

Securities law framework for Arcona blockchain tokens estimating the likelihood to be a security under the U.S. federal securities law

Element 1: Investment of Money					
Characteristic	Explanation	Examples	Arcona	Points	Y or N
There is no crowdsale. New tokens are given away for free, or are earned through mining	Tokens which are not sold for value do not involve an investment of money. For example, if all tokens are distributed for free, or are only produced through mining, then there is no sale for value.	There was never any token sale for Bitcoin. The only way to acquire new bitcoin is via mining. A token which is randomly distributed for free	Arcona does not plan to allow miners to mine Tokens in the future.	0	N
Tokens are sold for value via a crowdsale or to private investors	Tokens which are sold in a crowdsale, at any time, regardless of whether sold for fiat or digital currency (or anything else of value) involve an investment of money	A token which is sold for bitcoin in a crowdsale. A token which is sold for ether in a crowdsale.	During the token sale, Arcona Tokens are sold in a crowdsale for ETH, which involves an investment of money.	100	Y
Total for Element 1				100	

Element 2: Common Enterprise					
What is the timing of the sale?					
Characteristic	Explanation	Examples	Arcona	Points	Y or N
Pre-deployment	A sale of tokens before any code has been deployed on a blockchain is more likely to result in a common enterprise where the profits arise from the efforts of others. This is because the buyers are completely dependent on the actions of the developers, and the buyers cannot actually participate in the network until a later time.	At the time of ICO developer has an idea for a new protocol, has drafted a white paper.	Deployed	70	N
The protocol is operational on a test network	If there is a functioning network there is less likely there is to be a common enterprise where the profits arise from the efforts of others. The closer the sale is to launch of the network, the less likely there is to be a common enterprise.	A developer has an idea for a new protocol, writes a white paper and deploys a working test network before doing a crowdsale.	The development of the platform has begun in 2013. Arcona platform is currently operational on a test network in with the smart contracts being tied to the virtual objects on the digital map.	60	Y
Live network is operational	If the token is sold once there is an operational network using the token, or sold immediately before the network goes live, it is again less likely to result in a common enterprise	The crowdsale is done at the same time the network is launched.	In 2019	50	N
What do token holders have to do in order to get economic benefits from the network?					
Characteristic	Explanation	Examples	Arcona	Points	Y or N
All token holders will always receive the same returns	If returns are paid to all token holders equally (or in proportion to their token holdings) regardless of any action on the part of the token holder, then their interests are more likely aligned in a common enterprise	'HodlToken' holders are automatically paid an amount of ETH each week, based on fees generated by other users of the network 'FoldToken' does not pay any return, and there is no way to earn more tokens within the network (but they can be bought, sold or traded)	Arcona token holders do not receive any sums from their Arcona tokens, as the tokens are used to purchase digital land and exchange virtual objects within the Arcona augmented reality digital ecosystem.	25	N
There is a possibility of varying returns between token holders, based on their participation or use of the network	If token holders' returns depend on their own efforts, and can vary depending on the amount of effort they each put in, then there is less likely to be a common enterprise	'CloudToken' holders can earn more tokens by providing data storage on the network, or can spend tokens to access data storage. Holders who do not provide data storage do not earn any more tokens.	Arcona token holders do not receive any sums from their Arcona tokens for holding the tokens per se. Any possible returns are subject to usage of the digital land and virtual objects within the augmented reality ecosystem.	-20	Y
Total for Element 2				40	

Element 3: Expectation of Profit

What function does the token have?

