



startmark

# WHITE PAPER

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1.

## EXECUTIVE SUMMARY

The startup scene is booming all over the world. Small ideas are turning into companies worth millions that are helping shape a social transformation. But there are also financial bottlenecks that prevent some brilliant ideas from getting out of the starting gate, particularly where early-stage financing is concerned. Business angels or high-capital companies (venture capital firms) usually invest with an eye towards a quick return on investment. This makes them predominantly risk-averse. As a consequence, many German innovations either emigrate to Silicon Valley or do not materialise at all. This in turn impairs Germany's overall economic development.

We at StartMark believe that there are two particularly relevant aspects involved in establishing Germany as a global force for innovation: (1) Early-stage financing options must be made more accessible to founders of startups, and (2) Investments must not be confined to an elite group of investors. To date, there has been virtually no way for private small investors, with limited capital flexibility and at times insufficient expertise, to invest in this exciting market.

With the introduction of the StartMark, one of the first German security tokens, we offer a unique solution to the current problems facing the startup sector and offer a broad group of potential investors the opportunity to share in the country's most innovative startups.

With StartMark, the innovative German security token, you as an investor can use cryptocurrency to conveniently, quickly and securely acquire shares in up-and-coming German startups. At the same time, you are creating the conditions for early-stage

financing for innovative German projects. Investors can share in the success of these companies early on, through profit distribution and share prices. In contrast to the typical and occasionally overhyped cryptocurrencies of recent years, StartMark is a security token and tied to a real equivalent value. StartMark stands for transparent and secure investment processes.

We view it as our mission to democratise innovation and to provide any interested party, regardless of income, status or education, access to and a share in successful ideas for a modern future.

It should be noted that any type of investment transaction can involve financial risks and may not be suitable for every investor. The potential consequences are listed in the risk disclosures of StartMark GmbH presented in Section 10. The securities prospectus of StartMark GmbH forms the legal basis for the StartMark Security Token.

**'StartMark – the simplest way to invest in German startups.'**

The StartMark project revolutionises financing opportunities for German startups and democratises investing in startups.

## 2. PROJECT DESCRIPTION

StartMark provides small investors with access to the growing German startup sector and contributes towards a new understanding of pioneering technologies and business models amongst the population.

The overall objective of the StartMark project is to support innovations away from elite circles, thus achieving sustainable and transparent support for the German economy. At the same time, as a financing option, StartMark supports relevant startups during their early stages.

This makes StartMark the disruptive approach to solving two current problems facing the German startup sector (see Fig. 1):

- Startup founders need more support during pre-seed/seed financing and are in search of fair models apart from bank loans.
- Up until now, small investors have had insufficient opportunities to become involved in the exciting environment of startup companies.



At this point in time, the German startup sector has been non-transparent and for the most part confined to investors with large amounts of capital who too often pursue their own indicators, indicators that do not necessarily provide for sustainable development of an innovation landscape but for rapid exits instead. To establish Germany as a global innovation location, the startup industry urgently needs to be opened up to players that operate beyond this exit mentality. In response to this information asymmetry, StartMark deliberately appeals to small investors as its primary target group.

This provides all stakeholders a transparent and easily understandable opportunity to participate in promising German startup companies by investing small amounts of money. StartMark permits quick, Internet-based and uncomplicated investment of amounts from €100 in innovative German startups. StartMark constitutes a 'security token' with real countervalue. Through profit distribution and trends in share prices, investors participate in companies' successes in a highly transparent manner and at significantly lower cost. The basis for this is the leading blockchain technology (see Section 5.1).

With the security token, StartMark offers the following unbeatable benefits, and hence a unique product:

### **1. Investment opportunities regardless of the size of the wallet**

Currently, only investment funds or stock-based ETFs offer private investors an opportunity to participate in an entrepreneurial portfolio by investing very small amounts of a few euros. Equities, bonds and crowd-

funding also offer a way to place return-oriented investments with small amounts, but these approaches lack the proven portfolio approach.

StartMark combines these models' best practices and offers the opportunity to invest small amounts in a professionally curated portfolio.

### **2. Minimised investment risk**

Today's private investors can only get in on a business if they invest very substantial amounts through direct investments or invest in closed-end funds in the venture capital sector. The risk is correspondingly high and thus not an attractive investment option for many investors. Often, the investor cannot liquidate his or her investment without high transaction costs – a scenario that is often too risky for small investors with limited investment potential. With StartMark, these risks are significantly minimised.

### **3. Maximum transparency and flexibility**

StartMark uses innovative blockchain technology as a medium. With blockchain, all movements can be presented transparently and securely. The desired tradability of the Security Token provides flexibility to the Token holder. To compile an attractive portfolio of startups for investors, StartMark GmbH continuously acquires investments in innovative German startups, offering them an opportunity to obtain early-stage financing away from traditional bank loans or angel investments.

The StartMark GmbH portfolio is curated by a team of experienced managers, lawyers and business coaches. In addition to selecting and financing relevant startups, the StartMark team also supports founders in an advisory capacity.



Figure 1: StartMark as the solution to two problems



3.

## OUR MISSION – ACCESS TO INNOVATION

**Our mission is to make innovation tangible and accessible again for the vast majority of the German population.**

Working in response to current asymmetries in the startup sector, StartMark uses blockchain technology to offer access to the German startup scene to two groups of stakeholders: founders and small investors. The small minimum investment amount of just €100, and an easy-to-understand, easy-to-use investment process, gives every prospective adult investor, regardless of their income level, an opportunity to invest in the exclusive StartMark portfolio.

StartMark is the much-needed democratisation of Germany's investment landscape and aspires to be one of the first German security tokens approved by the German Federal Financial Supervisory Authority [BaFin] on the market.

We diversify the risk as broadly as possible by building a portfolio of startups from different industries and at different stages of entrepreneurial development. An effort is made to achieve steady value growth of more than 10% p.a. for our Token holders wherever possible. We aim to more than triple the Token value of StartMark by 2034. Total Token Return (TTR) is based on the forecast trend in the fair-value measurement of the investment portfolio plus cumulative annual distributions to Token owners.

Our vision is to join the ranks of the top 20 leading venture capital funds in Germany. By 'leading', we mean the aspects of awareness among founders, popularity amongst investors and entrepreneurial success.

Our mission comprises an open and active innovation culture and the sustainable positioning of Germany as a location for innovation and technology. Through the active opportunity to participate in startup financing with the StartMark Security Token, we expect not only satisfied and successful small investors and founders but also a paradigm shift in the innovation mentality of German society.

## 4.

# BACKGROUND INFORMATION: INVESTMENT GAP AT GERMAN STARTUPS

The funding gap facing German startups has been a hotly debated topic in the media and politics for several years. With a view to successful policies by other governments and lighthouse projects in Silicon Valley, the German Federal Government has also provided millions of euros in startup financing in recent years. These initiatives include successful programmes such as the funding under the EXIST startup programme and simplified processes for loans and subsidies. Nevertheless, both the German Federal Ministry for Economic Affairs and Energy as well as members of the German Bundestag still complain of the funding gap during the early growth stages of startups in Germany.<sup>1</sup>

**Despite active efforts on the part of the German Federal Government, most German startups are undercapitalised and hence barely competitive on the international stage.**

According to the German Startup Monitor (GSM) 2018 prepared by KPMG,<sup>2</sup> during the past five years, 94% of all startups were still operating in the first two stages of their development. In 2018, 22% of startups were in the seed stage, i.e. in the concept-development stage in which no revenue is generated yet. 49% of startups, the study found, were in the startup stage, i.e. working to complete a market offer and already generating their first revenue. Only 4% of startups are already at the maturity stage. The market for startup financing in Germany stands at approx. €5 bn/year. According to the GSM 2018,<sup>3</sup> of the approx. 550,000 business startups created each year in Germany, to date only roughly 1,550 have emerged that meet the following criteria:

- (a) Less than 10 years old
- (b) Innovative products/ services, business model or technologies
- (c) Forecast workforce and revenue growth

Only about half of these have already raised external capital. Own savings are identified as the main source of financing. This underscores the biggest obstacle to creating a successful startup. Lack of funds during early-stage financing can prevent founders who have breakthrough innovations from taking the step into independence.

After their own savings, the sources of financing listed by respondents are government funding, followed by capital resources provided by family and friends. Venture capital is a relevant source of capital for just a fraction (15.3%) of German startups.

<sup>1</sup> <https://www.handelsblatt.com/unternehmen/leasing/wagniskapital-investoren-geben-auslaendischen-gruendern-mehr-geld-als-deutschen/23207476.html?ticket=ST-880057-770Jd2KaEAy6jWyNHRvY-ap2> (22 October 2018/7:20 p.m.)

