

**Legal Opinion Synopsis–
AurusGOLD Limited – AWG**

Dated: 30 May 2019

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Confidential and legally privileged

1. Executive Summary

Based on our assessment of the UK regulatory regime, and consideration given to European level instruments – MIFID and MIFIR; we do **not** consider AWX or AWG to be a Security Token. Accordingly, both tokens fall outside of the UK’s regulatory perimeter.

The characteristics of each token do not satisfy the legislative requirements of an FCA “Specified Investment” or a MIFID “Financial Instrument” and therefore Aurus’ own activities in relation to AWX and AWG do not amount to FCA “Regulated Activities” or MIFID “Investment Services / Activities”.

This means that AWX and AWG do **not** fall within the current regulatory perimeter and Aurus will **not** require FCA authorisation or permissions to launch the AWX token sale or to conduct its business model generally. This is important, as carrying on a Regulated Activity without appropriate permissions is a criminal offence in the UK².

We consider AWX and AWG each have characteristics of both Utility Tokens and Exchange Tokens (and AWG also a Stablecoin) – meaning each are a form of “hybrid” token. This is the most appropriate way to categorise each token, given the “roadmap” in the Aurus Business Plan includes broad goals for each.

We are confident of our assessment of the regulatory perimeter and our conclusions in context of AWX and AWG; however – we cannot predict changes in the regulatory treatment of Cryptoassets in the UK and globally. We suggest Aurus submits an application to the FCA Direct Support team. This will help facilitate further discussion on AWX, AWG and the Aurus project.

² Art. 20 and 23 of FSMA.

2. FCA Guidance & Terminology

a. Cryptoassets

This section of the Opinion provides an overview of the FCA guidance on Cryptoassets, to provide context to our assessment of AWX and AWG. Note that the FCA's guidance is not current law and is part of an ongoing consultation with the Cryptoassets industry. It does, however, give the FCA's current views on the classification and regulation of Cryptoassets, subject to the conclusion of the consultation (expected by the end of 2019).

CP19/3 and the Taskforce Report identify three types of Cryptoassets: *Exchange Tokens; Security Tokens; and Utility Tokens.*

Security Tokens

CP19/3 deems security tokens to have the following characteristics:

“those tokens that meet the definition of a Specified Investment as set out in the RAO, and possibly also a Financial Instrument under MIFID... these tokens have characteristics which mean they are the same as or akin to traditional instruments³”

“we consider a security to refer broadly to an instrument ... which indicates an ownership position in an entity, a creditor relationship with an entity, or other rights to ownership or profit. Security tokens are securities because they grant certain rights associated with traditional securities.... Security tokens are the type of Cryptoassets which falls within the regulatory perimeter⁴”

Exchange Tokens

CP19/3 deems exchange tokens to have the following characteristics:

“these are not issued or backed by any central authority and are intended and designed to be used as a means of exchange. They are, usually, a decentralised tool for buying and selling goods and services without traditional intermediaries. These tokens are usually outside the perimeter⁵”

CP19/3 also expressly examples the holding of an asset or commodity in the hope of a gain in value⁶ as being similar to holding an Exchange Token (noting this is unregulated), it continues to state that Exchange Tokens can be pegged to *“other forms of assets to stabilise their volatility”⁷.*

Utility Tokens

CP19/3 deems utility tokens to have the following characteristics:

“utility tokens provide consumers with access to a current or prospective service or product and often grants rights similar to pre-payment vouchers... utility tokens can usually be traded on a secondary market and be used for speculative investment purposes. This does not mean these tokens constitute Specified Investments⁸”

Stablecoins

A token may also be a “Stablecoin”. CP19/3 at Para. 4.12 describes Stablecoins as:

³ CP19/3, What are Security Tokens? – Para 3.43 – 3.44

⁴ CP19/3, What are Security Tokens? – Para 3.45 – 3.46

⁵ CP19/3, Para. 2.5 – Exchange Token

⁶ Which can be distinguished from holding for the provision of an income.

⁷ CP19/3, Para 3.36 – 3.37

⁸ CP19/3, What are Utility Tokens? – Para 3.51 – 3.52

*“tokens whose value – measured in a traditional fiat currency, like GBP or USD – does not fluctuate substantially. In order to achieve that, the value of stablecoins is pegged to ... fiat currencies, **other commodities or assets (e.g. gold and oil)**, a basket of other Cryptoassets (e.g. Bitcoin and Ether) or determined through sophisticated algorithms”.*

The Taskforce Report (published in October 2018) makes no reference to Stablecoins whatsoever, despite the report stating it:

“provides an overview of Cryptoassets and the underlying technology, assesses ... risks and potential benefits, and sets out the path forward with respect of regulation in the UK⁹”.

