

Hearing on:
The Future of Digital Assets:
Providing Clarity for the Digital Asset Ecosystem

Tuesday, June 13, 2023

Testimony of:
Aaron Kaplan
Co-CEO and Founder, Prometheus, Inc.
Before the U.S. House of Representatives Financial Services Committee

I. Committee Chairman McHenry, Ranking Member Waters, and esteemed members of the committee:

Thank you for the opportunity to testify at today's hearing on The Future of Digital Assets: Providing Clarity for the Digital Asset Ecosystem. My name is Aaron Kaplan, and I am a founder and Co-CEO of Prometheus Inc. ("Prometheus"). As an attorney, my background is in securities law. Since 2013, I have dedicated my career to the application of distributed ledger technology to the securities industry and the related regulatory issues.

Prometheus and its subsidiaries are building a public market and custodial infrastructure for digital assets securities ("DAS")¹ pursuant to the Federal Securities Laws ("FSLs"). Prometheus has developed proprietary technology in the United States, integrating the requirements and investor protections of securities regulation and efficiencies of distributed ledger technology. Prometheus's subsidiaries are Securities and Exchange Commission ("SEC") registered broker-dealers and Financial Industry Regulatory Authority ("FINRA") members. Prometheus ATS is an SEC registered alternative trading system ("ATS") that matches orders for buyers and sellers of DAS under the FSLs. Prometheus Capital was recently approved as the first special purpose broker-dealer ("SPBD"), meaning it is the first SEC registered custodian for DAS under the FSLs.

By operating under the SEC's established regulatory frameworks through registered entities overseen by the SEC and FINRA, Prometheus provides Americans participating in the crypto/Web3 space with the investor protections of the FSLs. Through this, Prometheus is developing a fair and orderly market, ensuring customers' assets are properly segregated, secured, and custodied.

In the vast majority of cases, crypto is a financial instrument offered to the public as an investment. Intermediaries (e.g., crypto exchanges, custodians, Etc.) are required to be regulated by the SEC based on the services they provide to the public. Properly regulating crypto trading, clearing, settlement, and custody under the securities laws provides a proven mechanism through which to

¹The SEC defines a "digital asset security" to mean "a digital asset that meets the definition of a "security" under the federal securities laws." The SEC further defines a "digital asset" as "an asset that is issued and/or transferred using distributed ledger or blockchain technology ('distributed ledger technology'), including, but not limited to, so-called 'virtual currencies,' 'coins,' and 'tokens.'" <https://www.sec.gov/rules/policy/2020/34-90788.pdf>

allow and encourage responsible participation and innovation while at the same time ensuring that investors are protected.

There has been much discussion lately about the need for greater regulatory clarity for digital assets. The essential point at hand is not about more or less regulation or even new regulation, but rather the application of the existing regulatory frameworks to digital assets.

The FSLs have been tried and tested for almost 90 years and have allowed the United States to establish the world's most trusted and advanced financial markets.

The SEC is the most capable financial markets regulatory agency in the world. The SEC relies on FINRA, a self-regulatory organization ("SRO"), whose mission is market integrity and investor protection to regulate the securities markets. Together, the SEC² and FINRA³ employ approximately 8,000 employees to oversee these vital securities functions.

Put simply, the FSLs and oversight from the SEC and FINRA have proven to be the most effective system to protect investors, operate fair and orderly markets, and protect customers' funds and assets.

As early as July 2017, the SEC put the industry on notice in the DAO Report⁴, stating that digital assets and related financial services could (and likely did) implicate the FSLs. Subsequently, the SEC created a marketplace framework with the release of the Four Step Process on July 8, 2019⁵, and the Three Step Process on September 25, 2020.⁶ Thereafter, the SEC created the framework for the clearance, settlement and custody of DAS through the Special Purpose Broker-Dealer release ("SPBD Release") on December 23, 2020.⁷ These releases provide the framework for a compliant path forward for crypto in the United States.

I want to stress that point: There is a compliant path forward for crypto in the United States that the SEC has clearly laid out.

Those who argue for new laws are simply not willing to comply with existing applicable securities laws and regulations. New legislation is not in the best interest of the investing public or the blockchain industry. Legislative efforts will take years to implement while the American public will continue to operate on reckless, unlawful platforms.

In conclusion, the United States fosters innovation through the vibrancy of our capital markets. U.S. capital markets flourish under the established regulations of the FSLs overseen by the SEC and FINRA. In order for innovation to continue to thrive in the digital asset space, the protections

²<https://www.sec.gov/strategic-plan/about#:~:text=The%20Chair%20is%20responsible%20for,headquarters%20and%2011%20regional%20locations.>

³<https://www.finra.org/careers/working-at-finra#:~:text=Visualize%20yourself%20as%20one%20of,employees%20%E2%80%93%20what%20do%20you%20see%3F>

⁴<https://www.sec.gov/litigation/investreport/34-81207.pdf>

⁵<https://www.sec.gov/news/public-statement/joint-staff-statement-broker-dealer-custody-digital-asset-securities>

⁶<https://www.sec.gov/divisions/marketreg/mr-noaction/2020/finra-ats-role-in-settlement-of-digital-asset-security-trades-09252020.pdf>

⁷<https://www.sec.gov/rules/policy/2020/34-90788.pdf>

afforded by the FSLs need to be in place. Proper regulation under the FSLs is not a hindrance to innovation, rather a prerequisite that will allow innovation to flourish.

Thank you again for the opportunity to testify at this hearing. I look forward to answering any questions.

II. Prometheus Inc. Origin

The founders of Prometheus⁸ initially became interested in the digital assets space in 2013, when Bitcoin was the only digital asset. After researching how the retail public was interacting with the asset, i.e. mainly speculatively investing, and how the markets were developing for the trading of such assets, Prometheus's founders realized that this was possibly the biggest capital markets opportunity since paper trading went electronic. Beyond the interesting question of crypto as a store of value or speculative instrument, the transition from electronic trading with multiple-day settlement cycles, counterparty risks, bloated inefficiencies, Etc., to trading of digital native blockchain-based assets had and has monumental implications for the future of markets.

As the industry blossomed with the initial coin offering ("ICO") boom, it was apparent that tokens issued in ICOs and thereafter were securities, and retail investors needed to be properly protected. In other words, the activities surrounding the issuance, trading, clearance and settlement, and custody of digital assets needed to be properly regulated in order for the potential of the crypto/blockchain industry to be truly realized in the United States.

Regulation requires two (2) elements to work, tested regulatory frameworks and the ability to enforce such frameworks on an ongoing basis. The FSLs have been tried and tested for almost 90 years and have allowed the United States to create and maintain the most developed financial markets in the world. The SEC's long-standing three-part mission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.⁹

The founders of Prometheus realized there was no need to reinvent the wheel. The FSLs are meant to protect primarily retail investors, require trading venues to follow established rules, and ensure customer assets are segregated, secured, and protected. Based on this analysis, it has always been the Prometheus founders' belief that the FSLs were the best framework to regulate digital asset activities (i.e. issuance trading, clearance, settlement, and custody) as well as the intermediaries/financial service providers in the space.

Driven by this thesis, Prometheus's founders saw an opportunity to adopt the FSLs to create an ecosystem that allows for the American public to responsibly participate in the space. When the DAO Report was issued in July 2017, and the industry was put on notice that digital assets and related financial services can (and likely did) implicate the FSLs, Prometheus started the business shortly thereafter with the intention of creating an FSL compliant ecosystem for the issuance trading clearance settlement and custody of digital assets.

⁸ The founders of Prometheus are Martin, Aaron and Benjamin Kaplan

⁹<https://www.sec.gov/our-goals#:~:text=The%20SEC%E2%80%99s%20long%2Dstanding%20%20three,capital%20formation%E2%80%94remains%20its%20touchstone.>

III. Prometheus Digital Asset Subsidiaries

Prometheus Inc. and its subsidiaries are building a public market and custodial infrastructure for DAS licensed with the SEC and FINRA and compliant with the FSLs. In our effort to service the lifecycle of a DAS, Prometheus has secured two (2) SEC registered and FINRA member broker-dealers, with each broker-dealer serving a critical role in our efforts to vertically integrate all aspects of trading, clearing, settlement, and custody.

i) Prometheus Capital LLC (CRD #312784/SEC # 8-70739) is the first and only SEC registered and FINRA member firm to become a SPBD, permitted to custody DAS pursuant to the SEC's SPBD Release.

ii) Prometheus ATS (CRD # 311636/SEC # 8-70624) is a broker-dealer and SEC registered ATS licensed pursuant to the Three Step Process. As an ATS, Prometheus ATS matches retail and institutional buy and sell orders for DAS.

IV. SPBD Application Process

Prometheus Capital recently became the first and only SEC registered and FINRA member firm to become a SPBD, permitted to custody DAS pursuant to the SPBD Release.

Prometheus's team instantly realized the implications of the SPBD Release when it was published in December 2020, and submitted a comment letter¹⁰ during the comment period associated with the SPBD Release. Prometheus spent approximately one (1) year creating the application and significant time thereafter going through numerous iterations and demonstrations pursuant to FINRA Rule 1014.

The application and membership process is complex, challenging, timely, and expensive. When a company receives a license to custody any form of asset, and particularly digital assets, the threshold for licensing and the complexity of the necessary systems and procedures are purposefully high to protect the American public.

Satisfying the protection of the public interest is critical to maintaining America's leadership in innovation and financial markets. Establishing a high bar for licensing for market intermediaries, and particularly SPBDs, will ensure the American investing public is insulated from events similar to the debacles of 2022.

