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LEGAL OPINION: PAYMON TOKEN (PMNT)

This legal opinion is made due to a full analysis of the "legal nature" of the Paymon Token (PMNT). This legal opinion is a professional, combined and justified expert opinion of experts in the field of law. The below analysis is based on information obtained from a representative of the Paymon Token issuer, the company's whitepaper, and the law as it exists as of the date hereof.

PROJECT OVERVIEW

In the course of preparing our Legal Opinion we have proceeded from the following facts and assumptions:

- In early 2016 Paymon team started a project the main goal of which is to make cryptocurrency exchangeable between users, make it possible for customers to pay for goods and services of different companies with it.
- Team will develop an application on blockchain technology with automatic creation and addition of any existing cryptowallets. The App will also function as a messenger, making everything easy and convenient for its users.
- At the moment, the Paymon team has already implemented part of the project as a mobile application (in December 2017, beta versions for Android and iOS are available).
- Paymon decided to launch ICO and distribute as many tokens as possible to be able to build own blockchain technology called Hive.
- In the second part of 2017 the team took a decision to hold a token sale. Now, the first stage of ICO ended and PMNT got great current exchange rates.
- We were not provided with information about any claims related to Paymon or PMNT.

EXECUTIVE SUMMARY

Based on our legal analysis, requirements of the U.S. securities law as well as considering legal practice in this industry, we have arrived at the conclusion that:

- Based on the analysis of the benefits provided the PMNT holders, we assume that PMNT is a utility instrument for the Paymon Products. The PMNT holders don't obtain any company rights; the BON Token does not constitute securities related to company government.
- Based on the Howey Test, the Paymon Token Sale may look like the activity related to the money investments in the project. Paymon Token Sale campaign does not meet the "common enterprise

element". The PMNT has a specific functionality that is only available to token holders; and is more likely to be purchased in order to access that function and less likely to be purchased with an expectation of profit. A token will only be a security if it satisfies all three elements. PMNT is unlikely to be considered as securities according to the Howey Test.

- Based on the Family Resemblance Test, and based on the current status of PMNT, we believe, that the BON Token is less likely to be considered as securities. The PMNT buyers are motivated by the functionality of the platform, in particular, to decentralized token exchange of all types of blockchain, for creating smart contracts with ready-made pre-configured contents, possibility to create own token or cryptocurrency, connecting the Escrow service, etc.
- In terms of distribution for a broad segment of the population, it can be recognized as securities. However, the PMNT holders are not granted with the rights similar with the rights of investors or securities holders. Thus, the PMNT may be considered as securities with quite a low possibility.
- Based on the Risk Capital Test, depending on the structure of the presale or actual sale, there is some risk that the use of funds to raise capital may be viewed as securities. However, based on an integrated, meaningful, step-by-step analysis of the results under Risk capital test the recognition of PMNT as a security is quite unlikely.
- Based on the recent SEC Reports regarding ICO and legal status of token such as SEC Report of Investigation: the DAO1, Administrative Proceeding In the Matter of MUNCHEE INC.2 etc., there is some risk that the use of funds to raise capital may be viewed as securities. However, it is mitigated regarding Paymon efforts to eradicate all the mentioned risks after reviewing the reports from the project.
- Based on the analysis of the licenses and franchise regulation, we assume the PMNT can be characterized as a simple contract, akin to a license agreement or a franchise agreement.
- We assume that currently, the Paymon Token is unlikely to be considered as securities, is not a security and in its essence, is a utility instrument for the Paymon Products.

LEGAL STATUS OF PAYMON TOKEN (PMNT)

This report sets forth a legal analysis as to whether the Paymon Token (PMNT) would likely constitute securities pursuant to relevant U.S. securities laws for purposes of Section 2(a)(1) of the Securities Act of 1933 (“Securities Act”) and Section 3(a)(10) of the Securities Exchange Act of 1934 (“Exchange Act”), including Howey Test, Family Resemblance Test, and Risk Capital Test, which are used in the United States to recognize a particular instrument as a security and other analytical frameworks.
Please consider that each of the tests can be interpreted in different ways, depending on the state, judicial instance and the particular circumstances of the case. While analyzing, we were moving from the generally accepted criteria for the application of these tests.
In order to analyze PMNT under the federal securities laws, we should start with the broad definition of “security” contained in Section 2(a)(1) of the Securities Act: “any note, stock, treasury stock, security future, security-based swap, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement … investment contract … or, in general, any interest or instrument commonly known as a ‘security’, or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing”.

