Digital Securities 101
Global 2020 Edition

The Global Guide to a Financial Revolution

Digital Securities 101 Global 2020 Edition

A Guide to the Global Financial Revolution

Book Two The Global Phenomenon

Oscar A. Jofre Jr.

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Foreword by David Weild IV
Father of the JOBS Act & former Vice-Chairman of NASDAQ

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“It is good to see the technological reality is starting to catch up to the technological promise.”

Erich Spangenberg, CEO, IPwe

“As an attorney specializing in U.S. securities and corporate transactions for emerging technology companies, I repeatedly encounter the same problems when administering securities offerings for privately-held businesses. The KoreConX digital securities ecosystem is exactly what I have been searching for to help me streamline complicated compliance procedures, reducing time and overall costs that result in real savings for my clients. With KoreConX, managing corporate and securities compliance has never been easier!”

Anessa Allen Santos, Managing Attorney, IntelliLaw

“Oscar is a visionary. His vision has been shaped by taking the time to understand the problems that companies face when it comes to capital formation and growth. Then, Oscar had the prescience to reach out to people all over the world in an effort to forge an ecosystem to democratize capital. Why shouldn’t everyone be able to access the same quality opportunities that are typically reserved for the wealthy? With this dream of greater inclusion, comes a responsibility to maintain safeguards for investors and issuers. Respect has to be paid to the existing service providers, for the wisdom they bring, and the benefits they offer through collaboration. Oscar understands these things. He has transformed this knowledge into a powerful investment solution that will revolutionize the private capital markets. Oscar’s book is a rare insight into the mind of a visionary in his field, and a ‘must read’ for those who want to plug into the rich vein of private capital and digital securities.”

Kevin Saunders, Director, Tribelet Capital Management Pty Ltd

“Oscar Jofre is a pioneer in a pioneering industry. This book represents a download of critical information that will help educate and spread the word about transformational technology that will change the way that participants throughout the world transact and interact with each other.”

Kyle Asman, Partner, BX3 Capital

“In the fast-evolving world of digital securities, there is a need for background and context, especially on a cross-border level. Anyone involved in the digital securities world should read this to get that context.”

Sara Hanks, Co-Founder & CEO, Crowdcheck

“In the chaotic world of digital securities, Oscar provides a clear description of the role of the various participants, including the seminal value provided by broker-dealers. The step-by-step process that issuers need to follow to raise capital in a compliant way is invaluable.”

Rob Celej, CEO, Stratigis

“I have been investing and growing companies on both sides of the planet for a couple of decades, uniting capital markets in both equity and digital assets between China and the US. We share Oscar's vision of making capital accessible to a wide range of issuers and the full spectrum of investors in multiple countries. This is the future blockchain is bringing to the world of finance and high growth companies. And this book is a comprehensive guide towards that future as it relates to the world of fully-compliant digital securities. Thanks for putting together this excellent comprehensive guideline for our community. We await the Chinese version too!"

Omer Ozden, Chairman, RockTree Capital

“Oscar does a great job of screening the ecosystem of participants required to make a digital securities offering (DSO) successful. This includes the obvious players such as securities lawyers, broker-dealers, and secondary markets. Oscar takes it a step further based on his experience and highlights the marketing and distribution firms who specialize in DSOs. This guidebook will help you understand the process and select the optimal team for your offering.”

Andrew Corn, CEO, E5A Integrated Marketing

“As a co-founder of a leading digital securities investment platform in Asia, I share Oscar’s passion for educating the market about the need for treating digital securities in a responsible and compliant way. This book is a first in laying out the requirements for digital securities that focus on investor safety and issuer compliance.”

Julian Kwan, CEO, Investacrowd

“This book lays out the necessary framework for compliant digital securities. Even though titled ‘101’, it is comprehensive, filled with actionable checklists, and processes. As an example, while most platforms think only of issuance or trading, Oscar’s extremely valuable insight is the importance of Investor Relations to keep current and potential shareholders informed and engaged in a Company’s offering and operational progress.”

Jeff Ramson, Founder and CEO, PCG Advisory, Inc.

"This book is what the doctor ordered for all those who are sick of ICO fraud, STOs with spurious business plans (or more often, no business plans), and all those who want to focus on avoiding regulation instead of their business. Oscar's focus on the protection of investors and issuers is consistent with the dictum, "First, do no harm!"

Dr. Vishal Verma, Director, Minthealth

"Companies seeking to raise capital will surely appreciate how Oscar connects the dots between all the professionals that are necessary for a successful raise. The checklists for conducting due diligence on the various participants sold me!"

Fred Pye, CEO, 3IQ

"Modern private capital markets are complex. Many different entities are involved, and many potential issues can crop up. For that reason, private issuers must do several things: create a compelling product or service, market it to customers, and also market the investment to potential investors. Oscar's excellent guide on Digital Securities 101 shows private issuers how to assemble an effective team of broker dealers, marketing specialists, securities lawyers, and other professionals, so that they can meet their goals."

Nick Messe, CEO, MarketingResults

"Oscar provides the full picture of how digital securities are really supposed to work, protecting issuers and investors. What a difference from the unregulated world of ICOs and STOs! He is right on the money about the importance of communicating with shareholders. As a shareholder myself, I appreciate being asked for advice and help, since that's an opportunity to help the company grow and with it, my own investment."

Howard J Atkinson, CFA, CIMA®, ICD.D, Chairman, Timia Capital Corp

"Even if you just get this book for the 'Endless Acronyms,' and you learn them, you are ahead of 99% of the population in the area of Digital Securities. Oscar's global guide to the digital financial revolution follows his successful, practical first book, *Equity Crowdfunding 101.* Both are written so that the novice and the experienced can gain immensely from their clarity and breadth of coverage. The book covers the basics, the Digital Securities Ecosystem including regulatory structures, the four stages of raising capital, the offering process and how you are best to proceed. Once you have raised the funds though your journey is just beginning. Shareholders need to be looked after and communicated with. Securities need to be marketed and traded. Oscar presents a turnkey solution as to how you can achieve this. In my experience this is unparalleled anywhere in the world. Good job Oscar and thanks for sharing."

Paul Niederer, Director, Wealth Migrate

"As we seek to provide renewable energy in some of the most underserved corners of the world, we also need to provide sustainable and safe environments for our own investors. This implies compliance and safety of securities instruments for our investors and shareholders. We see Oscar as a key partner who shares the same vision as Libra Project, namely the need to democratize capital through digital securities, and the use of technological advancements to improve access to capital, good corporate governance and oversight, and investor engagement. We couldn't achieve this without KoreConX."

Hans Fraikin, CEO, Libra Project

"Democratization of capital is not an easy journey. Oscar and I have been through this evolution since the early crowdfunding days. We found that people like easy and widespread access to capital and investment opportunities, but with that democratization comes responsibility and attention to risk. The problems with ICOs and STOs clearly shows how unprepared the participants are. In this book, Oscar lays down the success criteria for the next level of maturity if we are to make private capital markets accessible to all without enhancing risk and while remaining compliant in all countries."

Roman Cheng, President, Taipei Fubon Commercial Bank

Foreword by David Weild IV

Financial markets are critical economic infrastructure. We depend on them to support the economy. Get them right and start-up activity, jobs and innovation all increase. Get them wrong and start-up activity, jobs and innovation decrease. A decrease in this area of the economy has profoundly negative implications: Upward mobility may grind to halt. Cures to diseases may not be found. Innovations to reverse global warming may not be found. The tax base to support social services and national defense may erode. The budget deficit may swell.

Sound familiar?

Most market structure has been dead wrong for the last twenty (20) plus years: Regulators and politicians, in a relentless drive to cut transaction costs for retail investors, eliminated the economic incentives to support small public companies in the aftermarket. As a result, fewer companies have been going public in many Western nations and as a consequence, local investors in start-ups and entrepreneurial growth companies have seen fewer pay-days (exits) so that their capital has not grown or been refreshed so that they can contribute to starting new companies.

Ever wonder how it can be that universities teach more entrepreneurship, yet the rate of start-ups has steadily declined?

The public capital markets have been having their own "Great Depression in Listings" since about 1998, with more than 55% decline (on a GDP weighted basis) in listings of public companies. The evolving market structure had unintended consequences by decreasing economic support for small-cap companies (and in turn, start-ups).

Innovations in trading technology, complex derivatives, market structure, as well as outmoded systems that undermine entrepreneurship have consequences that are far-reaching: 1 in 5 children live below the poverty line and 40% are raised in low-income families, quality job loss (over 22 million since 1997), volatility, decimation of retirement savings, and loss of upward mobility.

Democratization of capital is essential to rebuild the economic base and to provide hope, opportunity, upward mobility and a strong middle class. These are the essential ingredients of stable democracies.

With the above in mind, a coalition of interested Americans sought to ease regulation in support of capital formation for smaller companies and broaden investor participation in earlier staged companies. This was the thinking that propelled the JOBS Act of 2012 into law—one of the few U.S. Acts to receive overwhelming bipartisan support.

