

Adara ●



White Paper — Legal Requirements



Regulatory and Licensing Matters

Blockchain technologies have been the subject of scrutiny by various regulatory bodies around the world. As a result, the success of the Adara Platform and AAA tokens could be significantly impacted by one or more regulatory developments, including, without limitation, the licensing of or restrictions on the use, sale, or possession of digital tokens (such as AAA tokens) and trading any activities of such tokens on the Adara Platform. Due to the highly regulated nature of cryptocurrency exchanges and tokens, there are various regulatory and licensing issues that we must consider and comply with under the European, U.S. federal and state, and any other applicable laws depending in part on the area of our operation and scope of our investors.

There have been numerous guidance issued by the regulators as to what kind of token would constitute as a security as opposed to an utility under the applicable securities laws of each jurisdiction, and any related regulatory approvals that would be required for an exchange platform to obtain as a result of trading such token. In the United States, for example, a security is generally considered to be an investment contract where there is (i) an investment of money; (ii) money is made in a common enterprise; (iii) with an expectation of profits; (iv) to be derived from the efforts of others. For example, if the tokens on our exchange (including AAA Tokens) are deemed as securities under the U.S. securities law, the Adara Platform operation could trigger certain registration requirements under the U.S. Securities Act, as amended (the "Securities Act") depending on the scope of our operation, as discussed in more detail below. While such analysis may affect the tokens that will be traded on the Adara Platform, we expect to fully comply with any applicable regulations by eventually becoming a fully regulated exchange in the jurisdiction of our operation, regardless of whether the tokens would be considered as securities or otherwise.

We currently expect to commence the operation of the Adara Platform and implement the necessary approvals in the following three phases:

Phase 1. Commence operation of the Adara Platform:

During the initial launch phase, we expect the Adara Platform to be limited to operation in European jurisdictions on an unregulated basis;

Phase 2. Register as a multilateral trading facility ("MTF") in the European Union:

As part of our expansion plan, we expect to apply for a MTF license under the Directive 2014/65/EU (as amended, "MiFID II") framework to become a fully regulated exchange platform in the European Union; and

Phase 3. Register as an alternative trading system ("ATS") in the United States:

As a final stage of our business expansion, we expect to apply for and acquire necessary approvals from the United States Securities and Exchange Commission (the "SEC") to become an ATS and register as a fully regulated exchange in the United States.

Based on the progress of our business expansion, we may decide to expand the Adara Platform to achieve further jurisdictional coverage including Asia. Prior to and throughout the operation of the Adara Platform, we expect to obtain and maintain the necessary approvals to operate our exchange for each of these jurisdictions.

Phase 1 — Initial Launch

Once our trading platform becomes operational, we initially expect to commence operation of the Adara Platform through our Maltese and Lichtenstein subsidiaries on an unregulated basis, each relying on applicable exemptions under laws of the European Union. Prior to such adoption, however, we expect to adopt relevant Know Your Customer (“KYC”) and Anti-Money Laundering (“AML”) policies and procedures for the Adara Platform, which we expect to modify and update as we seek necessary approvals for the phases 2 and 3 of our business plan especially in connection with our compliance with the U.S. Bank Secrecy Act as described in further detail below.

Know Your Customer & Anti-Money Laundering

In order to comply with the applicable KYC/AML laws initially in the European Union and later in the United States, we expect to conduct a series of confirmation for the purposes of identity verification and detection of money laundering, terrorist financing, fraud or any other financial crime. These activities will also include the screening of access by any U.S. persons and from other countries that we may designate as “restricted” in order to preclude users from such restricted countries from registering an account and using our platform depending on the stages of our registration in such jurisdiction. We expect to require each prospective user to complete a questionnaire on our website as part of the registration process, which we will then use to conduct ongoing review of such user’s personal information. Such personal information will include: name, address, telephone number, e-mail address, date of birth, taxpayer identification number, government identification number, information regarding bank account and any other information we see fit, which we will retain and use in accordance with applicable personal information protection laws. In order to ensure compliance with necessary KYC/AML laws, every user will be required to complete such information questionnaire and agree to the terms and conditions of using our exchange.

Furthermore, we expect to include a standard disclaimer regarding the Adara Platform on our website that would detail the risks involved in participating with our platform, including any risks in using unregulated exchanges in general, and that our services are only available to users in countries and jurisdictions that are deemed as being not “restricted.” We expect such disclaimer to additionally include risks relating to the use of blockchain technology, a disclaimer for responsibility of liability for any loss, trading risks, volatility risks, risk related to third-party exchange of cryptocurrencies, legal risks, risk of hacking, internet transmission risks, and cryptography risks, among others.

