be based on prefabricated contract templates and self-checking algorithms to complete the capacity for payment verification. Trusted third-party verification comes from third-party verification nodes that exist in the network. These nodes are responsible for determining the likelihood a contract is able to be performed and related compliance conditions. The selection of these nodes is necessary for the fulfillment of the conditions, for example, the verification node under the weather condition has a credible means of obtaining information about the weather. Each round of verification randomly selects a percentage of nodes from among all N verifying nodes that can afford performance of the verification task to complete the verification. The selection rule is as follows: under the condition of overall randomness, the node "a" with higher trust value is moderately increased by the selected probability. All node trust values are equal (and thus completely random) in the first round of selection. In subsequent stages, a node's voting behavior is continuously scored and affects its trust value. The verification node votes whether the result satisfies the judgment condition. If the number of votes is more than 95%, the agreed condition is met; if the vote is less than 95%, the vote will be regarded as invalid again and all N verification nodes will be randomly selected again. For two successive rounds, the node whose result is inconsistent with 70% of the nodes is reduced its trust value a. The addition of trust value helps to reduce the impact of deliberate attacks on the overall system efficiency.

- **Locked Pledge**

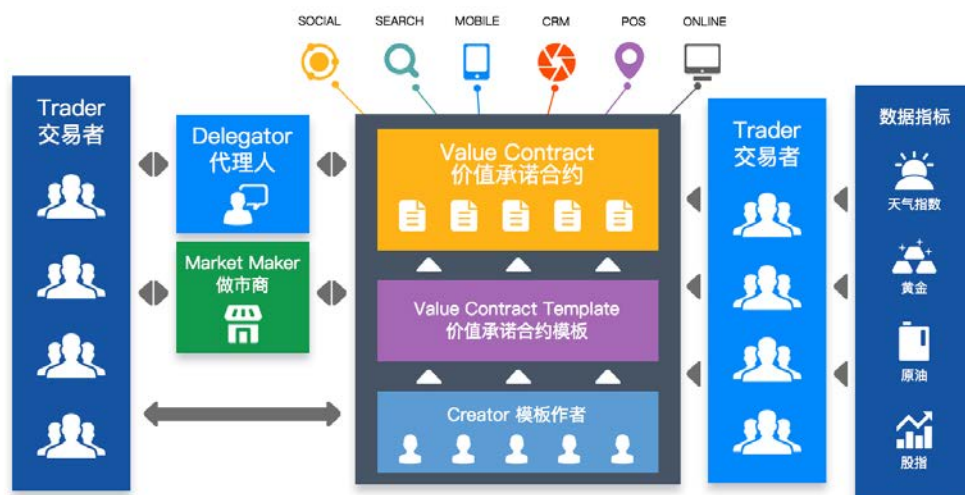
After the verification node confirms the contract in the contract initiation phase, it will lock in the amount of VPP compensation. The locked compensation amount will still be kept in the user's account, but it can't be used for any other transaction. The amount is only locked but does not move, reducing transaction costs and user safety concerns. After the above process is completed, the contract is submitted as a transaction to the block node. By going through the bottom chain to achieve consensus, forming a block, recording. After that, the potential purchaser node will be able to see the contract from the exchange and make a purchase.

- **In the phase of contract implementation**

In contract determination phase, all contracts exist in a contract queue, arranged in chronological order.

Upon expiry of the contract, the contract will be verified by the node to verify compliance with the above verification process, and the relevant amounts of VPP will be distributed to the buyer and seller's account, unlocking the amount not consumed by the contract seller. Contract fees are automatically withheld during the contract's operation. After the contract is completed, all trading transactions are packaged for the submission of a block node. By going through the bottom chain to achieve consensus, forming a block, and recording.

## 2.4 ValPromise ECO



ValPromise will strive to become the world's largest decentralised value contract platform with the help of a series of regulatory mechanisms. The overall ecosystem has the following roles:

- **Creator Promise Template Creator**

In ValPromise, anyone or any organisation is intended to have access to a deal template enabling them to use their own expertise in the field to hedge against a particular risk.

- **Market Maker**

Creditworthy market makers will quote some specific contracts on basis of price from time to time and accept public investors' business requests. It will be beneficial for market liquidity and for carrying out transactions with funds and agreements.

- **Delegator**

Delegator will play the role of a distribution agent and a promoter analogous with service institutions recruited by malls in the real-world economy. Delegators play an important role in ValPromise, they promote product services and ideas to potential traders and attempt to involve more participants in transactions on ValPromise. The liquidity of value promise will be improved greatly with them. They will get incentives for user development.

- **Trader**

As the ultimate trader of Value Promise, they hedge their own risks by trading promised deals, they are the cornerstone of the overall ecosystem.

All users of ValPromise may participate in the trading of all types of existing contracts in the market; all of them may choose a contract template according to their own needs. They may conduct safe deals with market makers and other traders under the controllable credit risk environment and pay certain transaction fees simultaneously.

## 2.5 Digital tokens

The native digital cryptographically-secured token of ValPromise (**VPP**) is a major component of the ecosystem on ValPromise, and is designed to be used solely on the platform. VPP is a digital asset designed to be compatible with Ethereum ERC-20 block chain standards. VPP is a non-refundable functional utility token which will be used as the unit of exchange between participants on ValPromise. The goal of introducing VPP is to provide a convenient and secure mode of payment and settlement between participants who interact within the ecosystem on ValPromise. In fact, the project to develop ValPromise would fail if all VPP holders simply held onto their VPP and did nothing with it. VPP are designed to be consumed, and that is the goal of the VPP token sale.

VPP does not in any way represent any shareholding, participation, right, title, or interest in the Foundation, its affiliates, or any other company, enterprise or undertaking, nor will VPP entitle token holders to any promise of fees, revenue, profits or investment returns, and are not intended

to constitute securities in Singapore or any relevant jurisdiction. VPP may only be utilised on ValPromise, and ownership of VPP carries no rights, express or implied, other than the right to use VPP as a means to enable usage of and interaction with ValPromise.

In particular, you understand and accept that VPP:

- (a) is non-refundable and cannot be exchanged for cash (or its equivalent value in any other virtual currency) or any payment obligation by the Foundation or any affiliate;
- (b) does not represent or confer on the token holder any right of any form with respect to the Foundation (or any of its affiliates) or its revenues or assets, including without limitation any right to receive future revenue, shares, ownership right or stake, share or security, any voting, distribution, redemption, liquidation, proprietary (including all forms of intellectual property), or other financial or legal rights or equivalent rights, or intellectual property rights or any other form of participation in or relating to ValPromise, the Foundation, the Distributor and/or their service providers;
- (c) is not intended to be a representation of money (including electronic money), security, commodity, bond, debt instrument or any other kind of financial instrument or investment;
- (d) is not a loan to the Foundation or any of its affiliates, is not intended to represent a debt owed by the Foundation or any of its affiliates, and there is no expectation of profit; and
- (e) does not provide the token holder with any ownership or other interest in the Foundation or any of its affiliates.

- **VPP is the only unit of settlement on ValPromise**

As the only medium of exchange issuance, mortgage and settlement in the ValPromise system, VPP tokens are first exchanged from other mainstream digital tokens (such as BTC, ETH, LTC, etc.) in exchanges, and then may be used as collaterals for issuing promises or the purchase of value promise contracts. Once the promise requirements are met, the system will automatically transfer the corresponding tokens to the promised wallet.

The unified trading medium with digital tokens will break restrictions on types of tokens and geographical regions and allow better access to global markets. In return, global liquidity will make the platform more powerful and unsurpassed.

- **The VPP token is the proof of proceeds in ValPromise's system**

In the meantime, for VPP team (including development and operation team and consultant team), promotion team, and the Foundation will be assigned token incentives based on certain rules and proportions. And the remaining tokens will be

used for the construction of the underlying technology, the development of products for different scenarios, operations of a contextualised community, operations and promotions in multi-scenario ecosystem. For more details please refer to the following section on economic model.

## 2.6 Economic Model

- **Deposit mechanism**

The deposit mechanism causes the platform to automatically lock the corresponding VPP in creators' wallets as deposit once a promise is created and this deposit can't be transferred and traded until the expiry of the promise. It's worth mentioning that ValPromise will completely utilise a deposit mechanism. For creators, it is a must to have enough tokens since VPP is the only digital medium of settlement at the platform. As ValPromise becomes more widely used, there will be increasing demand for VPP in the ValPromise ecosystem.

- **Transaction fees**

Participants will have to pay transaction fees in VPP while trading. All fees collected will be distributed to all parties which have participated in servicing the transaction, such as the exchange, delegators and market makers and promise template creators.

- **Template release fee**

Anyone has the right to be promise template creator. But for promise templates not to be abused, ValPromise will charge some release fees when the creation takes effect.

The above mechanism will produce positive economic incentives for ValPromise's ecosystem. It will encourage excellent delegators to recruit more users and generate high-quality contract templates, more attractive quotes and market makers. All of these will make the ecosystem more vibrant.

**The VPP's economic model is following:**

ROLE	OPERATING	COST INSTRUCTION OF TOKENS	ASSIGNED GROUPS
trader	transaction promise	transaction fees	VPP exchange, delegator, market maker, creator
trader	promise honored	charge for promise	trader
creator	release contract template	release fees	VPP exchange

- **Promise Template Creator**

A promise template creator will be allocated a share of VPP transaction fees brought by each template created by himself according to a certain set percentage. In return, creators have the obligation to pay to ValPromise an issuance fee in VPP for creating the template.

- **Delegator**

Delegators will get the appropriate transaction fee if they recruit traders successfully. As a prerequisite, delegators pay a certain VPP deposit upfront.

- **Market Maker**

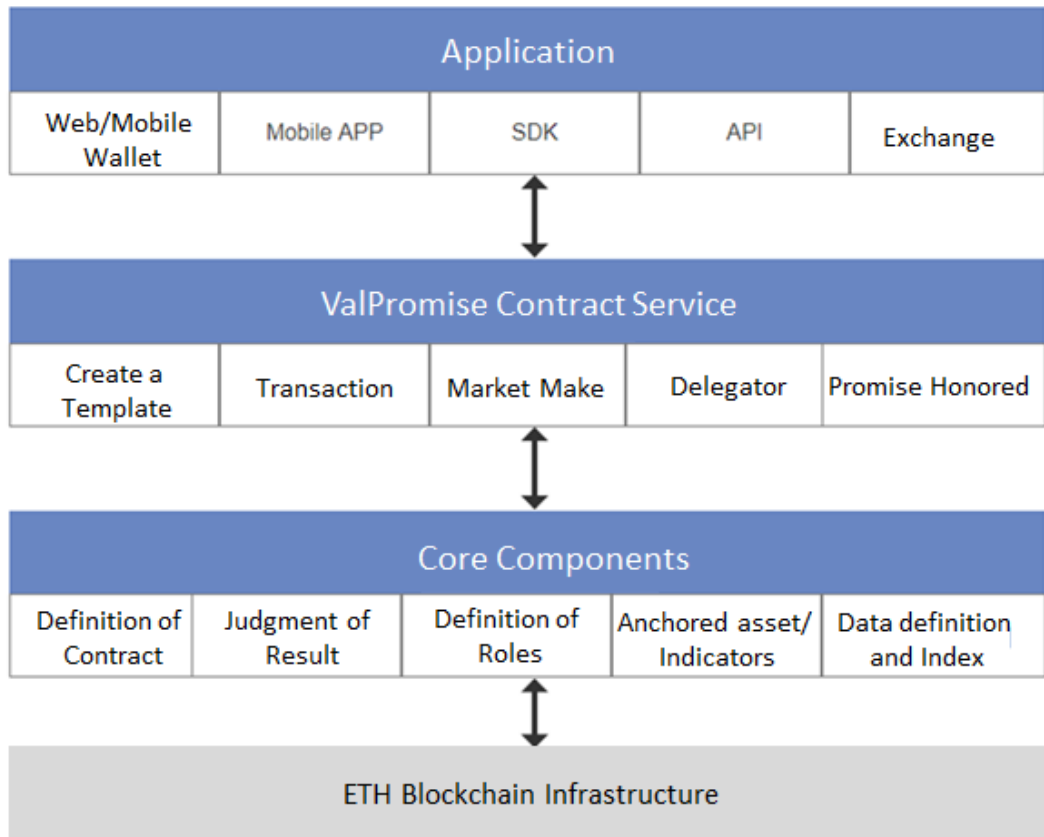
Users who provide market services are called market makers in ValPromise, they will be able to earn a certain amount of VPP from bid-offer spreads which is set by them. Similarly, they have to pay a VPP deposit first before being allowed to provide such services.

