



Digital Securities 101

Global 2021 Edition

The Global Guide to a Financial Revolution © 2021 Oscar A Jofre Jr.

Digital Securities 101 Global 2021 Edition

A Guide to the Global Financial Revolution



Book Two The Global Phenomenon



Oscar A. Jofre Jr.

Foreword by David Weild IV

Father of the JOBS Act & former
Vice-Chairman of NASDAQ

Foreword Paul Niederer

Founder, ASSOB World's first
online investment platform

Editor Dr. Kiran Garimella

Contributors:

Dr. Kiran Garimella,, Jason Futko, Sara Hanks, Darren
Marble, Jeffrey Ramson, James Row, Rajeev Dewan,
Alessandro Lerro, Lewis Cohen, Allan Goodman, Ross
McKee, Michael Bacina, Andrew Stephenson, Andrew
Corn, Dara Albright, Jonathan Heyman, Luka Gubo,
Derrek Fahl, Phil Long, Kosta Kostic, Kendall Americo,
Jonathan Self, Anessa Allen Santos, Kyle Asman,
Nayef Shahin, Peter Martinez, Robin Sosnow, Xiao
Chen, Simon Reveles, Douglas Park, Gregory Strong,
Edwin Lee, Stephen Ferrando, Byron Saunders, Jamie
Ostrow, Paul Levites, Robb Miller, Rob Celej, Wei Wei,
Douglas Park



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A Guide to the Global Financial Revolution

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ISBN 0- ISBN 13: 978-

Book's Web site <http://www.KoreConX/KorePublications>



Published by KorePublications

One World Trade Center

New York, NY 10007

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Leading Global Education in Compliance and Digital Securities

Printed in the United States of America

KorePublications 10 9 8 7 6 5 4 3 2 1

I pondered for a long time when I would write a sequel to my first ebook "Equity Crowdfunding 101". Each time I started, I did not feel there was anything new of value to a reader that they could not get on their own.

But I could not sit back any longer as online investing is once again evolving, this time at a much rapid pace. The vision we had nine years ago has finally come to fruition. Back then, we did not understand the full power of blockchain, but now we see the light and it fulfills the ultimate vision of allowing anyone around the globe to invest in companies in the most efficient, compliant manner.

Fintech is the main sector with Digital Securities as a subset. Within Digital Securities, there are ten key instruments that can utilize blockchain: Equities, Debt, Debentures, Commercial Paper, Bonds, Factoring or Invoice Trading, Units, Flowthrough, Real Estate, and Funds

The past 24 months have been an amazing time for Fintech and Digital Securities alike. We have seen how using blockchain technology to issue a company's securities has revolutionized access to capital and that this form of capital raising is not going away.

North America is once again leading the way to a healthy, vibrant, and open market that follows regulations to protect all parties involved in the evolving ecosystem. Many countries around the world are following suit: Canada, China, Australia, Germany, Switzerland, New Zealand, Singapore, and UAE, and I believe more will follow.

When the journey began, the purpose was to democratize capital, and remains unchanged. We need to have a fair balance in the sector of regulations, access to capital, governance, compliance and investor protection. The entire sector is in favor of this approach as we don't want to see what occurred from 2016-2018 where 78% of fraudulent companies were preying on investors participating in this new form of capital raising

For those who risked everything to make this change happen as well as for the millions and millions of entrepreneurs and investors, we bow to you and thank you for your perseverance and support.

This book is dedicated to you all.

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Basics



Let's Start
with the
Basics

Let's Start with the Basics

This book will provide you with a market perspective of the impact Digital Securities can have on private companies worldwide. This book is not technical; its meant to be a tool to help the entire private capital markets ecosystem (entrepreneurs, advisors, investors, broker-dealers, ATS operators, regulators, lawyers, auditors, shareholders, board directors, transfer agents, share registry agents) and the market at large understand the evolution of the Global Phenomenon that began over nine years ago with the introduction of crowdfunding (online investing), and how it has now evolved to Digital Securities (some call them Tokenized Securities).

Opportunities and Drivers

The Market Opportunity

To understand the impact on the global marketplace, first we need to see how big the market place is. Today, there are over 400 million private companies worldwide; within the USA and Canada, we have over 30 million.

It is anticipated that the Digital Assets market will grow to an estimated \$10 trillion by 2020. With the current global equities market at \$80 trillion in 2017 and global bond markets north of \$90 trillion in 2016, the market is ripe with opportunity.

\$2.4 trillion was raised by U.S private companies vs. \$2.1 trillion by public companies—a gap that has been widening for 6 years. The decline in the number of public companies and the rise of private financing will drive a need for efficient secondary market trading of private shares. Digital securities on a blockchain that are globally compliant are critical to the success of secondary markets for private securities.

The Technology Driver

What caused this revolution? It was not only the need to explore new ways of financing after global economic shifts, but it was also driven by the introduction of new technologies. Blockchain is the popular way to describe this bundle of technologies.

The markets are distributed across multiple jurisdictions globally. Many parties all over the world would benefit from the barriers being broken down and cross-border transactions made more efficient and cost effective. But when the participants are widely distributed, the dissemination of transparent

information for all involved is paramount. Historically, however, in private capital markets, participants don't want to spend too much time and money in reconciling data or integrating their systems.

Moreover, all participants want to trust other parties. This becomes difficult and more expensive the farther the parties are apart. So, what everyone needs is a "ledger" of transactions that is visible to everyone, that no one can change all by themselves, that is updated in near real-time, and cannot be erased.

So, how does blockchain help with all this?

First, blockchain is a type of distributed ledger technology. This means the exact same copy of ledger of transactions resides with many participants. This prevents any one party from falsifying data.

Second, the way this technology works is through cryptography and distributed consensus. This means all parties, or at least a pre-defined quorum of parties, must agree when making new entries. In other words, verification and reconciliation occurs before creating an immutable record.

For financial markets, the benefits are immense. The permissioned version of blockchain ensures that only trustworthy parties are involved. By the time transactions are written into the ledger all parties have already verified them and all parties agree to the transactions. This makes it unnecessary to reconcile and settle later.

More than all this, the way blockchain allows financial assets and instruments to be represented through digital securities makes it easier to transfer and trade in a secure manner. Lastly, digital securities can represent fractional ownership.

All this is not without some risks. Technology by itself cannot prevent bad actors and losses. The scams, forks, thefts, and losses suffered by most of the public blockchains amply demonstrate that.

Just because technology allows someone to trade financial assets doesn't mean that such transactions are always compliant with regulation.

Eliminating Confusion

In the past couple of years, we have seen mass confusion in the market as many of the early entrants ended up intertwining together terms that don't mean the same thing. Crypto and Securities, Private and Public Listed, etc.

Crypto and Securities are not the same. The only commonality they share in the blockchain space is that they are implemented through distributed ledger technology.

Here is a simple way to tell them apart:

Cryptocurrency or digital coins are currencies. Currency is what we put in our wallets or deposit in our banks. We use currency to purchase things. When we do work, we are paid for our work or service with currency. Anyone can receive currency. Currency is one type of a payment instrument (others are checks, credit cards, bank transfers, etc.). Payment instruments are subject to special regulations such as Regulation CC, II, HH, and so on.

Securities are assets of legally registered companies and they represent an ownership position. To acquire Digital Securities, or sometimes called security tokens, you need to qualify depending on the regulations the company is using to raise its capital. Once you receive your digital securities, you can sell or trade them in a registered Secondary Market (subject to some constraints).

The Markets

It's also very important to understand the different types of capital markets. This is very important so you apply the right regulations to what you are doing. Below is an overview of the two types of capital markets worldwide.

The Private Capital Market

Private company vs public listed company is an area that causes a lot of confusion. Understanding the difference between public and private companies starts with a simple differentiating factor: public companies are listed on a public stock exchange and private companies are not. Now this does not itself help you to understand why and how they are different, but it is the easiest way to identify them.

In order for a company to "go public" and get listed on a public stock exchange, they have to go through

a rigorous process by the stock exchange on which they are listing. This process is created by each exchange, but the basic guidelines come from the country's securities regulators. In addition to the listing process, public companies are required to meet ongoing governance, compliance, and reporting standards.

Private companies, while having certain reporting requirements, do not have as stringent a set of rules to comply with. This generally means it is less expensive for private companies to meet reporting requirements, and information about them is not as available in the public domain as it is for public companies.

With the emergence of digital securities and secondary markets, you will start to see more private companies acting like 'public company-light'. These companies will list on a secondary market, which is not a public stock exchange, but will have listing process and reporting requirements somewhat lighter or less stringent than public companies. More information will be put into the public domain than for a completely unlisted private company so that potential investors can make informed decisions about investing in the listed private company.

These companies are just that—private. Private companies are required to do some filings when raising capital, but nothing compared to a full prospectus offering required by companies seeking to go public. Regulators have provided exemptions that private companies can use to raise capital. Private companies will be able to approach accredited or non-accredited investors based on which exemptions they choose for raising capital.

One major difference for companies going public is liquidity. Today, the private capital markets can finally offer this as well without taking the company public.

Public Companies

These companies are those that are listed in registered stock exchanges like NASDAQ, NYSE, LSE, and TMX. For companies to become listed companies, they need to file a full prospectus for their offering. Once listed, they need to follow all the regulations which in many of the top global markets include Sarbanes-Oxley (SOX), Frank Dodd, Whistleblowing, and the requirement for including independent directors on the board. Each year, public companies have to incur costs to be compliant and to maintain their public company listing.

The World Federation of Exchanges site tells us there are currently [48,000 public companies listed globally on major stock exchanges](https://www.theglobaleconomy.com/rankings/Listed_companies/).¹

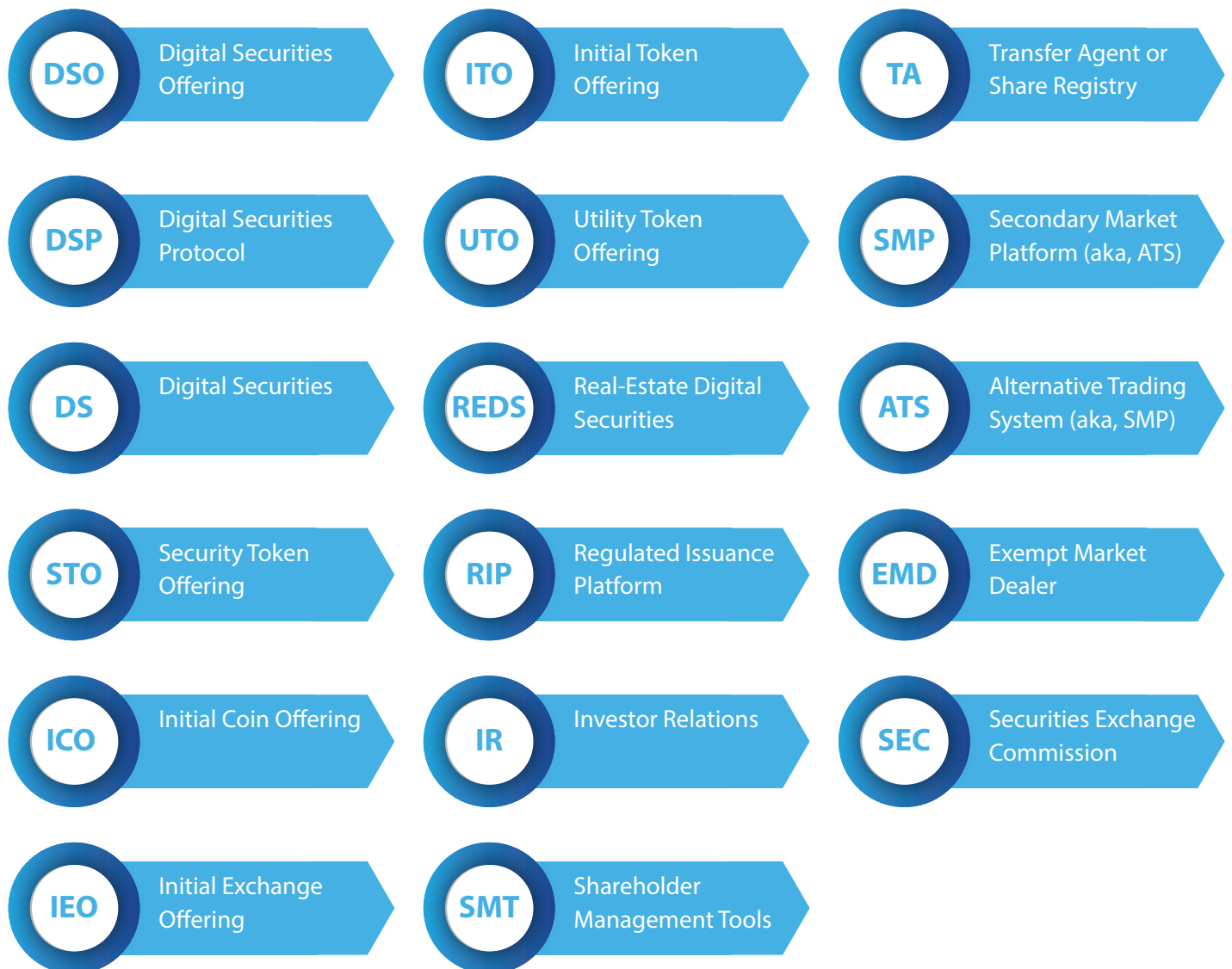
¹ https://www.theglobaleconomy.com/rankings/Listed_companies/

This is a global infrastructure which allows anyone over the age of 18 to acquire stocks in public companies.

The annual cost of maintaining a public company is, at a minimum, \$250,000 and goes up significantly for large public companies.

Endless Acronyms

The market has been filled with new catchy terms that makes it easy for companies to gain attention when raising capital. Here are some of the terms you will see in this book:



ICO, Initial Coin Offerings, was the term coined in early 2015 for offerings that did not follow any securities laws. Subsequently, [78% were found to be fraudulent](#)². Today, they are illegal in most countries around the world.