V. Benefits of FSLs and SEC Regulatory Oversight

As SEC registered broker-dealers, Prometheus ATS and Prometheus Capital must comply with the FSLs, which require ongoing filings, disclosures, and controls. As evidenced during the debacles of 2022, regulatory oversight and proper enforcement mechanisms are needed to ensure investor protection and market integrity. Requiring disclosures, filings, and control frameworks are primary ways of achieving these FSL protections. Ongoing regulatory oversight provides

¹⁰<https://www.sec.gov/comments/s7-25-20/s72520-8734178-237104.pdf>

confirmation of FSL compliance.

A. ATS Reporting/Oversight

ATS filings, disclosures, and controls include, but are not limited to, the following:

1. Form ATS - A form filed by an ATS that explains components of their organization, business, and operations. This form is filed with the SEC i) 20 days prior to commencing initial operations and ii) when a material change occurs to the ATS' business as filed in the initial Form ATS filing.
2. Form ATS-R - A form filed with the SEC disclosing an ATS' quarterly activities —both the unit volume and dollar volume of trades in every type of security it handles.
3. Trade Reporting Facilities - Established trade reporting rules require firms to report transactions to FINRA. Multiple facilities exist - OATS, CAT, TRACE, ORF.
4. Exchange Act Rule 15c3-5 (Market Access Rule) - requires broker-dealers with market access or that provide market access to their customers to “appropriately control the risks associated with market access so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system.”¹¹
5. FOCUS reports - (Financial and Operational Combined Uniform Single report). These reports are similar to financial statements and also provide key SEC customer protection and financial responsibility reporting, i.e. SEA 15c3-1 net capital information, reserve formula, and related operational information.
6. SEA Rule 15c3-1 - Proscribes required net capital requirements for broker-dealers.
7. SEA 17a-5(c) - Requires sending customers: i) year-end Audited Statement of Financial Condition and Financial Disclosure statement; ii) Mid-year unaudited Statement of Financial Condition and Financial Disclosure statement.

B. SPBD Reporting/Oversight

SPBD filings, disclosures, and controls include, but are not limited to, the following:

1. SEA 15c3-3 Customer Protection Rules - Requires proper segregation of customer funds and securities from the firm's assets.
2. SEA Rule 15c3-1 - Proscribes required net capital requirements for broker-dealers.
3. FORM 17-H RISK ASSESSMENT REPORT FOR BROKERS AND DEALERS - requires broker-dealers who custody customer assets to disclose information on its affiliates' activities (i.e. parent, subsidiaries, holding companies, Etc.)

¹¹<https://www.finra.org/rules-guidance/guidance/reports/2021-finras-examination-and-risk-monitoring-program/market-access#:~:text=Exchange%20Act%20Rule%2015c3%2D5,participants%2C%20the%20integrity%20of%20trading>

4. SEA 17a-5(c) - Requires sending customers: i) year-end Audited Statement of Financial Condition and Financial Disclosure statement; ii) Mid-year unaudited Statement of Financial Condition and Financial Disclosure statement.

5. FOCUS reports - (Financial and Operational Combined Uniform Single report). These reports are similar to financial statements and also provide key SEC customer protection and financial responsibility reporting, i.e. SEA 15c3-1 net capital information, reserve formula, and related operational information.

6. Form Custody - Identifies custody location of customer cash and securities positions held by broker dealers, including special purpose broker-dealers.

VI. Compliant Crypto in the United States

As set forth in the SEC's various complaints, the trading, distribution, clearing, and settlement of DAS without compliance with the FSLs violates the law. Technology is no substitute for investor protection and the integrity of markets.

The SEC has released regulations on how to compliantly trade and custody DAS with the Three Step Process and SPBD releases and therefore laid out how compliance with the FSLs is achieved.

There is a pathway forward for crypto in the United States. It literally requires following the law.

Innovation and the future of markets have been addressed by the SEC, and Prometheus ATS and Prometheus Capital are examples of how compliance can be achieved under the FSLs.

VII. In Response to Foreign Investor Concerns

On June 5, 2023, in a letter to SEC Chairman Gensler and FINRA's President and CEO, Mr. Robert Cook, Senator Tuberville raised concerns over Prometheus's previous investment from foreign investors with alleged ties to the Chinese Communist Party. Prometheus would like to take this opportunity to state clearly and on the record these concerns are unfounded and without merit.

Prometheus commenced its operations in September 2017, having been conceived and built in the United States by a group of securities lawyers whose years of experience formed the predicate for Prometheus's existence, that all ICOs were securities and subject to the FSL.

While seeking capital and assistance in developing Prometheus's proposed ecosystem for the compliant trading of tokens, now known as DAS, Prometheus was introduced to Shanghai Wanxiang Blockchain Inc. ("Wanxiang") as a leading entity in the crypto industry. In December 2018, Wanxiang's subsidiary Haskey Digital Asset Group Ltd. ("Hashkey") made its investment into Prometheus, and Prometheus and Wanxiang entered into a development agreement.

In December 2018, as part of the investment from Hashkey into Prometheus, Prometheus and Wanxiang agreed to jointly develop a blockchain trading system. Thereafter, in approximately one (1) year, it became clear to Prometheus that joint development was not viable. Upon such realization, Prometheus started to independently develop its own platform. All servers, code, data,

and proprietary technology were created independently of Wanxiang and its affiliates. Prometheus does not use any resource, code, or other assets from Wanxiang or its affiliates in any of its systems.

Prometheus formally terminated all co-development work and strategic relationships with Shanghai Wanxiang Blockchain and its affiliates in October 2021 in an Omnibus Agreement, which was filed with the SEC in November 2021.

The October 21, 2021, Omnibus Agreement terminated the Purchase Agreement, the Joint Development Agreement, the Technology Agreement, and the Rights Agreement (the “Prior Agreements”). As a result, HashKey’s right to purchase Prometheus’s Series A Preferred was terminated. Further, under the terms of the Omnibus Agreement, HashKey has the right to designate one (1) person to be elected to Prometheus’s board of directors, and Prometheus’s founders have the right to designate the remaining six (6) directors. The Omnibus Agreement also provides for a general mutual release of the parties to the Prior Agreements, and confidentiality and non-competition covenants. The Omnibus Agreement is attached hereto.

On June 22, 2021, Prometheus received a request for information from the Committee on Foreign Investment in the United States (“CFIUS”) seeking information regarding Prometheus’s agreements with foreign entities, including Wanxiang and its affiliates. Prometheus submitted multiple responses which seemed to satisfy CFIUS as a formal case has not been opened. Prometheus has had no further inquiries from CFIUS.

On July 12, 2021, Prometheus received a subpoena from the SEC seeking historical information regarding Prometheus and its affiliates. As part of the investigation, the SEC requested all communications with any foreign entity, all vendors, and financial information relating thereto. Prometheus provided all information requested. Prometheus was advised by its SEC counsel that the SEC closed its investigation.

To further protect the confidentiality of Prometheus’s intellectual property, Prometheus adopted new bylaws in 2021. The revised bylaws include provisions that ensure that Prometheus’s confidential intellectual property and proprietary information remain confidential. Under the revised bylaws, each of Prometheus’s officers is responsible for (i) the protection and preservation of the confidentiality of Prometheus’s intellectual property and (ii) required to take all necessary actions to ensure that all disclosure or access to intellectual property will be limited to Prometheus’s employees and the employees of its subsidiaries that require such disclosure or access. The revised bylaws also provide that no use, disclosure, or access to any of Prometheus’s intellectual property shall be provided to any person that is not one of its employees, including non-employee directors, without the express prior written approval of a majority of the board of directors and that any, such use, disclosure or access shall be made pursuant to the terms of a written agreement.

Prometheus’s current systems have been created internally and are the sole intellectual property of Prometheus, and all the rights relating thereto belong to Prometheus. Prometheus has implemented advanced cybersecurity tools and controls to ensure that its systems and information contained within are secure.

Terminating its relationship with Wanxiang and its affiliates resulted in Prometheus writing down its

assets by \$2.475 million.

All of the above was included in the November 4, 2021, Prometheus filing with the SEC.¹²¹³

Wanxiang and its affiliates have no access to any Prometheus code, technology, software, or to the Prometheus ecosystem. Furthermore, all Prometheus code has been developed internally.

Prometheus is proud to be an American-born, bred, and controlled company.

¹²<https://www.sec.gov/Archives/edgar/data/1718271/000101905621000572/offeringcircular.htm>

¹³Any allegations that Prometheus is anything but an American born, bred and controlled company are false and specious as the historical record reflects. See the Appendix attached hereto.

Appendix:

XIII. November 4, 2021 Reg A filing with SEC:

<https://www.sec.gov/Archives/edgar/data/1718271/000101905621000572/offeringcircular.htm>

IX. Omnibus Agreement dated October 20,2021

X. Prometheus comment letter re Custody of Digital Asset Securities by Special Purpose Broker-Dealers (17 C.F.R. Part 240, SEC Rel. No. 34-90788, File No. S7-25-20)

OMNIBUS AGREEMENT

THIS OMNIBUS AGREEMENT (this “**Agreement**”) is made and entered into as of October 20, 2021 (the “**Effective Date**”) by and among PROMETHEUM, INC., a Delaware corporation (the “**Company**”); HASHKEY DIGITAL ASSET GROUP LIMITED, a company organized under the laws of Hong Kong (“**HashKey**”), SHANGHAI WANXIANG BLOCKCHAIN INC., a PRC corporation (“**Wanxiang**”), and solely for purposes of Sections 2.01(d) and 2.02 hereof, the shareholders signatory hereto (the “**Shareholders**”). The Company, HashKey, and Wanxiang are collectively referred to herein as the “**Entity Parties**” and may each be referred to as an “**Entity Party**.”

RECITALS

The following recitals are a material part of this Agreement.