- **Trader**

Transaction fees and the deposit should be paid by traders in VPP while transactions on ValPromise are in progress.

## 2.7 Technical Route

ValPromise uses a hierarchical approach in order to ensure the expansion of the structure and maintenance costs. As is shown below:



As ValPromise already has a real business in shape, the most important thing right now is to bring the physical business across into the chain. Considering development costs and efficiency, the Foundation decided to adopt ETH as the blockchain infrastructure. The following is a hierarchical description.

### 2.7.1 ETH: the layer of Blockchain

The most important thing right now is to bring the physical business up the chain considering that ValPromise already has a real business in shape. And taking development costs and efficiency into account, Foundation has decided to adopt Ethereum as a blockchain infrastructure.



## 2.7.2 Core Component Layer

ValPromise core layer is a set of contracts about value promise, data, storage, display, mechanism, implementation method description and the corresponding code.

- **The definition of smart contract**

The most core component to complete the system of the most basic value of the contract generation, preservation, signing, trading, fulfillment and other functions.

- **Judgment of results**

Making judgement on the trigger conditions promised in the contract. Since the contract may be to track the stock index, commodity prices, precipitation and more, it will consist of specific contracts with contract definition modules.

- **Definition of Platform Role**

ValPromise will define the four types of roles: contract template Creator, contract Trader, Market Maker, and Delegator according to their functions, and features they used, contributions they made and the corresponding fees and charges.

- **Anchor Asset / Indicator Library**

ValPromise will unify assets/indicator libraries anchored by smart contracts into a database and define the data sources and collection rules in it to form a standardised tracking data definition.

- **Data Index and Definitions**

They are used for the explanation and description of each data.

## 2.7.3 Value Promise Contract Services

ValPromise Contract Service will provide contract creation, trading, market making, distribution delegators, fulfillment of commitments contracts, token lock services.

ValPromise will determine the delivery time, delivery price, margin ratio, trading units, contract pricing, trading direction and other specific elements of the transactions, to calculate the deposit and the fee paid by the different persons involved and traders.

#### **2.7.4 Mobile Application Layer**

ValPromise plans to deliver front-end experiences based on the mobile Internet and the IOT, including Mobile / Web wallets, Mobile APPs and exchanges to meet the security and efficiency needs of different users. IOS & Android mobile apps will be available simultaneously when ValPromise is released.

# 3 Weather Pal: The first strategic partner and application on ValPromise

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As a pioneer and leader in weather risk management in China, Weather Pal has worked hard in the field of weather insurance for many years. Its products have achieved good economic and social value in the fields of tourism, travel, public events and agriculture. Partners are rapidly expanding, and revenues are steadily rising. Because ValPromise intends to naturally apply to weather index insurance and can solve a series of problems facing the current weather insurance, it will be the first ecosystem application in the world.

## 3.1 Weather Insurance

**Weather insurance is suitable for blockchain?**

### **(1) Lack of mature weather insurance products**

At present, except for very basic agricultural insurance products in the market, China has almost no scale and coverage of weather insurance products across the country. This is mainly because the quantitative pricing of weather risk itself has very high technical difficulty, and the generation of data, models, verification of these and subsequent implementation in a specific business model is an intrinsically difficult process.

Weather Pal has overcome this dilemma, released a mature application and planned to release a standardised digital contract in a smart contract (Weather Pal's insurance is inherently contract only) that will allow everyone to hedge against the risk of the weather.

### **(2) The design of weather insurance contracts is inefficient**

At present, China's weather insurance products are mainly designed by local

meteorological departments and local insurance companies. Due to how the current system operates, from the time there is a recognised demand till the time a final product is completed, at least one month or more will have passed, during which there has to occur risk needs analysis, the Bureau of Meteorology will have to report to the higher authorities, data query applications, insurance product design, insurance companies filing, CIRC approved, signing of the paper and other procedures. The process is far-flung and usually when the general process is over, the contract is delivered out of its best timing. The demand side of weather insurance are unable to be satisfied because of that.

Weather Pal has the leading real-time weather insurance contract generation technology in the industry and was well received by many partners, including insurance companies. What's more, ValPromise intends to support personalised contracts, the user may create their own contracts. If the contract is popular, ValPromise will send the creators VPP incentives to encourage the creation of better contracts.

### **(3) High cost and low efficiency in assessing and losses manually**

Take agricultural weather insurance as an example, whether the weather (or other) conditions have reached the standard specified in the contract, the determination of the amount of loss, the settlement of payment and other processes need to be carried out manually, which has lead to high cost of services but low efficiency.

The ValPromise Smart Contract provides the perfect solution for automated execution based on data metrics without human involvement.

### **(4) Due to centralised release and storage of meteorological data, it is hard to independently authenticate**

Since the weather data in China comes from the Bureau of Meteorology and are not available to the public, and can't be traced (you cannot query the actual temperature in Beijing 30 days before) from centralised storage systems. The weather contract delivery is based on weather data. So users will naturally wonder if Weather Pal will tamper with the data. It is hard for Weather Pal to prove its authenticity.

ValPromise hopes to take the advantage of modification of the block chain data to solve the problem of data trust. Smart contracts are intended include the acquisition and

storage of meteorological data. Meteorological data is acquired when the block is written and this cannot be tampered with later, so as to ensure the recognition of the data used for judgment.

**(5) OTC derivatives (including weather derivatives) lack of liquidity**

Participants in this market are very few due to China's capital policy restrictions. And the absence of a trust mechanism adds further limitation to the threshold for participation. In addition, over-the-counter contracts with high degree of one-to-one personalisation have inherent bottlenecks in liquidity. For example, the energy industry will not purchase weather contracts in the travel industry.

ValPromise uses a unified trading medium for VPP tokens, to overcome geographical restrictions as well as differences in fiat currencies, thus providing a globally liquid trading platform.

**(6) OTC products can't be properly quantified and the risk measurement is distorted**

At present, most weather risk hedging products are carried out through OTC transactions. The measurement of the risk relies on the internal model of financial institutions to measure the risks, which leads to the distortion of risk measurement and unrealised risk management.

Since ValPromise adopts a decentralised transaction matching approach, all contract transactions are time stamped through the bottom of the block chain and are publicly and transparently verifiable across the market, enabling OTC transactions to be analysed statistically and macroscopically. Due to the transaction information of numerous individuals and organisations, it can form risk measurement with market consensus, thus to avoid the problem of risk measurement distortion.

In summary, weather insurance is fundamentally a value promise contract. Taking weather insurance as an application at ValPromise's platform will bring tremendous impetus to weather insurance and ValPromise in practical terms.

## 3.2 Weather Pal's benchmark: Climate Cop.

Climate Cop. (called Weatherbill before) was founded by early Google employees with investors including Google Ventures, Index Ventures and the Founders Fund. Climate has developed a self-service service for weather insurers who previously traded the counter only through a customised approach. Clients can log in Climate's website to determine the range of temperatures and / or rainfall that need to be insured for a specific period of time. When Climate receives an order, it will provide a comprehensive analysis of the weather forecast, the National Meteorological Bureau data in the past 30 years within 200 milliseconds, to provide users with weather insurance products and present premiums. If the insured suffered a loss because of unexpected weather, they can automatically get compensation.

In 2014, the multinational biotechnology group(Monsanto) spent about \$ 1 billion on the acquisition of Climate.

## 3.3 Existing Operation Products and Services

Weather Pal customises its template to meet various needs of different users from disparate businesses for their diverse usage scenarios based on meteorological big data and the technical analysis of weather contract pricing engines. Furthermore, it provides people with weather risk protection services through a variety of products and contracts. Here are some examples of travel insurance contracts and screenshots.

### 旅游保险合同示例

#### 短期旅游合约

 北京1日游 售价 ¥ 5		最高赔付金额 ¥ 250
触发标准		
日期	城市	赔付金额
2017/7/1	北京	> 5mm
		> 15mm
		> 35mm
		> 50mm

以当天降水量达到的最高档次进行赔付。  
例如2017-07-01当日，北京日累计降水量为36mm，则赔付金额为 ¥ 100。

下小雨就赔，最高赔50倍！

#### 长期旅游合约示例

 日本关西7日游 售价 ¥ 10		最高赔付金额 ¥ 500
触发标准		
日期	城市	赔付金额
2017/6/26	东京都	> 5mm
2017/6/27	大阪	> 5mm
2017/6/28	京都	> 5mm
2017/6/29	京都	> 5mm
2017/6/30	大阪	> 5mm
2017/7/1	东京都	> 5mm
2017/7/2	东京都	> 5mm

当日降水量达到标准，则判定为触发。赔付以最大触发天数为准。  
例如整体行程中，东京都6/26，大阪6/30都达到触发标准。其余城市没有，则赔付10元。

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下单

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← 选择每人价格

¥ 10 / 人

¥ 20 / 人

¥ 30 / 人

其它金额

合约详情

最高赔付金额 ¥ 600 / 人

触发标准

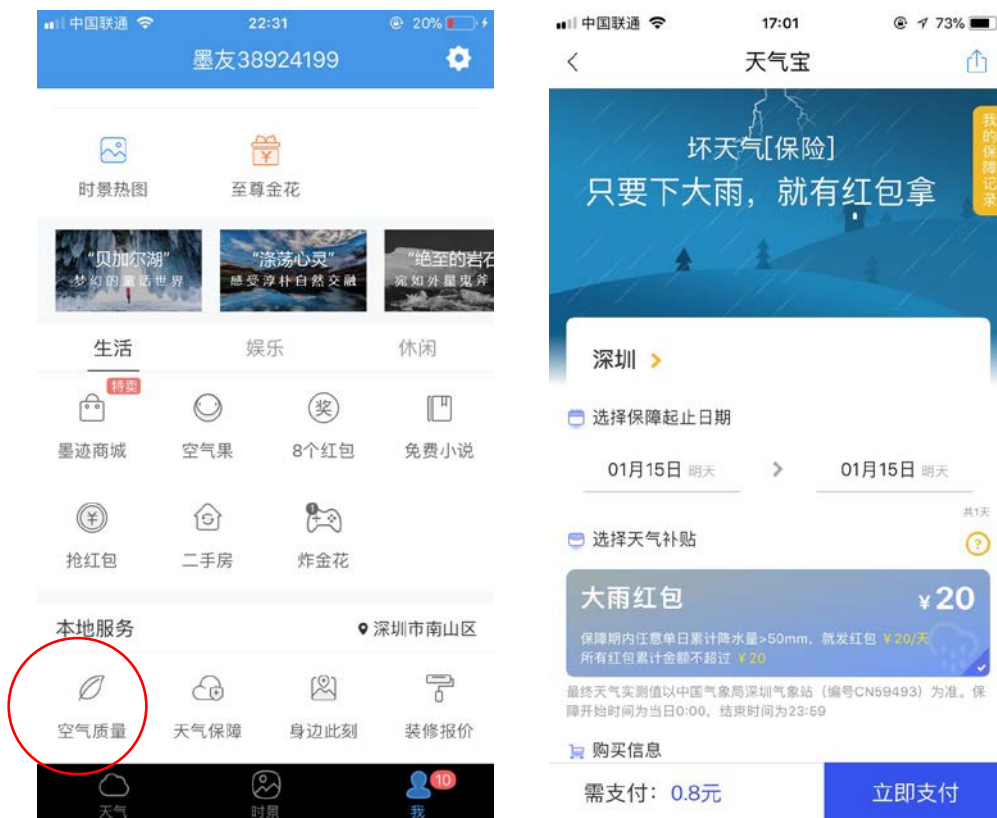
日期	城市	触发值
2018-01-19	里约热内卢	>76mm
2018-01-20	里约热内卢	>76mm
2018-01-21	里约热内卢	>76mm
2018-01-22	里约热内卢	>76mm

赔付规则

以行程天数达到的最大触发天数来计算赔付款标准。

每单最高赔付

触发天数	赔付金额
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2天	¥ 100
3天	¥ 240
4天	¥ 600



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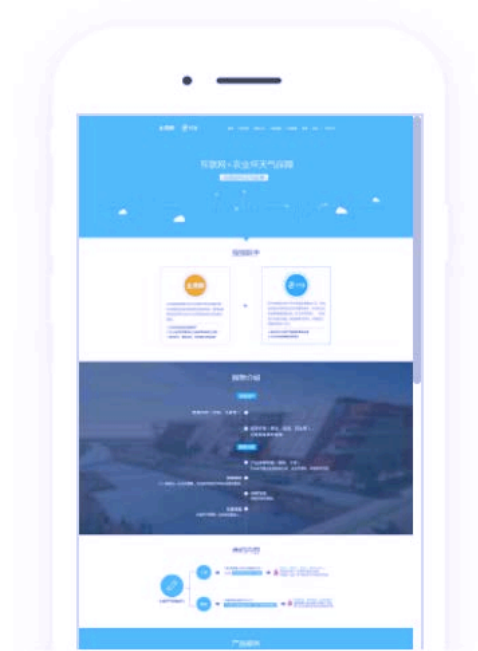




