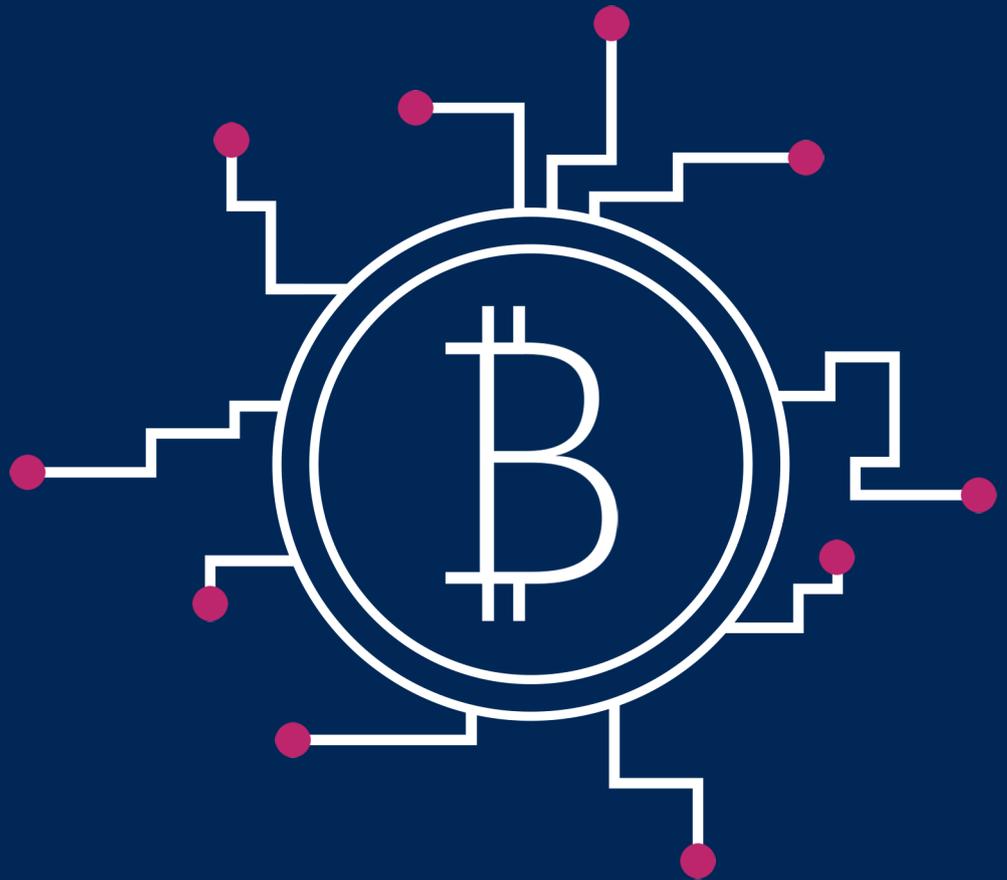


ICO and Cryptocurrency strategies





Cryptocurrencies

Cryptocurrencies, or virtual currencies, are digital assets that can be used as mediums of exchange in digital transactions. Examples include bitcoin, litecoin, ethereum, ripple, and Zcash. Cryptocurrencies are secured by cryptography, and the supply of virtual coins is controlled by cryptographic algorithms, rather than a central bank or government authority.



Initial coin offerings

Initial coin offerings (ICOs) are being used by companies to raise capital and fund projects. Investors are offered tokens either to participate in the underlying cryptocurrency's potential rise in value, or to gain a stake in the returns of the underlying project. The tokens generally do not provide any ownership rights in the project, and there typically are not cash dividends. The rights and limitations of any ICO are spelled out in an individualized White Paper. Along with increased speed and reduced transaction costs, for many companies they provide a welcome alternative to bank or venture capital financing because they don't involve a loss of control. The market has grown and in 2017, it is estimated that between \$4 and \$6 billion was raised in this way.



Blockchain

Transactions conducted in cryptocurrencies are saved in a publicly available shared digital ledger, or blockchain. The blockchain is updated every few minutes, and the ledger contains a chronological record of every transaction made in that currency. Identical copies of this data ledger are stored on multiple computers around the world, to make it theoretically tamper-proof. There are unlimited potential applications for blockchain technology, including stock ledgers, vehicle and property title registration, global trade and transportation, energy grids and education.



Smart contracts

Smart contracts have enabled blockchain technology to be used in transactions. They are not contracts per se, but rather intelligent, customized software programs that automatically execute agreements when certain conditions are met. Smart contracts allow parties to conduct transactions at lightning speeds, across borders, which could reduce mistakes, fraud, and market manipulation.



