## **Table of Contents**

| Preface   | 1        |
|---|----------|
| Chapter 1: Introduction to Blockchain  A brief overview of the blockchain techr | nology 8 |
| Bitcoin   | 8        |
| Ethereum  | 10       |
| Evolution of blockchain   | 12       |
| Bitcoin basics  | 14       |
| The distributed ledger  | 15       |
| The consensus mechanism   | 16       |
| Keys and digital wallets  | 18       |
| Ethereum basics   | 19       |
| Ethereum cryptocurrency and tokens  | 20       |
| Smart contract  | 20       |
| Ethereum virtual machine  | 22       |
| Ethereum gas  | 22       |
| Account   | 23       |
| Oracle  | 24       |
| Off-the-chain data  | 25       |
| PoS   | 26       |
| Performance considerations  | 26       |
| Miscellaneous comments  | 27       |
| Summary   | 28       |
| Chapter 2: STO - Security Token Offering  | 29       |
| A traditional fund raising roadmap for s  |          |
| Seed money  | 31       |
| Angel investors and angel funds   | 31       |
| VC fund   | 32       |
| Private equity firms  | 33       |
| Mezzanine capital/fund  | 34       |
| IPO   | 35       |
| Pros  | 36       |
| Cons  | 36       |
| The initial coin offering   | 37       |
| Coins and tokens  | 38       |
| Crowdfunding  | 39       |
| ICO and its difference to IPO   | 41       |
| The ICO bubble The STO  | 43       |
| THE STU   | 47       |

|    | Security STO verses ICO   | 48<br>49 |
|----|---|----------|
|    | STO versus IPO  | 50       |
|    | Challenges of STOs  | 52       |
|    | Summary   | 54       |
| Ch | apter 3: Monetizing Digital Tokens Under US Security Laws What is an STO?           | 55<br>56 |
|    | Overview of US securities laws  | 57       |
|    | Federal regulations   | 57       |
|    | Section 5 of the Securities Act of 1933   | 57       |
|    | Section 3(b)(1) and (2) / Regulation A/A+ offerings (Mini IPOs)                     | 58       |
|    | Exemptions to Section 5 of Securities Act of 1933                                   | 59       |
|    | Section 4(a)(2) / Reg D - Rule 506(b) and (c) - private placement exemption         | 59       |
|    | Section 3(b)(1)/ Rule 504 – small issuance  | 60       |
|    | Limitation of Rule 504 and 506 – bad actor disqualifications                        | 61       |
|    | Section 4(a)(5) – accredited investor exemption                                     | 62       |
|    | Section 4(a)(6) / Regulation Crowdfunding – crowdfunding exemption                  | 62       |
|    | Section 3(a)(11) / Rule 147 (added by JOBS Act 2012) – intrastate offering          | 63       |
|    | Regulatory issues with respect to exemptions under the Securities Act               | 63       |
|    | Other related regulatory regimes  | 64       |
|    | Federal regulators  | 66       |
|    | State regulations   | 67       |
|    | Resale of securities Rule 144/144A/Section $4(a)(1\frac{1}{2})$ / Section $4(a)(7)$ | 67       |
|    | Rule 144 exemption  | 67       |
|    | Rule 144A exemption   | 68       |
|    | Section 4(a)(1½) exemption  | 68       |
|    | Section 4(a)(7) exemption   | 68       |
|    | Securities laws development in blockchain and digital                               |          |
|    | cryptocurrencies  | 68       |
|    | SEC alerts  | 69       |
|    | Report of Investigation Pursuant to Section 21(a) of the Exchange Act – The         |          |
|    | DAO (July 25, 2017) (the DAO report) – the application of the Howey test            | 71       |
|    | Legal analysis by the SEC<br>SEC's conclusion                                       | 72<br>74 |
|    | Security trading  | 74       |
|    | Real cases  | 74       |
|    | Munchee Inc. (Munchee order, December 11, 2017)                                     | 75       |
|    | Legal analysis by the SEC   | 75       |
|    | AirFox case (November, 2018)  | 77       |
|    | Legal analysis by the SEC   | 78       |
|    | The Paragon case (November, 2018)   | 79       |
|    | Legal analysis by the SEC   | 80       |
|    | SEC versus PlexCorps et al.   | 82       |
|    | Crypto Asset Management case (September, 2018)                                      | 83       |
|    | Legal analysis by the SEC   | 84       |

