The INX Way

My Fellow Innovators,

We are all in the business of improvement.
We don't necessarily accept things as they are. We work to make them better.
If we spot a problem with no solution, we work to solve it.
When we recognize a blocked path, we strive to pave a new one.
More than anything, we are open-minded and experienced enough to know that a current perception can limit possibilities.

Those who hold a perception of the evolving digital economy solely in relation to alarming headlines, or see only the opportunists that take advantage of the fact that this territory is, for the most part, unexplored, are limiting their possibilities and closing the door on a wealth of new opportunities.

Based on solid facts, information, and our unique experience, this book is an informative tool and a guide to an innovative breakthrough solution for raising capital with no traditional hurdles and with safety and security measures in place.

As you consider taking the first step in the new path to raising capital on the blockchain, remember that we have walked this journey ourselves. It is literally in our DNA. Now we are helping others.

In 2017, I realized that a digital economy could democratize finance and provide innovative tools and possibilities. It was the future. But not in the state it was in back then, with no checks and balances. After years in the traditional markets, I knew that to pioneer a new economy, regulation and transparency are essential.

Bringing together a team of thought leaders and professionals transitioning from the traditional to the digital market themselves, we decided to set a new standard, work with regulators and legalize our offering and trading of blockchain assets while creating our own digital security.

We were determined to register with the Securities Exchange Commission (SEC) and conduct a public offering of the INX Token. Although blockchain assets had been sold in private markets and through unregistered ICOs, this was an unprecedented bold step.

Millions of dollars and three years of negotiations later, we filed for an IPO, and the SEC declared the INX token the first-of-its-kind offering of a security token. INX thereafter completed a successful IPO, with $84M raised from over 7,250 private and institutional investors worldwide, creating and shaping a new investor community.

Our vision is coming to life. You don't change the world by only following your own personal goals or lining your own pockets. You do it by pursuing a path that benefits everyone.

I invite you to join our path and allow us to guide and assist you through this process. I warmly advise you to read this book perception-free and discover new ways to achieve your goals and a way to invite many to join you.

Enjoy your read

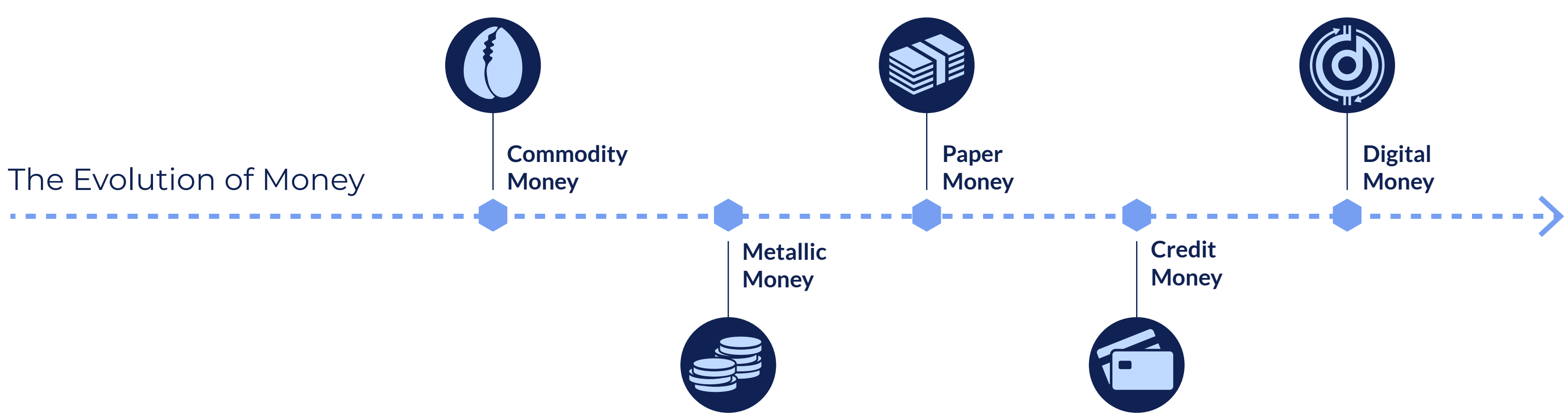
Contents

DIGITAL SECURITIES, or security tokens, are on the cusp of being adopted globally. We're pioneering a new digital economy, and we've prepared this book to help educate market participants, legal professionals and issuers. INX not only executed the first-ever initial public offering on the blockchain; we now can do the same for others. As such, we trust this will act as a handy, informative guide for all.

Introduction

IT WOULD BE DIFFICULT to quantify precisely how many age-old institutions —their permanence taken for granted, their status as deeply embedded anchors of the economy simply assumed—have been shaken to their foundations in recent years by the growth and disruption of digital technology.
Some examples are almost too obvious to merit mention: the rise of social media over the last decade-plus; e-commerce having gone from a somewhat distrusted forum for retail transactions to a parallel economy all its own; the utter ease with which consumers can now organize their travel, their appointments, their personal finances.

That last item hints at one inescapable aspect of human life that has been transformed and disrupted more than perhaps any other as digital technology has continued its remorseless march through industry after industry, institution after institution: money.



Finance, investing, raising capital to fund nascent businesses: These seemingly antiquated processes have gone—and indeed continue to undergo—a radical overhaul that has helped make the capital markets more efficient and, crucially, more accessible to investors and entrepreneurs alike.

This revolution is democratizing finance, making it nearly as easy for the little-guy retail investor to get involved and seek alpha.

An economy, it is said, is nothing more or less than the agglomeration of billions of individual decisions made every day. The stark changes that are remaking finance and investing seemingly by the hour have not come down as an edict from on high. They are not the products of central planners, elected officials or economists. Their effect has been something akin to a revolution in the sometimes mundane activity of capital seeking the most productive uses to which it can be put. Importantly, too, this revolution is democratizing finance—making it nearly as easy for the little-guy retail investor to get involved, to seek alpha, as it always has been for the biggest Wall Street banks and private-equity shops.

That's all to the good—as long as all participants can properly assess their own risk tolerance, anything that expands the pool of financial players and makes the machinery more efficient is to be welcomed with open arms. But just as everyday capitalism requires guardrails to ensure that everyone operates under the same set of rules, so too does this new financial landscape need a coherent set of guidelines to ensure that while heady returns are guaranteed to no one, all market participants can take comfort in the fact that the game is legitimate, the rules make sense and all the new technologies and assets are built on something other than vapor. This is a strange time in finance, with an array of strange-sounding new assets and tools bandied about, a new one seemingly every day: blockchain this, cryptocurrency that, initial coin offering here, nonfungible tokens there.

Just as everyday capitalism requires guardrails and a set of rules, this new financial landscape needs a coherent set of guidelines to ensure the game is legitimate; the rules make sense and all the new technologies and assets are secure.

There is, potentially, tremendous money to be made by demystifying these new products, by sanding off the rougher edges of oddball financial tools. Historians will likely look back at the first few decades of the twenty-first century as the time when—that term again—the democratization of finance truly took off, bringing new opportunities to more people than ever. That's where we currently are—and it's where INX comes in.

Who Are INX?

FOUNDED IN 2017 by Israeli financial entrepreneur Shy Datika, INX is a company dedicated to making it easier for companies to access the capital markets to finance growth and expansion.

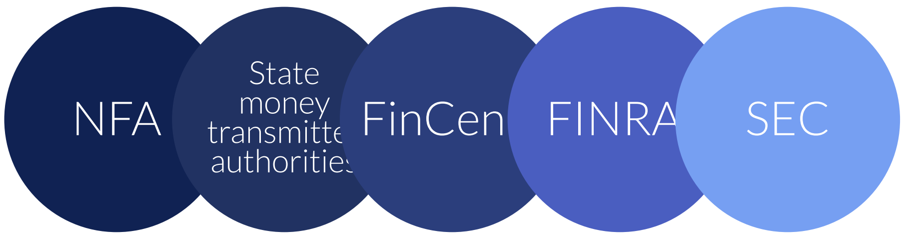
In 1792, a group of two dozen merchants crafted an agreement, purportedly signed under a buttonwood tree in Lower Manhattan, to regulate the trading of stocks of companies in this new social and political experiment called America. (The venue is likely apocryphal, but the original pact has been known ever since as the "Buttonwood Agreement.") The initial compact provided that the merchants, acting as brokers, would trade only with one another—and the ensuing 230-some years have done little to dispel the popular notion that high finance is a closed society, a clerisy of moneyed professionals moving funds from Point A to Point B and getting rich off the commissions they make from each move. The truth is of course far more nuanced, but there's no question that the capital markets, as they have evolved into the mightiest economic system the world has ever known, have been rather opaque to nonprofessional investors and also to entrepreneurs whose business ideas might be spectacular but whose knowledge of how to finance their endeavors is lacking.

The traditional route has of course been the initial public offering—an extraordinarily tightly regulated process that entails communing closely with bankers, mounting (often grueling) "roadshows" in which company executives and their underwriter make sales pitch after sales pitch both to drum up interest and to gauge investor appetite for shares in the business, and a "quiet period," mandated by the U.S. Securities and Exchange Commission (SEC), in which the company and its partners are forbidden to engage in any sort of promotion ahead of the public listing. Some entrepreneurs' understandable desire to get around these restrictions has led to any number of additional means of generating operating capital. There's the "private placement," in which shares are sold to a preselected group of investors and institutions rather than on the open market. There is the latterly popular Special Purpose Acquisition Company (SPAC), also known as a "blank-check company," a sort of reverse IPO in which a corporation is founded with the sole purpose of raising money through an initial public offering and then looking for a suitable acquisition target. Many others abound.

INX's purpose is to make the process of raising capital through the public and private markets easier and more seamless, giving talented entrepreneurs a smoother path to raising the financing they require.

INX is not a traditional underwriter in the manner of a large Wall Street bank. Rather, INX's purpose is to make the process of raising capital through the public and private markets easier and more seamless, giving talented entrepreneurs with innovative products and vision a smoother path to raising the financing they require to raise their profile, boost their operations and build out their business. It is, forgive the redundancy, a "community of communities"—a variegated bunch of entrepreneurs, startups and investors brought together under the INX umbrella to facilitate the smooth exchange of capital on mutually agreeable terms, everyone in the pursuit of profit.

It's important to note that while a traditional public offering and subsequent capital raises bring with them a host of onerous regulatory requirements, document filings and a commitment to an almost voyeuristic degree of transparency, such strictures are necessary (to what degree they're necessary is a matter of intense debate, of course) to ensure investor confidence and the proverbial level playing field for all market participants. A commitment to the free market and investor choice doesn't mean unfettered "Wild West" capitalism, as the popular caricature would have it. INX is therefore committed to strict adherence to all securities laws wherever in the world we operate—we are an alternative trading system for digital securities, a broker-dealer that enables talent to find capital, but within the bounds set by the SEC and other financial regulators.

