



## MARKETS AND SECURITIES REGULATION DEPARTMENT

### NOTICE

TO : BANKS, INVESTMENT HOUSES, INVESTING PUBLIC AND ALL INTERESTED PARTIES

FOR : REQUEST FOR COMMENTS ON THE PROPOSED RULES ON INITIAL COIN OFFERING (ICO)

The Securities and Exchange Commission intends to issue Rules on Initial Coin Offering (ICO). Hence, the Commission is inviting banks, investment houses, the investing public and other interested parties to submit their views, comments and inputs to the proposed guidelines.

The draft SEC Memorandum Circular is hereto attached for your reference.

Commenters may submit, not later than 31 August 2018, their views, comments and inputs by email to [vgpfelizmenio@sec.gov.ph](mailto:vgpfelizmenio@sec.gov.ph), [vcvargas@sec.gov.ph](mailto:vcvargas@sec.gov.ph) and [jfbpatilleros@sec.gov.ph](mailto:jfbpatilleros@sec.gov.ph).

Issued on 02 August 2018.



**SEC MEMORANDUM CIRCULAR NO. \_\_\_\_**  
Series of 2018

**SUBJECT:                    *RULES ON INITIAL COIN OFFERING (ICO)***

**NOTICE**

In recognition of the recent financial innovation of raising funds for a venture or business using internet platforms, the Commission formulated rules on initial coin offering in accordance with the Securities Regulation Code (SRC) and international practice and standards.

**PREAMBLE**

WHEREAS, it is the policy of the Commission to encourage investments and active public participation in the capital market, foster good governance and ensure protection of investors;

WHEREAS, the Commission continuously keeps itself abreast of the latest advancements of information and combination technology and the globalization of financial markets facilitate innovative financial environment, which includes fund raising through internet platforms such as through initial coin offerings;

WHEREAS, initial coin offerings will help raise capital and resources for small and local businesses start-ups or ventures, given standards set by *these Rules*;

WHEREAS, initial coin offerings will provide alternative investment opportunity for the investing public;

WHEREAS, *Section 3.1 of the SRC* provides that the Commission may determine other instruments as securities, whether written or electronic in form;

WHEREAS, *Sec. 37 of the SRC* promotes national economic development and competitiveness in the market and directs the Commission to promulgate rules for registration and licensing of innovative and other trading markets for innovative securities, securities of small, medium, growth and venture enterprises and technology-based ventures;

WHEREAS, Section 72 of the SRC authorizes the Commission to issue, amend, and rescind such rules and regulations and orders necessary or appropriate, including rules and regulations defining accounting, technical, and trade terms used in this Code, and prescribing the shall be set forth in the registration statements, applications, and reports. For this purpose, the Commission may classify persons, securities, and other matters within its jurisdiction, prescribe different requirements for different classes of persons, securities, or matters, and by rule or order, conditionally or unconditionally exempt any person, security, or transaction, or class or classes of persons, securities or transactions, from any or all provisions of the SRC;

WHEREAS, it is essential to ensure that initial coin offerings shall operate in a manner that is consistent with investor protection, and in the interest of the public, market integrity and transparency;

NOW THEREFORE, the Commission hereby issues and promulgates the following rules governing initial coin offerings and the transactions and persons involved therein.

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## ARTICLE ONE: GENERAL PROVISIONS

### CHAPTER ONE: Definitions

**Section 1. Applicability and Coverage.** These Rules shall be known as the “Rules and Regulations Governing Initial Coin Offerings (ICOs)”. These Rules shall primarily govern the conduct of ICOs wherein convertible security tokens are issued by start-ups and/or registered corporations organized in the Philippines, and start-ups and/or corporations conducting ICOs targeting Filipinos, through online platforms. Initial coin offerings conducted through other means or media other than online electronic platform is not within the coverage of these Rules; hence, the usual requirements under the SRC shall apply.

**Section 2. Definition of Terms.** For purposes of these Rules, the following definition of terms shall apply, unless the context otherwise requires:

- A. **2015 SRC Rules** – refers to the 2015 Implementing Rules and Regulations of the Securities Regulation Code.
- B. **Advisors** – are persons who act as mentors to the Issuer that provide assistance and advice to the Issuer from time to time or as needed or required by the agreement.
- C. **Asset Tokens** – are tokens that represent assets such as a debt or equity claim on the issuer.
- D. **Blockchain** – is an incorruptible digital ledger of economic transactions that can be programmed to record virtually all things of value, including financial transactions.
- E. **Coin** – is a unit of value employed as a means of exchange within the blockchain to incentivize the network of participants to use the blockchain. It has functions limited to exchange of value.
- F. **Commission** – refers to the Securities and Exchange Commission.
- G. **Convertible and/or open virtual currency** – is a virtual currency that has an equivalent value in real currency and can be exchanged back-and-forth for real currency.
- H. **Crowd sale / Token Generation Event / Initial Token Offering** - is the main token sale of the ICO. It is more widely promoted and advertised than presale.
- I. **Evidence of financial capabilities** - evidence of funds to conduct his proposed business which may include but is not limited to a document from a bank which attests that the applicant has sufficient funds.
- J. **Fiat currency** - is the coin and paper money of a country that is designated as its legal tender; circulates and is customarily used and accepted as a medium of exchange in the issuing country.
- K. **Hard cap** – refers to the maximum amount of capital that the ICO project aims to gather.
- L. **Initial Coin Offerings (ICO) / Token sale** – are distributed ledger technology fundraising operations involving the issuance of tokens in return for cash, other cryptocurrencies or other assets. They involve coins (or “tokens”) being issued in order to raise money from the general public. Once the project reaches a certain stage, benefits to tokenholders may include, but is not limited to, any of the following:

- a. Gains through profits or increase in the value of tokens which can be sold if the project is successful;
  - b. Voting or governance rights; or
  - c. Usage rights.
- M. **Investor** - is person that puts money into financial schemes, property, etc. with the expectation of achieving a profit.
- N. **Issuer** - is the originator, maker, obligor, or creator of the token.
- O. **Lock up period** - is a window of time when investors and/or team members and advisors are not allowed to redeem, trade or sell their tokens.
- P. **Non-convertible and/or closed virtual currency** – is a virtual currency intended to be specific to a particular virtual domain or world, and cannot be exchanged for fiat currency.
- Q. **Payment Tokens** – are tokens which are intended to be used, now or in the future, as a means of payment for acquiring goods or services or as a means of money or value transfer.
- R. **Pre-sale** - a token sale conducted before main crowd sale. They are announced and promoted on the website, social media and possibly thru advertising.
- S. **Private Sale / Institutional Round** – is a sale of tokens to early investors that is not open to the public or not announced.
- T. **Prospectus** – is the document made by or on behalf of an issuer, underwriter or dealer to sell or offer securities for sale to the public through registration statement filed with the Commission.
- U. **Soft cap** – refers to the minimal amount of funds needed and aimed by the project to proceed as planned.
- V. **SRC** – is the Securities Regulation Code under Republic Act No. 8799.
- W. **Securities** – are shares, participation or interests in a corporation or in a commercial enterprise or profit making venture evidenced by a certificate, contract, instruments, whether written or electronic in character. It includes: (a) Shares of stock, bonds, debentures, notes evidences of indebtedness, asset-backed securities; (b) Investment contracts, certificates of interest or participation in profit sharing agreement, certificates of deposit for future subscription; (c) Fractional undivided interests in oil, gas or other mineral rights; (d) Derivatives like options and warrants; (e) Certificates of assignments, certificates of participation, trust certificates, voting trust certificates or similar instruments; (f) Proprietary or nonproprietary membership certificates in corporations; and (g) Other instruments as may in the future be determined by the Commission, as defined under *Section 3 of the Securities Regulation Code (SRC)*.
- X. **Security Tokens** – are payment, utility and/or asset tokens that satisfy the definition of securities under the SRC, its implementing rules and regulations, and other issuances of the SEC.
- Y. **Smart Contract** – is a contract written in programming code that is able to execute itself given certain specified conditions.