Phase 2 – Obtaining Multi-lateral Trading Facility license

As part of our growth strategy and as we work to expand our user base, we expect to have each of our Maltese and Lichtenstein subsidiaries become a MTF, which will be regulated by the relevant Financial Markets Authority (“FMA”) of each jurisdiction. MTF is regulated under MiFID II and is defined as “a multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments – in the system and in accordance with non-discretionary rules – in a way that results in a contract in accordance with the provisions of Title II of MiFID II” (Article 4(a)(15) of MiFID II). Under MiFID II, MTFs are required to comply with organizational, transparency and market surveillance requirements that are similar to those applicable to regulated markets. Pending approval by the FMA, we also expect each of our operational subsidiaries to become a member of European Securities and Markets Authority.

To apply for an MTF license in Malta and Lichtenstein, we expect to have our operational subsidiaries submit an application form to the FMA with required information, including curriculum vitae, test forms, suitability matrix, articles of association, an organization chart, a business plan and a description of business operations, such as the suitability of persons in charge of day-to-day policy and any persons supervising policy, the governance structure, how risks and conflicts are managed, and the financial soundness of the company. We plan to follow these processes necessary to obtain approval for an MTF license.

In addition to applying for an MTF license in Malta and Lichtenstein, we expect to concurrently have our Estonian subsidiary apply for necessary license from the Estonian Financial Supervision Authority to become an “electronic money” (or “e-money”) institution. E-money can be broadly defined as an electronic store of monetary value on a technical device that may be widely used for making payments to entities other than the e-money issuer. As an e-money institution, we expect to be able to provide payment services and issue digital cash alternatives that can be used for payments, as well as to facilitate the process of recharging user accounts and withdrawing money from the Adara Platform’s wallets. To apply for an e-money license, we must prepare an application as required in the Payment Institutions and E-money Institutions Act, which must be submitted to the Estonian Financial Supervision Authority. Such application includes information regarding our organizational structure, business plan, internal rules and accounting policies, IT systems and our management, among others. In addition, as part of the initial and ongoing requirements as an e-money institution, we expect to implement necessary due diligence/AML/KYC procedures required under the Estonian legislation.

Furthermore, as discussed in further detail below, if we elect to trade swaps on tokens, and becomes registered as an MTF with European Union authorities, we expect to take advantage of an exemption granted by CFTC (as defined below) from registration as a swap execution facility (“SEF”), subject to certain conditions.

Phase 3 — Commence operation in the United States

There is complexity and uncertainty in connection with cryptocurrency transactions and the regulations that govern the platforms. Cryptocurrencies are currently regulated by multiple agencies in the U.S. on the federal and state levels, including the SEC, CFTC, FINRA and U.S. Department of Treasury. There is no clear regulatory framework for applying these laws to cryptocurrency platforms or products and these laws at times may overlap, but many companies have taken an inclusive approach in establishing their platforms to ensure comprehensive compliance with applicable laws and regulations.

Upon successful completion in becoming a fully regulated platform in the European Union as a MTF, we and/or our subsidiary expect to commence the process to obtain necessary licenses to expand the Adara Platform to U.S. investors. Various licenses and regulatory processes are needed pursuant to the applicable U.S. securities, currency, and commodities laws under overlapping regimes.

Securities Law Consideration

In order for an exchange to allow U.S. investors to participate on its platform, we expect to obtain approvals to become an ATS, an SEC-regulated electronic trading system that matches orders for buyers and sellers of securities. While an ATS does meet the definition of exchange under federal securities laws, it is not required to register as a national securities exchange if the ATS operates under the exemption provided under Exchange Act Rule 3a1-1(a), as set forth under Rule 300(a) of the Regulation ATS.

In general, the process for becoming an ATS involves the following:

1. Register as a broker-dealer with the SEC and become a member of Financial Industry Regulatory Authority ("FINRA");
2. File Form ATS with the SEC; and
3. Comply with Regulation ATS.

Register as a Broker-Dealer

As the initial stage in getting our ATS approval, we expect to register as a broker-dealer with the SEC. While the regulation of broker-dealer activity takes place primarily at the federal level and primarily by the SEC and FINRA, and states may not impose additional regulatory obligations on SEC-registered broker-dealers under Section 15(h) of the Exchange Act, depending on the nature of our expected activities, we may be required to register as a broker-dealer with each of the states.

In general, we intend to commence our registration as a broker-dealer by filing a Uniform Application for Broker-Dealer Registration ("Form BD") with the SEC, where we will be required to disclose certain background information about us and our business, among others, for the SEC to review. Concurrently, we expect to apply for membership with a self-regulatory organization ("SRO"), likely FINRA, or a registered national securities exchange. FINRA application process will commence with the same Form BD filing with FINRA and by complying with the applicable membership process, such as disclosure of our business, compliance policies and internal controls, and passing an appropriate qualifying examination administered by FINRA. Depending on the nature of our business, we would need to also comply with all applicable state requirements. Since each state has its own registration requirements for conducting business as a broker-dealer within the state, we expect to review the scope of our activities in each state we plan to operate (as well as the base of our U.S. investors), and confirm if applying for broker-dealer registration with such state needs to be obtained. As a last step to our registration, we expect to become a member of the Securities Investor Protection Corporation ("SIPC") as all nonbank broker-dealers registered with the SEC that conduct their principal business within the United States must become members of SIPC.