STOs (Security Token Offerings) or its variation, IEOs (Initial Exchange Offerings), were supposed to be truly distinct from ICO. Regrettably, once again the ICO players got on-board, simply rebranding themselves as STOs. One report by PWC characterizes STOs as ICOs with the addition of KYC (including AML and ID verification), and that is their only differentiation.

This book is to help you stay away from inadvertently associating with irresponsible or fraudulent people and to differentiate your company with a compliant offering and branding. Digital Securities Offerings are how the real investors and real companies want to disrupt, but only in a fully compliant manner.

What are Digital Securities?



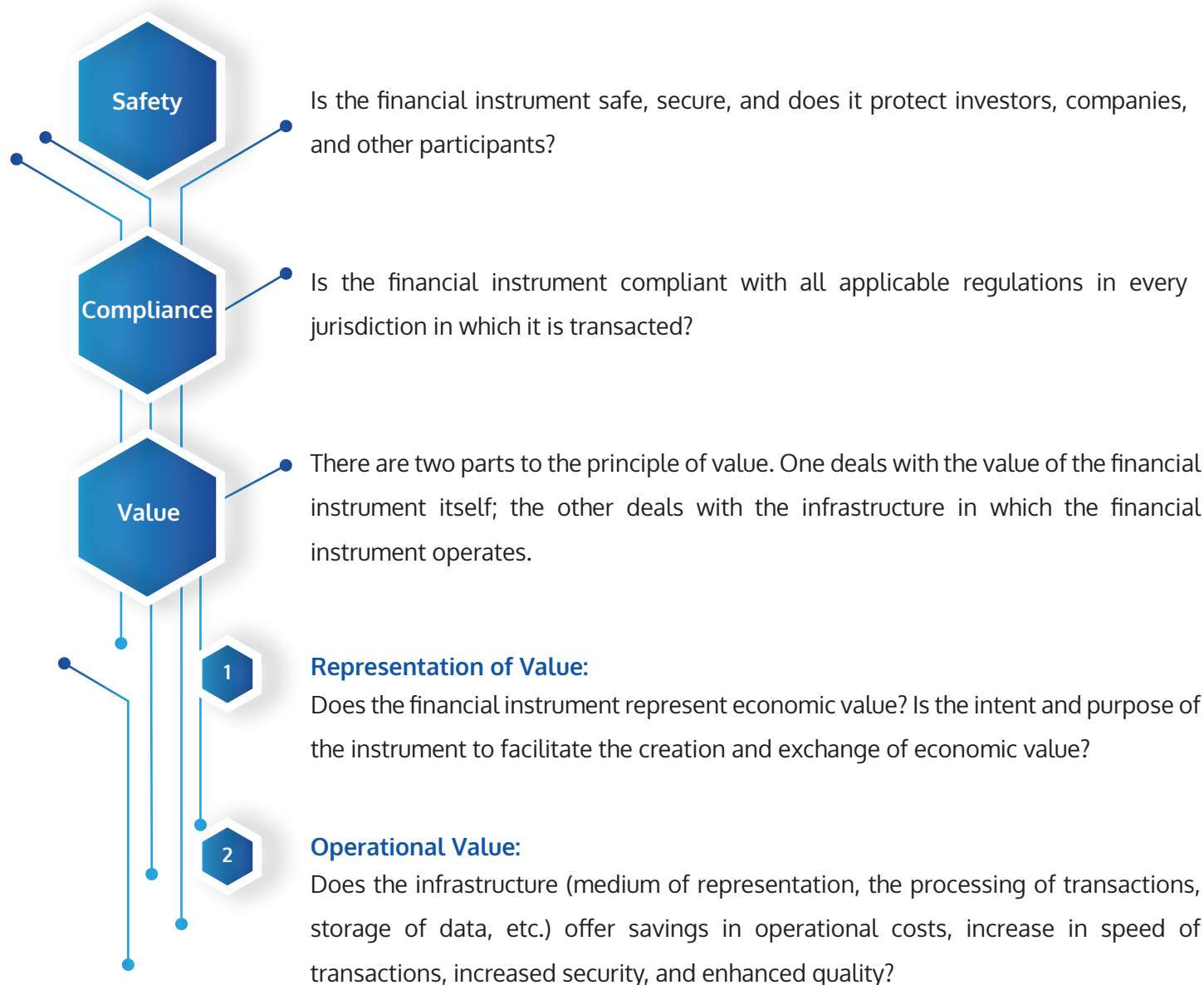
What are the essential characteristics of Digital Securities?
What is the difference between e-certificates or database records (which are also digital in the original sense of the term)?

There are three fundamental principles at stake here, namely Safety, Compliance, and Value.



² "Cryptoasset Market Coverage Initiation: Network Creation", Sherwin Dowlatabadi, Satisgroup, July 11, 2018

Fundamental Principles of Digital Securities



Traditional financial instruments, after decades of experimentation, trial, and error, have achieved reasonable safety and compliance. However, they are fraught with wasteful processes, expense, and the need for continual, post-hoc reconciliation of data.

If Digital Securities are to be more than just plain-old digitized records of securities (as is the case now for most financial instruments), they should offer additional value without compromising safety and compliance. Ideally, they should also improve safety and compliance.

Digital Securities need to have certain characteristics in order to qualify as the new digital securities. These characteristics distinguish them from other forms of representation as well as their implementation.

Characteristics of Digital Securities

1

Digital Securities are fully digitized representation of financial securities, including but not limited to shares, options, loans, bonds, debentures, warrants, promissory notes, SAFEs, etc. While digital securities need not (in fact, should not) be fungible, they should be able to represent various forms of financial securities. This is important since both companies and investors rarely deal with only one type of financial security.

Digital Securities are not commingled with cryptocurrencies or utility tokens. Commingling creates unnecessary problems. Securities themselves are subject to various forms of economic uncertainty (demand-supply, governmental intervention, balance of trade, inflation, deflation, etc.). The most widely accepted basis for representation of their value as well as the standard of trade is the fiat currency, such as the US dollar. Fiat currencies, even the most well-governed ones, are subject to exchange fluctuations, adding to the uncertainties in the world of securities. Is it really necessary to now add another uncertainty in the form of cryptocurrencies which are subject to yet another type of economics, manipulation, and volatility? There is no economic rationale for such confounding complexity. Another thing to note is that cryptocurrency as a payment instrument is subject to a different regulation while securities are subject to SEC regulation (and to that of similar bodies in other countries). The brew can become extreme unstable, volatile, and unwieldy.

2

Maintained on a permissioned distributed ledger in immutable form; this refers to all transactions and data related to the digital securities (meaning, while some transactions can be conducted off-chain, none can be recorded in finality in an off-chain database or application). The notion that most transactions can and probably should be recorded off-chain is an artificial accommodation for the inability of Ethereum to handle high volumes of data. There is neither a business reason for this throwback to the mess of silos that has plagued modern systems nor is there a real technical limitation if we

3

step beyond the limitations of Ethereum. Finally, the most progressive legislation on blockchain, the Delaware Blockchain Initiative (DBI), recognizes the legitimacy of blockchain for tokenized securities but never intended to extend the same recognition of legitimacy to off-chain transactions. See, for example, the [excellent analysis of this topic³](#) by the DBI's Founding Director, Andrea Tinianow.

4

Fully compliant with securities regulation and corporate law globally.

5

Contracts are coded executables, with provision for manual handling where necessary.

6

Data is cryptographically secured and privacy is enforced; transactions are cryptographically secured and traceable end-to-end.

7

Participants are fully verified and permissioned.

8

Participants can participate in transactions only as legally allowed or have fiduciary relationships. (This means unknown participants, or known participants without fiduciary responsibility, cannot operate nodes for validation or endorsement; only verified participants are permitted to operate a committing node—i.e., a copy of the distributed ledger.)

9

Digital Securities are held in custody by a transfer agent, share registry agent, or other registered entity. (This means, 'outside' transfers and transactions are either not allowed or not recognized until verified and approved by the Transfer Agent, Share Registry, or other registered entity; among other things, this means no e-wallets.)

³ "Tokenized Securities Are Not Secured by Delaware Blockchain Amendments", Andrea Tinianow, Forbes, July 4, 2018



Digital Securities are managed throughout their lifecycle (to ensure full compliance with regulation and with the underlying contract); this means, there is a complete end-to-end process management in place involving multiple entities, possibly across various geographies. At every point in time, transactions are governed and owned custodially by someone or some entity. Every transaction is endorsed by all relevant and affected parties. This includes the three major phases in a securities lifecycle: issuance, trading, and corporate actions corporate actions. A good example of the detailed guidelines of post-trade principles of digital securities is given in [this DTCC](#)



Digital Securities have provisions to deal with losses, thefts, and points of failure.



Digital Securities are created, maintained, and governed by a group of independent, registered, and approved entities; this means, there is no possibility of forking or having protocol wars (leading to a mess of non-interoperable implementations).

When the ICO's were hit with a backlash due to over 78% of them being fraudulent and many of the legitimate ones being non-compliant with securities regulation, the former ICO promoters merely reclassified them as security tokens (or STOs); in many cases, they made some minimal adjustments (such as a simple 'whitelist' of investors) as a passing nod to securities regulation rather than addressing the full scope of both securities regulation and corporate law. In effect, the term 'STO', first proposed as a positive step, got hijacked by the ICO crowd which was fundamentally opposed not only to regulation but also to any form of investor protection, governance, oversight, or responsible business practices.

The above defining characteristics are necessary to prevent the ICO/STO crowd from further hijacking the term 'Digital Securities' with more spurious adjustments. The abuse of blockchain for private securities is of two types: the deliberate fraudulent players and unsuitable technology.

4 ["DTCC Outlines Guiding Principles for Post-Trade Processing of Tokenized Securities", DTCC, March 13, 2019.](#)

While we cannot completely eliminate the deliberately fraudulent players all the time, we can at least put in place various mechanisms that make it uneconomical for them to operate. Fraud should be an expected part of every financial transaction and being paranoid here is a good thing.

The only variable that is truly in our control is the choice of technology. The demands of the financial ecosystem—mostly Main Street participants, the “widows and orphans”, the pension funds, endowments, and such-like—require safety and compliance to be of paramount importance. Nothing else matters without safety, and safety is not worth much without compliance. Main Street does not care about operational efficiency as much as it does safety. Main Street does not care about decentralization, censorship-resistance, and privacy as much as it does safety. The lessons are clear.

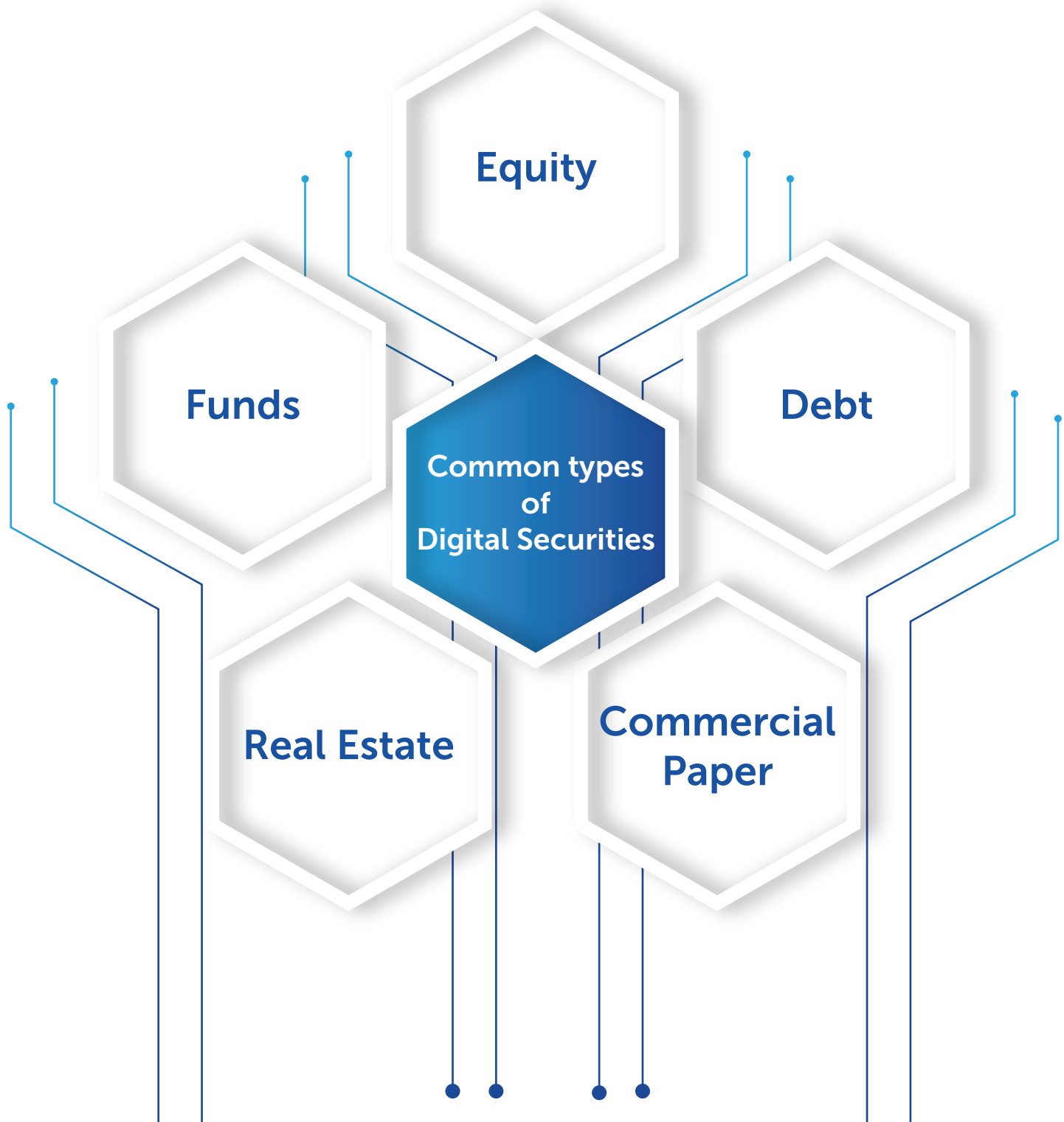
The choice of technology, the one variable that can be selected relatively quickly compared to process efficiency or regulatory reform, boils down to the following critical choices:

- Public versus permissioned
- Anonymous and unverified versus fully verified and validated participants
- Home-grown, experimental, or proprietary versus industrial-strength
- Designed with no attention to compliance versus designed from the ground-up to comply with regulation
- Designed with censorship-resistance with no thought for investor protection versus designed for full regulatory compliance and investor protection

This comprehensive description of Digital Securities goes well-beyond the post-trade processing guiding principles published by the DTCC guidelines.