Based on this, and the somewhat limited comments on Stablecoins in CP19/3, we do not consider that the FCA has gone as far as to categorise Stablecoins as a fourth, standalone, category of token.

Our Opinion on the FCA’s “Token” terminology

The critical purpose of this legal opinion is to establish if AWX and/or AWG is a **Security Token**, meaning that it would fall within the FCA’s regulatory perimeter in the UK (either as a Specified Investment or a Financial Instrument under MIFID). The distinction between Exchange Tokens and Utility Tokens is secondary to this, because these tokens will, in isolation, more likely than not fall outside the FCA’s **current** regulatory perimeter.

We note that activities related to an Exchange Token or Utility Token *could* be brought within the FCA regulatory perimeter in certain circumstances i.e. if these activities amount to a Regulated Activity requiring FCA authorisation.

b. FCA Specified Investments & Regulated Activity

In the UK, a business must not carry on a Regulated Activity, or purport to do so, unless it is authorised by the FCA (or Prudential Regulatory Authority, if applicable) or is an exempt person¹⁰.

This is very important. It forms the underlying reason for the regulatory assessment of AWX / AWG, i.e. whether it is a Security Token falling within the FCA regulatory perimeter.

- A **“Regulated Activity”** is an activity listed in the RAO¹¹ that is carried on by way of business in relation to a Specified Investment. Regulated activities include, but are not limited to (i) Dealing in Investments as Principal/Agent; (ii) Arranging Deals in Investments; (iii) Accepting Deposits; (iv) Collective Investment Schemes.
- A **“Specified Investment”** is any of the investments (which may include any asset, right or interest¹²) listed in Part III of the RAO. This includes, but is not limited to: (i) shares; (ii) debt instruments; (iii) rights in relation to certain Specified Investments; (iv) derivatives.

c. European Financial Instruments & Investment Services and Activities

Broader European level legislation/directive; MIFID and MIFIR, must also be considered. This is needed as MIFID introduces broader interpretation of investments and additional activities, which now fall within the UK/FCA regulatory perimeter. MIFID does not have definitions of “Regulated Activity” and “Specified

⁹ Taskforce Report, Page 2 (Foreword)

¹⁰ S19 FSMA – the general prohibition

¹¹ See Part II of the RAO, which details a list of these specified activities.

¹² S22(4) FSMA

Investment; but has the broadly similar definitions of “**Investment Services & Activities**”¹³; and “**Financial Instruments**”¹⁴.

¹³ Set out in Section C, Annex I of MIFID

¹⁴ Set out in Section C, Annex I of MIFID, and analysed in Annex IV of this Opinion.

3. AWG

Aurus defines AWG as “a 100% gold-backed fully audited cryptocurrency built on top of the Ethereum network by using a combination of multiple smart contracts to mint the AWG, audit the gold and process transactions²⁸”.

Aurus has established secure token creation and burning procedures, meaning AWG is entirely asset-backed with one token being equivalent to one gram of gold – 1AWG: 1g of gold, provided by London Bullion Market Association member refineries.

The AWG minting and audit process means all gold tokenised to AWG²⁹ (or AWG that has been “burnt” if physical gold is withdrawn from the AWG eco-system) will be recorded on the Ethereum blockchain – meaning, AWG in circulation will represent the amount of physical gold held by Vault Partners and tokenised by Minting Partners.

Effectively, AWG is a tool to demonstrate ownership of an off-ledger real-world physical asset. AWG can be traded as an equivalent to gold with parties having confidence that the underlying asset is secure.

The fee charged per AWG transaction is calculated as a percentage of the AWG being transferred. These fees are then distributed between: **(1)** Vault Partners; **(2)** Minting Partners; and **(3)** AWX tokens, at a rate defined within the AWG Smart Contract.

The remainder of this section focuses on categorisation of AWG as a cryptoasset/token, AWG’s regulatory categorisation (so far as it’s applicable) and Aurus’ activities in relation to AWG from a regulatory perspective.

a. AWG – Token Categorisation

i. AWG Key Characteristics

- AWG is a 100% gold backed token and is deployed on the Ethereum blockchain;
- AWG can only be tokenised by audited/approved Minting Partners, with gold held by audited/approved Vault Partners. Note, we use the phrase “tokenised” in similar context to the fabrication of gold, as AWG will represent a single gram of gold held by the Vault Partner.
- AWG is governed by several smart contracts held on the Aurus blockchain, which means AWG will retain a value as close to the gold “spot” price as possible;
- Aurus has no “tie” to AWG, it does not follow trade books of a specific company;
- Aurus will not directly receive AWG transaction fees, these will be proportioned between Minting Partners, Vault Partners and AWX holders³⁰; and
- AWG relies on decentralised blockchain technology, with transactions being available to view publicly. This should help to build trust as no third party controls the Aurus “eco-system”.

ii. AWG - Analysis

Part 3 of this Opinion (above) provides an overview of *Exchange Tokens*; *Security Tokens* and *Utility Tokens*.