The JOBS Act brought about a gentle upward trend in the number of IPOs and spawned greater interest in private companies by permitting new marketing approaches for their securities. Simultaneously, the emergence of Bitcoin and other cryptocurrencies created a groundswell of interest in blockchain companies. The ICO (Initial Coin Offering) community embarked on a libertarian wave to democratize access to capital that flouted the application of securities laws. Whether enthusiasts took the streamlining of regulation as an indication that securities regulation would not be applied to ICOs is debatable, but the ICO community clearly embraced blockchain with a vengeance. While the desire to democratize access to capital was and is laudable, ignoring the investor protections and well-founded principles embedded in eighty years of highly evolved securities regulations was not. My concerns were unfortunately justified: Over three-quarters of all ICOs turned out to be fraudulent. Of the remainder, many had poor business models and unperfected technology. This invited hacking and promoted violations of the Patriot Act while allowing unverified participants to act as validators, and not providing for recourse and recovery in the face of lost tokens (securities).

In the aftermath of SEC actions, the ICO community has begun to embrace securities regulation to reemerge as Security Token Offerings (STOs). However, many in this industry still pay lip service to those parts of regulation for which there are not ready answers. Rebranding, to date, has with limited exceptions, not been accompanied by a full re-engineering of the investment vehicles to make them fully compliant and ensure full investor protection.

This is not what we fought for. This is not why we spent a decade to fix systemic problems and dysfunctional market structures and continue our advocacy. At the core of our thinking, and of my own personal mission, is the effort to remove market inefficiencies, reinvigorate entrepreneurship, spur innovation, democratize capital, and bring back the essential balance that was lost between the needs of investors, issuers and the intermediaries that serve them.

I can confidently say that the vision of Oscar Jofre and his KoreConX team has been fully aligned with the vision of myself and others who share the concept of responsible, compliant and efficient democratization of capital. In this book, Oscar, his team, and the KorePartners have taken great pains to establish the high ground in defining Digital Securities carefully to ensure that the stigma of ICOs does not taint this term.

Digital Securities are fully compliant with securities laws and corporate laws of all jurisdictions worldwide. They are focused on security, safety, and protection of all parties in securities transactions. Their scope is not just issuance or even just secondary market trading. They extend to the complete lifecycle of financial securities, including corporate actions and exits. For this to become a reality, Digital Securities must be implemented with mature, enterprise-class technology that provides end-to-end capabilities.

Digital Securities for global private capital markets live in a highly fragmented and technologically underserved ecosystem. The economic importance of the market that Digital Securities serve requires that solutions be robust, well-integrated and collaborative. The technology and business models can disrupt, but they shouldn't destroy. They should facilitate innovation, not implosion. It is a term I use called "Construptive" for "Constructively disruptive." They should provide a superior service to the underserved, not do them a disservice.

This book educates issuers, broker dealers, secondary market operators, securities attorneys, marketers, investors, consultants, technologists, and many other participants on the complexities of the securities markets and what it takes to become responsible, value-adding participants.

It is through efforts such as at KoreConX that I believe we can make a significant impact to society. Some of that will be directly felt. Much more will be indirectly felt through vigorous capital formation, increased job creation, innovation and better service to investors in the entrepreneurial ecosystem. Hopefully, together, we will muster enough change to restore upward mobility, improve the lives of poverty-stricken children and support retirees, all while providing for a strong national defense that protects our freedom.

It's up to us to create the economic infrastructure that will provide for a better future for the next generation.

Preface

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 ten 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 that remains unchanged. We need to have a fair balance 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.

Oscar A. Jofre

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Let's Start with the Basics

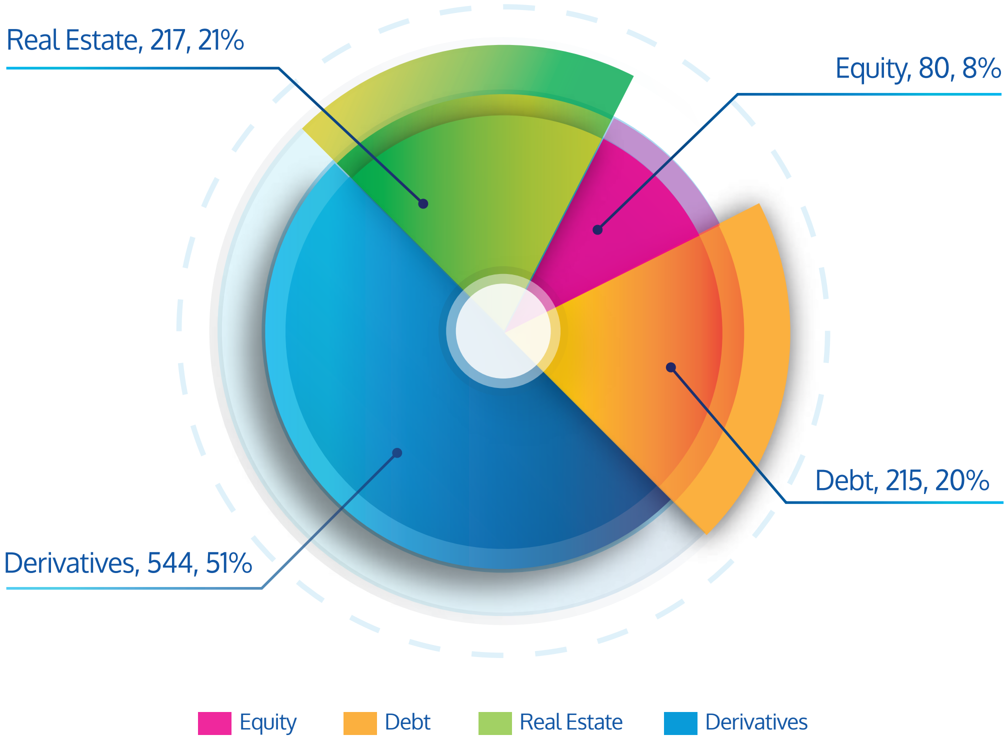
Let's Start with the Basics

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; it's meant 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. We will provide an understanding 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 consider the size of the marketplace. Today, there are over 450 million private companies worldwide, while within the USA and Canada alone we have over 31 million. Globally, the opportunity for Digital Securities is enormous.



Another interesting trend is the trend towards going private. $3.0 trillion was raised by U.S private companies vs. $1.5 trillion by public companies—a gap that has been widening for 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. A blockchain-enabled and globally compliant digital security is critical to the success of secondary markets for private shares.

The Technology Driver

What caused this revolution? It is 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 globally across multiple jurisdictions. 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, 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. 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 that 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.

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. Examples are cryptocurrency versus securities and private companies versus public listed companies.

Cryptocurrencies and securities (more specifically digital securities or security tokens) are not the same. The only commonality they share in the blockchain space is that they are implemented through distributed ledger technology.

Cryptocurrency or digital coins are currencies (or commodities, depending which regulator you talk to). Currency is what we put in our wallets or deposit in our banks. We use currency to purchase things. 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 (for standardizing hold periods), Regulation II (Debit Card Interchange Fees and Routing), Regulation HH (for Financial Market Utilities), and so on.

Securities are assets in the form of an ownership position in, or a loan to, legally registered companies. To purchase or acquire Digital Securities, 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 so that you apply the right regulations to what you are doing. Below is an overview of the two types of capital markets.

Public Companies

Public companies are those that are listed on registered stock exchanges like NASDAQ, NYSE, LSE, and TMX. There is a global infrastructure in the public markets which allows anyone over the age of 18 to acquire stocks in public companies.

For companies to become publicly 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), Dodd-Frank, whistleblowing, and having independent directors on their board.

To maintain your public listing, every year you will have to incur costs to be compliant with regulations. The annual cost of maintaining a public company starts around $250,000 and goes up significantly for large public companies.

The World Federation of Exchanges site tells us there are currently 48,000 public companies listed globally on major stock exchanges.[1]

The Private Capital Market

Private company vs public listed company is an area that causes a lot of confusion. Understanding the difference between a private company and public company 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 as publicly listed companies. 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 as light versions of public companies. 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 these listed private companies.

These companies are just that—private. Private companies have 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 can be used by private companies to raise capital. Depending on the

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

exemptions, private companies may be allowed to approach accredited or non-accredited investors.

Traditionally, the major advantage for companies going public was access to investment capital and liquidity for shareholders. Today, the private capital markets can finally offer this as well without making the company go public.

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:

- **DSO** Digital Securities Offering
- **DSP** Digital Securities Protocol
- **DS** Digital Securities
- **STO** Security Token Offering
- **ICO** Initial Coin Offering
- **IEO** Initial Exchange Offering
- **ITO** Initial Token Offering
- **UTO** Utility Token Offering
- **REDS** Real Estate Digital Securities
- **RIP** Regulated Issuance Platform
- **IR** Investor Relations
- **SMT** Shareholder Management Tools
- **TA** Transfer Agent or Share Registry
- **SMP** Secondary Market Platform (aka, ATS)
- **ATS** Alternative Trading System (aka, SMP)
- **EMD** Exempt Market Dealer
- **SEC** Securities Exchange Commission

We are going to define a few terms so there is no misunderstanding. The rest are included in the glossary.

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 STO with the addition of Know Your Client (KYC), verification of identification (ID), and Anti-money Laundering (AML) as its 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.

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What are Digital Securities?

What are the essential characteristics of Digital Securities? What are the differences between them and 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.