What are the Main Types of Digital Securities?

What are Digital Securities? On the most basic level, Digital Securities are an electronic representation of ownership in a company from the aggregation of small amounts of capital from a large group of people, usually via the Internet, in order to fund a business, project or organization. Here are the common types of Digital Securities that can be issued by a company:





Equity:

Digital Securities are a direct ownership representation in a registered company. The digital security is not simply an electronic record of a share certificate (such as shares held in street name). It also carries all the terms, conditions, shareholder rights, obligations, the full lifecycle and corporate actions in an immutable way, thus allowing it to trade on a secondary market in a more effective manner.

Debt:

Debt, another type of digital security that a company offer investors, can be in the form of loans, debentures, bonds, and Crowd SAFE.



Commercial Paper:

Commercial paper is an unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts payable and inventories and meeting short-term liabilities. Maturities on commercial paper rarely range longer than 270 days.

Real Estate:

There are three primary ways from which investors make money in real estate:

1. An increase in the property value
2. Rental income collected by leasing out the property to tenants
3. Profits generated from business activity that is dependent on real-estate

The financial instruments that support these three ways can be fractionalized as Digital Securities.





Funds:

A Fund is an open-ended investment company that pools investors' money into a common 'pool' or account, and is operated by a portfolio manager. This manager then turns around and invests this large pool of shareholder money in a portfolio of various assets or combinations of assets.

Digital Securities are financial instruments for both debt and equity or any form of security offered by a company, since they are securities offered by a company and as such are regulated by the securities regulators in their respective countries.

With Digital Securities, the investor becomes a shareholder in the company (the issuer). An investor owns digital securities in a company that may provide the investor with benefits such as the right to secondary trading, voting at shareholder meetings, entitlement to dividends out of the company's profits (if declared); also, investors get to share in the value in the company when digital securities are sold. Of course, you also run the risk that any investor faces with owning digital securities of a company, in that the company may fail or its value significantly declines.

In Debt Securities, the investor becomes a liability to the company and is provided a monetary percentage gain on their funds lent to the company for a period of time. The debt does not provide the investor any gain if the company's value increases or vice versa if decreases.

There are a number of models that can be used for Digital Securities. We will showcase the structure of Digital Securities which applies to all models, the only difference being the type of digital securities the company is offering in their company.

Why Create Digital Securities?

This is a very valid question that many people ask. If you don't know how the private capital markets work, you won't be able to see and appreciate the issues and the disruption that Digital Securities bring to the market.

Distributed Ledger Technology based on blockchain is fundamentally the biggest disrupter of the private capital markets in history. The technology ensures immutable data that, for the first time in private capital markets, allows trusted parties to rely on the information provided to them once its on the ledger. The technology does not remove the trusted parties we currently have today, such as the lawyers, broker dealers, ATS operators, transfer agent, share registry, board directors, auditors, and regulators. The technology brings them all together to create a more efficient capital markets process, allowing companies to drastically reduce processing times, costs, and increase compliance throughout the lifecycle of the securities.

Today, when both investors accredited and non-accredited invest in a private company, there are only three outcomes they can look forward to:



With those three outcomes, entrepreneurs work hard in selling the company's story to investors to benefit from the upside as the investor recognizes they are in for a ride and there are only three possible outcomes.

In some cases, these investors have the ability to sell their securities between themselves, but such trades are expensive, take a long time, and require inefficient manual processing.

Now, we can offer a new outcome to investors: the ability to trade their securities in a secondary market in a cost-effective, efficient, and timely manner.

DSE



Digital Securities Ecosystem (DSE)

Digital Securities Ecosystem (DSE)

The Digital Securities ecosystem has a number of participants besides the buyer, the seller, and the secondary traders. The other participants are securities commissions, securities attorneys, broker dealers, secondary market operators, Transfer Agent or Share Registry, etc. Among investors too there are different types, such as accredited and non-accredited. The goal of this section is to help you understand all these roles and why it is vital to understand why they are important in the complete lifecycle of digital securities.

Digital Securities are the main units of transactions in this private capital market. As we have seen, they offer investors and companies (issuers) incredible new ways to investing in and fund-ing new business ventures. Until now, there has been no precedent for investors to invest in innovative ideas, potentially receive great returns, and have the ability to carry out secondary marketing trading.

The following image provides an overview of who is involved in the Digital Securities ecosystem.

Let's examine this image in detail. Digital Securities exist in a regulated environment as determined by the country usually called the "jurisdiction".



Securities Commissions

These are regulatory entities that are charged by the local government to implement laws providing detailed regulations, monitor and provide oversight, and intervene when necessary with fines, penalties, and sanctions. In short, to keep things on the straight and narrow—to regulate who can invest and how a qualified company (the issuer) can participate. The primary goal is to protect investors.

Great examples of such laws in the United States are the Jobs Act Title II (506c), Title III (RegCF), and Title IV (RegA+). They provide clear guidelines on who can invest, how they can invest, how a regulated issuance platform needs to operate, and how the issuer can access capital. What is even more important, this ecosystem is already in place, operating, and trusted.

Investors

There are two types of investors that can invest in Digital Securities worldwide:

Accredited Investors are those investors deemed by the securities commissions to be high net worth individuals who would not be catastrophically impacted financially if an investment in a company fails. Each country has its own parameters, but roughly the top 3-5% of a country's population would qualify. Accredited investors today can invest globally and trade.

Non-Accredited Investors are the "rest-of-us", the rest of the world's population that does not meet the requirements of an accredited investor. Typically, non-accredited investors cannot invest or trade globally in the private capital markets. It's very important to understand that depending on what regulation is used to raise capital, these two types of investors can intersect for the first time in history.

Regulated Issuance Platform

An Online Investment Platform or Equity Crowdfunding Platform is a Regulated Issuance Platform (RIP). This is a platform that brings companies and investors together in a secure cloud computing platform. These are platforms providing investment opportunities for accredited investors and non-accredited investors. Issuance Platforms will also vary on size of offerings and vertical industry sectors and they are all registered and regulated by securities regulators.

Secondary Market Platform (SMP)

The SMP provides investors the capability to trade their Digital Securities in the open market to those who qualify to purchase, provided there are no trading restrictions at the time of the trade. The ATS operator is regulated by a local securities commission to ensure the trade is conducted in a fully compliant manner.

Transfer Agent or Share Registry (TA)

The TA manages the book of records for the company, handling all transfers, trades, and updating the company's cap table. In many cases, there are regulations that require a company to have a registered Transfer Agent or Share Registry

Issuers

The company that conducts the digital securities offering is known as the Issuer. The issuer exchanges digital securities for the investors' money or cryptocurrency, either through a selected Regulated Issuance Platform or with the investor if they are doing a direct offering on their own.

3rd Party Providers

These are the advisors in the background providing technology and services to the entire private capital markets ecosystem to facilitate transactions before Pre, During, Post and after (Trading) issuance.

These advisors are the lawyers, auditors, IR, marketing, media, digital securities protocol providers, and compliance who make sure a company a company has a successful capital raise.

In a nutshell, Digital Securities are a new method of seeking financing that allows any size or stage of company to raise funds through secured online issuance platforms, giving them access to large numbers of qualified investor in a trusted manner.

Digital Securities Stakeholders

The Digital Securities Ecosystem (DSE) consist of a number of entities represented by individuals (stakeholders) in the ecosystem. Each of these stakeholders plays a key role in the ecosystem. For Digital Securities to be successful in one country or globally, the stakeholders must be transparent and work together collegially in order to have not only a successful offering but also support the management of the digital securities throughout their lifecycle.

We have outlined all the stakeholders in Digital Securities Ecosystem which looks very similar to existing capital raising models except for four notable differences.

-  Costs, duplication, and redundancies are removed.
-  Digital Securities Ecosystem uses blockchain technology to bring an immutable trust layer that has never before existed in the private capital markets.

- 3 Secondary Market are for everyone, bring secondary market trading opportunities to all investors, not just the ultra wealthy.
- 4 Everyone in the digital securities ecosystem works together for the common goal in helping the issuer and protecting the investors.

The stakeholders in the ecosystem work together to bring the four major differences from traditional capital raising to really disrupt the private capital markets. The key is infrastructure that brings them all together.

DIGITAL SECURITIES STAKEHOLDERS



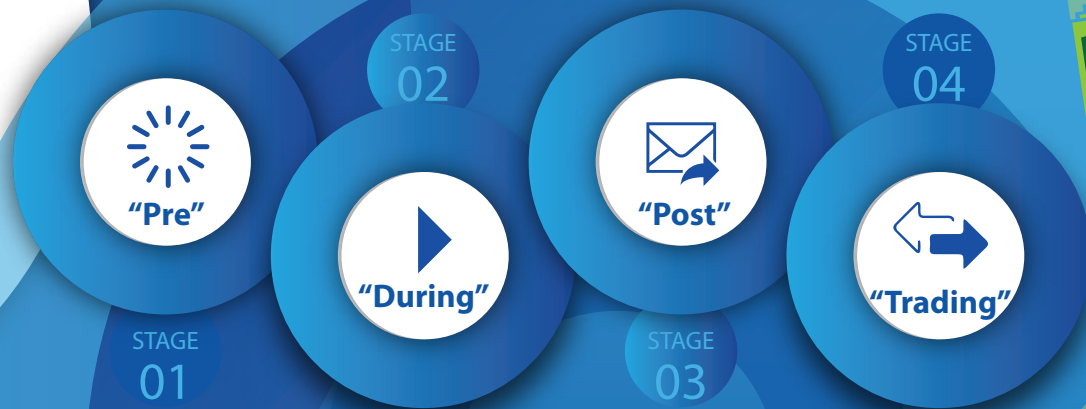
COMPLIANCE

- ID Verification
- Company Verification
- KYC/KYP
- AML
- Suitability
- Investor Accreditation
- Transfer Agent
- Corporate Registry
- Regulatory Filing



"Fully Compliant"
Trusted!

How To Get Started



How To Get Started

The Four Stages of Capital Raising

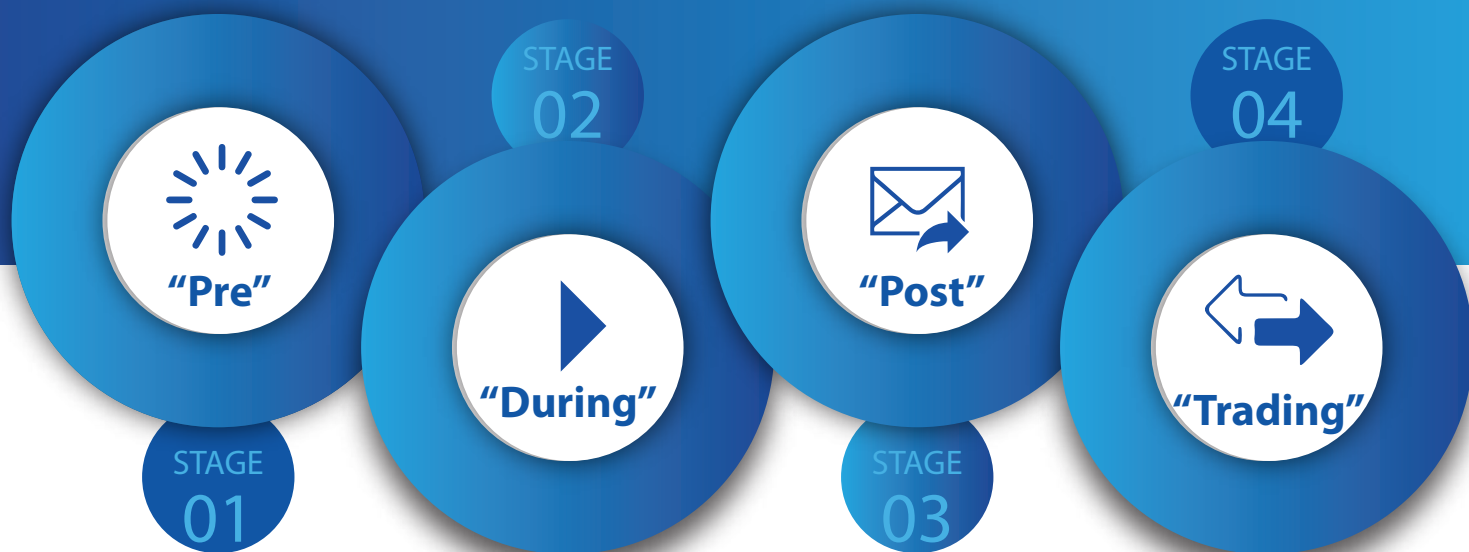
How To Get Started:

The **Four** Stages of Capital Raising

What most don't realize, the way capital is raised through Digital Securities Offering is no different than the traditional form of capital raise except for the four notable differences. We need to follow the same stages. There are four stages when you are conducting a capital raise and I am often asked which one is the most important to be successful in raising capital.

All four of the stages are equally important!

Digital Securities cannot be successful if those that need to participate do not understand what is required. The Digital Securities framework is rather simple. It is broken down into four stages. Each of these stages affects each of the stakeholders of Digital Securities in various ways. So it's important to understand these phases so all stakeholders can monitor the status, recognize the issues, and take advantage of opportunities.



Stage 1: The "Pre" Stage

So what does Pre refer to and why does it matter? Pre-Digital is short for Pre funding. It is the first stage of the four principal stages a company goes through when raising capital via Digital Securities. They sport very intuitive names, as the "Pre"- stage, the "During"- stage, the "Post"- stage and the "Trading"- stage. Each of these stages involved in Digital Securities come with a requisite set of required legwork. Meeting these requirements is essential for a capital raising round, to successfully occur without major self-defeating future liabilities.