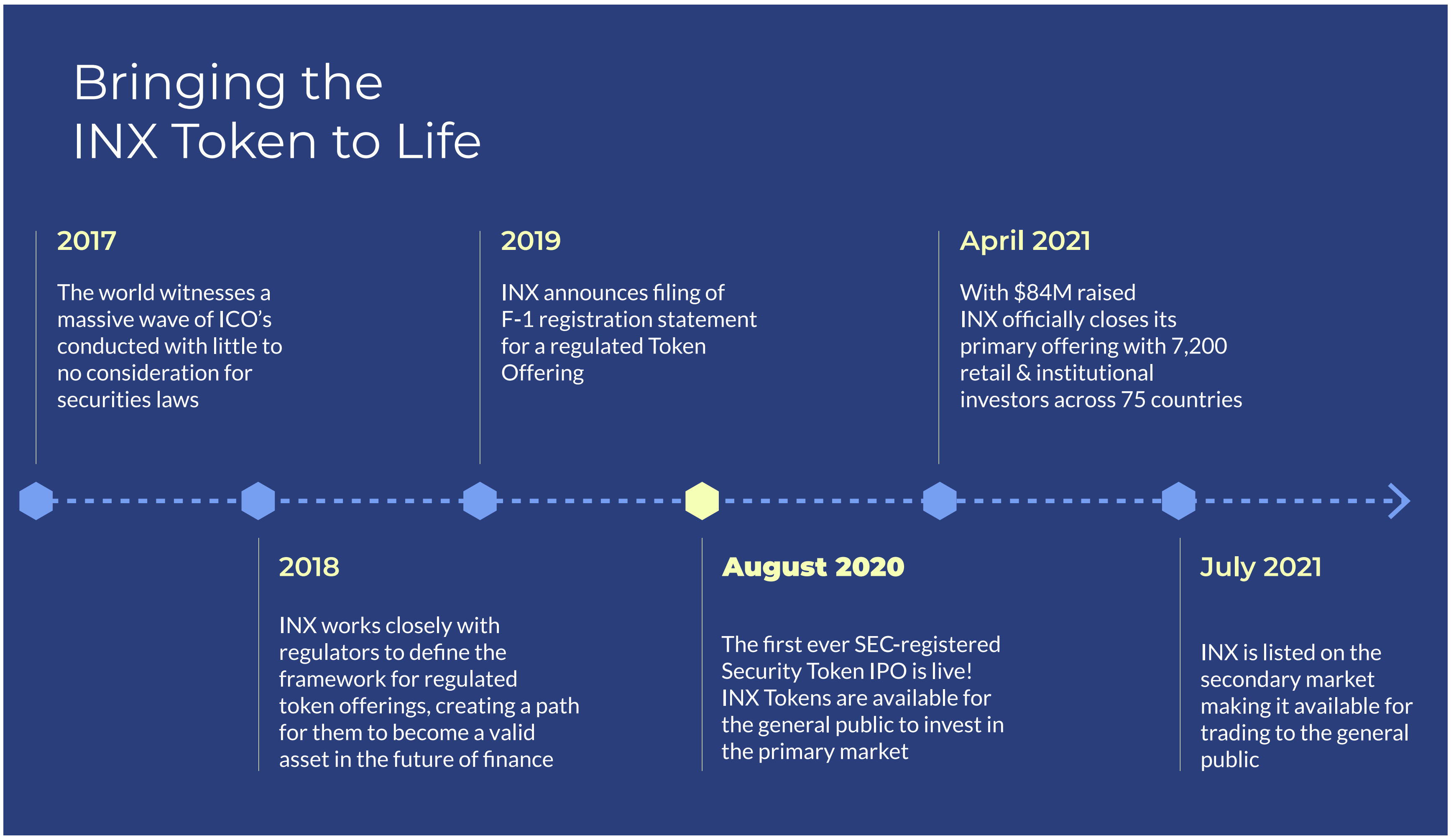


INX manages its activities under the strict regulatory framework of the various US regulators.

The INX difference is that we do so via digital securities traded on the blockchain. (More detailed descriptions of both the blockchain and digital securities follow in Sections III and IV.) We work within the realm of the blockchain, but we are not a "blockchain company" in any sense of the term. Call us "blockchain agnostic," for lack of a better term: enthused by the capabilities and promise of the technology, fluent in how best to put it to use, but not evangelists for the blockchain itself, which would be roughly akin to being evangelists for laptops or toasters. The blockchain is a means, not necessarily an end in itself.

Consider a business that described itself as "an internet company" in 1998 (vague but defensible) versus one calling itself "an internet company" in 2022 (absurd and meaningless). Every company in 2022 is, in one way or another, an internet company; that will soon be true of the blockchain. And in the context of digital securities traded—transparently and securely—INX will have gotten there first.

How? In the words of its founder, INX got its start with "a couple million dollars in the bank and a vision"; it debuted the first-ever SEC-registered security token, the INX Token, launched in August 2020 and completed eight months later, having raised about $84 million from more than 7,200 retail and institutional investors from some 74 countries. Three months after that, in July 2021, INX was listed on the secondary market, making it available for trading among the general investing public.



Yet we are far from simply a company that trafficks in cryptocurrencies—blockchain is merely the underlying asset representing an investor's stake in the business at hand and a payment gateway that works outside the significant limits of standard banking hours. INX is not an exchange in the commonly understood manner of a New York Stock Exchange, Nasdaq or Chicago Board of Trade, among countless others around the world. We are an alternative trading system (ATS), a trading platform, a marketplace. It seems a subtle distinction, but it's a vitally important one.

Our goal is to open the process and provide a wealth of opportunities, with as little friction as possible, to both sides: the startup that wants to raise funds efficiently, and the retail investor (as opposed to an institutional giant) who would otherwise not be able to get in until the public float. In a standard IPO, the average investor acts as something of a liquidity exit for the accredited, sophisticated investors who put up financing in the business's earliest days. The earliest days are synonymous with the greatest degree of risk, and the earliest investors should be rewarded for their foresight. But in this system, the average person doesn't even have the opportunity to take such a risk. That's what INX aims to fix.

INX exists to facilitate the process of helping willing buyers and sellers, entrepreneurs and investors get together as a community of communities.

Is there demand for this sort of thing among garden-variety retail investors? You'd better believe it. To see why, let's go back to 2017—now generally considered to be the year of the true "democratization of finance," when a number of so-called "initial coin offerings" (ICOs, or public listings of cryptocurrencies and digital tokens) drummed up extraordinary interest among speculators fascinated by this new asset class and the chance to make (or, of course, lose) a pile of money.

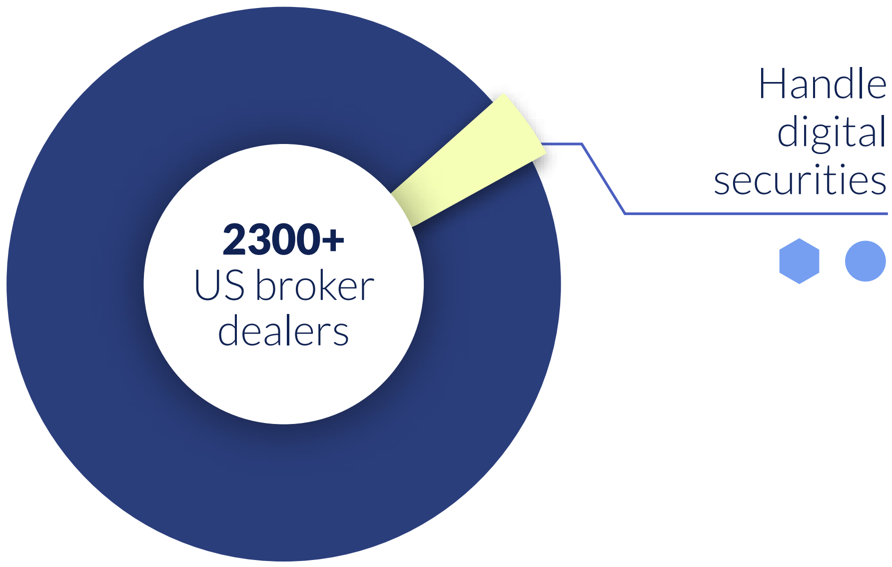
Many of the businesses and exchanges behind these ICOs were scams. Some were well-meaning but incompetent. And the entire speculative jamboree was utterly unregulated, capitalism always and forever moving at a speed orders of magnitude faster than the government.

Yet even the staunchest libertarian must admit—or will after a few drinks, at any rate—that regulation, while often tiresome and aggravating, is key to the successful function of markets. It engenders transparency and security, two necessary ingredients in the free-market cocktail, thereby promoting the kind of comfort investors need to make an educated decision.

It bears repeating—and we'll do so—that rules, transparency and comfort are not synonyms for "profit." The rules ensure a fair game, but the outcome is unknown to even the savviest accredited investor, much less the less sophisticated punter looking to make a few bucks. Risk is inherent, and INX exists not to reduce anyone's risk (a fool's game in any circumstance) but to facilitate the process of helping willing buyers and sellers, entrepreneurs and investors, get together. We also make it happen anytime, day or night, 24/7/365. If you want to strike while the investing iron is hot, why should you have to wait for the banker's hours the major markets keep? Flexibility is inherent in INX's business model.

We were first past the post with our initial token raise in late 2020 and early 2021, as noted earlier. As such, INX is perfectly placed to establish a consensus between experienced investors always on the lookout for new and better returns but understandably skeptical of the seemingly disreputable Yosemite Sam types who, their biscuits burnin', make up the most passionate group of blockchain enthusiasts. We take this brand-new type of investing and this equally new financial technology—all of it completely unknown as recently as even 15 years ago—and bring it all into compliance with federal and state securities laws and regulations.

Our doing so provides the imprimatur of the regulatory bodies as a form of reassurance for investors who are intrigued by the potential of the blockchain and cryptocurrencies but remain wary of it. It also enables the regulatory bodies—which by nature look askance at anything that seems like it ought to be regulated under their purview but so far is not—to assert at least a modicum of control over these strange new assets and ensure that retail investors are protected (again, not against risk or loss, but against the kinds of frauds and scams that threaten the functional integrity of the legitimate market).



There are currently some 2,300-plus broker-dealers in the United States licensed for standard primary capital raises; the number who handle digital securities can perhaps be counted on the fingers of one hand. Yet INX, the first security-token broker-dealer, is not worried about competition in the slightest—indeed, we welcome new entrants into this exciting young asset space. Why? We want everyone to think like we do, because their doing so will indicate a market moving from strange shiny new things to mature means of investment—and only then will the benefits of our first mover advantage become patently obvious. We own the domain expertise. When the domain broadens, our expertise only grows, the value of its insights all the more apparent to a much deeper pool of potential investors. First, though, let's briefly recap what that expertise covers, beginning with the underlying technology that makes it all possible.

