

## MEMORANDUM

**To:** Crypto Task Force Meeting Log  
**From:** Crypto Task Force Staff  
**Re:** Meeting with Representatives of TokenCo Inc., Wm Entriken Design, and Blockchain Technology Inc.

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On June 10, 2025, Crypto Task Force Staff met with representatives from TokenCo Inc., Wm Entriken Design, and Blockchain Technology Inc.

The topic discussed was approaches to addressing issues related to regulation of crypto assets. TokenCo Inc., Wm Entriken Design, and Blockchain Technology Inc. representatives provided the attached document, which was discussed during the meeting.

# Entity structure for financial asset tokenization

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## Overview

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TokenCo, a Limited Liability Company (LLC), will purchase financial assets (initially private company shares, extensible to bonds or individual S&P 500 stocks), tokenize them on a blockchain, and sell tokens to qualified investors. Qualified investors are accredited investors under Regulation D who have completed KYC/AML verification. Tokens will trade on a decentralized network outside TokenCo's control, with open-source tools provided for investor access. TokenCo will manage custody, disclosures, dividends or proceeds, and wind-down processes, prioritizing SEC compliance.

## Proposed entity

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- **Entity name:** TokenCo
- **Structure:** Limited Liability Company (LLC), not issuing equity to investors
- **Key functions:**
  - **Purchase assets:** Acquires financial assets (e.g., private company shares).
  - **Tokenize assets:** Creates security tokens representing fractional ownership of a specific asset (e.g., shares of one private company).
  - **Sell tokens:** Sells tokens to qualified investors, accepting cash or cryptocurrency.
  - **Custody:** Holds underlying assets securely, potentially with a third-party custodian.
  - **Disclosures:** Provides disclosures on tokenomics, fees, token-asset relationships, custody, and financials.
  - **Dividends or proceeds:** Uses dividends or proceeds from assets in a reverse auction to repurchase tokens from qualified investors.
  - **Wind-down or redemption:** Distributes assets to qualified investors during wind-down or upon redemption demands.
  - **Open-source tools:** Publishes open-source software for investors to access the decentralized trading network, without controlling transactions.

## Operational flow

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1. **Asset purchase:** TokenCo acquires financial assets (e.g., private company shares).
2. **Tokenization:** TokenCo creates tokens on a blockchain, each representing fractional ownership of a specific asset (e.g., 1 token = 0.01% of Company X shares).
  - Smart contracts define token rights (e.g., dividends, redemption).

- Tokens comply with ERC-1400 standards.
3. **Token sales:** TokenCo sells tokens to qualified investors accepting cash or cryptocurrency.
  4. **Custody:** TokenCo or a third-party custodian holds assets.
  5. **Trading:** Tokens trade on a decentralized network (e.g., Ethereum-based DEX) outside TokenCo's control. TokenCo provides open-source software that can prepare and execute trades on the decentralized network, but TokenCo does not facilitate trades.
  6. **Dividends or proceeds:** TokenCo receives dividends or proceeds from the financial assets and uses them in a reverse auction to repurchase tokens from qualified investors, distributing proceeds as cash or cryptocurrency.
  7. **Wind-down or redemption:** TokenCo distributes assets to qualified investors during wind-down or upon redemption demands.
  8. **Disclosures:** TokenCo provides ongoing disclosures on tokenomics, fees, token-asset relationships, custody arrangements, and asset valuations.

## Questions for SEC

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1. **Custody:**
  - Can TokenCo self-custody financial assets, or is a third-party qualified custodian required under Rule 206(4)-2?
  - What custody rules apply to tokenized securities on a decentralized blockchain?
2. **Token classification and exemptions:**
  - Are tokens representing fractional ownership of financial assets securities under the Howey Test?
  - Is Regulation D sufficient for token sales to qualified investors, or are other exemptions (e.g., Reg A) needed for scalability?
3. **Disclosures:**
  - What disclosures are required for tokenomics, fees, and token-asset relationships in a Regulation D offering?
  - Must smart contract codes be filed as exhibits?
4. **Trading and broker-dealer:**
  - Do open-source tools for accessing a decentralized trading network trigger broker-dealer registration?
  - Can TokenCo avoid ATS registration by not controlling token trading?
5. **Third-party trading:**
  - Must TokenCo prevent qualified investors from transferring tokens to unknown parties, and if so, how, given no transactions occur with those parties?
6. **FinCEN:**

- Does accepting cryptocurrency require FinCEN registration as an MSB, even for qualified investors?
- What KYC/AML processes satisfy FinCEN for cryptocurrency transactions?

**7. Dividends and reverse auction:**

- Are there restrictions on using a reverse auction to repurchase tokens with dividends or proceeds from qualified investors?
- What disclosures are needed for the reverse auction?
- If repurchasing tokens changes the effective ownership percentage per token (e.g., 1 token = X% of asset), are additional registrations or disclosures required beyond the ongoing disclosures?

**8. Governance:**

- If TokenCo shall use the outstanding token, only the ones held by accredited investors, to inform its voting or participation in governance matters, does that change any of the answers above?
- If TokenCo shall hypothecate the voting/governance rights separately from the financial rights as separate tokens, does that change any of the answers above?

**9. Wind-down and redemption:**

- What are the requirements for distributing assets to qualified investors during a wind-down?
- Can redemption demands be restricted to qualified investors TokenCo originally sold to?

**10. Innovation:**

- Is conditional exemptive relief available for our tokenized asset model, particularly for custody and trading?
- How can we engage the SEC's Crypto Task Force for guidance?

**11. Timeframe:**

- Will answers to these questions change based on proposed SEC rule changes, such as updates to custody or digital asset regulations, and if so, when?