The "Pre" stage is the stage during which all of the preparations for a successful Digital securities offering take place. During this sub-stage startups or established companies enlist a number of advisors, service providers, and the requisite technologies to accelerate your way through the Digital stage smoothly.

At the Pre stage, there is a wide variety of service providers who specialize on how to utilize Digital Securities as a means to raise capital for issuers. These services distinguish themselves in terms of the timing during which they become useful. The Pre stage would, for example, feature digital securities protocol providers, lawyers, auditors, and due-diligence companies required to ensure that a company's efforts satisfy all SEC-related compliance and filing needs. It would also include investor relations advisors and marketing management specialists who would help with the messaging and marketing end of the offering as it might be perceived.

After the fundamentals are taken care of in terms of business processes and team-building, public relations is the next critical area for Pre-Digital firms to cover as a base. The firm's social media footprint should be revised and tailored for the company's next steps in terms of publicity. It is also crucial for the issuing company to have a public relations strategy overall, as strategic planning is one of the major preventive methods when it comes to reputational risk.

Many simply assume that they can just go to a regulated issuance platform and raise money online given the brilliance of their particular business case. What they fail to realize is that regulated issuance platforms turn down a large majority of applicants. They do so because of how frequently unprepared for the due diligence and the requirements to raise capital online. Regulated Issuance platforms are required to abide by securities regulations, and they list credentials clearly on their website. It is, therefore, more of a privilege for a company to list successfully on one of these issuance platforms. It is vital that companies looking to raise funds use the appropriate service providers.

At a minimum, you should be looking at 90-120 days of preparation prior to going live on a regulated issuance platform. It should be noted that even if you decide to do the offering on your own, you should apply all the same steps and requirements as if you are doing the offering through a regulated issuance platform.

"Pre" stage

90-120 days



Stage 2: The “During” Stage

The during phase is when the issuer has now been approved by the regulated issuance platform or if they are doing the capital raise on their own, has all the compliance requirements on their website and can now begin to attract investors for its opportunity. This phase is very difficult for those issuers that did not due any planning in the Pre stage.

In During stage you will be working with marketing firms, media, investor relations to maximize your exposure in the market by attending key events, hosting investor dinners, market interview all of this to gain exposure and to bring visibility to your company and what you are doing, so the potential investors can see what your company does.

Do not confuse this as the stage where you blast people by saying I am raising capital, First you need to create an interest in your company in what you do and what you offer and if your company has strong merits that appeal to investors they will come to you.

When a company is raising capital, the During stage requires massive amounts of activities that result in online exposure that requires everyone on the company involved. As I like to call it, it’s “all hands on deck!”

In this stage a company will be providing ongoing webinars, interviews to provide the market an overview of what they’re doing as a game changer, working with their marketing and investor relations team making sure their messaging is being properly targeted at their audience (potential investors).

What is very powerful about the “During Stage” is that the messaging could also attract customers. As I’ve indicated in the past, customers are your first investors and are the biggest ambassadors for your company, see page # to learn more about making your shareholders, ambassadors to your company.

As you engage in different activities during this stage you will experience anxiety as you get closer to your date of closing but during this entire stage you will be busy creating; webinars, events, blog posts, news releases, product updates, solutions update, interviews, and advertising so this is a 90 to 120 day full out sprint that most companies don’t realize, it’s not a 9-to-5 it’s not a 9 to 12, it’s 24/7 until the closing.

Even though we have technology and the Internet which allows to access investors worldwide you still will be required to travel extensively during this time to be exposed to be seen, to be heard, and to be understood what the value proposition of your company. Many things can happen from this stage, the

closing of your offering, be ready with your team to be able to handle the influx of potential partnership opportunities which will result in for the news releases that can assist you in your capital raise, new customers who would be interested in your solutions, your company needs to be ready as a team for all of these different activities each one will be tied to your offering, as I write this book to you today we at KoreConX are experiencing this first hand as we engage in webinars, events, blog postings, news releases, we have gained more users to our platform, additional partners for our company which ultimately benefits us while doing our digital securities offering.

You need to have your entire team ready to be engaged. It's not a solo sport!



Stage 3: The “Post” Stage

The final phase which means you have successfully closed your financing round. Now you will be required to deliver the digital securities to your new found investors. You will need to make sure your securities lawyer have reviewed what you are distributing to make sure you are not violating any securities laws. Depending on which regulated issuance platform you used to raise your funds, you might be required to do regular shareholder reporting. Additionally depending on what jurisdiction you have raised capital in and exemption you might have regulatory reporting to do be done once the offering is complete along with shareholder reporting requirements.

Regulators globally share one concern in this marketplace and that is how these private companies will now manage these new shareholders and maintain updates. Regulators #1 complaint globally from investors is “I made my investment and never heard from the company again”. Today we have the tools to solve these issues but companies need to have a clear strategy to make sure they meet their regulatory obligations that are imposed on them by regulators or investors or regulated issuance platforms.



Stage 4: The “Trading” Stage

We are now finally able to utilize exemptions that allow private companies to trade their securities in registered ATS Secondary Market Platforms. This has been the holy grail for private companies, remain private while investors can take advantage of trading the securities of the company.

Secondary market trading has been around for decades but it was only available for the ultra wealthy and trades could take 6-8 weeks. Today we can do it minutes, and not just for the wealthy but for everyday non accredited investors.

As we write this book, there are over twenty secondary market platforms worldwide that are registered with local securities regulators to allow private company digital securities to trade.

We will have secondary markets in the following countries, USA, Canada, Singapore, Australia, New Zealand, Hong Kong, UAE, Saudi Arabia, UK, China, Germany, Switzerland and more coming each day.



Offering
Process



The Digital Securities
Offering Process

The Digital Securities

Offering Process

Each of the stages are very important to your offering and need careful planning to insure you are successful in your capital raise.

What the stages does not give you is the step by step process you will need to undertake to get your Digital Securities Offering closed.

Before you get started you will need to make an important decision as to how you will proceed with your Digital Securities Offering. There are two ways you can proceed a Broker-dealer/Issuance/online investment platform or your own "Direct Offering" on your company's website.

Below you will be able to see a high-level overview of both these processes.

**Broker-Dealer
/Issuance
/Online Investment
Platform
Process**

**The
Direct
Offering
Process**

Broker-Dealer/Issuance/Online Investment Platform Process

- 1 Issuer seeks to raise capital and use a Digital Securities Protocol
- 2 Issuer's Board Directors sign Directors' Resolution approving the capital raise, how much to raise, and the price per unit of securities
- 3 Issuer retains a Securities Lawyer for their Digital Securities Offering (DSO)
- 4 Issuer prepares for the DSO
- 5 Issuer selects a Digital Securities Protocol (DSP)
- 6 Issuer works with the Issuance Protocol Provider (IPP) to design, create, and test their digital securities for their offering
- 7 Issuer and Securities Lawyer work with the IPP to make sure the securities issued through the DSP meets all regulatory obligations and lifecycle and corporate actions
- 8 Issuer works with Transfer Agent or Share Registry (TA) for the issuance of their Digital Securities
- 9 TA sends all required applications and performs KYC on Officers and Directors
- 10 Issuer signs on with TA
- 11 Issuer finds a Broker-dealer/Regulated Issuance/online investment Platform to partner with for its Digital Securities Offering
- 12 Issuer can retain a 3rd party Due Diligence Report that can be used with Regulated Issuance/online investment Platform
- 13 Issuer applies to be listed on a Regulated Issuance/online investment Platform
- 14 Issuer provides the Regulated Issuance/online investment Platform mandated/regulated Due Diligence information

- 15 Issuer may be required to file with Securities Regulators prior to being listed on Regulated Issuance/online investment platform
- 16 Regulated Issuance/online investment Platform conducts due diligence on DSP and IPP to make sure they meet the regulatory requirements
- 17 Regulated Issuance/online investment Platform conducts due diligence on the TA to make sure the TA will support the DSP used by the issuer
- 18 Chief Compliance Officer (CCO) of the Regulated Issuance/online investment Platform reviews all the information provided by the Issuer to determine if the offering meets their requirements to be listed on their platform.
- 19 Issuer continues to work with IPP to design, gather all securities requirements for the company's digital securities as specified in the DSP
- 20 Issuer selects a Registered Secondary Market Platform (also known as an Alternative Trading System or ATS) for their Digital Securities to be listed
- 21 Issuer provides term sheet approved by the Board of Directors, video, investor deck, business plan, financial statements, subscription agreement, shareholders agreement, and all necessary information necessary to be listed on the Regulated Issuance/online investment Platform for review by investors
- 22 Issuer begins to promote its Digital Securities Offering to the general public or to accredited investors, depending on the exemption they chose for their Digital Securities Offering
- 23 Investor pre-qualifies as an accredited or non accredited investor when registering at the Regulated Issuance/online investment platform
- 24 Investor reviews investment opportunities on the Registered Issuance Platform Investor decides to invest
- 25 Investor is required to undergo full KYC (ID verification, AML, Bad, Actor, Investor Verification for accredited investors, and Suitability)
- 26 Regulated Issuance/online investment platform is required to determine if investor qualifies for investment from information provided by Investor which the CCO reviews
- 27 Investor reviews closing documents (subscription agreement, shareholders agreement, etc)



A Direct Offering is when an Issuer chooses to do the capital raising without a Broker-dealer/Regulated Issuance/online investment platform. The Direct Offering is often done at the Issuers website or secure URL to provide details of their offering.

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- 29 Issuer's Transfer Agent or Share Registry manages the Digital Securities holders and all other shareholders, managing all the transfers, trades, and corporate actions
 - 30 Investor can begin trading on Secondary market when trading restrictions have been removed, and the Issuer has been approved at a regulated Secondary Market
 - 31 Issuer provides regular reporting to its shareholders
 - 32 Issuer reports to regulators as required by the exemptions used
 - 33 Issuer provides regular reporting to disclosure to public via Private Company Data Repository
 - 34 Issuer once a year holds Annual Shareholders/General Meeting with all its shareholders

The above two processes provides you a high-level overview how the transactions take place. Many of these steps have detailed sub-steps, some of which are one-time while others are ongoing.

Now that we have read the process of a digital securities offering, let us view an example of how this works in a specific jurisdiction (country), the USA, which is the premier jurisdiction from where companies like to raise capital.

Digital Securities Offerings
in the United States



Digital Securities Offerings
in the United States

Digital Securities Offerings in the United States

USA has the most active private capital markets in the world. Below, we describe the current regulations for issuers, investors, regulated issuance platforms, secondary markets, Transfer Agent or Share Registry, and third-party providers. The goal of the book is to provide you the proper framework to navigate and to create a successful Digital Securities Offering in the USA, regardless of which country you are from.

There are over 30 million private companies in the USA. In order for these companies to access capital there were previously only traditional brokers knocking on doors and going public. Since the introduction of the JobsAct, private companies have a new way of raising capital. Crowdfunding was hampered by two main problems attracting investors: tradability and global access. Digital Securities is an alternative that has never been offered before to an issuer or investor that will allow more companies access to capital from global investors while providing liquidity to the accredited and retail investors that they were demanding.

USA being one of the largest capital markets in the world, regulators cannot afford to have any problems related to hurting investors.

\$2.4 trillion raised by U.S private companies vs. \$2.1 trillion by public companies, a gap that has been widening for 6 years. With the decline in the number of public companies and the rise of private financing will drive a need for efficient secondary market trading of private shares. A blockchain enabled and global compliant digital security is critical to the success of secondary markets for private shares.



USA Overview

USA has a single regulator, the SEC, that provides oversight, regulations, sanctions, and fines for the private capital markets. Along with the SEC, FINRA is the regulatory body that is specifically directed at the broker dealers and the Issuance platforms.



It is very useful to analyze each regulation from five perspectives: that of the issuer (company), the broker dealer (online investment, issuance platform), the secondary market platform, the Transfer Agent or Share Registry, and the investor. Each regulation allows or restricts different types of actions, such as the amount raised, filings, disclosures, marketing, advertising, promoting, foreign investors, etc.

SEC has implemented the JOBS Act that have three exemptions (Title II, Title III, Title IV) for private companies that are commonly used by Issuers, Broker-dealers, issuance-online investment platform, secondary markets, Transfer Agent or Share Registry, investors, shareholders, and third-party providers of solutions and services.

Title II: RegD 506(c)

Rule 506 of Regulation D, effective as of January 16, 2013, offerings, which can use general solicitation, but must be sold to accredited investors only, in which the market will let investors dictate the type of information that they need in order to make informed investment decisions. Companies relying on the Rule 506 exemptions can raise an unlimited amount of money.

Link to Regulation:

<https://www.sec.gov/smallbusiness/exemptofferings/rule506c>

Issuer



The issuer can raise unlimited about of capital from accredited investors. Issuers from anywhere in the world can use this exemption. The Issuer can either raise it capital directly via its own website "Direct Offering" or through a Broker-dealer/regulated Issuance/online investment platform. The Issuer does need to maintain its number of accredited investors below 2,000 or will trigger rule 12g.



Broker-Dealer

The Broker-Dealer (issuance/online investment platform) is required to perform due diligence on the issuer which includes bad actor check, this also includes KYC on all investors, ID, AML, suitability and investor verification.

Investor

The investor must be an accredited investor to invest and will be required to provide information to either a broker-dealer or the issuer directly to have this verified. Today over 10Million Americans qualify as accredited investors. An Issuer or a Broker-dealer/Issuance/online investment platform is required to verify the accredited investor.



Secondary Market



Secondary Market trading can begin once the 12 month mandatory hold period has been removed and if the security does not have any further restriction. The Secondary Market platform allows investors to purchase securities if they qualify for those specific securities been offered.

Today there is a number of Secondary Market platforms handling trades for those who are qualified, typically accredited individual investors, institutional investors, and family offices, such as SeedInvest, TZero, RailTo, Dbot, SharesPost, Templum, and OpenFinance.