1. The Company and HashKey are parties to that certain Securities Purchase Agreement dated as of December 14, 2018 (the “**Securities Purchase Agreement**”).
2. The Company, HashKey and Wanxiang are parties to that certain Technology Agreement, made and entered into as of December 14, 2018 (the “**Technology Agreement**”).
3. The Company, HashKey, the Management Group (as defined below) and the other signatories thereto as Founders (as defined below) are parties to that certain Investor and Founders Rights Agreement, effective as of December 14, 2018 (the “**Investor and Founders Rights Agreement**”).
4. The Company, and Wanxiang are parties to that certain Strategic Partnership and Joint Development Agreement made and entered into as of December 14, 2018 (the “**Strategic Partnership Agreement**”).
5. The Entity Parties (and for purposes of the Investor and Founders Rights Agreement, the Founders (defined below)) deem it in their respective best interests to terminate the Securities Purchase Agreement, the Technology Agreement, the Investor and Founders Rights Agreement and the Strategic Partnership Agreement (collectively, the “**Prior Agreements**”) effective as of the date hereof and replace the Prior Agreements with this Agreement for the purpose of setting forth the rights and duties of the Entity Parties and to provide for the corporate governance of the Company.

NOW, THEREFORE, in consideration of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Entity Parties agree as follows:

**ARTICLE I.
DEFINITIONS**

1.01 Capitalized Terms. The following capitalized terms used in this Agreement have the meanings set forth below:

“**Affiliate**” means any Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with a Person, and as used in this definition, the term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through ownership of voting securities or other ownership interest by contract, or otherwise.

“**Board**” means the board of directors of the Company.

“**Bylaws**” means the third amended and restated bylaws of the Company, dated October 1, 2021 and all subsequent amendments thereto and restatements thereof.

“**Certificate**” means the certificate of incorporation of the Company, filed in the office of the Secretary of State of Delaware on September 18, 2017, as amended on November 22, 2017 and on January 28, 2021 and all subsequent amendments thereto and restatements thereof.

“**Common Stock**” means the common stock of the Company, par value \$0.00001 per share and any other capital stock of the Company into which such stock is reclassified or reconstituted and any other common stock of the Company.

“**Company**” has the meaning set forth in the Preamble of this Agreement.

“**Digital Asset**” means an asset that is issued and/or transferred using distributed ledger or blockchain technology, including, but not limited to, virtual currencies, coins, tokens and digital assets that meet the definition of a security under the US federal securities laws.

“**Director**” means any member of the Board.

“**Exchange Act**” means the Securities and Exchange Act of 1934, as amended.

“**Founders**” means the Persons set forth on Schedule I hereto.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“HashKey Director” has the meaning set forth in Section 3.01(a)(ii).

“HashKey Group” means HashKey, Wanxiang and each of their Affiliates.

“Holder” means any Person that is or becomes a party to this Agreement.

“Law” means any statute, law, regulation, ordinance, rule, injunction, order, decree, governmental approval, directive, requirement, or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority.

“Management Group” means Martin H. Kaplan, Aaron L. Kaplan and Benjamin S. Kaplan.

“Person” means any individual, partnership, corporation, limited liability company, association, joint stock company, trust, joint venture, unincorporated organization, or other form of business organization, whether or not regarded as a legal entity under applicable Law, or any Governmental Authority or any department, agency or political subdivision thereof.

“Prior Agreements” has the meaning set forth in the recitals to this Agreement.

“Securities Act” means the Securities Act of 1933, as amended.

“Shares” means shares of Common Stock now or hereafter issued to or acquired by a Holder and all shares of capital stock of the Company, including the Common Stock and all or other securities of the Company or any successor of the Company issued or issuable as a result of any stock dividends on, or stock split or reclassification or conversion of, or in exchange for, any such Common Stock or issued or issuable with respect to such Common Stock in connection with any merger or reorganization or similar transaction involving the Company.

“Voting Shares” shall mean the Common Stock and any and all other Shares, by whatever name called, which carry voting rights which are now owned or subsequently acquired by a Holder or an Affiliate of such Holder, however acquired, including, without limitation, through stock splits, stock dividends, reclassifications, recapitalizations and other similar events.

ARTICLE II.

TERMINATION OF PRIOR AGREEMENTS; GENERAL RELEASE

2.01 Termination of Prior Agreements.

(a) The Company and HashKey agree that, on the Effective Date, the Securities Purchase Agreement is terminated and of no further force and effect and that this termination does not effect the shares or warrants for Ember Tokens that have been issued to HashKey through the date hereof. The Entity Parties agree that, as of the Effective Date, HashKey is the owner of 11,479,167 shares of restricted Common Stock and 101,500,000 restricted warrants to purchase 101,500,000 restricted Ember Tokens, in each case, fully-paid and non-assessable and free and clear of all liens and obligations.

(b) The Company and HashKey agree that, on the Effective Date, the Technology Agreement is terminated and of no further force and effect.

(c) The Company and Wanxiang agree that, on the Effective Date, the Strategic Partnership Agreement is terminated and of no further force and effect.

(d) The Company, HashKey and each of the Founders agree that, on the Effective Date, the Investor and Founders Rights Agreement is terminated and of no further force and effect.

2.02 General Release.

(a) HashKey/Wanxiang Release. HashKey and Wanxiang, individually and on behalf of their respective Affiliates, agents, officers, directors, employees, representatives, attorneys, heirs, successors and assigns, hereby fully and finally discharge, covenant not to sue, and forever release any and all actions, claims, causes of action, suits, charges, complaints, demands, debts, dues, sums of money, accounts, contracts, controversies, agreements, promises, obligations, damages, judgments, executions, rights, remedies and liabilities of any kind or character, in law or equity, suspected or unsuspected, past or present, known or unknown, that they may have had (the "**HashKey/Wanxiang Release**") against the Company, the Shareholders and each of their respective affiliates, subsidiaries, parent companies, predecessors, and successors, and all of their respective past and present officers, directors, stockholders, partners, members, employees, agents, representatives, plan administrators, attorneys, insurers, and fiduciaries (each in their individual and corporate capacities)(the "**Released Company Parties**"). For the avoidance of all doubt, the HashKey/Wanxiang Release includes any and all claims arising out of or relating in any way to any of the Prior Agreements, from the beginning of time up through and including the Effective Date.

(b) Company/Shareholders Release. The Company and the Shareholders, individually and on behalf of their respective Affiliates, agents, officers, directors, employees, representatives, attorneys, heirs, successors and assigns, hereby fully and finally discharge, covenant not to sue, and forever release any and all actions, claims, causes of action, suits, charges, complaints, demands, debts, dues, sums of money,

accounts, contracts, controversies, agreements, promises, obligations, damages, judgments, executions, rights, remedies and liabilities of any kind or character, in law or equity, suspected or unsuspected, past or present, known or unknown, that they may have had (the "**Company/Shareholders Release**") against the HashKey, Wanxiang and each of their respective affiliates, subsidiaries, parent companies, predecessors, and successors, and all of their respective past and present officers, directors, stockholders, partners, members, employees, agents, representatives, plan administrators, attorneys, insurers, and fiduciaries (each in their individual and corporate capacities)(the "**Released HashKey Parties**"). For the avoidance of all doubt, the Company/Shareholders Release includes any and all claims arising out of or relating in any way to any of the Prior Agreements, from the beginning of time up through and including the Effective Date.

(c) **Bar to Future Suit.** The Entity Parties and the Shareholders agree and warrant that they shall not bring, commence, institute, maintain, or prosecute, or allow any person, entity or organization to bring, commence, institute, maintain, or prosecute in her name, any other action at law or in equity or any legal proceeding, claim, or counterclaim whatsoever, against any of the Company Released Parties or the HashKey Released Parties, as the case may be, arising out of or relating in any way to the Prior Agreements other than to enforce this Agreement or based on an alleged breach of this Agreement. The Entity Parties agree that this Agreement may be pleaded as a full and complete defense to, and may be used as a basis for injunctive relief against, any action, suit, or other proceeding that may be instituted, prosecuted, or attempted in breach of this Agreement. To the extent allowable by law, the Entity Parties agree to waive the requirement of a bond or security to pursue injunctive relief.

ARTICLE III. MANAGEMENT OF THE COMPANY

3.01 Board of Directors.

(a) **Number of Directors.** As of the Effective Date, the Company's Board consists of seven (7) members. The number of directors may thereafter be increased or decreased in accordance with the Certificate and the Bylaws and the provisions of this Agreement.

(b) **Term.** Each such Director shall hold office until the next annual meeting of the shareholders of the Company (or a special meeting of shareholders held in lieu thereof) and until his or her successor is duly elected and qualified or until his or her earlier resignation or renewal.

