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LEGAL OPINION

Pro veritate

Concerning: Qualification of PPO Token under ESTONIAN and UE Laws

Date: Caserta - 24/05/2019

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1. INTRODUCTION

This Legal opinion was prepared to serve as a legal analysis about PPO (Token) and its compliance with the requirements of Estonia and UE regoulations. This Legal opinion is based on information and documents furnished by Company (verbal comments, website, Whitepaper, summary etc.). Della Rotonda & di Nuzzo|Law Firm shall guard this position with respect to its consideration by courts or authorities if it will be necessary. We hereby present you our opinion concerning the PPO token issuance and its compliance with the requirements of the reference regoulations.
This assessment below focuses on whether the PPO Tokens should be regarded as security tokens or utility under the Estonian regoulation, considering that the PPO Tokens are issued by a company incorporated in Republic of Estonia.

2. INSTRUCTIONS AND QUERIES

The Client would like to enquire:
(a) Whether the PPO is a security token or utility token based on Estonian and UE laws; and
(b) Whether the Client's offering of PPO on the proposed Product Protocol Platform would require if it's necessary the approval by the The Estonian Financial Supervision Authority

3. PRODUCT PROTOCOL PROJECT

"The Product Protocol mission to unite the worlds of real and digital assets with the world of blockchain technology through real sector economy tokenization. Via creating value for business a process of financing innovative real asset tokenization development will be launched.
Product Protocol includes the stages of verification, digitalization, comprehensive criteria-based evaluation, asset status monitoring, asset ownership identification and asset tokenization. This approach will ensure the formation of a digital ecosystem for the real sector participants, which allows for trading tokenized assets.
Product Protocol is an open, versatile, verifiable decentralized application standard for relevant asset data exchange. Product Protocol allows user to focus on the application level and quickly create applications for real asset tokenization and their management. *[See the attached White Paper]*

4. PPO Token

The PPO token has several functions within the framework of the platform. With it, it's possible vote, make decisions, and most importantly, without it, you will not be able to participate in the acquisition of tokenized assets in the first stages of tokenization. After buying a tokenized asset, PPO tokens will be returned to the investor's personal account, since the main function of the token is not to pay for something as a means of payment, but a deposit as an intention to buy, a sort of booking tool.
The PPO token has two main functions when working with the Product Protocol service:

a) Booking/Deposit. Platform Product Protocol users can purchase tokenized products from various organizations. Transaction example:
A manufacturer fine-tunes his product and places a batch of 1000 pieces of his product on the site for a total of $ 100 000. The user who decides to buy a portion of the lot for $ 1000, before the sale, must provide PPO tokens for a total of $ 1000, thus confirming the intention to purchase part of the lot for $ 1000. Once the sale of the lot is completed, the user pays in BTC / ETH.
As soon as the entire lot is purchased for $ 100,000, PPO tokens are returned to the user's personal account along with product-related tokens. This means that, without a PPO token, the user would not be able to participate in the purchase of goods with tokens.

b) Vote. If many manufacturers would like to place their products in the form of tokenized lots on the Product Protocol platform, a vote will be held to choose who will be placed on the platform. Only PPO Token holders can vote. Obviously, PPO token holders transfer their tokens to the portfolios of those lots they would like to purchase. The more PPO tokens the producer has been able to attract, the more likely he is to pass the vote and be able to put his many products on the site.

5. ESTONIAN LAWS

The Estonian Financial Supervisory Authority (EFSA) has published guidelines for ICO issuers and token traders on how to categorise crypto tokens issued in an ICO, and which laws apply to each category. According to these guidelines, cryptocurrency tokens are divided into two: tokens that grant their owner a reasonable expectation for profit or governance rights (commonly referred to as Security tokens); and tokens that do not promise any profits or monetary claims. The second group is further divided into three: cryptocurrency – payment instruments for products/services (the Payment tokens); charity (the Charity tokens); and tokens that grant access to a platform/system or a right to use a product/service (the Utility tokens).

5.1 Security tokens

The EFSA has explained that offering of tokens that fall under the definition of "security" as stipulated in § 2(1) of the Securities Market Act (SMA) brings legal obligations to the issuer/seller, infringement of which may result in considerable fines.

Pursuant to the § 2(1) of the SMA, each of the following applicable proprietary right or contract transferred on the basis of at least unilateral expression of will is a security, even without a document being issued therefor:

a) a share or other similar tradeable right;

b) a bond, convertible security or other tradeable debt obligation issued which is not a money market instrument;

c) a subscription right or other tradeable right granting the right to acquire securities specified in clauses a) or b);

d) an investment fund unit and share;

e) a money market instrument;

f) a derivative security or a derivative contract;

g) a tradeable depositary receipt; and

h) greenhouse gas emissions for the purposes of the Atmospheric Air Protection Act.