- Z. **Team** – refers to the board, chief executive, controller, and any other persons who are primarily responsible for the operations of the issuer and/or the developers of the ICO project.
- AA. **Token** – refers to a virtual currency created through a smart contract with functions beyond an exchange of value and can represent assets or functionality desired by the developer.
- BB. **Utility Tokens** – are tokens which are intended to provide access digitally to an application or service by means of a blockchain-based infrastructure.
- CC. **Virtual Currency** – refers to either:
  - a. Financial value recorded by way of electronic means in electronic devices, etc., excluding any fiat currency(ies) which may be used to pay the price in exchange for the goods purchased or rent or the services received to/against unspecified person(s) for such goods or services and which may be purchased from and/or sold to the unspecified person(s); or,
  - b. financial value recorded by way of electronic means in the electronics devices, etc., excluding any fiat currency(ies) which may be exchanged, as against any unspecified person(s), with any such financial value as set out in paragraph (a) above and which may be transferred via electronic data processing system.
- DD. **Wallet** – is the private key of a cryptocurrency account which signs all transactions submitted to the blockchain, and links all the public addresses together. The two main types of wallet according to internet connectivity are hot and cold storage.
- EE. **Whitepaper** - is a document that states the technology behind a blockchain project, including among others a detailed description of the system architecture and interaction with the users, description of the project and use of proceeds, information on the market cap, anticipated growth, other technical details and the team and advisors behind the project. It does not represent an offer to sell the tokens and is not interchangeable with a prospectus.

## ARTICLE TWO: INITIAL ASSESSMENT OF TOKENS

### CHAPTER ONE: Initial Assessment Request

**Section 3. Submission of Initial Assessment Request.** All start-ups and/or corporations organized in the Philippines and/or duly registered with the Commission who proposes to conduct an ICO, and start-ups and/or corporations conducting or who will conduct ICOs targeting Filipinos must submit an initial assessment request including the attachments required under *these Rules* to the Commission in the form and manner directed under *these Rules* not later than ninety days before the start of the pre-sale period.

**Section 4. Contents of the Initial Assessment Request.** Any Initial Assessment Request that lacks any of the following may be rejected *motu proprio* by the Commission:

- a. Duly accomplished application form as stated in **Appendix I** *hereof*;
- b. Certificate of Incorporation duly issued by the Commission, Articles of Incorporation and By-Laws *for corporate issuers*; and certified true copy of other permits and licenses issued by government agencies, *in case of start-ups*;
- c. Comprehensive curriculum vitae of all team members with clear recent photographs, containing the following information in the minimum:



- i. Names, ages and citizenship of each team member;
  - ii. List of positions and offices the team member held or will hold in the issuer company, and term of office, if applicable;
  - iii. Brief description of the business experience of each team member for five years from receipt of initial assessment request by the Commission or start date of pre-sale of corresponding tokens, within five years from receipt of initial assessment request by the Commission or start date of pre-sale of corresponding tokens, *whichever is earlier*;
  - iv. Identification of other companies where each team member held or is currently holding any other executive position, directorship position or acts as advisor; and,
  - v. Description of (1) any bankruptcy petition against the team member or any corporation to which the team member is the Chairman of the Board within five years from receipt of initial assessment request by the Commission or start date of pre-sale of corresponding tokens, *whichever is earlier*; (2) any conviction by final judgment against the team member by any competent judicial or administrative body or having his license or permit revoked or suspended by such body; (3) revocation or suspension of membership of the team member from any self-regulating organization; or, (4) any violation of the commodities, securities, banking, real estate or insurance laws;
- d. NBI clearances, Police Clearances and other documents to prove the good repute of the members of the ICO team and the advisors;
  - e. Description of the ICO project, in accordance with *these Rules*;
  - f. Identification of the plan of distribution of the tokens, *whether through direct distribution or through crowdfunding intermediary*;
  - g. Proposed whitepaper, the contents of which abides by that provided in *these Rules*;
  - h. *In case of ICOs conducted for projects already in operation*, Operations Manual detailing the system architecture, documentations and the corresponding source codes and commands, including detailed flowcharts of the process;
  - i. *In case the project is to be instituted in a later date*, detailed flowcharts showing how the project will operate, including the corresponding documentations and timeframes for each process;
  - j. Notarized undertaking by the duly authorized representative of the Issuer attesting that the Issuer will report any listing made of the tokens in any virtual currency exchange within five days from date of approval of the application for listing;
  - k. Legal opinion issued by an independent counsel that the tokens sold or will be sold through the ICO are not securities, including sufficient justifications; and
  - l. Payment of the application fees.

**Section 5. Description of the ICO Project.** The description of the ICO project as required under the *above Section* must contain the business plan and feasibility study outlining proposed ICO project. It must include the following:

- a. Brief description of business of issuer;

- b. The problems in the Filipino market that the proposed ICO project aims to solve, the nature and brief description of the ICO project, and a comprehensive discussion on how it will solve the identified problem;
- c. Brief description of the ICO tokens, including but not limited to the tapped blockchain technology, the value of each token, lock-up period, if any, and the returns, profits, bonuses, rights and/or other privileges to the buyer of the token, both monetary and non-monetary;
- d. Brief description on the use of proceeds from the sale of the tokens, including percentage of allocation to each usage category;
- e. Target market, including respective percentages, number and reasonable demographical descriptions;
- f. Description of the currency, other cryptocurrency and/or other assets that will be received as payment for the tokens;
- g. Soft cap and hard cap for each kind of token;
- h. Price per token, including amounts of discounts and/or premiums; and
- i. Timeline, including identification of the determined or determinable date for each major phase in the ICO project.

**Section 6. Form of the Initial Assessment Request.** The Initial Assessment Request and all the required supporting documents as specified under *Article Two – Initial Assessment Request* and additional documents and information as may be required under the *above Section* shall be submitted in the form required under *Rule 72.1.2* of the *2015 SRC Rules*.

## CHAPTER TWO: Action on the Initial Assessment Request

**Section 7. Review by the Commission.** The Commission will review the initial assessment request to determine whether the token is a security. To do so, the Commission will, within 20 days from receipt, extendable to another 20 days, and as soon as reasonably practicable, after it has received a complete initial application assessment request, assess the nature and complexity of the business model, the team members, and of the products and services which the requester proposed to offer.

**Section 8. Result of Review.** The determination of the token as a security by the Commission shall be communicated in writing to the issuer within five days from conclusion of the review. If the token is determined to be a security, the issuer must register the ICO project under *these Rules*.

## CHAPTER THREE: Whitepaper

**Section 9. Contents of the Whitepaper.** The whitepaper should contain relevant, complete and timely information regarding the ICO project which are understandable to users with reasonable knowledge on blockchain technology. The contents of the whitepaper must include but is not limited to the following information:

- a. Name, address, contact details and brief description of the corporate background of the issuer, including any of its subsidiary in the Philippine territory;
- b. Names, addresses, contact details and brief description of the corporate background of the team members and advisors, with clear recent photographs;

- c. The problems in the Filipino market that the proposed ICO project aims to solve, the nature and brief description of the ICO project, and a comprehensive discussion on how it will solve the identified problem;
- d. The hard cap and soft cap of the ICO project;
- e. The use of the funds generated from the sale of the ICO tokens, including percentage and amount allocations to each proposed usage;
- f. Brief description of the ICO tokens, including but not limited to the tapped blockchain technology, the value of each token, lock-up period, if any, and the returns, profits, bonuses rights and/or other privileges to the buyer of the token, both monetary and non-monetary;
- g. Brief description of the tokens that will be held by issuer, team members and/or the advisors, including but not limited to information on the type, quantity, lockout period, discounts, and the returns, profits, bonuses rights and/or other privileges to the buyer of the token, both monetary and non-monetary;
- h. Timeline and duration of the ICO campaign, including identification of the determined or determinable date for each major phase in the ICO project;
- i. Brief description of the currency, other cryptocurrency and/or other assets that will be received as payment for the tokens;
- j. Price per token, including amounts of discounts and/or premiums;
- k. Target market, including respective percentages, number and reasonable demographical descriptions;
- m. Brief description of the risks present in investing in the tokens, including risks that the price can and does fluctuate and any individual token may experience upward or downward movement, and may even become valueless, that there is an inherent risk that losses may be incurred rather than profit as a result of buying and selling tokens, and technological and other risks brought by the nature of virtual currencies;
- n. *In the case of Whitepapers of ICOs pending initial assessment by the Commission*, disclaimer that (1) the whitepaper does not represent an offer to sell, and (2) a statement in bold letters that “THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE TOKENS OR DETERMINED IF THE TOKENS ARE SECURITIES AND THUS, MUST BE REGISTERED, OR THAT THE CONTENTS OF THE WHITEPAPER ARE ACCURATE AND COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION”;
- o. *In the case of Whitepapers of security token ICOs pending approval of the Registration Statement by the Commission*, disclaimer that (1) the whitepaper does not represent an offer to sell, and (2) a statement in bold letters that “THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE TOKENS OR DETERMINED IF THE PROSPECTUS AND WHITEPAPER ARE ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION”; and
- p. Other information necessary to make the whitepaper understandable to users with reasonable knowledge on blockchain technology and ICOs.