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帮助阳光保险建立起 全新、全自动运行、稳定盈利的品类

扫码即可购买↓



## 3.4 Cases protected by Weather Pal

So far, Weather Pal has sold 20,000+ weather insurance contracts, accumulatively 1.5 million RMB payments, and has served customers from all over the country. After the

judgment of the automatic contract, the payment will be automatically paid to the insured person through the WeChat. The whole process is quick and smooth. Some pay-off account screenshots are followings:



说明: 保障城市为沧州, 保障期2015-11-8~2016-01-06, 保障气象指数为两日最低温差值, 共272单, 售价20元/单, 触发补贴为60元/单						
编号	订单号	保障城市	上传日期	获得补贴 (元)	用户id (272人)	保障日期的天气(单位:℃)
5	Vy-414Ksg	沧州(2015-11-08 ~ 2016-01-06) ×272	2015/11/9	16320	为用户隐私, 此处隐去	2015-11-09最低温度4.9, 前一天最低温度2.相差-2.9000000000000004, 标准是6 2015-11-10最低温度5.3, 前一天最低温度4.9, 相差-0.39999999999999997, 标准是6 2015-11-11最低温度6.3, 前一天最低温度5.3, 相差-1, 标准是6 2015-11-12最低温度2.2, 前一天最低温度6.3, 相差-4.1, 标准是6 2015-11-13最低温度6.1, 前一天最低温度2.2, 相差-3.8999999999999995, 标准是6 2015-11-14最低温度1.9, 前一天最低温度6.1, 相差-2.1999999999999997, 标准是6 2015-11-15最低温度7, 前一天最低温度1.9, 相差-3.1, 标准是6 2015-11-16最低温度6, 前一天最低温度7, 相差-1, 标准是6 2015-11-17最低温度0.6, 前一天最低温度6, 相差-5.4, 标准是6 2015-11-18最低温度1.3, 前一天最低温度0.6, 相差-0.7000000000000001, 标准是6 2015-11-19最低温度5.2, 前一天最低温度1.3, 相差-3.9000000000000004, 标准是6 2015-11-20最低温度5.5, 前一天最低温度5.2, 相差-0.29999999999999998, 标准是6 2015-11-21最低温度1.7, 前一天最低温度5.5, 相差-3.8, 标准是6 2015-11-22最低温度-2.6, 前一天最低温度1.7, 相差-4.3, 标准是6 2015-11-23最低温度-3.9, 前一天最低温度-2.6, 相差-1.2999999999999998, 标准是6 2015-11-24最低温度-5.6, 前一天最低温度-3.9, 相差-1.6999999999999997, 标准是6 2015-11-25最低温度-11, 前一天最低温度-5.6, 相差-5.4, 标准是6 2015-11-26最低温度-12.1, 前一天最低温度-11, 相差-1.0999999999999996, 标准是6 2015-11-27最低温度-9.2, 前一天最低温度-12.1, 相差-2.9000000000000004, 标准是6 2015-11-28最低温度-6.7, 前一天最低温度-9.2, 相差-2.4999999999999999, 标准是6 2015-11-29最低温度-1.3, 前一天最低温度-6.7, 相差-5.4, 标准是6 2015-11-30最低温度-5.8, 前一天最低温度-1.3, 相差-4.5, 标准是6 2015-12-01最低温度0.4, 前一天最低温度-5.8, 相差-6.2, 标准是6 2015-12-02最低温度-2.6, 前一天最低温度0.4, 相差-3, 标准是6 2015-12-03最低温度-2.9, 前一天最低温度-2.6, 相差-0.29999999999999998, 标准是6 2015-12-04最低温度-6, 前一天最低温度-2.9, 相差-3.1, 标准是6
订单情况统计 (20150801-20160103)		12.15触发补贴订单 (16320元)		11.23触发补贴订单 (20580元)		9月11-20日触发补贴

## 3.5 Partners

So far, Weather Pal has established an extensive network of cooperation with large insurance companies, travel agencies, weather service providers, as well as OTA, travel agencies in tourism eco. Part of the channel partners are as follows:

# 4 Business Plan

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Since weather insurance is a natural fit for value promises, the Foundation foresees that the overall work is controllable. The ValPromise Foundation will gradually upgrade the original weather service to the ValPromise chain and gradually expand into other vertical areas according to the following steps, which will ultimately lead to a risk management ecosystem. For the goal to be achieved, there will be three main stages:

**1. ValPromise 1.0: The building and model promotion of single application scenarios (a single promise service for a single target group)**

ValPromise 1.0: Partner with Weather Pal to create Weather Index Insurance contracts and release weather promise contract to people crowded with weather risk hedging needs with VPP tokens on ValPromise.

**2. ValPromise 2.0: User extension in application scenario (single promise business for compound user group)**

To make everyone have access to creating weather contracts with SDK and API to build a weather futures exchange based on tools provided by ValPromise.

**3. ValPromise 3.0: Full application scenario expansion (a number of commitments business)**

By empowering other industries (including foreign exchange, crude, the precious metals options and futures) with the ability to create promise contracts, making ValPromise popular in more vertical industries

**Step 1: Application and promotion of single application scenario (weather insurance)**

The first and most important step is the construction and demonstration of a single application scenario (a single target user group for a single promise business). Weather Pal will develop and operate the weather insurance business based on ValPromise. Take travelers and agricultural producers as the main operating and promotion users, Weather

Pal will give any group the access to taking part in it (such as the group interested in weather), in addition, the Foundation will establish a business development distribution system to promote ValPromise weather insurance better.

The first batch of weather insurance will be issued based on the automated weather insurance system developed by Weather Pal. In it, Weather Pal takes the role of giving promise, and conditions for promise honored are a specific location, a specific time interval, the weather indicators (temperature, precipitation, wind speed) meeting specific conditions Greater than, or less than a certain value), the VPP to be paid in fulfilling the promise is given and locked in real time, and the promised price is fixed at one VPP token. Once the user pays one VPP or more VPP to the promise, he or she will obtain the corresponding promise share.

For example, the weather treasure issues 100,000 copies of the Maldives precipitation options, agreed that if the official weather bureau of Maldives monitors the precipitation on any day is greater than 30mm from February 15, 2018 to February 20, 2018, the promised will obtain 30 VPPs at the price of 1 VPP for the promise. In this situation, travelers A and weather lovers B purchase corresponding copies of the Maldives precipitation option with 30 VPPs and 50 VPPs respectively through the ValPromise system. But then the User A transfers it to User C at the price of 25 VPP. Subsequently, the official Meteorological Bureau of Maldives released the monitoring results that the precipitation reached 33 mm on February 19, 2018. Therefore, and User B receives 1,500 VPPs ( $30 * 50$ ) paid by ValPromise, meanwhile C gets 900 VPPs ( $30 * 30$ ).

At this stage, the main work of the Foundation's team is the research and development of the weather contract issuance system and the promotion of community operations for the target user groups. The Foundation's team will focus on increasing participants' understanding and participation in the ValPromise ecosystem, especially in tourism and agriculture.

## **Step 2: API and SDK: Standardise Development of weather contracts**

To expand the user base in different application scenarios (single promise business for composite user base) and open custom release promise interface API or SDK, all individuals and organisations that need to release promises can use this interface to issue. Based on

the demonstrated benefits of business established in the first step, the weather insurance business will be promoted to major industries. At this stage, the participants will expand from tourists and agricultural producers to tourists, agricultural producers, energy companies, beverages & apparel production Enterprises, logistics companies, weather enthusiasts, and all other objects, to meet all requests of publishing and receiving contracts from all major users in weather scenarios.

At this stage, it is very important to develop and promote the function of custom promises' issue. Individuals and organisations that meet the requirements can release promises through a simple graphical interface through the ValPromise system, simultaneously through developing distribution teams and nurturing the community (such as the goods Futures communities and the FX Options communities, etc). It enables more organisations that have the capacity to issue special promises operate and promote theirs in the ValPromise system, which is similar to the investment promotion and post-investment operation in commercial real estate.

### **Step 3: Three-dimensional risk management application of cross-domain, multiple scenarios**

It means full scene development (a number of promise businesses). Take advantage of the second model scenario and application paradigm in the ValPromise system, as well as the established distribution system and communities for releasing the promise, the application will naturally extend to multiple scenarios.

# 5 Community Operations

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The Foundation's team attaches great importance to the construction and operation of the community as the Weather Pal set up. **At present, there are already more than 200,000 users of Weather Pal who are meteorological professionals, financial derivatives traders, tourism industry practitioners and agricultural producers in their community.**

The Foundation firmly believes that an open ecosystem relies on more people to participate and contribute their own wisdom. For it, The Foundation will establish good community incentives to encourage more valuable ideas and practices, which will keep the ValPromise project alive, iterative, and better meet risk hedging needs and bring out greater value.

Potential users of ValPromise come primarily from the secondary markets such as equities, financial derivatives, insurance derivatives, gaming and forecast markets. Emphatically, they are the crowd that ValPromise strives to acquire since they naturally have the strong collective concept and are enthusiastic, easy to organise. At the same time, the Foundation believes that people who have risk hedging demands (such as tourism, agricultural production, energy companies, logistics and transport industry, retail, foreign trade, precious metals production and distribution companies and practitioners) and risk contract trading needs, risk contract design experts, self-media staffs in block chain technology application will be the main members of the community, the Foundation will focus on reaching and attracting the target community members and following that, keeping the community active in the future.

ValPromise will strengthen community and community operations through the following steps and strategies.

1. The original users in Weather Pal will be encouraged to attract more target ones to know more about definitions of the release and transactions in ValPromise by launching tokens, product incentives, online and offline operations, and KOL's science popularisation and even participate in the construction of the ValPromise community. The Foundation will strive for meeting all the needs of numerous promises as soon as possible and achieving the prosperous situation where a large number of users participate in purchase and transaction.
2. The Foundation will mobilise existing users to invite friends to join the community with rewards. At the same time, according to the target population and their characteristics, the Foundation will cooperate with KOL in these areas to promote ValPromise with their influence.
3. Through cross-industry collaboration, the Foundation will commit to addressing needs of traditional finance, insurance and the Internet finance companies with SDK and API in ValPromise. The cooperation will allow more organisations and individuals to join the ValPromise ecosystem to further enlarge and enliven the community.



# 6 ValPromise Team

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## 6.1 Core Team

The ValPromise team already has a portfolio of risk management and operated for years. The key members of the team have complementary backgrounds and outstanding capabilities for the operation. The core founding team includes:

- **Xiang Tao, Data Scientist**

Xiang Tao graduated from Chinese University of Hong Kong with a Master's of Information Engineering in 2011. He has founded two big data companies, HeXun Technology Company (to provide monitoring services of global satellite big data) and Weather Pal (to provide fully automated weather contract pricing and distributed services) and took the lead in developing two specialised areas of professional data service. He has a wealth of experience in acquisition, management and analysis in massive data, design and implementation of technical architecture and commercialising data.

Xiang Tao was interviewed by Focus Interview (the most authoritative program in China) and Forbes orderly because of his contributions in breaking the Western strategic data monopoly and creating new momentum for economic growth.

- **Jiao Zhen, Phd of Computer Science**

Jiao Zhen is an evaluate expert in National Natural Science Foundation and once worked in the Ministry of Industry and Information Technology, CAS (Chinese Academy

of Sciences) of Computing and so on. There are many projects presided with and participated in including National Natural Science Foundation, National Science and Technology, 10 more jointly researches in Fortune 500 companies. What's more, he was responsible for the formulation of two national standards of IOT and published 20 more academic papers on IOT and centerless networks in the international top journals and conferences.

- **Ivan Zhang, Senior Internet Product Specialist**

Ivan gained his Master degree from Fudan University. He has served sequentially in the largest mobile incentive advertising company in china, the largest network security company of China (Qihoo 360) and APUS Group which is the best overseas expansion company. He has rich experience in commercial products, Internet advertisements, mobile tools and cooperation with Key Account. The product responsible for him created over 100 million incomes annually and gained more than 1.5 billion users over the world. With a lot of experience on mobile Internet, Ivan takes charge of the platform design and implementation of ValPromise.