Based on the above mentioned definition and our view of relevant case law, as well as on our understanding of the facts and PMNT structure, we conclude that designed PMNT have not deemed to meet the definition of security and, accordingly, the federal securities laws will not apply to the initial distribution and subsequent trading of such PMNT.

THE HOWEY TEST

Based on the background above, we have considered below whether the POA would fall under the definitions of security outlined in the Securities Act and the Exchange Act, as well as subsequent case law further defining the term “security”.

The US Supreme Court case of SEC v. Howey (1946) established the test for whether an arrangement involves an investment contract within the meaning of the Securities Act and the Securities Exchange Act. An investment contract is a type of security.

In the context of blockchain tokens, the Howey test can be expressed as three independent elements. All three elements must be met in order for a token to be a security:

I. an investment of money;
II. in a common enterprise;
III. with an expectation of profits predominantly from the efforts of others.

Element I: Investment of money.
Is there an investment of money?

Tokens that are not sold for value do not involve an investment of money. For example, if all tokens are distributed for free, or are only produced through mining, then there is no sale for value. Tokens which are sold in a crowdsale, at any time, regardless of whether sold for fiat or digital currency (or anything else of value) involve an investment of money. Also, an investment of money may include not only the provision of capital, assets and cash, but also goods, services or a promissory note.3

Given the broad definition of a money investment and the fact that PMNT will be distributed through a sale by the Paymon to the buyers with the price set per token, this factor should be satisfied.

Element II: Common enterprise.
What is the timing of the sale?

If the sale of tokens is made before any code has been deployed on a blockchain is more likely to result in a common enterprise where the profits arise from the efforts of others. This is because the buyers are completely dependent on the actions of the developers, and the buyers cannot actually participate in the network until a later time. Or if there is a functioning network there is less likely, but still it may have some similarities to a common enterprise where the profits arise from the efforts of others. The closer the sale is to launch of the network, the less likely it is to be a common enterprise.

In Paymon case, the project team has already implemented part of the project as a mobile application (in December 2017, beta versions for Android and iOS are available) which is functioning as a messenger, making everything easy and convenient for its users. Any incentives are derived through token holders’ own efforts, rather than through a passive investment. Also Paymon Product, allows PMNT holder to convert, exchange them, utilize, contribute the system in various ways, none of which would be considered a passive investment.

Different circuits use different tests to analyze whether a common enterprise exists. Three approaches predominate: (i) horizontal; (ii) narrow vertical and (iii) broad vertical.

What do token holders have to do in order to get economic benefits from the network?

Under the horizontal approach, a common enterprise is deemed to exist where multiple token holders pool funds into an investment and the profits of each token holders correlate with those of the other token holders. Whether funds are pooled appears to be the key question, and thus in cases where there is no sharing of profits or pooling of funds, a common enterprise may not be deemed to exist.

The narrow vertical approach looks to whether the profits of a token holders are tied to a promoter.

The broad vertical approach considers whether the success of the token holders depends on the promoter's expertise. If there is such reliance, then a common enterprise will be deemed to exist.
If returns are paid to all token holders equally (or in proportion to their token holdings) regardless of any action on the part of the token holder, then their interests are more likely to be aligned in a common enterprise. If token holders' returns depend on their own efforts, and can vary depending on the amount of effort they each put in, then there is less likely to be a common enterprise.
A common enterprise does not exist in Paymon given the decentralized nature of the PMNT framework, whereby PMNT holders depend on their own efforts. Should be edited.

Element 3: Expectation of profits predominantly from the efforts of others

What function does the token have?

Tokens which give, or purport to give, traditional equity, debt or other investor rights are almost certainly securities. A token which does not have any real function, or is used in a network with no real function, is very likely to be bought with an expectation of profit from the efforts of others, because no real use or participation by token holders is possible. Voting rights alone do not constitute real functionality. A token which has a specific function that is only available to token holders is more likely to be purchased in order to access that function and less likely to be purchased with an expectation of profit.

PMNT - it is mean of payment that can be used exactly in shops and services connected to the Paymon platform, exchanged, sold and bought. It is used for operating App on the network, as a fuel to process transactions and make possible Paymon platform to perform its functions. The owners of PMNT will create and exchange other cryptocurrencies with the help of Ethereum smart contracts, will be able to exchange PMNT to PMNC in your Personal Account and work on the Hive technology provided by Paymon platform.