<sup>2</sup> KPMG Deutscher Startup Monitor 2018

<sup>3</sup> KPMG Deutscher Startup Monitor 2018

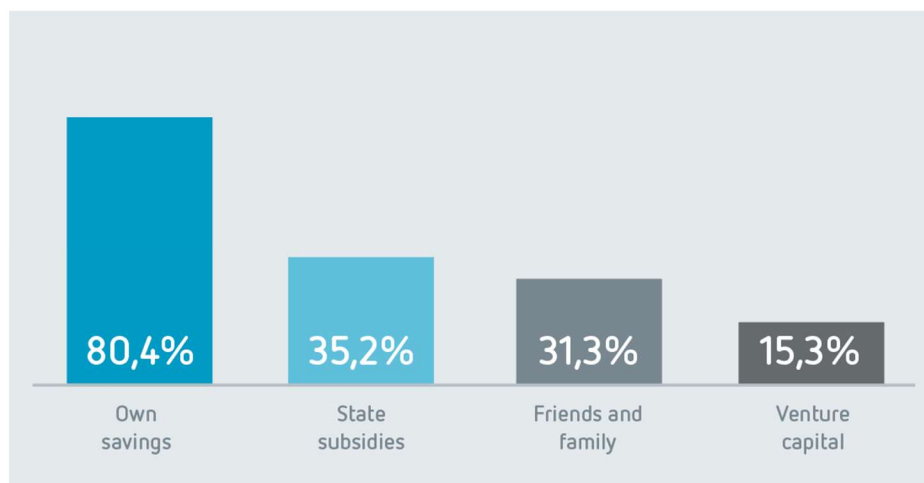


Figure 1: Frequency of financing methods based on DSM 2018; n 2018= 1260. Multiple answers and rounding errors possible.

These difficulties in startup financing go hand-in-hand with the medium-term trend among German investors towards investing more money abroad and less in Germany. Economically speaking, this may seem to be a sensible decision from an individual point of view. In the medium and long terms, however, it is detrimental to German founders, and to Germany as an innovation location. This investment strategy on the part of financial backers sometimes prompts German startup creators to emigrate – to Silicon Valley, for instance.

In summary, the following problems of the German startup scene can be identified:

- a) Urgent need for capital, particularly during the early stages/growth financing
- b) A lack of savings by founders impedes innovation
- c) Greater investor interest in international rather than domestic startups

The effort to counteract these problems calls for innovative steps and financing models.

Against this backdrop, startup financing by ICOs (Initial Coin Offerings; see Glossary) should be mentioned.

The global market for startup financing through classic ICOs is still considerable, even after the decline of the ICO boom between late 2017 and mid-2018:

during the third quarter of 2018, there were roughly twice as many startup financing packages through ICOs as through venture capital.<sup>4</sup>

This trend is not very noticeable in Germany. In 2018, ICOs in Germany made up just a tiny fraction (0.2%) of the sources of startup funding. The cryptocurrencies associated with the ICOs of the past (in terms of utility tokens) suffered a loss of confidence due to proven instances of fraud and a lack of regulation. As a result, hardly any German startups can be expected to be financed with the aid of ICO funding in future. Bankers and financial experts are also calling for regulation of ICOs, and this places a damper on the gold-rush atmosphere of the past two years. Blockchain technology, however, remains the best-suited building block for a more innovative solution. With adequate regulation and safeguards of investment value in place,

the so-called 'security token' takes the logic of the ICOs a step further and permits investment in an actual countervalue.

In response to these challenges, StartMark GmbH has developed the StartMark Security Token. By acquiring StartMark Security Tokens, which are analogous to classical securities, investors receive a share of our startup portfolio: an attractive investment option for the general public.

<sup>4</sup> Blog: Good Audience, Krypto Funding Trends; Sebastian Wurst (27 September 2018)





5.

## THE STARTMARK SECURITY TOKEN

**The StartMark is designed and distributed as an own issue of what is known as a ‘security token’. Because the Security Token Offering (STO) is based on an actual countervalue, it is comparable to securities. Like traditional investments on a stock exchange, the StartMark Security Token secures investors a share in the StartMark GmbH portfolio.**

StartMark GmbH is positioned to invest in German startups during the initial stages of their development. This is how StartMark GmbH actively responds to the problems described facing the German startup scene. Based on a target volume of €50 million in STOs, in the initial phase, this results in an annual investment volume of €10-15 million.

This corresponds to a very modest target share of

0.2-0.3% in the market for financing of German startups.

The aim of the management and shareholders of StartMark GmbH is to achieve the greatest value growth possible for holders of StartMark Tokens.

The StartMark Security Token confers rights and is subject to regulation. The rules of classical microeconomics apply to the mapping of rights and values. This is intended to achieve the greatest value retention and asset growth possible.

The StartMark Security Tokens will be issued in a volume of up to €50 m. The Token is designed in compliance with German law and marketed in a form

that is the legal equivalent of a bond. This gives the StartMark Token two functions in the context of the monetary economy:

**1.Storage of value**

**2.Participation comparable to a bond**

The aim is for the StartMark Token to be traded daily on a stock exchange.

## 5.1 THE TECHNOLOGY BEHIND STARTMARK

Blockchain Plattform	Ethereum
Hard-Cap	€ 50.000.000 in ETH
Maximum number of Tokens	50.000.000 SMK
Minimum purchase	0,83 ETH (€ 100) <sup>5</sup>
Format	ERC20 compatible Token
Tradability	Application made during placement
Token abbreviation	SMK

The StartMark Security Token will be issued via the Ethereum blockchain. All purchases and sales are processed transparently via the blockchain. The blockchain is comparable to a type of digital ledger that records each step of a transaction in a decentralized way, thus ensuring transparency and security for the parties to the transaction. For a more in-depth understanding, definitions of the terms 'blockchain' and 'Ethereum' can be found in the Glossary.

StartMark will employ the Ethereum blockchain in all relevant process steps to offer investors maximum security and transparency. This involves the creation of 50 million StartMark Tokens, executing an STO with the aid of a Smart Contract, burning unsold Tokens following the STO, and distributing profits to investors.

## 5.2 RE-INVESTMENT IN GERMAN STARTUPS

The proceeds from issuance of the StartMark Security Tokens will be invested in German startups in early-stage financing including early-stage growth. In its startup investments and efforts to build its portfolio, StartMark GmbH will initially focus on companies in the Rhein-Ruhr region. This is a region with strong growth within the startup scene. At the moment, venture capital firms are sparsely represented here, compared to their profile in Berlin, Frankfurt and Munich, for example. StartMark GmbH will take advantage of this market situation to establish itself as a go-to address for founders in the Rhine-Ruhr region. This will initially rank StartMark GmbH as one of the leading venture capital firms in the Rhine-Ruhr region. In the medium term, we intend to be among the top 20 venture capital companies throughout Germany.

### Industry and technology focus areas

Startup investments by StartMark GmbH will not initially focus on any specific sectors. The benefit of this approach is to create a diversified portfolio and a distribution of risk to match. Given the increased level of risk and degree of complexity they present, however, there are currently no plans to invest in biotechnology, life sciences or pharmaceuticals firms. Because there is no particular industry of focus, StartMark GmbH will evaluate companies from across a spectrum of industries and add the most promising among these to its StartMark portfolio. While no specific focus is envisioned,

<sup>5</sup>By way of example, at an exchange rate of 22 March 2019 -> 1 ETH = €121

given the expertise and the know-how of its individual team members, StartMark GmbH has identified areas of substantive focus. These areas provide orientation and undergird the objective of StartMark GmbH: to provide startup creators with the most successful financing and support possible.

**The areas of substantive concentration are circumscribed as follows:**

**Advertising and Technology**

**(AdTech)** The term 'AdTech', or 'advertising technology' refers to various types of analyses and digital tools used in connection with advertising

**Agriculture and Technology**

**(AgTech)** 'AgTech' denotes solutions that are tailored to the specific needs of farmers and the agricultural sector as a whole and bring added value to this constituency

**Artificial Intelligence (AI)**

AI, a sub-area of computer science, deals with automation, self-learning systems and machine learning

**Blockchain**

Developments in connection with the use of blockchain technology, specifically around cryptocurrencies and tokens



### **Clean Technologies (CleanTech)**

Environmentally-friendly energy and energy storage, circular economy, sustainable water management, sustainable mobility, raw material and material efficiency, e.g. energy efficiency, non-toxic materials, water purification, solar energy, wind energy and new models in energy conservation

### **Consumer Electronics (CE)**

'Consumer electronics' refers to electronic or digital devices used for entertainment, communication and home-office activities. Along with consumer-electronics products such as televisions or smartphones, this also includes AR/VR equipment, fitness devices and wearables, consumer drones, consumer robots and consumer hardware

### **Real Estate Technology (PropTech)**

'PropTech' stands for modern technological developments in the real estate industry. Innovative products and services are offered around the planning, construction, rental, management and sale of real estate

### **Training and Technology (Educational Technologies)**

The use of educational technologies is designed to make learning more individual and customised, offering the user an expedient learning experience

### **Financial Services and Technology (FinTech)**

'FinTech' describes the sector in which technology is transforming financial services

### **Food and Technology (FoodTech)**

Technology can be harnessed to improve agriculture, food production or issues in logistics such as the supply chain and the distribution channel

### **eCommerce**

'eCommerce' comprises all forms of the web-based distribution of products and services

### **Information and Communications Technology (ICT)**

'ICT' deals with information and communications technologies of all kinds and their application, e.g. radio, television, mobile phones, and hardware and software for computers and networks

### **Insurance Technology**

**(InsurTech)** 'InsurTech' refers to insurance services that employ digital technologies

### **Legal Services and Technology (LegalTech)**

'LegalTech' describes firms that use digital and innovative technologies to automate and simplify access to legal resources and the administration of justice, legal rulings and applications of law

### **Gaming**

'Gaming' refers to the use of all of the technologies involved in computer, mobile and console games



6.