- **Shao Jun, Probability PhD (limit probability direction)**

Shao Xun, a financial mathematician, graduated from Paris Polytechnic University which is the cradle of a large number of mathematicians and physicists in human history. As the student of Professor Nicole El Karoui (the mother of contemporary of financial mathematics), he worked in derivatives pricing group in AXA AnSheng Insurance, Paris. He has rich experience and a solid academic accomplishment in derivatives design, pricing, risk management.

- **Wang Hui, Full-stack development engineer**

Graduated from Beijing University of Posts and Telecommunications, he worked for

Microsoft in China, MooterMedia and other well-known companies successively. During at Microsoft, he was responsible for the development of search engine technology and advertising algorithms. And at MooterMedia, the real-time bidding on advertising and data systems were in charge of her. Prior to joining the ValPromise team, as CTO and architect at a leading digital marketing company in China, Wang Hui was responsible for the design and implementation of 10 million daily live commercial products, accumulating richness in algorithms, big data and AI. He has gathered rich experience in the development of blockchain technology and formed a deep understanding of it since he started to enter the blockchain industry in 2015.

- **Eddie, Full stack development engineer**

Graduated from Dalian University of Technology, he worked in Alibaba, Taobao, Innovation Factory pea pods. During Alibaba, he was mainly responsible for algorithms and web development, and in Taobao was main direction for big data, high performance services, data consistency, network QoS and so on. Prior to joining ValPromise, Eddie served as a research and development leader at Innovations Farm Pea Pod, leading the Pea Pod Data and Algorithmic Group for technical research and development. In 2015, he started to contact the blockchain and accumulated the experience of mainstream digital currencies such as Bitcoin and Ethereum, as well as related blockchain technology.

## 6.2 Speak with strength

The experienced VPP team has the complete range of advantages to create performance (in contrast with some other teams temporarily formed to conduct a token sale), and their achievements in weather insurance include:

- **Members of the ValPromise team created the first financial technology firm in the**

**country specialising in weather risk management:** Wuhan DiWen Pal Information Co., Ltd. (weather Pal), which launched the online automated weather insurance service: Weather Pal.

- It has received support from well-known angel investors Wang Gang (DiDi, OfO and other star projects), Wu XiaoGuang (the founder of Tencent), and Investment A from Ming Shi Capital (well-known black technology investment funds), Ink technology (the largest public weather service company).
- The company is recognised as the first National High-tech Enterprise in the field of weather science and technology.



- It develops the industry's leading fully automated weather risk pricing & risk management system that enables real-time actuarial calculations of contracts for any location, time, and weather risk and ensures that all are controlled in a guaranteed contractual risk and operated automatically in the entire process. The existing services include precipitation protection services for tourist markets, storm protection contracts for agricultural markets, typhoon protection contracts, high or low temperature protection contracts for agricultural farming and typhoon precipitation protection contracts for service concerts.
- The monthly risk protection amount (the total amount of compensation that

**should be paid in the month when all the insurance contracts are triggered) exceeds 20 million yuan.** Since the business launched in September 2016, over 200,000 guarantee contracts have been issued and more than 10 service users have been accrued. These include tourism industry agencies, tourists, large-scale agricultural producers and the organisers of the show.

## 6.3 Advisors

- **Wang Lijie**, the famous block chain investor, founding partner of PreAngel Fund, executive director of China Youth Angels Association, executive director / executive director of Haitian Club and director of Beechat. The investment projects include NEO (ants), ants as technology, super-orangutans, founder PreAngel Fund in 2011. So far, he has managed more than 6 funds, over 300 million RMB, invested more than 260 start-ups in Beijing, Shanghai and Silicon Valley , New York, Los Angeles and other places, he always focuses on new IT, financial technology and medical innovation and other fields of start-ups.
- **Laowei Xin**, the visiting professor of Chinese University of Hong Kong, Industrial Technology Research Institute, Peking University Business School, Chairman of Qianhai International Block Chain Ecosystem Alliance, former member of the Innovation and Technology Fund Accreditation Committee of Hong Kong Special Administrative Region Government, and Asia Pacific Research Center of Harvard Business School Director, Senior Project Manager, Bell Labs. He owns 25 years' experience of IT venture capital in Hong Kong and the United States, which includes the Bobby block chain, CryptoBLK, iSoftStone, Asia Information.

## 6.4 Early supporters

- **Wang Gang**, the famous angel investor, former senior vice president of Alipay and now is the CEO of Yun Manman, Projects invested include DiDi, OFO, Yun Manman, Clothes 123, Xian Dian in their angel stage and achieved thousands times of return on investment for many times. It is worth mentioning that the investment of 700000 yuan for DiDi brought him over 10,000 times the return on investment.
- **Wu Xiaoguang**, the famous angel investor, the founder and the former senior VP of Tencent.

- **FutureCap**, was formally established in 2014 as a venture capital firm focused on early stage start-ups, focusing on new industries, artificial intelligence and big data, as well as its pioneering projects in technology-driven consumption, involving high-end manufacturing, service Industry, healthcare, education, hardware and enterprise services.
- **Moji Co**, founded in 2010, is a newly emerging mobile Internet company with the corporate philosophy of "extreme, responsibility and innovation" and "excellent weather service company". In six years, Moji has more than 500 million registered users, ranking the first camp of the major APP charts, and continue to occupy the location of weather software, has become one of the essential software for people's lives.

# 7

## Distribution of VPP

The Distributor of VPP shall be an affiliate of the Foundation. The Distributor shall issue a total amount of 5 billion VPP, with the distribution scheme described below.

The contributions in the token sale will be held by the Distributor (or its affiliate) after the token sale, and contributors will have no economic or legal right over or beneficial interest in these contributions or the assets of that entity after the token sale. To the extent a secondary market or exchange for trading VPP does develop, it would be run and operated wholly independently of the Foundation, the Distributor, the sale of VPP and ValPromise. Neither the Foundation nor the Distributor will create such secondary markets nor will either entity act as an exchange for VPP.

AMOUNT (Billion)	PROPORTION	ASSIGN OBJECTS	REMARKS
1.5	30%	Sale to suitable purchasers	Sale proceeds will be applied towards operations, including product development and operations, marketing and purchase for third-party service providers.
1.25	25%	Team, development/ operation team, constants team	To incentivise the VPP team or other individuals who contributed (such as valuable human resources, technical skills and expertise) to the development of ValPromise. 95% of this amount will be non-transferable, and made transferable in equal amounts monthly over 18 months.
1	20%	Market operation and promotion	To incentivise partnerships with the ValPromise ecosystem (such as promised issuers, promoters), open year by year.
0.75	15%	Block chain community	30 million VPP will be released monthly to users of ValPromise which

			had contributed to the community's development or provided various services, over a total period of 25 months.
0.5	10%	Random airdrops	For airdrops to holders of ETHs, BTCs and other digital tokens via external wallets, to introduce and encourage them to participate in the building and promotion of ValPromise's community.

## 8 the Financial Audit

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The ValPromise block chain team will annually engage third-party official registered auditors to audit and evaluate the use of funds, operating revenues and expenditures, profit distribution, etc. **The audit results will be announced to the public.**



# 9

## Roadmap

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The approximate schedule of the ValPromise project implementation is as follows:

- **In the early of Feb, 2018**

The VPP team will showcase the ValPromise project at roadshows and organise the token offering for VPP to appropriate purchasers.

- **By the end of Feb, 2018**

The Foundation will determine the release time of the first digital tokens trading system. The Foundation will promptly and accurately publicise information regarding the operation and system to the public.

- **In the middle of May, 2018**

The Foundation will complete the development of the first-generation application product in weather insurance scenario based on ETH

- **By the end of May, 2018**

ValPromise blockchain business system will be realised and we will bring the first application product in weather insurance scenario to live. And ValPromise' holders can participate in transactions in ValPromise.

- **In June 30, 2018**

Mobile products will be released

- **In August 30, 2018**

ValPromise's API interface for commodity futures and foreign exchange options business will be completed and launched, and the qualified commitments were fulfilled. The qualified issuers can release ValPromise contracts about the hooked commodity and futures or options of the FX price through ValPromise block chain system.

- **In November 2018**

ValPromise's blockchain business system will make everyone have the access to releasing promises build by trading system and trust with each other. It will allow everyone in the community to participate in the construction and optimisation of the public chain. At that time, the business layout will cover insurance, commodity futures, foreign exchange options scene and more.

- **In December 2018**

The Foundation will continue the operation of the ValPromise block chain system and improve public chain products, social services and revenue capabilities. Meanwhile, it is also significant for continuous capitalisation and information disclosure. For us, to become a popular block chain business application and increase steadily the value of VPP in the market is our goal.

# 10 Risks

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You acknowledge and agree that there are numerous risks associated with purchasing VPP, holding VPP, and using VPP for participation in ValPromise.

## 10.1 Uncertain Regulations and Enforcement Actions

The regulatory status of VPP and distributed ledger technology is unclear or unsettled in many jurisdictions. The regulation of virtual currencies has become a primary target of regulation in all major countries in the world. It is impossible to predict how, when or whether regulatory agencies may apply existing regulations or create new regulations with respect to such technology and its applications, including VPP and/or ValPromise. Regulatory actions could negatively impact VPP and/or ValPromise in various ways. The Foundation (or its affiliates) may cease operations in a jurisdiction in the event that regulatory actions, or changes to law or regulation, make it illegal to operate in such jurisdiction, or commercially undesirable to obtain the necessary regulatory approval(s) to operate in such jurisdiction.

## 10.2 Inadequate disclosure of information

As at the date hereof, ValPromise is still under development and its design concepts, consensus mechanisms, algorithms, codes, and other technical details and parameters may be constantly and frequently updated and changed. Although this white paper contains the most current information relating to ValPromise, it is not absolutely complete and may still be adjusted and updated by the VPP team from time to time. The VPP team has no ability and obligation to keep holders of VPP informed of every detail (including development progress and expected milestones) regarding the project to develop ValPromise, hence insufficient information disclosure is inevitable and reasonable.

## 10.3 Competitors

Various types of decentralised applications are emerging at a rapid rate, and the industry is increasingly competitive. It is possible that alternative networks could be established that utilise the same or similar code and protocol underlying VPP and/or ValPromise and attempt to re-create similar facilities. ValPromise may be

required to compete with these alternative networks, which could negatively impact VPP and/or ValPromise.

## **10.4 Loss of Talent**

The development of ValPromise depends on the continued co-operation of the existing technical team and expert consultants, who are highly knowledgeable and experienced in their respective sectors. The loss of any member may adversely affect ValPromise or its future development.

## **10.5 Failure to develop**

There is the risk that the development of ValPromise will not be executed or implemented as planned, for a variety of reasons, including without limitation the event of a decline in the prices of any digital asset, virtual currency or VPP, unforeseen technical difficulties, and shortage of development funds for activities.

## **10.6 Security weaknesses**

Hackers or other malicious groups or organisations may attempt to interfere with VPP and/or ValPromise in a variety of ways, including, but not limited to, malware attacks, denial of service attacks, consensus-based attacks, Sybil attacks, smurfing and spoofing. Furthermore, there is a risk that a third party or a member of the Foundation or its affiliates may intentionally or unintentionally introduce weaknesses into the core infrastructure of VPP and/or ValPromise, which could negatively affect VPP and/or ValPromise.

Further, the future of cryptography and security innovations are highly unpredictable and advances in cryptography, or technical advances (including without limitation development of quantum computing), could present unknown risks to VPP and/or ValPromise by rendering ineffective the cryptographic consensus mechanism that underpins that blockchain protocol.

## **10.7 Other risks**

In addition to the aforementioned risks, there are other risks (as more particularly set out in the Terms and Conditions) associated with your purchase, holding and use of VPP, including those that the Foundation cannot anticipate. Such risks may further materialise as unanticipated variations or combinations of the aforementioned risks. You should conduct full due diligence on the Foundation, its affiliates and the VPP team, as well as understand the overall framework and vision for ValPromise prior to purchasing VPP.

