



BlockSettle

BLOCKSETTLE

Private Market Structure Detailed FAQ

General

What is the Private Market?

BlockSettle offers a secure and cost-effective method of issuing representations of real-world assets on the blockchain in the form of tokens. It offers companies an alternative to the expensive and time-consuming task of processing instrument transfer requests by issuing blockchain tokens to the instrument owner as representations of their holdings. Token-holders can receive all the benefits of direct instrument ownership while being able to take advantage of real-time settlements.

Structure

What is the structure of the Private Market?

1 For companies seeking to use our services (each an “Operational Company”):

- A Swedish holding company (“SPV”) is incorporated;
- The SPV is governed by the Swedish Companies Law (SFS 2005:551);
- The SPV structure will allow for harmonized handling of the share registry so that the Operational Company can be based anywhere globally (ex US);
- The SPV outsources the management of the share registry to BlockSettle;
- The SPV has bespoke Articles of Association ensuring that:
 - *The shares are freely transferable on BlockSettle’s Private Market;*
 - *The scope of the SPV’s business is limited to holding shares in the Operational Company – no other or new activities shall be undertaken;*
 - *The board of directors shall comprise three directors who must act jointly;*
 - *The board of directors is prohibited from assuming liabilities or selling assets of the SPV;*
 - *Voting can be done electronically.*
- Any disbursements such as dividends are may be credited to investors’ accounts with BlockSettle.

2 For SPV shareholders/investors (each a “Participant”):

- Participants hold shares in their own name in the share register of the SPV;
- BlockSettle issues tokenised SPV share representations on the Bitcoin Blockchain;

- Participants can settle tokens through atomic swaps against Bitcoin using the service, automatically effecting a share registry update;
 - If tokens are lost, the Participant will still be entered in the legal record – the share registry and may replace their tokens for a fee.
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How long does it typically take to setup the structure?

Once the Operational Company has made the necessary decisions to move ahead, the setup takes approximately 6-8 weeks.

Getting started

What is the process for stakeholders of an Operational Company to get started?

- 1 For new listings, the process begins when a sponsor – a company or individual - contacts BlockSettle
- 2 BlockSettle works with the sponsor and sets up the SPV in Sweden
 - The sponsor needs to appoint three directors to compromise the board of the SPV
 - The SPV is incorporated with ordinary shares class A:
 - *The ordinary shares series A are issued to cover the running costs of the SPV and do not have any economic upside beyond the nominal share capital contribution, each carrying 1 voting right (The ordinary shares series A are typically issued to the sponsor, founders or other, and are contributed by way of capital injection)*
 - The SPV subsequently issues the ordinary shares series B:
 - *The ordinary shares class B are issued to the shareholders in the Operational Company and are settled through a payment-in-kind of shares in the Operational Company;*
 - *Investors contribute the number of shares in the Operational Company that they wish to tokenize, in exchange for newly issued ordinary shares series B;*
 - *The ordinary shares series B are the investor shares with the economic upside beyond the nominal share capital contribution, each carrying 10 voting rights;*

- 3 The SPV outsources the maintenance of the share register to BlockSettle who sets up the share registry, credits account balances to each investor and issues tokenized SPV share representations in the form of tokens on the Bitcoin Blockchain
 - 4 The investors now hold shares in their own name on the legal register and can trade their tokens versus bitcoin in an automated straight-through-process on the platform, where each transaction automatically effects a share registry update
 - 5 The board of directors of the SPV receives daily extracts of their share registry
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Costs

What is the overall cost structure?

1 Set-up costs

- Initial SPV setup costs 7'500 EUR (excluding VAT)
- Share capital contribution of minimum 10'000 EUR which shall cover
 - Ensuring that the SPV can be a going concern for no less than 3 years without further capital contributions, assuming Directors do not draw any remuneration
 - Purchasing tokens (bitcoin blockchain) and distributing to initial investors in the SPV is variable and covered by the share capital contribution (each SPV share is represented by 307 satoshis, hence the cost of purchasing tokens is a function of the number of SPV shares and the price of bitcoin)
- Any legal advice sought, or appointing external professional Directors, is separate and agreed between the SPV and third-party providers

2 Ongoing costs

- Annual filings of balance sheet and income statement is completed with the help of local accounting firms of which there are many alternatives which generally costs EUR 1'000
 - No audit requirement unless two of three of the following criteria is fulfilled:
 - *3 employees;*
 - *assets over 150'000 EUR equivalent;*
 - *a turnover of 300'000 EUR equivalent.*
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Taxation

How is the SPV and its shareholders taxed?