## OUR OFFER

Under the plan the company has developed, proceeds generated through issue of the StartMark Security Tokens will be invested in acquiring investments in German startup firms in early-stage financing.

The StartMark GmbH concept offers investors the following advantages:

- The available capital is invested directly in startups. The focus here is on early-stage financing, including the early-growth stage
- StartMark GmbH invests in a variety of sectors and technologies in the effort to achieve a stable return on investment (ROI) through a diversified portfolio
- For the first time, small investors also have an opportunity to invest in German startup firms. The individual investor can freely choose the amount of his or her investment, in small amounts of as little as €100
- The company seeks a listing that will permit daily trading of Tokens on the stock exchange
- The holder of the Token will enjoy a specified share in the company's yield
- The investor does not pay a management fee
- The investment process is easy and can be completed at any time; this includes purchases on weekends and via smartphone
- Thanks to blockchain technology, the investment is transparent and secure



## 6.1 TOKEN SALES

**In the effort to present our offer as comprehensibly as possible, the individual steps of the process are explained below. The examples presented serve to simplify and explain the model.**

For reasons of simplification, the transaction fee (gas) charged by the Ethereum blockchain is not factored in. Every transaction in the Ethereum space is subject to a fee in ETH – this is how compensation is provided for the computer time and the energy consumed.

The example is calculated based on an assumed exchange rate of 1 SMK = 0.0083 ETH. Because this varies based on the daily EURO/ETH exchange rate, it is volatile and cannot be predicted. The assumptions do not take account of the exchange risk due to losses or gains in ETH price.

### Creating the Tokens

To begin with, the planned 50 million StartMark Tokens are created in the Wallet of StartMark GmbH. From a technical point of view, the Token is created with the abbreviation 'SMK'. Thereafter, the variable of 'Total Supply' is increased from 0 to 50,000,000. This completes the creation step.

### Executing the STO

Next, the program for the StartMark Smart Contract is published on the Ethereum blockchain. A unique address is assigned to the Smart Contract, just as it would be in a wallet. The StartMark securities prospectus creates the legal framework and basis for the Smart Contract.

Buyers can send money in the form of Ether to the Smart Contract address. This step is subject to prior registration, as StartMark has an obligation to verify each buyer's identity. The exchange rate – i.e. how many StartMark Tokens the sender (buyer) receives per Ether – is defined in the Smart Contract.

#### Example:

**1 StartMark Token = 1 euro; this corresponds to the value of approx. 0.0083 ETH (as at 22 March 2019).**

The Smart Contract will adapt the exchange-rate ratio to the Ether in such a way that this issue price in euros remains stable throughout the STO period.

The Smart Contract checks whether the buyer has previously verified his or her identity with StartMark (a mandatory check in accordance with the German Money Laundering Act [*Geldwäschegesetz*]). If there are enough StartMark Tokens available for sale, the Smart Contract transfers the buyer's money (ETH) to the wallet of StartMark GmbH. And the buyer receives the StartMark Tokens in his or her wallet in return.

#### Example:

**StartMark Wallet prior to purchase:**

<b>0 ETH</b>	<b>50.000.000 SMK</b>
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**Wallet of Buyer B prior to purchase:**

<b>1 ETH</b>	<b>0 SMK</b>
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**The buyer sends 1 ETH to the StartMark Smart Contract and receives 121<sup>6</sup> SMK in exchange.**

**StartMark Wallet after purchase:**

<b>1 ETH</b>	<b>49,999,879 SMK</b>	<b>(+ 1 ETH / - 121 SMK)</b>
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**Wallet of Buyer B after purchase:**

<b>1 ETH</b>	<b>121 SMK</b>	<b>(- 1 ETH / + 121 SMK)</b>
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**The transfer is complete.**

<sup>6</sup>By way of example, at an exchange rate of 22 March 2019 -> 1 ETH = €121 = 121 StartMark Tokens

StartMark GmbH will convert the capital collected in Ether (ETH) to euros (EUR) in order to place its future investments. This will occur at regular intervals in order to limit the exchange risk throughout the STO period.

### Burning unsold Tokens

If the maximum quantity of EUR 50 m in StartMark Tokens is not sold in its entirety, the unsold Tokens are destroyed (in a process referred to as 'burning'). They have no intrinsic value.

#### Example:

**StartMark Wallet following the STO:**

**Assumption: Issuance of 45,000,000 SMK of a total of 50,000,000 SMK**  
371,900 ETH<sup>7</sup>    45,000,000 SMK

**The remaining Tokens are burned:**

**StartMark Wallet following**  
burning 371,900 ETH    0 SMK

### Tradability

Following the STO, new prospective buyers can only buy the StartMark Security Tokens from other Token holders via an exchange. The purchase is made through an exchange of ETH for SMK directly via the wallets of buyer and seller.

### Distribution of profits to owners of Tokens

If StartMark GmbH makes profits over time, e.g. from the sale of shares in startups, these profits will also be distributed on a pro rata basis to the owners of Tokens.

#### Example:

**There are 45,000,000 SMK in circulation**

**The aim is to distribute EUR 2,000,000 = 16,529 ETH.<sup>8</sup>**

**16,529 ETH for 45,000,000 SMK = 0.000367 ETH/SMK**

**Each SMK in each Token holder's wallet is credited with the value of 0.000367 ETH (= EUR 0.04).**

## 6.2 BUYER VERIFICATION – KYC

'Know your customer' (KYC): Legislation for the prevention of money laundering requires StartMark to provide technical proof of the identity of every purchaser of a Token. This is why purchases and sales within the scope of the STO can only be made to wallet addresses that are known to, and have been verified by, StartMark GmbH. Tokens can only be purchased if the identity has been verified and there are no restrictions.

## 6.3 AUTHORISATION TO ISSUE TOKENS

The creation and issuance of the StartMark Security Tokens was decided by the shareholders' meeting of StartMark GmbH in its meeting held 29 October 2018. The resolution reads as follows:

StartMark GmbH hereby resolves to issue a Token with the ERC-20 standard and with a volume of up to €50 m. This will be subject to the necessary regulation under German law.

The necessary conditions will be specified by the Management.

<sup>7</sup> By way of example, at an exchange rate of 22 March 2019 -> 1 ETH = €121 = 121 StartMark Tokens

<sup>8</sup> By way of example, at an exchange rate of 22 March 2019 -> 1 ETH = €121 = 121 StartMark Tokens

## 6.4 DEFINITION AND CLASSIFICATION OF THE STARTMARK SECURITY TOKEN

The Tokens offered are securities based on the blockchain applying the ERC-20 technical standard. The Tokens listed are denominated in euros.

### Bases in law for the creation of securities

The Tokens constitute securities that form the basis for bonds. Concomitantly, this is based in the provisions of the Stock Corporation Act [*Aktiengesetz*] of the Federal Republic of Germany.

### Type of security and its securitisation

A maximum of 50 million Tokens, all of equal value, will be issued by the Issuer with a nominal value of €1. The issue price is 1 euro per Token.

Tokens are securitised digitally, based on blockchain technology and the ERC-20 standard. The respective Token holder is known through the use of the blockchain and the Smart Contract.

### Rank of the Tokens

The Tokens create borrowed capital at StartMark GmbH. Recognition as borrowed capital is applicable under both commercial and tax law.

The Tokens are all assigned the same rank among themselves. This is true of all Tokens, including those offered and circulated in a pre-sale. The Tokens are subordinate to the following extent:

- Liabilities to all other creditors take precedence.
- The Token holder has no claim to payment of any remuneration or profit share if such a claim were to result in a reduction in the equity specially protected against distributions. In this case, equity is the paid-up share capital as well as all reserves or other equity components stated in the balance sheet.
- In the event of liquidation of the issuer, the claims or receivables of the Token holders will be satisfied only in accordance with the rights of the remaining creditors.
- In the event of insolvency proceedings, the claims and receivables of the Token holders will be taken into account only after all non-subordinated creditors have been satisfied.