What Is a Blockchain?

PEOPLE TYPICALLY ASSOCIATE a blockchain, when they think of it at all, with cryptocurrencies, given that crypto was the first new technology to make use of it. There's no inherent connection between the two, though. At root, a blockchain (emphasis on a, as there is no one blockchain) is a database or ledger, connected along a computer network, that stores information transparently and immutably.

Blockchain & Crypto Differentiated

	A Blockchain	Cryptocurrency
Nature	Decentralized technology that records cryptocurrency transactions.	A cryptocurrency is a virtual tool used in transactions within a block.
Use	Can be used for payments, investments, and savings.	A vehicle that drives cryptocurrency transactions.
Value	0 monetary value	Have monetary value
Mobility	Not Mobile	Can be transferred from one account to another.

In essence, a blockchain can be used to record any type of transaction or information in perpetuity. It stores the data it collects in what are called "blocks"; subsequent transactions or records are added to the existing blocks to create a "chain" of information. No one individual or institution has control over the digital records stored on a blockchain, or any ability to edit the information once logged; the blockchain therefore renders its records in a flawless, incorruptible way that eliminates the need for a third party moderator, regulator or enforcer.

This immutability is what, in a manner of speaking, arranged the marriage between cryptocurrencies and blockchains in the first place. It was, in many ways, an inevitable pairing, a match made in heaven, love at first sight. A major (though not the only) consideration of crypto enthusiasts from the start has been the desire to own and transact assets entirely outside the auspices of fiat currencies—that is, money created by a central government, with decisions on interest rates and the money supply overseen by unelected and unaccountable (to voters, at any rate) central bankers.

The original idea for blockchain-type technology dates all the way back to the early 1990s. Since Bitcoin emerged in early 2009, blockchains have served as a successful, reliable means of securing, organizing and trading additional emerging technologies.

Crypto and blockchain enthusiasts don't necessarily have nefarious motivations by any means. (There are much easier ways to launder money, for example, as any shady casino habitué could tell you.) Indeed, as the blockchain ecosystem matures in the years ahead, use of it will explode. It's an extraordinarily promising system for managing companies' global supply chains, for example—a topic to which few people gave any thought before pandemic-related snarls taught the entire world what a complicated (and fragile) behemoth the worldwide supply chain is.

The original idea for blockchain-type technology dates all the way back to the early 1990s, but it wasn't until the popular cryptocurrency Bitcoin emerged from the brain of the still-pseudonymous Satoshi Nakamoto in early 2009 that the blockchain and an apt use for it were first paired. (Speculating on the real identity or identities of Nakamoto continues to be a popular parlor game among crypto and blockchain enthusiasts—he or they are, truly, the Bruce Wayne/Batman of our time.)

In the decade-plus since Bitcoin's debut, blockchains have served as a successful, reliable means of securing, organizing and trading additional emerging technologies such as nonfungible tokens (NFTs), a Fort Knox's worth of other cryptocurrencies, any number of decentralized finance ("DeFi") tools, smart contracts (legal pacts that take advantage of blockchain immutability to ensure the sanctity of all parties to the contract) and much else besides—including, most pertinently for INX and our clients, digital securities.

What Are Digital Securities?

IN FINANCIAL PARLANCE, a security is any type of financial instrument that holds some tangible monetary value. It does at some point, at least; any security is worth only what a buyer and seller agree it's worth. (A quick glance at the history of the stock price of Pets.com or Enron, among many others, will encapsulate the point nicely.)

Indeed, most people think of stocks—an equity stake in a publicly traded company—when they think of securities. Which for almost all of human economic history has been the principal example of a security.

Today, though, as with so much else, technological advances are rendering obsolete narrow notions of what securities are or can be.

In the standard IPO model, you establish a share valuation and a shared allotment that establishes the share price for the day of the float—a proto-market capitalization that will soon be subject to the prying eyes of the world's investors. With a token, by contrast, it's the other way around.

Enter digital securities. Broadly speaking, the inchoate idea behind digital securities was given a boost of adrenaline with the passage of the JOBS Act (officially the "Jumpstart Our Business Startups Act," in yet another example of the deathless Congressional passion for cutesy acronyms), signed into law by President Barack Obama in April 2012. The animating idea behind this law was to facilitate investment in nascent businesses by removing some of the regulatory obstacles that had long stood in the way of enabling small startups to access capital.

Perhaps the leading non-elected-official supporter of, and advocate for, the

JOBS Act was former Nasdaq vice-chairman David Weild IV, who is now INX's board chair. You might not need a weatherman to know which way the wind blows, but Weild's passionate advocacy for the bill—speaking as a well-known ex-executive of the most tech-centric stock exchange on the planet—certainly indicated the direction the breezes were blowing.

> " Tokens can unleash a wave of innovation that creates features that investors value, and herein lies the magic of tokens as securities."

David Weild IV
INX Chairman of the Board

Once signed into law, the JOBS Act, among its many other effects and provisions, made it far easier for companies to go public; to raise capital privately; and to stay private longer, if they wished to avoid the constant scrutiny and quarterly-based thinking that being a public company entails.

That paved the way for the emergence of digital securities, an entirely fresh asset class—something new under the sun, to counter Ecclesiastes. In the traditional method, practiced since time immemorial (or at least since that purported gathering under the buttonwood tree in Lower Manhattan), hungry entrepreneurs armed with what they regard as the next great idea raises money via either equity or debt. Yet INX itself raised money a third way: through a token, which is neither equity nor debt—neither a stock nor a bond, to oversimplify a bit. (It is a liability on the balance sheet but has zero maturity; hence one need not pay back, or even simply return, the money.)

This was unprecedented. In the standard IPO model, at the end of the roadshow, you've established a share valuation and a share allotment that establishes the share price for the day of the float—a proto-market capitalization that will soon be subject to the remorseless prying eyes of the world's investors. With a token, by contrast, it's the other way around. Companies can always create more shares, do more fundraising rounds, split their stock. Tokens are finite, fixed. This enforced scarcity (in theory) drives demand, perhaps boosted by a gnawing sense of FOMO ("fear of missing out," as your TikTok-obsessed teen will confirm) among investors looking to get in early on a good thing. What INX is doing is facilitating capital raises in the digital realm—a form of primary issuance that has existed for less than a decade. How are we making it happen?

Raising Capital the INX Way

WE NOTED EARLIER that for small startups and companies without a high profile, raising capital is harder and more burdensome than it ought to be. The INX platform and process exist to lubricate this task: to help good money find (ideally) great business ideas with as little friction as possible while strictly adhering to all applicable securities laws.

End to End Solution

- **Pre-Issuance**: Guidance for tokenomics & token modeling
- **SEC Registration**: Choosing the capital raising form best fitting the company's needs (RegD, RegS, RegA, F1/S1 and others)
- **Primary Offering**: INX provides the company with a security token sale platform which includes complete KYC & AML service
- **Creating the Token**: Token minting, smart contract deployment and distribution of the token to the investors
- **Secondary Market**: Ability to list and trade the security token on INX.One 24/7 365

The process begins with the issuer—the company itself or its representatives in the broker-dealer space—meeting with INX and going through a due diligence process that entails, among other things, uploading any of the following that are applicable for the company and its principal: identification documents, a Tax ID number, articles of incorporation, address, phone number, state incorporation documents, certificate of good standing and bad actor checks on the officers and directors to name a few.

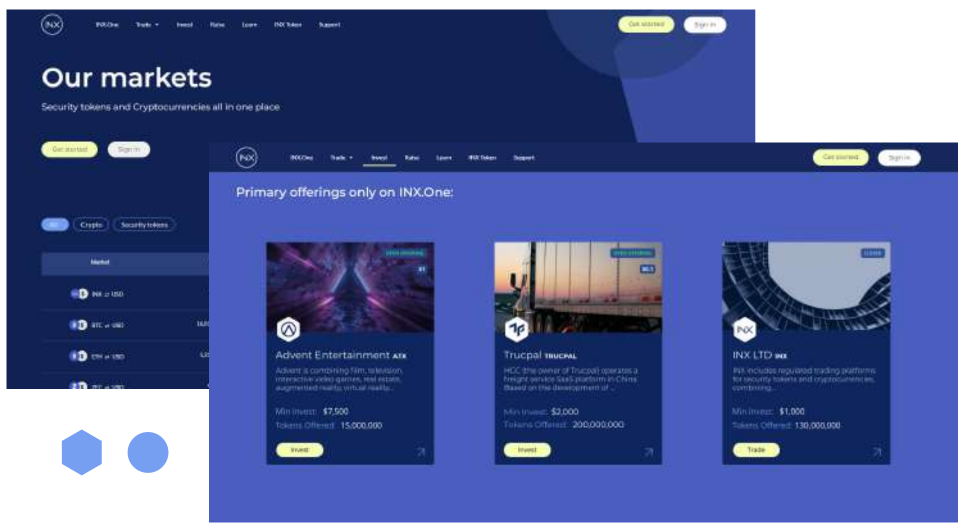
Once the issuer has been approved, signed our agreement and paid its fees, and once INX has completed every task on our due-diligence punch list, a series of kickoff phone calls and meetings ensues. These are to familiarize the issuer with the basics of our operation, answer any questions and let them know exactly what's required of them prior to the float: what the issuer needs to get to INX by what time, further necessary information not already provided or anything else we need to ensure our comfort with our approval. A launch date for the capital raise is set.

We'll perform "bad actor" checks on the issuer well ahead of time. These vary from issuer to issuer, but broadly speaking we're looking to make sure nothing untoward or, certainly, illegal pops up in their background. We also want to flag ahead of time—for the benefit of all parties—issuers who might simply be in over their head. We check corporate documents, examine the financials (to the extent the issuer has any yet) and conduct a background check to ensure the issuer hasn't committed fraud.

Depending on the type of raise (more on this in Section VII), the issuer will engage in marketing ahead of time to drum up potential investor interest in the opportunity. INX reviews all such marketing efforts, whatever form they take. This helps give us, at an almost immediate glance, a sense of the caliber of the issuer we're dealing with and lending our name to: Do they know their market, the rules? Do they know how to manage their expectations? Are they in over their heads? One example: Nuance is critical in any type of communication with potential investors, from the standpoint both of following the law and maintaining one's own integrity. In its marketing, an issuer cannot make any definitive claims: We will do this, we will do that, we will pay you a dividend. Rather, it's "you will be eligible to receive a dividend."