- 1 Shareholdings in foreign unlisted Operational Companies that correspond to a Swedish limited liability company or a Swedish economic association may, as a general rule, in accordance with Chapter 2 Section 2 of the Swedish Income Tax Act, be regarded as trade investments, and dividends and capital gains are as a general rule thus tax-exempt for the SPV
- 2 Investors who uses the Private Market to transfer shares will thus need to declare their own respective tax as a result of any gain or loss from holding SPV shares
- 3 Dividends paid from the SPV to its investors may be subject to withholding tax in Sweden

Settlement of tokens on the Private Market

How does settlement work?

BlockSettle creates a share register for each SPV in the BlockSettle system. Each investor maintains an account the BlockSettle system and for the initial account balances, BlockSettle issues tokens on the bitcoin blockchain and distributes them to the account holder. All account updates will be executed by the investors by means of assigning specific UTXOs to the trade counterpart in exchange for bitcoin in a coinjoin transaction. Once the transaction is mined six blocks deep, BlockSettle updates the share registry.

Can I transfer my tokens to a specific buyer?

No, it is not possible to transfer tokens to a specific buyer as the RFQ to buy or sell tokens is disseminated to all Participants.

As a shareholder, what happens if I lose my tokens?

In case you lose access to your Private Keys you will have lost your tokens. However, as BlockSettle maintains the legal record – the share registry – having verified you as the owner, we can issue new tokens for a fee.

Can tokens be settled with payments other than bitcoin?

- Tokens are settled with bitcoin only
 - Transfers on the Private Market are achieved using BlockSettle's settlement technology whereby an on-chain swap of two assets residing on the same chain allows for real-time bilateral settlement (where both the payment leg – bitcoin - and the tokenised SPV share representation – tokens - reside on the same ledger).
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What are the costs for trading tokens?

- The bitcoin network fee is borne by the buyer of the tokenized SPV share representations
 - BlockSettle does not charge for the settlement of tokens on the Private Market however as the market develops we may charge investors a fee for maintaining an equity account with BlockSettle
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Administration of the SPV

How is the share registry managed?

- BlockSettle updates the share registry based upon transfers of tokenized SPV share representations
 - No other methods of share transfers are approved unless specific approval is sought from the board of directors
 - The share registry is sent to the board of directors daily, or upon request, including but not limited to the names of the shareholders, their respective holdings and contact details
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How does corporate actions such as convening and voting at general meetings work?

The board of directors of the SPV will have the email addresses to its shareholders and may both convene and allow for voting using email

- BlockSettle aims to build an easy to manage investor relations site in the future
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How are distributions further to an asset sale or dividends administered?

A separate additional agreement is required for BlockSettle to facilitate the disbursement of dividends or an asset sale

What legal or regulatory filings are required of the SPV?

The SPV must annually:

- Produce and submit annual accounts by 30 June to the Swedish Companies Registrar, Bolagsverket (the accounts need not be audited but it is advised to work with an accounting firm who can help with filing of which there are plenty)
- To convene and hold an annual general meeting (“AGM”) to approve the accounts and discharge the board of directors from liability during the preceding calendar year. The meeting minutes are to be submitted to the Swedish Companies Registrar, Bolagsverket

Is there a need for an audit?

There is no need to have audited accounts unless two of the following three criteria are fulfilled;

- *3 employees;*
- *assets over 150'000 EUR equivalent;*
- *a turnover of 300'000 EUR equivalent.*

Are professional administrators allowed to sit on the board of directors?

Yes, BlockSettle has the requisite contacts and can provide introductions to professional administrators. Such administrative services are entered into by the SPV and third-party providers directly

Are there any other statutory requirements?

If the value of assets of the SPV falls below 50% of the aggregate liabilities, a separate mandatory audit is required to evaluate the solvency of the company. Should such scenario occur, it is the responsibility of the board of directors of the SPV to appoint an auditor to conduct the audit

Liabilities

What are the liabilities of Directors?

The directors are personally liable for the SPV

How and when is an SPV wound down?

Typically, upon either a sale of the assets of the SPV or in a liquidation, the SPV is sold to a liquidator. The holders of the A shares are responsible for any liquidation.