The above is provided for in the securities prospectus of the StartMark Security Token. This is not yet finalised as at the time of preparation of this White Paper.

## 6.5 PROFIT SHARING, YIELD

The Token holders have a proportional profit claim on the positive annual operating result of StartMark for the shareholdings segment (the 'operating result').

Up to the point at which a nominal interest rate of 5% p.a. based on the par amount of a Token-based bond (=SMK Security Token) is reached, 50% of the operating result will be distributed to Token holders. Once a nominal interest rate of 5.0 % p.a. based on the par amount of a Token-based bond has been reached, 40% of the operating result will be distributed to creditors.

The proportional profit claim per Token-based bond is calculated by dividing the amount of the profit claim by the number of all Token-based bonds issued.

The operating result for the shareholdings segment is determined as follows:

**Income from the sale of shareholdings, as a balance of income from sale and the original costs of acquisition, offset against the direct costs associated with the transactions**

**./. losses from the disposal of shareholdings, as a balance of disposal income and the original costs of acquisition, offset against the direct costs associated with the transactions**

**+ income distributions of the shareholdings**

**Income from the sale of shareholdings, as a balance of income from sale and the original costs of acquisition, offset against the direct costs associated with the transactions**

**./. losses from the disposal of shareholdings, as a balance of disposal income and the original acquisition costs, offset against the direct costs associated with the transactions**

**+ Income distributions of the shareholdings**

**./. allocation to value adjustments on shareholdings**

**+ reversal of impairments on shareholdings**

**./. costs in connection with the management of shareholdings**

**= operating result for the area of shareholdings.**

**Example:****Annual profit distribution based on total investment (nominal amount) of €50 million**

Operating result (assumption)	50% distribution from operating result, max. 5% of nominal amount	40% distribution from operating result on the amount of the distribution yield that exceeds 5%	Annual distribution total	Annual distribution yield
2,000,000	1,000,000	-	1,000,000	2.0%
2,500,000	1,250,000	-	1,250,000	2.5%
3,000,000	1,500,000	-	1,500,000	3.0%
3,500,000	1,750,000	-	1,750,000	3.5%
4,000,000	2,000,000	-	2,000,000	4.0%
4,500,000	2,250,000	-	2,250,000	4.5%
5,000,000	2,500,000	-	2,500,000	5.0%
5,500,000	2,500,000	200,000	2,700,000	5.4%
6,000,000	2,500,000	400,000	2,900,000	5.8%
6,500,000	2,500,000	600,000	3,100,000	6.2%
7,000,000	2,500,000	800,000	3,300,000	6.6%

The Token only shares in a positive operating result for StartMark GmbH's shareholdings segment. Participation in a loss is expressly precluded in the conditions for the StartMark Security Token.

Remuneration of the Tokens is paid in the form of interest on the nominal value for all Tokens in the same way. If a positive operating result for the shareholdings segment has been achieved in the previous financial year of StartMark GmbH, the payment will be made in the following year to all those who own the StartMark Tokens at that point, as at 12:00 CET p.m. on 30 June of the financial year in question.

The conditions for this remuneration are defined as such in the Smart Contract, which is part of each Token in the blockchain. No change will occur over the entire term of the Token.

**Term, special distribution and repayment**

The term of the SMK Security Tokens begins on 16 July 2019 and ends at the close of the day on 31 December 2034. Subject to the rules of qualified subordination and reservation of payment, the Token-based bonds (=SMK Security Tokens) must be repaid to investors at nominal value on 2 January 2035.

If, at the end of the term, a positive operating result is computed (see page 18) over the entire term of the Token-based bonds, the Token holders will receive a special distribution. This special distribution at the end of the term is initially calculated on the basis of the total addition of all individual items used to determine the operating results of all individual years over the entire term. 80% of this addition, less all interest payments already distributed during the individual years of the term, is transferred to the final special distribution.

**Example: Special distribution**

Token holders receive a special distribution at the end of the term in keeping with the contractual terms for profit distribution. If, after offsetting the remaining individual items, the Company achieves an average positive operating result of €6 million p.a. over the entire term, a special distribution is made in year 15 of the term. This is computed as

Average operating result after offsetting all costs p.a.		€6 million
Cumulated over term		90,000,000
of which 80%		72,000,000
Distributions (already paid out)		-43,500,000
Special distribution		28,500,000
Return on special distribution		57%
Total return over term		144%
Repayment of an initial investment of €100		€244



Please note that this is only a sample calculation and is not necessarily reflective of actual outcomes. It serves only to illustrate the total possible profit distribution given an assumed average positive result of €6 million over the total term. Any other result will result in a different return.

Pay-outs of profit claims during the term of the Token-based bonds, as well as repayment of the Token-based bonds exclusively in the Ether cryptocurrency corresponding to the subscribed nominal amount.

#### Limitation of corporate rights

The StartMark Security Tokens do not confer any rights of participation under corporate law. You are exclusively entitled to participate in profit distributions. Similarly, the Tokens do not confer rights of participation in shareholder meetings of StartMark GmbH.

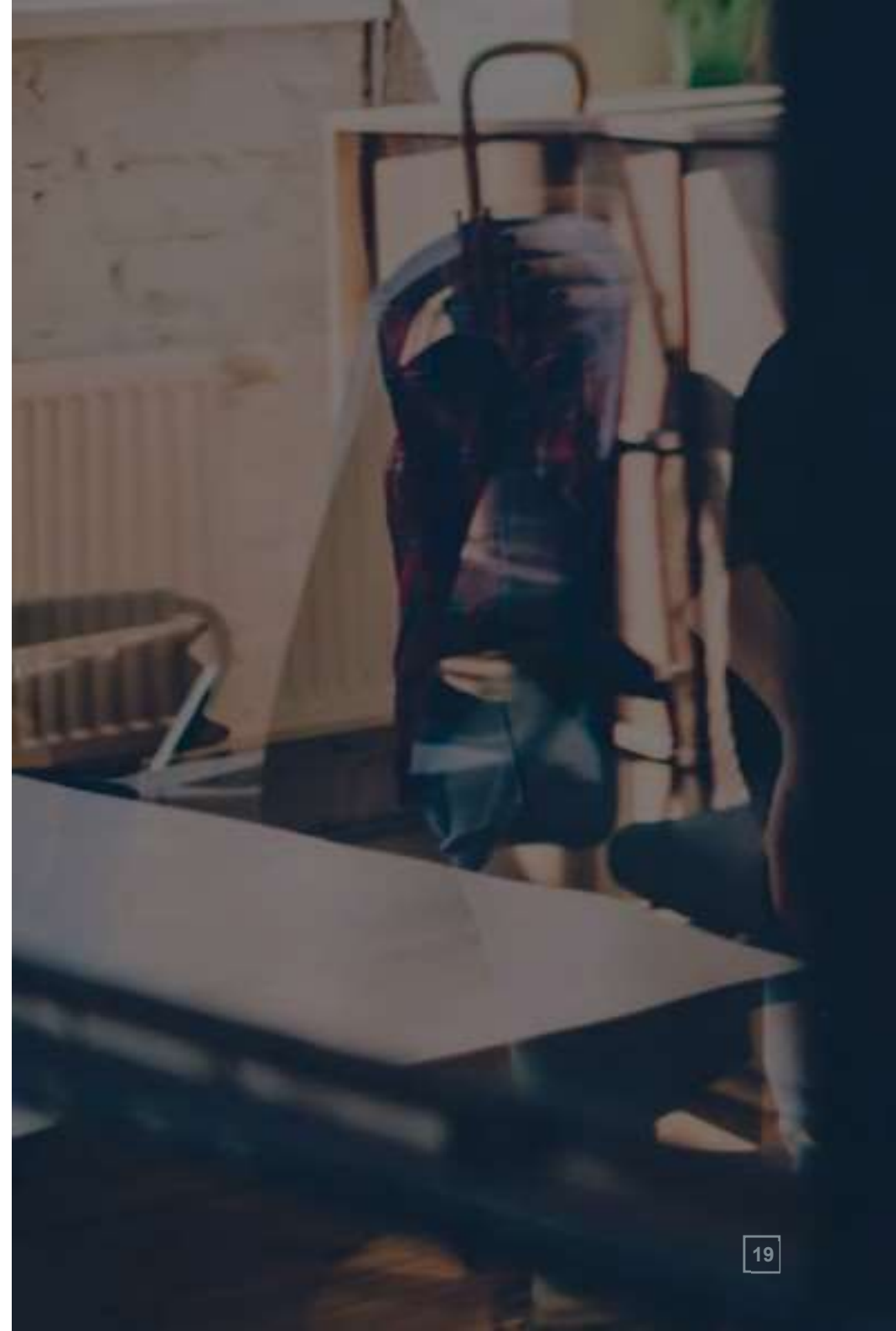
## 6.6 THE LAUNCH OF STARTMARK SECURITY TOKENS

**The StartMark Security Tokens are offered in a private, pre-sale phase for 'Family and Friends' from 16 July to 30 September 2019, at a discount of 30% and a minimum investment of €700. The total for the 'Family and Friends' phase is limited to 1 million StartMark Tokens.**

StartMark Security Tokens will be offered at a discount of 10%, and for a minimum investment of €450, from 1 October 2019, or from such time as the total amount is reached in the 'Family and Friends' phase, until no later than 30 November 2019. The total amount during this period (Public Pre-Sale) is limited to 2 million Tokens.

