

Using Blockchain for Private Equity under Rule 506b

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Disclaimer

This is not a public offering but an example for implementing a private placement exempt equity offering on the blockchain, specifically the testnet known as ropsten where no real fiat money changes hands.

THE TOKEN DEPLOYED IS A TEST TOKEN AND NOT A VALID EQUITY TOKEN. NO RIGHTS ARE GIVEN NOR INFERRED.

There are many factors and requirements when initiating a Rule 506b exempt offering. Using the blockchain as depicted in this document is a method for distributing equity tokens to whitelisted investors and allowing limited liquidity to those investors once the holding period has lapsed.

Background

A Rule 506b exempt offering is limited to accredited investors and a maximum of 35 unaccredited investors. The issuer or issuing company must use due diligence to whitelist the investors. Blockchain can offer limited liquidity to whitelisted investors only after the holding period has elapsed. In this case the holding period is 365 days. Only the contract owner, which should be the issuer, can transfer equity token to whitelisted investors as well as add investors to the whitelisted, flagging whether they are accredited or non-accredited investors.

Interaction with transferring tokens between investors is accomplished via the browser using the metamask plugin.

The owner must whitelist each investor first using a DAPP, which can be remix.ethereum.org connected to the ropsten network for simplicity via metamask and the owner account. The owner will need free ether on the ropsten network and can request from <https://faucet.egorfine.com/> and get 0.2 ether every twenty four hours.

Smart Contract

The smart contract being used is available at

<https://github.com/pingleware/pingleware-contracts/blob/main/contracts/finance/token/PRESSPAGE506B.sol>

The transfer and transferFrom functions are accessible by any wallet, and to ensure only whitelisted investor wallets can access the transfer, the following statement is required at the start of the function,

```
require(whitelisted[to], "recipient is not authorized to receive tokens");
```

Additionally, the contract owner is permitted to transfer tokens to whitelisted investor wallets and use the same transfer and transferFrom functions. The following code is required to permit the owner to transfer token to a whitelisted wallet,

```
if (msg.sender != owner) {  
    require (block.timestamp >= (transfer_log[msg.sender] + YEAR), "transfer not permitted under Rule 144, holding period has not elapsed");  
}
```

When the contract is first created, a fixed number of tokens are created and stored in the owner's wallet. The owner can create more tokens (as long as in compliance with the Rule 506b) using the mint function from a custom DAPP or REMIX.

When an investor first receives their equity token, the block timestamp is saved and associated with the transfer of tokens to the whitelisted investor wallet,

