

REDEECASH EXCHANGE

A National Registered Exchange for Cryptocurrency Token
Trading and Regulatory Authority

Organizational Document

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Document Revision History

Date	Description
06/02/2023	Add suggested curriculum for a broker-dealer blockchain and token trading course.
05/10/2023	Add Form 1 completion guidance
05/05/2023	Created separate for development of a National Registered Exchange known as Redeecash Exchange (https://redeecash.exchange)
05/05/2023	Self Regulatory Organization registration
05/02/2023	Added token symbol and wallet provider registration
04/26/2023	Document created

Purpose

Provides a framework and regulation for crypto-related products, services and investments, included but not limited to Algorithmic Advisors, Trading Bots, Crypto-centric exchanges and firms, Broker-Dealers, etc.

Public offerings provide the investor with the liquidity, whereas private exempt offerings were a buy-hold-hope for a public offering. Blockchain brings liquidity to the private equity and small offering market at a cost that doesn't break the company finances. A small issuer can create a smart contract and publish on a blockchain network for a Regulation A Tier 1 offering. The funds raise from this offering can be used to create a private placement Regulation D 506(c) offering for accredited investors which can then lead in a direct public offering (DPO) on NYSE. All the while the initial investors have liquidity on the blockchain network, and when the DPO becomes effective, provisions to trade and transfer to the NMS of NYSE.

Blockchain offerings meet the Jobs Act to encourage small issuers to began the public journey at a lower cost of entry. The costs associated with FINRA compliance is prohibitive to the small issuer and a small business should not be restricted from raising public funds based on cost. There are exempt offerings options a small business can pursue, because of the lack of liquidity, deters private investors. Blockchain security offerings can provide liquidity to exempt offerings as well as direct public offerings by lowering the barrier to entry. A business can perform a direct public offering (DPO) on the NYSE but has a higher barrier to entry. The goal of every business is to become a publicly traded company. One such path can begin with a Regulation A Tier 1 followed by a Regulation D under Rule 506(c) leading to a DPO on NYSE. Blockchain technology can provide liquidity for the Regulation A Tier 1 and 506(c) exempt offerings. This regulatory authority would be responsible for the exempt offerings with an option for a S-1 DPO on the blockchain. A company can have multiple public offerings, but the first S-1 public offering makes that company a publicly traded company.

REDEECASH EXCHANGE is targeted to be registered as a cryptocurrency token trading exchange under US Code Title 15 Section 2B.

Definitions

Algorithmic advisor = an automated program that provides investment choices based on a define set of rules or algorithm.

Trading bots = a specific algorithm advisor that also executes trades with a registered broker-dealer platform

Broker-Dealer = an entity or natural person responsible for executing trades on a registered exchange whether the transaction is a registered security or an exempt offering.

Cryptocurrency Exchange = a money transmitter that swaps real currency with crypto currency (state-regulated); also a trading system to permit the trading and swap of cryptocurrency tokens by broker-dealers (federal-regulated).

Fiat Currency = USD or any centralized monetary unit.

Ethereum = a monetary unit to pay transactions on the ethereum blockchain, like cash is neither a commodity nor a security.

History of FINRA

See <https://www.bankrate.com/investing/what-is-finra/#:~:text=FINRA%20was%20created%20in%202007,was%20approved%20by%20the%20SEC>.

FINRA was created in 2007 as a combination of the National Association of Securities Dealers (NASD) and the member enforcement, regulation and arbitration operations of the New York Stock Exchange (NYSE). The creation of FINRA was approved by the SEC.

FINRA is NOT a government agency but a Self Regulating Organization (SRO), but FINRA lacks the experience and infrastructure for successful cryptocurrency and blockchain regulation.

Services Offered

The following services can be offered in this new regulatory authority,

- Validity checking of broker-dealers, with complaints and resolutions.
- Registration credentialing of broker-dealers on a cryptocurrency exchange
- Registration of algorithmic advisors and trading bots.
- Initial registration and central database of crypto-exchanges that must register with the SEC as an ATS.
- Financial Reporting
- Auditing of smart contracts for small issuers. (necessary to encourage registration of equity token by small issuers that are priced out of the market for expensive smart contract auditing)
- Certification of Smart Contract Auditors
- Registration of Token Symbols (token symbols have an 11 character limit)
- Registration of Wallet Providers (while the tokens held in the wallet is decentralized and kept locally, trusted wallet provide registration can help ensure wallet integrity)

Credentialing of Broker-Dealers on cryptoexchange

This process involves providing a course for the broker-dealers to enroll and pass an exam. A suggested curriculum,

Curriculum: *Blockchain and Token Trading for Broker-Dealers*

Module 1: *Introduction to Blockchain Technology*

- 1.1 What is blockchain?
- 1.2 Key features and benefits of blockchain technology
- 1.3 Types of blockchain networks (public, private, consortium)
- 1.4 Smart contracts and decentralized applications (DApps)
- 1.5 Use cases of blockchain technology in various industries