During the StartMark Token Public Sale Phase from 1 December 2019, or from such time as the total amount of the Public Pre-Sale Phase is reached, until 2 July 2020, or until such time as the total of 50 million Tokens is reached, the StartMark Security Tokens will be offered at the issue price of €1.

StartMark GmbH retains 100,000 StartMark Tokens (0.2% of the planned maximum issue amount) as an incentive for key service providers that are not shareholders of StartMark GmbH.



## 6.7 ESTABLISHING THE INVESTOR BASE

**StartMark GmbH and the issued StartMark Security Token stand for transparent investments in the sustainable development of the German startup scene, and for the trust we place in founders of startups. Additionally, StartMark also offers access to exclusive investments for everyone.**

To date, small investors have been either unable to participate in startups at all, or, if so, only to a very limited extent. The investments currently available to this group of investors today consist mainly of closed-end private equity funds or direct investments. Both investment types involve high levels of risk and are difficult to liquidate once the investment has been made. The StartMark Security Token, on the other hand, can be traded at any time, ultimately even on weekends and, conveniently, with the aid of mobile devices. The extreme lowering of the minimum participation level to only €100 also creates an exceptionally large target group for the StartMark Security Token.

When it comes to investing, investors have a variety of needs, but these can be reduced to two points. On the one hand, they are primarily concerned with the security of the investment in relation to the actual asset and the transfer of money, and on the other hand with an increase in the value of the investment. The latter presupposes the prospect of reasonable interest on the capital invested, as well as the diversification of risk through a portfolio approach.

StartMark addresses both aspects:

- (a) Approval by the German Federal Financial Supervisory Authority [*BaFin*] will create trust in StartMark on the part of customers. At the same time, the use of a Smart Contract is considered a safe and quick mechanism for the transfer of capital.
- (b) We will broadly diversify our shareholdings and investments across a variety of sectors and stages of business development. This is how we distribute potential risks across the entire portfolio and create added value for the

customer. Moreover, through knowledge transfer and services, the involvement of StartMark GmbH increases the likelihood of success for the respective startup – and, with this, the target return for the investor (Token owner).

Targeted marketing and sales strategies will bring these benefits to the attention of potential StartMark investors. In this connection, we will enter into partnerships with regional investment advisors and make efficient use of online marketing to appeal to various target groups. StartMark will provide access to the StartMark portfolio to experienced and inexperienced investors alike.



7.

## PLANNED USE OF FUNDS

**StartMark minimises all startup costs to keep the maximum amount available for investments in our startup portfolio.**

When the STO revenue target of €50 million is reached, 92% of the proceeds will be invested directly in startups. StartMark minimises all startup costs to keep the maximum amount available for investments in our startup portfolio.

Forecast total proceeds of the issue	€50,000,000	100%
Conversion fee	€750,000	1.5%
Infrastructure allowance	€500,000	1.0%
Early-subscription bonus	€500,000	1.0%
STO marketing	€2,250,000	4.5%
Available for investments	€46,000,000	92%

Figure 3: Tabular distribution of investments given a target of €50 million in STO proceeds

The difference of 8% covers the costs of launching StartMark GmbH's business operations. These costs include marketing as well as creation of infrastructure, the securities prospectus, Token programming, and the necessary approvals with *BaFin*. These costs are low compared to traditional closed-end funds, where ancillary costs often exceed 20%. These costs are also far lower than traditional ICOs for utility tokens, where more than 40% of ICO proceeds often go to startup creators and consultants. With this capital-efficient structure, StartMark GmbH ensures that value growth for investors and support for the German startup scene remain the top priority during implementation of the project.

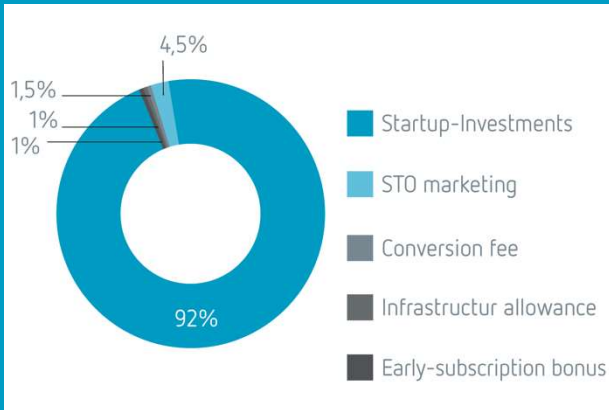


Figure 4: Proportional distribution of investments given STO target proceeds of €50 million

In the event of a lower available investment volume – of €20 million, for instance – there is a relative increase in the cost share (conversion fee/STO marketing /infrastructure allowance), to 12.5%. The invested share would then be reduced to approx. 87.5%

## 7.1 INVESTMENT STRATEGY

StartMark invests in promising German startup firms in three stages: 'Seed/Startup', 'Growth' (Series A) and 'Maturity' (Series B); the investment focus during the first year will be on the first two stages. To achieve a balanced approach to risk management, StartMark uses benchmarks for maximum investments in individual startup firms.

In addition to the planned liquidity reserve of 7.5% over the entire investment horizon, the following approximate investment structure is envisaged in the medium term:

Start-up firm stage	Number of investments	Value of the investments
Seed / Startup-Phase	60%	15%
Early Growth	25%	25%
Growth	15%	60%
<b>Total</b>	<b>100%</b>	<b>100%</b>

### Liquidity reserve and interim investments

Depending on the volume of Tokens issued, an average liquidity reserve of 7.5% (up to max. €1.5 m) will not be used to invest in startups.

StartMark GmbH will invest the investment volume provided to it in startups as soon as possible. Available liquidity will take the form of temporary interim financing invested in less-risky investment options that can be liquidated at any time. This keeps the funds available for startup investments at all times without subjecting these funds to negative interest as current account liquidity. A *BaFin*-registered fee investment advisor will be commissioned with structuring the interim investments.

### Desired course of investment

Given the breadth of our networks and the inquiries we have already received from startup firms, StartMark plans to have successfully invested 80% of the total investment volume in startups already by the third year.

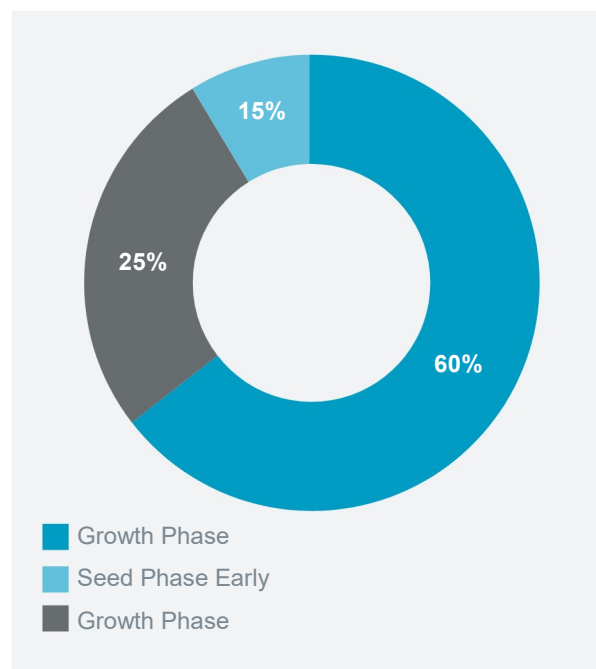


Figure 5: Distribution of investments by value

## 7.2 COSTS

StartMark has the objective of acting as cost-effectively as possible. All costs incurred will be minimised in order to have the largest possible investment amount available for relevant startups.

### Management fees

Investors will not have to pay **any** management fees.

### Conversion fee

Trades of the Ethereum (ETH) currency generated through the StartMark STO are initially converted to euros in order to free StartMark investors from fluctuations in the transaction currency. This conversion takes place at the beginning and continuously on a regular basis.

It should be noted that this conversion process incurs costs. Based on today's estimate, approx. 1.5% in costs can be expected in relation to the investment amount.

Acquisition of a startup investment is denominated in euros.

### Infrastructure allowance

In addition to the marketing investments, the initial phase includes particularly costs for creating the technical and administrative infrastructure of StartMark GmbH and the StartMark Security Token. These costs cover the programming of Token economics, preparation of the securities prospectus, *BaFin* approval, the wallet, etc.

These expense items will be borne jointly by all investors.