In the context of crypto tokens, the most relevant definitions among these are a), b), d), e) and f).

Tokens are shares, if they grant their owners rights to a holding in the company, rights to a share of profit, or voting rights in corporate matters. Under the Estonian Commercial Code (§ 148 [5], § 226), shares grant shareholders: the right to participate in the management of the company and in the distribution of profit and of remaining assets on dissolution of the company; the right to participate in the general meeting of shareholders; and other similar rights prescribed by law or the articles of association.

Tokens are investment fund units or shares, if they represent a unitholder's share in the assets of a common fund. According to the Investment Funds Act (IFA), a common fund is a pool of assets which is established from the money collected through the issue of units or other assets and assets acquired through investment of money, and which is jointly owned by unitholders. An investment fund is a legal entity or pool of assets, which involves the capital of a number of investors with a view to investing it in accordance with a defined investment policy for the benefit of the investors in question and in their common interests.

According to § 2(2) of the SMA, a money market instrument is an unsecured, transferable and marketable debt obligation, which is traded on the money market, including a treasury debt obligation, commercial paper, certificate of deposit, bill of exchange secured by a credit institution, or other security complying with the aforementioned characteristics, stipulated in Regulation 2017/565 (EU) of the European Parliament and of the Council (EU 2017/565) article 11. According to the aforementioned regulation, the money market instruments shall have the following characteristics:

a) they have a value that can be determined at any time;

b) they are not derivatives;
c) they have a maturity at issuance of 397 days or less.
According to § 2(3) of the SMA, a derivative instrument is a tradeable security expressing a right or obligation to acquire, exchange or transfer, the underlying assets of which are securities, or the price of which depends directly or indirectly on:
a) the stock exchange or market price of the security;
b) the interest rate;
c) the securities index, other financial index or financial indicator, including the inflation rate, freight rate, emission allowance or other official economic statistics;
d) currency exchange rates;
e) credit risk and other risks, including climatic variables; or
f) the exchange or market price of a commodity, including precious metal.
The EFSA's position seems to be that the tokens don't have to correspond to these definitions literally in order to be regarded as securities, rather it is sufficient if the token has the overall characteristics of a security (substance-over-form approach). If the token corresponds to any of these characteristics, the offering of it may constitute the issuance of securities and, depending on its exact nature, be governed by the rules of public offering as prescribed in § 12 of the SMA. That being the case, it is required to register a respective prospectus at the EFSA.
The issuance will not be regarded as a public offering and no prospectus is required in the case of:
a) an offer of securities addressed solely to qualified investors;
b) an offer of securities addressed to fewer than 150 persons per Contracting State, other than qualified investors;
c) an offer of securities addressed to investors who acquire securities for a total consideration of at least €100,000 per investor, for each separate offer;
d) an offer of securities with a nominal value or book value of at least €100,000 per security; or
e) an offer of securities with a total consideration of less than €2,500,000 per all the Contracting States in total, calculated in a one-year period, of the offer of the securities.

5.2 Payment tokens

According to the EFSA guidelines, tokens shall be considered as payment tokens if they are also intended for use outside of the respective token issuer's platform as payment instruments for other products and services provided by third persons. Payment token directly corresponds to the concept of "virtual currency" as defined in § 3(9) of the Money Laundering and Terrorist Financing Prevention Act (please see below).
Issuing or selling payment tokens to the public may fall under the definition of provision of the custodian wallet service according to the Money Laundering and Terrorist Financing Prevention Act.

5.3 Charity tokens

According to the EFSA guidelines, a fundraising for the development of a business project shall be considered as a donation only under the condition that it does not lead to:
a) a participation in the issuer; or
b) any obligation to repay the funds, interest, dividend, or any other repayment, or cash flow.
In addition, no right of use of a service or product shall arise in connection with the donation. If the issuer is gathering donations in exchange to tokens, the issuer must expressly indicate that the token is a charity token. In such a case, the issuer will only have certain taxation obligations.

5.4 Utility tokens

According to the EFSA guidelines, an ICO, where the tokens offered grant their purchasers access to a product or service, is in essence a prepayment for a product or service. Consequently – taking into account that the contracts entered into within an ICO use means of communication (a computer network) – such ICOs are subject to the provisions of the Law of Obligations Act (LOA) regarding the distance contracts entered into through means of communication and computer network.
Utility tokens are essentially commodities and the usual contractual obligations apply. Additionally, various consumer protection obligations must be met if the buyers are natural persons, such as the notification obligation and the obligation to allow the consumer to withdraw from the contract with simplified procedure.