File Form ATS

Pursuant to the dealer-broker registration, we would need to notify the SEC that we are operating as an ATS by filing a Form ATS at least 20 days before we begin our operation in the United States. Form ATS is general in scope and requires information such as certain identification information (i.e. full name, business name, address, CRD number, etc.), description of the types of users on the platform, list of the types of securities, and certain description of the operation. Since Form ATS is a notice filing, the SEC provides no confirmation to the ATS regarding the filing status unless the form is deficient. When a Form ATS has been filed with the SEC, it will be listed on the SEC website.

Ongoing Compliance with Regulation ATS

Upon successful registration and subsequent notification as an ATS, we would be subject to numerous ongoing compliance obligations, including, among other things, ongoing quarterly reporting requirements of transaction activities, reporting requirements for any material changes or misstatements, ongoing inspection of operation, system and records by the SEC or FINRA. We intend to fully comply with such requirements.

Federal Bank Secrecy Act & State Money Transmission Law Considerations

In addition to compliance with the Securities Act and related broker-dealer/ATS registration, in light of the nature of our business, we expect to analyze any applicable money transmission laws and be compliant with relevant regulations on both federal and state levels.

Bank Secrecy Act

The Bank Secrecy Act (the "BSA") is another extension of the global regulations that is aimed at mitigating money laundering, fraud in the payments system, and terrorist financing. It mandates that "financial institutions" must collect and retain information about their customers and share that information with the Financial Crimes Enforcement Network ("FinCEN"), a bureau within the United States Department of the Treasury. With respect to the application of regulations under the BSA for cryptocurrency exchanges, in 2013, FinCEN issued guidance concluding that "virtual currency" is a form of "value that substitutes for currency," and that certain persons administering, exchanging, or using virtual currencies therefore qualify as money services businesses ("MSB"), which is a sub category of "financial institutions" regulated under the BSA. In their analysis, FinCEN distinguished exchangers and administrators of virtual currency from mere users of virtual currency, and concluded that such exchangers and administrators would qualify as MSBs unless any limited exemption applies. As the operator of cryptocurrencies under the Adara Platform, we expect to comply with the requirements of the BSA by filing FinCEN Form 107, Registration of Money Services Business, with FinCEN and registering as MSB. In addition to the registration, we expect to be compliance with ongoing reporting and procedural requirements as MSB, including (i) record keeping and maintaining a list of our agents, (ii) filing reports associated with certain transactions or suspicious activities, including Suspicious Activity Reports and Currency Transaction Reports with the Internal Revenue Service, (iii) developing, implementing, and maintaining an effective AML program, which generally include: (1) policies, procedures and internal controls reasonably designed to assure ongoing compliance with the BSA, as well as BSA training for appropriate personnel and a designated BSA Compliance Officer; (2) independent review and auditing of the AML program; and (3) observance of specified certain customer identification and recordkeeping standards.

Money Transmission Laws

In addition to the BSA, which regulates on a federal level, our operation of the Adara Platform will likely be subject to applicable money transmission laws of each state we wish to operate. Application of such money transmission laws differs by each state, generally depending on the nature and the scope of the business related to cashing, selling and issuing of payment instruments

and money transmission which they govern. These laws require money transmitters to obtain a license or registration prior to engaging in such money transmission activities. While the scope of such money transmitter law is different for each state, in connection with cryptocurrency exchange platforms, they can largely be categorized into three types: (i) those state laws where cryptocurrency exchanges or those who engage in certain cryptocurrency transactions are specifically addressed, such as New York State Administrative Procedure Act and its Bitlicense, (ii) those state laws that expressly noted their laws only apply to federal currency and therefore carved out cryptocurrency platforms, or (iii) those states which have left it unclear whether or not cryptocurrency exchanges apply to their states' regulations. We expect to analyze the scope of our U.S. operation as we move forward with our phase 3 implementation and expect to be in fully compliant with applicable state money transmission regulations.

Additional Considerations

Depending on the nature of our operation, we would be subject to additional regulatory restrictions under the U.S. federal and state regulations. For example, the U.S. Commodity Futures and Trading Commission (the "CFTC") regulates derivatives (e.g., futures, options and swaps) that reference a "commodity," which is broadly defined in the Commodity Exchange Act ("CEA"). In light of the fact that the CFTC has stated that cryptocurrencies are commodities, should we decide to expand the scope of the Adara Platform to include any trading of derivative instruments that reference cryptocurrencies, we would be required to be compliant with the rules and regulations of the CFTC. Similarly, for any transactions with retail customers (i.e., customers who are not "eligible contract participants" ("ECPs") as defined in the CEA), the CFTC does have jurisdiction if the transactions are leveraged or margined, or financed by the offeror, the counterparty, or a person acting in concert with the offeror or counterparty on a similar basis, subject to certain exceptions. Should we decide to similarly expand the scope of the Adara Platform's operation to include such transactions, we would either need to register our platform as a designated contract market with the CFTC and ensure that such product are offered and sold to customers through Futures Commission Merchants.