²⁸ Aurus Business Plan, “Core Product” Page 2

²⁹ We are instructed that only an approved Minting Partners is capable of initiating the AWG minting process, and new AWG is only minted after gold is audited and accepted by approved Vault Partners.

³⁰ Note – Aurus will receive a percentage of the AWG Temporary Reserve proportionate to AWX held.

A token may also be considered a “Stablecoin”, effectively a token “*whose value... does not fluctuate substantially. In order to achieve that, the value of stablecoins is pegged to ... commodities or assets (e.g. gold and oil) ... or determined through sophisticated algorithms*”³¹

This section of the Opinion considers AWG in context of each type of Token.

Is AWG a Security Token – No

We have considered AWG in context of a Security Token first, for the reasons noted above.

We are comfortable that AWG is **not** a Security Token as it does not meet the definition of Specified Investment (or Financial Instrument under MIFID); instead we consider it to be a representation of physical gold, an unregulated commodity³².

For completeness, we consider the relevant Specified Investments and Financial Instruments for AWG below.

FCA Specified Investments

- **Deposits** – AWG will not act as a deposit. AWG will be created and then exchanged for monies, in the same manner as gold may be exchanged. Monies paid will not be repaid on a specified event or request.
- **Electronic Money** – AWG is not e-money. Firstly, AWG will exist, regardless of when an individual decides to acquire it, it is not a “pre-paid” product. AWG represents physical gold stored with Vault Partners, whilst this has a linked monetary value i.e. Gold (g) to \$/£/€ this is not the same as a monetary value such as a \$/£/€.
- **Rights under a Contract of Insurance** – AWG will not meet the criteria for this Specified Investment. There is no assumption or transfer of risk between parties, nor will any rights derive in relation to placing of such a risk.
- **Shares etc.** – AWG will not represent a share, stock, voting right, ownership, equity or otherwise in Aurus or any other business. It is a direct representation or right to the underlying gold, that is where the value of AWG will derive. It is not this form of Specified Investment.
- **Debt Instruments** – AWG does not create or acknowledge a form of indebtedness between parties, it is instead representative of an asset secured by the Vault Partner. AWG is not a Debt Instrument.
- **Alternative Finance Investment Bonds (AFIBS)** – this can be discounted for reasons like those outlined in “*Debt Instruments*” above.
- **Warrant** – AWG is not a warrant, as it does not grant rights to the hold to subscribe for other Specified Investments, namely shares or certain debt instruments.
- **Certificates Representing Securities** – AWG does not satisfy the criteria of this Specified Investment, as AWG does not represent an underlying security or Specified Investment falling with RAO Art. 76 – 79 (Shares, Debt Instruments, AFIB, Warrants).
- **Units (in a Collective Investment Scheme (“CIS”))** – AWG will not amount to a Unit in a CIS. By way of reminder, S.235 of FSMA defines a CIS as:
 - o “any arrangements with respect to property of any description, including money, the purpose or effect of which is to enable persons taking part in the arrangements (whether by becoming

³¹ CP19/3, Para. 4.12; this would be different if AWG were to operate as a form of derivative, however for the reasons in this Part and **Annex IV** we are comfortable that AWG is not an Option, Future, Contract for Differences or other form of derivative.

³² CP19/3, para. 3.36 acknowledges this.

owners of the property or any part of it or otherwise) to participate in or receive profits or income arising from the acquisition, holding, management or disposal of the property or sums paid out of such profits or income”.

- *“arrangements must be such that the persons who are to participate do not have day-to-day control over the management of the property, whether or not they have the right to be consulted or to give directions”;* and
- *“arrangements must also have either or both of the following characteristics –*
 - *The contributions of participants **and** the profits or income out of which payments are to be made to them are pooled;*
 - *The property is managed as a whole by or on behalf of the operator of the scheme”.*

The AWG holder may gain profit or make a loss depending on the value of the gold sorted by a Vault Partner, however the AWG holder is also entitled to sell on or exchange AWG as they wish with no underlying requirement to consult a Vault Partner, Minting Partner or Aurus. AWG could also be exchanged further down the distribution chain.