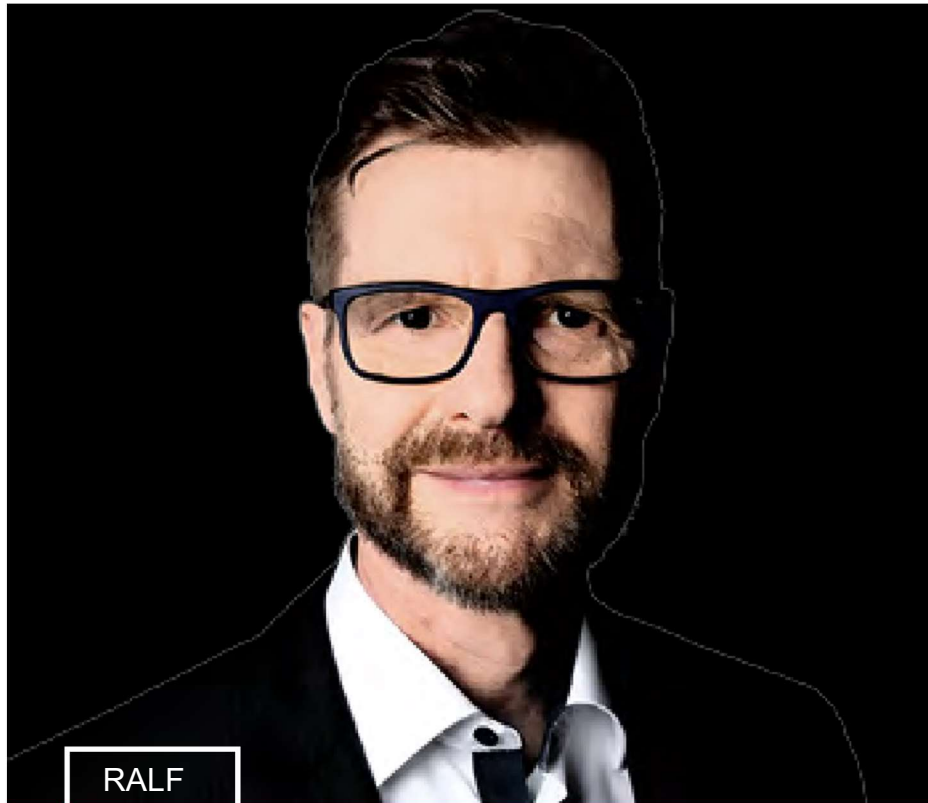


8.

## OUR TEAM

The StartMark team convened in summer 2018 with the mission of establishing the first German Security Token on the market that is oriented around investments in German startups and that meets the requirements of the German financial authorities.

**Our team consists of experienced managers, business angels and investors.**



**RALF  
HEINE**

**Managing Director**

Ralf Heine has many years of experience as a managing director and manager in global corporate groups in consumer goods and pharmaceuticals. An industrial engineer by training, Ralf Heine is a successful business angel and coach. He has already assisted numerous startups during set-up, further development and investments.



**FRANK  
SCHMIDT**

**Managing Director**

An avid technology enthusiast, Frank Schmidt is a management consultant and mentor with several years of experience as a managing director and marketing and purchasing manager. In his consulting activities with multiple firms, he shares his excellent knowledge of online, wholesale and retail business, and of the development of organisational structures of startups.



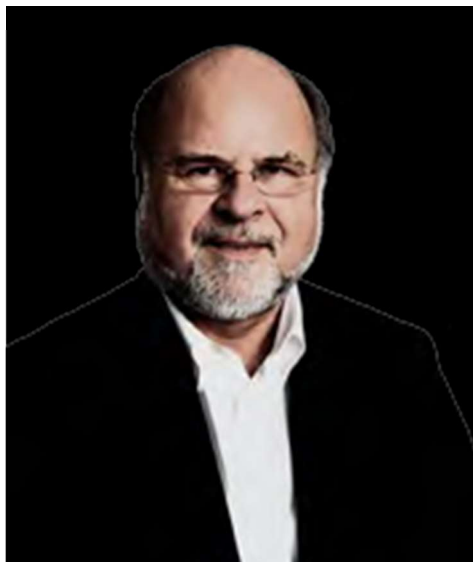
**BERND HEUER**

Bernd Heuer is an experienced management consultant with many years' experience as managing director and manager in corporate group structures. His diverse industry experience extends from mechanical and plant engineering to the services sector. As a graduate in business administration with a concentration in controlling and planning, Bernd Heuer is also involved as an investor and coach in the startup setting.



**GUIDO SCHNOCK**

Guido Schnock has many years of experience in management and executive roles in a medium-sized company. He currently works as maintenance manager at a leading car rental company. His focus is on claims management, continuous expansion of the nationwide workshop network, process optimisation and cost reduction.



**HARALD SCHWARDT**

Harald Schwardt is an insurance business manager with many years of experience in the insurance and services sector. Harald Schwardt has already founded several companies and for more than two decades has been active as the managing director and owner of Schwardt Versicherungsmakler GmbH.



**DR. GUIDO PASTERNAK**

Dr. Guido Pasternack has extensive expertise in the areas of strategy, regulation and policy and builds upon this through many years of experience and leading positions in energy management at an international corporate group. His areas of focus lie particularly in the field of renewable energies and innovative energy technologies.



MANUEL SIMON

Manuel Simon has been Managing Director of a medium-sized firm for more than eight years. As an IT specialist, Manuel Simon has already carried out numerous developments of cloud systems, apps, websites and compliance management systems.



NATALIE RIES

Natalie Ries is a solution-oriented management consultant with several years' experience in the fields of project management, process optimisation and organisational development. A holder of a degree in business information technology, Natalie Ries has already managed and implemented many projects in globally active companies.



MICHAEL TYSIK

After decades of experience as a successful manager and CFO for large firms in consumer goods and the pharmaceuticals sector, Michael Tysiak has taken the startup firm Biobase GmbH from 25 to 120 employees and before selling it to an industry leader. Since then, he has been sharing his knowledge by providing consulting to other startup firms in the life sciences, software and retail.

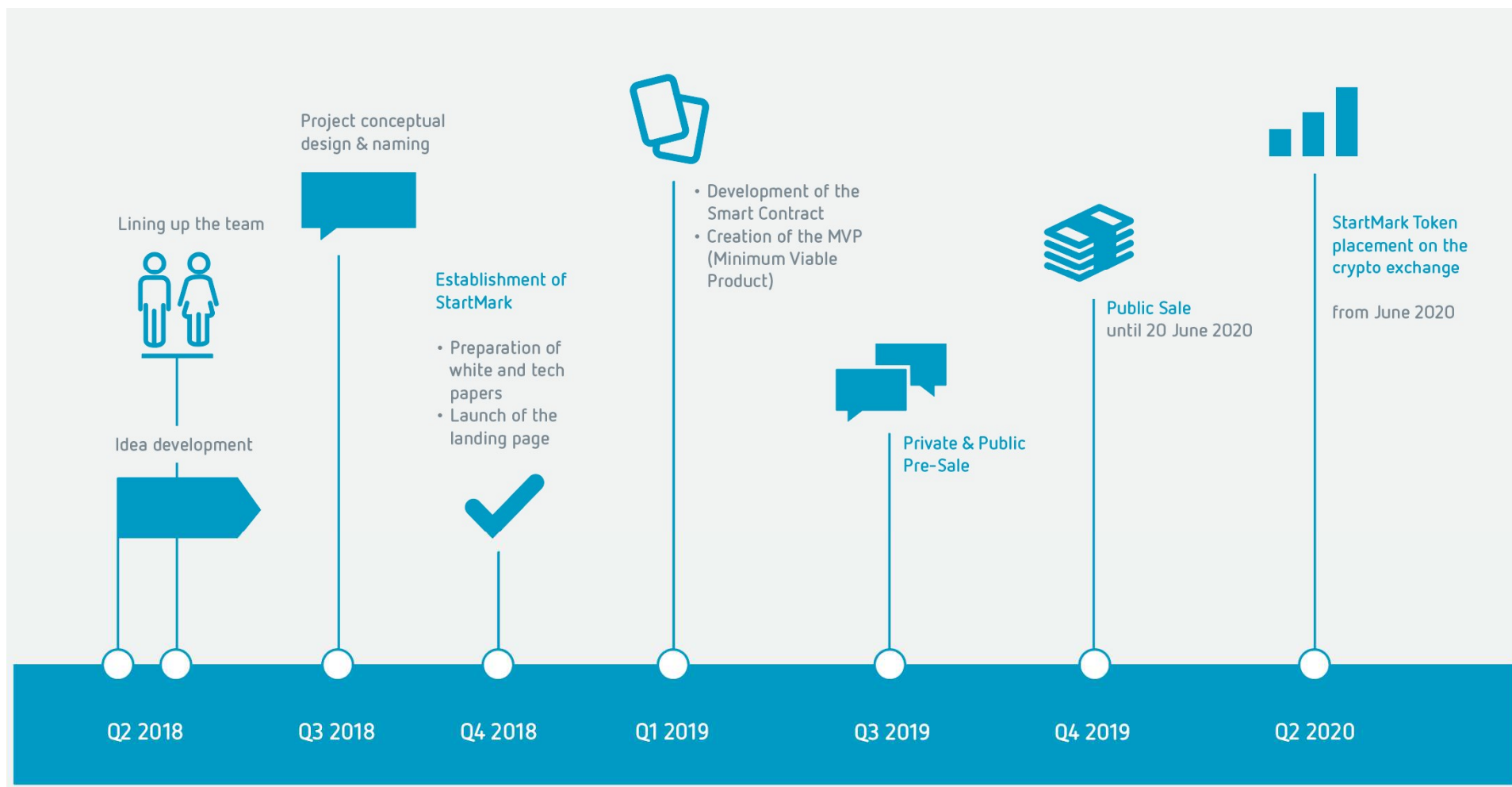


FRANK RITTMANN

Frank Rittmann founded Ranger Marketing in 1992 and grew the firm to 1,500 employees; to this day, he is the company's Managing Director. More than 25 years of experience in professional direct sales make Frank Rittmann a reliable sales partner for companies from a variety of sectors.