Transfer Agent or Share Registry

Under this regulation the Issuer is not mandated to have a registered Transfer Agent or Share Registry unless the Issuer seeks to list its securities in a secondary market.



Title III (Reg CF)

Form C is a document that the company must file with the Securities and Exchange Commission ("SEC"). It requires basic information about the company and its offering. Filing of Form C is a condition to making a Reg CF offering available to investors. Regulation Crowdfunding (Reg CF) went live on November 15, 2015.

Link to Regulation:

<https://www.sec.gov/info/smallbus/secg/rccomplianceguide-051316.htm>



Issuer

The issuer can raise up to \$1.07 million in a 12-month calendar. The issuer is required to file a Reg C for SEC approval prior to be allowed to list their offering. Their offering can only be sold through a registered regulated Reg CF platform. This exemption is only for US-based companies. An Issuer can only raise their capital via a registered Reg CF platform to use this exemption.

Reg CF Platform

The Reg CF platform must be registered with SEC FINRA and receive approval prior to launching. Today there are 42 online Reg CF platforms such as SeedInvest, MicroVentures, Republic, StartEngine, WeFunder, Venture.co, and NextSeed that an issuer can apply to be listed to raise its capital.



Investor

The investors can be non-accredited investors and make investments as low as \$10.



Secondary Market

Currently there is no secondary market trading for these securities.



Transfer Agent or Share Registry

Issuers who are using this exemption are required to have a SEC Registered Transfer Agent or Share Registry to manage their book of records.

Title IV (Reg A+)

Reg A+ of Title IV of the JOBS Act is a type of offering which allows private companies to raise up to \$50 million from the public. Like an IPO, Reg A+ allows companies to offer shares to the general public and not just accredited investors.

Link to Regulation:

<https://www.sec.gov/news/pressrelease/2015-49.html>



Issuer

The issuer needs to file with the SEC for Tier 1 or Tier 2 type of offering to sell their securities to the general public. The Issuer can perform the capital raise on their own via their own website "Direct Offering" or through a Broker-dealer/regulated Issuance/online investment platform. The Issuer must be either a US or Canadian based company to utilize this exemption.



Broker-Dealer

For RegA+ Issuers can list on marketing platforms that have partnership with registered FINRA Broker-dealers (online investment platform) to make sure you offering complies.



Investor

The investor can invest as low as \$10.00 and must be over 18 years of age.



Secondary Market

The securities sold under RegA+ are free trading upon closing of the offering, there is no hold periods. The Issuer or Secondary Market platform must take into consideration Blue Sky laws where there is trading restrictions.



Transfer Agent or Share Registry

A registered SEC Transfer Agent or Share Registry is required to receive a RegA+ approval from the SEC and the TA must be retained for the life of the company.

I'm Interested,
How Should I Proceed?



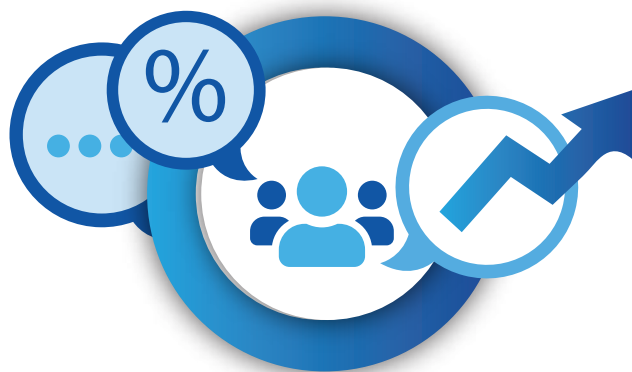
I'm Interested,
How Should I Proceed?

I'm Interested, How Should I Proceed?

What makes one Digital Securities Offering more successful than another? What are the critical success factors for Digital Securities Offerings? There are eight crucial things to do, as described below. But first, a few words about advisors and their role.

Advisors

Before you consider any Digital Securities Offering, consult your advisors to make sure your company is suited for this type of offering. You will be required to have a securities lawyer, auditors, Investor Relations, Marketing, Media, Board Directors, current shareholders, and company advisors to guide you through the process.



Depending where you conduct your Digital Securities Offering, you may have to deal with tax issues or perform corporate restructuring. It is important that you involve your legal counsel and accountants in the process from the beginning.

Since tokenization of securities is evolving in jurisdictions around the world, you may find that your advisors, lawyers, and/or accountants are not as knowledgeable with current securities regulations. You should consider finding specialists in this field.

You should have all these professionals on board and involved in the process of your digital securities offering for your company.

Here are the eight important tasks for you:

- 1 Retain a Securities Lawyer in the country where your company is legally registered
- 2 Compile corporate information, documents, and answers to questions that your securities lawyer may ask you
- 3 Prepare for Due Diligence
- 4 Prepare marketing strategy for your offering
- 5 Prepare and Investor Relations strategy
- 6 Engage a Transfer Agent or Share Registry
- 7 Designate a Corporate Secretary
- 8 Ensure you have a fully compliant Digital Securities Protocol



Securities Lawyer

The very first thing that you must do when you have made the decision to conduct a capital raise offering is to speak to your Securities Lawyer or retain one. There is no shortcut to this. You will need them to assist you and your company through the entire process. Only one major recommendation we provide here is to make sure the lawyer is a Securities Lawyer. We will provide you a list of some simple questions to ask that will help you ensure that you engage the right securities lawyer (see the section on [Due Diligence On Your Securities Lawyer](#)).



Corporate Information

Next, get your corporate information in order. Have all the necessary documents ready such as the Business Plan, Cap Table, Term Sheet, Subscription agreement, Shareholders agreement, and investor deck.

Due Diligence

This is a very strenuous exercise so it is important that your company has all the necessary information ready for the regulated issuance platform or 3rd party due diligence provider to conduct its due diligence with you in the most effective secure manner. Have your minute book, cap table, corporate and financial records up to date. You may also need to provide background checks on officers, directors and shareholders who own 10% or more of your company.





Marketing Strategy

You need a very comprehensive strategy to spread the word through social media, videos, webinars, conferences, writing, meet-ups, and engaging with influencers in your industry as well as in capital markets. Of these, social media and videos are powerful instruments.

Social Media: Have a marketing plan and start working on building your social media footprint—LinkedIn, Twitter, Facebook, YouTube, and others. You want to make sure you are seen by the world and the key ingredient in crowdfunding is Social Media. Begin to engage your online audience to support your Digital Securities Offering. Lastly, build relationships with high reach bloggers who can help market your company.

Video: There is not a single success story online capital raising that does not emphasize the importance of the video. The video is a very important tool for the company to use for the Digital Securities Offering.

Investor Relations (IR)

This is very important! You will need to make sure you have a good PR person on board. You will be on a 40-90 day sprint when you get listed on the Regulated Issuance Platform or a Direct Offering. A good IR person will make sure stories are being written about your company, bringing positive exposure, more hits to your landing site and ultimately more investment. We highly recommended that you learn as much as you can for proper preparations. If you prefer, there are several companies that provide services to quarterback the entire process from start to finish.





Transfer Agent or Share Registry

Depending on what exemption you are going to use for your Digital Securities Offering and if the desired effect is to have secondary market trading its important that you start looking for a registered Transfer Agent or Share Registry provider in the country in which you are registered to support your offering and securities you are offering.

Corporate Secretary

This is a role in a company very poorly misunderstood in private companies in North America. In the UK, UAE, India, Singapore, New Zealand and Australia most private companies have a corporate secretary to manage their minute book or corporate records to insure they are accurate and up to date. This is going to be one role in the coming years that will grow to become an essential member of your team as you want to demonstrate your good governance in your company.



Digital Securities Protocol Provider

Selecting your Digital Securities Protocol provider requires you to do your homework thoroughly. One of the most overlooked criteria is the implementation of the protocol. We have provided a number of Due Diligence checklists you can use when you are speaking to them to make sure they meet your requirements (see the section on Questions You Need to Ask a DSP Provider).





Shareholder

Your current shareholders are an extremely important resource for raising capital or growing your company. They became your shareholders in the first place because they believed in you, your leadership, your company and its products and services. By doing so, they are providing a powerful testimonial to your company. More than that, they are intrinsically motivated to help your company grow. So, it is important to leverage this most important resource.

All Hands
On Deck!



All Hands On Deck!

All Hands On Deck!

All too often, the responsibility of a company raising capital is left in the hands of a few people—and that weighs on them, affecting everyone. The majority of the team is left out of the process, carrying on day-to-day operations without input into where the company is going and how it'll get there.

Prior to conducting a Digital Securities Offering, some companies would hire a professional to do it for them as they are busy running the company. However, what if you are not a Fortune 500 company, but one of the remaining 400+ million private companies that may not have the means to hire a professional?

With the emergence of Digital Securities (equity, debt, real estate, funds, flow through, units, royalty), it's not possible to use the same methods as before. Every member of your team needs to be involved, informed, and ready to go to bat for the company, and they need to do so actively, with humor and grace.

This means that every member of the team need to be informed on what is happening and actively engaged, while also supporting the company through their own social media presence. Potential investors want to hear directly from the company and the team, not a stranger. They want to feel connected.

Raising Capital online has transformed an entire industry. Other traditional models of raising funds no longer work for 99% of companies around the world. Now you must apply the principle of "all hands on deck," which means you are not alone. You CAN'T go through the process alone, you need to have a crowd—yes, your "inner crowd".

Accessing Your Inner Crowd

The inner crowd is everyone in your company: management, board of directors, advisors, employees, advisors, partners, customers, lawyers, auditors, vendors: notice how large your inner crowd is and how many people and companies your capital raise affects? Does it make sense that they get involved? Yes!

The new era of capital raising is called crowdfunding (not "solofunding"), and transparency means visibility. Everyone must get involved right from the beginning. If they are not ready to support, find those that will, and move forward, because the traditional way of capital raising is gone. Your team needs to know what you're planning to do, and how you're planning to do it—and they need to be empowered with the skills to create and maintain an active online presence. Every CEO has the ability to sell their vision and goal to others, inspiring others to follow. This is no different.

Law firms around the world are a great example of being involved in every step of the process to help companies. They not only supply legal services, but also reach out to their clients to bring introductions awareness on what your company is doing that is impactful.

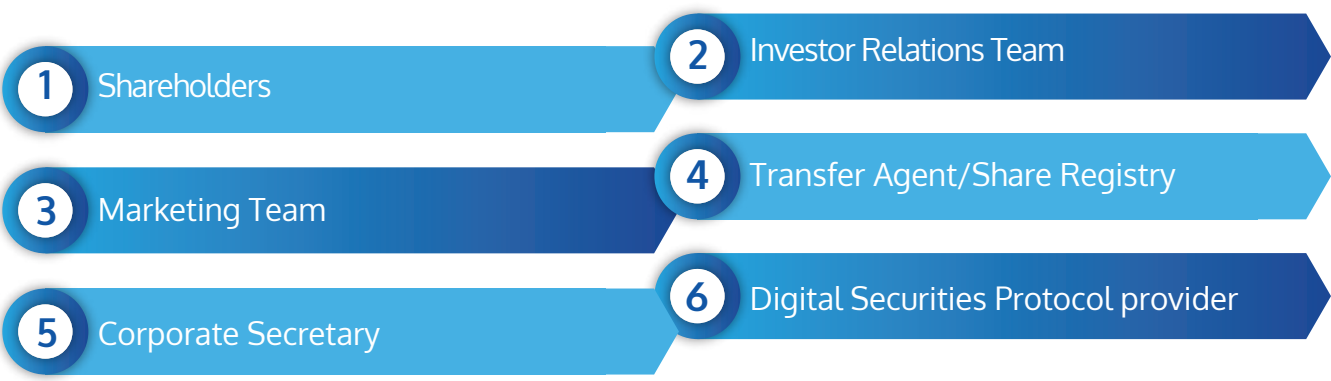
This is the new paradigm that we are a part of. We all stand to benefit one way or another from a company successfully raising money. People can 'vote with their money,' and companies can leverage the power of the crowd to attract their best customers and biggest advocates: their shareholders.

Now get your inner crowd ready for your Digital Securities Offering!

Up to this point, we have shown you the path to conducting a Digital Securities Offering. In these next sections, we dig deeper to understand some of the activities which often are only spoken off at a high-level for implementation, but with very little knowledge of the reasons as to why you need to perform them or what they really are.

Deep Dive

These activities require the involvement of your inner team at your company and stakeholders from the digital securities ecosystem.



These activities require the involvement of your inner team at your company and stakeholders from the digital securities ecosystem.



The Importance
of Shareholders



The Importance
of Shareholders

The Importance of Shareholders

Shareholders = Customers = Ambassadors!

Everyone knows that the customer is king. An interesting, unspoken belief is that shareholders are not as important as customers, and that having a large number of shareholders is a distraction for a company. This has been a question for me in several interviews over the years. However, numerous commentaries from the thought-leaders and founders of the JOBS Act (such as David Weild IV, Sherwood Neis, Jason Best, Sara Hanks, and Douglas Ellenoff) points to the profound realization that the democratization of capital and “publication” of private companies through crowdfunding creates an enormous pool of ambassadors for the company. They went on to state that when investors invest in companies through these online investment platforms portals, the investors become the best ambassadors to the company. Unlike in the public company world where shareholders may be at an arm's length from the company, private company shareholders could form a closer relationship with the company.

So, the creators of the JOBS Act envisioned what really was going to happen, and for it to work, the relationship between the company and its shareholders would change. Since the entire world is being disrupted by this, it makes sense that even the roles of companies and the relationships they have with shareholders would fundamentally change.

Let's look at the attributes of the “Customer” from a company perspective. A company cannot survive without customers. In fact, it's often said that the first customer the company receives is really investing in the company. This is a powerful concept to take to heart since it has far-reaching consequences for how you manage your shareholders as an issuer.

So how does a company get this customer, attract new ones, and manage them? The company employs a sales and marketing team to attract and maintain customers, and also provide customer support.



I only need to look at our own company. At KoreConX we have invested heavily on attracting the best for each of these roles.