**Section 10. Consistency of Whitepaper.** The contents of the whitepaper must be consistent and not deviate from the contents of the application form, certificate of incorporation, business model, curriculum vitae and other documents and information in the initial assessment form.

**Section 11. Access to the Whitepaper.** The whitepaper should be made available to members of the target market through online platforms as identified under *these Rules*.

**Section 12. Power of the Commission to Require Amendment of the Whitepaper or other Documents Submitted with the Initial Assessment Request.** The Commission may order amendments to be made to the Whitepaper or other documents submitted by the Issuer with the Initial Assessment Request in order to include information that may be necessary for the reasonable understanding of the readers.

## ARTICLE THREE: QUALIFICATIONS AND DISQUALIFICATIONS OF ISSUERS AND ADVISORS

### CHAPTER ONE: Qualifications and Disqualifications of Issuers

**Section 13. Qualifications of Issuer.** Any start-up or existing corporation duly registered with the Commission who has an innovative project for a security token ICO for which there is no hindering law may file an application for registration with the Commission.

**Section 14. Issuer with Principal Office Outside the Philippines.** *In case the Commission classifies the tokens as security token in accordance with these Rules and the principal office of the Issuer is located outside the Philippines*, the Issuer must establish a branch office within Philippine jurisdiction in accordance with the *Securities Regulation Code* and its *Implementing Rules and Regulations*.

**Section 15. Incorporation of Start-ups Conducting Security Token ICOs.** Start-ups that are conducting or will conduct an ICO involving security tokens, as found by the Commission during the initial assessment shall register as corporation under the *Securities Regulation Code*.

**Section 16. Disqualifications of Issuer and Team Members.** A start-up or corporation or any of its team members that had or is committing any of the following acts shall be disqualified from conducting a security token ICO:

- a. Willfully violating any provision of *these Rules, the SRC and its implementing rules and regulations*, any rule, regulation or order made hereunder, or any other laws administered by the Commission;
- b. Willfully made or caused to be made false or misleading statement in any application for registration or report filed with the Commission or a self-regulatory organization, or has willfully omitted to state any material fact that is required to be stated therein;
- c. Failed to satisfy the qualifications for registration prescribed under *Section 13 hereof* and any related provisions under the SRC and its rules;
- d. Been convicted by a competent judicial or administrative body of an offense involving moral turpitude, fraud, embezzlement, counterfeiting, theft, estafa, misappropriation, forgery, bribery, false oath, or perjury, or of a violation of securities, commodities, banking, real estate, or insurance laws;

- e. Been enjoined or restrained by a competent judicial or administrative body from engaging in securities, commodities, banking, real estate or insurance activities or from willfully violating laws governing other such activities;
- f. Been subject to an order of competent judicial or administrative body refusing, revoking or suspending any registration, license or other permit under *these Rules*, the *SRC and its Rules*, and any other laws administered by the Commission;
- g. Been subject to an order of a self-regulatory organization suspending or expelling him from membership or participating therein or from an association with a member or participant thereof;
- h. Been found by a competent judicial or administrative body to have willfully violated any provisions of securities, commodities, banking, real estate or insurance laws, or has willfully aided, abetted, counseled, commanded, induced or procured such violation; or
- i. Been judicially declared insolvent, or being the Chairman of the Board of a corporation which have been declared insolvent or undergone bankruptcy within five years from receipt of initial assessment request by the Commission or start date of pre-sale of corresponding tokens, *whichever is earlier*.

For purposes of this subsection, the term “competent judicial or administrative body” shall include a foreign court of competent jurisdiction and a foreign financial regulator.

## CHAPTER TWO: Qualifications and Disqualifications of Advisors

**Section 17. Qualifications of Advisors.** Any natural persons with reasonable knowledge on a specific security token ICO project may file an application for registration with the Commission.

**Section 18. Disqualification of Advisors.** Any person who had or is committing any of the following acts shall be disqualified from being an advisor in a security token ICO project:

- a. Willfully violating any provision of these Rules, the SRC and its rules, any rule, regulation or order made hereunder, or any other laws administered by the Commission;
- b. Willfully made or caused to be made false or misleading statement in any application for registration or report filed with the Commission or a self-regulatory organization, or has willfully omitted to state any material fact that is required to be stated therein;
- c. Failed to satisfy the qualifications for registration prescribed under *Section 16 hereof* and any related provisions under the SRC and its rules;
- d. Been convicted by a competent judicial or administrative body of an offense involving moral turpitude, fraud, embezzlement, counterfeiting, theft, estafa, misappropriation, forgery, bribery, false oath, or perjury, or of a violation of securities, commodities, banking, real estate, or insurance laws;
- e. Been subject to an order of a self-regulatory organization suspending or expelling him from membership or participating therein or from an association with a member or participant thereof; or
- f. Been found by a competent judicial or administrative body to have willfully violated any provisions of securities, commodities, banking, real estate or insurance laws, or has willfully aided, abetted, counseled, commanded, induced or procured such violation.

For purposes of this subsection, the term “competent judicial or administrative body” shall include a foreign court of competent jurisdiction and a foreign financial regulator.

## ARTICLE FOUR: REGISTRATION OF SECURITY TOKENS

### CHAPTER ONE: Registration of ICOs

**Section 19. Submission of the Registration Form.** Upon issuance of a ruling of the SEC that the tokens offered in an ICO is a security token in accordance with *Section 8 hereof*, and unless the ICO falls into the Exemptions under *Article 4 Chapter 2 hereof* or is conducted exclusively through crowdfunding intermediary falling under the *Rules on Crowdfunding*, the issuer must register the ICO in accordance with *these Rules* not later than 45 days before the start of the pre-sale period.

**Section 20. Contents of Registration Statement.** The registration statement of a security token ICO must include the following:

- a. Cover Page, which includes information on the following:
  - i. the name and acronym of the tokens;
  - ii. the amount to be registered;
  - iii. the price per token;
  - iv. the number of tokens to be sold; and,
  - v. the registration fees;
- b. Prospectus, in the form and manner required under *these Rules*;
- c. Exhibit table listing in chronological order *Sub-sections d to s hereof*, including the proper exhibit number(s);
- d. Operations Manual detailing the system architecture, documentations and the corresponding source codes and commands, including detailed flowcharts of the process;
- e. Written request for ocular inspection and system walkthrough of the company operating system, including specified date and time for the conduct of inspection;
- f. A notarized undertaking that the issuer will publish the notice of filing of the registration statement in its website for two consecutive weeks, and stating that:
  - i. a registration statement for the sale of the security tokens has been filed with the Commission;
  - ii. the registration statement and the documents attached thereto are open for inspection at the Commission during the business hours by interested parties; and,
  - iii. copies of the registration statement and the documents attached thereto can be obtained at the Commission at a reasonable charge.
- g. Certificate of Incorporation duly issued by the Commission, Articles of Incorporation and By-Laws;

- g. Comprehensive curriculum vitae of all team members, with clear and recent photographs, and including the information listed under *Section 4(c) of these Rules* in a minimum;
- h. Comprehensive curriculum vitae of all advisors with clear recent photographs, containing the following information in the minimum:
  - i. Names, ages and citizenship of each advisor;
  - ii. List of positions and offices the advisor held or will hold in the issuer company, and term of office, if applicable;
  - iii. Brief description of the business experience of each team member and advisor for the last five years;
  - iv. Identification of other companies where each advisor held or is currently holding any other executive position, directorship position or acts as advisor; and,
  - v. Description of (1) any conviction by final judgment of the advisor by any competent judicial or administrative body or having the license or permit of such advisor revoked or suspended by any competent judicial or administrative body; (2) revocation or suspension of membership of the advisor by any self-regulating organization; or, (3) any violation of the commodities, securities, banking, real estate or insurance laws.
- i. Notarized Affidavit executed by authorized signatory of the Issuer attesting that the advisors have all the qualifications and none of the disqualifications under *Chapter II Article III of these Rules*;
- j. Whitepaper, including all the information listed under *Section 9 of these Rules*;
- k. Legal opinion issued by a third-party counsel on (1) the legality of the security tokens being registered, indicating whether they will when sold, be legally issued, fully paid and non-assessable, and (2) that all applicable permits and licenses required for the issuer has been secured, including copies of such permits and licenses;
- l. Legal opinion issued by a third-party counsel or certified public accountant on the tax implications of the issuance of the security tokens to the issuer and the investors;
- m. Copy of the escrow agreement with a reputable independent escrow agent chosen by the Issuer covering the proceeds from the sale of the security tokens, which provides among others, (1) that the said proceeds shall be withdrawn only upon the presentation of the Issuer's work progress report, and (2) that the Escrow Agent will return the said proceeds to the investors in case the soft cap of the project is not reached or in a *pro rata basis* in case the project is abandoned by the issuer before completion;
- n. Copies of the material contracts entered into by the Issuer.

