



# Raising Social Capital: Sweetbridge Crowdsale Platform

A Framework and Pipeline for Discount Token Economics and Responsible Funding of Blockchain Projects

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Sweetbridge is developing a blockchain-based economic ecosystem intended to eliminate many of the inefficiencies that currently exist in global supply chain commerce. An important component is the establishment of a crowdfunding structure and methodology that is appropriate, compliant, tax-efficient, and fair to investors and future users of the system. To develop this methodology, Sweetbridge has spent significant time and expense on legal and regulatory research, as well as other types of advisory services.

Sweetbridge founders believe that replicating work in developing a compliant and fair crowdsale and operational structure should not be a necessity for every project. Consequently, Sweetbridge will offer a partnership opportunity to others in the blockchain space who want to make use of its significant research and structuring efforts.

The spectrum of services Sweetbridge will offer to others as a result of this effort is presented in this document. Sweetbridge expects to benefit from this advance – not by charging high fees to our partners, but rather due to the economic boost this activity will bring to the Sweetbridge economy.

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## Introduction

Blockchain-based crowdfunding using cryptographic tokens or coins (so-called ICOs) was pioneered in 2013, and by 2017, it exceeded the total size of early stage VC investment<sup>1</sup>. Easy access to uncurated investment opportunities incentivizes low-quality ideas to present themselves in ways that attract unsophisticated investors, ultimately resulting in large-scale losses and bitter disappointments. Some regulators are already seeking to create a framework that will mitigate this problem, and they are likely to become more engaged in the future, with more countries and regulatory bodies taking action to protect individual investors.

The backlash to this situation is not only regulatory, but also social – the cryptoinvestor community realized (in retrospect) that some notable ICOs were structured in a way that created very little value for their investors. Left without recourse and at the mercy of companies that do not have sufficient accountability to token holders, some investors are experiencing a disillusionment that is prompting a cooling in the ICO market due to the lack of trust.

In addition, blockchain projects face a number of significant risks and burdens at every stage of their operations. Specifically, there is a non-zero probability that regulatory uncertainty in many jurisdictions may resolve to limit or outright forbid token-based crowdfunding activity. There are also financial risks, tax burdens, compliance and regulatory expenses, potential for incentive misalignments, and investor confidence issues.

In spite of some disappointing activity in the ICO market, Sweetbridge founders believe that the blockchain-based approach to funding and operations is fundamentally beneficial to future global creation of value, and want to support responsible blockchain projects in their efforts to fund themselves.

Sweetbridge founders believe that the above-mentioned problems are best addressed with a single overarching crowdfunding model, legal and corporate structure, and a cryptoeconomic framework that covers a sufficiently large number of blockchain project use cases. Such a structure would clarify a regulatory regime under which the tokens are issued, instill confidence in the investors through an accountability structure, and provide guidance to projects regarding mitigating many of the risks and burdens they face.

Sweetbridge has done significant research and analysis of all aspects of the ICO and the token issuance process and is pleased to announce its next product: a set of token sale (ICO) rails, legal structures, and technologies that we hope will become the gold standard in non-security token crowdsales. This paper will present a safe and compliant Sweetbridge Crowdsale Platform we will offer to others, and the requirements that projects must meet in order to make use of it.

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<sup>1</sup><https://www.coindesk.com/ico-investments-pass-vc-funding-in-blockchain-market-first/>

## Introduction

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The table below summarizes the ways Sweetbridge will address the difficulties blockchain projects routinely face:

Problem	Solution
Risk of being classified as a security	Using discount token methodology Building an MVP prior to selling tokens to the public
General regulatory risk	Using multiple jurisdictions for token issuance
Taxation burden	Appropriate choice of ICO jurisdiction
Lack of investor confidence	Using a milestone-based slow drip token release
Currency risk	Using a stable cryptocurrency (Bridgecoin) as ICO currency
Incentive misalignment between investors and users	Discount token methodology disincentivizes passive investment, while empowering users
Fair access to ICO tokens	Using a time-ordered queue release mechanism with appropriately set per-transaction limits
Access to funds in order to build an MVP	Using the Sweetbridge token purchase queue loan mechanism instead of a SAFT A token-swap project loan process
Commodity regulatory risk	Avoid structures that can be classified as commodity forwards
FinCEN compliance	Use AML/KYC process provided by Sweetbridge
Banking and MSB regulations	Partnership with Sweetbridge, which has obtained or will seek to obtain all relevant licenses

In summary, the solutions under the Sweetbridge Crowdsale Platform fall into four categories:

1. Regulatory compliance and risk mitigation, consisting of partner licenses, entity structuring advice, and an identity and AML/KYC platform;
2. A cryptoeconomic token framework that promotes favorable classification, empowers the project's users, and rewards early participants;
3. A crowdsale process that will focus on long-term responsibility and compliance; and
4. A set of project eligibility requirements that ensure that Sweetbridge partner projects promote the highest set of values in funding practices, transparency, and responsibility to stakeholders.