These individuals are responsible for learning about the needs of the customers today and tomorrow. Understanding what customers are looking for in a company and where the customers can be found is crucial to effectively marketing to them. It is important to demonstrate your thought leadership in your sector and why your product or service is better or unique.

All the work we do to attract customers and maintain them is truly amazing. All of these activities are being managed by a number of tools such as HubSpot, Salesforce, and Lynkos that can manage all your activities with the customers and documents you send, tracking tools to see if they read it, etc. Companies around the world spend billions in this area because they understand that the more automation we add, the better we are at serving our customers.

The justification for the cost or investment by the company is simple. Companies do all this so the customers will keep buying, in essence re-investing in the company.

Great companies like Google, Inc. (\$GOOG) have shown the world that every person is a customer and a shareholder that can eventually become your ambassador, and that is priceless to your brand and company.

I say welcome them, and embrace them, and make them work to your advantage.

How Should I Manage My Shareholders?

Just raised money via a Digital Securities Offering? Have you raised money traditionally several times and have lots of shareholders to manage? So, what is the best way to manage all your shareholders?

Managing one's shareholders of Digital Securities is something that gets raised a lot. It is a hot topic because now companies are finding they have shareholder bases of well over 50 shareholders and find this burdensome. This can also be the case if you have raised money outside of crowdfunding also.

Are your shareholders a burden? If you answered yes, then there is a problem. Shareholders are and should be your biggest advocates. They believed so much in what you are doing that they invested their money in your business. There are few better advocates than those willing to stick their necks out with the founders and help your business grow.

The quickest way to turn shareholders into a burden is by avoiding them. Keeping them in the dark, failing to communicate, and waiting for them to harass you for an update turns them from a champion to burden. Remember that the customer that has a bad experience is 10 times more vocal than the happy customer. Well, the same applies to shareholders. We believe that frequent updates and being transparent on how your

business is doing is the best way to engage your shareholders.

"But my business isn't going as well as I had planned and I'm afraid to tell my shareholders." If this is your concern, it is a common one. However, by not telling them, you are failing to give them a chance to help you. Your shareholders bought into your business because they like it. Some of them may have run businesses themselves and may have valuable input or advice for you. Proper engagement will bring you advice and the possibility of more financing if the well has run dry. In my experiences, shareholders can be understanding and helpful if you just give them the opportunity.

To manage your shareholders in an optimal manner requires firstly that the entrepreneur knows his investors. Knowing the investors or shareholders goes far beyond just sending them updates or asking for more money. It involves building a professional relationship where the worries and struggles of the company are shared by all and not by one.

The entrepreneur also needs to regularly communicate about the progress of the company so that trust, transparency, and openness within the boundaries of the company are norms that are expected of everyone. Having a proactive attitude and taking the initiative to share new updates regarding internal accounting and auditing, financial information, product and manufacturing, research and development, marketing strategies, and sales forecasts should happen regularly.

The entrepreneur should also reach out to collect shareholder feedback via polls and personal communication in a way that makes shareholders feel as though their views are really being taken into consideration. Obtaining feedback and keeping abreast of shareholders in a personal way can significantly affect their willingness to support you when the going gets tough. It makes for a better experience for everyone!

Hopefully you now agree that shareholders can be a very important asset for the company and keeping them engaged is important. Now, what is the best way of doing that? There are many tools to help and I bet many people started with an Excel list and Outlook, maybe even progressing to Mailchimp or some other mail program. While this is a common approach, it is riddled with inefficiencies and risk. What if a shareholder moves or changes their contact details? Did you know email is NOT secure and that once you send it from your server it becomes part of the public domain? Are you comfortable with your private information being publicly available? How are you tracking their engagement?

The Importance of Shareholder Communications & Management

Everything you read about Digital Securities is all about the Pre- and During phase of Digital Securities Offering. The one area that is overlooked is the stage that comes after the raise is done. This final post-raise stage covers trading and corporate actions.. This section covers one element of the post-stage, namely, Shareholder Management and Shareholder Communications. This is all about managing and communicating with the very people who invested in your company.

Shareholders can make or break a company. They are your biggest advocates, your monetary backing, and your own personal peanut gallery.

Technology advancements in open communication and access to information in the past decade have given shareholders the opportunity to engage themselves much more in the companies they have invested in. Economic and regulatory trends have created an environment where shareholders are more numerous and much more diverse in terms of background, involvement and agenda, all resulting in the growing importance of effective shareholder management.

The democratization of capital is resulting in a larger number of shareholders with a more diverse background. With technological advancements and barrage of communication through traditional news media, social media, and the ubiquitous internet, shareholders are culturally attuned to being more engaged with their investments. They are following regulations, the economy, and consumer behavior.

Private companies cannot be left behind in communicating to, and engaging with, their shareholders. It is better that your shareholders hear first-hand from you where you have better control at conveying the right message and asking for advice or help.

In the private market, there are countless different approaches for how you can manage these shareholders. Proven time and time again, the most successful shareholder management, in terms of engagement, relationship longevity and monetary access, comes as a result of open communication, involvement and transparency.

Effective Shareholder Management Strategies

There are few strategies or principles that will make your shareholder management effective. The most important one is to understand your shareholders in depth from which all else follows.



1

Understand your shareholders.

All your shareholders are not the same. The reasons they invested in your company are usually quite different. Shareholders also differ in the amount and type of information they need. They may also respond to different methods of communication. For shareholder management to be effective, you have to pay as much attention to understanding your shareholders as you would to your customers.

Use multiple ways and timings to communicate.

You have to use multiple ways to engage with your shareholders, not just the obligatory periodic email or an annual general meeting. You can leverage the best in communications technology and use multiple methods, such as email, blog, newsletter, webinar, local meetings, etc. Shareholders respond differently to the various styles of communication. Some are happy with regular newsletters. Others like to hear the management's commentary in a webinar. The more sophisticated investors like personal phone calls or like to meet up locally.



2

Ask for opinions, advice, and help.

Shareholders like to hear from management. They like to be told what's going on. They would welcome an opportunity to ask questions. They certainly would appreciate being asked for advice and opinion. Shareholders may also have connections to your target market or to good partners for the company. This is especially true of the more sophisticated accredited investors and institutional investors.



3

Make shareholder engagement an operational activity.

Shareholder engagement is an ongoing activity. Rather than viewing them as a burden, think of your shareholders as you extended advisory team. Change is inevitable - the economy, competition, demand for your company's services or products, customer demographics, industry trends, regulation, international politics, etc., are all agents of change. For this reason, the communication with your shareholders should be ongoing. Your shareholders have already invested their money. Now, give your shareholders more opportunities for them to invest their minds in your company.

4

Use multiple ways and timings to communicate.

You should consistently be asking yourself if your shareholders think your shared information is complete and transparent. Do they understand the goals of the company and the strategies used to meet those goals? How confident are they in the business and the leadership?

5

Be open about challenges and issues.

Companies aren't always on an upward trajectory—especially in the case of startups who may be navigating their way through a tricky minefield. In these instances, communication is even more important. If you aren't reporting returns to your shareholders, it is imperative that you report the actionable steps and progress you are making towards producing returns in the future. Shareholders understand the ups and downs of revenue and profits.

6



Use simple language when communicating.

It is not true that more complex language will impress your investors. The S&P Global Market Intelligence team built an AI algorithm to analyze the language used in investor conversations. They found that “Firms whose executives provided the most transparency by using the simplest language and by presenting results with numbers outperformed their respective counterparts by 2.11% and 4.43% annually with significance at the 1% level.”¹

Communicate expectations about goals and priorities.

By setting the right expectations with shareholders on company goals and strategies you don’t have to panic and feel obligated to constantly be reporting a booming business. In 2005, Duke University’s John Graham and Campbell R. Harvey, and University of Washington’s Shivaram Rajgopal, conducted a survey of 401 financial executives which found that “a startling 80% of respondents said they would decrease value-creating spending on research and development, advertising, maintenance, and hiring in order to meet earnings.”²



Capitalize On Your Shareholders

Once you have successfully engaged your shareholders you can empower them to help themselves by becoming advocates for the company and helping it grow. Shareholders can be your biggest fans. They believed in the company so much that they put their money behind it. Capitalize on that passion by giving them everything they will need to be brand advocates in their respective networks and communities.

Brew Dog, a craft brewery out of the UK has taken this tactic to the next level. As they boast:

"BrewDog is owned by over 97,000 craft beer crusaders who invested through our Equity for Punks raises. Craft beer crowdfunded by the people who drink it, and love it just as much as we do!

Over the past decade we've seen our community grow from 2 men and 1 dog, to a global community of people who live and breathe craft beer. They are the heart and soul of our business and central to our success."

These guys are our beery brand ambassadors; our craft crusaders.

By incentivizing their shareholders with early access to new products or events, and giving them a say in new flavors and company direction, their 'Punks,' as they call them, are directly involved with, and helping to write, the company narrative. They are much more motivated to use your products or services themselves if applicable, and also to spread the word to their friends, colleagues, network, media connections, etc. if they are educated on current efforts within the company and empowered to speak confidently about what is coming.

Conclusion

Managing shareholders should be a high priority for any leadership team. Their monetary investment in your company is only the beginning. You also want them to invest their minds in your company. With that mindset, you will find that shareholders are an asset and not a distractoin. However, you must strike a fine balance between engaging your shareholders and not allowing them to distract you from the daily operations of your company. Also recognize that you will not be able to please all your shareholders all the time.

Investor Relations



The Importance of
Investor Relations

The Importance of Investor Relations

Investor Relations (IR) has always been recognized as an important component of public companies. This is due to the large number of shareholders, trading activity on public exchanges, and news about the company.

Private companies typically pay much less attention to IR because they may have only a few shareholders. It is easier to send each other emails or make phone calls.

However, as the private capital markets expand due to the effect of the JOBS Act of 2012 and democratization of capital through digital securities, the number of shareholders in private companies are growing very rapidly. Moreover, digital securities and the growing number of registered ATS platforms bring more liquidity and more investors to participate in private companies.

The Role of IR

A formal Investor Relations capability—whether in the form of an IR department or in the form of outsourced and managed IR platform—helps make IR activities more efficient.

Whether the number of shareholders is large or small, besides the issue of efficiently handling IR activities, it is even more important to ensure that all communications with investors is compliant, traceable, and auditable. There are many examples of lawsuits that result from miscommunication even in small private companies that do not have a streamlined process or a platform for IR.

While Investor Relations may seem like an all-encompassing term referring to the relationship between investors and the company that they invest in, in practice the definition is more precise.

Investor Relations professionals are tasked with providing investors with up-to-date information on company affairs, so that private and institutional investors stay informed on the going ons of companies.

Considered to be a sub department of Public Relations, Investor Relations works to create holistic and financially beneficial communication between investors, shareholders, and the general financial community.

Why IR?

Investor Relations professionals are always aware of the key corporate information including in depth knowledge of the product and services offerings, the latest updates on the company's operational and financial performance, as well as its key performance indicators. This information is then compiled and presented in a coherent manner so that investors understand how well the company is performing. A description of the company's financial statements, financial statistics, and an overview of the company's internal organization is made available to investors. This helps to paint an accurate picture of the company's private internal workings.

Two-way communication, as opposed to a one-way flow, is essential to investor relations in the modern economic climate that is characterized by periods of high volatility. Investor Relations has been equated with full disclosure – where only important or relevant information is shared with shareholders. But that is no longer the case. With the rise in popularity of Alternative Finance Platforms like regulated equity crowdfunding, investors now want, need, and expect so much more: consistent and honest communication between companies and their shareholders. In other words, they want to see full transparency. It is the responsibility of Investor Relations professionals to integrate finance, communication, marketing, and securities law compliance to enable effective communication between the company and relevant parties.

Why is communication so important? Through transparency, investors are able to get a grasp of the true value of a company's business. Therefore, the primary goal of Investor Relations is to help investors understand the true value of the company and its key performance indicators.

For Investor Relations professionals to be efficient and effective today, they must employ a number of tools to accomplish the above goals and achieving effective two-way communications with investors.

- Excel sheet to manage shareholders/investors
- Sales automation tool
- E-marketing tool
- Meeting Planner

Time is wasted in trying to combine the data from each of these fragmented tools and then report to management and board who are ultimately responsible to shareholders of the company.

Marketing your
Securities



Marketing your
Securities

Marketing your Securities

In the years I have spent in the capital markets, the one area that has taken longer for many to understand is Marketing. This should not be surprising given that most companies often find marketing a very difficult process and think its a waste of time and money.

Marketing is important, that's the bottom line! Your company requires it to build awareness, leadership and thus attracting customers to your business.

The exercise is a killer, makes you really look at your company, your product, solutions and really know who your true customer or client who will want what you are offering. This is the art and science combined, this is what separates companies apart.

Marketing an offering is no different. In many cases, it becomes even more important because the type of investors you are going to target impacts your your marketing, investor relations, messaging, events etc.

The Role of Marketing

Not all investors are alike. Each investor views your company's investment opportunity in a different way depending on multiple factors. So you can see that understanding who you are targeting and matching their requirements is no different than when you are selling a product or solution to the market and attracting customers.

Consider the various types of investors below. It's not possible to hit them all with the same messaging. Andrew Corn, President/CEO 5EAIM stresses, in webinars and at events, the importance of making sure you segment your investor target of investors so you can make sure you send the right messaging. By not following this, your company will be missing an opportunity to engage with the right target.

Each of these investors are very different and need specific messaging, and movitavation:

- ☒ Non-Accredited Retail Investors
- ☐ Accredited Investors
- ☐ Family Offices
- ☐ Venture Capital
- ☐ Institutional Investors

Why Marketing?

Each of these types of investors require education that is specific to their goals and situation. Your messaging should address known issues in the market, such as the fraudulent ICOs and STOs, and how your offering is different. You should provide detailed information on what full compliance means rather than just using some high-level words. Regardless of the type of investor, you should cover the major differences between your company and the fraudulent ICOs and STOs, and show this in a way that is comprehensible to each type of investor. Without this targeted education, the type of investors you need may be turned off. Alternately, the wrong type of investors might waste your time with needless questions or cause problems after the offering closes.