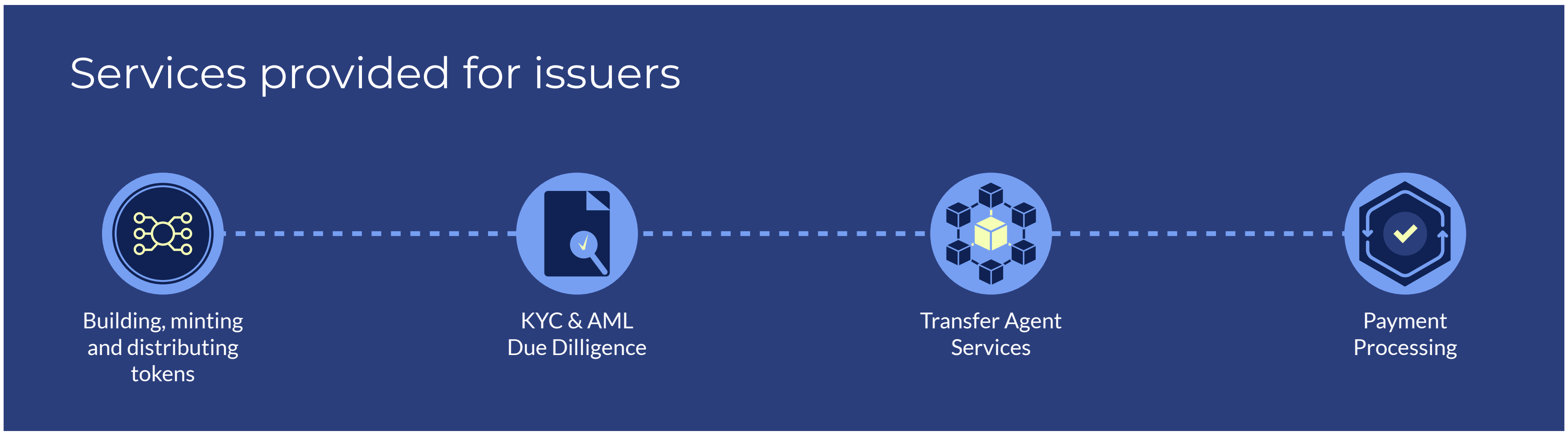
On such subtle distinctions are successful raises made, and successful companies grown. (If the issuer so requests, we'll examine any advance marketing or promotions, albeit in a purely advisory role. We don't formally approve, or lend our name to, any company's marketing, no matter how promising we might think the business is.) Likewise, if the advertising or marketing is intended for domestic consumption, as opposed to overseas, we will certainly review it carefully ahead of time, particularly if it mentions INX in the context of being a broker-dealer—to guard against both reputational risk and legal culpability. Our reach is necessarily more limited in foreign markets, but we keep a close eye on channels overseas in case any of our issuers are making wild claims of 20 percent returns or something of that ilk—all the more so, again, if the issuer is bringing INX into those claims, whether by association or more explicitly. (For more distinctions between U.S. and foreign listings, see Section VII.)

It's critical to note that INX does not sell anything. The offerings we host are listed on the INX website, INX ONE, and we'll send an email to our members and make social media posts informing investors of the coming listing. But all our issuance consists of highly self-directed participation on the part of investors.



Once a company has signed on with INX, we create everything for them going into the launch: We build, mint and distribute tokens; conduct know-your-customer (KYC) and anti-money-laundering (AML) due diligence on behalf of the issuer; provide transfer agent services; and process payments. Everything that settles will settle on the blockchain, transparently, securely and immutably.

It's important to stress, again, that INX is simply a neutral platform that facilitates the raising of capital. Along the lines of the "Software as a Service" (SaaS) model pioneered in recent years by the likes of Salesforce, DocuSign and many others, think of what INX offers as "TaaS": Token as a Service. An issuer's placement on the INX platform does not even remotely imply our endorsement of the product at issue. Of course we don't want to waste our time if we think a given issuer is unlikely to raise adequate funds, because the fees we charge for hosting and all the other services we provide prior to the listing are ultimately a small part of how we generate income—a "success fee" of sorts on the money raised.



If a startup were to come to us with an obviously ludicrous idea and an amateur's understanding of the market, we wouldn't provide the platform. Otherwise, though, placement on INX for a capital raise indicates only that we think the issuer is a legitimate company with potential that's worth interested investors taking a look at if they so choose. We're saying, in essence, "This is not a fraudulent business. We have done due diligence and, satisfied, have provided the platform through which you can invest in it if you'd like. Otherwise, though—as is the case with any securities listing, however traditional or recondite—caveat emptor."

That said, we don't just provide services to the issuer ahead of, during and after the float. We also handle the details for anyone who invests through the INX platform. As soon as the investor makes his or her payment—whether in wired U.S. dollars, Ether (another widely traded cryptocurrency), stablecoin (USDC) or another form. Through and in accordance with our transfer agent requirements, the transfer agent manages investor records and keeps track of the digital securities "cap table." If an investor loses his private key to access his digital wallet, if he wishes to transfer assets to another wallet (passing them on to a son or daughter, for example), we have the means and capabilities to accommodate such requests once identity is verified and address is whitelisted.

Along the lines of the "Software as a Service" (SaaS) model pioneered in recent years, think of what INX offers as "TaaS": Token as a Service.

No more forgetting your access code and leaving what was, at the time, $265 million worth of Bitcoin to languish on the blockchain where no one can get to it, as happened to one unfortunate soul in 2021. (Perhaps he'll feel better if Bitcoin's value plummets and stays down, though that's cold comfort considering the sure temptation to cash out at whatever point he felt was the top of the market. Sometimes people can't be trusted to look after their own best interests. INX keeps all investments secure—a crucial attribute, especially with a new and unusual asset class.)

Rise of the "Insumer"

Standard investing is two-dimensional. John Q. Public buys shares in the Acme Widget Corporation . . . and other than periodic correspondence informing him of an upcoming shareholder vote, and the occasional dividend check, that's pretty much the extent of the relationship between the two parties. In the current model, if the issuer wants to know precisely who their investors are, they'll have no real idea and no good way to find out—they'll have to talk to their transfer agent to get even the slightest illumination.

Raising capital for promising startups, as we discuss at length in these pages, is certainly an important aspect of digital securities. Yet there are countless companies that are already listed, that have been in the public markets for some time, that deal with consumers every day, whose investors are consumers. Call these investor-consumers—Clever Portmanteaus "R" Us—insumers.

Insumers, by definition wish to make investments, yet a given issuer has no idea they exist. If the issuer were to hive off some of its outstanding equity and make a digital security out of it, however, it'll now be able to know exactly who its investors are—and, crucially, be able to send these insumers things directly into their digital wallets.

What sorts of things? NFTs, for one—nonfungible tokens that could be discount offers or other goodies depending on the size of the insumer's holding. Suddenly any investor in Acme Widget who owns at least 50,000 shares gets an NFT, sent directly to their phone, that gives them a discount on their next widget purchase (or widget-adjacent purchase, something else the company makes). Anyone at the 100,000-share level receives an NFT that doubles (via a QR code or similar tool) as an invitation to a special shareholder event. There's no limit to the kinds of things a given issuer can choose to offer.

A company being able to identify its insumers is an extraordinary boon. The insumers are investors in Acme Widget, sure, but they're not just passive speculators—they also regularly consume Acme products. Many of them feel a keen loyalty to the company, perhaps even thinking of themselves as part of a select elite of Acme consumers. (This is already a feature of modern consumer life, with technology companies most obviously.)

Insumers, by definition, wish to make investments, yet a given issuer has no idea they exist. If the issuer were to hive off some of its outstanding equity and make a digital security out of it, it'll be able to know exactly who its investors are and will be able to connect with these insumers directly.

Knowing this, Acme will carve out some of its equity, put it in escrow and create a digital security around it. The company could then host an investor event announcing that Acme Widget now has a digital security trading at INX. Interested insumers buy the token—the equity equivalent, that is—and before long Acme now has a way to know who its investors are, and has a failsafe means of reaching them.

Think of it as moving through a doorway from the old, dull, black-and-white, two-dimensional world of equity investing into the three-dimensional Technicolor Oz (complete with yellow brick road, naturally) that is digital insumer investing. For investors and issuers alike, it's an order of magnitude greater than what came before. The company can now deal directly with its consumers in a manner previously impossible, and broaden its pool of potential investors who might well be interested not just in company equity but, more so, in all the goodies that now come along with it. No one ever complained about a dividend check showing up in the mailbox, but NFT insumer outreach is something else entirely—with far more potential upside for the issuer than ever before.

For example: It's great marketing. Standard customer outreach, even in the digital age, is a relatively blunt tool. Direct access to insumers' digital wallets? Highly efficient, much more personal. It's investing in 3D, and it's where the markets are undeniably headed.

Security Tokens as a Recovery Mechanism Post-Bankruptcy

THE WRECKAGE that attended the spectacular implosion in December 2008 of Bernie Madoff's investment firm (or, rather, his extravagant, elaborate Ponzi scheme) is still incalculable nearly 15 years later.

That thunderclap came at the end of a financial annus horribilis worse than almost anyone alive at the time had ever experienced. The fiscal ruin alone amounted to some $65 billion, and the human toll—lives permanently altered, nest eggs broken into irrevocable Humpty Dumpty shards—was enough to make even the most hardened cynic recoil.

Of far more recent vintage, though with an undeniable historic echo, has been the extraordinary turbulence in the cryptocurrency markets. Two thousand twenty-two will be remembered as a year of great ructions across almost all financial markets, as the world's leading economies have had to contend with a great unwinding of the recent past's loose monetary policy, which sent investors scrambling into high-risk asset classes in search of yield. (Inefficiencies introduced as part of Covid-19 relief programs have contributed to the problem as well.) The roughness in the cryptocurrency markets started with the end of the most recent bull market, which led to the undoing of companies touching a large portion of trading and lending activity in the space, helped in no small part by mismanagement, leverage and fraud.

The first major domino to fall was Three Arrows Capital (3AC), which began to wobble in May 2022. A Singapore-based crypto-focused hedge fund founded by Kyle Davies and Su Zhu, who first met at the Tony Phillips Academy prep school in Andover, Massachusetts, 3AC invested in a wide variety of cryptocurrencies. One of them, Luna, was a product of Terraform Labs, which also created the Terra stablecoin, a cryptocurrency promoted as a more secure asset given that it was pegged, nominally at least, to the U.S. dollar.

Not so, it turned out. Pegs matter little when investors lose faith in the underlying asset, and within one week in May, Terra and Luna crashed, wiping out some $45 billion in market capitalization. Three months earlier, 3AC had invested some $200 million in Luna. Its vaporization had ill effects on Three Arrows; by late June the Wall Street Journal was reporting that 3AC was in grave arrears to crypto broker Voyager Digital, which had loaned the hedge fund the ominous figure of $666 million worth of cryptocurrencies.