(c) **Voting.** Each of the Holders agrees to vote all of the Voting Shares owned by such person and otherwise to use such person's best efforts to elect to the Board at the next annual meeting of shareholders of the Company and subsequent annual meetings or at any special meeting at which directors are to be elected as follows;

- (i) One (1) director designated by HashKey (the "HashKey Director") who shall initially be Dr. Xiao Feng; and
 - (ii) Six (6) directors designated by the Management Group. One of the directors designated by the Management Group shall also be appointed Chairman of the Board. Martin H. Kaplan shall be Chairman of the Board.
- (d) Notices. Each person entitled to designate one or more directors pursuant to the provisions of this Section 3 shall furnish written notice of its director-designees to the other Holders prior to any election of directors. In the absence of such notice, the director-designees then serving and previously designated shall be reelected if still eligible to serve as provided herein.
- (e) Vacancies.
- (i) Any vacancy on the Board created by the resignation, removal, incapacity or death of any Person designated under this Section 3 shall be filled by another person designated by the original designating party and consented to by the Management Group (which consent shall not be unreasonably withheld). The Holders shall vote their respective Voting Shares in accordance with such new designation, and any such vacancy shall not be filled in the absence of a new designation by the original designating party or by each of the other members of the Board, as the case may be.
 - (ii) Any vacancy on the Board created by an increase in the number of directors pursuant to the Certificate and the Bylaws shall be filled by a Person designated by the Management Group. The Holders shall vote their respective Voting Shares of Common Stock in accordance with such new designation.
- (f) Removal. The Holders who are entitled to appoint a Director hereunder may remove such Director at any time and from time to time and, subject to consent (which shall not be unreasonably withheld) of the Management Group, designate his or her successor by written notice to the Company and the other Holders. Provided the Management Group has approved the successor, the other Holders agree to vote their Voting Shares for such removal and for the election of the successor so designated.
- (g) Covenant to Vote. Each Holder shall appear in person or by proxy at any meeting of Shareholders for the purpose of establishing a quorum and shall vote the Voting Shares owned by such Holder upon any matter in a manner so as to be consistent and not in conflict with, and to implement, the terms of this Agreement. Each Holder also agrees to execute and deliver unanimous or majority written consents of shareholders of the Company in lieu of attendance at a meeting of shareholders meeting if required to implement the terms of this Agreement or to approve or authorize corporate action consistent with the terms hereof.

(h) Termination of Rights. The right of the HashKey to appoint a HashKey Director shall terminate at such time as HashKey no longer owns at least ten (10%) percent of the issued and outstanding Voting Shares.

**ARTICLE IV.
RIGHTS AND OBLIGATIONS OF HOLDERS**

4.01 Schedule 13D Filing.

(a) The Entity Parties agree to comply with all obligations under the Exchange Act, including but not limited to, Section 13 thereof.

4.02 Non-Competition, Non-Disclosure and Non-Solicitation Covenants.

(a) Covenants. Each of HashKey and Wanxiang, on behalf of itself and its respective subsidiaries, covenants and agrees that during the term of this Agreement, and for a period of five (5) years after the Effective Date, it shall not, for its own account or jointly with another, directly or indirectly, for or on behalf of any other Person (except for the Company or an Affiliate of the Company), as a principal, agent or otherwise:

(i) own, control, manage, be employed by, perform consulting services or otherwise knowingly participate in, any business engaged in the clearance, trade, settlement or custody of digital asset securities in the Trade Area (as defined below) which competes with the digital asset securities business of the Company or its Affiliates, including, but not limited to, a Person which is directly or indirectly engaged in, or seeking to engage in (i) the business of operating, developing or offering venues or platforms for Persons to engage in transactions in digital asset s, including but not limited to issuance of and secondary trading, clearing, and settlement of digital asset transactions, and/or (ii) the provision of custody and control of digital assets (the “**Restricted Business**”); for the avoidance of doubt, HashKey, Wanxiang and their respective subsidiaries shall not license directly or indirectly to anyone in the Trade Area the software developed with the Company;

Notwithstanding the above, making a passive investment into any Person which has its business in the Trade Area by HashKey, Wanxiang or their respective subsidiaries solely as a financial investor will not constitute an activity that is prohibited as a Restricted Business pursuant to this section.

(ii) solicit or attempt to solicit any Person who is an employee, consultant or advisor of the Company or its Affiliates (or who has served in such capacity during the twelve (12) months preceding the solicitation) by the Company or any of its Affiliates to terminate its services to the Company or its Affiliates, whether or not such services are pursuant to a written contract; or

(iii) solicit, contact or deal with any Person who is or was a Customer or prospective Customer of the Company or any of its Affiliates in the Trade Area for the purpose of providing Restricted Business which are competitive with the services or products provided by the Company or its Affiliates (for purpose of this provision, a Customer or prospective Customer is any Person to whom the Company or its Affiliates provides or provided products or services, or with whom the Company or its Affiliates had or has material contacts for the purposes of soliciting business, at any time during the one-year period prior to termination of Agreement).

(b) Trade Area. As used herein, the term “**Trade Area**” means the United States of America including its territories and provinces and Canada.

(d) Enforcement. Each of HashKey, Wanxiang and their respective subsidiaries acknowledges that the covenants contained in this Article IV are reasonable in scope and in all other respects, do not constitute a material restraint of trade and are essential to protect the Company’s business. Each of HashKey, Wanxiang and their respective subsidiaries further acknowledges that if it breaches any covenant contained in this Article IV, the Company would suffer immediate and irreparable injury for which no remedy at law would be adequate. Accordingly, the Company will be entitled to an injunction restraining any breach or threatened breach of any covenant in this Article IV and need not post any bond or other security or show actual damages. The exercise by the Company of its rights under this Section 4.02 does not limit any other rights or remedies that the Company may have. No failure by the Company to pay compensation to any of the entities comprising the HashKey Group nor any claim or cause of action that any of the entities comprising the HashKey Group may have against the Company, whether predicated on this Agreement or otherwise, will be an excuse or defense for any failure by any of HashKey, Wanxiang and their respective subsidiaries to abide by this Article IV or constitute a defense to the enforcement of this Article IV by the Company. The Company’s rights and remedies under this Article IV are cumulative and do not limit any other rights or remedies it may have.

(e) Blue Pencil. If any court of competent jurisdiction determines that any of the covenants set forth in this Article IV, or any part thereof, is unenforceable because of the scope or duration of such provision, such court shall have the power to modify any such unenforceable provision in lieu of severing such unenforceable provision from this Agreement in its entirety, whether by rewriting the offending provision, deleting any or all of the offending provision, adding additional language to this Article IV or by making such other modifications as it deems warranted to carry out the intent and agreement of the parties as embodied herein to the maximum extent permitted by applicable law. The parties hereto expressly agree that this Agreement as so modified by the court shall be binding upon and enforceable against each of them.

ARTICLE V.
RESTRICTIONS ON TRANSFER

5.01 Rule 144 Acknowledgment. Each Holder acknowledges that such Person is familiar with Rule 144 of the rules and regulations of the Commission, as amended, promulgated pursuant to the Securities Act (“**Rule 144**”), and that such Person has been advised that Rule 144 permits, only under certain circumstances, the resale of restricted securities such as the Shares now held or being acquired by such Person contemporaneously with the execution of this Agreement, but that Rule 144 is not currently, and may not in the future become, available to permit resales by such Person of any Shares. Each Holder understands that, to the extent that Rule 144 is not available, such Person will be unable to sell any Shares without either registration under the Securities Act or the existence of another exemption from such registration requirement, and that the Company has no obligation whatsoever to any Holder to register any Shares.

5.02 Further Restrictions on Transfer. Until December 14, 2021, no Holder or any transferee of a Holder’s Shares, shall directly or indirectly or by operation of Law, (a) offer, pledge, sell, assign, exchange, pledge, gift, transfer, contract to sell, grant, lend, or make any other disposition (collectively, “**Transfer**”), any Shares or any securities convertible into or exercisable or exchangeable for Shares, whether now owned or hereafter acquired by the undersigned or with respect to which the undersigned has or hereafter acquires the power of disposition (collectively, the “**Lock-Up Securities**”); (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Lock-Up Securities, whether any such transaction described in clause (a) or (b) above is to be settled by delivery of Lock-Up Securities, in cash or otherwise; (c) make any demand for or exercise any right with respect to the registration of any Lock-Up Securities; or (d) publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement relating to any Lock-Up Securities.

5.03 Permitted Transfers. Notwithstanding Section 5.01, but subject to any restrictions under the US federal securities laws and any securities laws of any State of the United States of America, the Lock-Up Securities of each Holder may be Transferred under the following circumstances:

- (a) any Holder who is an individual may Transfer all or any of his or her Lock-Up Securities to a trust, family limited partnership or limited liability company for the benefit of such Holder, his or her spouse, lineal descendants or ancestors, provided that such Holder retains the sole right to control the exercise of all rights under this Agreement with respect to such Lock-Up Securities;
- (b) any Holder who is an individual may Transfer all or any of his or her Lock-Up Securities, upon his or her death, by will or the laws of descent and distribution;

(c) any Holder who is an individual may Transfer all or any of his or her Lock-Up Securities to any entity Person in which the Holder owns and retains all of the outstanding equity interests provided such transferee becomes a party to this Agreement;

(d) any Holder who is an entity may Transfer all or any of its Lock-Up Securities to any entity Person in which the Holder owns and retains at all times while this Agreement is in effect 100% of (i) the issued and outstanding equity interests, and (ii) the voting securities of such entity Person transferee provided such transferee becomes a party to this Agreement; and

(e) any Holder may Transfer all or any of such Holder's Lock-Up Securities with the prior written consent of at least a majority of the Board, which shall also require prior written consent of at least one (1) Founder Director if HashKey is making such Transfer and the HashKey Director if a Founder is making such Transfer.

5.04 No Transfers to Bad Actors. No Holder shall, directly or indirectly, Transfer any Lock-Up Securities to any Person (other than the Company) unless and until the proposed transferee confirms to the reasonable satisfaction of the Company, which shall not be unreasonably withheld, that neither the proposed transferee nor any of its directors, executive officers, other officers that may serve as a director or officer of any company in which it invests, general partners or managing members, nor any Person that would be deemed a beneficial owner of those Lock-Up Securities (in accordance with Rule 506(d) of the Securities Act) is subject to any of the "bad actor" disqualifications described in Rule 506(d)(1)(i) through (viii) under the Securities Act ("**Bad Actor Disqualifications**"), except as set forth in Rule 506(d)(2)(ii) or (iii) or (d)(3) under the Securities Act and disclosed, reasonably in advance of the Transfer, in writing in reasonable detail to the Company. Each Holder will promptly notify the Company in writing if the Holder or, to the Holder's knowledge, any Person specified in Rule 506(d)(1) under the Securities Act becomes subject to any Bad Actor Disqualification.