## Annex B

### Analysis

#### Meaning of "securities"

- At the outset, we note that the SFA contains several definitions of "securities". The two material definitions are set out below:

Section 2(1)	Section 239(1)
<p><i>"securities" means:</i></p> <p>(a) <i>debentures or stocks issued or proposed to be issued by a government;</i></p> <p>(b) <i>debentures, stocks or shares<sup>1</sup> issued or proposed to be issued by a corporation or body unincorporate;</i></p> <p>(c) <i>any right, option or derivative in respect of any such debentures, stocks or shares;</i></p> <p>(d) <i>any right under a contract for differences or under any other contract the purpose or pretended purpose of which is to secure a profit or avoid a loss by reference to fluctuations in:</i></p> <p style="padding-left: 40px;">(i) <i>the value or price of any such debentures, stocks or shares;</i></p> <p style="padding-left: 40px;">(ii) <i>the value or price of any group of any such debentures, stocks or shares; or</i></p> <p style="padding-left: 40px;">(iii) <i>an index of any such debentures, stocks or shares;</i></p> <p>(e) <i>any unit<sup>2</sup> in a collective investment scheme;</i></p> <p>(f) <i>any unit in a business trust [within the meaning of the Business Trusts Act, Chapter 31A of Singapore];</i></p> <p>(g) <i>any derivative of a unit in a business trust; or</i></p> <p>(h) <i>such other product or class of products as the Authority [i.e. the MAS] may prescribe,</i></p> <p><i>but does not include:</i></p>	<p><i>"securities" means:</i></p> <p>(a) <i>shares or units of shares of a corporation;</i></p> <p>(b) <i>debentures or units of debentures of an entity;</i></p> <p>(c) <i>interests in a limited partnership or limited liability partnership formed in Singapore or elsewhere; or</i></p> <p>(d) <i>such other product or class of products as the Authority may prescribe,</i></p> <p><i>but does not include such other product or class of products as the Authority may prescribe as not being securities;</i></p>

<sup>1</sup> The term "share" means shares in the share capital of a corporation and includes stock except where a distinction between stocks and shares is expressed or implied.

<sup>2</sup> A "unit", when used in the context of a collective investment scheme, means a right or interest (however described) in a collective investment scheme (whether or not constituted as an entity), and includes an option to acquire any such right or interest in the collective investment scheme).

<p>(i) <i>futures contracts which are traded on a futures market;</i></p> <p>(ii) <i>bills of exchange;</i></p> <p>(iii) <i>promissory notes;</i></p> <p>(iv) <i>certificates of deposit issued by a bank or finance company whether situated in Singapore or elsewhere; or</i></p> <p>(v) <i>such other product or class of products as the Authority may prescribe as not being securities;</i></p>	
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2. Pursuant to the Securities and Futures (Prescribed Securities) Regulations 2012, various real estate investment trust (**REIT**) related securities have also been prescribed as "securities" (which do not appear relevant for the purposes of this opinion).
3. The definitions of the terms "shares", "debenture" and "collective investment scheme", which are referred to in the definitions of "securities", are relevant for the purpose of this analysis. The other categories of instruments / relationships which would be categorised as securities, such as rights, options or derivatives, contracts for difference, units in a business trust (or its derivative), or interests in partnerships, are not relevant for the purpose of this analysis and VPP would not constitute any of these.

*Meaning of "debenture"*

4. Section 2(1) of the SFA provides that:

*"debenture", except for the purposes of Part XIII [of the SFA, relating to offers of investments], includes any debenture stock, bond<sup>3</sup>, note and any other debt securities issued by a corporation or any other entity, whether constituting a charge or not, on the assets of the issuer but does not include:*

  - (a) *a cheque, letter of credit, order for the payment of money or bill of exchange; or*
  - (b) *for the purposes of the application of this definition to a provision of [the SFA] in respect of which any regulations made thereunder provide that the word "debenture" does not include a prescribed document or a document included in a prescribed class of documents, that document or a document included in that class of documents, as the case may be,"*
5. Section 239(1), Part XIII of the SFA presently contains a similar definition, but with an additional carve-out for promissory notes as follows:

*"debenture" includes any debenture stock, bonds, notes and any other debt securities issued by a corporation or any other entity, whether constituting a charge on the assets of the issuer but does not include:*

  - (a) *a cheque, letter of credit, order for the payment of money or bill of exchange; or*

<sup>3</sup> A "bond", which would be considered a debenture, is defined (in the Securities and Futures (Licensing and Conduct of Business) Regulations, issued pursuant to the SFA) as including:

- a. any note, bond or Treasury Bill (issued pursuant to the Local Treasury Bills Act (Chapter 167 of Singapore));
- b. an option in respect of any note, bond or Treasury Bill; and
- c. such other securities or class of securities as the MAS may from time to time, by a guideline issued by the MAS, determine.

- (b) *subject to the regulations made under [the SFA], a promissory note having a face value of not less than \$100,000 and having a maturity period of not more than 12 months; or*
  - (c) *for the purposes of the application of this definition to a provision of [the SFA] in respect of which any regulations made thereunder provide that the word "debenture" does not include a prescribed document or a document included in a prescribed class of documents, that document or a document included in that class of documents, as the case may be,".*
6. However, pursuant to the Securities and Futures (Amendment) Act 2017, passed on 9 January 2017 (the **SFA Amendment Act**), the second definition of "debenture" (in section 239(1) of the SFA) has been deleted. This, in effect, means that the promissory note exception has been removed. While the SFA Amendment Act has been passed, it is not yet in force.
7. In addition, it should also be noted that under section 239(3) of the SFA, it is stated that:
- "For the purposes of this Division [i.e. Division 1 – Shares and Debentures – of Part XIII]:*
- (a) *any invitation to a person to deposit money with or to lend money to an entity shall be deemed to be an offer of debentures of the entity; and*
  - (b) *any document that is issued or intended or required to be issued by an entity acknowledging or evidencing or constituting an acknowledgment of the indebtedness of the entity in respect of any money that is or may be deposited with or lent to the entity in response to such an invitation shall be deemed to be a debenture."*

**Meaning of "collective investment scheme"**

8. At present, the term "collective investment scheme" under the SFA means:
- (a) an arrangement in respect of any property:
    - (i) under which:
      - (A) the participants do not have day-to-day control over the management of the property, whether or not they have the right to be consulted or to give directions in respect of such management; and
      - (B) the property is managed as a whole by or on behalf of a manager;
    - (ii) under which the contributions of the participants and the profits or income from which payments are to be made to them are pooled; and
    - (iii) the purpose or effect, or purported purpose or effect, of which is to enable the participants (whether by acquiring any right, interest, title or benefit in the property or any part of the property or otherwise):
      - (A) to participate in or receive profits, income, or other payments or returns arising from the acquisition, holding, management or disposal of, the exercise of, the redemption of, or the expiry of, any right, interest, title or benefit in the property or any part of the property; or
      - (B) to receive sums paid out of such profits, income, or other payments or returns; or
  - (b) an arrangement which is an arrangement, or is a class or description of arrangements, specified by the MAS as a collective investment scheme by notice published in the Gazette.
9. The following are not considered collective investment schemes under the SFA (each an **Excluded Arrangement**):
- (a) an arrangement operated by a person otherwise than by way of business;

- (b) an arrangement under which each of the participants carries on a business other than investment business and enters into the arrangement solely incidental to that other business;
  - (c) an arrangement under which each of the participants is a related corporation of the manager;
  - (d) an arrangement made by or on behalf of an entity solely for the benefit of persons, each of whom is:
    - (i) a bona fide director or equivalent person, a former director or equivalent person, a consultant, an adviser, an employee or a former employee of that entity or, where that entity is a corporation, a related corporation of that entity; or
    - (ii) a spouse, widow or widower, or a child, adopted child or step-child below the age of 18 years, of such director or equivalent person, former director or equivalent person, employee or former employee;
  - (e) an arrangement made by or on behalf of 2 or more entities solely for the benefit of persons, each of whom is:
    - (i) a bona fide director or equivalent person, a former director or equivalent person, a consultant, an adviser, an employee or a former employee of any of those entities or, where any of those entities is a corporation, a related corporation of the entity which is a corporation; or
    - (ii) a spouse, widow or widower, or a child, adopted child or step-child below the age of 18 years, of such director or equivalent person, former director or equivalent person, employee or former employee;
  - (f) a franchise;
  - (g) an arrangement under which money received by an advocate and solicitor from his client, whether as a stakeholder or otherwise, acting in his professional capacity in the ordinary course of his practice, or under which money is received by a statutory body as a stakeholder in the carrying out of its statutory functions;
  - (h) an arrangement made by any co-operative society registered under the Co-operative Societies Act (Chapter 62 of Singapore) in accordance with the objects thereof solely for the benefit of its members;
  - (i) an arrangement made for the purposes of any chit fund permitted to operate under the Chit Funds Act (Chapter 39 of Singapore);
  - (j) an arrangement arising out of a life policy within the meaning of the Insurance Act (Chapter 142 of Singapore);
  - (k) a closed-end fund (see below) constituted either as an entity or a trust; or
  - (l) an arrangement which is an arrangement, or is of a class or description of arrangements, specified by the MAS as not constituting a collective investment scheme by notice published in the Gazette.
10. A "closed-end fund", as referred to above, means an arrangement referred to in paragraph (a) or (b) in the definition of "collective investment scheme" in paragraph 8 above, under which units that are issued are exclusively or primarily non-redeemable at the election of the holders of units, but does not include:
- (a) an arrangement referred to in paragraph (a) of that definition:



- (i) which is a trust;
  - (ii) which invests primarily in real estate and real estate-related assets specified by the MAS in the Code on Collective Investment Schemes; and
  - (iii) all or any units of which are listed for quotation on a securities exchange; or
- (b) an arrangement referred to in paragraph (a) of that definition which is, or which belongs to a class or description of arrangements which is, specified by the MAS, by notification published in the Gazette, to be an arrangement that is not a closed-end fund, or a class or description of arrangements that are not closed-end funds, as the case may be. In this regard, the MAS (by way of the Securities and Futures (Closed-End Fund) (Excluded Arrangements) Notification 2013) has specified that an arrangement referred to in paragraph (a) of the definition of "collective investment scheme" which has all the following characteristics, is specified to be an arrangement that is not a closed-end fund:
  - (i) the arrangement is constituted on or after 1st July 2013;
  - (ii) all or most of the units issued under the arrangement cannot be redeemed at the election of the holders of the units;
  - (iii) under the investment policy of the arrangement, investments are made for the purpose of giving participants in the arrangement the benefit of the results of the investments, and not for the purpose of operating a business;
  - (iv) the arrangement has one or more of the following characteristics:
    - (A) the investment policy of the arrangement is clearly set out in a document that is provided to each participant in the arrangement before, or at the time, the participant invests in the arrangement;
    - (B) there is a contractual relationship between the entity in which the investments are made and every participant in the arrangement, which requires the entity to comply with the investment policy, as amended from time to time, of the arrangement;
    - (C) the investment policy of the arrangement sets out the types of authorised investments, and the investment guidelines or restrictions, that apply to the arrangement.

11. The SFA Amendment Act has also amended the above definition. In summary:

- (a) whereas the current definition of collective investment scheme covers arrangements in respect of property that satisfies all the following elements – (i) participants have no day-to-day control over the management of the property (the “control limb”); (ii) property is managed as a whole by the manager (the “management limb”); (iii) participants’ contributions, profits or income are pooled (the “pooling limb”); and (iv) the purpose or effect (or purported purpose or effect) of the arrangement is to enable participants to participate in profits arising from the scheme property (the “purpose limb”) – the pooling limb is now no longer essential for an arrangement to be considered a collective investment scheme and it is now sufficient that the control limb and either the management limb or the pooling limb are present for the arrangement to be a collective investment scheme;
- (b) the purpose limb will be met whether or not the purpose, purported purpose or purported effect is realised, or whether or not the arrangement provides for the participants to receive any benefit other than such profits, income or other payments or returns in the event the purpose, purported purpose or purported effect is not realised;
- (c) the following would not be considered a collective investment scheme:
  - (i) an arrangement where the whole amount of each participant’s contribution is a deposit (as defined in the Banking Act (Chapter 19 of Singapore)) (the **Banking Act**); and

- (ii) an arrangement of which the predominant purpose is to enable participants to share in the use or enjoyment of the property or to make its use or enjoyment available gratuitously to others and where the property does not consist of any currency, capital markets products (as such terms is defined in the SFA, which would include securities), any life insurance policy, any deposit (as defined in the Banking Act) or any credit facilities (as defined in the Banking Act); and
- (d) the definition of "closed-end fund" was also amended to clarify the requirements under paragraph (a) of that definition (as to when an arrangement that invests in real estate would not be considered a closed-end fund).

