

# *Legal Audit*

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To: STARCK LLC, *European Union*

Case Study: Evaluation of legal features of a digital asset called “STK” and owned by STARCK  
LLC, *European Union*

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Cryptocurrency tokens are of few types. Most important from a legal perspective is the distinction between security tokens and utility tokens. Security tokens must be registered with the relevant government authority (SEC, FCA, etc.) before an initial public offering. Security tokens are a form of investment, while utility tokens utilize the usage of a particular service or a product and don't need to be registered.

A token is an asset, utility, or unit of value that a company issues. Tokens represent programmable assets or access rights which are managed through a smart contract and an underlying distributed ledger.

Security tokens are digital assets that derive their value from an external asset that can be traded. These are subject to government laws that govern security. It is mandatory for the security tokens to comply with these regulations. Failure to comply would lead to severe consequences such as penalties and potential derailment of the development of the project. Security tokens' features are assets such as participations in real physical underlying earning streams, companies, or entitlement to interest payments or dividends. In terms of economic function, these are the same as bonds, derivatives, and equities. No such features are embedded in the STK token.

Security tokens are created as investments. Dividends in the form of additional coins are given to token holders each time the issuing company of the tokens earns a profit in the market. Users who hold the security token will also gain ownership of the company. Blockchain provides a platform that can be used to create a voting system that allows investors to exercise control over the decision-making process of the company. In short, a cryptocurrency token that passes the Howey Test is deemed as a security<sup>1</sup>. They derive value from an external tradeable asset. As

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<sup>1</sup> The Howey test is applicable for the USA only, but having in mind that there the cryptocurrency regime is the strictest, it is considered that if a token doesn't pass the test as a utility, it can safely be deemed a utility in the EU and UK)

these tokens are deemed a security, they are subjected to federal securities and regulations. The STK token holds no profit, decision-making or ownership rights.

On the other hand, utility tokens aid users in interacting with a company's services.

Utility tokens are user tokens or app coins. This is a token that is given out during crowd sales as a project executes an ICO. When a company creates a utility token, it means that it is essentially creating a form of a digital coupon that can be redeemed in the future for special access to a product or service. Unlike security tokens, utility tokens are not used as investments so they can be exempted from the state laws governing securities. They also improve the user experience by giving rewards for particular things. Utility tokens act as currency in the blockchain.

Summary:

A Utility token has two main functions. Some of them enable access to a specific current or prospective service or good (similar to a voucher). Some are issued to reward operators for maintaining the DLT, for validating and recording transactions. Like payment and investment tokens, some utility tokens can be traded on secondary markets.

It is a digital asset that is used to finance a project by providing its buyers/owners with a guarantee of being able to consume some of the project's products (or being the first to use it, etc.)

A Utility token contrary to security tokens and shares don't provide the same rights, e.g. ownership over a part of a company.

In STARCK's published whitepaper about the STK token, clearly is stated that the latter is built specifically for an investment media's digital economy and will be used to enable cryptocurrency staking on their proprietary platform.

This all leads to the conclusion that **STK** owned by STARCK LLC, *European Union* is by definition and function, a **utility token**.

*We hereby declare that this Legal Audit is true to the extent of our knowledge.*

*Steven Alekson*

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(Senior Partner)