6. FURTHER JURISDICTIONS

In general, considering most of the world's about cryptocurrencies laws, we believe that a token with one or more of the following features may constitute a **security token**:
a) Ownership interest in a legal person, including a general partnership;
b) Equity interests; bonds; financial instruments
c) share of profits and / or losses, or assets and / or liabilities;
d) Status as a creditor or lender;
e) Application for bankruptcy as a holder of interest on the capital or creditor;
f) Holder of an obligation to repay the system or the legal entity issuing the token; is
g) A feature that allows the holder to convert a non-security token into a token or instrument with one or more investment interests.
h) Voting rights in the company and / or on governance

Instead, we believe that a token with the following rights is generally not considered a security token and is instead characterized as a **utility token**:
a) Rights to program, develop or create functionality for the system or to "extract" elements embedded in the system;
b) system access or license rights;
c) the rights to charge a toll for such access or license;
d) the rights to contribute to the work or effort for the system;
e) the rights to use the system (ie computer system, network, platform f), application, software or protocol) and its outputs;
f) the right to purchase an goods or service;
g) the rights to sell the products of the system;
e) Voting rights on additions or cancellations from the system in terms of features and functionality.

We have studied the laws and court cases (if any) in most countries, including Germany, UK, Italy, Malta, Gibraltar, San Marino etc. Many jurisdictions share a very similar view of how to define a security. A security is generally being defined as a collection of rights relating to a company. There is a range of types of securities, but they mainly divide into equity securities (shares) or debt securities (bonds, ETNs, ETFs).
In the case of the PPO token, we can clearly see that it holds no “share” right in the Company such as voting, profits, liquidation rights. Furthermore, we see that there is no “debt creditor” right against the company to claim a redemption of a token’s worth. Therefore, as far as we are aware of, offering the PPO token to the rest of the jurisdictions will not deem as local infringement of securities laws.

7. CONCLUSION

The product protocol business model presents itself as a traditional online business.
The PPO token has its own utility regardless of the company's resources. These digital tools do not correspond to the assets of the Company.
The PPO token is a tool for accessing the online services of the platform, as we said in point 4). The PPO token is a functional tool for Platform. To clarify, the Estonian laws establish that if a token or other similar instrument has the characteristics of a security (for example the token includes usage rights, corporate voting rights, etc.), the issue and exchange of this token falls within in the safety regulation. Since the main functionality of the PPO token is to provide a service for users of the platform and considering that PPO token owners do not acquire ownership or equity of the company or anything else, considering what has been observed in the previous points, we are therefore of the opinion that the PPO token can be qualified as a token utility.
Finally, considering that PPO token is a digital tool that also has the function of purchase reservation, it is similar to a multi-use digital voucher and, as such, is subject to the tax

laws on vouchers and Council Directive (EU) 2016/1065 of 27 June 2016 amending Directive 2006/112/EC as regards the treatment of vouchers.

8. DISCLAIMERS

The opinions expressed above are subject to the following qualifications:
a) Investment into cryptocurrencies are subject to general market and investment risks. As cryptocurrencies are slowly being regulated, our inputs provided above are only correct as of the date they were first given.
b) Our opinion is based on the facts as provided to us in your emails dated 20/05/2019, and the attachments contained therein;
c) Our opinion is strictly limited to the matters stated herein, and is not to be read as extending by implication to any other matter or document;
d) Our opinion is confined to and given on the basis of the laws of Estonia and UE. Given the international nature of cryptocurrencies, our Opinion as to whether the token is a security or utility is only given on the basis of the laws of Estonia and UE.
e) Our opinion as contained in this letter is given solely for the benefit of the Client, and shall not be relied on by any other person, corporation, entity or otherwise;
f) Our opinion as contained in this letter shall not be disclosed to any person, corporation, entity or otherwise, other than those who are directly and intimately involved in this transaction or who would ordinarily be entitled by law to examine such information; and
g) For purposes of this legal opinion, we have not conducted any due diligence or similar investigations as to factual circumstances. This opinion is limited to an analysis of the circumstances as set forth herein and does not address matters of fact.
h) Our opinion may change upon us having sight of any further documentary information which may be made available to us, and until we have had sight of such any and all such documentary information, our advice therefore remains academic and merely informative.

Yours faithfully,

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