Incredibly—although perhaps unsurprisingly—Davies and Zhu decided to go on the lam. The advisory firm Teneo, a New York–headquartered consultancy that is overseeing Three Arrows' Chapter 15 bankruptcy, issued a notice to the bankruptcy court of the Southern District of New York on October 14, 2022, that "the founders' whereabouts remain unknown."

Chicanery in the crypto markets really caught hold of the attention of the public at large in November, however, after the rapid collapse of FTX, the cryptocurrency trading firm run by wunderkind media darling Sam Bankman-Fried. (As a Hemingway character famously put it in The Sun Also Rises, "I went bankrupt two ways: gradually, then suddenly.") FTX and its sister company, a hedge fund of sorts called Alameda Research, were apparently managed with few guardrails and little oversight. Insolvency expert John Ray III, appointed to sift through the FTX debris as the fallen company's new CEO, told reporters that "never in my career have I seen such a complete failure of corporate controls and such a complete absence of trustworthy financial information as occurred here." (And this is the man who performed the same hazmat-cleanup task for Enron 20 years earlier.)

Bankman-Fried was arrested in the Bahamas in early December and charged under an eight-count indictment by the Southern District's U.S. Attorney; the charges include wire fraud and conspiracy, among others. Testifying to Congress the day after Bankman-Fried's detention, Ray called FTX's operations nothing more than "old-fashioned embezzlement."

Clearly cryptocurrencies are in a bad odor, with much idle (and probably premature) talk of Dutch tulips and Pets.com. The maligned “crypto winter” was beginning to look something more like crypto permafrost. Bankman-Fried, 30, saw his net worth shrink from $32 billion at its peak to what he claims is “under $100,000” in scarcely a week. Crypto wags have dubbed him “Scam Bankrun-Fraud,” and it remains to be seen whether he’ll face criminal charges for his alleged malfeasance.

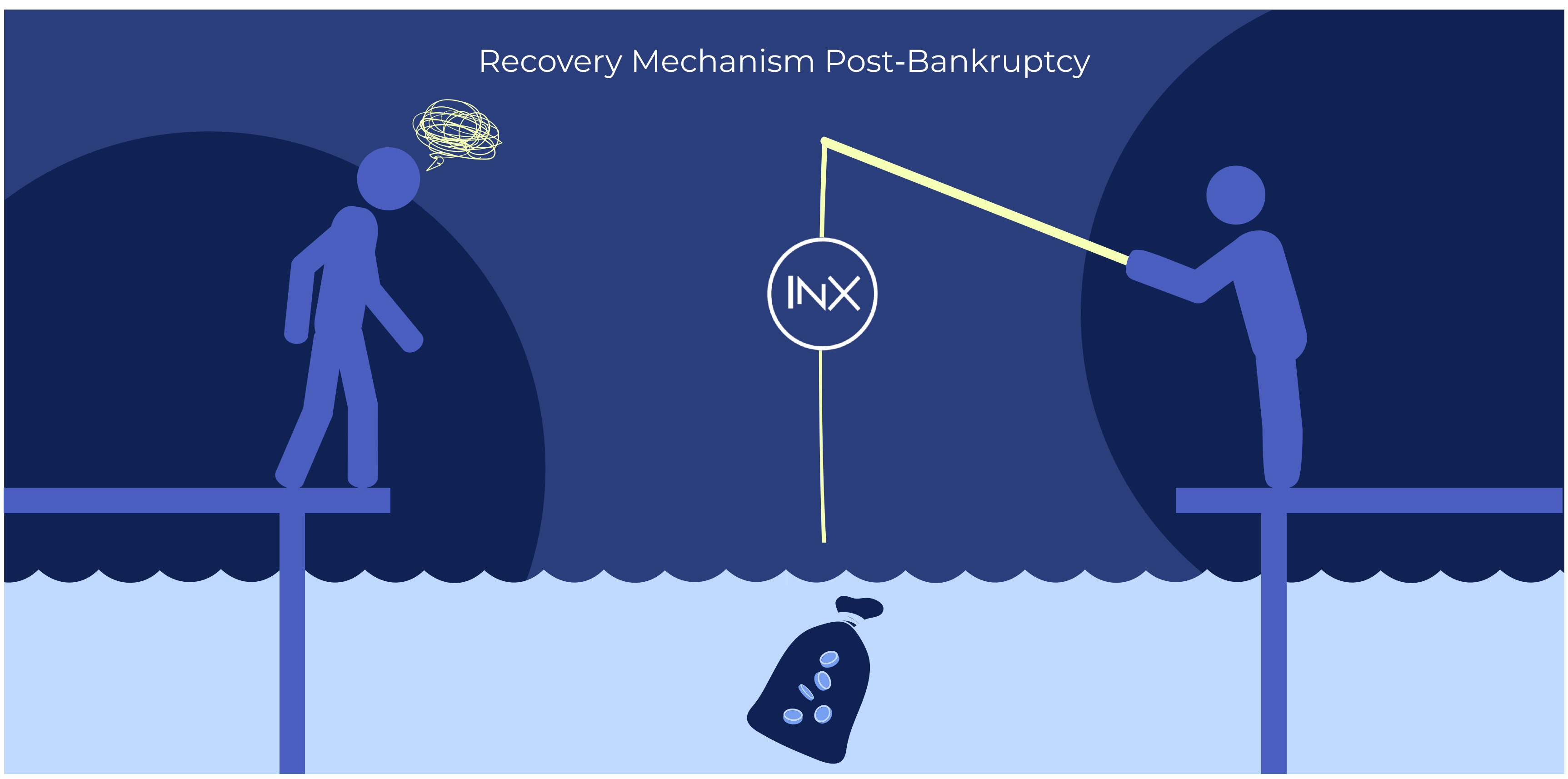
The underlying technology by which cryptocurrencies are possible, though, remains entirely reliable—and indeed may point a way forward to helping make creditors whole. A decade and a half after Madoff was brought down, many creditors remain trapped, highly unlikely to recoup more than pennies on the dollar, if even that. The same typically holds true of investors in more traditional companies that file for Chapter 11 protection—they have little recourse and scant ability to collect their debts owed, and rarely are they given the opportunity to profit anew from the business once it’s restructured and streamlined. It hardly seems fair, and it makes for an inefficient glitch in the model.

Security tokens are not cryptocurrencies. They are means by which businesses raise capital from interested investors, and the records they carry are immutable and easy for anyone to view—a degree of transparency that makes even traditional equities seem unnecessarily opaque.

Consider, though, an investor who bought into a company as part of an initial coin offering (ICO) rather than the traditional IPO route. He or she will instantly receive in a digital wallet a security token detailing the specifics of the investment. These tokens can be traded in secure, publicly listed transactions at any time, day or night—or held indefinitely if the buyer leans more toward a longer-term investment horizon.

Keep in mind—this is an extremely important distinction—that security tokens are not cryptocurrencies. They are, rather, an increasingly popular means by which businesses raise capital from interested investors, and the records they carry are immutable and easy for anyone to view—a degree of transparency that makes even traditional equities seem unnecessarily opaque.

Further, these tokens are regulated by the U.S. Securities and Exchange Commission—a situation that's the polar opposite of the Wild West crypto free-for-all embodied by FTX and its similarly circling-the-drain crypto brethren. (Take a bow, BlockFi, Celsius, Three Arrows Capital and others, a mansion with many rooms.) The investor protections inherent in SEC-regulated securities all apply to INX-issued security tokens.



How might these tokens smooth the typically friction-laden process of corporate bankruptcy reorganization? First, tokens are utterly customizable in a way that standard equities simply aren't. They can be designed by the issuer with any number of enticing features, many of which are described at length elsewhere in this publication (see Sections VI and VIII). One key possibility is building into the token an investor right to take an equity stake (and therefore a share of potential future profits) in the restructured company once it emerges from Chapter 11 leaner and, in theory at least, much better positioned for future growth. The same virtues that make security tokens attractive to investors at the outset—the ability to customize and add features unthinkable with a traditional public offering—can also potentially mitigate risk if a company's operations go south.

Security tokens offer the prospect of financial justice for investors, customers, and creditors who put their faith in a corporate enterprise and deserve to have that faith rewarded even through unpleasant economic weather.

"Potentially" is the key word there. Rogues, charlatans, con artists and headstrong young entrepreneurs whose companies turn out to be poorly organized and managed will always be with us. No investment is fail-safe, and there's no guarantee that any burned investor will be able to recoup lost funds in the wake of an implosion as cataclysmic as the ones occurring seemingly daily in the crypto industry. But security tokens offer the prospect of, for lack of a better term, financial justice for investors, customers and creditors who put their faith in a corporate enterprise and deserve, to the extent possible, to have that faith rewarded even through unpleasant economic weather. After all, sometimes sunnier climes are just ahead.

Token Raise Versus Traditional Methods: The Token Advantage

LET'S BEGIN WITH an obvious, though often overlooked, point: Retaining control of one's intellectual property is an extremely important aspect of being an entrepreneur, devising a good business idea and raising money to help finance growth and further investment in the company. Yet by following the standard initial-capital-raise model, all too many founders cede so much of their business to those putting in the early money that they're often left with far less than they deserve, particularly if the business becomes a success.

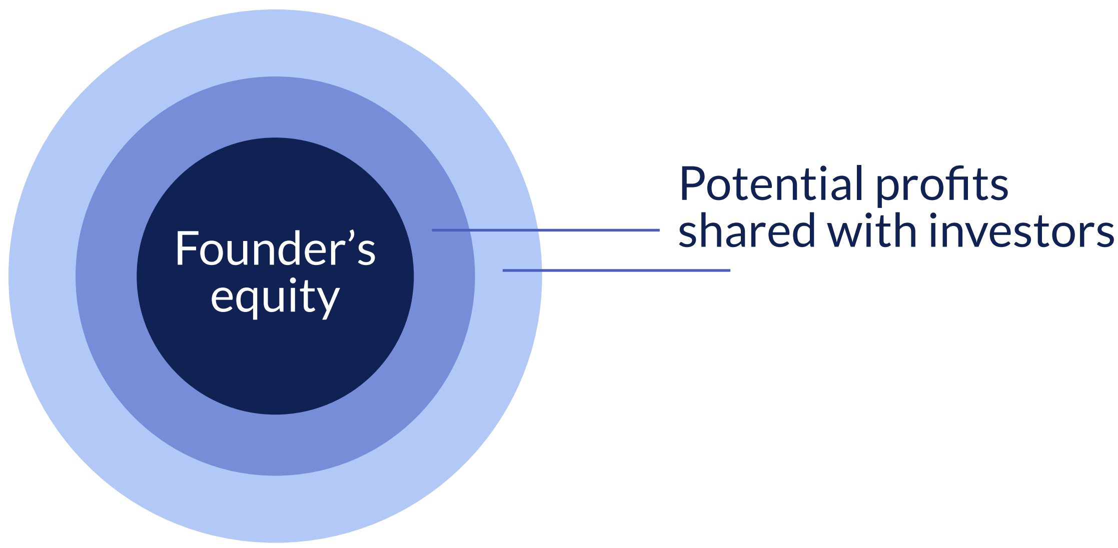
Consider the standard private equity/venture capital model: Depending on the size of the investment and the concomitant valuation of the business, a founder can end up seeing his own equity stake chipped away piece by piece with each successive round of funding.