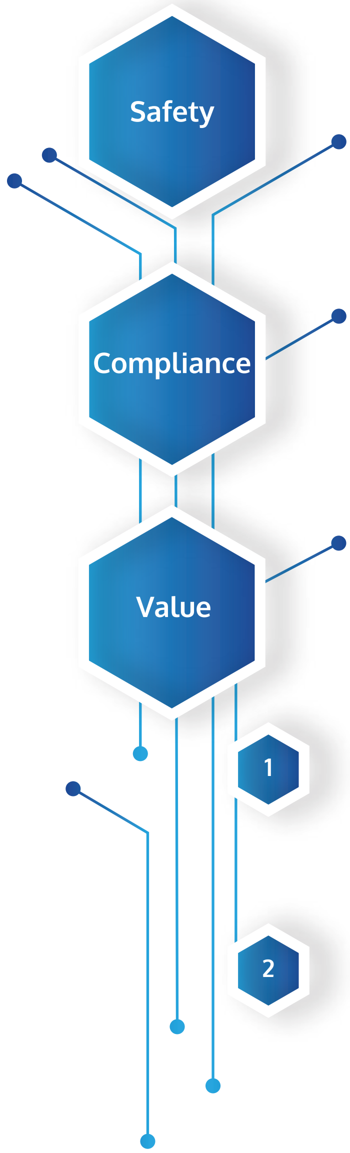
Safety

Compliance

Value

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

Fundamental Principles of Digital Securities



Safety: Is the financial instrument safe, secure, and does it protect investors, companies, and other participants?

Compliance: Is the financial instrument compliant with all applicable regulations in every jurisdiction in which it is transacted?

Value: There are two parts to the principle of value. One deals with the value of the financial instrument itself; the other deals with the infrastructure in which the financial instrument operates.

Representation of Value:
Does the financial instrument represent economic value? Is the intent and purpose of the instrument to facilitate the creation and exchange of economic value?

Operational Value:
Does the infrastructure (medium of representation, the processing of transactions, storage of data, etc.) offer savings in operational costs, increase in speed of transactions, and enhanced quality?

Traditional financial instruments, after decades of experimentation, trial, and error, have achieved reasonable safety and compliance. However, they are fraught with wasteful processes, high 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. To put it another way, they should provide better operational value than simple electronic records without introducing new vectors of risk, as is the case with cryptocurrencies.

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.

2

Digital Securities are not commingled with cryptocurrencies or utility tokens. Commingling with cryptocurrencies 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 layer of 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 regulatory bodies in other countries). The brew can become extremely unstable, volatile, and unwieldy.

3

Digital Securities are maintained on a permissioned distributed ledger in immutable form. While some transactions can be conducted off-chain, none can be recorded in finality in an off-chain database or application; all transactions and data related to the digital securities must be on the blockchain. The notion that most transactions can and probably should be recorded off-chain is an artificial accommodation for the inability of some public blockchains 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 step beyond the limitations of public blockchains. 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 topic[3] by the DBI's Founding Director, Andrea Tinianow.

4

Digital Securities are fully compliant with securities regulation and corporate law globally.

5

Digital Securities contracts are coded executables, with provision for manual handling where necessary.

6

Data is cryptographically secured, and privacy is enforced, preventing data mining for competitive intelligence by unauthorized parties; transactions are also cryptographically secured and traceable end-to-end.

7

Participants in Digital Securities transactions are fully verified and can only participate on the blockchain by permission.

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 participants who are fully verified and regulated 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

10

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. A good example of guiding principles of post-trade processing of Digital Securities is given in this DTCC article.[4]

11

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

12

The creation and maintenance of Digital Securities are well-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 token offerings (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 phony adjustments.

4 "DTCC Outlines Guiding Principles for Post-Trade Processing of Tokenized Securities", DTCC, March 13, 2019.

The abuse of blockchain for private securities occurs because there are fraudulent participants or because the wrong type of blockchain is chosen to implement private securities. While we cannot 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, pension funds, endowments, and such—consider 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 decentralization, censorship-resistance, transparency, or operational efficiency 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 improving process efficiency or reforming regulation, boils down to the following critical choices:

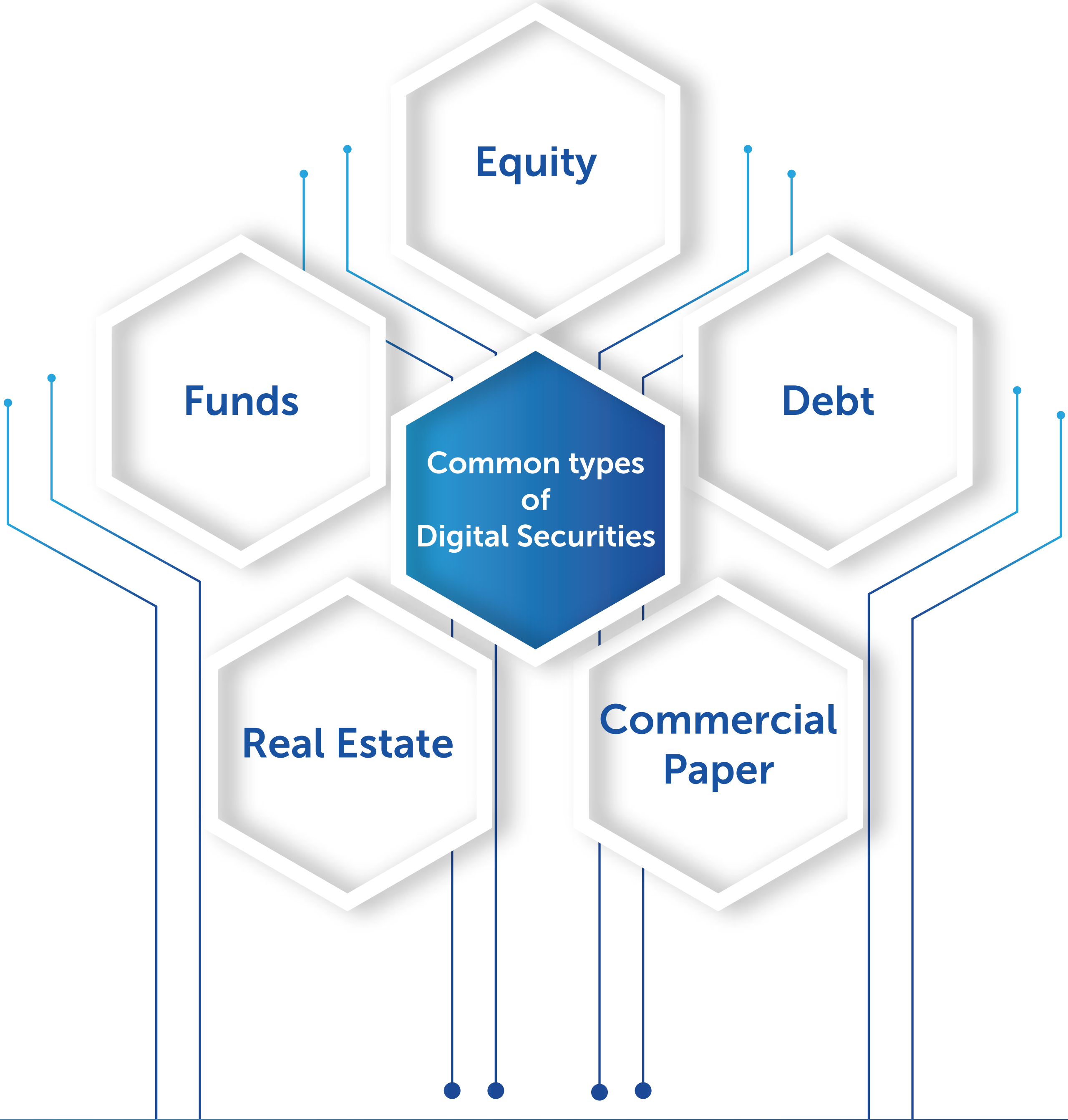
- Public versus permissioned
- Anonymous and unverified versus fully verified and validated participants
- Home-grown, experimental, or proprietary versus industrial strength
- Designed with only a passing nod to compliance versus designed from the ground-up to comply with regulation
- Designed with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

Our stronger definition of Digital Securities goes well-beyond the post-trade processing guiding principles published by the DTCC guidelines by requiring that Digital Securities allow the management of all transactions that affect securities.

What are the Main Types of 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. Digital Securities are financial instruments representing debt or equity or any form of security offered by a company, and as such are regulated by the securities regulators in their respective countries.

The two main forms of raising capital are equity and debt. Digital Securities can play an important role in protecting investors, increasing process efficiencies, and facilitating liquidity.



Equity

Equity is direct ownership representation in a registered company. Digital Securities are not simply electronic records of share certificates. They also represent all the terms, conditions, restrictions, and shareholder rights. They also enable management of the full lifecycle of securities processes and various corporate actions that affect them. All this data and information is recorded in an immutable way, thus allowing digital securities to trade on a secondary market in a more effective manner.

Debt

A company can also offer digital securities representing debt instruments to investors. Debt can be in the form of loans, debentures, notes, commercial paper, and SAFE's. Just as for equities, Digital Securities can encapsulate the terms and operational characteristics of debt instruments.

Commercial Paper

There are certain sectors that are taking advantage of Digital Securities because of their long hold periods and high-ticket prices. Examples are real estate and funds.

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 of making money can be fractionalized as Digital Securities.