For purposes of *these Rules*, material contracts shall refer to contracts entered into by the issuer not in the ordinary course of business and/or contracts in the ordinary course of business which are entered into with the team members or advisors as the other party, contracts upon which the issuer's business is substantially dependent, contracts of acquisition or sale of property, plant and equipment of the issuer amounting to at least 15% of its property, plant and equipment account, material lease agreements, and other contracts deemed material by the issuer;

- o. Evidence of financial capabilities of the issuer and the team members, which may include but is not limited to bank documents that attest that the issuer and the team members has sufficient

- funds, land titles and/or other documents to prove existence of funds that may be used in the conduct of its business;
- p. Notarized authorization to check the bank accounts of the issuer and team members upon order of the Commission;
  - q. Code audit report issued by an independent code auditor, including but not limited to testing of the source code, KYC/AML framework, technology risks and security protocols;
  - r. Power of attorney in the name of the person signing the registration statement executed by the issuer;
  - s. Comparative annual audited financial statements for the immediately preceding year and dated within 135 days from the date of filing of the Prospectus, *in case the Issuer has been doing business for at least one year*, which shall include the following documents:
    - i. Audit Report of the Independent Accountant, which must be dated, signed by the certifying independent accountant, identify the financial statements covered, state the signing accountant's license, TIN and PTR numbers and registration number with the BOA including its expiration date, complete mailing address of the client and the auditor, and, *in case of an auditing firm*, signature of the certifying partner with his name printed in the form and an indication that he is signing for the firm;
    - ii. Statement of management responsibility on the financial statements signed under oath;
    - iii. Consolidated balance sheet or statement of financial position;
    - iv. Consolidated statement of changes in equity;
    - v. Consolidated statement of cash flows;
    - vi. Notes to the financial statements; and,
    - vii. Supplementary schedules of (1) reconciliation of retained earnings available for dividend declaration, (2) a map showing the relationships between and among the issuer, its ultimate parent company, middle company, subsidiaries or co-subsidiaries, and associates; (3) *in case the security tokens are previously traded in a virtual currency exchange*, a schedule containing the gross and net proceeds of such in the previous prospectus, actual gross and net proceeds, each expenditure item where the proceeds was used, and balance of the proceeds as of the end of the reporting period; (4) schedule of financial assets; (5) schedule of accounts receivable from the directors, officers, employees, related parties and principal stockholders; (6) schedule of amounts receivable from related parties which are eliminated during the consolidation of financial statements, *if applicable*; (7) schedule of long-term debts; (8) schedule of indebtedness to related parties; (9) schedule of security tokens and capital stock; and, (9) supplementary audit report on the said schedules;
  - t. Corporate income tax return for the immediately preceding year, in case the Issuer has been doing business for at least one year;
  - u. Copy of the board resolution approving the ICO and the filing of the Registration Statement filed under *these Rules*;



- v. Duly verified resolution of the Board of Directors of the issuer approving the disclosures in the Registration Statement filed under *these Rules* and assuming liability for the information contained therein; and,
- w. Manual on Corporate Governance with corresponding Secretary's Certificate as to its adoption by the Board, including information on the following:
  - i. Evaluation system established to measure the level of compliance with the Manual of Corporate Governance;
  - ii. Measures being undertaken to fully comply with the adopted leading practices on good corporate governance; and,
  - iii. *In case the Issuer has been doing business for at least one year on the date of the registration statement*, (1) any deviation from the Manual of Corporate Governance, including the names and positions of the persons involved and the sanction(s) imposed; and (2) any plans to improve corporate governance.
- x. Payment of the applicable application fees.

**Section 21. Contents of the Prospectus.** The prospectus as required under *Section 20 hereof* must contain the following Parts as detailed under **Appendix II hereof**.

**Section 22. Form of the Registration Statement.** The Registration Statement and all the required supporting documents as specified under *Article Four – Registration of Security Tokens* and additional documents and information as may be required under the *above Section* shall be submitted in the form required under *Rule 72.1.2 of the 2015 SRC Rules*.

**Section 23. Schedule for Ocular Inspection and System Walkthrough.** *Upon submission of the complete registration statement under Section 19*, the Commission or its duly authorized representatives shall conduct an ocular inspection of the Philippine office of the Issuer and system walkthrough of the operating system for the ICO within reasonable time upon written approval of the ocular inspection request under *Section 19*.

**Section 24. Deviation or Adjustment on the Planned Use of Proceeds.** In the event of any deviation or adjustment on the planned use of proceeds as stated in the Prospectus in accordance with *Section 20 hereof*, the Issuer shall inform the token holders and the Commission in writing at least 30 days before such deviation or adjustment is implemented. Any material or substantial adjustment on the use of proceeds, as indicated above, should be approved by the Issuer's Board of Directors and disclosed to the Commission.

**Section 25. Granting of the Application for Registration.** Upon finding that the issuer substantially complied with the requirements for registration under *these Rules* and satisfaction of the Commission that the issuer with at all times comply with the regulatory principles, the Commission may grant registration to the security token ICO through the issuance of the Order of Registration and Permit to Sell.

**Section 26. Power of the Commission to Require Amendment to the Prospectus and Other Documents Submitted with the Registration Statement.** The Commission may order amendments to be made to the Prospectus or other documents submitted by the Issuer with the Registration Statement in order to include information that may be necessary for the reasonable understanding of the readers.

**Section 27. Rejection of the Application for Registration.**

The Commission by order may reject the project outright if the latter is of opinion that the proposed activity may infringe public policy, injure investors or violate *these Rules* or any of the laws, rules and regulations implemented by the Commission.

## CHAPTER TWO: EXEMPTION FROM REGISTRATION OF SECURITY TOKENS

**Section 28. Eligibility for Exemption from Registration of Security Tokens.** An issuer may offer or sell security tokens without the need for registering said securities under these Rules, provided that:

- a. At any judicial sale, or sale by an executor, administrator, guardian or receiver or trustee in insolvency or bankruptcy.
- b. By or for the account of a pledge holder, or mortgagee or any of a pledge lien holder selling of offering for sale or delivery in the ordinary course of business and not for the purpose of avoiding the provision of this Rules, to liquidate a bona fide debt, a security pledged in good faith as security for such debt.
- c. An isolated transaction in which any security token is sold, offered for sale, subscription or delivery by the owner therefore, or by his representative for the owner's account, such sale or offer for sale, subscription or delivery not being made in the course of repeated and successive transaction of a like character by such owner or representative.
- d. The sale of securities by an issuer to fewer than twenty (20) persons in the Philippines during any twelve-month period.
- e. The sale of securities to any number of the following qualified buyers:
  - i. Bank;
  - ii. Registered investment house;
  - iii. Insurance company;
  - iv. Pension fund or retirement plan maintained by the Government of the Philippines or any political subdivision thereof or managed by a bank or other persons authorized by the Bangko Sentral to engage in trust functions;
  - v. Investment company or;
  - vi. Such other person as the Commission may rule by determine as qualified buyers, on the basis of such factors as financial sophistication, net worth, knowledge, and experience in financial and business matters, or amount of assets under management. or
- f. Transactions exempted by the Commission upon finding that the requirements of registration under this Code is not necessary in the public interest or for the protection of the investors, such as by the reason of the small amount involved or the limited character of the public offering.