## Analysis

12. Besides the statutory provisions, statements made by the MAS in relation to the definitions of "debentures", "collective investment schemes" and "digital tokens" are instructive.
13. In a statement made on 1 August 2017 ("MAS clarifies regulatory position on the offer of digital tokens in Singapore"), the MAS observed that:

*"...the function of digital tokens has evolved beyond just being a virtual currency. For example, **digital tokens may represent ownership or a security interest over an issuer's assets or property. Such tokens may therefore be considered an offer of shares or units in a collective investment scheme** [including under the revised definition of a collective investment scheme proposed in the in the Enhanced Safeguards Consultation Paper] **under the SFA. Digital tokens may also represent a debt owed by an issuer and be considered a debenture** under the SFA." (emphasis added)*

Further, in "A Guide to Digital Token Offerings" (published on 14 November 2017), the MAS has stated that offers or issues of digital tokens may be regulated by the MAS if the digital tokens are capital markets products, citing the following as (non-exhaustive) examples of capital markets products that a digital token may constitute:

- (a) a share, where it confers or represents ownership interest in a corporation, represents liability of the token holder in the corporation, and represents mutual covenants with other token holders in the corporation *inter se*;
  - (b) a debenture, where it constitutes or evidences the indebtedness of the issuer of the digital token in respect of any money that is or may be lent to the issuer by a token holder; or
  - (c) a unit in a collective investment scheme, where it represents a right or interest in a collective investment scheme, or an option to acquire a right or interest in a CIS.
14. In the "Consultation Paper on Proposals to Enhance Regulatory Safeguards for Investors in the Capital Markets" issued by the MAS dated 21 July 2014 (the **Enhanced Safeguards Consultation Paper**), the MAS described debentures as:

*"2.1 Debentures are debt securities regulated under the SFA. Broadly, debentures are **instruments representing indebtedness**. These are **capital-raising instruments**, under which the **debenture issuer offers to pay interest in lieu of money borrowed for a certain period**. These may be:*

- (i) *unsecured – backed by general creditworthiness of the debenture issuer; or*
- (ii) *secured – backed by assets, which the debenture holder would have legal claim to if the issuer defaults on its payment obligations under the debenture. Examples include asset-backed securities and collateralised debt obligations." (emphasis added).*

15. In the Enhanced Safeguards Consultation Paper, the MAS contrasted debentures with buy-back arrangements, in particular, of non-financial assets, which are considered normal economic transactions, entered into in the ordinary course of business, examples of which include arrangements allowing consumers to trade-in products after use for a portion of the initial purchase price, or where the purchaser has the right to sell the product back to the seller at the prevailing market price in future.
16. The above was in the context of the (then proposed) regulation of buy-back arrangements involving precious metals (gold, silver and platinum). In its September 2015 response to the Enhanced Safeguards Consultation Paper, the MAS announced that the regulatory regime for debentures under the SFA (and Financial Advisers Act, Cap 110) would extend to arrangements which display the following characteristics as debentures:
- (a) Buy-back structure – Party A purchases gold, silver or platinum ("precious metals") from Party B for an agreed sum of money or money's worth, with Party B being under an obligation to re-purchase the precious metal back from Party A at a future time; and
  - (b) Debenture effect – The purpose or effect of the arrangement is to enable Party A to receive a "financial benefit" from Party B. The main risk that Party A is exposed to is the credit risk of Party B, and not fluctuations in market value of the asset.
17. As to the requirement and interpretation of "financial benefit", it was stated in the Enhanced Safeguards Consultation Paper that the "*right to receipt of a financial benefit **must be agreed upon at the point in time that the parties enter into the arrangement, although the actual amount received may vary according to pre-determined factors*** [including where the pre-determined factors move against Party A such that at the end of the transaction, Party A is in a net financial loss position]" (emphasis added). Examples provided by the MAS of commercial transactions where there would not be deemed to be a financial benefit would include trading contracts, storage contracts, consignment arrangements and sale and lease-back arrangements, whereas there would be a financial benefit where the effective re-purchase price that Party B agreed to pay for buy-back at the time the arrangement is entered into is higher than the initial purchase price that Party A paid for the asset.
18. At this juncture, it is worthwhile to note that it does not appear to us that the design of VPP, in itself (as described in Annex A), results in any stocks or shares in the Company or its affiliates being issued or subscribed for. It is expressly stated that VPP does not represent any shareholding, participation, right, title, or interest in the Company or any other company, enterprise or undertaking. Once issued, it does not appear that holders of VPP incur any liability to the Company (or any other company, enterprise or undertaking), nor do they enter into mutual covenants, or agree to rights and obligations, with other VPP holders *inter se*. Consequently, it is unlikely that there would be any dealing in "securities" in the form of stocks or shares arising solely out of the design of VPP in itself.
19. As to whether VPP may be considered to be a debenture, VPP does not appear to be a "debenture" under the SFA for the following reasons:
- (a) the sale of VPP is non-refundable and VPP cannot be exchanged for cash (or its equivalent value in any other virtual currency) or any payment obligation by the Company or any affiliate;
  - (b) VPP is not a loan to the Company or any of its affiliates and there is no expectation of profit;
  - (c) VPP is not intended to represent a debt owed by the Company or any of its affiliates (and in this regard there does not appear to be any payment obligation on the part of the issuer, payment of coupon and/or invitation to deposit money with or to lend money to the Company or any of its affiliates);

- (d) VPP may have no value and there is no guarantee or representation of value or liquidity for VPP; and
- (e) VPP may only be utilised on ValPromise, when fully completed and deployed, as a unit of exchange for valuable services provided in the ecosystem on ValPromise (e.g. VPP will be paid for exchange, issuance, mortgage and settlement, transaction fees, deposits, and to settle value promise contracts).

For completeness, we would mention that VPP does not appear to constitute a buy-back arrangement as the sale of VPP is non-refundable.

#### Analysis of the token issuer's activity under the current definition of "collective investment scheme"

20. In relation to collective investment schemes, in the Frequently Asked Questions Specific to Collective Investment Schemes issued by the MAS (the **CIS FAQs**) a collective investment scheme is an arrangement where money from investors is pooled together with a view to deriving profits or income from the scheme. The scheme may invest in all kinds of assets, be they financial, real estate, precious metals or commodities. Whether or not exotic schemes (such as commodity investment schemes and schemes which involve virtual currencies or some other digital token) fall within the scope of that definition depends on the structure of each scheme. Where money invested in the scheme and profits or income from it are pooled, the scheme would be subject to the MAS' approval process. If a commodity is sold directly and separately to individuals, such sales would not be subject to any regulation. Schemes whose objectives are not to generate profit or income but for consumption (e.g. time-sharing schemes and memberships in golf or country clubs) would not fall within the regulatory scope of collective investment schemes under the SFA.

In the Enhanced Safeguards Consultation Paper, the MAS further mentioned that it:

"...has observed a number of arrangements offered to retail investors that fall out of the statutory definition of a CIS [i.e. collective investment scheme], simply by offering investors direct interests in underlying physical assets. This is in spite of an arrangement providing that while investors obtain legal title of the asset, they will cede day-to-day control over management of their property to the scheme operator to be managed collectively with assets of other scheme participants, for the purpose of enabling them to participate in profits of the scheme (**collectively-managed investment schemes**).

The key distinguishing characteristic of such schemes is that investors' contributions are not initially pooled. Apart from this, such collectively-managed investment schemes do not differ from regulated CIS...". MAS has announced plans to extend the scope of collective investment schemes to include schemes which are in substance similar to traditional regulated investment funds but do not pool investor's contributions. The proposed legislative amendments have, in fact, been passed by way of the SFA Amendment Act.

21. The above suggests that currently, an arrangement would fall outside the scope of regulation if the factual matrix indicates that (a) there is no initial pooling of assets, or (b) there is no expectation of deriving profits or income from the scheme.
22. From the various pronouncements from the MAS, it appears that the MAS is shifting its focus towards the fundamental purpose of transaction, and this should be analyzed in detail. A "utility" token by itself, once issued, with genuine functionality and circulating on its network, would rarely be construed as a "security". In the present case and under the current definition, it does not appear that the design of VPP, in itself, would be construed as a collective investment scheme.
23. For the following reasons, the management and control limbs of the definition of a collective investment scheme are not fulfilled:
  - a. Contributions are not "managed" for the purpose of generating returns or other benefits (pooled or otherwise) to be paid to VPP token holders, but it is expressly indicated that

contributions will be applied towards, *inter alia*, promoting the research, design and development of, and advocacy for a fully trusted, more efficient and cost-effective collaboration system for global risk management which would empower regular individuals and organisations to easily find risk-hedging contracts and services tailored to their individual needs;

- b. the whitepaper states that none of the Company and/or the team members shall be responsible for or liable for the value or liquidity of VPP;
- c. we understand that there is no promise by the Company or any of its affiliates to pool, manage any asset and/or return contributions to contributors to the project;
- d. there does not appear to be any economic benefit, beneficial interest or legal title conferred on contributors over any property, and VPP will not entitle token holders to any promise of fees, revenue, profits or investment returns;
- e. the nature of digital tokens is that they are inherently transferable to other parties, and the mere fact (or even any hope) that VPP may be resold at a price that is potentially higher than the original purchase price does not change the fact that the intention and goal of the token sale is so that VPP can be consumed by purchasers. In this regard, purchasers are required to acknowledge that they are purchasing VPP to participate in ValPromise and to obtain services on ValPromise; and
- f. even if VPP holders are able to obtain additional VPP, this would not occur through the action or activities of any person or manager, but only through that token holder's participation in the ecosystem on ValPromise (e.g. writing of value promise contracts).

24. It should be noted that the law in this space is developing rapidly and we expect that the definition of "collective investment scheme" will be amended in time to come. To this end, the MAS has issued the "Response to Feedback Received – Proposals to Enhance Regulatory Safeguards for Investors in the Capital Markets" dated 22 September 2015 (the **Response to the Enhanced Safeguards Consultation Paper**), in response to the Enhanced Safeguards Consultation Paper and the SFA Amendment Act (which has been passed) has proposed certain amendments to the definition of "collective investment scheme". Among other things, the MAS proposed that the definition of "collective investment scheme" be amended (which is further discussed at paragraph 26 of this Annex B below). The MAS' response is also noteworthy because of its discussion of the meanings of the "management" and "control" limbs found in the definition of "collective investment scheme", which may be summarised as follows:

- a. in relation to the "management" limb, whether there is management "as a whole" will depend on the investment objectives of the arrangements and the collective or individual nature of the arrangements made in order to produce the intended profits. Indications of whether there is collective management appear to be:
  - i. whether the scheme operator is likely to look after the essential profit-generating activity under the instructions of, or at least in consultation with, individual owner/investors, or whether it may do so without having regard to individual investors' interests or preferences; and/or
  - ii. whether management on an individual basis is likely to be impracticable – e.g. even where returns are generated from ownership rights to specific property, the returns are generated as a result of the operators' management of activities collectively on the property as a whole; and
- b. in relation to the "control" limb, the MAS is of the view that for investors to be considered as having day-to-day control, they should have direct and on-going power to decide on operational matters relating to management of the scheme property. The greater the extent of reliance on the particular scheme operator's professed expertise in managing the scheme property, the less likely it is that investors have effective day-to-day control. It is also significant that the MAS considers that "if expectations created between the

parties in the arrangement are such that investors would not be involved in the day-to-day management of the property, having contractual rights to be consulted on or to give the manager direction from time to time will not be considered as effective day-to-day control" (emphasis added).

While this discussion was in the context of a proposed amendment of the current definition of "collective investment scheme", it nevertheless remains relevant to, and instructive in relation to, the current definition, because the statutory wording applicable to these limbs is found in the existing definition and does not appear to change with the proposed amendment to such definition. We would mention that the MAS has issued a further "Response to Feedback Received on Amendments to the Securities and Futures Act and related regulations to implement Proposals to Enhance Regulatory Safeguards for Investors in the Capital Markets" on 7 November 2016 but this further document does not alter the position set out in the Response to the Enhanced Safeguards Consultation Paper.