Further, monies for the sale of AWG will not be pooled in any way and the underlying property is merely stored, it is not managed or operated in a way as to derive a profit or loss. Aurus does not sell AWG.

Separately, we content that it is not accurate to consider AWG to be a “unit” within a CIS and the underlying gold sorted with Vault Partners to be deemed the “property”, as there will be numerous Vault Partners, and other entities – Minting Partners will be involved with the creation of AWG, which can then be freely sold and traded for commercial, rather than investment purposes (in context of a CIS).

Derivatives

- **Options** – An Option is the right to acquire or dispose of an asset i.e. gold, in accordance with terms of a contract, at the discretion of a party, and will run for a term. AWG will not fall within this Specified Investment. AWG cannot act as an option as title to the token itself is purchased, and the token is tied to the physical gold, therefore, the AWG holder is entitled to the underlying asset – the gold. Instead, an Option *could* be created over the AWG via a separate contract if desired.
- **Futures** – A Future is a right for sale of a commodity or property with delivery being made at a future date, at a price agreed between parties. AWG is not a Future as there is no requirement to deliver “gold”, AWG is a token that represents the gold and the AWG holder therefore owns the gold physically held by a Vault Partner.
- **Contract for Differences** – AWG does not operate as a Contract for Differences as the sale/transfer of AWG is physically settled through delivery of the AWG from one wallet to another. A Contract for Difference can only be a cash-settled Specified Investment.

The RAO does include certain other categories of Specified Investments, however, these are significantly different to the arrangements intended by Aurus and do not require review³³.

Based on the commentary above, and **Annex IV Table (a)** AWG will not amount to a Specified Investment.

MIFID Financial Instruments

³³ These are listed at Footnote **Error! Bookmark not defined.**

Further, AWG **does not** meet the criteria of the Financial Instruments contained in MIFID; this section is derived from comments at **Annex IV, Table (b)** of the Opinion.

- **C1 – Transferable Securities** – AWG will not amount to a Transferable Security as it does not have the characteristics of Art. 4(1)(44) of MIFID, which defines a Transferable Security as:

“those classes of securities which are negotiable on the capital market, with the exemption of instruments of payment, such as:

- (a) shares in companies and other securities equivalent to shares in companies, partnerships or other entities, and depositary receipts in respect of shares;*
- (b) bonds or other forms of securities debt;*
- (c) any other securities giving the right to acquire or sell any such transferable securities or giving risk to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or measures.*

AWG demonstrates ownership of an off-ledger real-world physical asset, and gold itself is an unregulated commodity. AWG does not satisfy the criteria of the Specified Investments listed earlier in this section, nor the Financial Instruments listed below – therefore it cannot be considered to be a security, albeit that we contend AWG *could* be traded between parties or on markets in the same way that gold may be bought and sold.

- **C2 – Money Market Instruments** – broadly speaking, these instruments are debt instruments. AWX does not represent a debt, so it does not satisfy the criteria of this Financial Instrument.
- **C3 – Units in a Collective Investment Undertaking** – This includes units in a Collective Investment Scheme (which is discounted above) and Units or Shares in an Alternative Investment Fund (“AIF”); AWG does not operate as an AIF.

Art. 4(1)(a) of the Alternative Investment Fund Managers Directive defines an AIF as a collective investment undertaking which: **(a)** *raises capital from investors, with a view to investing in accordance with a defined investment policy for the benefit of those investors;* and **(b)** *does not require authorisation pursuant to Art 5. Of the Undertakings for Collective Investments in Transferable Securities Directive (UCTIS).*

The process of selling or trading AWG will not satisfy **(a)**, and **(b)** is not relevant as this only relates to investment in Transferable Securities.

- **MIFID Derivative Instruments (C4 – C10)**

The FCA Specified Investment section above (and **Annex IV, Table (a)**) outlines why we consider that AWG is not a derivative, the remaining MIFID Financial Instruments (C4 – C10) are further types of derivatives with specific characteristics, for example, Commodity Derivatives.

As we consider AWG is not an Option, Future or a Contract for Differences, we are satisfied that the arrangement will not amount to any form of derivative falling within the C4-C10 definitions. AWG is linked to the underlying gold that it represents, as AWG will only be created/issued to represent gold stored by a Vault Partner. This is distinguished from a derivative instrument, which will be separate to an underlying asset, but derive its value from that same asset.

Is Aurus carrying on a Regulated Activity or Investment Service/Activity requiring FCA authorisation?

AWG is not a Security Token – it does not meet the characteristics of a Specified Investment or a Financial Instrument.

Separately, Aurus' involvement in the creation, distribution and management of AWG is entirely limited to initial AML and audit checks as part of the onboarding process for partners to the blockchain.