# 1 Regulatory Framework

## 1.1 A Risk Management Approach to Regulatory Uncertainty

The Sweetbridge Alliance is an independent not-for-profit organization made up of projects, businesses, and education institutions that focus on applying blockchain, AI, and IoT to activities in commerce. Sweetbridge and its select Alliance Partners are committed to working within regulatory structures wherever they exist. Regulatory environments governing the use and sale of tokens and cryptocurrencies are still emerging and evolving. The obvious risks are that what is legal one day may become illegal the next, or that previously unregulated activities will require licensing or regulatory approvals moving forward.

Sweetbridge, its Alliance Partners, and other blockchain projects may also threaten powerful existing entities. Some of them may use their political influence to convince governments to change regulations or guidelines to defend their existing business models and practices from disruptive competition.

To manage risk due to new guidance or rapidly evolving regulatory requirements, projects need to be able to adapt quickly. This means that while a country's emerging requirements or regulations may halt certain activities in that country, the global operations must not be put at risk.

To mitigate this, Sweetbridge draws on the hard-earned lessons of managing supply chains, which are global and largely decentralized organizations. The risk management technique used by large supply chains to handle regulatory and political risk is to maintain a diversity of jurisdictions.

Furthermore, in order to operate in the real world and to apply blockchain methodology to management of real-world assets and services, Sweetbridge must legally operate in multiple countries so as to be able to perform these tasks in a locally compliant and enforceable way.

Sweetbridge is therefore in the process of creating nonprofits and corporate entities in Canada, Estonia, Gibraltar, Hong Kong, Japan, Liechtenstein, Singapore, Switzerland, Taiwan, the UK, and the US. By operating in multiple jurisdictions, we create the flexibility to honor changing regulatory requirements even if it means suspending operations within a jurisdiction for a period of time while we work on fulfilling new requirements. This strategy reduces the risk to ourselves, our partners, and our customers.

## 1.2 The AML/KYC Solution

Sweetbridge is committed to ensuring that its network and the networks of its partners are not used for illegal activities of any kind. A rigorous AML/KYC (Anti-Money Laundering and Know Your Customer) process is a critical part of the Sweetbridge framework. It serves to create confidence with businesses, banks, customers, and governmental regulators.

Banks assume risk in accepting customers and may be fined heavily by regulators for handling funds

involved in illegal activity. The AML/KYC process that Sweetbridge plans to implement will be as good or better than that of banks. This will ease the task of finding banks willing to work with cryptocurrency-based projects.

All Sweetbridge users must undergo a rigorous AML/KYC process. Once approved, an individual can participate in any Sweetbridge Alliance project token sale.

### 1.3 Identity

The Sweetbridge membership process generates a user identifier for all Sweetbridge Alliance projects. This is part of a common identity scheme that can be used by other projects to verify that a user is who they claim to be.

This process is not simply a cryptographic key, but includes a secure login process with two-factor authentication to ensure the identity of the individual or company representative. Currently, this process occurs through centralized servers. In the future, Sweetbridge plans to reimplement it using decentralized technology.

Sweetbridge will work on making its identity scheme compatible with other portable ID projects, but with a higher level of AML/KYC verification.

### 1.4 Banking and Money Services Solution

For projects that use cryptocurrencies, banking services can be difficult to obtain. Sweetbridge plans to provide its Alliance Partners with a network of banking solutions that enables them to operate globally and obtain banking services in a number of countries. The specific locations will be announced in the near future.

Sweetbridge is currently working on obtaining licenses in the US, the UK, Singapore, and Hong Kong in order to compliantly provide currency exchange services, maintain fiat currency accounts, provide payment services, act as a commodity bridge, and provide asset-backed loans collateralized by real-world assets. Sweetbridge will also work on gradually expanding its coverage around the world. In countries where a regulatorily approved entity is not in place, Sweetbridge plans to partner with other organizations to provide these services.

Sweetbridge replaces the need for a bank to obtain banking services. Projects can use our stable token Bridgecoin to raise their funds without currency exchange risk or cost. Sweetbridge will enable its projects to receive payments for services in tokens or fiat currency, whichever they prefer.

## 2 Discount Token Cryptoeconomic Framework

Any cryptoeconomically sound project must ensure compliance with securities regulations around the world. This is why token design must not promise passive profit or appreciation. Simultaneously, in order for a token model to truly support a growing ecosystem, it must incentivize use, participation, and effort, while demonstrably diminishing speculation.

These are the reasons why Sweetbridge and its Alliance Partners have chosen to use the innovative *discount token model*. By definition, discount tokens are distinct from currency, commodity, utility, and security tokens. They function by cancelling a percentage of a fee due for services provided by the system. Unlike gift cards or one-time coupons, discount tokens are not burned when used, but continue to confer these benefits over an indefinite period of time.

Discount tokens have two distinct value components: (1) time-based discount value, and (2) resale value. For example, using a five-year horizon as a baseline period to derive intrinsic value, if the token provides a \$10 discount on services every month, its present-time value to that user is  $\$10 \times 60$  or \$600. If an owner no longer wants to use the network, they can sell the tokens to someone who does.