Private Equity/Venture Capital Model
Founder's equity

It's understandable that M&A dealmakers and VCs would demand sizable stakes in return for their investments; early money is risky money, after all, and early-stage investors typically assume they'll pour cash into a large number of startups before finally hitting the fabled "ten-bagger" that makes up for all the other investments that failed, for one reason or another, to pan out.

It is often the case that this doesn't happen in a security-token raise. A founder is selling an interest in the possibility of future profits, not equity purchased before the business has any profits to speak of in the first place. Investors in a token raise are well aware of this and tailor their investments accordingly. Both sides are clear on the details thanks to the Private Placement Memorandum (PPM) or Prospectus, and the entrepreneur retains his or her entire stake in his or her own startup without having to give up control of any intellectual property—potentially the most valuable piece of the entire operation.

Token Raise Model



The benefits accrue to the investors, too: Getting proverbial mom-and-pop investors in on the ground floor wasn't really possible for most of economic history. This was a professionals' game, played solely by the big banks, the connected underwriters, the Sand Hill Road VCs who had themselves perhaps cashed out years ago and who were now looking forward to perpetuating the cycle anew.

That ossified system began to change, fitfully, in 2017, the annus mirabilis (after a fashion) for initial coin offerings. These ICOs were far more akin to crowdfunding via the web than they were to anyone's notion of a standard public float. Between May 2017 and October 2018, according to Forbes, some 800 initial coin offerings raised around $20 billion from investors—some of them savvy, no doubt; others of whom were speculators in the Dutch-tulip mold.

Few of these ICOs panned out; fewer still got rich off them. Some did, of course, and to a degree that's the nature of any popular new investment scheme: A handful of people (whether investing savants or just-got-lucky types) cleaned up—which only made the seeming promise of these new investment tools all the more alluring to those who lost their shirts amid the mania. Unscrupulous (or just plain ignorant) would-be entrepreneurs looking to profit off the unwisdom of crowds is nothing new. But that never meant the underlying concept and its attendant technology weren't worthwhile and valuable.

That's where INX comes in. Recognizing the vast potential of this new investment tool, we sought to present the opportunity visible through the fog of a million dicey ICOs to the investing public—but with the openness, transparency and security anyone, whether mom-and-pop or Wall Street titan, deserves.

As we never tire of repeating, though, none of this is to say there's any guarantee an investor will make money just because a given investment is regulated. (Even the most passive index investor who glanced at his retirement account throughout 2021 and the bulk of 2022 can grimly relate.) You can, indeed, make gobs of money off unregulated investments if you know what you're doing and have a strong stomach for grievous risk. In the long run, though, regulated investments are the horse to bet on.

One unsung feature of token raises—unsung, perhaps, because the model is so new and unfamiliar—is a token's "utility aspect." This doesn't exist with stocks or bonds. You get a shareholder letter periodically, exhorting you to vote and perhaps attend an annual meeting.

Not so with a token raise! The investor landscape here is wide open, and the benefits of investing are limited only by the issuer's imagination. Want to offer investors access to special product features, discounts, an "ask me anything" session with the founders, all of it dynamically priced according to the size of one's investment? Have at it. It's a sort of direct-to-consumer investing model, so to speak—like a consumer rewards program (buy 10 cups of coffee, get your eleventh free), but financialized.

This nascent market is poised to explode: Respected business consultants ADDX and Boston Consulting Group published a report showcasing their projection that asset tokenization will grow by a factor of 50 by 2030, becoming a

$16.1 trillion "business opportunity"—and possibly, under optimal circumstances, far more.

Ironically, the recent trading weakness of various cryptocurrencies—known among despondent enthusiasts as "the crypto winter"—is boosting the shift, "prompting capital to focus on more viable blockchain use cases," according to the consulting firms' report.

After the initial raise, meanwhile, those tokens are going to trade, which brings heretofore unknown liquidity to the private market. This gives investors a way, should they so choose, to exit their investment in a manner that doesn't happen with traditional raises. Why? Because in a traditional raise, investors generally want to put more and more money into the company—fine so far as it goes, but each successive raise, as noted above, dilutes the founder's stake and diminishes his hold on his own intellectual property—not just from buying shares or a stake in the venture from existing investors. It's possible, even desirable, to do so with tokens, though. This broadens the investment horizon in ways not possible with traditional capital raises. INX can therefore talk to big companies, small companies, startups, entrepreneurs at the idea stage—any and all comers with good ideas and sound philosophies. We cover all the bases, further democratizing finance and enabling investors of all stripes to get in on the early action—a potentially sizable benefit to investors and entrepreneurs alike. Finally, aside from the sheer flexibility a digital security offers, there's the fact that it can trade in the private market, with the ability for trades to settle within just a few minutes. All this is possible—and as protective of investors as any speculative investment can be—thanks to INX's strict adherence to all applicable securities laws. Let's get an overview of some of the regulations that will help the digital-securities market grow and mature in the years ahead.

Private Versus Public Raise

THERE ARE PROS AND CONS to either variety of capital raise, and certain regulations that apply to each—some more onerous than others. Again, the passage of the JOBS Act in 2012 (see Section IV) was intended to make it easier for small businesses and startups to raise capital, and among its many provisions it made changes to existing regulations to smooth the process of procuring financing.

A big advantage to a private raise inheres in the adjective itself: private. Such raises are fast and lack the kind of reporting requirements that can act as sand in the gears of a public raise. One key disadvantage is that the total number of investors in a private raise is limited to 2,000, with (at times) high minimum investment requirements. A private raise can generate as much financing as it can, but the high minimums can make it difficult for smaller investors to get in on the action.

Two particular legal provisions—the first of which was originally included in the landmark Securities Act of 1933, passed by Congress in the teeth of the Great Depression and updated by the JOBS Act nearly 80 years later—are key to understanding the process by which private raises occur:

- **Regulation D:** Known colloquially as "Reg D," this provision enables a company to issue securities without registering them with the SEC, as long as the business complies with every requirement of the governing regulations. (They're called "exempt" offerings, as in exempt from registration.) The offering must be private; it cannot be offered to American investors at large. This is an important distinction: Prospective investors can be from any country, but under the terms of the law only limited marketing can be done, and only to foreign investors. This stems largely from the SEC's jurisdiction, which solely covers investors in the U.S., and its desire to ensure that all accredited American investors are given the basic protections of securities law. While marketing restrictions by definition limit the amount of information that domestic investors can get, there's some question as to how effective such strictures can be given the modern investor's ease of access to worldwide information, available at the click of a mouse if one knows where to look.

Section 506(b) of Reg D used to encompass the most prevalent types of private raises: If the issuer agrees not to advertise, solicit or market the securities, then they can be offered to an unlimited number of accredited investors. If an issuer so much as puts up an informational website about the product and the fundraise, it becomes governed under Section 506(c), a provision added to Reg D as part of the JOBS Act. Under 506(c), all investors must prove that they're accredited by submitting, inter alia, tax returns, brokerage account statements, bank statements and the like. The issuer, according to the JOBS Act, must take steps to ensure that all participating investors are in fact accredited. All Reg D offerings on INX will rely on 506(c).

- **Regulation S:** known as "Reg S," was adopted by the SEC in 1990. It's similar to Reg D except that it covers securities offered to international investors. "International" here is relatively loosely defined; it's based on residence, not citizenship. (It works the other way around as well: A foreigner residing in the United States is considered, for the SEC's purposes, a domestic investor.)

Reg S international investors need not be accredited. All INX requires from them is a recent proof of address—even a utility bill will suffice—and identification such as a passport or driver's license. That isn't formally mandated; it's just something INX does to help establish that potential investors are who they say they are. But they don't have to be accredited. All Reg S investors will go through a similar onboarding process on the INX platform as U.S. investors.

To some degree, the more relaxed nature of Reg S is a function of the SEC looking out for American retail investors—the agency's remit in this regard doesn't extend past the nation's borders, and all other investors will simply have to look out for themselves.

(One odd aside: Canada, for whatever reason, has very stringent rules regarding Canadian investors; the country's government will go hard after American broker-dealers who aren't affiliated with a broker-dealer in Canada, making them rescind all offered shares. Take a peek at the fine print on some funding portals and seed-investment sites: You'll likely see a small disclaimer informing you that if you're a Canadian investor, you can head right back to Saskatoon or Medicine Hat or wherever you've come from. Not very neighborly, perhaps, but such are the vicissitudes of nations' financial regulations.)

There's also a combination Reg D/Reg S offering, or rather offerings, in which the issuer runs simultaneous floats, one that conforms to Reg D and one—you guessed it—that conforms to Reg S. These are officially limited to 2,000 investors, but the amount that any individual investor can put in is unlimited.

Public Raise

Now to the public raise, the variety far more familiar to most laymen and casual market watchers. One obvious pro of a public raise is that there are no limits whatsoever on the number of investors or the amount of capital you can raise. The flip side is that the time from initial prospectus to actual offering is long, typically measured in many months, and the back and-forth with the SEC is considerable. Like filling out forms? With a public raise you've got your S-1, the basic registration statement for American companies that want to offer securities to the public; and you've got your F-1, for foreign companies that wish to offer securities on U.S. exchanges. There is also a kind of quasi-public capital raise, though, and it's governed by a section of—all together now—the JOBS Act, separated into two tiers and whose currently regnant versions were officially implemented in early 2015, three years after the JOBS Act's initial passage.

- **Regulation A:** known as "Reg A," is a limited form of SEC registration sometimes referred to as a "mini IPO". Investor numbers are unlimited, but there's a maximum fundraise amount of $75 million every 12 months. In other words, you could attract the interest of 1 million investors—good stuff! But if their average investment is more than $75 each in a 12 month period, you're over the limit—less good stuff. Still, being able to offer a security to an unlimited number of investors is no small thing. One other great thing is that in a Reg A+ anybody can invest, not just accredited investors as long as the investment amount is less than the greater of 10% of your net worth or net income.

If you attract more than 500 investors, however, you'll need to employ the services of an SEC transfer agent—a sort of glorified financial organizer, a Marie Kondo of the markets who records ownership changes, distributes dividends (if any) and maintains all records related to investors' ownership of the security at hand. INX deals generally make use of their own transfer agent.