Accordingly, Aurus will not be carrying on a Regulated Activity, as it will not be carrying on an activity specified in the RAO for business in relation to a Specified Investment or a Financial Instrument.

Is AWG a Security Token – Conclusion - No

For the reasons set out above, we consider AWG cannot be a Security Token – it does not meet the characteristics of a Specified Investment or a Financial Instrument based on the UK's regulatory perimeter.

AWG – Other Token Characteristics

AWG is not a Security Token, instead, similar to AWX we consider it to be a “hybrid” class of token, evidencing features of both an Exchange Token and Utility Token, whilst being considered a Stablecoin. (interpret in line with definitions provided in CP19/3 and Taskforce Report); green shading denotes similarity to that form of token, red denotes differences.

Exchange Token Characteristics	Utility Token Characteristics
AWG will be issued by Minting Partners, collaborating with Vault Partners and other parties utilising the blockchain solution. This operates in a more decentralised way to a single entity being solely responsible for AWG.	AWG is, collectively, not issued by a single central controlling party, which is ordinarily the case with a form of utility token.
During its lifetime, AWG may be traded or used as a means of exchange at different stages of the distribution chain or network. This can operate P2P without the need for conventional intermediaries.	AWG is linked to underlying gold secured by Vault Partners, which suggests it is derived from a more closed network like a utility token, despite the decentralised nature of the blockchain process for recording transactions.
AWG's value is derived from gold held by a vault partner; and Although not necessarily required for an exchange token, AWG is not mined, or acquired through similar activities	A holder of AWG is derived a service, namely secure storage of physical gold by a Vault Partner, whilst AWG may be held in a digital wallet.
AWG may be held in anticipation of an increase in value, which is common amongst exchange tokens – parties may hold to speculate in the increase in value ³⁴ .	Until AWG is recognised as a true means of exchange, AWG may operate in a more limited network/distribution chain; more akin to how a Utility Token may operate in a closed network.
Exchange tokens may be “pegged”, “backed”, or linked to other Cryptoassets, which could help with volatility, for example.	

AWG – A Stablecoin?

³⁴ CP19/3, Para. 3.36 – 3.37 – the FCA, here, expressly example the holding of a commodity in the hope of a gain akin to holding an Exchange Token (noting this is unregulated) and refers to Exchange Tokens pegged to “*other forms of assets to stabilise against volatility*”.

However, following the definition in **Part 4**, AWG is clearly a Stablecoin. AWG's value is derived from an underlying off-ledger asset it is directly linked to the gold commodity held by Vault Partners.

We do not consider a Stablecoin amounts to a standalone and unique form of Cryptoasset, instead it is a feature of the underlying token, which may be a Security Token *or* a token demonstrating characteristics of an Exchange Token, Utility Token (or these, plus features of a Security Token).

AWG – Conclusion

AWG is not categorised as a Security Token, we content that it is in fact a “hybrid” token – operating with features of both an Exchange Token and a Utility Token, whilst also being a form of Stablecoin.

As with AWX, a token with a range of characteristics so to straddle these definitions is commonplace, particularly where a blockchain project is in growth/development stages, where the features and specific use-case is to develop over time.

The fact AWG is a Stablecoin, from a regulatory perspective, has little influence on its treatment – instead it acts as a useful mechanism to describe the token itself.

³⁵ Schedule 1, Part 2 of PSR

³⁶ Reg. 2 of the PSR defines “Funds” as “*banknotes and coins, scriptural money and electronic money*”; and we consider AWG falls outside the definition of “*electronic money*” as defined in Reg 2. of the EMR.

4. The 5th Anti-Money Laundering Directive & AML Regulation

The 5th MLD was announced by the European Parliament on 19 April 2018, the UK intend to transpose this into National Law by 10 January 2020. It amends the 4th MLD and, amongst other things, brings Cryptoassets into the scope (defined as “Virtual Currencies³⁷”) requiring business to carry out AML checks, undertake due diligence to identify customers and report suspicious transactions.

The 5th MLD focuses solely on direct regulation of: (1) *providers engaged in exchange services between virtual currencies and fiat currencies*; and (2) *Custodian Wallet Providers*³⁸ only.

The UK 5th MLD Consultation

HM Treasury³⁹ published the UK 5th MLD Consultation Paper in April 2019. It considers that all *relevant* activity involving Security Tokens, Exchange Tokens and Utility Tokens should be captured by AML and Counter-Terrorist Financing (“CTF”) regulation.