Discount tokens are on par with traditional assets such as real estate (rent value + resale value), taxi medallions (use value + resale value), and transferable membership assets (membership value + resale value). Such resellable assets are not considered securities, because people generally buy them for the benefits they generate, not just for resale value. In essence, discount tokens provide the right incentive structures for customer-driven rather than investor-driven businesses.

In order to receive discounts for services provided by a network, the holder of discount tokens activates them in their account.

The size of the discount is:

1. Proportional to the number of tokens activated by the user;
2. Proportional to the total value of services provided by the system;
3. Inversely proportional to the total number of tokens activated by all users; and
4. Limited to a fixed percentage of the total fee.

The number of tokens a user can activate is limited by their use of the system, and one would not be allowed to activate tokens for discounts they don't realize. However, users who utilize the system heavily will be allowed to activate more tokens and thus receive a larger discount in absolute terms. Given the limited supply of tokens in the system, this structure ensures that the amount of discount each token provides

## Chapter 2. Discount Token Cryptoeconomic Framework

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increases as the network utilization grows, thus rewarding early supporters, while still encouraging new users to join the network and receive discount benefits at any time.

The intrinsic value of discount tokens is realized only to those who actively use the network. Contributors who passively hold the tokens cannot receive their full value. Speculative ownership of discount tokens would be similar to owning commercial real estate without collecting rent, or buying a taxi medallion without intending to operate a cab company. The resale value of discount tokens can even decline for passive investors, while remaining positive for users.

Sweetbridge economics is designed for users, not investors. The three examples below demonstrate this by showing the economic benefit to active users as compared to passive holders. They assume that a token's initial sales price is \$1, and 400 tokens are purchased.

In the first case, discounts remain stable over time. Investors are not able to realize any appreciation of the tokens.

1.0x Revenue	Purchase	Discount from Use Year 1	Discount from Use Year 2	Discount from Use Year 3	Discount from Use Year 4	Discount from Use Year 5	Sale at End of 5 Years	Discount & Sale
User	(\$400)	\$80	\$80	\$80	\$80	\$80	\$400	20%
Investor	(\$400)	\$0	\$0	\$0	\$0	\$0	\$400	0%

The next example assumes the growth of network value by 1.5x over five years.

1.5x Revenue	Purchase	Discount from Use Year 1	Discount from Use Year 2	Discount from Use Year 3	Discount from Use Year 4	Discount from Use Year 5	Sale at End of 5 Years	Discount & Sale
User	(\$400)	\$80	\$90	\$100	\$110	\$120	\$600	29%
Investor	(\$400)	\$0	\$0	\$0	\$0	\$0	\$600	8%

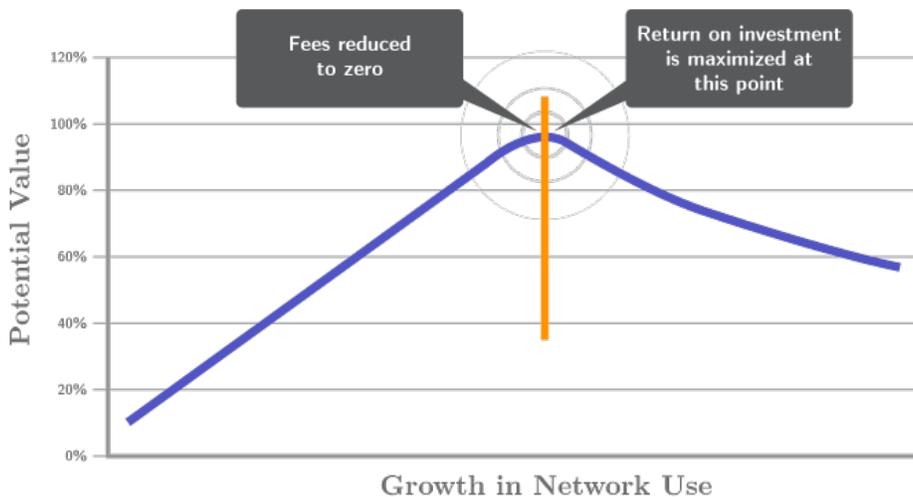
Finally, in the table below, the network usage decreases over time, causing a drop in the intrinsic value of the tokens. Please note, that in this case, the active users still receive positive value from discount tokens.

0.5x Revenue	Purchase	Discount from Use Year 1	Discount from Use Year 2	Discount from Use Year 3	Discount from Use Year 4	Discount from Use Year 5	Sale at End of 5 Years	Discount & Sale
User	(\$400)	\$80	\$70	\$60	\$50	\$40	\$133	2%
Investor	(\$400)	\$0	\$0	\$0	\$0	\$0	\$133	-20%

We clearly see that passive holding of discount tokens is completely uneconomical, as users are rewarded more for buying discount tokens than passive investors. Discount value increases as the revenue grows and decreases as it declines. User value is higher than speculative value in each case.

