



**CĂRSTOIU REMUS COSMIN  
LAW FIRM  
Attorney at Law**

Sibiu Bar  
29 Negoii STR,  
550275 Sibiu, Sibiu District  
Romania  
Fiscal Code: 20879657

Tel: 0040-770-952946  
carstoiucosmin@me.com

**Commercial, International**

INTERNATIONAL E-COMMERCE, COMMERCIAL AGREEMENTS, CRYPTO PROCEDURES, DATA PRIVACY COMPLIANCE, CONFIDENTIALITY, FINTECH, IT, ETC.

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## **Legal Opinion: EZCoin Coin**

### **Introduction**

This Legal Opinion was prepared upon request of **David A Gunn LLC**, a company registered and organized under the Laws of the United States of America, having its headquarters in Humble, TX, (the Company or David A Gunn LLC), to serve as a legal analysis of the business model, the EZCoin Coin (EZCoin) and its compliance with the requirements of the Listing Rules for the Trading Venue operated by Exchanges.

The requirements considered hereunder reflect the conditions as prescribed by the publicly available legislation and the legal practice in the matter, as well as any guidelines and rules, final or otherwise, published by US and European Authorities. To that end, and for the purpose of a continuous update on the development of cryptocurrency market regulations, this law firm is continuously collaborating, at any given time, with at least twelve (12) relevant law firms from all major jurisdictions around the world, exchanging information and updates on crypto development and its associated legal domain.

This opinion is meant to serve as our legal analysis of the EZCoin Coin and conclusions are limited to the matters expressly stated herein, are fully based on information and material provided to us by David A Gunn LLC, and no opinion or conclusion is to be inferred or may be implied beyond the opinions and conclusions expressly set forth herein. This opinion is written in good faith, and cannot be deemed as a guarantee or obligation, or ground of liability for our law firm.

For the purposes of issuance of this opinion, we have assumed without further inquiry that all factual circumstances stated in the provided documentation are a true and correct representation of the actual situation surrounding the company and insofar as such factual circumstances are not or may turn out to be not true and correct, they will have no adverse effect on the opinions stated herein. Therefore, and for the avoidance of doubt, the opinion expressed in this legal opinion is only being written in light of the applicable legislation at the date of issuance, and shall not cover any future changes, amendments and any additional supplementary legislation that may be enacted.

We hereby state that our law firm is EU based, and the interpretation of law is based on authority for exchanges incorporated in the United States of America, the European Union and other relevant international areas, as hereinafter provided.

### **Business description. Key features.**

As a whole concept, David A Gunn LLC presents itself as a company developing a community-driven platform that promotes global financial wellbeing by empowering people to be in control of their money and create their wealth opportunities. EZCoin looks to continue that trend with a coin that appeals to the

blockchain community with a long-term vision to create wealth among the financially underserved and unbanked.

EZCoin supports mining with Scrypt hashing algorithm used on certain Proof of Work blockchains. Proof of work (PoW) is a decentralized consensus mechanism that requires members of a network to expend effort solving an arbitrary mathematical puzzle to prevent anybody from gaming the system. Proof of work is used widely in cryptocurrency mining, for validating transactions and mining new tokens. Furthermore, it hosts a new full-fledged environment that can be used to develop high-performing decentralized applications that can facilitate quick trade.

EZCoin Coin holders are rewarded, among others, with a wide series of incentives, discounts on fees, liquidity pooling rewards, governance rights, and more. In 2022, the roadmap includes launching of a series of decentralized primitives such as EZCoin Games, EZCoin Store, EZCoin Foundation for Charity, NFT Minting Website, Virtual Meta World, EZCoin Debit Card etc.

### **The EZCoin Coin**

First of all, what is the EZCoin Coin? EZCoin intends to be more than just a utility Coin, as it will have multiple uses within the EZCoin ecosystem. Most of the use cases mentioned are centered around the utilization of EZCoin as a tool. The EZCoin Coin has several use cases and applications, some of which will be present at the outset and some of which will be added over time.

**GAMES.** EZCoin is soon going to develop an infrastructure that builds on the growing Decentralized ecosystem and combines it with play-to-earn Gaming through EZCoin.

**STORE.** EZCoin is going to launch an eCommerce platform that will enable users to enjoy online purchasing in a simple, safe, and cost-effective manner. It will act as a link between the cryptocurrency and physical worlds, allowing customers who previously couldn't shop with their digital assets to do so. Digital assets will be able to be used in EZCoin eCommerce markets thanks to EZCoin 's technical infrastructure.

**SCHOOL.** EZCoin is planning to create a school where they can educate people and users to access online content to learn about cryptocurrency and blockchain. EZCoin provides content that teaches them how digital money works while they invest, opening opportunities for wealth creation. The goal is to foster human connection through financial literacy filling this gap in the crypto and financial market and preparing the next generation of investors.