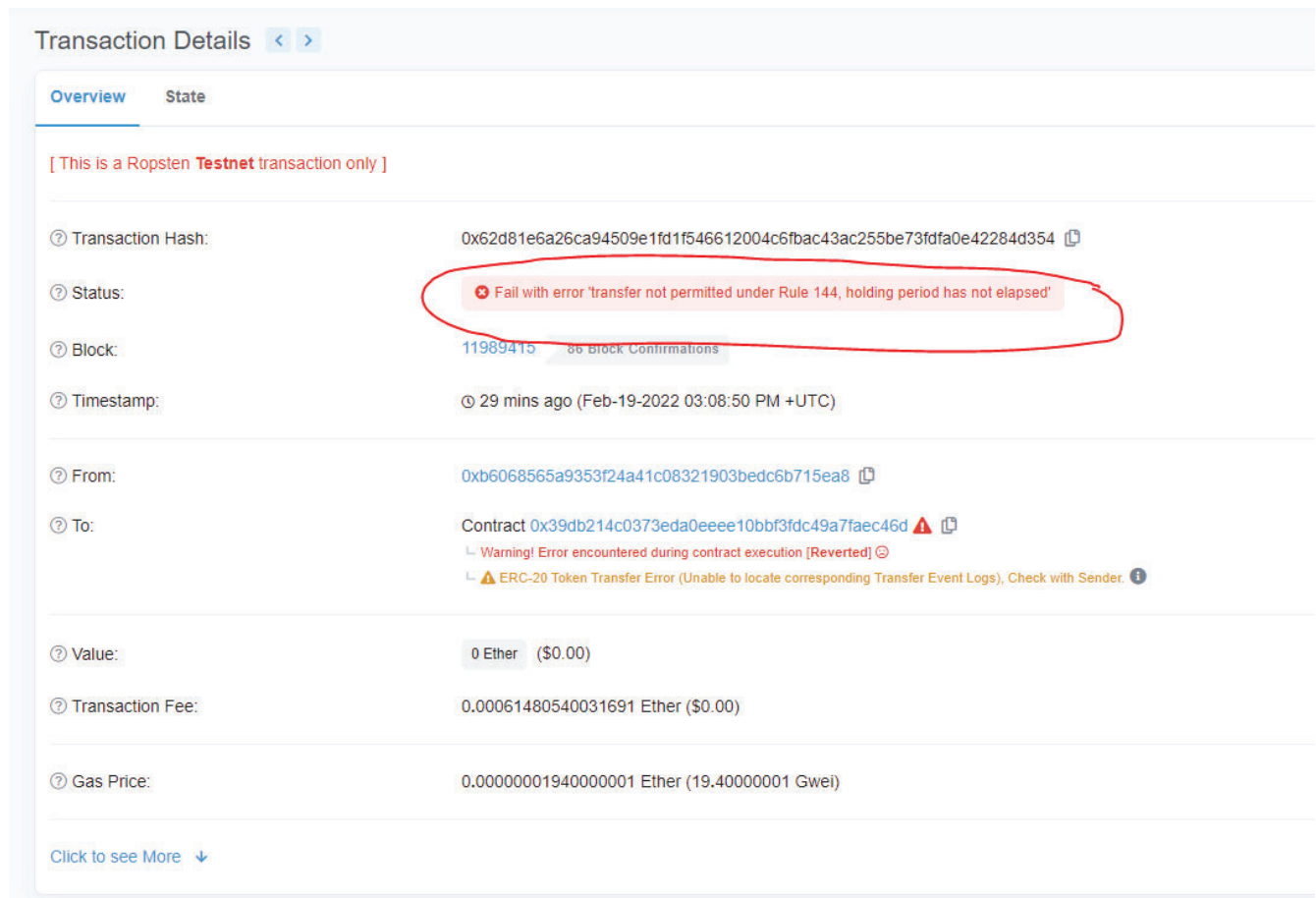
```
transfer_log[to] = block.timestamp;
```

This timestamp is set for the investor when the owner sends tokens to the investor.

Because Rule 506b has a six to twelve month holding period, a fixed holding period of twelve months is set for simplicity. If an investor tries to transfer their tokens before the holding period has lapse, a error is generated and the transaction is revert with a loss of gas fees.

See the following transaction where an investor attempted to transfer tokens to another whitelisted investor, see

<https://ropsten.etherscan.io/tx/0x62d81e6a26ca94509e1fd1f546612004c6fbac43ac255be73fdfa0e42284d354>



Transaction Details < >

Overview State

[This is a Ropsten Testnet transaction only]

Transaction Hash: 0x62d81e6a26ca94509e1fd1f546612004c6fbac43ac255be73fdfa0e42284d354

Status: **Fail with error 'transfer not permitted under Rule 144, holding period has not elapsed'**

Block: 11989415 86 Block Confirmations

Timestamp: 29 mins ago (Feb-19-2022 03:08:50 PM +UTC)

From: 0xb6068565a9353f24a41c08321903bedc6b715ea8

To: Contract 0x39db214c0373eda0eeee10bbf3fdc49a7faec46d
Warning! Error encountered during contract execution [Reverted]
ERC-20 Token Transfer Error (Unable to locate corresponding Transfer Event Logs), Check with Sender.

Value: 0 Ether (\$0.00)

Transaction Fee: 0.00061480540031691 Ether (\$0.00)

Gas Price: 0.00000001940000001 Ether (19.40000001 Gwei)

[Click to see More](#)

The error showing “transfer not permitted under Rule 144, holding period has not elapsed”

Before the new investor wallet was added to the whitelist, the investor attempted to make a transfer and received the following from transaction

<https://ropsten.etherscan.io/tx/0xf4473c9b9cd8763c58f680222e631b60ae05b8025fe247dec98d8fdeb8959d99>

Transaction Details < >

Overview State

[This is a Ropsten **Testnet** transaction only]