Module 2: *Understanding Cryptocurrencies and Tokens*

- 2.1 Introduction to cryptocurrencies
- 2.2 Differentiating between cryptocurrencies and tokens
- 2.3 Types of tokens (utility, security, asset-backed)
- 2.4 Initial Coin Offerings (ICOs) and Security Token Offerings (STOs)
- 2.5 Regulatory landscape for cryptocurrencies and tokens

Module 3: *Blockchain Consensus Mechanisms*

- 3.1 Proof of Work (PoW)
- 3.2 Proof of Stake (PoS)
- 3.3 Delegated Proof of Stake (DPoS)
- 3.4 Practical Byzantine Fault Tolerance (PBFT)
- 3.5 Comparison and evaluation of consensus mechanisms

Module 4: *Tokenization and Asset Digitization*

- 4.1 Tokenization and its benefits
- 4.2 Asset classes suitable for tokenization
- 4.3 Security token standards (ERC-20, ERC-1400, etc.)
- 4.4 Legal and regulatory considerations for tokenized assets

Module 5: *Token Trading Platforms and Exchanges*

- 5.1 Overview of token trading platforms
- 5.2 Centralized exchanges (CEX) vs. decentralized exchanges (DEX)
- 5.3 Order books, trading pairs, and liquidity
- 5.4 Token custody and security measures
- 5.5 Regulatory compliance for token trading platforms

Module 6: *Risks and Challenges in Token Trading*

- 6.1 Price volatility and market manipulation
- 6.2 Security risks and vulnerabilities
- 6.3 Regulatory and legal risks
- 6.4 Fraud and scam risks
- 6.5 Risk management strategies for token trading

Module 7: *Trading Strategies and Technical Analysis*

- 7.1 Fundamental analysis vs. technical analysis
- 7.2 Key indicators and chart patterns for token trading
- 7.3 Developing a trading plan and risk management strategies
- 7.4 Trading tools and platforms for technical analysis
- 7.5 Backtesting and evaluating trading strategies

Module 8: *Compliance and Regulatory Considerations*

- 8.1 Overview of regulatory frameworks for token trading
- 8.2 Anti-Money Laundering (AML) and Know Your Customer (KYC) requirements
- 8.3 Securities regulations and compliance for security tokens
- 8.4 Tax implications of token trading activities
- 8.5 Best practices for maintaining compliance in token trading

Module 9: *Case Studies and Real-World Applications*

- 9.1 Case studies of successful blockchain projects and token offerings
- 9.2 Real-world applications of blockchain technology in finance and beyond
- 9.3 Lessons learned from notable blockchain failures and scams
- 9.4 Exploring emerging trends and future developments in blockchain

Module 10: *Practical Exercises and Hands-on Training*

- 10.1 Simulated token trading exercises on demo platforms
- 10.2 Analyzing and interpreting token market data
- 10.3 Creating and managing token wallets
- 10.4 Participating in token offerings (ICO, STO) as a broker-dealer
- 10.5 Final project: Developing a token trading strategy and presenting findings

This curriculum provides a comprehensive overview of blockchain technology, token trading, and related regulatory considerations for broker-dealers. It covers the fundamentals of blockchain technology, the different types of tokens, consensus mechanisms, tokenization of assets, token trading platforms and exchanges, risk management strategies, trading analysis techniques, compliance requirements, real-world case studies, and hands-on practical exercises to reinforce learning.

Registration of Algorithmic Advisors & Bots

FINRA registration lacks the oversight for proper cryptocurrency registration. A new specialized regulatory authority for cryptocurrency and blockchain is needed, with the main purpose of providing investor protection to ensure participants in the cryptocurrency and blockchain are qualified. These qualifications involve taking continuing education courses and passing exams to maintain a regulatory compliance. FINRA has a commodity trading advisor registration which is targeted towards an individual offering trading advice to their clients whether they are custodial or non-custodial accounts.

With the introduction to algorithmic advisors and trading, have been left unregulated. This new registration permits an entity to register their algorithmic advisor or bot as a company or individual without any education certification while providing full disclosure of risks and requirements, This new regulatory authority can provide the investor a sense of validity for the algorithm advisor and trading by having the creator or owner provide live account trading for a minimum term, requirements for the algorithm advisor and trading bot as well as a clearly define risk analysis. Trading bot execution must be performed on a recognized broker-dealer platform during a minimum term.

Registration of Broker-Dealers

This registration is secondary specialized registration dedicated to exam testing in the cryptocurrency and blockchain space. The broker-dealer must still register with FINRA.

Registration of ATS

FINRA handles the initial registration for ATS of equity trading systems that the operator must complete with the SEC on Form ATS-N.

This regulatory authority will perform the initial registration for an entity who wishes to register a DEX or decentralized exchange with a DAPP (decentralized application), where they must also complete the SEC registration of an ATS.

All registered DEX must have provisions for registered SEC transfer agents to access their platform.

In addition, all registered ATS must implement whitelisting in their smart contracts to properly handle KYC, AML and investor classification compliance.