LONDON



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Innovative consulting services to support ICOs, crypto-businesses and cryptocurrency investors

Cryptocurrencies, and the technology supporting them, are revolutionizing global finance, with emerging companies able to raise funds quickly, efficiently, and with lower transaction costs. Institutional and individual investors have driven the market to over \$700 billion by early 2018.

Nevertheless, the cryptocurrency market offers specific challenges that go beyond standard investment risks. The underlying technology is complex and ever-changing. And its regulation is in flux, with existing requirements sometimes ill-suited to the new environment.

As a leading global provider of regulatory consulting services, Bovill can work with you to capitalize on the opportunities in the cryptocurrency market, while also understanding and helping to manage the risks. Whether you are looking to raise funds or invest, we can guide you through the regulatory, legal, technological, and operational challenges. Our expertise in digital currency, money services businesses and payments, and blockchain technology is supported by a global team of regulatory specialists who have their finger on the pulse of changing regulation.



Regulatory uncertainty and cyber threats present challenges

Because of the anonymity built into blockchain transactions, and a lack of oversight, some areas of the cryptocurrency market have been overshadowed by allegations of criminal activity and fraud which has prompted regulatory attention. Some countries, including China and South Korea, have imposed trading bans on certain cryptocurrencies. Elsewhere, including the US, regulators are trying to strike a balance between cracking down on fraudulent activity and facilitating innovation.

This lack of cohesion and consistency is causing uncertainty. Where regulations do exist, they can be difficult to apply to the specifics of blockchain investments. ICO tokens, for example, can be classified as a security, commodity, derivative, or currency, depending on the nature of the project, as well as the intentions and expectations of the issuer and investor. These characteristics may also shift over the life of the project, creating more difficulty.

The digital nature of cryptocurrency investments means that data security is of paramount concern. While the blockchain itself is generally considered to be hack-proof once established, the same cannot be said for crypto exchange wallets. Security breaches around wallet security are still occurring, highlighting the need for further security measures. The security of the underlying IT infrastructure of exchanges is also a concern. Exchange operators will need to assure themselves and their customers that from a people and technology perspective their operations are totally secure.



In the US, according to the Howey Test, a security must meet three criteria: 1) it requires an investment of money 2) to fund a common venture 3) with a reasonable expectation of profits to be derived from the entrepreneurial or managerial efforts of others. On this basis most tokens would appear to be securities.

The SEC ruled in July 2017 that tokens issued in a specific ICO should be considered securities, and therefore subject to securities-related rules and regulations. Firms that assume an exemption from securities law without a supporting opinion could find themselves the subject of lawsuits, regulatory examination, and enforcement action.



How Bovill can help

We understand regulatory risk and how to comply with local and global regulations. We can act as your partner whether you are a FinTech company looking to raise funds, a money service business utilizing blockchain technology, or an investor evaluating investments in either cryptocurrency or companies using blockchain.

Global reach

With offices in the US, UK, Singapore and Hong Kong, Bovill has worked with a broad range of global financial services companies. We operate as one team so you get one consistent view and support for conducting transactions that transcend national borders.

Industry insight

Bovill is a trusted name in the global financial services industry. Our in-depth understanding spans investment types, countries, and regulatory jurisdictions. We are on top of emerging regulation and invest in training and professional development to stay ahead of the issues. Many members of our team have worked for, or closely with, the world's leading regulators. This experience provides us with a unique perspective on what regulatory agencies are looking for.

Local expertise

We understand the regulatory intricacies in the individual countries and jurisdictions in which we operate. Our team includes experts on US and state-based regulations. We work both with companies seeking a committed compliance partner locally, as well as with global firms, or firms seeking clients, partners or investors around the globe.

Technological expertise

We understand the cryptocurrency market. We take pride in making complex topics understandable, and we can act as a liaison between your principals, legal and financial experts, IT specialists and vendors. We can interpret your questions and concerns and communicate recommendations in a way that makes sense for your business. We can advise you on cutting-edge network and security protocols.

Specifically, we can advise you on:

- analyzing global and country specific regulatory frameworks
- determining whether a token is a security, or a platform is an exchange
- registering your offering
- developing regulatory policies and procedures including anti-money laundering (AML) and know your customer (KYC)
- evaluating data privacy and cybersecurity issues and solutions
- advising on operational and trading aspects, including valuation, custodial relationships, and establishing trading arrangements with exchanges or alternative trading systems
- identifying cryptocurrency benchmarks
- conducting regulatory due diligence on investments
- risk analysis on cryptocurrency and blockchain-related investments.