## ARTICLE FIVE: ADVERTISING

### CHAPTER ONE: Allowed Advertising

**Section 29. Allowed Media for Advertisements.** Aside from the whitepaper, the issuer may advertise the security token ICO through any of the following media:

- a. company websites and webpages;
- b. magazines and newspapers;
- c. radio and television;
- d. outdoor advertising, including billboards, signs at public venues, and transit advertising;
- e. the internet, including webpages, banner advertisements, video streaming (e.g. YouTube), and social networking and microblogging (e.g. Twitter);
- f. social media and internet discussion sites;
- g. mobile phone messages (e.g. SMS, MMS, text messages);
- h. product brochures and promotional fact sheets;
- i. direct mail (e.g. by post, facsimile or email);
- j. telemarketing activities and audio messages for telephone callers on hold;
- k. presentations to groups of people, seminars and advertorials; and,
- l. any other reasonable means available to the issuer.

**Section 30. Contents of the Advertisements.** The advertisements of the security token ICO should contain the following information:

- a. a balanced description of the returns, features, benefits and risks;
- b. sufficiently prominent statements of warnings, disclaimers, qualifications and fine prints which are, if applicable, read or presented at a speed comprehensible to an average listener;
- c. a realistic impression of overall fees and costs;
- d. past performance with warning that past performance is not indicative of future performance; and,
- e. Forecasts based on reasonable assumptions and warning that such forecast is not a guarantee.

**Section 31. Form of Advertisements.** The advertisements must be in such form that can be clearly understood by targeted audience and presented in an accurate, balanced and helpful manner.

**Section 32. Ability to Keep Record.** The public should be able to keep a record of the advertisements, including the disclaimers and warnings.

**Section 33. Consistency with the Whitepaper and Other Documents.** The advertisements should be consistent with the information in the whitepaper, prospectus and other documents submitted to the Commission.

## CHAPTER TWO: Prohibited Advertising

**Section 34. Forms of Prohibited Advertising.** The following advertising activities are prohibited:

- a. deceptive advertising;

- b. advertisements with false or misleading statements;
- c. advertisements containing comparisons with other products, except—
  - i. comparisons with products that have sufficiently similar features or when the differences are made clear in the advertisement;
  - ii. comparisons about returns if the information used is current, complete and accurate; or
  - iii. Comparisons using ratings which should be properly explained in the advertisement itself or with details on where the investor can obtain further information;
- d. advertisements with photographs or images that contradict, detract from or reduce the prominence of any warnings, disclaimers or qualifications; and,
- e. advertisements made in violation of *Chapter One – Allowed Advertising hereof*.

## ARTICLE SIX: Reportorial Requirements

### CHAPTER ONE: Continuing Compliance to the Law and Rules

**Section 35. Compliance with the Law and Rules.** A security token issuer must at all times comply with *these Rules*, the provisions of the *SRC*, implementing rules and regulations and other laws implemented by the Commission.

**Section 36. Possible Non-Compliance with the Law and Rules.** A security token issuer must promptly inform the Commission of any event which the said issuer knows or is reasonably expected to know that may affect its compliance with *these Rules*, the provisions of the *SRC*, implementing rules and regulations and other laws implemented by the Commission.

### CHAPTER TWO: Ongoing Reportorial Requirements

**Section 37. Annual Reports.** The security token issuer must submit the following reports to the Commission every fiscal year starting from the year the order of registration and permit to sell is issued by the Commission, and for each fiscal year thereafter, within one hundred five (105) days after the end of the fiscal year and using the form:

- a. Audited Financial Statements; and
- b. Code Audit Report.

**Section 38. Quarterly Report.** The security token issuer must submit the following on a quarterly basis:

- a. Unaudited interim financial statements to the Commission within forty-five (45) days after the end of each of the first three quarters of each fiscal year; and,
- b. Quarterly progress report on the application of the proceeds from the offer within fifteen (15) days from the end of each quarter.

For the unaudited financial statements, the first quarterly report of the issuer shall be filed either within forty-five (45) days after the issuance of the order of registration and permit to sell by the Commission or

on or before the date on which such required would have been required to be filed if the issuer had been required previously to file the quarterly report, whatever is later, and in the form.

**Section 39. Other Interim Reports.** The security token issuer must submit the a semi-annual report to the Commission for every six-month period ending June 30 and December 31 of every fiscal year starting from the year the order of registration and permit to sell is issued by the Commission, and for each fiscal year thereafter, within forty five (45) days after June 30 and December 31, containing the following information:

- a. status update on the implementation of the business plan and the ICO, including relevant dates and brief descriptions and justifications for any deviations from the business plan;
- b. list of acquired and operating equipment and properties, including brief descriptions, ownership status and carrying values, and, in case of leased equipment, the terms, amount of rentals, description of the lessor, and other agreements involving the equipment;
- c. problems encountered, and the procedures applied or will be applied to manage and resolve such problems;
- d. risk control mechanism and efficiency;
- e. table of safeguards and conditions with status of compliance for each; and,
- f. description of the steps in the project to be taken in the future and relevant timeframe.

**Section 40. Submission of the Progress Report to the Commission.** The Escrow Agent of the Issuer should submit to the Commission the original copy of the Progress Reports of the Issuer on the project funded by the initial coin offering of security tokens.

**Section 41. Other Reports that may be Required by the Commission.** Other reports as may be from time to time required by the SEC.

## ARTICLE SEVEN: Miscellaneous Provisions

### CHAPTER ONE: Events Triggering the Return of Funds to the Investors

**Section 42. Return of Funds if the Soft Cap is not Reached.** If an ICO does not reach the soft cap as set in the Registration Statement, the independent escrow agent must within five business days:

- a. Give or send each security token investor a notification of the same and refund the amount that the investor paid for the tokens;
- b. Report the refund made, the cancellation of the ICO and the failure to reach the soft cap.

**Section 43. Return of Funds if the Project is Abandoned Before Completion.** If the Issuer abandons the project before completion, the independent escrow agent must within five business days:

- a. Give or send each security token investor a notification of the same and refund the remaining proceeds under its care *in pro rata basis* to the investors based on the amount of their investments;
- b. Report the refund made, the abandonment of the project and the reasons behind such abandonment.

## CHAPTER TWO: Transitory Provisions

**Section 44. Application on existing ICOs.** This regulation applies to persons and/or corporations who, immediately before the day on which *these Rules* comes into operation, was engaged in ICOs.

**Section 45. Registration of Existing ICOs.** A person or corporation falling under the *immediately preceding Section* who is intends to continue its ICO operations or who completed ICOs prior to operation of *these Rules* must file an initial assessment request with the Commission within three months from the day on which *these Rules* come into operation.

**Section 46. Status of ICO Conducted Prior to Effectivity.** An Issuer who files an initial assessment request in accordance with *this Chapter* may continue to its ICO process until the application has been determined and, in so doing, is not regarded as carrying on the ICO activity in contravention to *these Rules*.

## CHAPTER THREE: Repealing Clause

**Section 47. Repealing Clause.** All rules and regulations, circulars, orders, memoranda, or any part thereof and the rules and regulations previously promulgated by the Commission and/or by persons required to be registered under the Code or any part thereof, in conflict with or contrary to *these Rules*.

## CHAPTER FOUR: Separability Clause

**Section 48. Separability Clause.** If any portion or provision of *these Rules* is declared unconstitutional or invalid, the other portions or provisions hereof, which are not affected shall thereby continue in full force and effect.

## CHAPTER FIVE: Effectivity Clause

**Section 49. Effectivity Clause.** *These Rules* shall take effect fifteen (15) days after the date of the last publication in two (2) newspapers of general circulation.

\_\_\_\_\_ July 2018, Pasay City Philippines.