5.05 Market Standoff.

(a) In the event of a public offering by the Company (or any successor to the Company) of its Equity Securities (defined below), pursuant to an effective registration statement filed under the Securities Act, or a qualified offering statement filed pursuant to Regulation A, promulgated under the Securities Act, the Shareholders, Wanxiang and HashKey, each covenant and agree, that they will not sell, make any short sale of, loan, hypothecate, pledge, grant any option for the purchase of, or otherwise dispose of or transfer for value or otherwise agree to engage in any of the foregoing transactions with respect to any Equity Securities of the Company however or whenever acquired (except for those being registered or qualified) without the prior written consent of the Company. Such limitations shall be in effect for such period of time as may be requested by the Company; provided, however, that in no event shall such period exceed 180 days after the effective date of the registration statement, or qualification date of the offering statement, for such public offering, plus such additional period as may requested by the

underwriter or placement agent for such public offering, if any, as is necessary to comply with regulatory restrictions on the publication of research reports (including, but not limited to, FINRA Rule 2241, or any amendments or successor rules). If requested, each of the Shareholders, Wanxiang and HashKey will execute an agreement reflecting the limitation of this Section 5.04 as may be requested by the Company, or if applicable, the underwriter or placement agent for such public offering.

(b) For purposes hereof, “Equity Securities” means (a) the common and preferred stock of the Company; (b) any securities conferring the right to purchase common or preferred stock; (c) any securities directly or indirectly convertible into, or exchangeable for (with or without additional consideration) common or preferred stock; (d) smart security tokens of the Company, including the Company’s ember tokens, when and if created (collectively, with any other blockchain based securities of the Company, “Digital Securities”); and (e) any securities directly or indirectly convertible into, or exchangeable for (with or without additional consideration) Digital Securities.

5.06 Stop-Transfer Instructions. In order to enforce the limitations of this Article V, the Company reserves the right to impose stop-transfer instructions with respect to any Equity Securities subject to the foregoing provisions until any applicable restrictions on transfer expire.

ARTICLE VI. CONFIDENTIALITY

6.01 Confidentiality Obligation. In connection with providing services to the Company pursuant to the Prior Agreements, each Entity Party, and their respective officers, directors employees and Affiliates, and the respective officers, directors and employees of such Affiliates (the “Receiving Party”) may have been provided or had access to certain information, including Confidential Information (as defined below) of any other Entity Party (the “Disclosing Party”). At all times during the term of this Agreement, and for a period of three (3) years following the termination of this Agreement, the Receiving Party shall hold all Confidential Information in strict confidence and not to disclose any Confidential Information to any third party, except as required by law, regulation or legal or judicial process. The Receiving Party shall not use any Confidential Information for their benefit, or for the benefit of any their Affiliates, or any other third party. The Receiving Party shall take the same degree of care that they use to protect their own confidential and proprietary information and materials of similar nature and importance (but in no event less than reasonable care) to protect the confidentiality and avoid the unauthorized use, disclosure, publication or dissemination of the Confidential Information. No Receiving Party shall make any copies of the Confidential Information. No Receiving Party shall decompile, disassemble or otherwise reverse engineer any Confidential Information or any portion thereof, or determine or attempt to determine any source code, algorithms, methods or techniques embodied in any Confidential Information or any portion thereof.

6.02 Confidential Information. For purposes of this Agreement, “Confidential Information” means any and all information, technical and non-technical data, know-how, trade secrets,

intellectual property, ideas, inventions, processes, techniques, methodologies, algorithms, programs (whether in source code or object code form), hardware, devices, and all other confidential or proprietary information, including without limitation, information relating to past, present or proposed business plans, strategies, projects, services, customers, potential customers, partners, potential partners, product development efforts, the marketing or promotion of any product or services, business policies or practices, financial forecasts or results, and other information relating to the business, operations and affairs of the Disclosing Party or any of its Affiliates, whether in writing, or in oral, graphic, electronic or any other form, regardless of whether marked confidential or proprietary, the manner or form in which it is provided, or whether tangible or intangible, furnished by or on behalf of the Disclosing Party prior to the Effective Date or after the Effective Date. Confidential Information shall not include information that (i) is or becomes generally available to the public other than as a result of an act or omission by the Receiving Party, (ii) was within the Receiving Party's possession prior to it being furnished to it by the Disclosing Party or any of its representatives, provided that the source of such information was not otherwise prohibited from transmitting the information by a contractual, legal, fiduciary or other obligation, or (iii) becomes available to the Receiving Party on a non-confidential basis from a source other than the Disclosing Party or any of its representatives, provided that the source of such information was not otherwise prohibited from transmitting the information by a contractual, legal, fiduciary or other obligation.

6.03 Ownership. All Confidential Information (including, without limitation, all copies, extracts and portions thereof) is and shall remain the sole property of the Disclosing Party. No Receiving Party acquired (by license or otherwise, whether express or implied) any intellectual property rights or other rights under the Prior Agreements or this Agreement, except the limited right to use such Confidential Information in accordance with the express provisions of the Prior Agreements.

6.04 Remedies. Each Entity Party agree that, due to the unique nature of the Confidential Information, the unauthorized disclosure or use of the Confidential Information may cause irreparable harm and significant injury to the Disclosing Party, the extent of which may be difficult to ascertain and for which there may be no adequate remedy at Law. Accordingly, each Entity Party agree that the Disclosing Party, in addition to any other available remedies, shall have the right to seek an immediate injunction and other equitable relief enjoining any breach or threatened breach of this Agreement. The Receiving Party shall notify the Disclosing Party in writing immediately upon either of them becoming aware of any such breach or threatened breach.

6.05 Return of Materials. If requested by the Disclosing Party, (a) the Receiving Party shall promptly return to the Disclosing Party or destroy all materials (in written, electronic or other form) containing or constituting Confidential Information, including any copies and extracts thereof, and (b) the Receiving Party shall not use such Confidential Information in any way for any purpose.

6.06 Protective Arrangements. In the event that any Receiving Party either determines on the advice of its counsel that it is required to disclose any information pursuant to applicable Law or receives any request or demand under lawful process or from any Governmental Authority to disclose or provide information of the Disclosing Party(or any of the Disclosing Party's Affiliates) that is subject to the confidentiality provisions hereof, such Receiving Party will notify the Disclosing Party (to the extent legally permitted) as promptly as practicable under the circumstances prior to disclosing or providing such information and will cooperate, at the Disclosing Party's cost and expense, in seeking any appropriate protective order reasonably requested by the Disclosing Party.

ARTICLE VII. RIGHTS OF HASHKEY

7.01 Definitions. For the purpose of this section, the following terms shall have the following meanings:

(a) A "Qualifying Offer" means a bona fide written offer from an un-Affiliated third (3rd) party (a "**Proposed Transferee**") to purchase Shares then held by a member of the Management Group or the HashKey Group. A Qualifying Offer must be contained in a binding written agreement and be accompanied by evidence which reasonably demonstrate the ability of the Proposed Transferee to purchase such Shares.

(b) Selling Group means either the Management Group or the HashKey Group, that has received a Qualifying Offer that it wishes to accept.

(c) Tag-Along Notice means a notice sent by the Selling Group, to either the Management Group or the HashKey Group, as applicable. Any Tag-Along Notice shall be in writing and shall include all of the material terms of the Qualifying Offer and the identity of the Proposed Transferee.

(d) Tag-Along Group shall mean the recipient of a Tag-Along Notice.

7.02 Tag-Along Rights.

(a) In the event that a member of a Selling Group receives a Qualifying Offer from a Proposed Transferee which the Selling Group in its sole discretion, wishes to accept, the Selling Group shall deliver Tag-Along Notice' to the Tag-Along Group which will have the right to participate proportionately as set forth below in the sale to the Proposed Transferee,

(b) In the event that the Tag-Along Group elects to participate in the sale, the Tag-Along Group will send written notice to the Selling Group that it is exercising its Tag-Along rights. After delivery of such notice, the Tag-Along Group will participate in the

sale to the Proposed Transferee on the same price, terms and conditions as the Selling Group,

(c) If the Proposed Transferee will not purchase all of the Shares which the Selling Group and the Tag-Along Group wish to sell, the percentage of Shares which each of the members of the Selling Group and Tag-Along Group will be permitted to sell to the Proposed Transferee will equal to the product of (i) the number of Shares which the Proposed Transferee desires to purchase, multiplied by (ii) by a fraction, (a) the numerator of which is the number of Shares owned by the Selling Group or the Tag-Along Group as applicable, and (b) the denominator of which is the aggregate number of Shares owned by the Selling Group and the Tag-Along Group.

(d) The Tag-Along Group may exercise its rights under Section 7.01(a) above by providing written notice to the Selling Group within ten (10) days after the date of delivering the Tag-Along Notice.

(e) The Tag-Along rights pursuant to this Section 7.01 shall not apply to any Transfer made pursuant to any merger and/or acquisition, in which 100% of the Company's issued and outstanding Common Stock and preferred stock (if any) are acquired.

7.03 Preemptive Rights. HashKey shall have a one-time preemptive right to purchase up to \$5 million of any Company Securities upon the entry into a binding letter of intent by the Company with a third-party investor to purchase no less than \$5 million of Company Securities on the same terms and conditions. HashKey will have 5 days following written notice by the Company to it to exercise this right. Such notice by the Company shall include the price and terms and conditions upon which the Company proposes to issue the Company Securities.