HM Treasury’s cites an increase in identified cases of Cryptoassets used to launder illicit proceeds as the reasoning for this and considers Cryptoassets pose the greatest threat from an illicit finance perspective at the point of exchange as this is the point of value-realisation.

Further, the Consultation acknowledges that some exchanges and wallet providers will fall outside of the 5th MLD if directly transposed and will not be required within the regulations to identify their customers, monitor transactions or report suspicious activity, making anonymous transactions possible.

HM Treasury proposes the UK should “gold plate” the 5th MLD; so all *relevant* activity in the UK includes:

- Crypto-to-crypto exchange services providers, including firms offering services allowing value transactions within a single Cryptoasset;
- Peer-to-peer exchange service providers, namely firms that facilitate exchange of fiat and Cryptoassets between prospective buyers and sellers;
- Cryptoasset ATM machines, in which users can directly exchange Cryptoassets for fiat;
- ICOs, token sales and other mechanisms for issuance of new Cryptoassets – STOs, IEOs etc.; and
- Publication of open-source software, which includes, but is not limited to, non-custodian wallet software and other Cryptoasset software.

FATF

The UK’s “gold plating” is no surprise, it is a member of FATF – the Financial Action Task Force on Money Laundering, an intergovernmental organisation comprising of c. 36 member jurisdictions representing many the world’s key financial centres.

³⁷ Art. 1(2)(d) 5th MLD defines “Virtual Currencies” as: “*a digital representation of value that is not issued or guaranteed by a central bank or a public authority, is not necessarily attached to a legally established currency and does not possess a legal status of currency or money, but is accepted by natural or legal persons as a means of exchange and which can be transferred, stored and traded electronically*”

³⁸ See Art. 1 (1)© 5th MLD regarding exchange services; and Art. 1 (2)(d) 5th MLD defines “Custodian Wallet Providers” as “*an entity that provides services to safeguard private cryptographic keys on behalf of its customers, to hold, store and transfer virtual currencies*”.

³⁹ HM Treasury forms part of the UK’s Cryptoasset Task Force, responsible for the Taskforce Report.

FAFT, in October 2018, updated its own glossary to provide a broader definition of “Virtual Currencies” than the 5th MLD, instead using the phrase “Virtual Asset⁴⁰”.

In February 2019, FAFT updated its binding Interpretive Notes, to provide clarification in relation to “Virtual Assets”⁴¹:

- *“for the purposes of applying the FATF Recommendations, countries should consider virtual assets as “property”, “proceeds”, “funds”, “funds or other assets”, or other “corresponding value”. Countries should apply the relevant measures under the FATF Recommendations to Virtual Assets and Virtual Asset Service Providers (“VASPs”); and*
- VASPs should be required to be licenced or registered in the jurisdiction they are created, and should be supervised/monitored by a competent authority (for example: the FCA in the UK), rather than self-regulation.

FAFT considers jurisdictions should apply a risk-based approach to ensure measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified; and suggests countries should require VASPs to identify, assess and take effective action to mitigate their money laundering and terrorist financing risks.

⁴⁰ FATF Glossary; “Virtual Asset” defined as: *“a digital representation of value that can be digitally traded, or transferred, and can be used for payment or investment purposes”*. Virtual assets do not include digital representations of fiat currencies, securities and other financial assets already covered elsewhere in FATF Recommendations.

⁴¹ FAFT Recommendation 15, Interpretive note, Para. 1 & 2.

<https://www.fatf-gafi.org/publications/fatfrecommendations/documents/regulation-virtual-assets-interpretive-note.html>