EMILIO B. AQUINO

Chairperson

## APPENDIX I: Initial Assessment Form



### INITIAL ASSESSMENT FORM

#### I. General Information

- (i) Name of the Issuer \_\_\_\_\_
- (ii) Date of Submission \_\_\_\_\_
- (iii) Nature of the Offer ☐ With registration under the Rules for Initial Coin Offering  
☐ With available exemption. *Please specify:* \_\_\_\_\_
- (iv) Name of the token \_\_\_\_\_
- (v) Symbol \_\_\_\_\_
- (vi) Nature of the consideration ☐ PHP  
☐ Other currencies. *Please specify:* \_\_\_\_\_  
☐ Other virtual currency. *Please specify:* \_\_\_\_\_
- (vii) Issuance of the tokens ☐ First Issuance  
☐ Nth issuance. *Please specify the details of the previous issuances in the following table:*

Pre-sale and Crowd sale Period	Sales Price of Token	Nature of consideration for sale	Soft cap and Hard cap set	Amount of Actual Net Proceeds	Number of tokens issued and outstanding	Dividends, Returns, Interests, Rights or Privileges of Tokenholders	Submitted to SEC for Initial Assessment (Y/N)  If YES, date of submission and whether SEC declared the tokens as security

- (viii) Target place of distribution ☐ Philippines  
☐ Others. *Please specify:* \_\_\_\_\_
- (ix) Manner of distribution ☐ OTC

- (x) Listed to an exchange/  
Planned to be listed to an  
Exchange? ☐ Crowdfunding portal  
☐ Yes. *Please specify:* \_\_\_\_\_  
☐ No

## II. Issuer Information

- (i) Exact name of Issuer as \_\_\_\_\_  
specified in its charter
- (ii) Place (province, country or \_\_\_\_\_  
other jurisdiction of incor-  
poration and date thereof
- (iii) SEC Registration No. \_\_\_\_\_
- (iv) BIR Taxpayer Identification \_\_\_\_\_  
Number
- (v) Address, including postal \_\_\_\_\_  
code
- (vi) Contact Nos./Fax Nos. \_\_\_\_\_
- (vii) Corporate Website \_\_\_\_\_
- (viii) E-mail address \_\_\_\_\_
- (ix) *In case the Issuer is* \_\_\_\_\_  
*operating outside the*  
*Philippines*, branch office  
address in the Philippines
- (x) *In case the Issuer is* \_\_\_\_\_  
*operating outside the*  
*Philippines*, name and  
designation of authorized  
signatory in the Philippines
- (xi) Names of team members \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- (xii) Names of advisors \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- (xiii) Authorized capital stock, \_\_\_\_\_  
par value, number of shares  
and amount



- (xiv) Issued and outstanding capital stock, par value, number of shares and amount \_\_\_\_\_
- (xv) Brief description of the business (*nature of the business of the Issuer*) \_\_\_\_\_

### III. Information on the Tokens

- (i) Number of tokens to be issued \_\_\_\_\_
- (ii) Price per token \_\_\_\_\_
- (iii) Soft cap \_\_\_\_\_
- (iv) Hard cap \_\_\_\_\_
- (v) Estimated start date of presale \_\_\_\_\_
- (vi) Estimated start date of crowd sale \_\_\_\_\_
- (vii) Brief description of the dividends, interests, profits, returns and other privileges to tokenholders \_\_\_\_\_
- (viii) Brief summary of other characteristics of tokens (*i.e., convertible, redeemable, etc.*) \_\_\_\_\_
- (ix) Brief description of the use of proceeds, including percentages and amounts allocated for each usage \_\_\_\_\_
- (x) Trading restrictions, *if any* \_\_\_\_\_

### IV. Information about the Token Purchasers

- ☐ Check if purchasers are existing tokenholders and indicate number of purchasers \_\_\_\_\_

☐ Check if purchasers are new tokenholders and indicate the number of new tokenholders  
\_\_\_\_\_

### Signatures

The undersigned hereby certifies that the above is true and correct in accordance with their knowledge, belief and official records, and any amendment thereto shall be duly and timely reported to the Commission.

Pursuant to the requirements of the *Code*, \_\_\_\_\_ has caused this certification to be  
(Name of Issuer)

signed on its behalf by a duly authorized person who, in case of a juridical person, shall be the President thereof.

Date : \_\_\_\_\_

By : \_\_\_\_\_  
President

## APPENDIX II: Contents of the Prospectus

**Item 1: Front of the Registration Statement and Outside Front Cover Page of the Prospectus**, which includes the following information:

- a. the registered name of the issuer;
- b. *In case of Issuers whose principal office is located outside the Philippine jurisdiction*, the registered name of its branch office in the Philippines;
- c. terms of the offer, including the description and amount of tokens offered, public offering price or price range, and where the tokens are to be traded (exchange or over-the-counter);
- d. the date of the Prospectus; and,
- e. the following statement in bold face 12 point type and prominently displayed: "THE SECURITIES AND EXCHANGE COMMISSION HAVE NOT APPROVED THESE SECURITY TOKENS OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION".

**Item 2: Inside Front Cover and First Two or More Pages of the Prospectus**, which includes the following information:

- a. if not included on the cover of the prospectus, provide the following information on the inside front cover, (1) number of security tokens offered by current token holders, if any; (2) total number of tokens outstanding after the offering; (3) total proceeds raised by the offering; (4) brief description of use of proceeds from the offering; (5) dividend, interest or rewards policy; and, (6) address and telephone number of the principal office of the issuer;
- b. *In case of Issuers whose principal office is located outside the Philippine jurisdiction*, the address and telephone number of its branch office in the Philippines;
- c. table of contents;
- d. *in case the issuer has been doing business for at least one year*, summary of financial information of abbreviated income statement data and abbreviated balance sheet data;
- e. a Glossary which defines all the technical terms used in the Prospectus;
- f. the statement that "A REGISTRATION STATEMENT RELATING TO THESE SECURITY TOKENS HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO THE NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY"; and,
- g. *in the case of a Prospectus that has become effective*, the following statement in bold face 12-point type, prominently displayed, and signed by the President under oath: "ALL

REGISTRATION REQUIREMENT HAVE BEEN MET AND ALL INFORMATION CONTAINED IS TRUE AND CORRECT.”

**Item 3: Risk Factors and Other Information**, which shall include information on the following:

- a. General risk warning that (1) the price of security token can and does fluctuate, any individual security token may experience upward or downward movements, and may even become valueless, and that there is an inherent risk that losses may be incurred rather than profit made as a result of buying and security tokens; (2) the past performance is not a guide of future performance; (3) there is an extra risk of losing money when security tokens are bought from smaller issuers, and there may be a big difference between the buying price and the selling price of these security tokens; (4) anti-money laundering and knowing your customer associated risks, (5) technology risks, (6) risk to an investor that deals in a range of investments each of which may carry a different level of risk; and, (7) other risks associated with virtual currencies;
- b. Statement of the prudence required on the investors, including statements that (1) the risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these security tokens, (2) an investor should undertake his or her own research and study on the trading of security tokens before commencing any trading activity, (3) an investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of the security tokens to invest in or the nature of the risks involved in trading of virtual currencies, and (4) the investor may request information on the security tokens and the issuer thereof from the Commission which are available to the public;
- c. List in the order of importance and full discussion of the factors that make the security token ICO speculative or risky, which may include among others an absence of operating history of the issuer, lack of recent profit from operations, poor financial position, risks of the kind of business the issuer is involved in or proposes to engage, or lack of market for the issuer’s security tokens; and,
- d. Discussion on how the company shall identify, assess and manage the risks as mentioned *above*.

**Item 4: Use of Proceeds**, which shall include information on the following:

- a. The principal purposes for which the net proceeds of the offering will be used, indicating the approximate amount intended to be used for each such purpose and corresponding percentages;
- b. In case less than all of the security tokens to be offered may be sold and more than one use if listed for the proceeds, the Issuer shall indicate the order of priority of such purpose and discuss its plans in case substantially less than the maximum proceeds are obtained;
- c. *If any material amounts of other funds are necessary to accomplish the specified purpose(s) for which the offering is made*, the issuer shall state the amount and sources of such other funds needed;
- d. *If a material amount of proceeds will discharge debt*, state the interest rate and maturity. *If debt is incurred within one year from date of Prospectus*, describe the use of proceeds for such debt;
- e. *If any material amount of proceeds is to be used to acquire assets or finance the acquisition of other business*, describe the asset or business and identify the person from whom they will be bought. State the cost of the asset, the cost determination process, and *if such asset is to be acquired from affiliates of the registrant or their associates*, give the names of such persons.