When you are putting your information package together, be clear, concise, and targeted. Make sure your information is finalized and vetted by your securities lawyer to prevent any false or misleading information.

Include details of your offering, such as the asking amount, your jurisdiction, your team, qualifications, experience, etc. Always remember that investors need this level of transparency to be convinced in their own mind that your offering legitimate.

Along with marketing, this is the level of detail and transparency that will increase the chances that your potential investors will invest in your venture.

Transfer Agent
or Share Registry



What is a
**Transfer Agent
or Share Registry?**

What is a Transfer Agent or Share Registry?

The industry is in a buzz with digital securities as the new path to capital raising. Digital Securities have an opportunity to transform the private capital markets, but in order to do so its important to understand how it all works.

The industry as a whole is starting to realize that to operate a platform to help companies raise capital or to do secondary market trading requires the operators to be licensed.

What we have seen so far many have overlooked as a very important piece in this puzzle which is what is the role of the Transfer Agent or Share Registry.

Transfer Agent or Share Registry are most notably known for their custodianship related to public company. In the private company world its has not been a regulated service that companies needed to

The Role of a Transfer Agent

First let's look at what a Transfer Agent (TA) or Share Registry does for a private company. For many this would, this would be a first look and an eye-opener regarding the role of a TA.

A **Stock Transfer Agent or Share Registry or Transfer Agency** is a company, usually a third party unrelated to stock transactions, which cancels the name and certificate of the shareholder who sold the shares of stock, and substitutes the new owner's name on the official master shareholder listing.

In many of the regulations, a Transfer Agent or Share Registry is required.

The term "Transfer Agent or Share Registry" means any person [or company] who engages on behalf of an issuer of securities or on behalf of itself as an issuer of securities in (A) countersigning such securities upon issuance; (B) monitoring the issuance of such securities with a view to preventing unauthorized issuance, a function commonly performed by a person called a registrar; (C) registering the transfer of such securities; (D) exchanging or converting such securities; or (E) transferring record ownership of securities by bookkeeping entry without physical issuance of securities certificates.

Among their key functions, [Transfer Agent or Share Registry] may: (i) track, record, and maintain on

behalf of issuers the official record of ownership of each issuer's securities; (ii) cancel the old certificates, issue new ones, and perform other processing and recordkeeping functions that facilitate the issuance, cancellation, and transfer of those securities; (iii) facilitate communications between issuers and registered securityholders; and (iv) make dividend, principal, interest, and other distributions to securityholders.

Transfer Agent or Share Registry perform three main functions: Issue and cancel certificates to reflect changes in ownership. For example, when a company declares a stock dividend or stock split, the Transfer Agent or Share Registry issues new shares and keeps a record of how many shares or bonds each investor owns.

Why a Transfer Agent?

Here are 5 reasons a private company should consider using a Transfer Agent or Share Registry company:



You want your shareholders to have confidence in good governance in your company



You want to offer your digital securities holders liquidity in secondary market



You have a very complicated cap structure (shares, options, warrants, loans, SAFE, CrowdSafe, Debenture, Digital Securities)



You have hundred or thousands of shareholders



The exemption you used to raise capital requires you to have a registered Transfer Agent or Share Registry

Role of Corporate Secretaries
in Private Companies



Role of Corporate Secretaries in Private Companies

Role of Corporate Secretaries in Private Companies

The Corporate Secretary's role to date has only been utilized, appreciated and well understood by listed companies and larger private company enterprises. Rules mandate their extensive role in corporate governance.

Enter the meteoric rise of Digital Securities!

The number of private companies seeking to raise capital globally by issuing Digital Securities globally will grow to in the near future to over 2 million. Legislation rising to govern digital securities will universally mandate that private and start-up companies use the need of corporate secretaries to keep minute books current, shares registered and other controls and procedures in place.

To date, private SMEs and start-ups have been restricted in their activities with very little governance or compliance responsibilities. However, if a private company or start-up wants to access digital securities they will need to follow new rules that regulators will put in place to protect investors including comprehensive transparency, governance and compliance requirements.

Private and start-up companies will remain private but with new regulations requirements, notably record keeping. Securities regulators have identified this area as critical. Gone are the days of managing your minute book, corporate records via a simple spreadsheet in an email or drop box environment. New tools are needed.

Digital Securities
Protocol Provider



Digital Securities
Protocol Provider

Digital Securities Protocol Provider

Selecting the digital securities protocol for your company is very important. You need to make sure the protocol you select is fully compliant with securities regulations in each of the countries you are planning on selling your securities. The protocol must also handle the complete lifecycle of digital securities that includes issuance, secondary trading, and corporate actions.

The Role of the DSP

The DSP fulfills a critical role in the life of a company. A common misconception is that a DSP is only useful for the issuance. However, securities (whether digital or otherwise), have a life beyond the issuance or even secondary trading. Securities are affected by various types of corporate actions. Both the issuer as well as the holders of digital securities need to be supported in ongoing compliance obligations, financial transactions such as dividend payments, exercise of various rights triggered by corporate events (such as M&A), handling of options and warrants, etc.

The digital securities protocol, in other words, must also be able to:

- Meet regulatory requirements in each country
- Work with Transfer Agent or Share Registry fully on-chain
- Manage the full lifecycle of the digital securities
- Manage all corporate actions
- Provide for recourse and recovery in case of losses or fraud





KoreConX's KoreProtocol is the standard for managing fully-compliant digital securities throughout their entire lifecycle. KoreConX is also a full-service implementer of the KoreProtocol.

Why a DSP?

Just as important, if not more so, is the Implementation Provider for your digital securities. The Implementation Provider creates the actual code that implements all of the provisions of the protocol. A full-service implementation provider is your partner for the entire life of the digital securities.

Major requirements of the Implementation Provider are:

- Wide and multiple years of experience in financial securities from both business and technology perspectives
- Large installed base of companies and investors
- End-to-end solution stack that is functionally and technically well-integrated (and not a loose set of uncoordinated piecemeal solutions)
- Enterprise-class technology foundation that is proven and not experimental (to limit technology risk)
- Global operational infrastructure

Due
Diligence



Due Diligence.

Due Diligence

The phrase that make entrepreneurs cringe is, "Due Diligence". However, due diligence is not just something that is done one way, where someone subjects the entrepreneur to a barrage of questions and demands for information. Entrepreneurs and company management must understand that they too need to perform due diligence on service providers. Don't be afraid to ask the hard questions. In the end, it will save you thousands of dollars.

Below are some of the Due Diligence activities. One is for your company to prepare, two when you meet with your securities lawyer for your offering, three when you are seeking to bring on a digital securities protocol. Below are the relevant checklists. These are the questions you should pose or be prepared to answer.

Due Diligence On Your Securities Lawyer

This list of questions is when you are engaging with a Securities Lawyer. It is very important that you look for a securities lawyer. There are many excellent lawyers, but for your Digital Securities the ones that matter the most are securities lawyers.

I have spoken to many CEOs of companies who never understood why it was important to ask this question. They always assume a corporate lawyer should know securities laws, but that is not always the case. This is no different than doctors: a general practitioner is a generalist and then there is the specialist.

In this case, Securities Lawyers are the specialists.

- ☐ How many years of experience do you have in securities laws?
- ☐ What type of offerings you have done for private companies?
- ☐ Do you work with a network of securities lawyers in other countries? If yes, in which countries?
- ☐ Are you offering your services on a flat rate or per hour basis
- ☐ Have you ever done a cross-border private company offering

Questions a Securities Lawyer Will Ask You



A Digital Securities Offering is a serious business. The days of the ICO/STO are over. These are clear messages not only from the SEC and other regulatory bodies but also from thoughtful and experienced professionals. The SEC, in particular, is delivering this message mainly through regulatory actions and the position of SEC Chairman Jay Clayton. Most recently, a federal judge ruled that the U.S. securities laws may cover ICOs, giving the Feds a much-needed victory in their battle against fraud and money laundering.

Regardless of the nuances and the debate, what should be clear to issuers who have legitimate businesses or startup plans is that investors, as well as issuers, require protection. If anything, legitimate issuers should welcome such scrutiny and regulation since it ensures the market is kept free of bad actors and questionable affiliations.

However, companies considering a digital securities offering need to be prepared to respond to questions that their securities lawyers will ask. To this end, we reached out to top lawyers to learn which information is crucial to them when a client reaches out for advice on their DSO.

Below is the list of items on which lawyers and other advisors will be focusing. These questions are grouped into three categories: Pre-Issue, During the Issue, and Post-Issue. Within each category, there is no particular order. You should be ready when contacting your securities lawyer or advisors to make sure you are prepared. This list is subject to change as the market develops.

Pre-Issue Questions

- 1 What jurisdiction is your company incorporated in and in what jurisdictions is your company doing or will do business?
- 2 In which countries are you planning to offer your digital securities?
- 3 Is the company already a public reporting issuer anywhere or are any of its other classes of securities already listed on an exchange?
- 4 Will you be conducting a Direct Offering or a Broker-Dealer Offering or Regulated Issuance Platform? If a Direct Offering, how will you manage all of the regulatory requirements (including "Know Your Client" requirements)?
- 5 If you aren't using a Broker-Dealer/Regulated Issuance Platform and you are selling to retail investors, how will you comply with the requirements of states that require you to register yourself as an issuer-dealer?
- 6 Will this be for accredited investors only or will it also be made available to non-accredited investors? How do you plan to confirm or verify accredited investor status?
- 7 How do you plan to confirm or verify investors are not on prescribed lists?
- 8 Do you have a method to establish the suitability of the investment for an investor?
- 9 What securities law exemptions do you intend to rely on for each jurisdiction you want to sell your digital securities?
- 10 On which blockchain is the token going to be created?
- 11 Do you understand the differences between public blockchains and closed or permission blockchains?
- 12 Does the platform already exist?
- 13 Do you know which Digital Securities Protocol you would like to use?

13

Has the smart contract code been audited by a code audit firm?

14

What level of assurance does the code audit firm give in terms of their work?

15

Is the Digital Securities Protocol implemented on robust, highly-secure, and enterprise-class technology platform?

16

Is the digital securities coupled with a cryptocurrency?

18

Does the blockchain have adoption and recognition from financial institutions?

19

What is the stated purpose of the offering and what is the business of the issuer?

20

Is the number of digital securities fixed or unlimited? Is there a release schedule for future securities?

21

How many digital securities, if any, are being retained by management?

22

Will the digital securities have a fixed value?

23

How many digital securities holders do you expect?

24

Will the purchasers be seeking a return on their investment or are they buying the digital securities for other purposes?

25

Does your company currently have a Shareholders Agreement?

26

Does the company have a board of directors?

27

Do you have financial auditors?

28

Will the blockchain be used to facilitate any additional levels of transparency?

29

What social media platforms are you using?

A

Telegram

B

Twitter

C

Facebook

D

M

Medium

E

in

LinkedIn

29

Do you know what limitations on communication or other requirements (such as legending or delivery of an offering document) apply to social media communications?

30

Do you have a white paper?

A

Has the whitepaper been released?

B

Does the whitepaper include a clear business plan?

C

What statements, representations, or comments have been made by management in the whitepaper, any other publication, or orally, about the future value or investment merits of tokens?

D

Should the whitepaper be characterized as an offering memorandum and if so, does it have the prescribed disclosures and notices?

Pre-Issue Questions

1

What documentation or certification will investors be required to sign?

2

What is your investor record-keeping system and how do you plan to handle regulatory reporting of the distribution of securities tokens?

3

What are the tax implications of the sale of the token for both the issuer and the investor?

4

Will the digital securities be immediately delivered to the purchasers?

5

Are you planning to set up a "bounty" or similar program that offers free securities?

5

Will you be using airdrops?

A

How are recipients selected and what do recipients need to do in order to receive airdrops?

B

Have you made sure the airdrops comply with applicable securities law?

Post-Issue Questions

- 38 If ongoing tax reporting (e.g., FATCA) is required, how will that be handled?
- 39 Does the Digital Securities Protocol manage the lifecycle, custodianship requirements, and corporate actions of the digital securities?
- 40 Does the Digital Securities Protocol have the capabilities to be managed by a regulated Transfer Agent or Share Registry?
- 41 Does the blockchain for the Digital Securities Offering prevent cryptocurrency fraud, unauthorized mining, and forking?
- 42 Does the blockchain for the Digital Securities Offering provide guaranteed legal finality for securities transactions?
- 43 Does the blockchain for the Digital Securities Offering provide for recourse with forking or technical intervention in case of errors, losses, or fraud?
- 44 Is there a utility element in the digital securities?
- 45 Does the blockchain have a well-defined and published governance model, and are you confident that the governance processes and governing entities are credible?
- 46 Are you aware of the requirements for a Transfer Agent or Share Registry?
- 47 What are the rights of digital securities holders?
 - A Voting?
 - B Dividends?
 - C Share of revenue/profits?
 - D Wind up the business?

48 What is the exit strategy for the company?

49 Do you intend to list the digital securities on any secondary markets and are those markets in compliance with regulatory requirements that apply to securities exchanges?

50 Following issuance of the digital securities, are any lock-up periods required or advisable with respect to the token?

51 Are there any requirements that the digital securities may only be traded with people in (or outside) certain jurisdictions?

52 Once any lock-up period has concluded, where will the digital securities be able to trade?

53 How will any applicable resale restrictions be implemented and complied with? How will subsequent sellers and purchasers of digital securities be made aware of these resale restrictions?

54 How are any requirements for the tokens to trade on a given market or alternative trading system being handled?

55 Does the company intend to provide ongoing reporting to investors and if so, how will that be handled?

Due Diligence by the Issuance Platform

Regulated Issuance Platforms today are receiving thousands of applications per month and turning down 90% of them. Only the most promising ones get to be listed on these issuance platforms.

The reason for most of the rejections is for the simple reason that the companies are not ready. The companies have not done their homework. They have not prepared appropriate and complete corporate records, financial information, PR campaign, marketing, investor relations, social media presence, or potentially they are just not viable businesses. The issuance platforms require quality, so they have the right to refuse those businesses that they determine do not meet all their standards.