Annex I

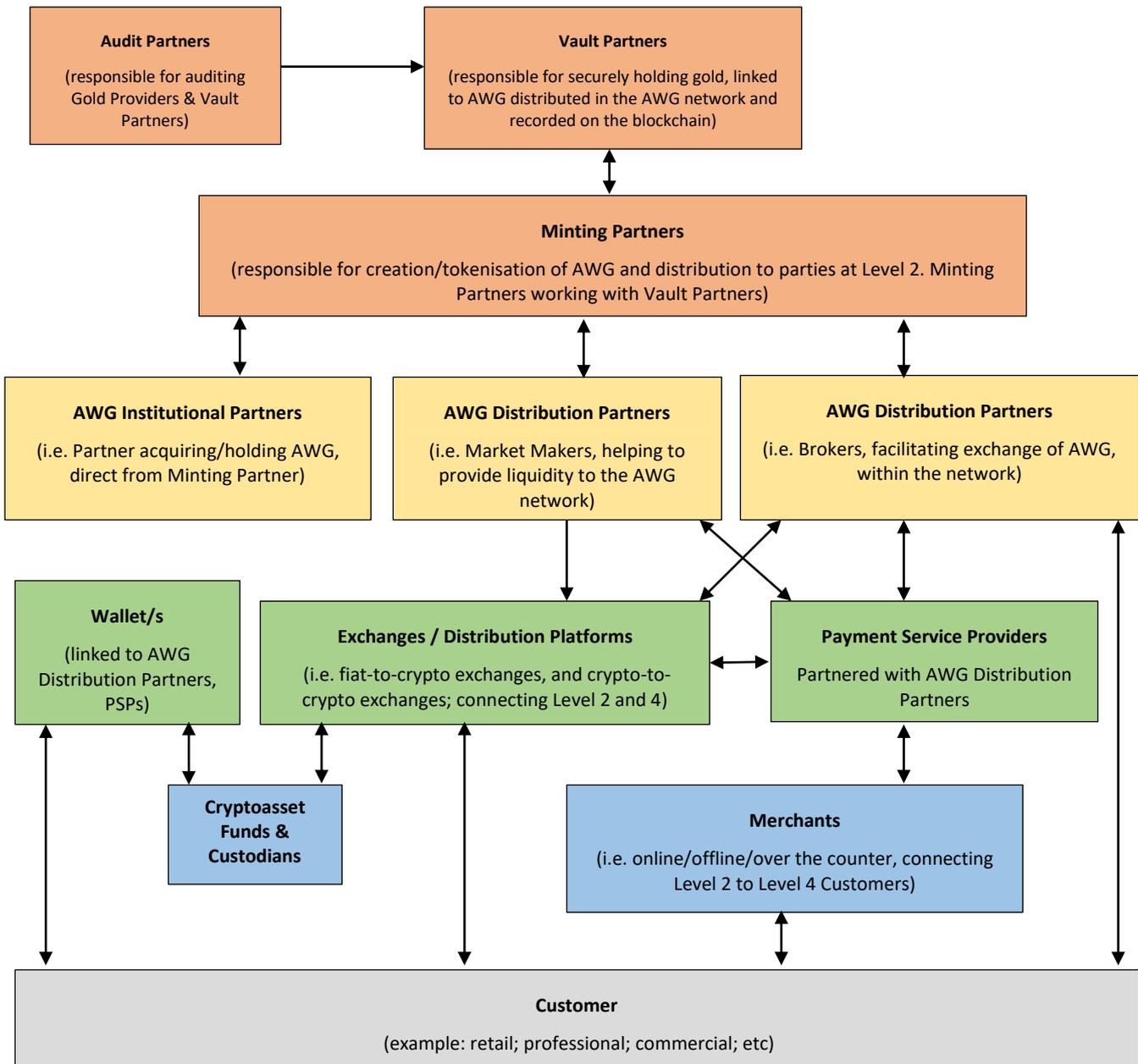
<u>Definition & Glossary</u>	
Term	Defined
5th MLD Consultation Paper	The HM Treasury consultation of the 5 th MLD, published in April 2019.
Aurus	AurusGOLD Limited
5th MLD	The Fifth Money Laundering Directive (EU Directive 2018/843)
Aurus Business Plan	The Aurus Business Plan dated November 2018.
AWG	Aurus Gold, a 100% gold-backed Cryptoasset built on the Ethereum network.
AWG Temporary Reserve	A proportion of the AWG transaction fee charged per AWG transaction, calculated in accordance with the AWG Smart Contract, and collected / distributed to AWX tokens in accordance with the AWX Smart Contract.
AWG Smart Contract	For the purpose of this Opinion, the elements of the Smart Contract/s for the Ethereum blockchain/AWG network, used to calculate fees for each AWG transaction, proportion these fees according to certain perimeters and direct the percentage for the AWG Temporary Reserve to the AWX Smart Contract.
AWX	Aurus Coin, a revenue sharing coin entitling holders to a proportion of AWG Temporary Reserve calculated in accordance with the AWX Smart Contract.
AWX Smart Contract	For the purpose of this Opinion, the element of the Smart Contract/s for the AWX blockchain/network: (1) responsible for the allocating of the AWG Temporary Reserve to AWX tokens, and (2) allowing AWX holders to “call” on the AWG Temporary Reserve to confirm the proportion of AWG due to the specified AWX tokens held.
CP19/3	FCA Guidance on Cryptoassets, Consultation Paper CP19/3 dated January 2019
EMR	Electronic Money Regulations 2011
ESMA ICO Advice	The European Securities & Markets Authority (“ ESMA ”) publication titled: ESMA – Advice on Initial Coin Offerings & Cryptoassets dated 9 January 2019.
ESMA Cryptoasset Survey	The ESMA publication titled: ESMA – Legal Qualification of Cryptoassets – Survey to National Competent Authorities dated 9 January 2019 (Annex 1 of ESMA ICO Advice).
FATF	The Financial Action Task Force on Money Laundering (an intergovernmental organisation comprising of c. 36 jurisdictions, representing the majority of the world's key financial centres (including the UK)).

