Using Blockchain for Private Equity under Rule 506b

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Disclaimer

This is not a public offering but an example for implementing a private placement exempt equity offering on the blockchain, specifically the testnet known as ropsten where no real fiat money changes hands.

THE TOKEN DEPLOYED IS A TEST TOKEN AND NOT A VALID EQUITY TOKEN. NO RIGHTS ARE GIVEN NOR INFERRED.

There are many factors and requirements when initiating a Rule 506b exempt offering. Using the blockchain as depicted in this document is a method for distributing equity tokens to whitelisted investors and allowing limited liquidity to those investors once the holding period has lapsed.

Background

A Rule 506b exempt offering is limited to accredited investors and a maximum of 35 unaccredited investors. The issuer or issuing company must use due diligence to whitelist the investors. Blockchain can offer limited liquidity to whitelisted investors only after the holding period has elapsed. In this case the holding period is 365 days. Only the contract owner, which should be the issuer, can transfer equity token to whitelisted investors as well as add investors to the whitelisted, flagging whether they are accredited or non-accredited investors.

Interaction with transferring tokens between investors is accomplished via the browser using the metamask plugin.

The owner must whitelist each investor first using a DAPP, which can be remix.ethereum.org connected to the ropsten network for simplicity via metamask and the owner account. The owner will need free ether on the ropsten network and can request from https://faucet.egorfine.com/ and get 0.2 ether every twenty four hours.

Smart Contract

The smart contract being used is available at https://github.com/pingleware/pingleware-contracts/blob/main/contracts/finance/token/ PRESSPAGE506B.sol

The transfer and transferFrom functions are accessible by any wallet, and to ensure only whitelisted investor wallets can access the transfer, the following statement is required at the start of the function,

```
require(whitelisted[to], "recipient is not authorized to receive tokens");
```

Additionally, the contract owner is permitted to transfer tokens to whitelisted investor wallets and use the same transfer and transferFrom functions. The following code is required to permit the owner to transfer token to a whitelisted wallet,

```
if (msg.sender != owner) {
    require (block.timestamp >= (transfer_log[msg.sender] + YEAR),"transfer not
permitted under Rule 144, holding period has not elapsed");
}
```

When the contract is first created, a fixed number of tokens are created and stored in the owner's wallet. The owner can create more tokens (as long as in compliance with the Rule 506b) using the mint function from a custom DAPP or REMIX.

When an investor first receives their equity token, the block timestamp is saved and associated with the transfer of tokens to the whitelisted investor wallet,

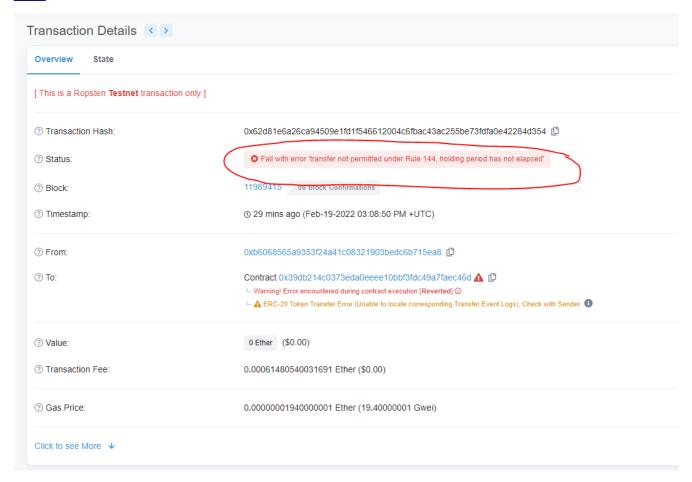
```
transfer_log[to] = block.timestamp;
```

This timestamp is set for the investor when the owner sends tokens to the investor.

Because Rule 506b has a six to twelve month holding period, a fixed holding period of twelve months is set for simplicity. If an investor tries to transfer their tokens before the holding period has lapse, a error is generated and the transaction is revert with a loss of gas fees.

