Regulatory Oversight of Blockchain Assets

Effective date: December 2nd, 2021.

The following is a summary of recent demonstrations of regulatory action taken with regard to blockchain assets. We believe that these actions will impact the Company; however, regulation of the blockchain industry is evolving rapidly. The regulatory landscape may differ from country to county, but we expect for the foreseeable future that regulators will maintain an increased focus on blockchain assets. In addition, the SEC, FINRA, and courts have continued, and likely will continue, to promulgate statements, enforcement actions and rulings, as applicable, interpreting the characterization of blockchain assets, the issuance of blockchain assets and regulating behavior in the market. It is likely that there will be many additional developments between the date of this statement and the issue of the ICICB Coins.

Regulation of blockchain assets by U.S. federal and state governments, foreign governments and self-regulatory organizations remains in its early stages. As blockchain assets have grown in popularity and in market size, the Federal Reserve Board, U.S. Congress and certain U.S. agencies such as the SEC, the CFTC, FinCEN and the Federal Bureau of Investigation, have begun to examine the nature of blockchain assets and the markets on which they are traded.

The SEC has taken various actions against persons or entities misusing blockchain assets, including virtual currencies, in connection with fraudulent schemes, inaccurate and inadequate publicly disseminated information, and the offering of unregistered securities. In addition, on July 25, 2017, the SEC issued Release No. 81207 (“the DAO Report”), in which it analyzed a certain issuance of tokens, and indicated that “whether or not a particular transaction involves the offer and sale of a security – regardless of the terminology used – will depend on the facts and circumstances, including the economic realities of the transaction”. The SEC clarified that the registration requirements “apply to those who offer and sell securities in the United States, regardless whether the issuing entity is a traditional company or a decentralized autonomous organization, regardless whether those securities are …distributed in certificated form or through distributed ledger technology…”. On December 4, 2017, and December 11, 2017, the SEC announced enforcement actions relating to the PlexCoin and Munchee token launches, respectively. Also on, December 11, 2017, SEC Chairman Jay Clayton published a public statement

entitled “Cryptocurrencies and Initial Coin Offerings.” The SEC has made a concerted effort to monitor the ICO market and address—through the DAO Report and the more recent SEC guidance—transactions and behaviors it believes are both inconsistent with and in violation of U.S. securities laws. In early 2018, media reports indicated that the SEC has subpoenaed around 80 cryptocurrency firms as part of a targeted probe. On March 7, 2018 the Divisions of Enforcement and Trading and Markets issued a public statement stating that many digital assets are likely to be securities under the federal securities laws, and urged investors to use platforms for trading such assets that are registered with the SEC, such as a national securities exchange, ATS, or broker-dealer. Since March 2018, the SEC has continued to bring enforcement actions and make public statements which further supports its view that blockchain assets should be treated as securities in almost all cases.

On December 18, 2017, the Chicago Board of Exchange began trading in bitcoin futures, and was joined shortly thereafter by CME Group, also offering bitcoin futures. In May 2018, it was reported that Goldman Sachs will offer trading in bitcoin futures and non-deliverable forwards to its clients.

Also in December 2017, Bloomberg added three cryptocurrencies to its terminal service (previously having provided bitcoin data since 2014) and the Australian Securities Exchange (ASX) announced it would move forward with a plan to replace its current clearing and settlement process with a blockchain solution.

In November 2018, the Gibraltar Blockchain Exchange, a subsidiary of the Gibraltar Stock Exchange, secured a license from the Gibraltar Financial Services Commission (GFSC) to operate as a crypto blockchain exchange and currently supports trading in six digital assets, including Bitcoin, Ethereum, EOS and the exchange’s native Rock token.

On November 16, 2018, Division of Corporation Finance, Division of Investment Management, and Division of Trading and Markets issued the Statement on Digital Asset Securities Issuance and Trading addressing the SEC’s enforcement actions involving and relating to digital asset securities. The Statement confirmed the applicability of the federal securities law framework to new and emerging technologies, such as blockchain, and provided a summary of the circumstances under which the SEC has taken enforcement action against participants in the marketplace for digital asset securities, including actions against initial offerings and sales of securities and actors and institutions that develop and facilitate the secondary market for securities.

On April 3, 2019, the Strategic Hub for Innovation and Financial Technology (FinHub) of the SEC published informal guidance, titled “Framework for ‘Investment Contract’ Analysis of Digital Assets” (the Framework), which provides analytical tools for determining whether a blockchain asset is a security under the U.S. federal securities laws. In the Framework, the SEC uses the term “digital asset” to refer to an asset that is issued and transferred using distributed ledger or blockchain technology. In this

prospectus, we use the term “blockchain asset” to distinguish between assets that are recorded and stored using blockchain technology and assets that may be stored in digital form but which do not utilize blockchain technology. In addition, the SEC does not use the term “security token.” The Framework provides a list of factors to consider when determining whether a digital asset offered for sale is a security. The factors included in the Framework are based on an analysis of whether the blockchain asset is an “investment contract” as that term was first used by the Supreme Court in SEC v. Howey, 328 U.S. 293 (1946), and which has been further clarified through subsequent case law.