Reg A listings require two types of regulatory reviews: First, the SEC must qualify the offering. This entails the issuer filing what's known as an "offering circular" (Form 1-A), which serves notice that the issuer is seeking a registration exemption for this particular offering. On a parallel track, INX will obtain a "no-objection letter" from FINRA (see Section V). The SEC will generally not issue a qualification until FINRA issues its no-objection letter. In this case, what FINRA is not objecting to is excessive broker/dealer compensation.

A public raise requires an S-1, the basic registration statement for American companies that want to offer securities to the public, and an F-1, for foreign companies that wish to offer securities on U.S. exchanges. There are no limits on the number of investors or the amount of capital you can raise.

For standard securities being issued in the traditional manner, this process might take 30 to 45 days or so. A little burdensome, but not excruciatingly so. Digital securities are a whole other kettle of fish, of course, and the SEC and FINRA's determination to make sure the kettle doesn't stink from the head has led them to employ a much higher degree of scrutiny—approvals have been consuming four or five months. This has been shortening bit by bit and will presumably shorten further as the landscape of digital securities broadens, but the SEC still evinces skepticism about digital securities in general, so it's being meticulous about approvals. What's the agency's hang-up? Well, among other things, it's concerned about payment methods. Does the issuer accept cryptocurrency? That will surely get the SEC's antennae up given the extraordinary volatility of the crypto market.

All of this represents the limitations of a Reg A raise: The issuer needs all the prior qualification and approval from the regulatory agencies, as discussed above, and must also provide audited financials every six months (not every quarter, at least) while the Reg A raise is open.

On the other hand, once the Reg A is done, you don't have to keep filing updates. Likewise, there's no lockup period for holding onto the security under Reg A. Under Reg D, for example, an investor must hold a security for a full year before selling it; under Reg S, the lockup period is 40 days from the point at which the offering is closed (not necessarily from when the investor purchased it). In a Reg A, there's no mandated holding period before you can list it on the secondary market: Because it's a public offering, as soon as the offering is closed, the investor can sell it if he or she chooses.

Then there's Reg A+, conjured into existence by Congress when it split Reg A into two tiers as part of the JOBS Act. Reg A+, intended to cut red tape for capital raises, is available to companies both public and private, American and Canadian.

Think of Reg A+ as Reg A on steroids. The limit on total investment was formerly just $5 million and was restricted to intrastate investors—that is, only those residing within the state of issuance. Now, as outlined above, the maximum raise is $75 million, and it can come from anywhere in the U.S., not just from within the issuing state. Think of it, in essence, as a mini-IPO: It's technically a public offering open to anyone, not just accredited investors. Self-certification, in other words, is the name of the game.

Types of Primary Offerings Eligible for INXS Listings

	Reg D 506(b)	Reg D 506(c)	Reg S	Reg A+	S1/F1
Permitted Investors	US Accredited investors (AI) and max of 35 non-accredited investors, as long as non-accredited are "sophisticated". Self-attestation accepted.	US Accredited Investors only with proof of accreditation.	Any non-US residing investors (no wealth threshold)	No US restrictions: available worldwide where registration is not required (Investment amount can't exceed the greater of 10% of net income or net worth). Only North American Issuers allowed to use this registration.	No US restrictions: available worldwide where registration is not required
Verification of AI	Issuer may rely on a certification made by investor to reach a reasonable belief that s/he is an AI	Issuer must independently verify investors are AIs	N/A	N/A	N/A
Dollar Limits	No limits on amount raised or how much each investor can invest	No limits on amount raised or how much each investor can invest	No limits	Tier 2: up to $75mm per year	No limits
Information Required	If offering only includes AI, then no information required by law but better to have to avoid 10b-5 liability; If offering includes even 1 non-AI, then offering memo needs to be prepared	No information required by law but best practice is to include information to avoid 10b-5 liability	No information required by law but best practice is to include information to avoid 10b-5 liability	Mini-IPO-type prospectus	Full-blown prospectus
SEC Registration?	No	No	No	Yes; Form A-1	Yes; Form S-1 or F-1
State Registration?	Yes but done by issuer	Yes but done by issuer	N/A	Notice filings if using a FINRA BD registered in those states	Yes, in certain states under Blue Sky Laws

	Reg D 506(b)	Reg D 506(c)	Reg S	Reg A+	S1/F1
Post-Sale Filings	Form D with SEC; relevant state filings	Form D with SEC; relevant state filings	N/A	Any updates to Offering Circular (253G2), new assets added (1-APOS) and semi-annual financials	Annual reporting requirements
Marketing allowed?	No. Sales may only be only to investors with whom issuer has a pre-existing relationship	Yes	Yes	Yes	Yes
Audited financials required?	No	No	No	Yes (going back 2 years) and every 6 months thereafter while offering is live.	Yes
Annual filing/ reporting requirements	No	No	No	Yes; annual US-GAAP audits and 6-monthly financials while offering is live.	Yes (multiple)
Lockup period?	Yes (12 months)	Yes (12 months)	Yes (40 days)	No	No
Restrictions on transfer	Restricted during lockup period (but some limited exceptions to 1 year lockup), then freely tradable	Restricted during lockup period (but some limited exceptions to 1 year lockup), then freely tradable	Freely tradable outside of the US; can be sold to US persons after 12 months	Freely tradable	Freely tradable

Ideal Companies for a Security Token Raise

IN THEORY, ANY sort of business can (and, in the future, probably will) raise capital via digital securities. Especially now, though, with this nascent market still in its very earliest stages, which kinds of companies are ideal for the brave new world of token raises, from INX's perspective? Answer: those that sizzle.

Allow us to explain. Any new kind of investment vehicle benefits from investor interest. And what sparks investor interest is not, say, a strip mall in Decatur, Illinois, whose real estate value and tenant income cast off a stable but modest return year after year after year. Compelling new ideas, intriguing technologies, better mousetraps: These are the kinds of things that pique investor interest. And they're exactly the sorts of businesses whose token raises INX is keen to host.

A diverse set of representative businesses are listed below. Note: These are not hypotheticals, but instead illustrative of the exact kinds of founders, startups and more-established businesses with which INX has partnered, or intends to in the near future. The sheer variety of industries and business models on offer helps illustrate the potential of the token raise market going forward.

CASE STUDY A:

Entertainment Group with Celebrity Engagement

A company targeted to movie buffs, comic-book fans and other pop culture enthusiasts. It's raising capital to help finance a show with a top-of-the-line Hollywood star, and also for a couple of entertainment-based real estate projects that might find eventual life as theme parks or venues celebrating particular characters from the world of classic comics. The star of the show, and the legacy of the comic artist, will themselves be attractive enticements for fans of both, as well as others who are simply curious about what these offerings might entail—and who might be interested in investing if the projects seem compelling enough.

Those fan-investors, intrigued by the big names associated with the offering, will be able to get in on the initial raise— a tremendous boost for the issuer, who might otherwise never have a central location for passionate fans to gather and invest. One hallmark of the digital economy in all its guises, especially as it has matured in the last decade or so, is the unparalleled ability of creators to reach their fans directly. This, in turn, has boosted fan engagement to heights impossible to achieve in the analog era—but it has never been possible to draw direct investment on anywhere near this scale from fans who wish to contribute to such projects, helping bring them to fruition in the first place and potentially profit from them in the longer run. This is fan engagement orders of magnitude greater than was ever feasible before.

CASE STUDY B:
Popular Athletic Franchise with Built-In Fan Base

College and professional sports teams are one of the most promising potential sources of token raises in the years ahead. Consider the market for nonfungible tokens, for example. NFTs are vastly different types of assets than what INX deal with—their extraordinary volatility makes them highly difficult assets to properly value, for one—but perhaps the most successful foray (so far) of any organization into the NFT space has been the National Basketball Association's Top Shot, a marketplace enabling basketball fans to purchase NFTs of signature moments in NBA history: images of ferocious dunks, championship-winning field goals, pretty much any classic, beloved individual play or event from the sport's last several decades.

The NBA benefits from a worldwide fan base and globally recognized superstars—but the model can be transferred to other professional leagues, smaller organizations and certainly individual franchises. One such example is a soccer team that is hardly a global phenomenon but which has, like many soccer clubs, a passionate fan base of its own—fans who would be thrilled to invest in their favorite team if presented with the right offer.

This particular club has a social media following of roughly 600,000—minuscule by the standards of some sports teams, but a solid foundation for a token raise. In part that's because their raise will be based upon a percentage of their gameday revenue and transfer fees. This allows fans, for the first time, the chance to participate in the profitability of their favorite team.

This is something akin to the method employed by the National Football League's Green Bay Packers, one of (American) football's most storied and popular franchises—despite playing in the smallest market in all of American professional sports—which enables fans the chance to own stock in the team. The Packers are therefore considered the only publicly owned organization in U.S. pro athletics, with some 537,000 shareholders as of 2022. A token raise for a popular soccer club will up the ante by giving fan-investors a shot at all sorts of other ancillary benefits—team swag, online conversations with team executives and star players, and a host of other engagements as yet unimagined (see Section VI for more details about such promotional opportunities).

American college sports—well, men's football and basketball, at any rate—are another promising avenue. They're already a money gusher, and after decades of garment-rending and occasional courtroom combat, some of that cash is (legally) making its way into the pockets of the sports' biggest stars under the auspices of "Name, Image and Likeness" deals, or NIL for short. This seismic change came about only in 2021 via the Supreme Court's decision in NCAA v. Alston, in which the Justices rebuked the National Collegiate Athletic Association, which had long exerted a vise-grip prohibition on these purported "student-athletes" profiting from the literal billions of dollars they were helping generate for their schools, for television networks and for companies that paid large sums to advertise during their games. This farcical state of affairs was perhaps best encapsulated by the fact that before the Supreme Court stepped in, a university could sell replica jerseys of star basketball player John Doe, with his last name on the back above the number, yet Doe himself received not a cent. It does not require much imagination to see how a superstar athlete would be further interested in monetizing his renown with a token raise for a passion project.

CASE STUDY C:

Software as a Service for Old-School Heavy Industry

Supply-chain snarls have reminded, well, just about everyone on earth of the importance of such seemingly picayune economic matters as freight transportation—not just ships at port but also raid and road transit both intra- and international.

INX hosts a token raise for a company in Asia—the first ever in this part of the world—that has developed a very particular software-as a-service (SaaS) product to help truckers cut through red tape as they move goods from place to place. There's plenty of it; the paperwork any individual trucker must deal with for any given shipment is immense and time-consuming.

The company's product is software that makes it simple to complete this voluminous paperwork—pop in your basic details and the service takes care of the rest. The growth potential is enormous; all over the world, trucking is still a huge part of every economy, whether emerging or fully developed. The company is therefore looking to raise money to spark further expansion. Every time a new trucker signs up, revenue goes to the company and token holders. The irony of using a digital security to finance something as analog as freight trucking is real—but so is the potential money to be made.