25. Based on our understanding of the token issuer's activities relating solely to the ITO for VPP set out in Annex A, it appears that the element of pooling of contributions and profits, which is required for an arrangement to fall within the current definition of a collective investment scheme, is not present for the following reasons:
- a. the contributions are pooled but there is no promise of any profit or return on the contributions back to the contributors (i.e. the sale of VPP is non-refundable and VPP cannot be exchanged for cash or any payment obligation); and
  - b. the contributions will be held by a separate entity after the ITO and contributors will have no economic or legal right over or beneficial interest in these contributions or the assets of that entity after the ITO.
26. Our view is that the design of VPP, in itself, will not be considered the operation of a collective investment scheme even after the proposed amendments to the definition come into effect. The relevant excerpts from the Response to the Enhanced Safeguards Consultation Paper are set out below:
- a. the MAS' intent is to extend capital markets regulatory safeguards to investors in arrangements which are in substance made and managed on a collective basis and hence pose similar risks to investors as traditional collective investment schemes. In particular, the MAS has noted that a number of such schemes currently avoid regulation as a collective investment scheme by offering investors direct legal title to individual assets (i.e. no pooling of investors' contributions). Nonetheless, investors' assets are effectively managed collectively by a third party such that their payoff is the same as the payoff that they would have obtained had their contributions been pooled; and
  - b. the MAS is of the view that no pooling of investors' contributions or the profits of a scheme is necessary for a scheme to be caught as a collective investment scheme. MAS will move to amend the definition of "collective investment scheme" such that the "management" limb will be an alternative to the "pooling" limb. The two limbs are to be assessed independently of each other, and the absence of the pooling of contributions or profits will not preclude a finding that there is management as a whole.
27. Given the above, the MAS is working on expanding the collective investment scheme regulatory regime to also cover collectively-managed investment schemes (as referred to in paragraph 20 of this Annex B, i.e. where the management and pooling limbs are in the alternative). In this regard, the SFA Amendment Act has been passed. In principle and in substance, if there is no change to the requirement for an element of "profit", hence for the reasons set out at paragraph 25, it is not likely that the design of VPP, in itself, will be considered the operation of a collective investment scheme even after the proposed amendments to the definition (assuming they are carried out as discussed) come into effect.
28. There is a potential residual risk that pursuant to the powers granted under section 2(1)(h) of the SFA, the MAS may prescribe virtual currencies / digital tokens to be "securities" for the

purpose of the SFA. However we would mention that as at the date hereof, there is no indication that the MAS intends to exercise its power to make such a declaration. Public statements released by the MAS have indicated that it would avoid taking such a broad brush approach towards the regulation of virtual currencies / digital tokens.

29. For completeness, we will briefly consider whether any of the Excluded Arrangements will apply to the design of VPP, in itself, such as to take it out of the scope of regulation. For the present fact pattern, the only Excluded Arrangement that appears relevant is that of a "closed-end fund" (as referred to in paragraph 10 of this Annex B). According to the CIS FAQs, closed-end funds such as venture capital funds and private equity funds would not fall to be regulated under the SFA.
30. The key characteristic of a closed-end fund is that units in such a collective investment scheme are not redeemable at the option of the investor. Closed-end funds typically take the form of investments in the shares of an investment company (such that the investor may not realise its investment until the shares have been redeemed) – for such closed-end funds though, because shares of a company are involved, this may trigger prospectus requirements under the SFA's regime in respect of offers of shares or debentures. One further important requirement is that the closed-end fund must be constituted as an entity or trust in order to qualify as an Excluded Arrangement.
31. It is unlikely that the investment arrangement offered (if applicable) may be deemed to be a closed-end fund because in the first place, for the reasons set out above, it is not likely that the design of VPP, in itself, will be considered the operation of a collective investment scheme. Further, we note that between the contributors and the entity holding the contributions, there is no contractual obligation which indicates that the contributors have any type of claim to the contributions after the token sale.
32. To date, it is unclear whether the scope of Excluded Arrangements will be amended following the amendment of the definition of "collective investment scheme" under the SFA, or in view of the MAS' "Consultation Paper on Facilitating Securities-Based Crowdfunding" (the **Crowdfunding Consultation Paper**) issued on 16 February 2015 (consultation on which has since been closed). The later issued Response to Feedback received on Facilitating Securities-Based Crowdfunding issued by the MAS on 8 June 2016 (the **Response to the Crowdfunding Consultation Paper**) and the SFA Amendment Act which has been passed however does not appear to propose to expand the scope of Excluded Arrangements.
33. Considering the factors in their entirety, our view is that the design of VPP (as set out in Annex A), in itself, would not be considered the operation of a collective investment scheme, the management of which (in the context of the authorisation requirements for a collective investment scheme – see Appendix II), or dealing of interests in which, would trigger an obligation to obtain a CMS licence.

#### Conclusion as to whether VPP would constitute a security under the SFA

34. For the various reasons set out above, the design of VPP would, on balance, not cause VPP to be deemed a "security" under section 2(1) or 239(1) of the SFA.
35. It is however important to note that even if VPP would not be considered a security by design, it may be considered in a security in the manner in which it was sold, and/or how it is treated. Where VPP is eventually sold and held by purchasers for investment purposes, there is an increased risk that VPP will be considered a security.

#### Exemptions

36. For completeness, we now turn to consider the various exemptions from the CMS licensing requirement.

37. While there is a general exemption available to financial institutions (e.g. banks) that are regulated by the MAS, specific exemptions also apply to certain categories of persons carrying on business in regulated activities.
38. The criteria to qualify for such exemption from the requirement to obtain a CMS licence applicable to dealing in securities is set out in Appendix I of this Annex B. Based on our understanding of the design of VPP (even if the Company or its affiliates were considered to be operating a collective investment scheme) the relevant entities at present would not qualify for any of these exemptions.
39. Presently, there are no specific exemptions or exclusions under the SFA for activities relating to virtual currencies or for companies dealing with virtual currencies (except to the extent that such activities do not fall within the scope of any of the regulated activities). It is unclear if any new exemptions will be introduced, but it is likely that it will be some time before such exemptions would come into effect (if at all).



## Appendix I

### Exemptions from the requirement to obtain a CMS licence in respect of dealing in securities

1. In relation to the regulated activity of dealing in securities, each of the following persons is exempted from the requirement to hold a CMS licence for such dealing, subject to the conditions and restrictions specified:
  - a. a person carrying on business in dealing in securities for his own account, or an account belonging to and maintained wholly for the benefit of a related corporation, and with or through:
    - i. the holder of a CMS licence to deal in securities;
    - ii. a bank licensed under the Banking Act (Chapter 19 of Singapore) (the **Banking Act**);
    - iii. a merchant bank approved as a financial institution under the Monetary Authority of Singapore Act (Chapter 186 of Singapore) (the **MAS Act**);
    - iv. a bank licensed, registered, approved or otherwise regulated under the laws of a jurisdiction outside Singapore to conduct banking business, but only in relation to securities that are not quoted on a securities exchange;
    - v. a corporation or firm licensed or registered to carry on business in dealing in securities under the laws of a jurisdiction outside Singapore, but only in relation to securities that are not quoted on a securities exchange; or
    - vi. the Central Depository (Pte) Ltd pursuant to its securities borrowing and lending facility;
  - b. a person whose dealing in securities is solely incidental to his carrying on business in:
    - i. fund management;
    - ii. providing custodial services for securities; or
    - iii. securities financing;
  - c. an investment company when dealing in securities solely in connection with its acting as an underwriter or sub-underwriter of the issue of those securities for its own account;
  - d. the Central Depository (Pte) Ltd in respect of its dealing in securities:
    - i. that is solely incidental to its business of providing depository services for securities; or
    - ii. that is done by reason only of its entering into a transaction pursuant to its securities borrowing and lending facility, and in compliance with conditions specified in writing by the MAS;
  - e. a person when carrying on business in dealing in bonds with:
    - i. an accredited investor (please refer to Appendix III for definition); or
    - ii. a person whose business involves the acquisition and disposal of or holding of securities (whether as principal or agent);
  - f. a corporation when subscribing for securities on behalf of a customer as nominee, provided that such corporation:
    - i. has no interest in the securities subscribed for other than as a bare trustee; and
    - ii. is a wholly-owned subsidiary of:
      - (A) the holder of a CMS licence to deal in securities;
      - (B) a bank licensed under the Banking Act;

- (C) a merchant bank approved as a financial institution under the Monetary Authority of Singapore Act;
  - (D) a finance company licensed under the Finance Companies Act (Chapter 108 of Singapore);
  - (E) a securities exchange (as defined in the SFA);
  - (F) an exchange holding company (as defined in the SFA); or
  - (G) a clearing house (as defined in the SFA);
- g. a person approved by the MAS when, pursuant to the establishment and promotion of an aircraft leasing business in Singapore, he deals in the shares of a special purpose corporation with:
- i. a bank licensed under the Banking Act, a merchant bank approved as a financial institution under the MAS Act, or such other financial institution as may be approved by the MAS; or
  - ii. a corporation with total net assets exceeding \$10 million in value or its equivalent in value in a foreign currency as determined in accordance with the most recent audited balance-sheet of the corporation or, in the case of a corporation which is not required to prepare audited accounts, a balance-sheet certified by the corporation as giving a true and fair view of the state of affairs of the corporation as at the end of the period to which it relates, (referred to in this sub-paragraph as a designated institution) if, and only if, such dealing in shares is subject to a prohibition that the designated institution may not subsequently dispose of the shares of the special purpose corporation except to another designated institution;
- h. a trustee of a "qualified arrangement" (which term refers to certain prescribed arrangements under the SFA) in respect of securities whose dealing in securities is solely incidental to the management and administration of such arrangement;
- i. a designated market-maker when carrying on business in dealing in designated securities for its own account or for the account of any of its related corporations;
- j. a financial adviser licensed under the Financial Advisers Act (Chapter 110 of Singapore) (the **FAA**), or a person exempted under section 23 or 100 of the FAA in respect of the marketing of any collective investment scheme, when marketing, or redeeming units of, any collective investment scheme; and
- k. any responsible person (a "responsible person", in relation to a collective investment scheme, means (i) in the case of a scheme which is constituted as a corporation, the corporation, or (ii) in the case of a scheme which is not constituted as a corporation, the manager for the scheme) for a collective investment scheme:
- i. that is authorised under section 286 of the SFA;
  - ii. that is recognised under section 287 of the SFA; or
  - iii. where the units of the scheme have been, is or will be, offered in reliance on an exemption under Subdivision (4) of Division 2 of Part XIII of the SFA, in respect of his dealing in securities being:
    - (A) units of that scheme or the underlying securities that comprise the investment of funds under that scheme, provided that such responsible person is also the holder of a capital markets services licence, or an exempt person, in respect of fund management; or
    - (B) units of that scheme, provided that the dealing is effected through any of the following persons:
      - (BA) the holder of a CMS licence to deal in securities;

- (BB) an exempt person in respect of dealing in securities being units of any collective investment scheme;
- (BC) a financial adviser licensed under the FAA to market collective investment schemes; or
- (BD) an exempt financial adviser as defined in the FAA in respect of marketing of collective investment schemes.

## **Appendix II**

### **Authorisation Requirements in relation to Offers of Collective Investment Schemes and Exemptions**

#### Authorisation Requirements

1. Offers of investments in collective investment schemes are regulated under Division 2 of Part XIII of the SFA.
2. Section 285 of the SFA states that no person shall make an offer of units in a collective investment scheme if it has not been authorised under section 286 of the SFA or recognised under section 287 of the SFA. A person makes an offer of units in a collective investment scheme if, and only if, as principal:
  - a. he makes (either personally or by an agent) an offer to any person in Singapore which upon acceptance would give rise to a contract for the issue or sale of those units by him or another person with whom he has made arrangements for that issue or sale; or
  - b. he invites (either personally or by an agent) any person in Singapore to make an offer which upon acceptance would give rise to a contract for the issue or sale of those units by him or another person with whom he has made arrangements for that issue or sale.
3. Authorisation under Section 286 of the SFA is required for collective investment schemes constituted in Singapore and would be the relevant approval framework in the present case (the recognition framework applies to collective investment schemes which are constituted outside Singapore). Contravention of this requirement is a criminal offence which, upon conviction, would be punishable by a fine not exceeding S\$150,000 or to imprisonment for a term not exceeding 2 years or to both and, in the case of a continuing offence, to a further fine not exceeding S\$15,000 for every day or part thereof during which the offence continues after conviction.
4. It should be noted that a licensing and "fit and proper" requirement applies to the manager of a collective investment scheme seeking authorisation. In this regard, it is a condition for the authorisation of a collective investment scheme that:
  - a. the manager of the scheme is:
    - i. in the case of a collective investment scheme (A) that is a trust, (B) that invests primarily in real estate and real estate-related assets specified by the MAS in the Code on Collective Investment Schemes, and (C) all or any units of which are listed for quotation on a securities exchange (i.e. a REIT), a holder of a CMS licence for real estate investment trust management; and
    - ii. in all other cases, a holder of a CMS licence for fund management or a person who qualifies for any of the relevant exemptions in respect of fund management; and
  - b. the manager of the scheme is a fit and proper person in the opinion of the MAS (guidelines on the criteria of which have been issued by the MAS, but are outside the scope of this opinion).
5. In addition, where a collective investment scheme is constituted as a unit trust, the MAS has the discretion to authorise the scheme if and only if it is satisfied that:
  - a. there is a manager for the scheme which satisfies the requirements set out in paragraph 4 above;
  - b. there is a trustee for the scheme approved under section 289 of the SFA;

- c. there is a trust deed in respect of the scheme entered into by the manager and the trustee for the scheme that complies with prescribed requirements; and
- d. the scheme, the manager for the scheme and the trustee for the scheme comply with the SFA and the Code on Collective Investment Schemes (the **Code**).