Does the holder rely on manual action to realize the benefit of the token?

A token, the value of which depends on someone taking specific manual action outside of the network, means that the token is not functional in and of itself. Instead, the token relies on a level of trust in a third party taking action off-blockchain. This sort of token is more likely to be bought for speculation.

A token which is built with all the necessary technical permissions means that the token holder does not rely on manual actions of any third party. This means that the buyers are more likely to purchase the token for use rather than with the expectation of profit from the efforts of others.

However, just because there is a return or profit, it does not mean that the token sale contract is a security. It is the essentially passive nature of the return, as determined by the «efforts of others» analysis, that results in a «token sale contract» and security as opposed to a simple contract instrument.

With regard to PMNT, all functionality is inherent in the token and occurs programmatically. Meaning, that a token is built with all the necessary technical permissions and the token holder does not rely on manual actions of any third party. Any incentives are derived through token holders' own efforts, rather than through a passive investment. Paymon allow PMNT holder to utilize and contribute the system in various ways, none of which would be considered a passive investment.

What is the timing of the sale?

If the sale of tokens is made before any code has been deployed on a blockchain is more likely to result in a common enterprise, where the profits arise from the efforts of others. This is because the buyers are completely dependent on the actions of the developers, and the buyers cannot actually participate in the network until a later time.

Or if there is a functioning network there is less likely, but still it may have some similarities to a common enterprise where the profits arise from the efforts of others. The closer the sale is to launch of the network, the less likely there is to be a common enterprise.

In Paymon case, the project team has already implemented part of the project as a mobile application (in December 2017, beta versions for Android and iOS are available) which is functioning as a messenger, making everything easy and convenient for its users. Any incentives are derived through token holders' own efforts, rather than through a passive investment. Also Paymon Product, allows PMNT holder to convert, exchange them, utilize, contribute the system in various ways, none of which would be considered a passive investment.

How is the token sale marketed?

Using terms like 'Initial Coin Offering' or 'ICO', and investment-related language like «returns» and «profits» encourages buyers to buy a token for speculation, rather than use. Marketed as a sale of tokens which give the right to access and use the network.
Oracles Network Tokens sale is marked as Token Sale and do not operate with words like «investment», «returns» or «profits».

RESULTS

Paymon Token Sale in the US may look like the activity related with the money investments in the project (Element 1 is very likely). However, Paymon has already developed the platform. Thus, Paymon Token Sale campaign does not meet the «common enterprise element» (Element 2 is very unlikely). What is most important, PMNT has a specific functionality that is only available to token holders; and is more likely to be purchased in order to access that function and less likely to be purchased with an expectation of profit (Element 3 is unlikely).

However, a token will only be a security if it satisfies all three elements. As for Paymon, PMNT is unlikely to be considered a security according to Howey Test.

FAMILY RESEMBLANCE TEST

Factor I: The Parties' Motivation

A separate securities test is the Reves "family resemblance" test from the U.S. Supreme Court decision in Reves v. Ernst and Young (1990) aimed at determining whether a bill should be classified as a security.
The test starts with the default presumption, that a bill is a security, but this presumption may be rebutted if it bears a "family resemblance" to one of the enumerated categories on a judicially developed list of exceptions. The Family resemblance test considers:

I. the parties' motivation;
II. the plan of instrument distribution;
III. the expectation of the investing public; and
IV. the presence of alternative regulatory regime.
V.

It should be noted that, unlike the previous test, there is no rule for all the factors to be applied, but the "strong resemblance" should be proved in this case.

In Paymon case, the Buyer is motivated to use the functionality of the platform. The owners of PMNT will create and exchange other cryptocurrencies with the help of Ethereum smart contracts, will be able to exchange PMNT to PMNC in your Personal Account and work on the Hive technology provided by Paymon platform and other.

Factor II: The Plan Of Instrument Distribution

The second factor determines whether the instrument is being distributed for investment or speculation. If the instrument is being offered and sold to a broad segment or the general public for investment purposes, it is a security.

The issuance and sale of PMNT are publicly accessible, but mostly oriented on the audience involved in blockchain technological development.