This picture is novel in that utility of a token to different groups of people is different, which stands in stark contrast to a standard situation in which tokens are worth the same amount to anyone who buys them. The conventional case is that tokens are burnt or spent for their value, whereas a discount token model described here generates value to some holders but not others. The incentive skew towards active users of the network is highly beneficial for customer adoption of nascent blockchain projects and decentralized business models.

The chart below shows the value of discount tokens to an early adopter of the network over time. Say a user purchases a small number of tokens to cancel some but not all of their usage fees. As the network grows, the discounts increase, eventually leading to the same number of tokens eliminating all fees the user incurs. This is the point marked by the vertical yellow line – one where the user extracts the maximum benefit from their investment. As the network keeps growing, the user is unable to utilize all of their discounts. From this point onward, they own more discount tokens than they need, and the ROI per dollar invested starts to decrease.



Sweetbridge has sought legal advice from lawyers in the US, the European Union, Switzerland, the UK,

Gibraltar, Hong Kong, Japan, Russia and Singapore, and several other jurisdictions in which this work is still in progress. In each of these countries, legal advisors agreed that an appropriately-structured discount token (which does not rely upon investment in a common enterprise, and does not offer the expectation of profits from the efforts of others) may be able to avoid classification as a security. Additionally, the buyer’s primary motives, as clearly illustrated here, are to use the tokens with the option to sell them in the future.

The table below shows the increase in value of a \$1,000 discount per year as the network grows at different rates. The table assumes a dilution rate of 25% caused by new tokens released into circulation as the network grows (see subsequent sections). Each year’s numbers represent the cumulative value of what started as \$1,000 worth of discount a year.

**Example of \$1,000 discount at various growth rates**

Growth Rate / Qtr	Annual Value Increase	1 Year Value	2 Year Value	3 Year Value	4 Year Value	5 Year Value
1%	3%	1,019	2,069	3,150	4,265	5,413
2%	6%	1,038	2,140	3,309	4,550	5,868
3%	9%	1,058	2,213	3,477	4,858	6,368
4%	13%	1,077	2,290	3,654	5,190	6,919
5%	16%	1,097	2,369	3,842	5,549	7,526
6%	19%	1,118	2,451	4,040	5,935	8,196
7%	23%	1,138	2,535	4,249	6,353	8,934
8%	26%	1,159	2,623	4,471	6,803	9,748
9%	30%	1,181	2,714	4,704	7,290	10,647
10%	34%	1,202	2,807	4,951	7,815	11,638
12%	41%	1,246	3,005	5,488	8,993	13,941
14%	49%	1,292	3,217	6,088	10,368	16,749
16%	57%	1,338	3,444	6,757	11,971	20,175
18%	66%	1,386	3,687	7,504	13,840	24,354
20%	75%	1,436	3,946	8,338	16,019	29,453
22%	84%	1,486	4,224	9,268	18,558	35,672
24%	94%	1,539	4,521	10,305	21,517	43,255
26%	104%	1,592	4,839	11,460	24,963	52,498
28%	114%	1,647	5,178	12,748	28,973	63,754
30%	125%	1,704	5,541	14,182	33,639	77,455

(Assumes 25% dilution from new token issuance as network grows)

A 20% quarterly growth rate with a 25% dilution rate for new token releases produces an accumulative discount value of \$29,453 over five years. The \$29,453 value is not a speculative value of the token at the end of the five years, but the actual discount a user receives over the five-year period. The value of the

token going forward will likely be significantly higher, because the value of the discount in the next five years will have significantly increased.

It is important to stress that no specific design will guarantee favorable classification with respect to securities regulation. However, after consulting top global law firms, we believe that a key characteristic of similar assets with respect to regulation is that the price at which the asset is sold be commensurate with its use value, and that consumers are protected from material breach of the promise of utility:

- If the price paid is out of line with the discount value over a reasonable period of use, then it is more likely that the token could trigger regulatory action. Sweetbridge and all Alliance Partners will limit themselves to a time horizon of five years for calculating the intrinsic value of a discount token.
- Similarly, the lack of customer protection may prompt regulatory action. From this point of view, Sweetbridge believes that selling discount tokens must take place over time on the basis of existing functionality and objectively measured intrinsic value, with appropriate risk disclosures.

## 3 Token Release Economics

### 3.1 Slow Token Release

Discount tokens are designed so that their intrinsic value increases as the network utilization grows. Observing the network's operation at any given time, one can objectively determine the intrinsic value of a discount token. Token issuers may release additional tokens into the market, making sure to release the amount appropriate to the reduction of the intrinsic value caused by these releases. The releases should proceed in such a way as to ensure that the value continues to grow, while mitigating against speculative hype.