ICO advisory services

Establishing an ICO may be a complicated and time-consuming process that requires careful planning, regulatory due diligence, and the establishment of the proper legal framework. Bovill has worked with a wide range of firms as they navigate business start-ups, funding initiatives, and offerings of securities as well as coin-based instruments. We understand the issues involved, and the challenges that may arise. We bring deep insight into the considerations that can help you launch your offering on a strong footing, while ensuring you meet even the most complex compliance requirements.

Once we get to know your business, we will work with you to decide whether cryptocurrency assets might play an advantageous role in your operations and financing. Working with our team of subject matter experts, we can help you:

- to decide the optimal legal and financial structure for your ICO. We can provide written analysis to support this decision
- on operational and trading aspects, including valuation, custodial relationships, and establishing trading arrangements with exchanges or alternative trading systems
- on other regulatory issues such as ERISA and intellectual property.

Registration and filing support

Bovill can simplify the process of registering your ICO and help you avoid unnecessary delays. Our team will provide you with a timeline of necessary filings, and frequent updates of where you are in the process. We will always be available to answer your questions and address your concerns.



In the US you may need to register your ICO with the SEC, NFA, or CFTC, as well as the relevant state authorities. Alternatively, you may seek an exemption under several provisions aimed at the US investment market. While these exemptions may involve lower costs and reduced compliance requirements, they carry certain restrictions and still require firms to comply with AML and KYC obligations.

If you are contemplating a limited offering or seeking an exemption, we can help you draft documents such as a Private Placement Memorandum (PPM) or Reg A+ filings. By working with a qualified compliance specialist such as Bovill, you gain confidence that your filings are complete and you are prepared for any regulatory audits. This may increase your chances of a speedy approval process.

Regulation D allows smaller firms to raise capital through a private placement without incurring the delays and costs of a standard security issue. The downside of Regulation D is that it limits the potential investment pool to accredited (high net-worth) investors. Firms who opt for Regulation D must submit certain disclosures and information through a PPM. They may also face restrictions on advertising and solicitation.

Regulation A+ provides an alternative for firms with more limited capital needs. Under Reg A+, private companies can raise \$50 million over a twelve-month period from a broad base of the general public, not just accredited investors. One benefit of Reg A+ is the “testing the waters” provision whereby firms can conduct initial promotion through social media and online marketing with minimal SEC supervision. Firms that register under Reg A+ must prepare an Offering Circular, a more detailed version of the white paper typically issued in an ICO, and must submit to a preliminary audit and meet ongoing reporting and audit obligations.

Regulation S provides another compliance exemption, but only to firms that sell tokens to non-US investors. While this route may reduce compliance responsibilities, it also significantly reduces access to capital. It can be challenging to conduct due diligence to make certain the tokens aren't later transferred to US-based investors.

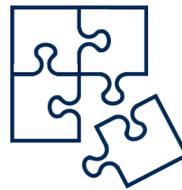
Other services

Bovill can review your offering proposal and documentation, including your White Paper and Offering Circular, to help make certain they are accurate, reasonable, and in line with existing and prospective regulation, as well as industry best practice. We can help design public disclosures that highlight risks of your project and also your integrity, transparency and good governance.

From a technology perspective we can review your existing data security and backup protocols, and help you evaluate advanced cybersecurity solutions. We also can help you evaluate outsourcing and vendor offerings, especially in areas such as compliance, technology, email communications, and personal trading.

Establishing a compliance framework

For all firms operating in financial markets it is important to have a robust compliance framework from the outset. Bovill can work with you to formulate a tailored compliance framework including policies and procedures that are adapted to the special requirements of the cryptocurrency and ICO market.



- We can help you establish common sense, comprehensive documentation and record keeping procedures to ensure you can respond to additional reporting requirements or information requests
- We can help you design effective training and assessment materials
- We can educate your staff on potential red flags to watch for, and make certain they know how and to whom to escalate any concerns
- We can review a sample of your inbound and outbound emails to identify any behavior that might violate SEC regulations

Providing ongoing assurance

Within this framework we can provide you with an ongoing support service, designed to respond to your compliance needs as your business grows and develops, and new regulations emerge. We will alert you to any new requirements, and will be on hand to answer your questions. We can also develop a compliance calendar including regulatory filing deadlines, a schedule of annual reviews, testing of your marketing materials, reviewing your AML program and so on. This gives you the peace of mind that you are doing the right thing.