Factor III: The Expectation Of The Investing Public PMNT

An instrument will be deemed a security where the reasonable expectation of the investing public is that the securities laws (and accompanying anti-fraud provisions) apply to the investment.
Generally, Payson's Whitepaper and other marketing information do not constitute an offer or solicitation to sell shares or securities. Consequently, there is no legal basis for the securities laws to apply to this case.

Factor IV: The Presence Of Alternative Regulatory Regime

The fourth and final factor is a determination whether another regulatory scheme "significantly reduces the risk of the instrument, thereby rendering the application of the Securities Act unnecessary".
While the Securities Act and the Securities Exchange Act seem to apply to Token Sales in the US, an alternative to it in Paymon case may be laws of Caymans Islands. Securities laws of Caymans Islands are poorly developed and, therefore, may not be considered as an appropriate alternative regime.

RESULTS

According to the factors of Family resemblance test, since PMNT token buyers are motivated to use the functionality of the platform, in particular to create and exchange other cryptocurrencies with the help of Ethereum smart contracts, will be able to exchange PMNT to PMNC in your Personal Account and work on the Hive technology provided by Paymon platform and other, and at the same time they understand the possible risk. The Token Sale is associated with, PMNT may be considered a security with quite low possibility.

RISK CAPITAL TEST

In 1959 the California Supreme Court (Silver Hills v. Sobieski case) has adopted an additional securities test, which is applied in 16 states. States may use different frameworks to judge what constitutes a security. In California, the risk capital test considers whether there is attempt by an issuer to:

I. raise funds for a business venture or enterprise;
II. through an indiscriminate offering to the public at large;
III. where the investor is in a passive position to affect the success of the enterprise;
IV. and the investor's money is substantially at risk because it is inadequately secured.

Question I: Funds For a Business Venture Or Enterprise
Whether funds are being raised for a business venture or enterprise?
Yes. The funds are raised for the purposes of Paymon development.

Question II: Public Offering
Whether the transaction is offered indiscriminately to the public at large?
Yes. The issuance and sale of PMNT are publicly accessible for capable and adult US citizens on the equal rights.

Question III: Position Of The Investor
Whether the investors are substantially powerless to effect the success of the platform?
This criterion is not applicable in Paymon case, because the platform has already been developed and functioning at the moment. PMNT It is used for operating App on the network, as a fuel to process transactions and make possible Paymon platform to perform its functions.

Question IV: Risk For The Investor's Money
Whether the investor's money is substantially at risk?
As far as the Paymon platform is developed, the risk for the investor's money is quite low. The project is always in a position to trigger the launch and give an access to the network through buying PMNT.

The risk capital test applies to a limited number of jurisdictions, and has been typically applied in the context of original «start-up» capitalization- particularly where membership is nothing more than a sale of right to use the existing facilities - i.e., where «the benefits of the membership have materialized and have been realized by other members prior to any capital raised by the sale of "the memberships"».

RESULTS

Thus, depending on the structure of the presale or actual sale, there is some risk that the use of funds to raise capital may be viewed as a security, however, it is mitigated as long as some of the benefits have already been realized to the Paymon and Paymon's platform is already developed. Taking into consideration the answers, under Risk capital test the recognition of PMNT as a security is quite unlikely.

ANALISYS UNDER THE LAWS OF RELEVANT FOREIRN JURISDICTION

In addition to the laws of the jurisdiction in which the entity issuing or generating the tokens is incorporated or established, the laws of each jurisdiction within which the tokens could be considered to be offered or sold, or in which a regulated activity may be deemed to be carried out, will also be relevant. Most jurisdictions regulate the conditions under which certain investments may be offered (if at all) within that jurisdiction. There are also generally restrictions on the ability of certain persons to carry out certain (regulated) activities in relation to such investments, or submit the carrying out of such activities to conditions (such as licencing or authorisation requirements).

Singapore

Carrying out a regulated activity in Singapore generally requires compliance with licensing and marketing rules, unless the relevant person is exempt. An activity is a regulated activity if it relates to the offer of an investment product such as securities (including shares, debentures or collective investment schemes).
For example, if:
(i) the token grants any legal, equity or other security interests in an entity;
(ii) the token grants any right of repayment of the amount (whether in part or full) paid by holders to acquire the token or any right to interest payments over such amount; or
(iii) the value of the token is related in any way to the value of any underlying property, or holders of the token can participate in or receive returns arising from (whether directly or indirectly) any property or rights relating to any property, the token is more likely to be regulated.