Characteristic	Explanation	Examples	Arcona	Points	Y or N
Ownership or equity interest in a legal entity, including a general partnership	Tokens which give, or purport to give, traditional equity, debt or other investor rights are almost certainly securities.	A developer releases and sells 100 'BakerShares' tokens. Each token entitles the holder to 1 share in Baker, Inc.	Token purchasers will not invest money. They will be purchasing a digital goods, which are the in-app currency within the ecosystem.	100	N
Entitlement to a share of profits and/or losses, or assets and/or liabilities	<i>If one or more of these characteristics apply, the token is almost certainly a security, notwithstanding the results of the other elements</i>	A developer releases and sells 100 'BakerProfit' tokens. Each token entitles the holder to 1% of the profits of Baker, Inc. for the next year.	There is no entitlement to a share of profits and/or losses, assets and/or liabilities.	100	N
Gives holder status as a creditor or lender		A developer releases and sells 100 'BakerDebt' tokens. Each token entitles the holder to principal and interest repayments based on the initial token sale price.	Arcona tokens do not give a status of creditor or a lender. Arcona tokens purchase is a digital goods purchase.	100	N
A claim in bankruptcy as equity interest holder or creditor			Arcona token holders do not have any claims in bankruptcy (see Token Sale Policy).	100	N
A right to repayment of purchase price and/or payment of interest			Arcona token holders to not have any rights to repayment of purchase price unless specified in customer satisfaction policy. There is no interest paid.	100	N
No function other than mere existence	A token which does not have any real function, or is used in a network with no real function, is very likely to be bought with an expectation of profit from the efforts of others, because no real use or participation by token holders is possible.	A developer releases and sells 100,000 'SocialCoin' tokens to fund the development of a new Social Network. However, SocialCoin is not required to access the network and has no real function after the sale.	Arcona tokens are used as in-app currency within the ecosystem.	100	N
Specific functionality that is only available to token holders	Voting rights alone do not constitute real functionality. A token which has a specific function that is only available to token holders is more likely to be purchased in order to access that function and less likely to be purchased with an expectation of profit.	'CloudToken' is the only way to access and use a decentralized file storage network.	Arcona tokens are used as in-app currency within the ecosystem.	0	Y

Does the holder rely on manual, off-blockchain action to realize the benefit of the token?

Characteristic	Explanation	Examples	Arcona	Points	Y or N
Manual action is required outside of the network (e.g. off-blockchain) in order for the holder to get the benefit of the token	A token whose value depends on someone taking specific manual action outside of the network means that the token is not functional in and of itself. Instead, the token relies on a level of trust in a third party taking action off-blockchain. This sort of token is more likely to be bought for speculation - i.e. the expectation of profits.	A developer releases and sells 'FreightCoin', which will allow the holder to pay FreightCoin to access capacity on a new real-world freight network. The network relies on legal contractual relationships and manual actions. (This alone does not make FreightCoin a security)	Arcona token by itself works as in-game currency within Arcona ecosystem. Whether the user decides to take any actions with regards of purchasing digital land or virtual objects on the Arcona platform is irrelevant to the Arcona token functionality, as the purpose of providing a possibility to purchase content of the augmented reality layer via the Arcona tokens has been fulfilled by the existence of the tokens.	80	N
Token holder action is required within the blockchain to manipulate the token to realize the benefit of the token	A token whose value depends on active manipulation within the network of the token by the token holder to gain value means that the token by itself is less likely to be bought for speculation - i.e. expectation of profits.	Holders of 'BuyGoodsToken' are able to purchase digital assets on the network and sign the transactions with the tokens, which will indicate to the property right of the digital asset.	Arcona tokens allow each token holder to access the ecosystem to purchase portions of digital maps and to add virtual content to those digital map portions, which may be bought or sold on Arcona ecosystem market place where transactions are signed via token sale.	-20	Y

All functionality is inherent in the token and occurs programmatically	A token which is built with all the necessary technical permissions means that the token holder does not rely on manual actions of any third party. This means that the buyers are more likely to purchase the token for use rather than with the expectation of profit from the efforts of others.	Holders of 'SongVoteToken' can sign transactions on the network as votes for their favorite new songs and earn rewards for doing so.	Arcona Token holders who will purchase Arcona Tokens would be acquiring digital goods that will be in-app currency within the Arcona ecosystem. Exchanging the Arcona tokens for virtual objects is inherent to Arcona Tokens and is done programmatically once a user has selected the desired object.	-20 N
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What is the timing of the sale?

Characteristic	Explanation	Examples	Arcona	Points	Y or N
Pre-deployment	A sale of tokens before any code has been deployed on a blockchain is more likely to result in buyers purchasing for speculative reasons with the expectation of profit, rather than practical use cases.	A developer has an idea for a new protocol, writes a white paper and does a crowdsale.	Deployed	20 N	
The protocol is operational on a test network	If the sale occurs after code has been deployed and tested, the token is closer to being able to be used	A developer has an idea for a new protocol, writes a white paper and develops a working test network before doing a crowdsale.	The development of the platform has begun in 2013. Arcona platform is currently operational on a test network in with the smart contracts being tied to the virtual objects on the digital map.	10 Y	
Live network is operational	If the token is sold once there is an operational network using the token, or immediately before the network goes live, it is more likely to be purchased with the intention of use rather than profit.	The live network is launched before the crowdsale.	In 2019	0 N	

Can the token holders exercise real and significant control via voting?