See the following transaction where an investor attempted to transfer tokens to another whitelisted investor, see

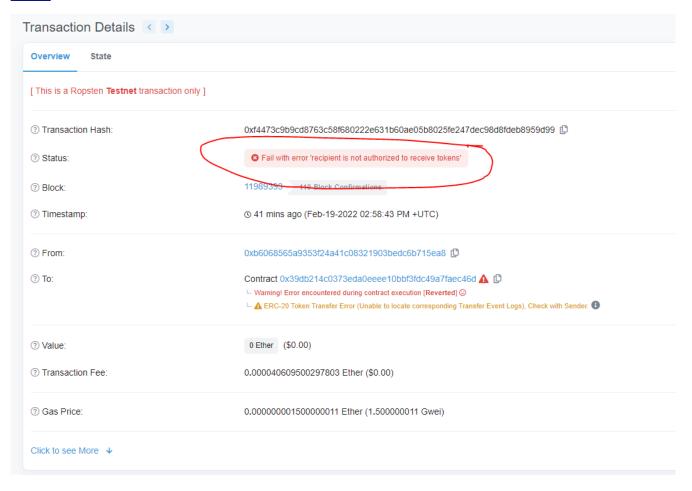
 $\underline{https://ropsten.etherscan.io/tx/0x62d81e6a26ca94509e1fd1f546612004c6fbac43ac255be73fdfa0e42284\underline{d354}$



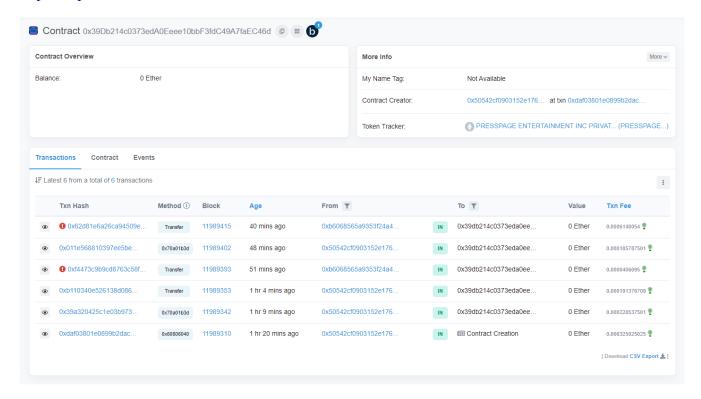
The error showing "transfer not permitted under Rule 144, holding period has not elapsed"

Before the new investor wallet was added to the whitelist, the investor attempted to make a transfer and received the following from transaction

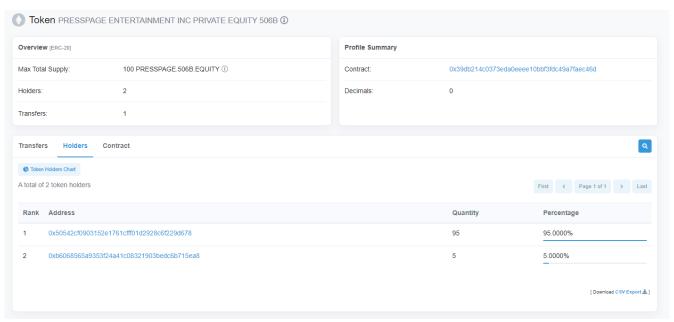
https://ropsten.etherscan.io/tx/0xf4473c9b9cd8763c58f680222e631b60ae05b8025fe247dec98d8fdeb89 59d99



You can view the transactions on this contract at https://ropsten.etherscan.io/address/0x39db214c0373eda0eeee10bbf3fdc49a7faec46d



You can view the holders of the tokens at https://ropsten.etherscan.io/token/0x39db214c0373eda0eeee10bbf3fdc49a7faec46d#balances



The issuer must maintain a separate list containing the personal identifying information (PII) for each wallet of the investor.

The contract owner's DAPP can also retrieve holding period expiration dates for each investor wallet.

Having the transactions on the public blockchain will add a level of transparency to exempt offerings without loosing the exemption because while any user with an ethereum wallet can import the exempt offering contract into their wallet, the mere importing does not authorized the user to trade the equity token. The user must still be whitelisted by the issuer/contract owner. The investors are only known by their wallet addresses, while the issuer will maintain the personal identifying information associated with each wallet to respond timely to requests from the regulators.