In Singapore, prospectus requirements apply when an offer of "securities" is made to persons in Singapore, unless an exemption applies. Accordingly, where tokens constitute securities, an offer of the tokens to persons in Singapore will require a prospectus to be registered with the Monetary Authority of Singapore (MAS) unless a prospectus exemption applies. Exemptions are available for (among others) offers to "institutional investors", subject to certain conditions such as advertising and resale restrictions.

Even if a prospectus is not required, it is advisable to prepare documentation which clearly outlines the key terms and conditions attached to the tokens, including the key risks involved, as the provision of such disclosures to investors (even if not strictly required) would be in line with the regulatory expectation of the MAS.
While important, laws relating to the regulation of investment products and services are not the only potentially relevant regulatory issues. Some important examples are set out below.
(i) Licensing and anti-money laundering. The MAS has proposed a new payments regulatory framework which would mean that virtual currency intermediaries that buy, sell or facilitate the exchange of virtual currencies (e.g. Bitcoin or digital tokens), or which provides a platform to allow persons to exchange virtual currencies, could require a new type of licence and be subject to anti-money laundering regulations.
(ii) A token may constitute a "stored value facility" if it could be purchased by a holder with fiat currency being used as a means of making payment for goods or services, and such payment is to be made by the issuer of the tokens. If the token is a stored value facility, an issuer will need to comply with certain requirements, including anti-money laundering regulations. Approval of the MAS is also required if the aggregated stored value held by the issuer exceeds SGD 30 million (currently, about USD 22 million), subject to conditions.
(iii) Token issuers must comply with the obligations imposed under the Singapore Personal Data Protection Act relating to the use and disclosure of personal data of buyers and sellers of the tokens, and subscribers of the token offerings.
(iv) Singapore has "light touch" consumer protection regulations that apply generally to the sale or advertisement of products to consumers. Issuers must not undertake "unfair practices" when transacting with consumers, such as taking advantage of consumers who are not in a position to protect their own interests. Aggrieved consumers are able to take a civil action against such issuers. Advertising requirements under the
Singapore Code of Advertising Practice should also be considered.
(v) Other licensing requirements. Depending on the specific structure, other licensing requirements may apply, such as those relating to deposit taking, payment services and money-changing and remittance business.

Switzerland

Financial market law and regulation are not applicable to all ICOs. Depending on the manner in which ICOs are designed, they may not in all cases be subject to regulatory requirements. Circumstances must be considered on a case-by-case basis. As set out in FINMA Guidance 04/2017, there are several areas in which ICOs are potentially impacted by financial market regulation. At present, there is no ICO-specific regulation, nor is there relevant case law or consistent legal doctrine.

In assessing ICOs, FINMA will focus on the economic function and purpose of the tokens (i.e. the blockchain-based units) issued by the ICO organiser. The key factors are the underlying purpose of the tokens and whether they are already tradeable or transferable. At present, there is no generally recognised terminology for the classification of tokens either in Switzerland or internationally. FINMA categorises tokens into three types, including utility tokens, but hybrid forms are possible.

FINMA's analysis indicates that money laundering and securities regulation are the most relevant to ICOs. Projects which would fall under the Banking Act (governing deposit-taking) or the Collective Investment Schemes Act (governing investment fund products) are not typical.

The Anti-Money Laundering Act contains requirements for financial intermediaries including, for example, the need to establish the identity of beneficial owners. The law aims to protect the financial system against the risks of money laundering and the financing of terrorism. Money laundering risks are especially high in a decentralised blockchain-based system, in which assets can be transferred anonymously and without any regulated intermediaries.

Securities regulation is intended to ensure that market participants can base their decisions about investments on a reliable minimum set of information. Moreover, trading should be fair, reliable and offer efficient price formation.

Gibraltar

The Government of Gibraltar is weighing up legislation to regulate initial coin offerings (ICOs) and their secondary markets.

In an announcement by the Gibraltar Financial Services Commission (GFSC) today, the financial watchdog for the British Overseas Territory said the government and the authority are jointly developing legislation for blockchain-based token offerings in the territory. The decision follows a discussion by the government with local stakeholders in December after an initial September statement outlined authorities' intent to introduce a 'complementary regulatory framework covering the promotion and sale of tokens.

