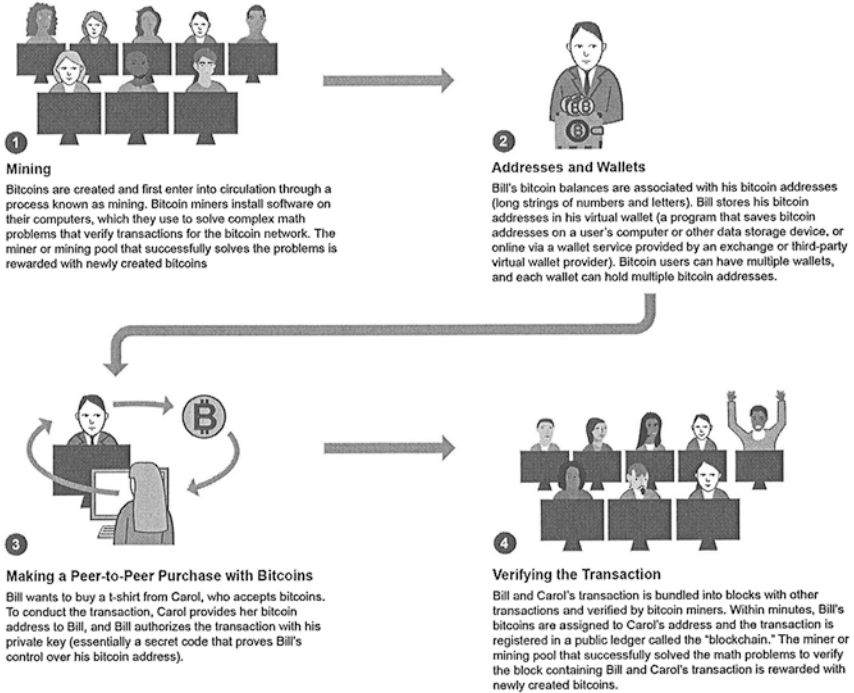


Appendix 1: How Bitcoins Enter into Circulation and Are Used in Transactions

Bitcoin Miners

Bitcoin miners essentially serve two purposes: 1) generating new bitcoins to enter into circulation and 2) verifying transactions by ensuring that they occurred and did not involve double spending of a bitcoin. Over time, the computer processing power needed to mine new bitcoins has increased to the point where mining requires specialized computer hardware and has become increasingly consolidated into large mining pools.



*Government Accountability Office, *Virtual Currencies: Emerging Regulatory, Law Enforcement, and Consumer Protection Challenges*, Report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate, GAO-14-496 (May, 2014), at 42, <https://www.gao.gov/assets/670/663678.pdf>

Appendix 2: SEC Commissioner Jay Clayton’s List of Questions Investors Should Ask Before Engaging in Cryptocurrencies¹

Who exactly am I contracting with?

- Who is issuing and sponsoring the product, what are their backgrounds, and have they provided a full and complete description of the product? Do they have a clear written business plan that I understand?
- Who is promoting or marketing the product, what are their backgrounds, and are they licensed to sell the product? Have they been paid to promote the product?
- Where is the enterprise located?

Where is my money going and what will be it be used for? Is my money going to be used to “cash out” others?

What specific rights come with my investment?

Are there financial statements? If so, are they audited, and by whom?

Is there trading data? If so, is there some way to verify it?

How, when, and at what cost can I sell my investment? For example, do I have a right to give the token or coin back to the company or to receive a refund? Can I resell the coin or token, and if so, are there any limitations on my ability to resell?

If a digital wallet is involved, what happens if I lose the key? Will I still have access to my investment?

If a blockchain is used, is the blockchain open and public? Has the code been published, and has there been an independent cybersecurity audit?

Has the offering been structured to comply with the securities laws and, if not, what implications will that have for the stability of the enterprise and the value of my investment?

What legal protections may or may not be available in the event of fraud, a hack, malware, or a downturn in business prospects? Who will be responsible for refunding my investment if something goes wrong?

If I do have legal rights, can I effectively enforce them and will there be adequate funds to compensate me if my rights are violated?

Note

1. Jay Clayton, Statement on Cryptocurrencies and Initial Coin Offerings (Dec. 11, 2017), SEC Public Statement, <https://www.sec.gov/news/public-statement/statement-clayton-2017-12-11>

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