Real Estate

Funds:

A Fund is an investment vehicle that pools investors' money into a common ‘pool’ or account and is operated by a portfolio manager. The fund manager then invests this large pool of shareholder money in a portfolio of various assets or combinations of assets. Similar to real estate and other investments that are held long term, Digital Securities are ideal for funds.

With Digital Securities, just as in traditional securities, once the investor completes their investment and the company accepts it, they become a shareholder in the company. As a Digital Securities shareholder of a company, you may be provided with benefits such as the right to secondary trading, voting at shareholder meetings, and to dividends. Of course, you also run the risk that any investor faces with owning any type of securities in a company, in that the company may fail or lose its value significantly. In other words, Digital Securities give you all the rights of traditional securities but have the added benefit of being able to exercise your rights and trade in a secondary market very efficiently.

In Digital Securities that represent debt, the investor becomes a creditor to the company and is provided a monetary percentage gain (interest) 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.

There are several models that can be used for Digital Securities, depending on the type of securities the company issues. We will showcase the structure of Digital Securities which applies to all models.

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 it is on the ledger. The technology does not remove the trusted parties we currently have today, such as the lawyers, broker dealers, ATS operators, transfer agents, share registries, board of 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 accredited and non-accredited investors invest in a private company, there are only three outcomes they can look forward to:

Entrepreneurs work hard to sell 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 can 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 Digital Securities in a secondary market in a cost-effective, efficient, and timely manner.

Digital Securities Ecosystem (DSE)

The Digital Securities Ecosystem (DSE)

The Digital Securities ecosystem has many participants besides the buyer, the seller, and the secondary traders. The other participants are securities regulators, securities attorneys, broker dealers, secondary market operators, transfer agents or share registries, etc. There are also different types of investors to consider 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 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) incredibly new ways to invest in and fund 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.

Figure 1 provides an overview of who is involved in the Digital Securities ecosystem. Let's examine this figure in detail.

Securities Regulators

Digital Securities exist in a regulated environment, usually called the "jurisdiction", as determined by the country. Securities regulators are charged by governments 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 company can qualify to participate. The primary goal is to protect investors.

Examples of such laws in the United States are the JOBS Act Title II (506c), Title III (Reg CF), and Title IV (Reg A+). They provide clear guidelines on who can invest, how they can invest, limits on the quantity 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 8% of the U.S. population would qualify [1]. Accredited investors today can invest globally and trade.

Non-Accredited Investors are 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.

3rd Party Providers

These are the advisors in the background providing technology and services to the entire private capital markets ecosystem to facilitate transactions. There are a variety of services to be performed Pre-During-Post transaction (financing) that may require professional expertise.

1 https://dqydj.com/how-many-accredited-investors-are-there-in-america/

These advisors are the lawyers, auditors, investor relations, marketing, media, digital securities protocol providers, and compliance who make sure that a company raises capital successfully.

Transfer Agent or Share Registry (TA)

The TA manages the book of records for the company, handling all transfers and trades. The transfer agent also updates the company's capitalization table (a register of all the securities transactions of the company). 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 from a regulatory perspective. The issuer exchanges digital securities for the investors' money or cryptocurrency (where permitted), either through a selected Regulated Issuance Platform or with the investor directly if the issuer is doing a direct offering on its own.

Secondary Market Platform (SMP)

The SMP is also known as an ATS (Alternative Trading System). It 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.

In a nutshell, Digital Securities are a new method by which companies of any size or at any stage can raise funds through secured online issuance platforms, giving them access to large numbers of qualified investors in an environment of trust.

Digital Securities Stakeholders

The Digital Securities Ecosystem (DSE) consists of many 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. This is essential not only for a successful offering but also for managing the Digital Securities throughout their lifecycle.

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

1. Costs, duplication, and redundancies are removed.
2. Use of blockchain technology to bring an immutable layer of trust that has never before existed in the private capital markets.
3. Bringing secondary markets to all investors, not just the ultra wealthy.
4. All participants in the Digital Securities Ecosystem work 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 the infrastructure of trust that binds them all together.

A Digital Securities Ecosystem with an effective infrastructure has many benefits:

- Eliminates duplication and delays in work
- Allows companies to raise capital faster and with less expense
- Brings investors more investment opportunities in many countries
- Facilitates liquidity through secondary markets
- Protects all participants by ensuring full compliance in all jurisdictions

The net result is that this brings about more confidence and trust in the global private capital markets. This is truly a revolutionary change.

How To Get Started

The Four Stages of Capital Raising

How To Get Started:

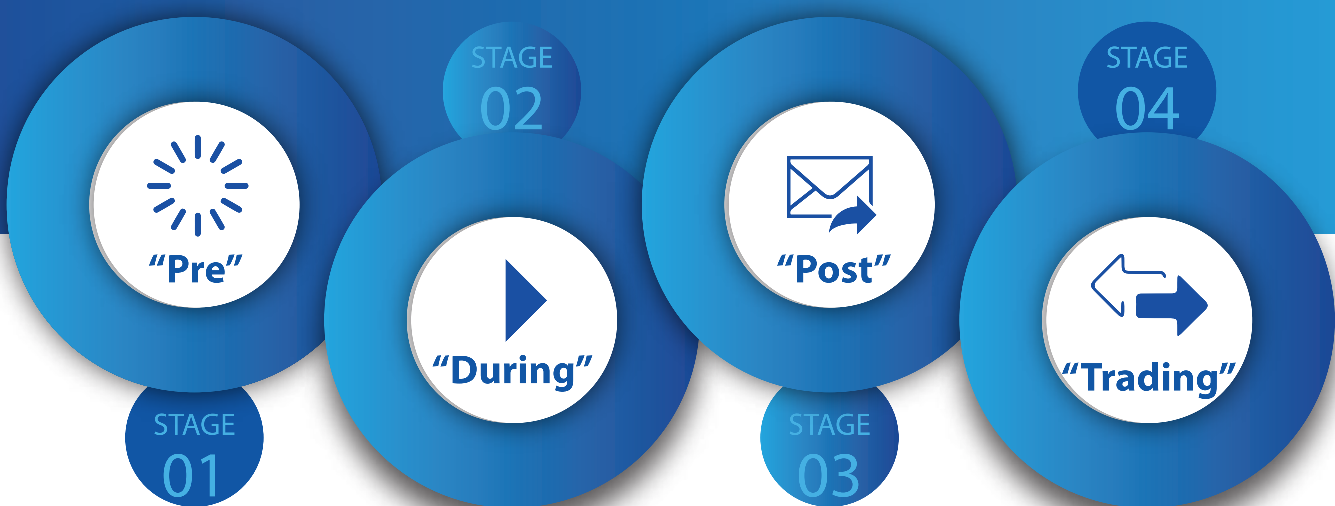
The Four Stages of Capital Raising

What most don't realize is that the way capital is raised through a Digital Securities Offering is no different than the traditional form of capital raise except for four notable differences described in the previous chapter..

There are four stages to raising capital. 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 the Digital Securities Ecosystem in various ways. Stakeholders who understand these stages will be able to recognize the issues and take advantage of opportunities. The four stages sport very intuitive names, such as the 'Pre' stage, the 'During' stage, the 'Post' stage, and the 'Trading' stage.

There is a wide variety of service providers who specialize in raising capital through Digital Securities. These service providers distinguish themselves in terms of the timing during which they become useful. Each of these stages come with a required set of tasks. Meeting these requirements successfully ensures there are no major self-defeating liabilities in the future.



Stage 1: The "Pre" Stage

So, what does 'Pre' refer to and why does it matter? It is the first stage of the four principal stages a company goes through when raising capital via Digital Securities.

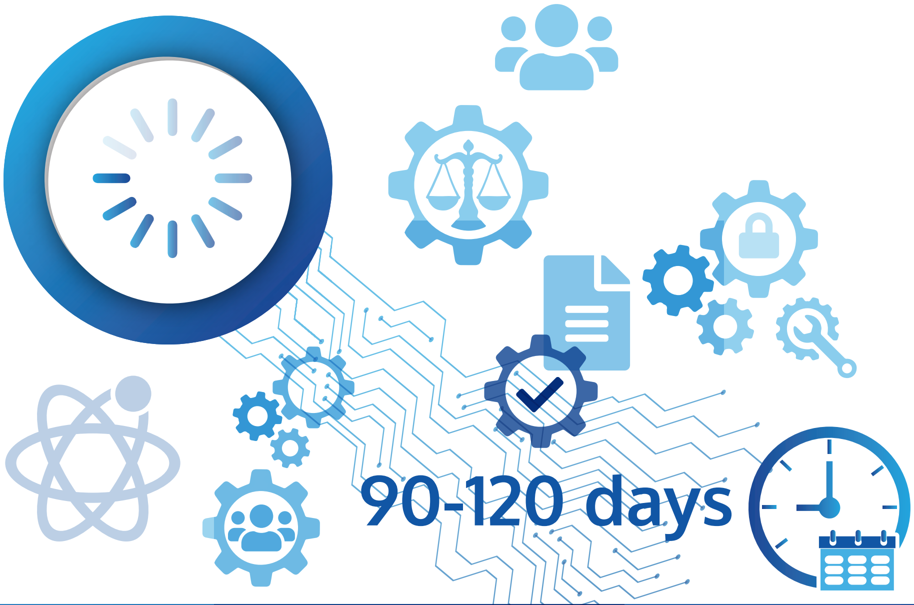
In this stage, all of the preparations for a successful Digital Securities offering take place. Both startups and established companies enlist a number of advisors, service providers, and adopt the necessary technologies.