The CFTC has asserted the belief that bitcoin and other virtual currencies meet the definition of a commodity and that the CFTC has regulatory authority over futures and other derivatives based on virtual currencies, subject to facts and circumstances. The CFTC defined “virtual currencies” as “a digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value, but does not have legal tender status in any jurisdiction. Bitcoin and other virtual currencies are distinct from ‘real’ currencies, which are the coin and paper money of the United States or another country that are designated as legal tender, circulate, and are customarily used and accepted as a medium of exchange in the country of issuance.” Although the CFTC maintains regulatory oversight of the commodities markets, beyond its anti-fraud and anti- manipulation authorities, the CFTC generally does not oversee “spot” or cash market exchanges and transactions involving virtual currencies that do not utilize margin, leverage, or financing. For this reason, we do not anticipate that we will be required to register with the CFTC in order to operate the INX Digital and INX Securities trading platforms.

In addition to relevant state money transmitter and securities laws, local state regulators may also regulate or seek to regulate blockchain assets. In July 2014, the New York State Department of Financial Services (the “NYSDFS”) proposed the first state regulatory framework for licensing participants in “virtual currency business activity.” The regulations are intended to focus on consumer protection and, after the closure of an initial comment period that yielded 3,746 formal public comments and a re-proposal, the NYSDFS issued its final BitLicense regulatory framework in June 2015. The BitLicense regulates the conduct of businesses that are involved in “virtual currencies” in New York or with New York customers and prohibits any person or entity involved in such activity to conduct activities without a license. Not all regulations of blockchain assets are restrictive. For example, on June 28, 2014, California repealed a provision of its Corporations Code that prohibited corporations from using alternative forms of currency or value. The bill indirectly authorizes the use of bitcoin as an alternative form of money in the state.

The IRS has released guidance treating bitcoin as property that is not currency for U.S. federal income tax purposes. Taxing authorities of a number of U.S. states have also issued their own guidance regarding the tax treatment of bitcoin for state income or sales tax purposes. The treatment of blockchain assets may be the subject of contemplated tax reform.

On November 13, 2017, the European Securities Authority ("ESMA") issued two statements, the first statement is intended to warn investors of the risks inherent in the ICOs, and the second statement sought to alert the companies involved in the ICO process regarding the need for ICOs and token issuers to meet relevant EU and member state regulatory requirements. On February 12, 2018, ESMA issued another EU-wide warning to consumers about the risks of buying virtual currencies. In July 2018, The EU Fifth Anti Money Laundering Directive (EU) 2018/843 came into force and extended the scope of the KYC/AML regulation to virtual currency exchange platforms and wallet providers. On January 9, 2019, both ESMA as well as the European Banking Authority published reports on crypto-assets assessing the suitability of the existing regulatory framework to these instruments.

Blockchain assets also face an uncertain regulatory landscape in many foreign jurisdictions. On September 4, 2017, the People's Bank of China labeled blockchain asset sales as "illegal and disruptive to economic and financial stability." Previously, China had issued a notice that classified bitcoin as legal and "virtual commodities;" however, the same notice restricted the banking and payment industries from using bitcoin, creating uncertainty and limiting the ability of Bitcoin Exchanges to operate in the then-second largest bitcoin market. South Korea's Financial Services Commission likewise prohibited all forms of tokens on September 29, 2017. Japan has enacted a law regulating virtual currencies which has brought Bitcoin exchanges under know-your-customer and anti-money laundering rules, and resulted in the categorization of Bitcoin as a kind of prepaid payment instrument. The law puts in place capital requirements for exchanges as well as cybersecurity and operational stipulations. In addition, those exchanges are also required to conduct employee training programs and submit to annual audits. To date, the Japanese Financial Services Agency (FSA) has granted licenses to 15 different cryptocurrencies or tokens trading platforms. In November 2017, the Monetary Authority of Singapore ("MAS") issued a statement that tokens sold through the blockchain funding model may be considered securities under certain circumstances under Singapore law, and provided case studies as examples of tokens that do and do not constitute securities. Previously, the MAS had stated that other laws may apply to token sales, such as money laundering and terrorism financing laws.

Other jurisdictions are still researching the subject. In September 2017, the Swiss Financial Market Supervisory Authority ("FINMA") issued guidance that it was investigating ICOs and that whenever FINMA is notified about ICO procedures that breach regulatory law or which seek to circumvent financial market law it initiates enforcement proceedings. On February 16, 2018 FINMA publicly announced ICO guidelines. In December 2018, the Swiss Federal Council adopted a report on the legal framework for blockchain and distributed ledger technology in the financial sector. In March 2019, the Federal Council initiated consultation with regard to specific amendments to federal law for the purpose of adapting federal law to developments in distributed ledger technology.