FCA	Financial Conduct Authority
Financial Instrument	An investment defined in Annex I, Section C of MIFID, requiring regulatory authorisation if related to an Investment Activity.
FPO	Financial Services & Markets Act 2000 (Financial Promotion) Order 2005
FSMA	Financial Services & Markets Act 2000
ICO	Initial Coin Offering
Investment Activity	An activity specified in Annex I, Section C of MIFID, which requires regulatory authorisation when carried on in relation to a Financial Instrument.
MIFID	Markets in Financial Instruments Directive (2014/65/EU)
MIFIR	Market in Financial Instrument Regulation (EU No. 600/2014)
Minting Partners	Aurus-verified partners forming part of the AWG network, engaged for the purpose of creating (i.e. minting or tokenising) AWG linked to physical gold securely held by Vault Partners.
PERG	FCA Perimeter Guidance Manual
RAO	Financial Services & Markets Act 2000 (Regulated Activities) Order 2001
Regulated Activity	A regulated activity, broadly, is an activity carried out in respect of a Specified Investment in the RAO, by way of business.
Specified Investment	A type of investment which is specified in the RAO.
Taskforce Report	The UK Cryptoasset Taskforce: Final Report dated October 2018, prepared by HM Treasury, FCA and the Bank of England
Vault Partners	Aurus-verified partners forming part of the AWG network, engaged for the purpose of securely storing physical gold within the AWG network and recorded on the Ethereum blockchain; Vault Partners working alongside Minting Partners to distribute AWG.

Annex I

<u>Key Source List</u>	
5th MLD	https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018L0843
5th MLD Consultation Paper	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/795670/20190415_Consultation_on_the_Transposition_of_5MLD_web.pdf
CP19/3	https://www.fca.org.uk/publication/consultation/cp19-03.pdf
ESMA ICO Advice	https://www.esma.europa.eu/sites/default/files/library/esma50-157-1391_crypto_advice.pdf
ESMA Cryptoasset Survey	https://www.esma.europa.eu/sites/default/files/library/esma50-157-1384_annex.pdf
Taskforce Report	https://www.fca.org.uk/news/news-stories/cryptoasset-taskforce-publishes-report-uk-approach-cryptoassets
FCA Glossary	https://www.handbook.fca.org.uk/handbook/glossary/
FPO	http://www.legislation.gov.uk/uksi/2005/1529/contents/made
FSMA	https://www.legislation.gov.uk/ukpga/2000/8/contents
MIFID	https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0065
MIFIR	https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0600&from=EN
PERG	https://www.handbook.fca.org.uk/handbook/PERG.pdf
RAO	http://www.legislation.gov.uk/uksi/2001/544/contents/made
UKJT Consultation Paper	UK Jurisdiction Taskforce Consultation Paper, published May 2019 – Cryptoassets, DLT and Smart Contracts https://www.lawsociety.org.uk/news/stories/cryptoassets-dlt-and-smart-contracts-ukjt-consultation/

Annex II - AWG Flowchart



Key	
	Level 1 – Minting & Supply. Onboarding parties to the Ethereum Blockchain/AWG network. Aurus carries out due-diligence, AML processes/KYC checks for Vault and Minting Partners. Audit Partners also engaged to assess gold, Vault Partners etc.
	Level 2 – Liquidity. Minting Partners responsible for due-diligence, AML processes/KYC checks for AWG Distribution Partners, and AWG Institutional Partners. Level 2 is the first stage of AWG distribution; ordinarily on a B2B basis.
	Level 3 – Customer Demand Level. Due diligence process by relevant AWG Distribution Partners. Circulation of AWG starts to reach Customer; or is paired with Customer facing goods/services via Merchants.
	Level 4 – Usage & Trade Level. Any responsibility for due diligence of customers, to sit with Merchants, Brokers.
	Level 5 – Customer Level. Customer may acquire AWG via different sources, the AWG flowchart shows how AWG may be utilised/moved around the Network at different Levels.
↗	The arrows represent AWG transactions, each immutably recorded on the Ethereum Blockchain/AWG Network. Any transaction will see AWG transferred to/from digital wallets of parties. Any fees being payable in AWG and proportioned in accordance with the AWG Smart Contract (a percentage being assigned to the AWG Temporary Reserve for distribution between AWX tokens.