ARTICLE VIII. GENERAL PROVISIONS

8.01 Notices. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile or electronic mail (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) two (2) Business Days after deposit with a reputable international courier service with 2nd day delivery specified, in each case, properly addressed to the party to receive the same. The addresses, facsimile numbers and e-mail addresses for such communications shall be:

If to the Company or any Founder:

Prometheum, Inc.

120 Wall Street, 25th Floor
New York, NY 10005
Telephone: (212) 514-8369
Facsimile: (212) 809-4147
Attn: Benjamin S. Kaplan, Co-Chief Executive Officer
Email: bkaplan@prometheum.com

If to HashKey/Wanxiang:

HashKey Digital Asset Group Limited
614-615, Level 6, Cyberport 3
100 Cyberport, Hong Kong
Telephone: (852) - 3598-3078
Facsimile: (852) - 8343-0950
Attn: Ben El-Baz
Email: ben.elbaz@hashkey.com

8.02 Governing Law. This Agreement and the terms and conditions set forth herein, shall be governed by and construed solely and exclusively in accordance with the internal laws of the State of New York without regard to the conflicts of laws principles thereof. The parties hereto hereby expressly and irrevocably agree that any suit or proceeding arising directly or indirectly pursuant to or under this Agreement shall be brought solely in a federal or state court located in the City, County and State of New York. By its execution hereof, the parties hereto covenant and irrevocably submit to the in personam jurisdiction of the federal and state courts located in the City, County and State of New York and agree that any process in any such action may be served upon any of them personally, or by certified mail or registered mail upon them or their agent, return receipt requested, with the same full force and effect as if personally served upon them in New York, New York. The parties hereto expressly and irrevocably waive any claim that any such jurisdiction is not a convenient forum for any such suit or proceeding and any defense or lack of in personam jurisdiction with respect thereto. In the event of any such action or proceeding, the party prevailing therein shall be entitled to payment from the other parties hereto of all of its reasonable counsel fees and disbursements.

8.03 Specific Performance. Each party hereto acknowledges and agrees that in the event of any breach of this Agreement by any of them, the other parties hereto would be irreparably harmed and could not be made whole by monetary damages. Each party accordingly agrees to waive the defense in any action for specific performance that a remedy at law would be adequate and that the parties, in addition to any other remedy to which they may be entitled at law or in equity, shall be entitled to specific performance of this Agreement without the posting of bond.

8.04 Headings. The Article and Section headings of this Agreement are for convenience only, do not form a part of this Agreement, and will not in any way affect the interpretation hereof.

8.05 Parties in Interest. Nothing in this Agreement will be construed to be for the benefit of or enforceable by any Person not a party to this Agreement, including, but not limited to, any creditor of the Company, other than the Persons entitled to indemnification.

8.06 Further Assurances. The parties will execute and deliver such further instruments and do such further acts and things as may reasonably be required to carry out the intent and purposes of this Agreement.

8.07 Remedies Cumulative. Except as otherwise provided herein, no remedy conferred upon or reserved to the Company or any other party by this Agreement is intended to be exclusive of any other remedy. Except as otherwise provided herein, each and every such remedy will be cumulative and will be in addition to any other remedy given to the Company or any other party hereunder or now or hereafter existing at law or in equity or by statute.

8.08 Successors and Assigns. Subject to the restrictions on Transfer set forth in this Agreement will bind and inure to the benefit of the parties hereto and their respective successors and assigns.

8.09 Legal Fees. In the event that any party should commence legal proceedings with respect to the rights and duties of the parties to this Agreement, the prevailing party in such legal proceedings will be entitled to reimbursement from the non-prevailing party of all legal fees and expenses incurred in such proceedings.

8.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original and all of which will constitute one and the same agreement.

8.11 Entire Agreement. The terms and conditions of this Agreement constitutes the entire agreement between the parties concerning the subject matter hereof, and will supersede all previous communications, either oral or written, between the parties hereto, and no agreement or understanding modifying this Agreement will be binding upon any party unless such modification is in writing and signed by such party.

8.12 Waivers and Amendments. This Agreement, and any and all provisions of this Agreement, may be waived, modified or amended from time to time with the prior affirmative vote of at least a majority of the Board and the prior written approval of the HashKey and Wanxiang, provided that the HashKey Group owns no less than ten (10%) percent of the Company's issued and outstanding Common Stock at such time, except that any waiver, modification or amendment that adversely affects the rights of HashKey Group or additionally increase the obligations of HashKey Group shall require the consent of HashKey and Wanxiang.

8.13 Interpretive Principles. Unless the context otherwise clearly requires, as used in this Agreement, the masculine pronoun shall include the neuter and the feminine and the neuter pronoun shall include the masculine and the feminine. This Agreement shall be construed

without regard to any presumption or rule requiring construction against the party causing an instrument or any portion thereof to be drafted. For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires (a) the words “herein,” “hereof” and “hereunder” and other words of similar import refer to this Subordination Agreement as a whole and not to any particular provision; (b) the terms “include” and “including” mean without limitation by reason of enumeration; and (c) the term “or” has, except where otherwise indicated, the inclusive meaning represented by the phrase “and/or.”

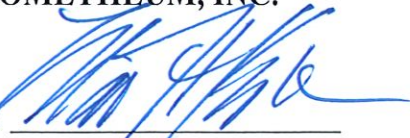
8.14 Termination of this Agreement. This Agreement shall terminate and have no further force and effect upon the closing of the IPO of the Common Stock (or of the common stock of a successor entity and/or a parent thereof to the Company), except that Section 2.02, Section 3.01, Article IV, Article VI, and this Section 8.14 all of which shall survive an IPO.

[REMAINDER OF PAGE INTENTIONALLY BLANK]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

COMPANY:


PROMETHEUM, INC.

By: 

Name: Martin H. Kaplan
Title: Chairman

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

IIASHIKEY DIGITAL ASSET GROUP LIMITED

By: 
Name: Dr. Xiao Feng
Title: Director

SHANGHAI WANXIANG BLOCKCHAIN INC.

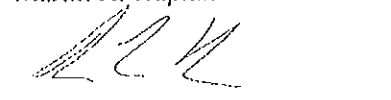
By: 
Name: Dr. Xiao Feng
Title: Chairman

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

SHAREHOLDERS:



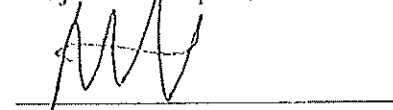
Martin H. Kaplan



Aaron L. Kaplan

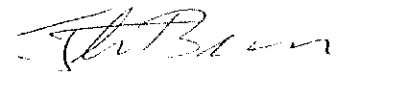


Benjamin S. Kaplan



Lawrence G. Nusbaum

Junichi Watanabe



Jonathan Braun

Jerry Schneider

Alex Shapiro

Gareth Jenkins

SCHEDULE I

Founders

Founder Name
Martin H. Kaplan
Aaron L. Kaplan
Benjamin S. Kaplan
Lawrence G. Nusbaum
Junichi Watanabe
Jonathan Braun
Jerry Schneider
Alex Shapiro



APPENDIX X

April 26, 2021

VIA EMAIL SUBMISSION TO rule-comments@sec.gov.

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Re: Custody of Digital Asset Securities by Special Purpose Broker-Dealers (17 C.F.R. Part 240, SEC Rel. No. 34-90788, File No. S7-25-20) (the "Proposal")

Dear Ms. Countryman:

Prometheus, Inc. ("Prometheus") appreciates the opportunity to provide comments on the Proposal and recognizes that it is an effort by the Securities and Exchange Commission (the "Commission") to seek a comprehensive approach to the regulation of digital asset securities. We recognize that it is the Commission's goal to ensure that the level of investor protection related to the custody of digital asset securities is equal to or greater than the protection currently offered in the traditional securities (non-digital securities) clearing, settlement and custody model. We also believe, that as is the case with traditional securities, there should be a securities industry alternative for the custody location of digital asset securities.¹ We have prepared this letter in response to the Commission seeking comments from the public in order to gain information and insight relating to potential industry standards and best practices to ultimately determine the rules and policies for the custody and control of digital asset securities.

Prometheus applauds the Commission's effort to create a framework for becoming a Special Purpose Broker-Dealer. While we endeavor to answer the Commission's request for comments in the Proposal, we also seek certain points of clarification as we believe the Proposal creates material unknowns that are critical to the clearing, settlement and custody of digital assets securities.

In the Proposal, the Commission takes the position that a Special Purpose Broker-Dealer must limit its business operations to digital asset securities. The definition of a digital asset security, as used in the Proposal, is "a digital asset that meets the definition of a "security" under the federal securities laws." This definition puts a burden on the industry to determine which

¹ See *OCC Interpretive Letter No. 1170 from July 22, 2020*, opining that national banks can provide custody services for crypto securities pursuant to already established provisions of custody of traditional securities.





digital assets are securities. As a result, we believe clarity is needed for Special Purpose Broker-Dealers, issuers, ATS' and other market Participants (as defined below) to understand the regulatory framework they must comply with. Therefore, we respectfully request that the Commission provide further clarification on the definition of digital asset securities.

It is important to note that regardless of how the Commission defines digital asset securities, we believe the securities industry won't realize the many benefits of using blockchain technology without including stablecoins in the settlement process. Stablecoins are digital assets that are generally pegged to stable assets such as fiat currency, thereby making them a blockchain native solution for performing asset to "cash" settlement. Allowing a Special Purpose Broker-Dealer to settle digital asset securities with stablecoins will result in further settlement efficiencies such as instantaneous and direct settlement. In consideration of the important role stablecoins can play in the digital asset securities settlement process, we respectfully request the Commission clarify whether Special Purpose Broker-Dealer will be able to settle transactions using stablecoins.