- f. *Disclose if any of the proceeds are to be used to reimburse any team member, director, employee or investor for service rendered, assets previously transferred, money loaned or advanced, or for any other consideration; and,*
- g. The expenses which shall be deducted or paid out of the gross proceeds;

**Item 5: Determination of price per token**, including discussion on the various factors considered in determining the issue price of the security tokens for registration, which may include, but is not limited to, after-tax earnings and price/earnings multiple;

**Item 6: Selling Security Holders**, *in case any of the security tokens to be registered are offered for the account of a security token holder*. Information on the following should be disclosed:

- a. Name of the security token holder(s);
- b. The nature of any position, office, or other material relationship the security token holder has with the issuer or its predecessor; and
- c. Information on (1) the amount of security tokens of the class owned by the named security token holder(s) prior to the ICO, (2) the amount to be offered for the security token holder(s)'s account, and (3) the percentage of the outstanding tokens to be owned by such security token holder after completion of the ICO, *if such token holder shall own 1% or more of such outstanding security tokens*;

**Item 7: Description of Security Tokens to be Registered**, including information on the following:

- a. *In case the security token takes the characteristics of shares of stock:*
  - i. the terms of any dividend, voting, preemption, conversion or liquidation rights, including redemption or sinking fund provisions (with mandatory redemption features), and its equivalent;
  - ii. description of any other material rights of the security token holders; and,
  - iii. description of any provision in the charter or by-laws that would delay, deter or prevent a change in control of the issuer.
- b. *In case the security token takes the characteristics of debt securities:*
  - i. the amount of bonded indebtedness outstanding and to be created by the security token to be registered;
  - ii. description of the provisions in respect to the maturity, interest rate, conversion, amortization, redemption, sinking fund or retirement;
  - iii. *if substitution of any security is permitted*, summarize the conditions under which the substitution is permitted. *If substitution without notice is permitted*, include a specific statement to that effect;
  - iv. description of all other material provisions giving or limiting the rights of security token holders;
  - v. disclosure of the issuer's financial ratios, such as current, solvency, debt-to-equity, and/or other regulatory ratios that it must meet and maintain; and,

- vi. description of the credit rating received, *if any*, including the factors considered by the independent credit rating agency in arriving at the said rating.
- c. *In case the security token takes the characteristics of stock options:*
  - i. Board Resolution granting the issuance of stock options;
  - ii. A detailed statement as to the plan or scheme by which the option shall be exercised; and,
  - iii. A certification from the Corporate Secretary stating that authorization for the options was approved in a stockholder's meeting by stockholders holding at least 2/3 of the outstanding voting shares of the corporation, exclusive of treasury share, with disclosures of the number of shares represented at the meeting and the number of shares voted for and against the proposal.
- d. *In case the security token takes the characteristics of a security with right of redemption or callable*, description of the terms of conversions.
- e. *In case the security token takes the characteristics of a stock warrant:*
  - i. Disclosure of the terms and conditions of the security token, including computations related with its exercise; and,
  - ii. Disclosure of the par value, class and number of underlying shares, exercise price of formula for the computations thereof, exercise period and expiry dates, procedures for exercise of the warrants, and exchange ratios.
- f. *In case the security token takes the characteristics of proprietary or non-proprietary shares*, a description of the nature and type of the security tokens, rights and privileges of the holders thereof, including as to that of the facilities; and,
- g. *In all cases*, a copy of an escrow agreement with a reputable third-party escrow agent covering the proceeds from the sale of the tokens, providing that withdrawal of the funds shall be upon presentation of the company's work progress report.

**Item 8: Interests of Named Experts and Independent Counsel**, *in case such direct or indirect interest amounts to at least P500,000 or more;*

**Item 9: Information on the Issuer**, which includes the following:

- a. Information on the business development, including descriptions of the business of the issuer and subsidiaries, if any, during the past three (3) years, or such shorter period as the issuer may have engaged in business, and information of the form and year of organization, any bankruptcy, receivership or similar proceedings, and any material reclassification or purchase or sale of a significant amount of assets not in the ordinary operations of the business;
- b. Disclosure of the security token ownership of record and beneficial owners as of the date of the Prospectus and contained in table form with the following columns:
  - i. Title or class of security;
  - ii. Name and address of the record owner and his relationship with the issuer;
  - iii. Name of beneficial owner and his relationship with the record holder, and the name and/or designation of the person entitled to vote in behalf of the record owner;

- iv. Citizenship;
  - v. Number of tokens held; and,
  - vi. Percent held;
- c. Disclosure of the security token ownership of the team members and advisors as of date of the Prospectus and contained in table form with the following comments:
- i. Title or class of securities;
  - ii. Name of director or advisor;
  - iii. Citizenship;
  - iv. Amount of tokens held; and,
  - v. Percent held;
- d. Information on the business of the issuer, including details on the following:
- i. principal products or services and their markets with their relative contributions to the sale or revenues of each product or service, or group of related products or services, *if the same contribute 10% or more to the sales or revenue*. If the relative contribution to net income of any product or service, or group of related products or services, is substantially different than its relative contribution to sales or revenues, appropriate information should also be given;
  - ii. percentage of sales or revenues and net income contributed by foreign sales for the past three (3) years or such shorter period as the issuer may have engaged in business;
  - iii. distribution methods of the products or services;
  - iv. status of any publicly-announced new product or service (e.g., whether in the planning stage, whether prototypes exist), the degree to which the product design has progressed, or need for further engineering, including need for material amount of resources with estimates for the completion of development of the product;
  - v. description of the industry in which the issuer is operating, and, *where applicable*, any recognized trends within the industry; description of the part of the industry and the geographic area in which the business competes or will competes; identification of the principal competitors that the issuer has or expects to have in its area of competition, and the relative size and financial and market strengths and the reasons why the issuer believes it can effectively compete with other companies in its area of competition;
  - vi. names of principal suppliers, and disclosure if the issuer is expected to be dependent upon a limited number of suppliers, with description of any major existing supply contracts;
  - vii. disclosure of dependence of the issuer on a single or few customers, the loss of any or more would have an adverse effect on the business of the issuer, with description of any major existing sales contracts. For the purpose of this sub-item, the issuer is considered dependent to a customer(s) if such customer accounts for twenty per cent (20%) or more of the sales;

- viii. transactions with and/or dependence on related parties;
  - ix. summary of principal terms and expiration dates of all patents, trademarks, copyrights, licenses, franchises, concessions and royalty agreements held; the dependence of the operations on the same; and, the steps undertaken to secure such rights;
  - x. disclosure of the need for any government approval of the product or services; and, *if such approval has not yet been received*, discussion of the status of the approval;
  - xi. effect of existing or probable government regulations on the business; and,
  - xii. amount spent on development activities, and its percentage to the revenues during the past three (3) years or such shorter period as the issuer may have engaged in business.
- e. Location and description of the condition of the principal properties that the issuer owns and/or leases, including terms of any mortgage, lien, encumbrance or any limitation of ownership or usage and/or terms of the lease agreement.
  - f. Disclosure of the properties the issuer intends to acquire in the next twelve (12) months, including the cost and mode of acquisition and the source of financing it would use.
  - g. Description of the element of relationships and related party transactions involving the issuer that are necessary for the understanding of the transaction's business purpose and economic substance, their effect on the financial statements, and the special risks or contingencies arising from the transaction. "Related Parties under *this Sub-section* shall include parties to whom the issuer or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other more clearly independent parties on an arm's length basis. *These disclosures* shall include the following in the minimum:
    - i. The business purpose of the arrangement;
    - ii. The related party transaction's business with the registrant and nature of the relationship;
    - iii. How the transaction prices were determined by the parties;
    - iv. *In case the disclosure herein represent that the transactions have been evaluated for fairness*, description of the evaluation procedure; and,
    - v. Any ongoing contractual or other commitments as a result of the arrangement;
  - h. Description of any material legal proceedings to which the issuer is a party or any of the properties are subject, including the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, the factual bases alleged and reliefs sought;
  - i. Disclosure of market information of the tokens, including the following information:
    - i. Principal market(s) where the security tokens shall be traded, and *in case there is no public trading market*, state said fact;
      - (1) *In case the principal market for the security tokens is a virtual currency exchange in the Philippine or a foreign virtual currency exchange*, state the name of the exchange and give the high and low sales prices for each quarter within the last two years or in such shorter period as the tokens are being traded. *If the prices stated are from a foreign*