The service providers who specialize in this stage of the capital raise are, for example, protocol providers, lawyers, auditors, and due-diligence companies. They ensure that a company's efforts satisfy all regulatory compliance and filing needs. This stage also includes investor relations advisors and marketing management specialists who would help with the messaging and marketing of the offering.

After the fundamentals are taken care of in terms of business processes and team building, public relations is the next critical area for companies in this stage to cover as a base. The firm's social media footprint should be revised and tailored for the company's next public relations strategy. This is crucial in order to prevent or mitigate any reputational risks for the company.

Many people 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 most companies are unprepared for the due diligence and the multiple requirements that are necessary to raise capital online. Regulated Issuance platforms are required to abide by securities regulations, and they list their 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.



Stage 2: The "During" Stage

When the issuer has been approved by the regulated issuance platform or if they are doing the capital raise on their own, they are now into the During stage. This phase is very difficult for those issuers that did not do any planning in the 'Pre' stage.

In the 'During' stage, you will be working with marketing firms, media, and investor relations to maximize your exposure in the market. You need to attend key events, host investor dinners, give interviews, and many other such activities. All this is necessary in order to gain exposure and to bring visibility to your company. Potential investors need to see what your company does and get excited about your business model.

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

There should be massive activity that results in online exposure. Your 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, the potential investors. This requires the involvement of everyone in the company. As I like to call it, it's an "All hands on deck!" stage.

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 the section on *The Importance of Shareholders* to learn more about making your shareholders the ambassadors of your company.

As you engage in different activities during this stage, you will experience anxiety as you get closer to your date of closing. However, during this entire stage you will be busy creating webinars, events, blog posts, news releases, product updates, solutions update, interviews, and advertising.

This stage is not a 9-to-5 effort or even a 9-to-12 effort. It is a 90-to-120 days of full-out effort and a 24/7 marathon until the closing, something that most companies don't expect.

Even though we have technology and the Internet which allows us to access investors worldwide, you will still be required to travel extensively during this time. You and your team need to be seen and heard. You must communicate the value proposition of your company consistently and often.

Many things can happen at this stage, such as the influx of potential partnership opportunities, news releases, new potential customers, etc. Your company needs to be ready as a team for all of these different activities as each one will influence how investors receive your offering. In the process of our own offering, we at KoreConX have been experiencing this first-hand as we engage in webinars, events, blog postings, and news releases. We have gained more users to our platform and found additional partners for our company, all of which ultimately benefits us in our digital securities offering.

To emphasize, you need to have your entire team ready to be engaged. It's not a solo sport!

Stage 3: The "Post" Stage

When you reach this phase, it means you have successfully closed your financing round. Now you will be required to deliver the digital securities to your newfound investors. You will need to make sure your securities lawyer has reviewed what you are distributing so that 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 the jurisdiction in which you have raised your capital and the exemption you chose you might have to file regulatory reports once the offering is complete, along with fulfilling shareholder reporting requirements.

Regulators globally share one concern in this marketplace: how private companies will now manage these new shareholders and maintain updates. The number one issue from regulators globally is the complaint from investors who say, "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, investors, 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—to 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, not just for the wealthy but for non-accredited investors also.

At the time of writing 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.

Each secondary market platform will display on its website the country in which they are regulated to make sure investors and companies have confidence they are working with a regulated secondary market operator.

The Digital Securities Offering Process

The Digital Securities Offering Process

Each of the four stages are very important to your offering and need careful planning to ensure you are successful in your capital raise. Before you get started, you must choose between two ways to raise capital. In one way, you enlist the help of a Broker-dealer or an online Issuance platform. Alternatively, you can do a 'Direct Offering' on your company's website.

Below is the step-by-step process for your Digital Securities Offering.

Broker-Dealer/Issuance/Online Investment Platform Process

1. Issuer seeks to raise capital and use a Digital Securities Protocol (DSP).
2. Issuer's Board of Directors sign a Directors' Resolution approving the capital raise, how much to raise, and the price per unit of securities.
3. Issuer retains a securities lawyer for the Digital Securities Offering (DSO).
4. Issuer prepares for the DSO.
5. Issuer selects a DSP provider.
6. Issuer works with the Issuance Protocol Provider (IPP) to design, create, and test their Digital Securities for their offering.
7. Issuer and the securities lawyer work with the IPP to make sure the securities issued through the DSP meet all regulatory obligations and that all lifecycle and corporate actions can be supported.
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 checks on the officers and directors of the Issuer.
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 with the 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 Issuer'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 for trading.

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 DSO to the general public or to accredited investors, depending on the exemption they chose for their DSO.

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 and investor decides to invest.

25 Investor is required to undergo full compliance such as ID verification, KYC, 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 such as the subscription agreement, shareholders agreement, etc.

28 Investor signs all documents online (or manually depending on the sophistication of the platform) for investment.

29 Investor provides investment funds via an escrow agent or pays online via electronic cheque, credit card, or even with crypto-currencies.

30 Issuer closes Digital Securities Offering (DSO).

31 Issuer and IPP finalize the DSP for the issuer to ensure all the terms, conditions, shareholders agreement, and all securities regulations are met.

32 Regulated issuance/online investment platform instructs escrow agent or trust account to release funds to issuer less their fee.

33 Issuer's Board of Directors sign a Resolution approving all the new shareholders in the company.

34 Regulated issuance/online investment platform provides all closing documents to Issuer.

35 Issuer must provide all Digital Securities holders all the closing documents including their Digital Securities.

36 Issuer's transfer agent or share registry manages the Digital Securities holders and all other shareholders, managing all the transfers, trades, and corporate actions.

37 Investor can begin trading on secondary market when trading restrictions have been removed, and the Issuer has been approved at a regulated secondary market.

38 Issuer provides regular reporting to its shareholders.

39 Issuer reports to regulators as required by the exemptions used.

40 Issuer provides regular reporting and disclosures through the Private Company Data Repository.

41 Issuer holds an Annual Shareholders General Meeting.

Many stakeholders are involved in these steps to ensure the Issuer accomplishes a successful Digital Securities Offering.

The Direct Offering Process

A Direct Offering is when an Issuer chooses to raise capital without a Broker-dealer, a Regulated Issuance, or an online investment platform. The Direct Offering is often done on the Issuer's website that provides details of the offering. Below is the sequence of steps for a Direct Offering.

1. Issuer seeks to raise capital and use a Digital Securities Protocol.
2. Issuer's Board Directors sign a 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 issuance.
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 partners with Direct Offering compliance provider to meet its regulatory requirements for their offering on their website.
12. Issuer applies for 3rd party Due Diligence Report that can be displayed on the website for their Direct Offering.
13. Issuer works with the Issuance Protocol Provider (IPP) to design, create, and test their Digital Securities for their offering.

14 Issuer selects a Registered Secondary Market Platform (also known as an Alternative Trading System or ATS) to list their Digital Securities.

15 Issuer provides term sheet approved by the Board of Directors such as video(s), investor deck, business plan, financial statements, subscription agreement, shareholders agreement, and all necessary information that is required to be provided on their website for review by investors.

16 Issuer begins to promote its Digital Securities Offering to the general market or to accredited investors, depending on the exemption that is chosen for the Digital Securities Offering.

17 Investor pre-qualifies as an accredited or non-accredited investor when registering at the Issuer's direct offering website.

18 Investor reviews the investment opportunity on the Issuer's direct offering website.

19 Investor decides to invest.

20 Investor is required to undergo compliance checks, such as ID verification, KYC, AML, and Investor Verification (only for Accredited Investors).

21 Issuer must determine if investor qualifies for investment based on the information provided by Investor.

22 Investor reviews all closing documents such as the subscription agreement, shareholders agreement, etc.

23 Investor signs all investment documents online (or manually depending on the sophistication of the portal).

24 Investor provides investment funds via an escrow agent or pays online via an electronic cheque, credit card, or even with crypto-currencies.

25 Issuer closes the Digital Securities Offering (DSO).

26 Issuer and the IPP finalize the DSP for the Issuer to ensure all the terms & conditions of the shareholders agreement and all securities regulations are met.

27 The Board Directors of the Issuer sign a Resolution approving all the new shareholders in the company.

28 Issuer must provide all Digital Securities holders the closing documents and their Digital Securities.

29 Issuer's Transfer Agent or Share Registry manages the Digital Securities holders and all other shareholders, as well as all the securities-related transactions such as transfers, trades, and corporate actions.

30 Investor can begin trading on a Secondary market when trading restrictions have been removed and the Issuer has been approved at the 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 disclosures via the Private Company Data Repository.

34 Issuer holds an Annual Shareholders/General Meeting (AGM) with all its shareholders.

The above two processes provide you only a high-level overview. Many of these steps have detailed sub-steps, some of which are performed one-time while others are ongoing.

Now that we have seen the process of a Digital Securities Offering, let us view an example of how this works in a specific jurisdiction, the USA, which is the premier jurisdiction for raising capital.