We appreciate the Commission's efforts to protect investors while adopting innovative technologies like blockchain. As with any new technology there are inherent risks. With blockchain, risks differ depending on whether a blockchain is public or permissioned (private). Public blockchains inherently run the risk of nodes operated by bad actors, the difficulty of "unwinding" blocks of potentially erroneous transactions, and the general risks associated with malicious actors affecting governance, consensus and ultimately, policy and operations. These risks can be mitigated with a permissioned chain model. Therefore, we respectfully request the Commission provide guidance on how this Proposal applies to permissioned blockchains.

In furtherance of the Proposal's collection of information and of the industry's need for clearly defined practices, Prometheus provides comments herein to the following questions: 1) What are industry best practices with respect to protecting against theft, loss, and unauthorized or accidental use of private keys necessary for accessing and transferring digital asset securities; 2) What are industry best practices for generating, safekeeping, and using private keys? Please identify the sources of such best practices; 3) What are the processes, software and hardware systems, or other formats or systems that are currently available to broker-dealers to create, store, or use private keys and protect them from loss, theft, or unauthorized or accidental use?; 6) What differences are there in the clearance and settlement of traditional securities and digital assets that could lead to higher or lower clearance and settlement risks for digital assets as compared to traditional securities?; and 7) What specific benefits and/or risks are implicated in a broker-dealer operating a digital asset alternative trading system that the Commission should consider for any future measures it may take?

I. Proposal Questions 1 and 3: Question 1) What are industry best practices with respect to protecting against theft, loss, and unauthorized or accidental use of private keys necessary for accessing and transferring digital asset securities? What are industry best practices for generating, safekeeping, and using private keys? Please identify the sources of such best practices; Question 3) What are the processes, software and hardware systems, or





other formats or systems that are currently available to broker-dealers to create, store, or use private keys and protect them from loss, theft, or unauthorized or accidental use?

Questions 1 and 3 are best addressed together as they go hand-in-hand. The Commission has stated that a Special Purpose Broker-Dealer custodial digital asset securities must comply with the Customer Protection Rule by establishing that the digital asset security is in “the exclusive physical possession or control of the broker-dealer”. The creation, protection and safe storage of private keys are critical to establishing the exclusive physical possession or control by the broker-dealer of digital asset securities.

A. Current Industry Best Practices

Cyber security industry best practices, such as automated control systems, information security, and existing digital financial services and enterprise encryption systems, are the first line defense mechanisms for protecting private keys. Another strategy, more specific to blockchain to secure keys, includes strictly automated key management systems, extensive logging and auditing of key use, role-based access, and key rotation. In addition to the above measures, the combined use of Multisignature Wallets (“MultiSig Wallets”), hardware key/wallet systems and offline use of keys and signatures (“cold storage”) provide the highest level of security, and in our opinion, exceeds the level of security offered by databases, cloud, and other hosting solutions currently used to custody non-digital securities.

Digital asset securities are generally created on a blockchain as smart contract “tokens”, which means that best practices for the management of keys can include enforcing or expecting certain best practices in the smart contracts themselves (including MultiSig Wallets described below). This is unlike most cryptocurrencies where the options for key management are hard-coded into the underlying blockchain and provide limited options, particularly for multi-signature use.

Multisig Wallets are normally implemented as smart contracts whose access is cryptographically secured via the use of private keys and require at least two cryptographical private keys to access, and by extension, initiate or “call” a transaction. A smart contract is both the means of representing the digital asset on the blockchain and also controls access to the use of the digital asset. The number of keys required to access a wallet can vary depending on the protocols of the smart contract (e.g., a simple majority, 2 out of 3, 3 out of 5), commonly known as “N or M approvals”.

Smart contract enabled Multisig Wallets are a simple yet effective solution to solving two major problems inherent to digital assets: 1) losing them due to the loss of a person's private key and 2) theft by another person or entity. Multisig Wallets are a viable solution for ensuring that investors don't lose assets on a blockchain supported clearing, settlement, and custody solution because different required private keys can be entrusted to different persons at the broker-dealer so no one person has complete control. Essentially, the sum of the “pieces” will ensure the whole is not lost.





An “N” of “M” protocol requires authentication of a certain number of keys. Each key would be distributed amongst different authorized persons, each of whom must authenticate using different mechanisms (e.g., different hardware systems). As an illustration, a “3 of 5” system allows for any three (3) of a total of five (5) keys to be used to confirm a transaction.

In the context of the Special Purpose Broker-Dealers holding the digital asset security, two to three of the five (5) keys would be held by different appropriately-authorized associated persons. Each of these persons would use a different hardware key system to authenticate their respective code. All of the hardware systems would be integrated and under the control of the broker-dealer.

In addition to “N of M” threshold systems for multiple keys, smart contract wallets can also be programmed to provide a key rotation or replacement system. For example, in a system that regularly uses specific keys, those keys should be replaced or, in the case of a significant security breach, replaced by less-frequently used keys. Such a system can be engineered to either require all other keys to confirm a replacement key or use of a separate key that is held in a different structure or with a different entity. In an example “3 of 5” system where 1 key is lost, stolen or unavailable it could be expected that three (3) of the remaining four (4) keys will be used to sign a transaction. Therefore, policies for key rotation or key replacement are important to ensure secure systems.

Hardware key/wallet systems are specially designed hardware that store private keys. Such systems often resemble USB memory sticks with a small screen. The advantage of these devices is that they do not connect to the internet permanently (i.e., are normally considered some form of “cold storage”) and thus provide a simple mechanism for keeping keys away from internet-connected computers that may be running (or susceptible to running) malicious software. Normally hardware key systems produce the required digital signatures on the devices itself and don’t allow for the private key itself to be obtained easily. Multiple types of hardware signing devices from different vendors is critical to maintaining the safety of the “N” of “M” protocol. This protects against potential failure of the protocol should one hardware signing device be compromised, as only one of the “N” of “M” keys would be lost.

Lastly, offline (“cold”) use of keys and signatures refers to keys that are stored in an electronic device that is not connected to the internet (a/k/a “air gapped”) which is also a strongly recommended best practice.

Ultimately, we believe the above processes and tools are a good foundation for industry best practices.





II. Proposal Question 6: What differences are there in the clearance and settlement of traditional securities and digital assets that could lead to higher or lower clearance and settlement risks for digital assets as compared to traditional securities?

The comparison of clearing and settlement for traditional securities and digital asset securities centers on the systems utilized in the clearing and settlement process, the procedures

(both automated and manual), as well as the overhead and personnel required. Clearance and settlement of traditional securities is complicated, time consuming, and is cost, infrastructure and labor intensive. It is highly dependent on a blend of new and legacy technologies, numerous interconnected entities and organizations, and continuous human/manual procedures related to redundancy and reconciliation that by default introduce some risk. While we have prepared a detailed comparison below, we believe it's important to note that after the execution of traditional securities transactions, they need to be reconciled at the broker dealer level, at the clearing firm level, and at the DTC level where they are ultimately settled by an exchange of securities for cash. Again, significant portions of the process are not automated and involve people entering data and/or comparing files, and as a result, settlement finality takes 2 days. Blockchain technology represents an elegant solution to many of the traditionally manual processes we have described herein.

In the traditional markets, data from many different sources is often manually combined and compared during reconciliation resulting in a critical inefficiency. In comparison, the use of a blockchain to clear and settle digital asset securities is based on self-executing protocols through smart-contracts, and simultaneous books and records updates via the ledger. As discussed herein, there are risks inherent in both systems, however, clearance and settlement of digital asset securities over a blockchain has significantly less risk because it greatly reduces the number of intermediaries involved, the exchange of redundant data and messaging, and removes the possibility of human errors. Ultimately ensuring faster and more accurate verification of transactions, identification of change in beneficial ownership, and clear and contemporaneous books and records of transactions and ownership.

Set forth in Section II(A) below is the typical life cycle of a trade in a traditional security. Section II(B) addresses clearance and settlement of a digital asset security on the blockchain. A summary table of the comparison of traditional clearance and settlement steps and the corresponding blockchain utility is attached as Appendix A hereto.

A. Traditional Clearance and Settlement Cycle

As acknowledged in the Proposal, traditional clearance and settlement (hereinafter, "TCS") is a multi-layered system of separate Participants (as defined herein) performing distinct essential functions for the transfer of beneficial ownership of traditional securities. Broker-dealers, clearing firms, and market centers ("Participants") work with each other and with transfer agents, the Depository Trust and Clearing Corporation ("DTCC") and the National Securities Clearing Corporation ("NSCC"), self-regulatory organizations ("SRO") and banks





throughout the clearing and settlement process to ensure settlement finality. Generally, the timeframe for complete clearance and settlement is trade date + two (2) days (“T+2”).

An equity trade life cycle begins when an order to buy and/or sell a US equity security is submitted to a market center (e.g., exchanges, ATS) by a broker-dealer identified by its unique Market Participant Identifier (“MPID”) as well as its unique DTCC number. The order is then matched, and the transaction is executed at which point, the market center sends confirmation of

the trade to the counter-brokers involved in the transaction via a proprietary API or messaging format or standardized electronic message protocol (“FIX”). Simultaneously, the market center sends a confirmation to the NSCC via NSCC’s Universal Trade Capture (“UTC”) system which “locks-in” the trade to the respective brokers by their DTC number. The broker-dealers then send the confirmations they receive to their clearing firms by FIX, as well as, sending an end-of-day (“EOD”) file after the close of each trading day.