Investment due diligence and risk analysis

Conducting thorough due diligence on cryptocurrency investments can be difficult, especially in cases where public information on management structure, balance sheets, and financial performance is unavailable.

In some cases, it may even be difficult to verify the identity of the issuer beyond a digital signature. For this reason, any investment in cryptocurrency-based assets should be made with consideration, discipline, and a clear-eyed recognition of risk.

Bovill's team of experts bring insight into the issues involved, and we're uniquely qualified to help you conduct detailed due diligence into any investment by:

- reviewing available documentation to determine the nature of the project, the structure of the offering, and the rights and benefits the tokens provide
- conducting risk analysis on ICOs, cryptocurrencies, and blockchain investments to help you understand the issues and risks involved
- educating your staff on potential red flags to watch for, and make certain they know how and to whom to escalate any concerns
- ensuring the blockchain is publicly available, and reviewing the documented code as well as public records of any independent cybersecurity audits
- reviewing the options for secondary trading and custodial arrangements for any investments, and addressing any concerns over their transferability and liquidity
- helping verify the identity, background, and licensing qualifications of the issuer, promoter, or advisor, and providing documentation as required under AML and KYC regulations for securities
- documenting all aspects of the transaction and consulting with you on the best ways to protect your investment from cybersecurity risk.



AML and financial crime

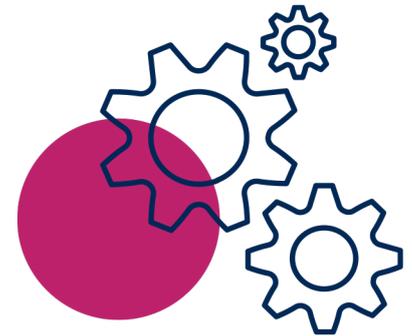
Firms that issue investments or conduct financial transactions are required to maintain and document AML, counter-terrorist financing (CTF) and anti-fraud controls. KYC provisions require firms to verify the identity of clients and investors. Firms are also expected to conduct appropriate levels of due diligence on customer accounts and to report any signs of criminal activity.

We expect that AML and KYC requirements will be a growing focus in the cryptocurrency and ICO market. Firms that voluntarily comply with best practice will not only stay on the right side of regulators, but also encourage investors. Conducting AML and KYC compliance in a blockchain environment presents special challenges. While the blockchain ledger itself is public, it is not always easy to match digital IDs in the ledger with the parties behind them.

As the cryptocurrency market grows and seeks to attract a wider investment base, we expect to see more innovation aimed at helping to facilitate due diligence. Bovill is, through its client work, keeping abreast of best practices in this area, and we can advise you on practical solutions that make sense for your business. We also can act as a liaison with your technology team to explore possibilities of building such controls into your trading algorithm.

Our dedicated team of financial crime experts can work with you to develop or adapt your current financial crime, AML, and CTF screens to the needs of the cryptocurrency market, as well as creating a system for documenting and reporting your KYC and due diligence activities. We are experienced in establishing clear procedures for filing Suspicious Activity Reports. Finally, we can work with you to establish practical trade monitoring and due diligence programs that meet compliance requirements.





Examples of our recent experience

Bovill has worked with a wide variety of companies in the digital currency and blockchain space. A few examples of projects we have delivered include:

We worked with Europe's leading all-inclusive platform to buy, sell and manage bitcoin, to prepare their response to a call with the European Securities and Markets Authority (ESMA) for evidence on Contract for Difference (CFDs) and Binary Options including crypto CFDs.

We worked with a cryptocurrency exchange with an e-money application to enable them to issue a crypto-based payment card.

We are advising clients on cryptocurrency benchmarks and benchmark-based products, as well as assisting in the design work around those indices and products.

We undertook an AML and sanctions audit which covered the fiat to crypto and crypto to fiat conversion services for a digital banking alternative company offering pre-paid debit cards, a currency exchange, cryptocurrency exchange and peer-to-peer payments.

We have reviewed a number of ICO White Papers.

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Financial services
regulatory consultants

Bovill is a specialist financial services regulatory consultancy, established in 1999 and headquartered in London. We also have offices in Chicago, Singapore and Hong Kong.

Our sole activity is the provision of high-quality, technically-focused advice and consultancy services on all aspects of financial services regulation. We aim to develop effective solutions to the complex problems of our clients, and do not offer commoditized advice or services.



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