There are few strategies or principles that will make your shareholder management effective. The most important one is to understand your shareholders in depth from which all else follows.



Corporate Records

- A** Your minute book is up-to-date
- B** No minute book deficiencies
- C** Cap Table is kept up-to-date with shareholder information, share capitalization structure, etc.
- D** Related party transactions are documented



Financial Diligence

- A** Financial Statements Audited, Reviewed, Notice To reader (requirements vary by jurisdiction)
- B** Projected Revenues, costs, profits, cash flows and balance sheets



Background checks

- A** Officers, Directors, and any shareholders with 10% or more of the company
- B** Bad Actor checks



Business Plan

- A** Company (Issuer) business plan
- B** Executive Summary
- C** Term Sheet for Digital Securities Offering



Investment Documents

- A** Term Sheet
- B** Subscription Agreement
- C** Shareholders Agreement (if needed)
- D** Investor Deck (Offering Memorandum or Private Placement Memorandum, depending on jurisdiction)
- E** Company Video



Marketing, IR, PR

- A** Marketing strategy and budget
- B** Investor relations strategy
- C** Media strategy
- D** Social Media
- E** Make sure you have a substantial social media footprint (LinkedIn, Twitter, Facebook, YouTube, etc.)
- F** Have a PR strategy for your Digital Securities campaign



Remember, with a DSO, the principles of raising money has not changed, only the speed of raising the funds and the breadth of qualified investors you can attract. You cannot afford to skip steps!



Questions You Need to Ask a DSP Provider

- 1 Where is your company registered and headquartered?
- 2 Who is in the management team?
- 3 Who is on your board of directors?
- 4 How long has the company been in business?
- 5 How many employees are there in the company?
- 6 How many clients does the company have?
- 7 How many years of experience does your CTO have?
- 8 How many years of experience does the management have in capital markets?
- 9 Where is your support team located?
- 10 What chain is your company using?
- 11 Does your chain require a wallet?
- 12 Does your chain require gas fees?
- 13 Does your chain have mining?
- 14 Is your chain prone to 51% attack? If yes, what remedies do you have in place
- 15 Is your chain commingled with cryptocurrencies?
- 16 Does your chain provide for recourse and recovery in case of losses or fraud?
- 17 Does your chain require that investors and shareholders keep their own private keys safely?
- 18 Does your chain validate and verify all participants?
- 19 Who provides endorsement of securities transactions?
- 20 Is data kept private and on a need-to-know basis?
- 21 Is data visible for inspection to the public at large (as in the case of public blockchains)?

KoreConX's is both the original designer and implementer of the KoreProtocol

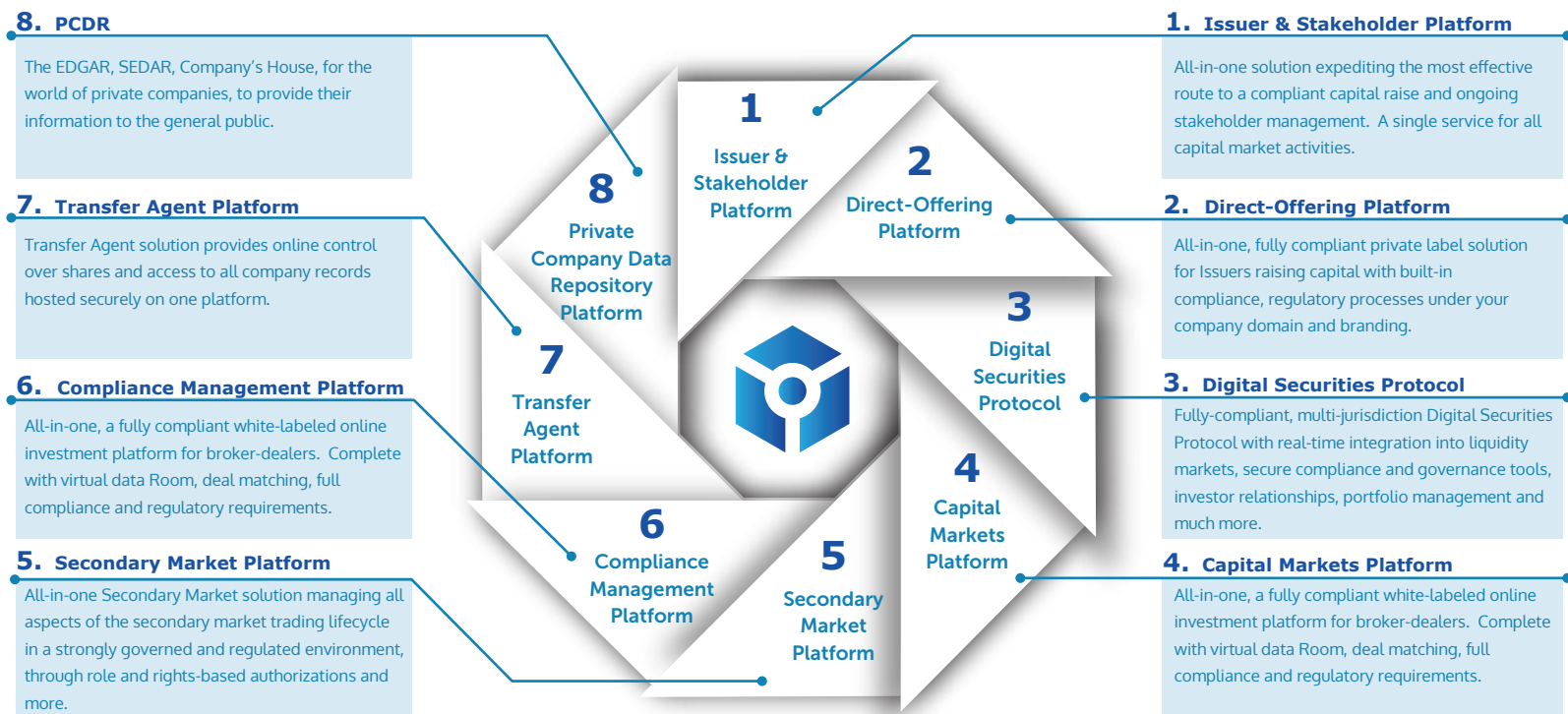
KoreConX
Integrated Platform



KoreConX
Integrated Platform

KoreConX Integrated Platform

For companies, investors, broker dealers, ATS operators, Transfer Agent or Share Registry the challenge would be to find one platform that delivers everything to solve the problem of private capital raising. KoreConX is revolutionizing the private capital markets with its all-in-one platform that has 8 solutions to serve the private capital markets worldwide.



 **KoreConX**
all-in-one solution

- Issuer & Stakeholder Platform
- Digital Securities Protocol Platform
- Transfer Agent Platform
- Direct Offering Platform
- Capital Markets Platform
- Secondary Market Platform
- Compliance Management Platform
- Private Company Data Repository

"World's first all in one platform for the private capital markets"

The KoreConX all-in-one platform serves the entire private capital markets ecosystem under one platform. There are 8 distinctive solutions that KoreConX provides to the private capital markets:

Issuer & Stakeholder Platform (KoreConX All-in-One)

All-in-one solution expediting the most effective route to a compliant capital raise and ongoing stakeholder management.

- **A single service for all capital market activities; raising capital, business loan, M&A, going public or RTO**
- **Cap Table**
 - Secure, all-Inclusive digital asset management providing real-time equity and debt information. Manage any security type (equities, security tokens, debts, SAFEs, promissory notes, debentures, options, warrants etc.) from a centralized and secure platform.
- **Portfolio**
 - Secure dashboard for effectively managing all investments, streamlining portfolio tracking and analysis, optimizing exposure management, liquidity tracking, cash flow modeling and performance reporting in real-time.
- **DealRoom**
 - Secure, virtual data room for all your fundraising and merger and acquisition activity. Integrated directly with funding, legal and compliance resources for immediate access. Virtual Data Room (VDR).
- **Investor Relations**
 - Manage, moderate and measure investors anytime, anywhere. Build better relationships with your investors with secure investor communications, e-voting, and governance tools and so much more.
- **Minute Book (Virtual Minute Book)**
 - Manage, moderate and measure investors anytime, anywhere. Build better relationships with your investors with secure investor communications, e-voting, and governance tools and so much more.

○ Private label

- Privately branded all-in-one platform for your company, firm.

○ Fully Integrated with KoreConX all-in-one solutions

Direct-Offering Platform (DOP)

All-in-one, fully compliant private label solution for Issuers raising capital with built in compliance, regulatory processes, secure payment and document tracking, all under your company domain and branding.

- Branded website for offering
- Due Diligence report
- KYC, ID, AML, Investor verification, Bad Actor check
- Payment and Escrow
- Document signing
- DealRoom manage offering
- Fully Integrated with KoreConX all-in-one solutions

Digital Securities Protocol (DSP)

Fully-compliant, multi-jurisdiction Digital Securities Protocol with real-time integration into liquidity markets, secure compliance and governance tools, investor relationships, portfolio management and much more.

- Permissioned Blockchain "KoreChain"
- No Mining
- No Gas Fees
- No Forking
- Fully-compliant

- Universal protocol to be used within Hyperledger Fabric nodes
- Integrated to Regulated Issuance Platforms (RSI)
- Integrated to Secondary Markets Platform (SMP)
- Fully Integrated with KoreConX all-in-one solutions

Capital Markets Platform (CMP)

All-in-one, fully compliant white labeled investment platform for broker-dealers. Complete with virtual data Room, deal matching, full compliance and regulatory due diligence tools and more all under your company name and branding.

- Fully compliant online investment platform
- Compliance Management solution, multi-jurisdictional
- KYC, ID, AML, Investor verification, Bad Actor check, Background check, suitability
- KYP, Due Diligence check
- Payment and Escrow
- Document signing
- Fully Integrated with KoreConX all-in-one solutions

Secondary Market Platform (SMP)

All-in-one Secondary Market solution managing all aspects of the trading lifecycle in a strongly governed and regulated environment, through role and rights-based authorizations and more.

- Trading Activity Dashboard
- Bid & Ask
- Volume Trading
- Chart Indicators

- Orders Types & Forms
- KYC, ID, AML, Suitability, Investor Verification
- Escrow
- Fully Integrated with KoreConX all-in-one solutions

Compliance Management Platform (CMP)

Private label solution to perform all Know-Your-Client (KYC), Anti-Money Laundering, ID verification, and manage all due diligence requirements, and regulatory reporting, while maintaining governance and transparency.

- Compliance Management solution, multi-jurisdictional
- KYC, ID, AML, Investor verification, Bad Actor check, Background check, suitability
- KYP, Due Diligence check
- Payment and Escrow
- Document signing
- Fully Integrated with KoreConX all-in-one solutions

Transfer Agent or Share Registry Platform (TAP)

Transfer Agent or Share Registry solution provides online control over shares and access to all company records hosted securely on one platform. Allowing the issuing of electronic stock certificates, updates stock ledgers and the Cap Table Manager in real-time. Full SEC compliance in the USA, Australia and Canada.

- Fully compliant private label solution for Transfer Agent or Share Registry operator private company only
- Cap Table management
- Client login

- Client Dashboard
- Shareholder login
- Shareholder Dashboard
- Built-in billing
- Fully Integrated with KoreConX all-in-one solutions

Private Company Data Repository (PCDR)

The role of organizations such as EDGAR, SEDAR, and Companies House to provide information on private companies to the general public. PCDR is integrated with the KoreConX all-in-one for a seamless real-time information for the general public.

- Entity verification
- Open for the general public
- Real-Time information, disclosures
- Integrated with Global Private Company Stock Symbol (GPCSS)
- Fully Integrated with KoreConX all-in-one solutions

KoreConX all-in-one platform is supported by a global Digital Securities ecosystem to help companies with a single point of entry for all their capital markets needs.

Frequently Asked
Questions



Frequently Asked
Questions

About the Author



Oscar A. Jofre Jr.

A Chilean-born entrepreneur and technology innovator, Oscar brings a background of 25 years in senior management, marketing, investor relations and sales and a proven pattern of results-focused leadership. Oscar is currently co-Founder, President/CEO KoreConX, world's first all-in-one infrastructure platform for the private capital markets.

Oscar is currently one of the Top 10 Global Thought Leaders in Equity Crowdfunding, a Top 5 Fintech Influencer, Top 10 Blockchain and a Top 50 InsureTech. He has published an eBook that has been

Oscar is a featured speaker on Blockchain, Securities Token, Security Token, Digital Securities, Digital Assets, Fintech, regulated, equity crowdfunding, compliance, shareholder management, investor relations, and transparency in the USA, Australia, UK, Spain, UAE, Peru, Switzerland, Germany, France, Netherlands, Canada, Singapore, Indonesia and China. He speaks to audiences covering alternative finance, Digital Securities, Digital Assets, compliance, regulatory frameworks, security token offerings, equity crowdfunding, STO, TAO, ICO/ITO, RegTech, insurance, banking, legal, and crowdfunding. Oscar also advises the world's leading research, accounting, law firms and insurance companies on the impact Blockchain, Digital Securities, STO, TAO, ICO, Fintech, RegTech, LegalTech, InsurTech and OrgTech is having in their business.

He is a founding member of the British Blockchain BBIA. He is a member of the Crowdfunding Intermediary Regulatory Advocates (CFIRA) in the USA, and a contributing author to The Fintech Book, the world's first crowdsourced book on Fintech globally. He writes for Sharewise, Locavesting, Equities.com, Business.com, Crowdfund Insider, Crowdfund Beat, Bankless Times, and Agoracom.

Oscar has been recognized as one of the 10 most influential Hispanic Leaders in Canada. In May 2010, Oscar A. Jofre Jr. was recognized by the former Prime Minister of Canada, Rt. Hon. Stephen Harper for his accomplishments.



Angel List: <https://angel.co/oscarjofre>



Twitter: @oscarjofre



LinkedIn: <https://www.linkedin.com/in/oscarjofre>