In December 2017, the UK Financial Conduct Authority ("FCA") issued a statement on distributed ledger technology which said, in part, that the FCA will gather further evidence and conduct a deeper examination of the ICO market and that its findings will help to determine whether or not there is need for further regulatory action. In June 2018, an amendment to the Tel Aviv Stock Exchange Ltd. ("TASE")

regulations entered into effect, under which shares of companies operating in the field of cryptographic currencies will be excluded and / or not included in the TASE indices, if such a company is engaged in the holding, investing or mining of distributed cryptographic currencies, and the TASE Indices Committee decides that this activity is material or expected to be material to the company's business. The Israel Securities Authority (ISA) has previously indicated that to date, there is uncertainty as to the format and extent of the regulation that will apply to the various activities in cryptographic currencies - especially those of decentralized currencies without any centralized entity, such as Bitcoin, in terms of taxation, prevention of money laundering and terrorism, cyber security and investor protection. In addition, the ISA has appointed a special committee authorized to examine the regulation of issuances of cryptographic currencies to the public.

In its final report, published in March 2019, the special committee recommended, among other things, focusing on the following: establishing a dedicated disclosure regime to adjust to the unique characteristics of such activities; formation by a number of Israeli regulatory authorities (among others, the Bank of Israel, Israeli Tax Authority, Anti-Money-Laundering Authority, Ministry of Finance, Justice Department, Israeli National Cyber Directorate and ISA) of a 'regulatory sandbox' with the aim of creating a harmonious government policy and the removal of barriers to domestic industry in the field of cryptographic assets; and examining a better suitable regulatory framework for the trading activity of cryptographic assets that are deemed securities. In addition, the special committee final report further provided the following initial regulatory guidelines to this field:

(1) The question of whether a cryptocurrency will be considered a security will be decided according to the totality of the circumstances and characteristics of each case on its merits against the background of the purposes of the Israeli law;

(2) Cryptographic currencies that grant rights similar to those of traditional securities such as shares, bonds or participation units will be considered securities. This category includes, for example, tokens who grant rights to participate in revenue or profits generated from an enterprise; tokens granting rights to receive payments, fixed or variable, whether by way of the allocation of additional currencies or by way of redemption of currencies; or tokens granting ownership rights or membership in an enterprise whose purpose is to generate an economic yield;

(3) blockchain assets intended to be used as a method of payment, clearing or exchange only, other than in a specific enterprise, which do not confer additional rights and are not controlled by a central entity, shall not typically be considered a security;

(4) blockchain assets that embody a right to a product or service and are purchased for consumption and use only shall not typically be considered securities; and

(5) a public offering of a cryptographic currency falling to the definition of a security is subject to the requirement to publish a prospectus.

On August 24, 2017, the Canadian Securities Administrators ("CSA") published a staff position on the proposal (Offering) of cryptographic tokens to the public. The staff position indicated that there is an increasing trend in the offers of cryptographic tokens to the public, including the offerings of cryptographic tokens which are characterized as securities or derivatives, and therefore in these cases the Canadian securities and derivatives laws shall apply to the ICOs. In addition to the ICO definition, the publication includes reference to registration and disclosure requirements, the various trading platforms relevant to ICO, and how they are marketed, to the investment funds that offer cryptographic currencies and the regulatory Sandbox. Regarding the question of whether cryptographic tokens are securities, the CSA position states that, many of the ICOs that were examined found to be that the tokens issued in this proceeding are securities, including in light of the fact that they were considered as "investment contract."

The Government of Gibraltar has enacted the Financial Services (Distributed Ledger Technology Providers) Regulations 2017 (the "DLT Regulations") which came into effect on January 1, 2018. The primary purpose of the DLT Regulations is to create a safe environment for DLT-related businesses to operate and innovate, while simultaneously protecting consumers and safeguarding Gibraltar's reputation as a trusted and stable global business hub. Companies which use blockchain technology to store or transmit value belonging to others by way of business are caught by the DLT Regulations and require a license in Gibraltar. The activity of undertaking a token sale does not automatically fall within the scope of the DLT Regulations but may depend on the manner in which the sale of tokens in structured and the characteristics of the token. The Gibraltar Financial Services Commission (the "FSC") however has announced plans to create a complementary regulatory framework that covers the promotion and sale of tokens, aligned with the DLT Regulations (the "Complementary Framework"). It is not clear when the Complementary Framework will be created and implemented and what requirements it will impose on persons or entities wishing to undertake token sale activity or any promotional activity in connection therewith in or from within Gibraltar.