"A new regulatory framework for DLT which will become operational as from January 2018 will regulate the activities of firms, operating in or from Gibraltar, that use DLT to store or transmit value belonging to others, such as virtual currency exchanges," an excerpt from the statement said at the time.

And so, it has proved, with work toward regulatory draft laws currently underway.

Specifically, the draft laws will push for the regulation of ICO operators' promotion, sale and distribution of tokens; the secondary trading markets related to these tokens located in the territory and businesses offering investment advice related to tokens in Gibraltar.

As a result, the regulations will mandate ICO issuers to follow disclosure rules that includes 'adequate accurate and balanced disclosure of information' to all prospective token buyers. Further, the regulations will also establish mechanisms to prevent financial crime.

According to Gibraltar's commerce minister Albert Isola, the regulatory move will coincide with authorities' intent to protect consumers and safeguard companies offering token sales in Gibraltar.

GFSC senior advisor on distributed ledger technology (DLT) Siân Jones added: "One of the key aspects of the token regulations is that we will be introducing the concept of regulating authorised sponsors who will be responsible for assuring compliance with disclosure and financial crime rules."

Notably, the government's announcement also hinted at the prospect of regulated investment funds dealing with cryptocurrencies and ICOs, a development that is currently under review.

Cyprus

Under the Investment Services and Activities and Regulated Markets Law, a party cannot carry on or purport to carry on investment services and activities on a professional basis unless it holds a licence granted under the Investment Services and Activities and Regulated Markets Law. 'Financial instruments' are defined in a list of instruments common in today's financial markets. However, there is no specific

mention of digital tokens or cryptocurrencies. Each ICO will need to be evaluated on its merits, although it seems that many ICOs would not be caught within the scope of the Investment Services and Activities and Regulated Markets Law, as they would not amount to financial instruments as defined. However, ICOs which offer tokenised securities may be caught within the scope of the Investment Services and Activities and Regulated Markets Law.

The Prevention and Suppression of Money Laundering and Terrorist Financing Law needs careful consideration with respect to all ICOs launched through Cyprus. The law and directives issued by the relevant supervisory authorities focus primarily on the regulated sector in Cyprus and prescribe certain policies and procedures to be put in place by Cyprus-regulated entities with respect to money laundering. Given the general application of the Prevention and Suppression of Money Laundering and Terrorist Financing Law, ICO teams are advised against thinking that if their intended ICO falls outside the ambit of the law, they need not concern themselves with anti-money laundering issues. Whatever the final determination is, there are solutions available in the market to mitigate against any person launching the ICO from falling foul of the Prevention and Suppression of Money Laundering and Terrorist Financing Law. The Prevention and Suppression of Money Laundering and Terrorist Financing Law implements the Third EU Anti-money Laundering Directive, which has recently been replaced by the Fourth EU Anti-money Laundering Directive (2015/849/EC). The Fourth EU Anti-money Laundering Directive is due to be implemented in Cyprus towards the end of 2017. Significantly, on July 5 2016 the European Commission adopted proposals for legislation to amend the Fourth EU Anti-money Laundering Directive (these amendments being referred to informally as the 'Fifth EU Anti-money Laundering Directive'), which will require cryptocurrency exchanges and wallets to conduct know-your-customer checks and identify suspicious activity by users and investors. As such, Cypriot ICOs are expected to be expressly caught by the anti-money laundering regime in the near future.

The EU E-Money Directive modernises the regulatory framework applicable to electronic money institutions and addresses a number of inconsistencies which have disrupted the level playing field between payment services and e-money institutions. The E-Money Law implements this regime in Cyprus and removes obstacles which previously prevented the entry of new players into the sector.

The Prospectus Law requires that a prospectus be published in respect of 'a public offer of securities', which means a communication to persons in any form and by any means that presents sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe to these securities. Determining whether the tokens offered in an ICO can be considered securities in this respect will be key. To the extent that they are, certain exemptions may apply which do not require a prospectus to be published.

Germany

Germany has no specific regulations for ICOs, but expect ICOs to adhere to existing regulations, including those encapsulated in the Banking Act, Investment Act, Securities Trading Act, Payment Services Supervision Act, and Prospectus Acts. However, the Federal Financial Supervisory Authority has issued a warning regarding the risks of ICO investments. Per the statement, “Due to the lack of legal requirements and transparency rules, consumers are left on their own when it comes to verifying the identity, reputability, and credit standing of the token provider and understanding and assessing the investment on offer. It can also not be guaranteed that personal data will be protected in accordance with German standards.”