9.

## OUR ROADMAP





10.

## RISK DIS- CLOSURE

**The following risks are associated with the acquisition, possession and use of the StartMark Security Token.**

It cannot be ruled out that, risks that cannot be anticipated today and are other than those mentioned here may emerge in the future. It cannot be ruled out that risks such as these can lead to a total loss of the StartMark Security Token.

Please also note the detailed consideration of risk factors in the securities prospectus of StartMark GmbH at [www.startmark.de](http://www.startmark.de).

### **General performance risks**

The launch cannot take place or is delayed. Concomitantly, the services either cannot be performed or are delayed themselves.

The StartMark team is working intensely to implement the project. The prospect that technical or legal obstacles might delay the launch, however, or prevent it altogether, cannot be ruled out. This would mean that services described in this document can only be provided at a later date, or perhaps not at all.

The StartMark team has invested a great deal of time and effort in preparing this White Paper and to make it as detailed and informative as possible. We always take care to keep our documents and channels up to date. Users will find information on the latest topics and future plans at our website, on the STO page or on the StartMark social media channels. However, this does not preclude a situation in which changes are made in the short term if technical, legal or strategic aspects require, even if this results in a delay in the launch of the STO.

### **Trade of the StartMark Security Tokens by third parties**

To prevent fraudulent behaviour by third parties, it is strongly urged that StartMark Security Tokens be obtained only through verified purchase links. In future, you will find these links on our website, at [www.startmark.de](http://www.startmark.de).

### **Fraudulent behaviour by startups**

The StartMark GmbH team will work closely with the startup firms in which it invests, in order to identify risks of fraudulent behaviour and respond at once. Nevertheless, It cannot be ruled out that startups that are to be included in the StartMark portfolio may attempt to obtain investment capital by fraudulent means.

### **Technical risks**

The StartMark Security Token is based on Smart Contracts and on Ethereum. This is precise and transparent. The risk of manipulation by third parties is very limited. The Smart Contracts

are executed by an automated management system that ensures the security and availability of StartMark Security Tokens. Smart Contracts govern the acquisition of StartMark Security Tokens and the use of permissions on the part of each individual.

### **Risks associated with the Ethereum protocol**

Because the StartMark Security Tokens are based on the Ethereum protocol, any malfunction or breakdown of the Ethereum protocol can have a considerable influence on the value or inventory of StartMark Security Tokens. The same holds true if technical or economic factors necessitate a change in the protocol. Future technological developments can also lead to circumstances in which the mechanism on which the Ethereum protocol is based becomes unsuitable or too unsafe to ensure the services offered.

### **Risk of hacking and vulnerabilities in the security system**

No system is completely secure. Both the StartMark Platform and the Wallet may be subject to all manner of hacker attack. Hacker attacks can lead to restrictions in access over the short or medium term, or to a (temporary) collapse of the Platform.

### **Legal risks**

At the time of the STO, the information contained in this White Paper may still be incomplete, difficult to verify, or subject to change. These risks are associated with uncertain or shifting legal provisions.

Legislative changes can result in significant negative impacts for Tokens and blockchain-based ecosystems. At the extreme, these changes can mean a ban on the entire system, which would render legal trading in or the legal use of Tokens impossible. The legislature can subject systems with tokens to strict rules that, for example, permit only licensed trading in Tokens. Regulatory restrictions can even lead to a total loss of the Tokens.

### **Application risks**

There is a risk of losing access to the StartMark Token if the Token holder loses the private access key/code or, due to the Token holder's own misconduct, no longer has access.

A private access code is required to gain access to the personal Wallet and to control or trade in the StartMark Security Tokens. A loss of this access key can lead to a permanent loss of access to the Wallet, and thus also to loss of the StartMark Security Tokens.

Furthermore, abuse of the access code by a third party may result in the loss of existing StartMark Security Tokens, or in their being used against the will of the holder.

Loss of the StartMark Security Tokens can also result if access codes are not stored properly or are rendered unusable as a result of incorrect use. Incorrect use of the Wallet can also cause a permanent access block.

## **General risks**

### **Token trading platforms**

The StartMark is a Token. Tokens are traded on secondary trading platforms that are not subject to the control of StartMark GmbH.

### **Uninsured loss**

Unlike bank accounts or other financial accounts, the StartMark Security Token is not secured through a public insurer or deposit protection fund. Loss of access, for instance, is always tantamount to a total loss.

### **Lack of corporate management rights**

The holding of StartMark Security Tokens does not confer any corporate management rights. All decision-making rights are vested in StartMark GmbH. The Company may decide, without the consent of the holders of StartMark Security Tokens, whether and how StartMark will be continued, sold or liquidated. All of these decisions can have negative effects on the StartMark Security Token and may even lead to the total loss of the StartMark Security Token.

# TAX INFORMATION

**As in the case of holders of participation rights or bonds, remuneration to holders of StartMark Tokens must be classified as interest. The remuneration that the issuer intends to distribute must be qualified as income from capital gains. Distributions of profit are thus subject to income tax if the StartMark Security Tokens are held as private assets. Capital gains taxes and additional taxes are withheld upon distribution. Additional taxes include the solidarity surcharge as well as the church tax if the Token holder is a member of a religious community.**

StartMark GmbH has an obligation to pay these taxes to the tax office responsible for the company in Düsseldorf. Pay-outs to the holders of the StartMark Tokens are made after these taxes have been deducted.

The following tax information applies exclusively to taxpayers who reside in Germany and are thus subject to unlimited taxation. These explanations reflect the legal situation in effect as at the date of the White Paper and the securities prospectus. This is subject to change at any time by the legislature; such changes can also be enacted retroactively.

The acquisition, holding and sale of Token-based bonds (= SMK Security Tokens) through the use of cryptocurrency have not been clarified for tax purposes. The tax authorities have no clear administrative orders in effect at this point in time. The authorities have published statements on taxation in some sub-areas, but these do not cover the entire field of cryptocurrencies or digital currencies. For instance, exchanges of euros into Ether or vice versa, and exchanges within cryptocurrencies, can result in differences in exchange rate that trigger a tax liability. The explanations made in this document may be subject to change through future case law, as case law with the tax authorities on these matters is settled in sub-areas only.

Investors are advised to closely monitor the basic tax rules for cryptocurrencies and digital currencies during the term of the Token-based bonds. As retroactive changes have already been enacted in the past, StartMark GmbH is not obliged to inform investors of changes. It is recommended to consult a tax advisor on individual tax issues both prior to subscription and during the term of the Token-based bonds.

## 11.1 TAX LIABILITY IN PRIVATE ASSETS

### Fully taxable taxpayers

Distributions on Token-based bonds are taxed as long as they are treated as the equivalent of interest paid on capital gains (Section 20 (1) No 1 of the German Income Tax Act [EStG]). In addition, tax law treats profits generated in the sale of the Token-based bonds as what are known as 'capital gains', irrespective of the holding period of the Token-based bonds (Section 20 (2) No 1 EStG). 'Capital gain' is defined as the difference between the selling price on the one hand and the costs of acquisition plus costs to sell on the other. These basic explanations apply to natural persons who are resident or habitually resident in the Federal Republic of Germany. Taxation is governed by the world income principle.

Investment income (distributions) and capital gains constitute income from capital assets. Since 2009, this income from capital assets has been subject to what is known as 'flat-rate withholding tax' (Sections 32d (1), 43 (5) EStG). The flat-rate withholding tax is assessed at the tax rate of 25% plus 5.5% solidarity surcharge (plus church tax where applicable). With a total tax burden of 26.38% (plus church tax where applicable),

income from capital assets pursuant to Section 20 (1), (2) *EStG* is subject to income tax plus solidarity surcharge (plus church tax where applicable).