Transaction Hash: 0xf4473c9b9cd8763c58f680222e631b60ae05b8025fe247dec98d8fdeb8959d99

Status: **Fail with error 'recipient is not authorized to receive tokens'**

Block: 11989559 148 Block Confirmations

Timestamp: 41 mins ago (Feb-19-2022 02:58:43 PM +UTC)

From: 0xb6068565a9353f24a41c08321903bedc6b715ea8

To: Contract 0x39db214c0373eda0e00010bbf3fdc49a7faec46d
Warning! Error encountered during contract execution [Reverted]
ERC-20 Token Transfer Error (Unable to locate corresponding Transfer Event Logs), Check with Sender.

Value: 0 Ether (\$0.00)

Transaction Fee: 0.000040609500297803 Ether (\$0.00)

Gas Price: 0.000000001500000011 Ether (1.500000011 Gwei)

[Click to see More](#) ↓

You can view the transactions on this contract at

<https://ropsten.etherscan.io/address/0x39db214c0373eda0eeee10bbf3fdc49a7faec46d>

Contract 0x39Db214c0373edA0Eeee10bbF3fdC49A7faEC46d

Contract Overview

Balance: 0 Ether

More Info

My Name Tag: Not Available

Contract Creator: 0x50542cf0903152e176... at txn 0xdf03801e0899b2dac...

Token Tracker: [PRESSPAGE ENTERTAINMENT INC PRIVAT... \(PRESSPAGE...\)](#)

Transactions Contract Events

Latest 6 from a total of 6 transactions

Txn Hash	Method	Block	Age	From	To	Value	Txn Fee
0x62d81e6a26ca94509e...	Transfer	11989415	40 mins ago	0xb6068565a9353f24a4...	IN 0x39db214c0373eda0ee...	0 Ether	0.0006148054
0x011e568810397ee5be...	0x70a01b3d	11989402	48 mins ago	0x50542cf0903152e176...	IN 0x39db214c0373eda0ee...	0 Ether	0.000185787501
0x4473c9b9cd8763c58f...	Transfer	11989393	51 mins ago	0xb6068565a9353f24a4...	IN 0x39db214c0373eda0ee...	0 Ether	0.0000406095
0xb110340e526138d086...	Transfer	11989353	1 hr 4 mins ago	0x50542cf0903152e176...	IN 0x39db214c0373eda0ee...	0 Ether	0.000191376709
0x39a320425c1e03b973...	0x70a01b3d	11989342	1 hr 9 mins ago	0x50542cf0903152e176...	IN 0x39db214c0373eda0ee...	0 Ether	0.000228537501
0xdf03801e0899b2dac...	0x60806040	11989310	1 hr 20 mins ago	0x50542cf0903152e176...	IN Contract Creation	0 Ether	0.006325025025

[Download CSV Export]

You can view the holders of the tokens at

<https://ropsten.etherscan.io/token/0x39db214c0373eda0eeee10bbf3fdc49a7faec46d#balances>

Token PRESSPAGE ENTERTAINMENT INC PRIVATE EQUITY 506B

Overview (ERC-20)

Max Total Supply: 100 PRESSPAGE.506B.EQUITY

Holders: 2

Transfers: 1

Profile Summary

Contract: 0x39db214c0373eda0eeee10bbf3fdc49a7faec46d

Decimals: 0

Transfers **Holders** Contract

Token Holders Chart

A total of 2 token holders

Rank	Address	Quantity	Percentage
1	0x50542cf0903152e1761cff01d2928c6f229d678	95	95.0000%
2	0xb6068565a9353f24a41c08321903bedc6b715ea8	5	5.0000%

[Download CSV Export]

The issuer must maintain a separate list containing the personal identifying information (PII) for each wallet of the investor.

The contract owner's DAPP can also retrieve holding period expiration dates for each investor wallet.

Having the transactions on the public blockchain will add a level of transparency to exempt offerings without losing the exemption because while any user with an ethereum wallet can import the exempt offering contract into their wallet, the mere importing does not authorize the user to trade the equity token. The user must still be whitelisted by the issuer/contract owner. The investors are only known by their wallet addresses, while the issuer will maintain the personal identifying information associated with each wallet to respond timely to requests from the regulators.