Digital Securities Offerings in the United States

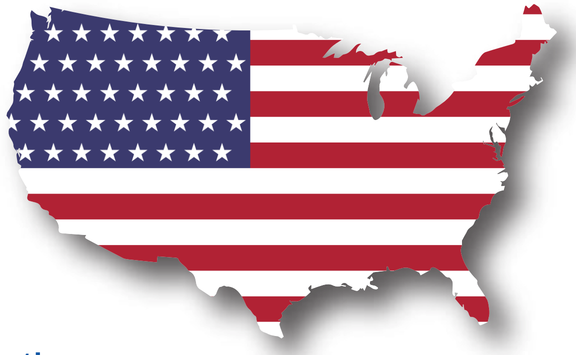
Digital Securities Offerings in the United States

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 or going public. Since the introduction of the JOBS Act, 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 get access to capital from global investors while providing liquidity to the accredited and retail investors.

USA being one of the largest capital markets in the world, regulators cannot afford to have any problems related to the safety of investors. Private companies in the U.S. raised $2.4 trillion while public companies raised $2.1 trillion, a gap that has been widening for several 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.

The potential in private capital markets is real and enormous. In the U.S. alone, there are 30.2 million private companies, 10.5 million accredited investors, and 233 million non-accredited investors. Globally compliant Digital Securities that are enabled by blockchain are critical to the success of secondary markets for private shares.



USA Overview

The 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:

- The issuer (company)
- The broker dealer (online investment, issuance platform)
- The investor
- The secondary market platform
- The Transfer Agent or Share Registry

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, allows offerings that can use general solicitation, but must be sold to accredited investors only, where 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 amount of capital from accredited investors. Issuers from anywhere in the world can use this exemption. The Issuer can either raise its capital directly via its own website through a "Direct Offering" or through a Broker-dealer or regulated issuance/online investment platform. The Issuer does need to keep its number of accredited investors to below 2,000, otherwise the Issuer 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 their accredited investor status verified. Over 10 million Americans qualify as accredited investors. The issuer, a Broker-dealer, or an 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 restrictions. The Secondary Market platform allows investors to purchase securities if they qualify for those specific securities that are being offered.

Today, there are 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, Rialto, SharesPost, Templum, and OpenFinance, DBOT, and Blocktrade.

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 and 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. As of this writing, there are 42 online Reg CF platforms such as SeedInvest, MicroVentures, Republic, StartEngine, WeFunder, Venture.co, and NextSeed to which 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 an 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, called a 'Direct Offering', or through a Broker-dealer or 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 a partnership with registered FINRA Broker-dealers (online investment platform) to make sure the offering complies with regulation.

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 are no hold periods. The Issuer or Secondary Market platform must take into consideration Blue Sky laws where there are trading restrictions.

Transfer Agent or Share Registry

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

I'm Interested, How Should I Proceed?

I'm Interested,

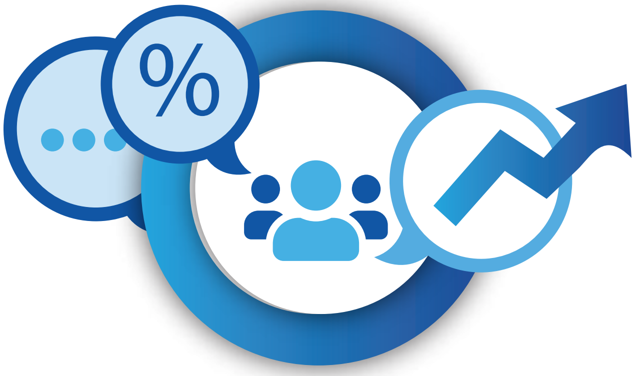
How Should I Proceed?

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, auditor, Investor Relations, marketing, media, Board Directors, current shareholders, and company advisors to guide you through the process.



Depending on 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 the laws around digital securities are evolving in all 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 an 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 and secure manner possible. 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, and meet-ups, and for engaging with influencers in your industry as well as in the 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 in 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 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 as a Direct Offering. A good PR person will make sure that 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 preparation. 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, then it's important that you start looking for a registered Transfer Agent or Share Registry provider in the country in which you are registered to support the securities you are offering.

Corporate Secretary

This is a role in a company that is very poorly understood 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 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 for 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 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 should be informed on what is happening. They need to be 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 cannot 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, partners, customers, lawyers, auditors, and 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 "solo-funding"), 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 must 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 perform introductions and build awareness about the impact your company is making.

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 should 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.

1. Shareholders
2. Investor Relations Team
3. Marketing Team
4. Transfer Agent/Share Registry
5. Corporate Secretary
6. Digital Securities Protocol Provider

It starts with the shareholders. There is much discussion on this matter and we strongly believe that the key is how you treat your shareholders. We cover this in the next chapter.

The Importance of Shareholders

The Importance of Shareholders

Shareholders = Customers = Ambassadors!

Each interview I have had in the past few years covered a question about how some companies or outsiders believe that having a large pool of investors is not good for a company and is distracting. I pondered my response on a number of occasions and then I reflected on comments from the founders of the JOBS Act (David Weild IV, Sherwood Neis, Jason Best, Sara Hanks, and Douglas Ellenoff) that crowdfunding is the democratization of capital and the "publification" of private companies. They went on to state that when investors invest in companies through these online investment platforms, the investors become the best ambassadors to the company.

So, the creators of the JOBS Act envisioned what was really 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 us examine the role of the customer from a company perspective. A company cannot survive without customers. In fact, the first few customers of the company are 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.

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.

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

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 that 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 can eventually become your ambassador. That is priceless for your brand and company.

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

How Should I Manage My Shareholders?

Just raised money via 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 shareholders' Digital Securities is a hot topic because now companies are finding they have over 50 shareholders and managing them can be burdensome. This can be the case even if you have raised money outside of crowdfunding. Are your shareholders a burden? If you answered yes, then there is a problem. Shareholders are and should be your biggest advocates. They believe so much in what you are doing that they invested their money in your business. There are fewer bigger advocates than those willing to stick their necks out with the founders and help your business grow.

The quickest way to turn a shareholder 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 champions to a burden. Remember that a customer who 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 transparency on how your business is doing is the best approach to keep the engine running smoothly and 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 you need more capital. In my experience, shareholders can be understanding and helpful when you give them the opportunity.

To manage your shareholders in an optimal way requires first 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 send email 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 should happen regularly. Topics for regular updates include internal accounting and auditing, financial information, product and manufacturing, research and development, marketing strategies, and sales forecasts.

The entrepreneur should also reach out to collect feedback from shareholders 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 and makes for a better experience for everyone!

Hopefully, you now agree that keeping your shareholders 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 email program. While this is a common approach, it is fraught 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 moves into 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 two areas that are overlooked are Post & Trading phases. This section covers one element of the Post- phase, 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 their own agenda, all resulting in the growing importance of effective shareholder management.

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

The best shareholder relationship strategies begin with understanding who your shareholders are. Individuals and institutions invest in different organizations with different motivations. As a result, they will be interested in different insights into the organization they have invested in. Investors invest for different reasons and with different motives. They may require different information to satisfy their unique investment curiosities. For example, some institutional investors, such as pension funds, often seek to match their assets with their liabilities over the long term, and therefore would be interested in companies communicating established, consistent performance and corporate strategies.

Understanding these constituencies is only accomplished through strong shareholder engagement. This can be done through large-scale meetings, online meeting platforms, forums, local meet-ups, diligent emailing, proprietary gated platforms, conference calls, etc., or any combination of the above. Having a complete understanding of shareholder goals and the makeup of the shareholder base (and monitoring how it changes over time) is very powerful.

With these communication lines open it becomes much easier to engage with and communicate back with shareholders. Set the expectation with them around what type of information you will be sharing, how often, how it will be delivered and how they can ask their questions or provide their feedback. This should not be a going-through-the-motions exercise in information distribution, but a means of deploying an ongoing narrative about the company and the overall growth and progression. Effectively communicate short- and long-term strategies and cultivate both reliable supporters and trusted critics of the company.

An Important Question to Ask Yourself

Shareholder management is not a 'set it and forget it' practice. It is an ongoing routine that needs to be practiced with the function of providing education on market trends and any shifts in the market landscape, answering questions, explaining long and short term strategies and specific goals that have been set, met, or even missed. It should promote a positive feedback loop with shareholders.

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?

What If It is Not Good News?

Companies are not 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 are not 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.

Speak clearly. Often, CEOs, CFOs, IR professionals, and other professionals get stuck in the idea that the more complex language they use the more impressive they will sound to investors. This is not the case. Yes, it is very important to be knowledgeable about your product, strategy, and business as a whole, but keep the communication straightforward and clear. 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]

By setting the right expectations with shareholders about company goals and strategies, you do not have to panic and feel obligated to be constantly 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.

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

1 https://www.spglobal.com/marketintelligence/en/news-insights/research/natural-language-processing-part-ii-stock-selection

2 https://hbr.org/2006/09/ten-ways-to-create-shareholder-value

"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." [3]

"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 and helping to write the company narrative. Your shareholders will be much more motivated to use your products or services themselves if applicable, and also to spread the word to their friends, colleagues, network, and media connections if they are educated on current efforts within the company and empowered to speak confidently about what is coming.

Conclusion

Conclusion

Managing shareholders should be a high priority for any leadership team. Shareholders provide the upfront money for the old adage 'you need to spend money to make money.' With that said, do not let shareholders be a distraction or hindrance to the company either. A fully engaged shareholder brings great advantages (brand advocate, potential for future investments, etc.), but they can also cause some drawbacks.