Under the regulations on flat-rate withholding tax, expenses directly related to Token-based bonds are not deductible as advertising expenses from taxes on income from capital assets.

Income subject to the flat-rate withholding tax also have no effect on rates of taxation on other income (no addition during progression). Because this acts as a payment, this means that investment income is not subject to declaration as income in the context of the income tax return.

If losses are realised on the sale of Token-based bonds, these are not compensable with other income. Nor may these losses be deducted pursuant to Section 10d *EStG* within the scope of the general loss carryback or carryforward. Losses reduce the Token-based bond holder's other income from capital assets, however. Pursuant to Section 20 (6) *EStG*, losses from securities sales may only be offset against gains from sales of securities; this provision is not currently subject to time limits.

If investment income has not been subject to capital gains tax, these amounts must be declared in the income tax return if the depositor's tax-free allowance of €801 for singles and of €1,602 for spouses filing jointly has been exhausted (Section 32d (3) *EStG*). This results in a review of the capital gains tax deduction (Section 32d (4) *EStG*) and, where indicated, a refund of excess flat-rate withholding tax paid.

The owner of the Token-based bonds can waive the withholding-tax effect at any time and instead declare the investment income on his or her income tax return as before. This is usually the preferable course if the personal tax rate is less than 25%. In this case, the flat-rate withholding tax is treated as an advance tax payment. It must be borne in mind that both spouses must take the same approach here if they are filing jointly. In these cases, the tax office automatically carries out a test for most-favourable tax treatment.

There is a special situation concerning church tax amounts for assessment periods from 1 January 2015.

If the holder of the issuer's Token-based bonds specifies his or her Identification Number and date of birth, the company may digitally request data on the holder's religious affiliation from the German Federal Central Tax Office [*Bundeszentralamt für Steuern*]. The company complies with the provisions of the General Data Protection Regulation that must be observed in this connection; these provisions are accordingly communicated to the owner of the Token-based bonds with regard to the Token-holder's right to object to the Federal Central Tax Office.

Upon request, the owner of the Token-based bonds may object to transmission of these data pursuant to Section 51a (2e) *EStG* (known as a 'non-disclosure notice'). The request for a rule query must be received by the German Federal Central Tax Office by 31 October of the respective calendar year. If a non-disclosure notice has been set, this remains in effect for future years, unless and until it is cancelled in writing, and applies to all income from investments.

If StartMark GmbH has not been provided with the Identification Number of the owner of Token-based bonds, this information can be queried from the Federal Central Tax Office as provided for under Section 139b (3) of the German Fiscal Code [AO]. If the data transmitted match the data record stored at the Federal Central Tax Office, the data will be transmitted.

If StartMark GmbH has the necessary data, the withholding tax rate of 25% is reduced by the church tax withheld (Section 32 (1) *EStG*).

The distributing entity, in this case StartMark GmbH, has an obligation to withhold flat-rate withholding tax, the solidarity surcharge and, where applicable, church tax. Upon request, the owner of Token-based bonds may receive a statement of capital gains tax, church tax and solidarity surcharge amounts withheld. Inasmuch as StartMark GmbH is subject to a legal obligation to deduct tax amounts at the source, it assumes responsibility for these deductions.

### **Taxpayers with limited tax liability**

Natural persons with limited tax liability in Germany (Section 1 (4) *EStG*) essentially generate domestic income within the meaning of Section 49 (1) No 5 *EStG* with the interest income derived from Token-based bonds. Taxation is assessed by means of a capital gains tax (withholding tax) with settling effect. Specificities may also arise out of provisions in provisions in double-taxation agreements (§ 50d *EStG*). In light of this,

in cases such as this, a review of the individual circumstances is recommended within the framework of tax advice with regard to the investment decision.

## 11.2 TAX LIABILITY IN BUSINESS ASSETS

If the Token-based bonds are held in the business assets of a partnership, the basic rule that applies is that of priority of profit income (Section 20 (8) *EStG*); in other words, business income from investments is attributable to profit income. This means that these amounts are not treated as capital income, the way they would be in the case of private individuals. Interest amounts are not subject to flat-rate withholding tax within the framework of the company. If the partnership generates income that is subject to trade tax, the interest is subject to this as well. The shareholders will treat any capital gains tax withheld by the debtor of the distribution as advance tax payments.

If profits are generated through sale of the Token-based bonds, i.e. the difference between the selling price on the one hand and the costs of acquisition plus costs to sell on the other, these profits are also subject to corporate tax plus solidarity surcharge and trade tax.

In the case of corporation constellations such as GmbH, AG or UG (limited liability), distributions on the Token-based bonds are subject to corporation tax and trade

tax. They are not incurred within the scope of application of tax-free remuneration pursuant to Section 8b (1) of the German Corporate Income Tax Act [*KStG*] if the shareholding is less than 10% (free float dividend). As in the case of natural persons, StartMark GmbH is subject to an obligation to withhold the capital gains tax and the solidarity surcharge upon disbursement, and to pay these amounts to the competent tax office.

In this case, however, capital gains tax has no discharging effect and instead is credited towards corporation tax as if a tax advance payment.

Capital gains which are generated by the corporation are tax-free regardless of the amount of the participation, in accordance with Section 8b (2) *KStG*.

## 11.3 INHERITANCE TAX

Acquisition of Token-based bonds through death or through gifts among living persons are generally subject to inheritance and gift tax. The amount of this tax burden is a function of special allowances and the amount by which the transfer enriches the acquiring party. The degree of kinship is also relevant to determinations of tax amounts due.



# GLOSSAR

## **Blockchain**

The blockchain is a decentrally stored, concatenated list of data records secured by cryptographic methods. The blockchain is thus comparable to a transparent database: all transactions are recorded on a form of 'digital bank statement', can be viewed by all members of the network and can no longer be edited after the fact. With this method, the blockchain affords an unprecedented level of transparency and security between parties to individual transactions.

## **Ethereum**

Ethereum is a distributed blockchain that governs the Ether (ETH) cryptocurrency as a means of payment. The major advantage of Ethereum is the use of decentralised programs (DApps) that anyone on the blockchain can install and use. With the aid of these programs, virtual contracts (known as 'Smart Contracts') can be created to execute transactions between trading partners and their accounts (which are known as 'wallets'). The blockchain keeps track of these transactions and automatically verifies them.

A Smart Contract can also be used to create and issue a party's own assets.

## **Coin vs. Token**

In the cryptocurrency world, a 'coin' is a means of payment that is accepted throughout the blockchain. Examples of this are Ether (ETH) or Bitcoin (BTC).

Values users themselves have created on the Ethereum blockchain are referred to as 'tokens'. These assets are treated in the wallet in the same way as currency in an account. A wallet can contain any number of different tokens from the Ethereum space.

## **KYC**

'KYC', which stands for 'Know Your Customer', is a standard process for verifying transfers of money. A requirement by many authorities all around the world, KYC is meant to prevent identity theft, terrorist financing, money laundering and financial fraud.

### **Security Token / Security Token Offering**

A security token provides a certain level of security, is asset-backed and behaves in a manner similar to a security. It is directly linked to promises of profit or revenue and in this capacity is comparable to a share of stock. Unlike classic securities, such tokens can be issued and managed without the involvement of classic intermediaries such as banks, portfolio managers and clearinghouses. Because these processes run on the blockchain, there are enormous cost savings and considerable streamlining of the system.

Since the security token stands for tradable assets, they, too, are governed by securities regulations. A Security Token Offering constitutes a trade of real assets. The issue of a security token is referred to as a 'Security Token Offering' (STO).

### **Smart Contract**

Smart Contracts are 'clever' agreements that are concluded without the elaborate involvement of third parties such as notaries yet nevertheless ensure legal certainty. At the same time, Smart Contracts permit the automatic entry-into-force of contracts under certain conditions, similar to an 'if...then' condition. This program, which is run

decentrally, is mainly used to carry out transactions. The ERC-20 technical standard governs the exchange of Ether for tokens, of tokens for Ether, and the transmission of tokens between different wallets (purchase/sale in exchange for Ether). Under this standard, users can trade the token through crypto exchanges later on.

### **Wallet<sup>10</sup>**

A cyberwallet (also known as an 'eWallet' or 'digital wallet') offers users a way to store credit on electronic platforms and to use these amounts to pay for goods and services on the Internet. The user of an eWallet receive a balance credited to an account (equivalent to filling a virtual wallet) by making a deposit using the user's preferred payment method based on the methods the provider has enabled.

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<sup>10</sup> Page [in German] on 'Cyberwallet'. In: Wikipedia, Die freie Enzyklopädie. Current as at: 20 November 2018, 1:52 p.m. UTC. URL: <https://de.wikipedia.org/w/index.php?title=Cyberwallet&oldid=182921766> (Accessed: 20 November 2018, 3:36 p.m. UTC)



## CONTACT

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