As an aside, the Code is Issued pursuant to section 284 of the SFA, which provides that the MAS shall issue such code "for the more effective administration, supervision and control of collective investment schemes". The Code sets out details of the best practices on management, operation and marketing of schemes that managers and approved trustees are expect to observe. Further details of the authorisation requirements relating to (among other things) the approval criteria for trustees, requirements for approved trustees, trust deed requirements, which are requirements that apply to collective investment schemes constituted as unit trusts, and the application procedure for authorisation of collective investment schemes, may be found at Part II of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005. Note that non-compliance with the Code shall not of itself render a person liable to criminal proceedings but such failure may, in any proceedings whether civil or criminal, be relied upon by any party to the proceedings as tending to establish or to negate any liability which is in question in the proceedings.

- 6. The MAS' discretion to authorise collective investment schemes extends to schemes which are not constituted as unit trusts. However, in such cases, the MAS will only do so if and only if it is satisfied that the scheme and the manager for the scheme comply with such requirements as may be prescribed.
- 7. The MAS also has the following powers:
  - a. it may refuse to authorise any collective investment scheme where it appears to the MAS that it is not in the public interest to do so. Where refusal is based on reasons other than public interest, the MAS must give the person who made the application an opportunity to be heard;
  - b. it may exempt (by order published in the Gazette) any offer of units which would otherwise fall within the scope of regulation from the requirements of Division 2 of Part XIII of the SFA;
  - c. it may revoke, suspend or withdraw any authorisation granted in respect of a collective investment scheme, and issue consequential directions on the dealings in relation to such scheme; and
  - d. prescribe other requirements from time to time in relation to the authorisation of collective investment schemes.
- 8. An application must be made to the MAS for the authorisation of a collective investment scheme. An application to the MAS for authorisation of a collective investment scheme under section 286(1) of the SFA is made by way of Form 1 which requires (among other things):
  - a. information on the collective investment scheme;
  - b. information on the manager;
  - c. relationship between the manager and trustee/custodians;
  - d. information on investments in other collective investment schemes; and
  - e. information on sub-managers.

## Exemptions from the Authorisation Requirements

9. There are various exemptions from the above requirements in respect of offers of collective investment schemes under the SFA. Broadly, these are:
- a. issues or transfers for no consideration;
  - b. small offers;
  - c. private placements;
  - d. offers made to institutional investors;
  - e. offers made to accredited investors and certain other persons; and
  - f. other limited exemptions for offers made using offer information statement and in certain other circumstances.

Each will be dealt with in further detail below.

### *Issues or transfers for no consideration (section 302A of the SFA)*

10. An exemption from the authorisation requirements applies if no consideration is or will be given for the issue or transfer of units in a collective investment scheme or the underlying units of the collective investment scheme. Where the offer relates to an option to subscribe for or purchase such units, it is a requirement for the exemption to apply that no consideration is or will be given for the issue or transfer of the option, as well as for the issue or transfer of the underlying units on the exercise of the option.

### *Small offers (section 302B of the SFA)*

11. This exemption, which provides for an exemption from the authorisation requirements, relates to "personal offers" of units in a collective investment scheme, and where (among other things) there is a cap on the amount of funds raised.
12. A "personal offer" is defined under the SFA as one that:
- a. may only be accepted by the person to whom it is made; and
  - b. is made to persons that are likely interested in the offer, having regard to:
    - i. any previous contact before the date of the offer between the person making the offer and that person;
    - ii. any previous professional or other connection established before that date between the person making the offer and that person; or
    - iii. any previous indication (whether through statements made or actions carried out) before that date by that person to the person making the offer or any of the specified persons permitted to promote the offer that he is interested in offers of that kind.
13. The other conditions to qualify for this exemption are as follows:
- a. the total amount raised by the person from such offers within any period of 12 months does not exceed S\$5,000,000 (or its equivalent in a foreign currency), or such other sum as may be specified by the MAS;
  - b. in respect of each offer, the person making the offer must give the person to whom he makes the offer:

- i. a statement that the offer is made in reliance on an exemption under the SFA and is not made in or accompanied by a prospectus that is registered with the MAS, and the scheme is not authorised or recognised by the MAS; and
    - ii. a notification in writing of reselling restrictions that apply to the units to which the offer relates;
  - c. no offer is accompanied by an advertisement (an "advertisement" for this purpose means (i) a written or printed communication, (ii) a communication by radio, television or other medium of communication, or (iii) a communication by means of a recorded telephone message, that is published in connection with an offer of units in a collective investment scheme, but does not include certain prescribed documents) making an offer or calling attention to the offer or intended offer;
  - d. no selling or promotional expenses are paid or incurred in connection with each offer other than those incurred for administrative or professional services, or by way of commission or fee for services rendered by any of the following:
    - i. the holder of a CMS licence to deal in securities;
    - ii. an exempt person in respect of dealing in securities;
    - iii. a person licensed under the FAA in respect of marketing of collective investment schemes;
    - iv. an exempt financial adviser under the FAA; or
    - v. a person who is licensed, approved, authorised or otherwise regulated under the laws, codes or other requirements of any foreign jurisdiction in respect of dealing in securities or marketing of collective investment schemes, or who is exempted therefrom in respect of such dealing or marketing; and
  - e. no prospectus in respect of any offer has been registered by the MAS (or where registered, such prospectus has expired or the person making the offer has before making the offer informed the MAS of its intent to make the offer in reliance on the small offer exemption).
14. It should also be noted that in determining whether the amount raised by a person from offers within a period of 12 months exceed the applicable cap referred to in paragraph 13(a), each amount raised by that person from any offer of units in the same collective investment scheme, or by that person or another person from any offer of securities which is a "closely related offer" (as determined by considering such factors as the MAS may prescribe), within that period in reliance on the small offers exemption or other prescribed exemptions, shall be included.
15. Reselling restrictions also apply on units in a collective investment scheme acquired pursuant to an offer made in accordance with the small offers exemption, in that the authorisation and prospectus requirements will apply unless various conditions are complied with.

*Private placements (section 302C of the SFA)*

16. This exemption, which provides for an exemption from the authorisation requirements, relates to offers of units offered to no more than 50 persons within any period of 12 months.
17. Similar conditions as those found in the above paragraphs 13(c)(restriction on advertisements), (d)(restrictions on selling or promotional expenses) and (e)(no subsisting prospectus) under the small offers exemption apply to the private placement exemption (with some slight variation), such that there must be effectively no publicity of such offer in order to rely on this exemption. Offers in the same collective investment scheme or which are "closely related" (similar to the condition referred to at paragraph 14 above) are also relevant in determining whether or not

offers have been made to no more than 50 persons within the 12 month period, together with the various rules on how a "person" is counted under this exemption (which effectively also imposes certain restrictions on the reselling of units offered under this exemption).

*Offers made to institutional investors (section 304 of the SFA)*

18. Where an offer of units in a collective investment scheme is made to an institutional investor (please refer to Appendix III for definition), whether or not such units have been previously issued, there is an exemption from the authorisation requirements.

*Offers made to accredited investors and certain other persons (section 305 of the SFA)*

19. An exemption from the authorisation requirements is also available for offers of units that are offered to:
- a. any of the following persons (described as "relevant persons"):
    - i. an "accredited investor" (please refer to Appendix III for definition);
    - ii. a corporation the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor;
    - iii. a trustee of a trust the sole purpose of which is to hold investments and each beneficiary of which is an individual who is an accredited investor;
    - iv. an officer or equivalent person of the person making the offer (such person being an entity) or a spouse, parent, brother, sister, son or daughter of that officer or equivalent person; or
    - v. a spouse, parent, brother, sister, son or daughter of the person making the offer (such person being an individual); or
  - b. a person who acquires the units as principal if the offer is on terms that the units may only be acquired at a consideration of not less than S\$200,000 (or its equivalent in foreign currency) for each transaction, whether such amount is to be paid for in case or by exchange of securities or other assets.
20. As with the other exemptions above, the conditions connected with this exemption include restrictions (similar to those referred to in paragraphs 13(c), (d) and (e) above) on advertisements, promotional and selling expenses and there being no subsisting prospectus in respect of the offer (again, with some slight variation).
21. Various re-selling restrictions also apply to units acquired by relevant persons pursuant to this exemption, non-compliance with which would trigger the authorisation and prospectus requirements.

*Other exemptions*

22. Under section 303 of the SFA, an exemption is available from the prospectus requirements (only) where an offer is made of units in a collective investment scheme that have been previously issued, are listed for quotation or quoted on a securities exchange and are traded on an exchange. In addition, where an offer is one to enter into an underwriting agreement relating to units in a collective investment scheme, the exemption applies to cover both the authorisation and prospectus requirements.

Conclusions on exemptions from authorisation requirements

23. The conditions to qualify for the exemptions from the authorisation requirements make it difficult for the Company or its affiliates to rely on any of them. The conditions clearly limit the scope of persons to whom offers of a collective investment scheme may be made (e.g. by requiring



offers to be personal offers, to limiting the types of investors to certain classes of investors who are deemed sophisticated, and imposing advertising and other publicity restrictions). These would preclude the Company's activities, given that the ITO is targeted at the general public at large, and the Company appears to also engage in advertising and other publicity to this end.

## **Appendix III**

### **Specific classes of investors**

#### **1. Institutional investor**

An "institutional investor" means:

- a. a bank that is licensed under the Banking Act (Chapter 19 of Singapore);
- b. a merchant bank that is approved as a financial institution under section 28 of the Monetary Authority of Singapore Act (Chapter 186 of Singapore);
- c. a finance company that is licensed under the Finance Companies Act (Chapter 108 of Singapore);
- d. a company or co-operative society that is licensed under the Insurance Act to carry on insurance business in Singapore;
- e. a company licensed under the Trust Companies Act (Chapter 336 of Singapore);
- f. the Government;
- g. a statutory body established under any Act;
- h. a pension fund or collective investment scheme;
- i. the holder of a CMS licence for:
  - i. dealing in securities;
  - ii. fund management;
  - iii. providing custodial services for securities;
  - iv. real estate investment trust management;
  - v. securities financing; or
  - vi. trading in futures contracts;
- j. a person (other than an individual) who carries on the business of dealing in bonds with accredited investors or expert investors;
- k. the trustee of such trust as the MAS may prescribe, when acting in that capacity; or
- l. such other person as the MAS may prescribe, which as at the date hereof, are the following:
  - i. a designated market-maker;
  - ii. a headquarters company or Finance and Treasury Centre which carries on a class of business involving fund management, where such business has been approved as a qualifying service in relation to that headquarters company or Finance and Treasury Centre under section 43E(2)(a) or 43G(2)(a) of the Income Tax Act (Chapter 134 of Singapore), as the case may be;
  - iii. a person resident in Singapore who undertakes fund management activity in Singapore on behalf of not more than 30 "qualified investors" (within the meaning of the SFA); and
  - iv. a Service Company which carries on business as an agent of a member of Lloyd's.

#### **2. Accredited investor**

An "accredited investor" means:

- a. an individual:

- i. whose net personal assets exceed in value S\$2 million (or its equivalent in a foreign currency) or such other amount as the Authority may prescribe in place of the first amount; or
  - ii. whose income in the preceding 12 months is not less than S\$300,000 (or its equivalent in a foreign currency) or such other amount as the Authority may prescribe in place of the first amount;
- b. a corporation with net assets exceeding S\$10 million in value (or its equivalent in a foreign currency) or such other amount as the MAS may prescribe, in place of the first amount, as determined by:
  - i. the most recent audited balance-sheet of the corporation; or
  - ii. where the corporation is not required to prepare audited accounts regularly, a balance-sheet of the corporation certified by the corporation as giving a true and fair view of the state of affairs of the corporation as of the date of the balance-sheet, which date shall be within the preceding 12 months;
- c. the trustee of such trust as the MAS may prescribe, when acting in that capacity; or
- d. such other person as the MAS may prescribe, which, as at the date hereof, are the following:
  - i. the trustee of a trust of which all property and rights of any kind whatsoever held on trust for the beneficiaries of the trust exceed S\$10 million in value (or its equivalent in a foreign currency);
  - ii. an entity (other than a corporation) with net assets exceeding S\$10 million in value (or its equivalent in a foreign currency);
  - iii. a partnership (other than a limited liability partnership within the meaning of the Limited Liability Partnerships Act 2005 (Act 5 of 2005)) in which each partner is an accredited investor; and
  - iv. a corporation, the sole business of which is to hold investments and the entire share capital of which is owned by one or more persons, each of whom is an accredited investor.