Sweetbridge calls this method a slow drip. In a slow drip, projects sell discount tokens in a way that adds tokens to the market only when the network grows and at a rate that is below the rate of network growth. Sweetbridge is recommending to its Alliance Partners that they limit token supply increases to no more than half the rate of the network growth. At a release rate of 50% of the growth rate, every time the network utilization doubles, the discount per token would increase by 50%. At a release rate of 25% of the growth rate, every time the network utilization doubles, the discount per token would increase by 75%.

### 3.2 Discount Token Accounting

The maximum percentage of network fees eliminated by using discount tokens is capped by design to ensure that projects can still operate when tokens are used in the system to reduce fees. Fees should be set at market for the services provided by the network, and the percentage of elimination should allow enough fees to be generated to cover network operating expenses once the network reaches scale. Development costs and investment in growth (e.g., asset purchases, sales and marketing) can be funded by selling discount tokens over time. General/administrative costs and the cost of goods sold should be funded by fees, not by selling discount tokens.

The money from the discount tokens is booked as customer deposits on the balance sheet of the entity; it is not immediately recognized as revenue. The value of the customer deposits is equal to the total received from the initial token sale, 1/5th of which is a current liability and 4/5ths is a long-term liability. The money received moves from the balance sheet to the income statement as the discounts are awarded.

As an example, let's assume that the token business has a token sale for \$2,500. The discount tokens business model balance sheet looks like this:

Starting Balance Sheet	Discount Token Business
Cash	\$2,500
<b>Total Assets</b>	<b>\$2,500</b>
<b>Current Liabilities:</b>	
Current Customer Deposits from Token Sales	\$500
Long-term Customer Deposits from Token Sales	\$2,000
<b>Total Liabilities</b>	<b>\$2,500</b>
<b>Total Equity</b>	<b>\$0</b>

The cash from the token sales goes on the balance sheet as cash, increasing the balance of cash by \$2,500. The business has a current liability of \$500 and a long-term liability of \$2,000. The balance sheet records the value of the discount tokens when the tokens were sold. However, this may not be the value of the discount granted when the tokens are used.

It is important to note that the amount of discount that moves from the balance sheet to the income statement each year is fixed at the point of sale of the tokens. This means that the actual amount of discount granted and recognized on the income statement could be higher, but would never be lower. It would be higher when the network grows beyond its assumed size at the point the tokens are sold.

Assuming the businesses operated with \$1000 revenue, the balance sheets of our imaginary business at the end of the first year would look as follows:

Ending Balance Sheet	Discount Token Business
Cash	\$2,100
<b>Total Assets</b>	<b>\$2,100</b>
<b>Current Liabilities:</b>	
Current Customer Deposits from Token Sales	\$500
Long-term Customer Deposits from Token Sales	\$1,500
<b>Total Liabilities</b>	<b>\$2,000</b>
<b>Total Equity</b>	<b>\$100</b>

Notice that long-term liabilities have fallen because the entity now has only three years of long-term liabilities, but it still has \$500 in current liabilities. The current liabilities don't change because the entity still has a liability for the next \$500 in discounts over the next 12 months. This shows up on the P&L (Profit and Loss) statement as follows:

P&L	Discount Token Business	%
Revenue from Fees	\$1,000	67%
Revenue from Tokens	\$500	33%
<b>Total Assets</b>	\$1,500	100%
Cost of Goods Sold	(\$300)	20%
Discounts to Activated Tokens	(\$500)	33%
<b>Gross Margin</b>	\$700	47%
G&A	(\$100)	7%
Sales & Marketing	(\$300)	20%
Development	(\$150)	10%
Amortization & Depreciation	(\$50)	3%
<b>Profit</b>	\$100	7%

The profits of a business eventually go to the shareholders either as a dividend, as a sale of the shares, or from a sale of the assets of the company. If our token business is operated as a not-for-profit, the profits can eventually be delivered to the users as lower fees or subsidized discounts.

Note that the sample balance sheet does not have any assets to back up the Amortization & Depreciation expense. Amortization & Depreciation are added to the sample P&L for illustration purposes only.

### 3.3 Advantages of a Slow Token Release

Discount tokens paired with a slow token release provide a business model in which a company places its users into the position that was traditionally occupied by its investors – as initial stage supporters of the project who hold long-term stake in its success. Users contribute resources early to receive value over the lifetime of the system – mostly in the form of discounts. A user can then sell their stake to later users. Investors in a traditional company contribute resources early to receive value in the form of a share of profits. The key difference is that investors are interested in profits, whereas users are interested in utility of the business product or service. Sweetbridge believes that this shift of shareholder incentives from profits to utility creates a uniquely effective business model with an unprecedented level of alignment between stakeholders.

The slow release of tokens is designed to ensure compliance, accountability and incentive alignment. It is complementary to the discount token model.