CASE STUDY D:

Issuers with Social Causes

Whatever one's opinion of the politics of it all, the upsurge in street-level activism in the U.S. over the past several years has made it clear just how large the country's social-justice constituency is. Beyond the better-known organizations working to right today's perceived wrongs, though, is a huge cohort of activists, charities and, yes, entrepreneurs looking to harness the power of the purse to effect real change for this or that cause.

Such people have always existed, of course, and even thrived long before more efficient ways of raising capital emerged. But the fluidity of a token raise is tailor-made for issuers looking to generate money for a vast array of business ventures that seek to assist others.

Consider a company that helps the formerly incarcerated adjust to life once they've been released, entering a world that (depending on the length of the sentence they've just served) is either totally unfamiliar or (this is almost inevitable regardless of time behind bars) a place of diminished opportunities, limited job prospects and difficulties dealing with the basics of adult life.

Or a company that helps addicts of all stripes get and stay clean, manage their sobriety and stabilize their finances and their work situation. Or one that builds modest housing for the homeless, or for victims of natural disasters. Or one that treats women dealing with domestic violence, finds them safe places to live and gets them assistance with child care.

Such organizations will continue to be needed until the world runs out of problems to solve, and no one would bet on that happening by this weekend or before the sun burns out. They're critical businesses doing vital work—but they're also not necessarily investor darlings. They can potentially be captivating to investors specifically committed to Environmental, Social and Governance ideals, the "ESG" investing that is both increasingly popular and controversial.

The virtue of a token raise for issuers like this, though, is that they don't need to attract the attention of gigantic institutional investors, or those who either doubt their ability to do what they say they'll do or regard all socially minded outfits looking to raise money as a grift. They can instead draw the eyeballs (and the investment dollars) of a self-selected group who by definition are already fully bought into the mission, figuratively speaking, and will soon be literally bought in as well.

ESG investing by nature is not necessarily well-suited to quarterly thinking. Even investors committed to a cause will squirm if their returns are repeatedly poor. But a business that can think in the long term—which is the only kind of term possible when one seeks to tackle some of the country's most intractable problems—can focus on both bottom-line results and actual results results, which is to say measurable progress in helping the people they're doing the work for in the first place. Investors who know this going in can feel good about how their investment dollars are being used, and they're likely to be far more patient about ROI than the proverbial rapacious bloodhound forever sniffing for quick returns.

There's a positive social aspect to the mere issuance of the tokens as well. Any ESG-minded business, to say nothing of its investors, is likelier to be run by (or at least have in high executive positions) women, minorities, the young, the underserved. Familiarizing both sides of this ledger with the magic of market capitalism might not be the point of a token raise, but it's a highly salutary side effect regardless. Want to diversify finance in every sense of the word? This gets the job done.

CASE STUDY E:
A Potential Cancer Vaccine

Sometimes it seems as though the world has done little else the past two and a half years, for better or worse, but talk about vaccines. Covid-19 vaccines were more controversial than they perhaps should have been, but a cancer vaccine? An absolute game changer if it can happen.

INX has been approached by a couple of scientists working on exactly that—immunotherapy vaccines to help treat various cancers. Our interlocutors were the company founders, yes, but again, they were first and foremost scientists. They're mindful of the need to raise money for their efforts—few know the rigors of trying to shake grant money from the grant-money tree better than scientists, after all—but it's certainly not something they'd prefer to spend a lot of time on.

The bad (and unsurprising) news is that it costs a fortune to get through even the initial review process the federal Food & Drug Administration mandates for even the simplest drugs—which a cancer vaccine would not be. (The lightning-fast approval of Covid vaccines under Operation Warp Speed in late 2020 is the exception that proves the rule.)

Let's say, as a nice round number, that the founders need to raise $50 million to get through the initial wrestling match with the FDA. They can of course go the private equity or venture capital route; they will surely find plenty of takers. The problem is they'll be literal takers: They'll take a chunk of the company—a 30 percent equity stake and two board seats, say—in exchange for their angel investment.

Fast-forward a year. The original $50 million has gone poof, and the founders need another $50 million infusion to keep their heads above water with the FDA. They can get it from their initial investors or another group thereof, but it'll cost them dearly once more in firm equity and board control. Before our heroic scientist/founders know it, they've lost majority control of their company, ceded decision making to the board and, for all intents and purposes, given up their intellectual property for a handful of magic beans to mollify the FDA's snail-paced bureaucrats for a couple years. Will it have been worth it? The benefit to humanity of targeted cancer vaccines is incalculable, and maybe that'll be enough. But if you were in those scientists' shoes, wouldn't you want to be adequately compensated for such a discovery?

With INX, you can. You can begin a digital token raise, marketing to everyone who has ever had cancer or known someone who has—which is to say everyone, period—and say something like “We’ve got these two promising vaccines. We hope to get them through the FDA as quickly as possible. Would you like to contribute to our company to invest in it? If you do, we’ll give you a share of the vaccine’s potential profits commensurate with your investment when these things finally hit.”

The press releases and news stories practically write themselves. Imagine the possibilities for a promising company with a reasonable hope of doing something about breast cancer, lung cancer, pediatric cancers of all kinds. And if it doesn’t work, at least at first? Well, the intellectual property remains with the scientist/founders. Medical history is chockablock with extraordinary breakthroughs that took a long time, enormous effort and— crucially—many failures before they finally succeeded. The potential for investors is huge here, but it’s also enormous for the scientists, who will not have to give up any of their company or their precious intellectual property to raise funds to try and (if necessary) try again.

CASE STUDY F:

Gaming Companies’ Fractional, Targeted Tokenization

The extraordinary twenty-first-century global popularity of video games—which shows no signs of abating—has enabled the gaming industry to be first past the post with a number of innovations and examples of consumer outreach that reside on the leading edge of whatever the current technology is capable of. The “current technology” gets better quickly and inexorably, as if bound by the bigger-faster-more ethos that governs Moore’s Law, an Intel and Fairchild Semiconductor founder’s famous dictum (from 1965!) about the ceaseless, predictable growth of the computing power of microchips. Forget concern about video games’ ostensibly corrosive effects on players’ health, socialization and brains—technology growing at a breakneck pace is, if nothing else, very good for business.

Gaming companies were helped in these new-technology efforts, curiously enough, by the onset of the pandemic in early to mid-2020. With billions of people around the world suddenly confined to their homes (where their game consoles waited, 24/7, patiently and alluringly), game makers pounced, pushing the envelope on what constituted—to take the most prominent example from that period—live entertainment in a world in which people were barely even going outside.

Taking advantage of their untold millions of passionate users, the makers of games such as Minecraft and Fortnite struck deals with popular musicians to host in-game “concerts” performed by the artists’ avatars. Their efforts were a smashing success: “The circumstances of 2020 provided the perfect opportunity for virtual concerts to make their mark,” wrote Jordan Oloman at GamesRadar, an online industry publication, a year later. “For evidence you need look no further than [rapper] Travis Scott’s Fortnite show, which broke records for the game, with a crowd peaking at 12.3 million concurrent players.”

That’s astonishing uptake, pairing two disparate forms of popular entertainment into one coherent new whole. Game makers have long been at the vanguard of monetizing their products in unprecedented ways—to an extent, the industry is perfectly placed to do so given the technology (and lack of fixed, hidebound ways of doing business) at its disposal. Consider Roblox, for example—a game released in 2006 that puttered along for years, a success but never a significant one, before exploding roughly in tandem with the emergence of the pandemic. Roblox is extremely meta, being both a game and a game-development system, with in-game rewards and purchases available in a unit of virtual currency called Robux.

Similar examples abound—music festivals and celebrity appearances, in-game advertising, player challenges, discount codes or freebies sent to players at random. Because of their instantaneous access into the hearts and minds—and basements and bedrooms—of their customer base, gaming companies have been avid early adopters of infant technologies and brave-new-world digital tools.

Enter the security token. While an upstart game maker might want to issue a token to raise as much capital as possible to try to reach escape velocity quickly, more-established stalwarts might not want (or need) to tokenize to that extent. They might then consider issuing tokens solely for slivers of their output rather than as a general raise for the company as a whole.

Such fractionalization isn't comparable to stock slices, exactly. In our example, the shoe is on the other foot—the issuer is divvying up the product on offer and giving enthusiasts and would-be investors the chance to get in on just one aspect of the company's product line: a single new game, for instance (gauging demand for tokens can do double duty as market research for how popular a new offering might actually be), a unique NFT, an individual promotion with a well-known actor or music star—the only limits on the possibilities for companies to issue tokens in whatever proportions they deem fit is their own imagination.

The gaming economy is an example of a highly efficient (albeit dispersed) marketplace in which both the producer and consumer evince an extremely high level of enthusiasm, risk tolerance and willingness to try new and unusual things. The game makers and gamers are perfect for one another—and fractional tokenization for portions of the multifarious universes the gaming companies are so adept at creating would seem to be the logical (and remunerative) next step. Gamers have proven, time and again, that they're willing to push the envelope in what constitutes "normal" consumer behavior. If you build it, they will come—and game makers have shown themselves all too capable of doing just that. Mass industry acceptance of new digital technologies seems almost inevitable for participants on the production and consumption side alike. For both sides of the coin, you might say.

Conclusion

THE DIGITAL REVOLUTION is coming to finance. It's coming to broaden access to markets, to give more people the chance to invest in meaningful, important companies, to democratize it. Not for INX the unregulated initial coin offerings that marked that long-ago era known as 2017. INX's platform, its markets and its operations are sophisticated, fully above-board and 100 percent looking to a future in which the innovativeness of raising capital is exceeded only by the innovativeness of the companies seeking to raise that capital in the first place. The world has come a long way since those first stock traders supposedly got together under that buttonwood tree in 1792, helping a new young nation begin its almost uninterrupted march toward heretofore unthinkable capitalistic prosperity. The markets haven't always progressed in tandem with entrepreneurs' vision, drive and great ideas—but we get the sense that they're starting to catch up. Digital securities are, we think, an entirely new asset class, one with the potential to make it vastly easier for entrepreneurial talent to find investors willing to take a chance on them. The laws of basic economics have not been repealed, and never will. Any investment is by nature a risk. (Even, pre-FDIC, your garden-variety, low-interest savings account.)

In his 2007 book On the Wealth of Nations, written to try to explain Adam Smith's classic (but very dense) titular treatise to modern readers, the late political satirist and economics writer P.J. O'Rourke observed that "the most, perhaps only, famous line from a work about economics" is Smith's famous dictum that "It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities, but of their advantages."

The butcher is self-interested. So is the baker. So is every entrepreneur ruminating on what he thinks might be a world-changing idea. INX is self-interested, and so are you. The beauty of the ever-evolving means of investment and return is that all that self-interest, working in tandem, can have enormously positive effects—for the entrepreneur, the investor, the facilitator and for humanity at large. Join us in this adventure, won't you?

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