Too many cooks in the kitchen can become overwhelming when making decisions. With today's landscape of diverse investors, it can be hard to please everybody and the displeased can quickly become a distraction. Providing accurate, transparent information in an organized, consistent way is imperative. Shareholders should always know where they can access various types of information and when they are available. If anything, doing this will at least provide relief to your overflowing voicemail and email inbox!

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 activities 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 service 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 are made available to investors. This helps to paint an accurate picture of the company's 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 such as 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 achieve effective two-way communications with investors.

- Excel sheets to manage shareholders/investors
- Sales automation tools
- E-marketing tools
- Meeting planners

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 the shareholders of the company. By preventing this fragmentation and duplication of work, IR professionals can become more productive and minimize the risk of inaccurate or misleading information.

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 it is a waste of time and money.

Marketing is important, that is the bottom line! Your company requires it to build awareness, position itself as a leader in the industry, and thus attract customers to your business.

The exercise of creating a marketing strategy can be very exhausting. It makes you really examine all aspects of your company, such as its culture, products, solutions, and services. It makes you really understand who your true customers are. This is an art and science combined. Being good at this is what sets the great 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 marketing, investor relations, messaging, events, and many other activities.

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 is not possible to hit them all with the same messaging. Andrew Corn, CEO, E5A Integrated Marketing, stresses, in webinars and at events, the importance of segmenting your target investors so you can send each type of investor the appropriate right. Without this, your company will be shooting in the dark and missing numerous opportunities to engage with the right target investors.

Each of the following investor categories or segments, for example, are very different and need specific messaging and motivation:

- 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. This type of messaging should be comprehensible to each type of investor, which means the same type of jargon will not resonate with all the investor types. Without this targeted education where you communicate in a way that is familiar to them, the type of investors you need may be turned off. Alternatively, 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. Test your messaging with samples of your investor targets and continually improve and refine.

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 is 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 company.

1

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, it is 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, it requires the operators to be licensed. So far, many have overlooked another very important piece in this puzzle: the role of the Transfer Agent or Share Registry.

The Transfer Agent or Share Registry are most notably known for their custodianship related to public companies. In the private company world, it has not been a regulated service that companies needed to adopt. This is now changing as more and more companies want to do Digital Securities Offerings (DSO) and want their digital securities holders to be able to trade their digital securities.

The Role of a Transfer Agent

First, let us look at what a Transfer Agent (TA) or Share Registry does for a private company. For many, 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 regulations, a Transfer Agent or Share Registry is required.

More formally, the terms Transfer Agent or Share Registry mean any person or company that 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;
- E transferring record of ownership of securities by bookkeeping entry without physical issuance of securities certificates.

Among their key functions, the 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;

iv. make dividend, principal, interest, and other distributions to securityholders.

Why a Transfer Agent?

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

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

2. You want to offer your digital securities holders liquidity in secondary markets

3. You have a very complicated cap structure (shares, options, warrants, loans, SAFE, CrowdSafe, debentures, bonds, Digital Securities, or other securities instruments)

4. You have hundreds or thousands of shareholders

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

A Transfer Agent or Share Registry is an under-recognized role, but it is vital for ensuring separation of concerns, good governance, and full compliance with securities regulations and corporate law.

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 companies where 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 will grow in the near future to over 2 million. Legislation addressing the governance of digital securities will universally mandate that private and start-up companies use corporate secretaries to keep the corporate minute books current and accurate, properly register shares, and maintain other controls and procedures.

To date, private SMEs and start-ups have not had many restrictions placed on their activities. They have had very little governance and 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. These rules will include comprehensive transparency, governance, and compliance with all applicable regulations.

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

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 shareholders agreement in 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:

- Many years of wide experience in financial securities from both the business and technology perspectives
- Large installed base of companies and investors
- End-to-end solution stack that is functionally and technically well-integrated, rather than a loose set of uncoordinated piecemeal solutions
- Enterprise-class technology foundation that is proven, and not experimental, so that technology risk is limited
- Global operational infrastructure
- A diverse and global ecosystem of partners

To be truly effective in the all-digital world of private securities, the Digital Securities Protocol should be a specification of the complete life cycle of the securities, including issuance, trading, corporate actions, and exits. The implementation provider should be experienced in all aspects of implementation, with the maturity to choose the right technology that meets the long-term goals of the company and its ecosystem of partners in private securities.

Due Diligence

Due Diligence

The phrase that makes 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. The company should not be afraid of asking the hard questions. In the end, it will save the company several thousands of dollars and unnecessary effort.

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; and three, when you are seeking to bring on a digital securities protocol provider. Below are the relevant checklists. These are the questions you should pose or be prepared to answer.

Due Diligence on Your Securities Lawyer

I have spoken to many CEOs of companies who never understood why it is important to ask these questions. 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. There are many excellent lawyers, but the ones that matter the most for digital securities are securities lawyers. It is very important that you look for a securities lawyer.

This list of questions is useful when you are considering engaging a securities lawyer:

- How many years of experience do you have in securities laws?
- What type of offerings have you done for private companies?
- Do you work with a network of securities lawyers in other countries? If so, 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?
- What are the exemptions with which you have experience?

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 the 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.

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 some of the top securities lawyers to learn which information is crucial to them when a client reaches out for advice about their offering.

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. In which jurisdiction is your company incorporated and in which jurisdictions is your company doing or intends to do business?

2. In which countries is your company planning to offer 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 your company be conducting a Direct Offering or a Broker-Dealer Offering or using a Regulated Issuance Platform?

   A. If a Direct Offering, how will you manage all of the regulatory requirements (including "Know Your Client")

   B. If you are not using a Broker-Dealer or a 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?

5. Will this be for accredited investors only or will it also be made available to non-accredited investors?

6. How do you plan to confirm or verify accredited investor status?

7. How do you plan to confirm or verify that investors are not on proscribed 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 in which your company plans to sell digital securities?

10. On which blockchain are the digital securities going to be created and maintained?

11. Do you understand the differences between public blockchains and permissioned blockchains?

12. Does the platform already exist?

13. Do you know which Digital Securities Protocol you would like to use?
14. Has the smart contract code been audited by a code audit firm?
15. What level of assurance does the code audit firm give in terms of their work?
16. Is the Digital Securities Protocol implemented on robust, highly-secure, and enterprise-class technology platform?
17. Are 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. Does the company have financial auditors?
28. Will the blockchain be used to facilitate any additional levels of transparency?
29. What social media platforms are you using?

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

31 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, in 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?

During the Issue Questions

32 What documentation or certification will investors be required to sign?

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

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

35 Will the digital securities be immediately delivered to the purchasers?

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

37 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 laws?

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 without forking or allow 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 digital securities?

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

52 Once any applicable 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 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.

Below are what every Regulated Issuance Platform wants you have to have ready for their due diligence on your company:

1

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

2

Financial Diligence

- A Financial statements are audited, reviewed, and with notice to reader (requirements vary by jurisdiction)
- B Projected revenues, costs, profits, cash flows, and balance sheets

3

Background checks

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

4

Business Plan

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

5

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

6

Marketing, IR, PR

- A. Marketing strategy and budget
- B. Investor relations strategy
- C. Media strategy
- D. Social media
- E. Social media footprint (LinkedIn, Twitter, Facebook, YouTube, etc.)
- F. PR strategy for your Digital Securities campaign

Remember, with a DSO, the principles of raising money have 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

KoreConX is both the original designer and implementer of the KoreProtocol

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 each of your C-Suite executives have?
8. How many years of experience does the management have in capital markets?
9. Where is your support team located?
10. Which blockchain 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
Integrated Platform
1
Issuer & Stakeholder Platform
2
Direct-Offering Platform
3
Digital Securities Protocol
4
Capital Markets Platform
5
Secondary Market Platform
6
Compliance Management Platform
7
Transfer Agent Platform
8
Private Company Data Repository 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.

8. PCDR

The EDGAR, SEDAR, Company's House, for the world of private companies, to provide their information to the general public.

7. Transfer Agent Platform

Transfer Agent solution provides online control over shares and access to all company records hosted securely on one platform.

6. Compliance Management Platform

All-in-one, a fully compliant white-labeled online investment platform for broker-dealers. Complete with virtual data Room, deal matching, full compliance and regulatory requirements.

5. Secondary Market Platform

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

1. Issuer & Stakeholder Platform

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.

2. Direct-Offering Platform

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

3. Digital Securities Protocol

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.

4. Capital Markets Platform

All-in-one, a fully compliant white-labeled online investment platform for broker-dealers. Complete with virtual data room, deal matching, full compliance and regulatory requirements.

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 (yet fully integrated) solutions that KoreConX provides to the private capital markets:

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

This is an all-in-one solution that provides the most effective route to a compliant capital raise and for 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, bonds, 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 as well as merger and acquisition (M&A) activity. This is integrated directly with funding, legal, and compliance resources for immediate access. This functions as a Virtual Data Room.
- **Investor Relations**
  - Manage, moderate, and measure investors anytime, anywhere. Build better relationships with your investors with secure investor communications, e-voting, governance tools, and so much more.
- **Minute Book (Virtual Minute Book)**
  - Record and maintain all vital records of meetings, resolutions, voting, etc., that are necessary to be performed by the management, board of directors, and officers of the company.