The transaction is then reconciled, cleared and settled amongst the Participants. During and after the trading day, clearing firms must perform trade reconciliation, and reviews of the trading activity executed by their correspondents. Clearing firms compare their real-time drop copies with EOD reports they receive from their correspondents, exchanges, ATS and the NSCC. Trade reconciliation involves extensive automated and manual labor. Processing systems compare the multitude of aforementioned files and generate alerts and reports. Clearing firm employees must then review these reports for errors, mismatches and other possible trade breaks. Trade breaks must be resolved manually by clearing firm employees by contacting the trade desks, executing brokers, other clearing firms and other market centers. Once a trade break is resolved, new trade data must be uploaded to the clearing firm’s systems in order to update the records for correct reports to be submitted to DTCC and NSCC, custodian banks and broker-dealers for the account holders.

Book Entry Only (“BEO”) is the accounting system that enables the DTCC to electronically transfer beneficial ownership records for traditional securities. As is the practice, DTCC holds the securities in its nominee name, Cede & Co, for the beneficial owner of the traditional security. The account holder’s broker-dealer is responsible for tracking its customers, i.e., the beneficial owner’s holdings in the customer’s brokerage account.

This fragmented structure creates many points of potential failure and vulnerability. The lack of standardized technology between intermediaries and the high degree of human involvement exposes equities clearing and settlement to significant risk. As discussed below, smart contracts and the blockchain offer a more secure and efficient system for clearing and settling digital asset securities.

B. Clearing and Settlement on the Blockchain

Prometheus believes that settlement of digital asset securities must occur using appropriate and audited smart contracts and network verification in order to take full advantage of blockchain technology. Blockchain technology increases operational efficiency and provides





faster reconciliation, clearing and settlement cycles. The result is a more streamlined and effective path to custody finality, accurate and transparent record keeping, and direct auditing functionality.

1. Smart Contracts

Smart contracts are established to automatically enact a series of predetermined changes according to a technology protocol when a specific act occurs. Smart contracts are used in every

step of the digital asset security trade-cycle to verify the accuracy of information, ownership rights, trade details and the ultimate change in beneficial ownership with significantly less intermediaries and information redundancies than traditional securities clearing and settlement.

Smart contracts enforce protocols for automatically facilitating the transmission of shareholder communications, enforcement of blue-sky qualifications and required protections for jurisdictional limitations. They can also facilitate payment of interest or dividends electronically and enforce limits on trading for restricted securities.

Smart contracts mitigate settlement risks because: 1) no transfer/transaction can be completed without the seller meeting specific conditions established in the smart contract; 2) smart contracts execute without human interaction on the blockchain thereby eliminating intermediaries relaying different parts of trade information which, will result in less trade breaks; and 3) all trades settle on a same day basis.

2. System and Data Security

Current market infrastructure is centralized and is secured by utilizing advanced hosting facilities, security hardware and applications, redundancies, and backup systems. However, the very nature of the centralized system makes it extremely vulnerable to widespread harm through hacking, ransomware and other network attacks.

The blockchain's distributed nature eliminates the potential for a hack, ransomware or other attacks to bring down the whole network. Blockchain technology, governance models and consensus mechanisms have the potential to be substantially more secure than the current central database supported market infrastructure. Additionally, because most of the independent components and manual processes of the traditional securities model can be recreated as Participants or functions on a blockchain, a consistent level of defense can be maintained across the whole ecosystem

3. Operations Efficiency

Today, using blockchain technology, payments can be processed, and debits/credits applied within seconds. The T+2 settlement cycle is inefficient and archaic.





In connection with the post trade settlement process, a blockchain, even with some level of manual oversight, will streamline the current model. MultiSig Wallets are very good at providing secure settlement finality. Smart contracts allow for “intelligent” algorithms to automate clearing level reconciliation between exchanges and BDs.

4. Accurate Recordkeeping and Data Transparency

One of the most fundamental risks in the TCS process is the constant exchange of data being generated and transmitted between intermediaries for execution, reconciliation and recording of changes in beneficial ownership. This section outlines the inefficiencies and redundancies of the TCS process resulting in significant systemic risk.

A digital asset security on a blockchain is the solution to an efficient and accurate record of transactions. A blockchain is made up of distinct, sequential, and time-stamped records of asset ownership resulting from settlement ("Block"). The underlying distributed ledger technology, and smart contract verifications enforces the accuracy of each new Block consisting of the settled transaction and the previous Block. This technologically enforced sequential recordkeeping provides certainty that settlements recorded on a blockchain are accurate and independently confirmed in real-time by the network Participants. The network is responsible for updating the blockchain through the addition of new Blocks, the contents of which can be reviewed by Participants upon distribution, in real-time.

For each Participant, the copy of the blockchain provides data regarding the clearance and settlement status of the Participant's transactions and resulting securities and cash positions. Over time, this would allow each Participant to use the blockchain in lieu of maintaining a separate internal ledger. This has the potential to eliminate the need to reconcile differences in settlement records, either with trading counterparties, or with the omnibus position in an account at the clearing firm and/or at a central securities depository like DTC/NCSS.

Additionally, each Participant could allow its customers (including the end investors) to have direct and individually permissioned access to the blockchain. Thus, the beneficial owner of the security could rely on the blockchain's technologically enforced data for his/her positions. This accountability would eliminate DTCC's nominee holding practice. Moreover, investor access has the potential for enhanced investor protection as it would allow investors to independently confirm their ownership and possession of assets recorded to the blockchain.

5. Regulatory Reporting and Auditing Functionality

The data visibility and accuracy could also be extended to regulators for the fair and consistent enforcement of market rules and regulations. In the traditional securities model, Participants must provide daily reports, requested information, and real-time drop copies to regulators/self-regulatory organizations. Participants are also required to provide access to regulators for auditing purposes. The blockchain solves the transfer of mass volumes of data by using a read-only node on a blockchain. By building in such a node and utilizing a blockchain explorer, Participants can obtain direct uneditable data at any time and in real-time.



Ultimately, performing clearance, settlement and custody on a blockchain presents many clear advantages that allow for greater efficiencies, protections and less mistakes.

III. Proposal Question 7: What specific benefits and/or risks are implicated in a broker-dealer operating a digital asset alternative trading system that the Commission should consider for any future measures it may take?

Based on regulatory precedence, it is clear that only a registered broker-dealer can operate an alternative trading system, regardless of whether the asset traded is a traditional security or a digital asset security. A broker-dealer already has compliance requirements related to record keeping, customer protection, security, risk, AML/KYC, and financial stability. An ATS must meet all of these requirements, as well as maintain a fair and orderly market. Specifically, blockchain, and related technology like smart contracts, public/private key cryptography, and digital wallets can and should be adapted and used to the advantage of the capital markets. We firmly believe that broker-dealers will realize clear and important benefits from operating a digital asset alternative trading system. Clear and important benefits include, but are not limited to:

1. Faster settlement finality;
2. Immediate reconciliation;
3. Real-time balances;
4. Accurate short sell (stock loan/borrow);
5. Ability to always track stock locates on-chain;
6. Streamlined reporting;
7. Real-time auditing;
8. Lower fees;
9. Less overhead cost;
10. Decreased counterparty risk;
11. Eliminates need for central clearinghouse;
12. Eliminates need for NSCC to take on risk; and
13. Automated risk controls (pre-trade).

IV. Conclusion

In conclusion, we would like to thank the Commission for the opportunity to share our thoughts and provide comments on the Proposal. To reiterate, we strongly support the creation of the Special Purpose Broker-Dealer to custody digital asset securities, and believe it is a critical step towards incorporating digital assets into the capital markets. We firmly believe that blockchain represents the “next” technological evolution for capital markets, and that innovation must be compliant with the federal securities laws to ensure the security of investors and the markets.





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Prometheus would welcome the opportunity to meet with the Commission to further contribute to the ongoing regulatory progress.

Sincerely,

Benjamin S. Kaplan
Co-CEO, Prometheus Inc.



Appendix A

Traditional Clearance and Settlement	Blockchain Clearance and Settlement
T+2 final settlement of transaction	Immediate and direct clearance and settlement
Multiple unique identifiers for each Participant entering securities transactions (e.g., MPID, DTCC number, etc.)	Information provided to appropriate parties to be able to identify Participants is inherently digitally and automatically added to each side of the transaction.
Transaction terms creates a contract required to be verified and confirmed over T+2	The execution on the blockchain through the use of smart contracts is the final simultaneous verification and confirmation.
Correspondent/clearing firm relationship	Blockchain technology removes the need for separate verification of transactions amongst the multiple participants in the clearing process.
Multiple steps and messages between trade Participants for one transaction	Limited messages to post a transaction based on automated and real-time writing of transaction to the blockchain
Non-uniform messaging protocols	Uniform protocol on the blockchain
Clearing firm trade reconciliation based on reports from multiple entities and human review.	Smart contracts aggregate data from multiple parties and provide immediate and consistent outputs for reconciliation and other purposes based on pre-agreed and tested protocols.
Clearing firm must resolve trade breaks by humans contacting the multitude of trade Participants	Smart contracts execute transactions in digital asset securities by automating protocols for verification of the terms of the transactions prior to execution, preventing erroneous transactions.
Clearing firms regenerate corrected reports and disseminate to all trade Participants	The blockchain automatically retains all smart contract actions and serves as the standard basis for reporting.
Book Entry Only accounting records the change in beneficial ownership once a transaction is confirmed as settled and holds it in nominee name for the beneficial owner.	The blockchain is the real-time accounting system for smart contract verified digital asset transactions.



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<p>DTCC holds the traditional security in nominee name for the beneficial owner.</p>	<p>Digital asset securities are held in wallets that represent both the immediate custodian and the beneficial owner. The blockchain is the ultimate source of truth for beneficial ownership regardless of whether those digital asset securities are held directly by the beneficial owner or on their behalf.</p>
<p>Broker-dealers that hold beneficial owner accounts track the positions.</p>	<p>Beneficial owners typically access positions via their broker-dealer, but those positions are also verifiable via publicly viewable blockchain information.</p>