In summary, the advantages of the slow token release are:

1. It holds Sweetbridge and our Alliance Partner projects accountable to deliver value. New releases of tokens require results or the approval of token holders. Consequently, the project and the Alliance will be accountable for producing results.
2. It allows the project to continue to fund itself over time as it grows. In fact, the better the project performs, the more funding it can raise to invest in its growth. If the project is very successful, it will likely be able to realize significantly more funding from token sales as compared to a single upfront crowdsale.
3. It helps ensure that the tokens are not classified as a security. The more the amount raised in a single release exceeds the utility of tokens to purchasers over a reasonable period of time, the more the buyer's motives could be argued to be profiting from a common enterprise (i.e. an investment) versus profiting from the useful value of the token to the customer.
4. It allows projects to protect their token value from pump-and-dump strategies, especially when the network size is not large enough to resist manipulation. Projects should set aside 5-10% of their tokens to defend the value of the token from manipulation. Funds generated from these sales should not be used for operating expenses and must be dedicated to token stabilization activities, similar to market-making in traditional markets. To enable such services, the tokens and funds raised from their sale should be kept in a separate dedicated account. Projects may hire specialized service providers to carry out market-making services on their behalf.

If the market values the project's tokens above their intrinsic value, 100% of the amount over intrinsic value should be returned to the users of the system through subsidized fees. For example, in its own network, Sweetbridge will use any excess value in the sale of Sweetcoin to support the overall economic health of the Sweetbridge network through user incentives.

### 3.4 Sweetbridge Common Sales Queue and ICO Currency

The Sweetbridge ecosystem provides a stable cryptocurrency, Bridgecoin. In order to eliminate the currency risk of a crowdsale process, Bridgecoin is proposed as a currency to be used as payment for newly released tokens. Bridgecoin is easy to buy from Sweetbridge in exchange for fiat, BTC, or ETH and can be borrowed by users within the Sweetbridge Assets system <sup>1</sup>. The Sweetbridge member application will provide buyers

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<sup>1</sup>See Sweetbridge white paper at <https://sweetbridge.com/whitepaper>

with this functionality in an intuitive form, accessible to average users unfamiliar with cryptocurrency trading.

A drip release process is designed so that each tranche of tokens issued has a slightly higher price than the previous one. In order to ensure a fair ability of users to purchase discount tokens from Sweetbridge and its partner projects, Sweetbridge is creating a unique Sales Queue process.

The Sales Queue is a single point of access of all registered Sweetbridge users to drip releases of Sweetbridge partner projects. It gives priority access to early adopters, ensures AML/KYC compliance of the releases, and prevents attackers from using spoofing attacks that cause bogus deposit addresses to be communicated to unsuspecting users. Additionally, the Sales Queue can be used to generate early signals of interest in future token releases by Sweetbridge partners.

In order to participate in the release process, a user needs to transfer their crypto-assets (such as Bitcoin or Ether), or fiat currency (such as the USD) into their Sweetbridge account, which functions similarly to Coinbase.

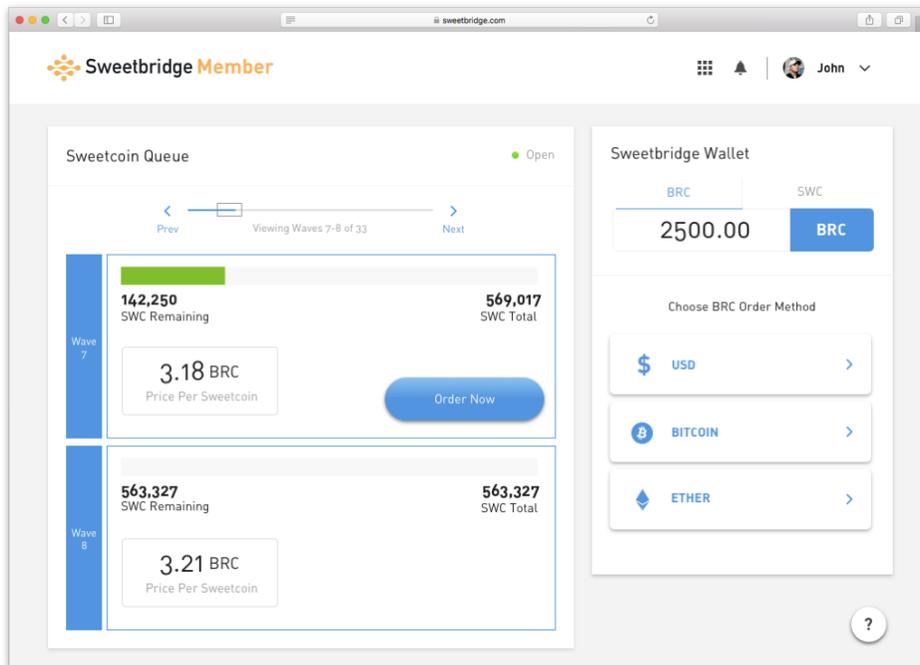


Figure 3.1: Proposed user interface for contributing Bridgecoin to the Sales Queue (image for demonstration purposes only)

These funds can then be used to buy Bridgecoin and to queue it for upcoming token sales performed by Sweetbridge or its Alliance Partners. Prior to a token release, users are able to pledge some or all of the

Bridgecoin in the queue to the given tranche at a known price. When the sale occurs, the user automatically gets the tokens according to their pledge, but priority is given to users in the front of the queue. If there are not enough tokens to distribute to everyone, users remain in the queue to await subsequent tranches. Anyone can withdraw Bridgecoin from the queue at any time, but doing so will relinquish the allocated spot in the queue.