- **Private label**
  - Privately branded all-in-one platform for your company.
- **Fully integrated with KoreConX all-in-one solutions**

Direct-Offering Platform (DOP)

All-in-one, fully compliant private label solution for issuers for 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 for managing the 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, governance tools, investor relationships, portfolio management, and much more.

- Permissioned, industrial-strength blockchain, the “KoreChain”
- No mining
- No gas fees
- No forking
- Fully-compliant with all securities regulation and corporate law

- Universal protocol to be used within Hyperledger Fabric nodes
- Integrated with Regulated Issuance Platforms
- Integrated with Secondary Markets Platform
- 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, regulatory due diligence tools, and more—all under your company name and branding.

- Fully compliant online investment platform
- Compliance management solution that is 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)

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

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

- Order 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, and ID verifications, as well as to manage all due diligence requirements and assist with 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 to 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 companies
- 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 is to provide information on companies to the general public. PCDR is integrated with the KoreConX all-in-one platform to provide real-time information to the general public.

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

The 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 market needs.

Glossary

Term	Description
Accredited Investor	A sophisticated investor who meets or exceeds certain minimum limits of net worth or income.
AGM	Annual General Meeting, a company is legally required to hold an AGM every year.
ASM	Annual Shareholders Meeting
AI (Artificial Intelligence)	The theory and development of computer systems able to perform tasks that normally require human intelligence, such as visual perception, speech recognition, decision-making, and translation between languages.
ATS	Alternative Trading System
Background Checks	An investigation of a person's or entity's background based on a number of criteria determined by the purpose for which the check is being performed.
Bad Actor	An individual or entity with prior sanction, convictions, or other such determinations that disqualify or prevent the individual or entity from participating in certain types of activities, professions, or transactions.
Blockchain	A distributed, append-only ledger of data and transactions that is cryptographically secured to create an immutable record.
Broker-Dealer	An individual or entity that, in the private capital markets, assists a company from raising capital by connecting the investment with investors as well as performing compliance activities.
Cap Table	Known in its full form as "Capitalization Table", the Cap Table is a record of a company's capitalization in various forms of securities that are held by various investors in each and every round of capital raising.
Clearing House	A financial institution that facilitates exchange of payments and securities in order to reduce risk between parties.
Corporate Holder	A corporate entity that holds equity in the given company.
CCO	Chief Compliance Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer

CMO	Chief Marketing Officer
COO	Chief Operations Officer
CRO	Chief Revenue Officer
CMP	Capital Markets Platform
Compliance	Conformation to a rule, specification, policy, standard, or law.
Consensus	The mechanism, process, or algorithm that ensures agreement about the validity of a transaction or a block of transactions. The mechanism could involve all-or-nothing, quorum, majority, or any other type of agreement.
Corporate Records	Formal documents that are required of companies by various regulations.
Corporate Investor	An investor that is a corporate entity (private or public companies, corporation etc.)
Crowdfunding	The process of raising capital in small amounts from a large number of investors usually through Internet platforms.
CrowdSafe	A specific form of investment agreement between issuers and investors on the Republic platform.
Crypto	Also, cryptocurrency, refers to currency that has only a digital representation and serves as a medium of exchange using cryptographic techniques.
Custodian	A financial entity that is responsible for safekeeping a company's financial assets.
Debenture	A type of equity, that lends money to the given company, and can be returned with either: cash with interest, shares
Digital Assets	Assets of any kind, usually financially, that have only a digital representation.
Digital Securities	Financial securities that are solely represented in digital form, typically on a blockchain.
Directors' resolution	A formal or official document signed by the directors of a company describing an action or decision that they have formally authorized.
DSO	Digital Securities Offering.

DSP	Digital Securities Protocol.
Fiduciary	A person or entity that holds a position of trust and has the obligation to act in the best interest of the party they represent.
Gas Fees	Fees paid to submit transactions to the Ethereum blockchain network; other blockchains may have their own versions of such fees.
High Net Worth Investor	An individual or investing entity that has assets above a certain amount.
Investors	An entity (Corporate or Individual) that invests in given company.
Investor Verification	A process that verifies an investor’s identity (or corporate record for corporate investor), and sometimes includes AML and KYC checks.
Investor Accreditation	A process that does investor verification, makes sure that the investor has at least 1 million USD worth of assets, and does risk evaluation. It applies to US Investors only, and each accreditation is only valid for a limited duration.
IR	Investor Relations.
IPO	Initial Public Offering.
Issuance Platforms	A platform or service that enables the creation, issuance, and management of securities.
Issuer	A corporate entity that issues securities.
JOBS Act	The Jumpstart Our Business Startups Act is a law that encourages funding of small businesses in the US by relaxing some of the securities regulations.
KoreChain	The overall blockchain platform of KoreConX.
KoreContract	Programmed and maximally-automated ‘smart contract’ that is compliant with the KoreProtocol. The KoreContract represents various types of securities (equities, debt, convertible, etc.), and other types of contracts such as executive agreements, Directors Resolution, NDAs, and any other legal contracts.
KoreProtocol	The set of specifications of data and behavior (functions) that form the basis of KoreContracts.
Mining	A process by which blockchain transactions are verified and secured on the blockchain.

Minute Book	A book of important records of a corporation.
Minutes	A legal and official record of activities and decisions taken by a corporation.
Options	The right, but not the obligation, to buy or sell certain securities at a specified price within a specified time. A put option gives the holder the right to sell the security, and a call option gives the holder the right to buy the security.
Permissionless Blockchain	A public blockchain where the participants who are unverified, unregistered, or anonymous can freely conduct transactions or engage in mining and transaction validation operations.
Permissioned Blockchain	A blockchain where the participants are verified and authorized to conduct transactions and perform validations or endorsements. Such blockchains have varying levels of sophistication or granularity of privacy for data and transactions.
Registrar	An individual or entity that is responsible for keeping a register or official records.
Registry	A place or office where registers or records of a company are kept.
Regulators	An entity that regulates, supervises, or governs another entity, industry, or business activity.
Regulation CF	Title III of the JOBS Act that allows private companies to raise up to $1 million of investment.
Regulation A+	A regulatory exemption from registration for public offerings, whereby a company may raise capital in a private offering in either a Tier 1 offering (up to $20 million in a 12-month period) or Tier 2 offering (up to $50 million in a 12-month period).
Regulation D	A regulatory exemption from registration for public offerings, whereby a company may raise capital in a private offering to accredited investors.
Retail Investor	An individual who purchases securities for his or her own account unlike institutional investors; typically used to refer to the 'Main Street' or unsophisticated investors.
Resolutions	A corporate resolution is a formal corporate action that requires a vote by the directors of the corporation.
Regulated Issuance Platform	A platform or service that is regulated or has registered with a regulatory agency and whose purpose is to facilitate the issuance of securities.

SAFE	Simple Agreement for Future Equity.
Secondary Market Platform	A platform, mechanism, or regulated entity that facilitates trading of private securities or those that are not listed. Also known as an Alternate Trading System (ATS).
Securities	Transferable certificates of ownership of investment products such as notes, bonds, stocks, futures contracts and options.
Securities and Exchange Commission (SEC)	The federal regulatory body for interstate securities transactions in the United States.
Settlement	The process that follows a transaction when the seller delivers the security to the buyer and the buyer pays the seller for the security.
Settlement date	The date when a securities buyer must pay for a purchase or a seller must deliver the securities sold. Settlement must be made on or before the third business day following the transaction date in most cases
Settlement price	The price used to determine the daily net gains or losses in the value of an open futures or options contract.
Self-regulatory organization	An organization recognized by securities administrators as having powers to establish and enforce industry regulations to protect investors and to maintain fair, equitable and ethical practices in the security industry.
Shares	Financial instruments that represent equity in a company.
Share Certificate	A certificate that represents the number of shares an investor owns.
Share Class	A classification of shares to determine its value and rights (varies by company)
Shareholders	An investor that holds shares in a company.
SME	Small-to-Medium Enterprises, usually with annual revenues between $5M and $500M.
Sophisticated Investor	Another term for “Accredited Investor”
SSO	Special Shareholders Meeting
STO	Security Token Offering
Strike price	The price the owner of an option can purchase or sell the underlying security.

TAO	Token-Assisted Offering
Tokenization	The act of creating tokens to represent digital assets; tokens are a combination of data and executable code (called generically, ‘smart contracts’, or KoreContracts, also called chaincode in Hyperledger Fabric)
Tokenized Securities	Digital securities that are self-contained in the form of tokens
Total number of shares	The total number of issued and outstanding shares for the security.
Transaction date	The date when the purchase or sale of a security takes place.
Trading symbol	The symbol, usually one to three letters, which is shorthand for the names of listed stocks. Also known as stock symbol.
Transfer Agent	A trust company appointed by a listed company to keep a record of the names, addresses and number of shares held by its shareholders. Frequently, the transfer agent also distributes dividends to the company's shareholders.
Validation, Validator	The act of validating that any given transaction is valid (i.e., conforms to pre-established rules, compliance requirements, or other checks). A validator is an individual, entity, or process that performs validation.
VDR	Virtual Data Room
Volatility	A statistical measure of changes in price over a period of time.
Volume	The number of shares traded during a specified time period, i.e., day, week or month.
Warrants	A certificate that gives the holder the right to buy the underlying security at a set price for a specified time directly from the company.

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.

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