Where Tokens resemble participations rights which might be classified as securities under the German Securities Prospectus Act (Wertpapierprospektgesetz) or capital investments under the German Capital Investment Act (Vermögensanlagengesetz), a prospectus for the marketing of the Tokens may be required. Any act of trading, including an arrangement for acquisition, sale or purchase of Tokens, when qualified as units of account, would, as a general rule, require a license by the BaFin.

United States

ICO rules vary widely from state to state, from no regulations at all in some states to regulations requiring deposits in equal to or in excess of all local transactions to regulations requiring a license for businesses to engage in altcoin activities. On the federal level, there are no current regulations banning ICOs specifically, although ICOs are expected to be registered and licensed the same as if they were not ICOs. This includes registering with the SEC if the ICO is to sell or trade securities. The SEC has recently found that some altcoins may be a security, and as such, may be subject to SEC's ruling in the future. Some SEC commissioners hold the position that most ICOs are securities and should be treated as such. ICOs are expected to adhere to AML/KYC practices. Failure to adhere to these practices may leave an ICO open to legal action or possible seizure.
The applicability of federal securities laws to ICOs depends on the classification of the Tokens. The SEC determined in a first evaluation that Tokens may be qualified as securities

as a result of the Howey test. The DAO investigation report indicates that the SEC will conclude that Tokens offered in connection with an ICO will be classified as securities if the ICO is, implicitly or explicitly, presented to purchasers as an investment opportunity. Accordingly, Tokens may not be lawfully sold without SEC registration or an exemption therefrom, such as under Regulation S, which in itself requires registration. The public offering of Tokens that qualify as securities necessitates a registration statement and a SEC-approved prospectus to comply with US securities laws.

China and South Korea

In September 2017, the Chinese government declared ICOs to be illegal in China and asked all related fundraising activities to be halted immediately. Shortly thereafter, cryptocurrency exchange platforms were ordered to discontinue operations. However, the ban of virtual currencies and ICOs may only be temporary until the Chinese government passes specific regulation, which is currently being discussed.

In late September 2017, the South Korean Financial Services Commission has determined that ICOs shall be prohibited. South Korea will follow the Chinese model and formally introduce legislation regarding the ban, though the enforceability of the current ban has been scrutinised by some. The operation and participation in cryptocurrency exchanges is expected to be regulated as well and the associated regulation drafts are in their final stages. Subject to stringent compliance with certain standards for consumer protection, these measures are also triggered by the growing international trading significance of cryptocurrency.

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IT CANNOT BE EXCLUDED THAT A LEGAL ANALYSIS HAS CERTAIN DEFICIENCIES, THAT OPINION HAVE BEEN INCORRECTLY INTERPRETED, UNUSUAL TERMS HAVE BEEN USED, OR THAT THE ANALYSIS STRATEGY – EVEN THOUGH PERFORMED WITH REASONABLE DILIGENCE AND EXPERIENCE - FAILED TO IDENTIFY CERTAIN CRITICAL OPINION, OR CERTAIN OPINION THAT HAVE NOT BEEN REASONABLY AVAILABLE AT THE DATE OF THE ANALYSIS THAT MAY NEVERTHELESS BE CRITICAL. IN ADDITION, MISINTERPRETATION OF THE OPINION CAN NEVER

BE FULLY EXCLUDED WHEN ANALYZING A MULTITUDE OF DOCUMENTS FOR THEIR RELEVANCE AND APPLICABILITY.
PLEASE REMEMBER THAT THIS OPINION PRODUCES NOTHING MORE THAN AN ESTIMATE. IT IS DESIGNED FOR GENERAL INFORMATIONAL PURPOSES ONLY, AS A GUIDE TO CERTAIN OF THE CONCEPTUAL CONSIDERATIONS ASSOCIATED WITH THE NARROW ISSUES IT ADDRESSES. YOU SHOULD SEEK ADVICE FROM YOUR OWN COUNSEL, WHO IS FAMILIAR WITH THE PARTICULAR FACTS AND CIRCUMSTANCES OF WHAT YOU INTEND AND CAN GIVE YOU TAILORED ADVICE.

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