| The TokenLot LLC case (September, 2018)          | 85         |
|--|------------|
| Legal analysis by the SEC                        | 86         |
| STO launch and legal considerations              | 86         |
| Summary  | 87         |
| Chapter 4: Stablecoin                            | 89         |
| Basics of money                                  | 90         |
| What is money?                                   | 91         |
| Characteristics of money                         | 93         |
| Durability                                       | 94         |
| Portability                                      | 94         |
| Divisibility                                     | 95         |
| Uniformity                                       | 95         |
| Limited supply                                   | 96         |
| Acceptability                                    | 96         |
| Commodity money versus fiat currency             | 97         |
| An example of a fiat currency– the USD           | 99         |
| Basics of stablecoin                             | 99         |
| Cryptocurrency                                   | 100        |
| What are stablecoins?                            | 102        |
| Are stablecoins really stable?                   | 103        |
| Types of stablecoins                             | 104        |
| Commodity-collateralized stablecoins             | 105        |
| Fiat-collateralized stablecoins                  | 106        |
| Crypto-collateralized stablecoins                | 106        |
| Non-collateralized stablecoins                   | 107        |
| Challenges of stablecoins                        | 108        |
| Summary  | 109        |
| <b>Chapter 5: Security Token Smart Contracts</b> | 111        |
| ERC-20 and ERC-721 token                         |            |
| ERC-20   | 111        |
| ERC-721 – NFTs                                   | 112<br>114 |
| Security token technical design overview         |            |
| ERC-1400/ERC-1410                                | 116        |
| ST-20 (security token standard)                  | 116        |
| R-Token  | 119        |
| SRC-20   | 122        |
| DS-Token (Securitize)                            | 124        |
| Securitize's digital ownership architecture      | 125<br>125 |
| ERC-1404   |            |
| ERC-884  | 128        |
|  | 130        |
| Introduction to smart contracts                  | 133        |
| Pragma   | 134        |
| Comments   | 135        |
| Import   | 135        |

| Paths  | 136        |
|--|------------|
| State variables  | 137        |
| Functions  | 137        |
| Function modifiers   | 138        |
| Events   | 138        |
| struct   | 139        |
| enum   | 139        |
| Inheritance, abstract, and interface   | 140        |
| Summary  | 141        |
| Chapter 6: Building a Security Token Dapp  | 143        |
| STO smart contract development tools   | 143        |
| Truffle  | 144        |
| Ganache  | 144        |
| Setting up an Ethereum development environment                                     | 146        |
| Creating a security token Truffle project  | 148        |
| Deploying security tokens to Ganache   | 150        |
| Developing and testing a security token smart contract                             | 152        |
| Creating a smart contract  | 152        |
| Implementing a smart contract  | 153        |
| Defining your token information  | 153<br>154 |
| Implementing detectTransferRestriction Implementing messageForTransferRestriction  | 154        |
| Implementing transfer and transferFrom   | 155        |
| Testing a smart contract   | 156        |
| Setting up and initializing the test case  | 156        |
| Writing Dapp web components  | 162        |
| Setting up a Dapp project  | 163        |
| Cleaning boilerplates code   | 166        |
| Defining the HTML template   | 168        |
| Implementing the ERC1404 UI components   | 170        |
| Loading accounts   | 170        |
| transfer UI component  | 172        |
| DetectTransferRestriction UI component  MessageForTransferRestriction UI component | 175<br>176 |
| AddAddressToWhitelist UI component   | 177        |
| verifyWhitelist UI component   | 179        |
| Summary  | 182        |
| Chapter 7: Stablecoin Smart Contracts  | 183        |
| Quick primary stablecoin overview  | 183        |
| Timeline of stablecoin development   | 184        |
| Types of stablecoin  | 185        |
| Fiat collateralized stablecoins  | 186        |
| Crypto collateralized stablecoins  | 186        |
| Non-collateralized stablecoins   | 187        |
| Stablecoin technical design overview   | 188        |

| Tether (USDT)                      | 188 |
|------------------------------------|-----|
| TrueUSD (TUSD) smart contract      | 191 |
| modularERC20                       | 192 |
| Proxy                              | 192 |
| Admin                              | 193 |
| Other TUSD token-related contracts | 193 |
| MakerDAO (Dai)                     | 195 |
| USD coin (USDC)                    | 197 |
| Paxos Standard                     | 199 |
| GUSD                               | 203 |
| ERC20Proxy                         | 204 |
| ERC20Impl                          | 205 |
| ERC20Store                         | 206 |
| JPM Coin                           | 207 |
| Summary                            | 209 |
| Other Books You May Enjoy          | 211 |
|                                    | 245 |
| Index                              | 215 |