*virtual currency exchange*, state the prices in the currency in which they are quoted, or in the equivalent price in Philippine currency at the official currency exchange rate in effect on the date the price was reported in the foreign virtual currency exchange, including the exchange rate used for the calculation; and,

(2) *In case the principal market is not a virtual currency exchange*, state the frequency with which the trading occurs, and *if sporadic*, disclose the range of high and low bid information for the security tokens for each quarter within the last two years or in such shorter period as the tokens are being traded, with the sources of such information;

ii. Dividends, bonuses, interests and/or rewards declared on each security token declared by the issuer for the two most recent fiscal years or in such shorter period as the token are outstanding, including description of any restriction the limits the payment of such dividends, bonuses, interests and/or rewards, and the dividend policy;

iii. Information on previous sale of the security token under exempt transactions under *these Rules*, including the following information:

(1) *If confirmation from the Commission for exempt transaction is filed*, the date the confirmation was issued;

(2) Date of sale and amount of security tokens sold;

(3) Consideration for the sale. *In case the security tokens are sold for cash*, state the total offering price and the discounts, *if any*; and,

(4) The specific *Section in these Rules* under which an exemption from registration is claimed, including description of facts relied upon to make the exemption available; and,

j. Management Discussion and Analysis or Plan of Operations, containing information on the following:

i. *In case the issuer have not had revenue from operations in each of the last two fiscal years or such shorter period as the issuer may have been doing business*, disclose information on the Plan of Operation, including information on the following:

(1) discussion of how long the issuer can satisfy its cash requirements and whether it will have to raise additional funds in the next twelve (12) months;

(2) a summary of any product research and development that the registrant will perform for the term of the plan;

(3) any expected purchase or sale of plant and significant equipment; and,

(4) any expected significant changes in the number of employees;

ii. *In all cases*, disclose information on Management's Discussion and Analysis, which will help explain financial results. A reader of the Management Discussion and Analysis should be able to understand the financial results of the issuer's business, as discussed in the "Business" section. It shall provide information with respect to liquidity, capital resources and other information necessary to understand the issuer's financial conditions and results of operation, including information on the following:

(1) For two fiscal years or such shorter period as the issuer may have been doing business, disclose the issuer's top five (5) key performance indicators, including discussion on the manner by which the issuer calculates or identifies the indicators on a comparative basis;

(2) Discussion of the financial condition, changes in financial condition and results of operation for each of the last three fiscal years, and addressing the past and future financial conditions and result of operation of the issuer, with particular emphasis on the prospects for the future, and the key variables and other qualitative and quantitative factors which are necessary to understanding and evaluation of the issuer. *If material*, the following information should also be disclosed:

(a) Any known trends or demands, commitments, events or uncertainties that will result in the issuer's liquidity materially increasing or decreasing, including the balance sheet condition, income or cash flow items that is believed to be indicator of its liquidity condition; and, the internal and external sources of liquidity and liquid assets. These conditions may include but is not limited to the following: whether or not the issuer is having or anticipates to be having with the next 12 months any cash flow or liquidity problems; whether or not the issuer is in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments; whether or not a significant amount of the issuer's trade payables have not been paid with the stated trade terms; and, *if there is identified material deficiencies*, the course of action that the issuer has taken or proposes to take to remedy the deficiency;

(b) Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation;

(c) Any material commitment for capital expenditure, the general purpose for such commitments, and the expected sources of funds for such expenditures;

(d) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations, including known events that will cause a material change in the relationship between costs and revenues (i.e., known future increases in the cost of labor or materials or prices or inventory adjustments);

(e) Any significant elements of income or loss that did not arise from the registrant's continuing operations;

(f) The cause of material change from period to period, which shall include vertical and horizontal analyses of material items; and,

(g) Any seasonal aspects that had a material effect on the financial condition or results of operations.

**Item 10. Information on the Independent Accountant and Third-Party Code Auditor**, which should include information on the following:

- a. The aggregate fees billed for the last two fiscal years or in such shorter period as the issuer is doing business for professional fees rendered by (1) the external auditor for audit, other assurance and related services, and tax service, and (2) the third-party auditor for the code audit and other services;

- b. The approval policies and procedures of the audit committee *in the case of the external auditor*, and the board of directors *in the case of the code auditor*;
- c. *In case an independent account or third party code auditor who was previously engaged by the issuer during the two most recent fiscal years or in such shorter time as the issuer is doing business ceased performing services for the issuer*, disclose the name of the previous accountant (or handling partner *in case of a firm*) or code auditor, reasons for the cessation of services and the date of his resignation, dismissal or cessation; and,
- d. *In case there were disagreements with the former accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, or disagreement with the former code auditor on any matter connected with the code audit*, disclose the same, including a letter from the former accountant or code auditor addressed to the Commission on whether it agrees with the disclosures of the issuer under *this Item*.

**Item 11. Information on the Members of the Team and the Advisors**, which should include information on the following:

- a. List of the names, ages and citizenship of all team members and advisors, and executive officials and all persons nominated or chosen to become such, and each person who is not an executive officer, team member or advisor but who is expected by the issuer to make a significant contribution to the business (including description of any arrangement to assure that these persons will remain with the issuer and not compete upon termination);
- b. Description of any family relationship up to the fourth civil degree of consanguinity or affinity among the team members, advisors or persons nominate or chosen by the issuer to become such team member or advisor, and the directors or executive officers of the escrow agent;
- c. Disclosure of any of the following events that occurred with regards to any team member, advisor or executive officer, or any nominee, during the past five (5) years up to the date of the prospectus:
  - i. Any bankruptcy petition filed by or against any business of which the person was a general partner or executive officer either at the time of bankruptcy or within two years prior to that time;
  - ii. Any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
  - iii. Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and,
  - iv. Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparative foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended or vacated.
- d. Disclosure of compensation of the team members, advisors and executive officers, and in the aggregate as a group, for the last two years and the ensuing year or in such shorter period as the issuer may have been doing business contained in a table form with the following columns:

- i. Name of team members, advisors and executive officers;
  - ii. Applicable year;
  - iii. Amount of Salary;
  - iv. Amount of bonuses; and,
  - v. Other annual compensations;
- e. Description of any standard arrangements, including amounts, pursuant to which team members are compensated or are to be compensated, directly or indirectly, for any services provided as a team member, including any additional amounts payable for committee participation or special assignments, for the last two years and the ensuing year or in such shorter period as the issuer may have been doing business;
  - f. Description if the material terms of any other arrangement, including consulting contracts, pursuant to which any team member was compensated, or is to be compensated directly or indirectly, during the issuer's last completed fiscal year, and the ensuing year, or in such shorter period as the issuer may have been doing business, for any service provided as a team member, stating the amount paid and the name of such team member. This may include issuance of security tokens in their name, discounts, premiums, among others;

**Item 12. Information on the Escrow Agent**, which shall include information on the following:

- a. Name, address including postal code and contact details of the third party escrow agent;
- b. List of the Board of Directors and Executive Officers of the Escrow Agent;
- c. Disclosure on the track record of the escrow agent;
- d. Brief description of the provisions of the Escrow Agreement between the Issuer and the Escrow Agent with regards to the proceeds from the sale of the security tokens; and,
- e. Disclosure of relationship between the Issuer and the Escrow Agent, their directors or executive officers.

**Item 13. Other Expenses of Issuance and Distribution**, containing an itemized statement of all expenses of the offering and generally includes registration fees, taxes, legal, accounting, engineering fees and listing fees, with separate item for any premium paid by the issuer or any selling security holder on any policy to insure or indemnify team members and advisors against any liabilities that may incur in the registration, offering or sale of these securities.

*If any of the security tokens registered for sale are registered for sale by security holders, state how much of the expenses the security.*

*If the amounts of any items are not known, estimates may be given with proper identification.*

**Item 14. Other documents**, which shall include those documents the omission of which will render the foregoing items and other documents required under *Section 19 of these Rules* or any part thereof misleading.

**Signature Page**

**Pursuant to the requirements of the Rules on Initial Coin Offerings, this Registration Statement is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of \_\_\_\_\_ on \_\_\_\_\_.**

The signature page must be notarized and duly signed by any of the following:

- a. Principal executive officer;
- b. Principal operating officer;
- c. Principal financial officer;
- d. Comptroller;
- e. Principal accounting officer; or,
- f. Corporate secretary.