Certification of Smart Contract Auditors

When an issuer is considering a public blockchain equity offering or an exempt blockchain offering, they must have a smart contract published on a suitable blockchain network. To reduce the issuers liability, independent smart contract auditing is preferred. In addition to the standard auditing to identify code defects that could comprise the transactions to unethical participants, the auditing must also include additional verification of proper KYC, AML and investor classification compliance, as well as offering terms as defined by the SEC. For example a Regulation A Tier has a maximum of 20 million, while a Rule 506(c) have a minimum of one year holding before a Rule 144 transfer can occur. These rules can be included in the smart contract code.

Financial Reporting

Similar to FINRA but targeted for cryptocurrency and blockchain base. While SEC does not offer private placement quarterly reporting, this regulatory authority can provide private placements a platform for submitting quarterly reports referencing the SEC file number of the private placement.

Thus providing some transparency to the private offering to investors.

When a new issuer registers with the SEC they are also required to file FINRA Form 211 for quoting. This operation can be merge with the DEX registration of this regulation authority because the DEX uses automated market makers in their smart contract code, resulting in a T-0 transfer.

Clearing agencies become obsolete in the crypto and blockchain space because of T-0 transfers.

Auditing of Smart Contract for Small Issuers

While an independent smart contract auditor is preferred, the small issuer may be priced out of an independent audit. For this special case, this regulator authority can provide smart contract auditing for small issuers.

Registration of Token Symbol

While FINRA is responsible for the assignment of equity trading symbols, this new regulatory authority will also be responsible for assigning token symbols. The difference between an equity symbol and a crypto token symbol, is the token symbol can be up to 11 characters.

Registration of Wallet Providers

Cryptocurrency wallets are decentralized that means the wallet contents are stored locally at the user and not at the wallet provider. CashApp uses a custodial wallet for bitcoin, that is CashApp holds the security keys and wallet contents. Additionally any cryptocurrency gains earned under CashApp, does not require separate IRS reporting as CashApp will submit the correct tax reporting documents.

If the user loses their security pass phrase, they lose access to their crypto wallet!

During wallet creation process, the wallet provider can add a KYC verification and AML check. Logging would need to be included back to a central server for monitoring and FinCEN reporting.

Legislation can be created mandating that banks can only interact with registered crypto providers.

Separate Regulatory Authority

While FINRA responsibility is for equity regulation, a separate authority for cryptocurrency regulation must be created, as the crypto space is larger than then the equity space and requires specialized, dedicated personnel and practices for proper regulation.

Self Regulatory Organization (SRO)

This regulatory entity will be a SRO and can adopt many of FINRA existing rules but modified for crypto-space at <https://www.finra.org/rules-guidance/rulebooks/finra-rules-expanded>

The REDEECASH EXCHANGE rules will be known as REDEECASH RULES aka RR's and target cryptocurrency token trading as well as an SRO for cryptospace.

The US Code that governs SRO is Title 15, Chapter 2B, Section 78s at <https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title15-section78s&num=0&edition=prelim>

Since a clearing agency becomes obsolete in the crypto-space, the SRO would register as a national securities exchange or registered securities association.

Registration of a National Security Exchange begins with filing SEC Form 1 - <https://www.sec.gov/files/form1.pdf>

In addition to implement similar rules like NYSE at <https://nyseguide.srorules.com/rules>

Form 1

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1. PRESSPAGE ENTERTAINMENT INC dba REDEECASH
2. 4055 SW 15 PL, APT G, GAINESVILLE, FL 32607
3. PO BOX 142814, GAINESVILLE, FL 32614-2814
4. 212-879-0758
5. PATRICK O. INGLE, Founder, 332-353-4490, Fax: 332-253-4492
6. Counsel TBD
7. 12/31
8. Corporation

Exhibits

- A. Articles of Incorporation, Five Amendments, Bylaws, Fictitious name registration
- B. Rules adopted from <https://www.finra.org/rules-guidance/rulebooks/finra-rules-expanded> and <https://nyseguide.srorules.com/listed-company-manual>
- C. Not applicable
- D. Not applicable
- E-1. Means of accessing the system
- E-2. Entry and display of quotations and orders in the system
- E-3. Procedures for governing the execution, reporting, clearance and settlement of transactions.
- E-4. Proposed fees.
- E-5. Procedures for ensuring compliance with System usage guidelines.
- E-6. Hours of operation of the System, and the date on which applicant intends to commence operation of the System.
- E-8. Process for holding funds and ensuring safety of funds.
- F-1. Application for membership, participation or subscription of entry
- F-2. Application for approval as a person associated with a member, participant, or subscriber.
- F-3. Any other similar materials.
- G. Forms required for members, participants and other users
- H. Listing application with fees
- I. Audited financial statements

J. List of officers

K. List of shareholders with more than 5% ownership or voting rights.

L. Criteria for membership

M. Not applicable

N-1. Securities listed includes restricted (exempt) and unrestricted, private placement, regulation A+

N-2. Not applicable

N-3. Restricted and exempt securities

N-4. NFT's that have an exemption from registration or have been registered with the SEC.

Conclusion

In conclusion, this document is a work-in-progress. Additional feedback is needed. This document serves as an initial roadmap that begins the discussion of the actual implementation of cryptocurrency and blockchain regulation.

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