In initial public crowdsales, before a market price is established, each tranche will be priced slightly higher than the previous tranche to reward those waiting in the queue the longest. Once price discovery is possible, the sale of new tokens will always occur at a discount to current market price. This discounting policy continues to reward those who patiently wait in the queue for the next release.

As the Sweetbridge network and Alliance grow, we expect to see multiple releases for new promising projects occurring on a regular basis.

## 4 Project Requirements

The Sweetbridge Crowdsale Platform aims to create a token offering ecosystem that serves all parties involved: project founders, users, investors, and regulators. Projects to benefit from this must agree to adhere to the highest possible set of standards with respect to regulation, ethics, and quality.

The discount token model is a business model that diminishes regulatory risk, aligns incentives of stakeholders, and provides a clear cash flow model for future service businesses, both centralized and decentralized. Based on its understanding of regulatory risks and general business ethics of blockchain projects, Sweetbridge can only offer access to the spectrum of services described in this document to projects that follow this model and agree to additional eligibility requirements for participation outlined here.

### 4.1 Disclosures and Transparency

Sweetbridge and all Alliance projects will be required to disclose token and other payment structures for all project contributors and advisors. Due diligence providers, advisors, and key employees must have a token vesting plan that transfers control of tokens over at least a three-year period. Spending of crowdsale funds must be sufficiently restricted to that defined in the original ICO documents (a.k.a. “Project Whitepaper”), and any material changes to crowdsale fund spending must undergo public review and approval by token holders. The prices paid or value of services exchanged for tokens must be fully disclosed at crowdsale time.

### 4.2 Truth in Marketing

All platform projects must consult with Sweetbridge on messaging, branding, and go-to-market strategy, as expressed in written and spoken form, and agree to abide by our crowdsale guidelines throughout the process of positioning any token sale. The marketing representation of a discount token for buyers is equally as important as its mechanics.

### 4.3 Community Feedback

All projects will be required to have a public comment forum where questions can be asked and answers provided.

### 4.4 Due Diligence and Investment Sponsors

Projects are required to have at least 10% of their initial crowdsale release sold to professional investment firms or industry investors who perform due diligence on the project beyond that performed by Sweetbridge itself. In order to qualify, initial investments must proceed at a price that is close to the crowdsale price (i.e. no less than 40% of VWAP – volume-weighted average price – in the first six months of crowdfunding, and no less than 70% of the initial price at outset of crowdfunding). These investments must impose transfer restrictions on these investors (i.e. no less than 6-12 months longer than standard crowdsale participants).

## 5 Summary

Sweetbridge has set out to create a holistic framework for blockchain project crowdfunding and operations to enable innovative organizations to function both compliantly and responsibly, while also being protected from unforeseen changes in the regulatory environment.

This paper has described a structure that: (1) is long-term resilient and can manage regulatory risk for Sweetbridge and its Alliance Partners; (2) offers concrete suggestions for how blockchain project founders can align themselves with their users and customers; (3) is based on a cryptoeconomic framework whose tokens are demonstrably unlike securities; and (4) enables responsible funding of projects at all stages.

Having devoted significant effort toward creating this structure, Sweetbridge is now building an alliance the members of which will have access to this framework as an integrated product. It contains a global token crowdsale (e.g. ICO/TGE) platform, AML/KYC framework, a legal framework, entity structuring, and many of the compliance licenses required. While charging minimal fees, the platform will hold its participants to a higher standard of accountability and compliance, transparency and due diligence, audited financial statements, disclosures, and fiscal restraint than most ICOs in the market today.

We are happy to review your project to see if Sweetbridge can work with you. Contact us at [info@sweetbridge.com](mailto:info@sweetbridge.com) to initiate a discussion.

## 6 Appendix: Jurisdiction Considerations in Token-Based Crowdfunding

In deciding upon a jurisdiction for launching an ICO, a company should consider the following:

- Existing business entities already created and operating
- Accounting and taxation treatment of ICO proceeds in selling jurisdiction
- ICO and securities legislation
- Agreements required for distribution to other companies of funds received from the ICO
- Banking treatment of ICO proceeds in fiat and crypto
- Ease of selling cryptoassets to fund operational expenses

### 6.1 Existing Entities

Consideration must be given to the existing network of incorporated entities already created by your enterprise. Planned or newly created entities may be viewed as an extension of existing ones for taxation purposes.

For example, if your company is established and has been employing and operating from a certain jurisdiction for an extended period of time, an ICO issued from another location may still be seen by your local taxation authority as having originated from your original company. The ICO proceeds would then be treated as taxable (see 6.2) in your existing locations leading to double and potentially unrecoverable taxation, fines or penalties.