Characteristic	Explanation	Examples	Arcona	Points	Y or N
Token holders as a whole are able to control the development team's access to funds	If the collective approval of token holders is required in order for the development team to access the funds raised in the crowdsale, then any value realized by the token holders is more closely tied to their own decisions, and less reliant on the efforts of others.	A development team sells 100,000 Tokens for a total of 100,000 ETH. 50,000 ETH will be released from the token contract to the development team immediately, but the remainder is only released once milestones are met, which requires approval of a majority of the token holders each time. If the milestones are never met, the remaining ETH will be returned to the token holders.	Token holders are Arcona customers and they do not have any control of the Arcona company.	-20 N	
Token holders as a whole are able to vote on significant decisions for the protocol	If the collective approval of token holders is required in order to make significant changes to the protocol, then any value realized by the token holders is more closely tied to their own decisions, and less reliant on the efforts of others.	Changes to the protocol require a vote by token holders.	Arcona Token holders are not able to vote as they are customers.	-10 N	

Note: Voting rights must be in addition to functionality. A token with voting rights alone and no other real functionality is very likely to satisfy element 3

How is the token sale marketed?

Characteristic	Explanation	Examples	Arcona	Points	Y or N
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Marketed as an 'Initial Coin Offering' or similar	It is not possible to prevent some buyers from buying a token purely for speculation. However, marketing the token as an investment leads buyers to believe they can profit from holding or trading the token, rather than from using the token in the network. Using terms like 'Initial Coin Offering' or 'ICO', and investment-related language like 'returns' and 'profits' encourages buyers to buy a token for speculation, rather than use.	'ProfitCoin' includes potential of 'high ROI' and 'investor profits' in its marketing material.	The Arcona White Paper posits that Arcona Tokens are in-app currently, which are digital units, through which the purchase of digital land becomes possible within the ecosystem. The White Paper does not describe any other possibility for a customer to purchase virtual objects, content or digital land than through the Arcona tokens.	50 N
Marketed as a Token Sale	Marketed as a sale of tokens which give the right to access and use the network		Arcona marketed the sale of tokens, as a sale of units that will allow prospective ecosystem members to purchase or sell content within Arcona ecosystem	0 Y
There is no economic return possible from using the network	If there is genuinely no economic return possible for the token holders, then there is unlikely to be a common enterprise. This will be rare.	Backers contribute to a cause and receive a 'thank you' token which has no economic value.	Token holders are Arcona customers and it is reasonable for them to enjoy the virtual objects and the new medium for advertising and communicating.	-100 Y
Total for Element 3				-110
Arcona results				30

Guide	How likely is the element to be satisfied?
0 or less	Very unlikely
1 - 33	Unlikely
34 - 66	Equally likely and unlikely
67 - 99	Likely
100 or more	Very likely

Total Arcona Points	
Total for Element 1	100
Total for Element 2	40
Total for Element 3	-110
Overall Risk Score	30

A token will only be a security if it satisfies all three elements. The higher the point score for each element, the more likely the element is to be satisfied.

For many blockchain tokens, the first two elements of the Howey test are likely to be met. The third element has the most variables and the most different outcomes depending on the characteristics of the particular token.

Important notes

Please remember that this methodology produces nothing more than an estimate. The Overall Risk Score and the categories of likelihood are a guide only.

The Howey test has not yet been directly applied by the courts to any digital currency or blockchain token. The Howey test as applied by the courts does not involve any points-based calculation. The points system is intended as a guide - to highlight the characteristics of a token which are relevant to the securities law analysis.

This Framework should be read together with the full legal analysis. This Framework and the full legal analysis may be updated in the future as the law in this area develops.

You should not rely on this Framework as legal advice. It is designed for general informational purposes only, as a guide to certain of the conceptual considerations associated with the narrow issues it addresses. You should seek advice from your own counsel, who is familiar with the particular facts and circumstances of what you intend and can give you tailored advice. This Framework is provided "as is" with no representations, warranties or obligations to update, although we reserve the right to modify or change this Framework from time to time. No attorney-client relationship or privilege is created, nor is this intended to be attorney advertising in any jurisdiction.