### 6.2 Accounting and Taxation of ICO Proceeds

Taxation of ICO proceeds received is frequently an overlooked issue. To think that tokens are similar to equity or stock, and that token-based fundraising is not taxable, would be a misconception. ICO proceeds are taxed in every jurisdiction in most circumstances, so be sure to consider the effective corporate tax rate in your chosen jurisdiction. PWC's [World Tax Summaries](#) is a useful resource.

Some notable ICOs have created foundations and similar entities and classified the token proceeds received by them as “donations.” However, this classification may be challenged in the future. We must note a conflict between securities and tax law here: in order to not be considered a security by means of “joint venture in a future enterprise,” tokens must have utility at the point of sale. However, the very provision of utility (such as providing discount) in exchange for financial contribution challenges the concept of “donation” unless the amounts received per token comfortably exceed the value of the token’s utility.

It is worth emphasizing that taxation authorities have the capability to challenge arrangements many years after the ICO.

### 6.3 ICOs and Securities Regulation

The Securities and Exchange Commission (SEC) in the US has issued a [warning](#) on July 25, 2017 stating that it will actively pursue entities and individuals who are knowingly offering (or even mistakenly selling) tokens deemed to be securities to US citizens and tax residents at home or abroad.

It is dangerous to assume that one is protected from liability on the basis of having a local legal opinion for the jurisdiction they operate in that includes a disclaimer about no US contributions in their sale documentation.

Many other jurisdictions such as Singapore, South Korea, PRC, the UK, and Canada have banned or warned against running ICOs or marketing of securities to their respective citizens. A useful summary of treatment by jurisdiction has been developed by the international law firm [Pinsent Masons](#).

A recent US innovation has been the adaptation of the Standard Agreement for Future Equity (SAFE) as a Standard Agreement for Future Tokens (SAFT). [The SAFT Project](#) details the pros and cons of this common approach. The SAFT allows marketing of tokens to US citizens and taxpayers (both individual and corporate) as long as they are accredited investors. Consequently, this approach may achieve some funding goals, but because of its exclusivity, wide participation is impossible, and the usefulness of this mode is limited to truly decentralized business models.

### 6.4 Distribution of Funds

Smaller projects may collect proceeds in crypto only and use crypto-friendly debit cards (“[cryptocards](#)”). This may allow them to avoid moving substantial funds in order to operate. Most entities, however, will need to pay employees and support significant operational expenses. This requires fund transfers between entities physically and fiscally resident in multiple jurisdictions.

This process is not just about transferring money from a bank in one jurisdiction to another country. Such transfers will most likely need to be supported by commercial contracts and reflect the substance of actual transactions taking place.

### 6.5 Bank Treatment of ICO Proceeds in Fiat and Crypto

Many projects assume that opening a bank account is a trivial exercise, and that a wide variety of choices exist for the banking of proceeds received from a token sale. In reality, many banks in many jurisdictions will not allow ICO proceeds to be deposited in their accounts. The reason for this is that the banking licenses required to operate domestically and internationally have very strict rules on the Anti-Money Laundering (AML) and Know Your Customer (KYC) processes, procedures, and ongoing monitoring. Failure to comply with these requirements could result in loss of license, which would be catastrophic for the bank in question. The consequences may include account closure and frozen funds, which could be

fatal for your company.

Earlier ICO projects allowed “contribution without registration,” which meant that no AML/KYC was performed on the contributors. This has been slowly filtering through the international banking community, and it is now generally accepted that simply posting an Ethereum and Bitcoin Wallet address on a webpage and having contributions fired at them (the “bat signal”) would not be permitted by banks in any jurisdiction. As in section 6.4 above, it may be possible to rely on the independent nature of cryptocurrency and avoid the use of commercial banking while operating on a very small scale. This, however, would not be practical for international and large-scale projects.

### 6.6 Selling Cryptoassets for Operational Expenses

Once you have completed your token crowdsale and received bitcoin or ether – what’s next? There are many exchanges and even banks that will offer to exchange cryptocurrencies for fiat, often at high cost. Some banks will allow such an exchange provided it is accompanied with the appropriate documentation with respect to AML/KYC of individuals and organizations providing them. Some banks may accept deposits of cryptocurrency from some countries and exclude others. With many exchanges, it is questionable how safe your funds are, since there is no “statement of reserves” or a transparent audit process to show exchanges’ open positions and risk profiles. Highly volatile rates, lack of transparency, and misaligned incentives make it easy to lose a lot of money in operating these services.

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### About Sweetbridge

Sweetbridge sponsors the development of blockchain-based economic protocols and applications to transform high-friction global supply chains into Liquid Value Networks. The Sweetbridge Alliance is an independent member-run non-profit that is building a global network of organizations comprised of interested industry technologists, blockchain projects, and open-source contributors from around the world. Its goal is to transform brittle, industrial-era commerce through decentralized industry ecosystems that create a faster, fairer value exchange, unleash working capital, better utilize resources, and optimize talent for the benefit of all participants. Follow us on Twitter at @sweetbridgeinc.