Total Supply of 1 billion coins, 90% Users – 900 million Coins, 10% Team – 100 million Coins. The users 900 million coins will be generated and added to the circulating supply from the mining community. The EZCoin team has pre-mined the remaining 100 million. Based on the company's estimates the total coin supply should be mined out in 12 years +/- . The EZCoin team will be allocating their coins into the following categories:

- Development – 16 million Coins
- Graphical User Interfaces – 14 million Coins
- Marketing – 12 million Coins
- Initial Coin Offering (ICO) – 10 million Coins
- Events & Sponsorships – 8 million Coins
- Advisors – 5 Million Coins
- Charity – 5 Million Coins
- LOCKED for 3 Years – 30 Million Coins (Unlocking on 12/8/24)

It is, thus, the team's intention that the EZCoin Coin will also be used as a utility asset that can transfer a certain value between holders. Utility Coins are digital assets that are used to finance the network and incentivize its use by providing customers with a guarantee of being able to benefit from the full range of the network's services.

## **United States of America**

From a US legal standpoint, the institution of “securities” is being regulated by section 2(a)(1) of the Securities Act of 1933, which defines them as: “...any note, stock, treasury stock, security future, security based swap, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit sharing agreement ... investment contract ... or, in general, any interest or instrument commonly known as a ‘security’, or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.”

In order for us to have a deeper understanding of the issue under debate, we should take into consideration the US Supreme Court case SEC v. Howey, 328 U.S. 293 (1946), which provides further clarifications on determining whether an instrument meets the definition of a security, or not. In this Supreme Court case, Howey focuses specifically on the term “investment contract” within the definition of “security”. Obviously, not every contract or agreement is an “investment contract”.

The court determined that a contract constitutes as an investment contract that meets the definition of “security” if there is:

1. An investment of money;
2. In a common enterprise;
3. With an expectation of profits;
4. Solely from the (entrepreneurial or managerial) efforts of others (e.g., a promoter or third party);

The four factors must be met all together, in order to be legally considered a “security”. Because this Supreme Court decision is widely considered as fundamental to the determining elements of a “security”, we will base our analysis on its conditional factors.

1. Is this an investment? Yes! It is generally accepted that an investment of money may include not only the provision of capital, assets and cash, but also of goods, services or of promissory notes. EZCoin is being distributed through an ICOs, private sales and eventual airdrop programs by the issuer EZCoin to selected users, with a price set per Coin, so the first factor is met.
2. Is this a common enterprise? A common enterprise is deemed to exist where investors pool funds into an investment and the profits of each Coin buyer correlate with those of the other investors. Whether funds are pooled appears to be the key question, and thus in cases where there is no proportional sharing of profits or pooling of funds, a common enterprise may be deemed not to exist. EZCoin is unlikely to be deemed a “security” at this stage of the project, and that is taking into consideration the fact that the platform is not yet fully operational. Therefore, EZCoin is substantially a utility coin consumed to transfer value across the blockchain with a relatively stable value across various exchanges. The second factor is not met.
3. Is there an expectation of profit? In our legal opinion, this factor is irrelevant to the matter, but we will analyze it in respect of the Supreme Court decision. From an economic point of view, regarding the buyers of the Coin, and not the users being airdropped, any type of investment is made with an expectation of profit. But just because there is a return on investment or profit, does not mean that the investment contract is a “security”. Moreover, the main purpose of EZCoin is creating a blockchain-based marketplace platform, among others. So, the expectation of profit is mainly oriented towards another, subsidiary, category of economic activities, not on EZCoin Coins, which renders somewhat irrelevant the profits from an eventual Coin airdrop or ulterior acquisition. Even so, this factor is probably met, on a low scale, provided that EZCoin is purchased by investors with an expectation of capital gain, even though we clearly express the opinion that this factor should not weigh in decisively on the matter.
4. Is the “solely on the efforts of others” factor met? No! The profit of the platform user always depends on his own actions. As we said, even though there is also an investment in EZCoin Coins, the expectation of profits results mainly from economic activity, not from volatility of the Coins. So, any such incentives should ideally be derived through their own efforts, rather than through a passive investment. In such a case, the factor is not met.

## **European Union and UK**

From an EU and UK legal standpoint, when we conducted a detailed decomposition and analysis of all online EZCoin Coin business processes, we were unable to detect and identify any process that can be regarded as a relationship between an investor and an issuer of securities. On the other hand, if we aim to register the issue of securities, we will not be able to prove to the regulatory body that Coins are securities. Moreover, the main Coin holders are interested in the trading transactions, and this is peer-to-peer mainly.

In our opinion, the expertise of the EZCoin Coin under the EU securities legislation cannot be applied to the EZCoin Coin due to the fact that all business processes and relationships within the platform are classic relationships for blockchain platforms, and are all in a permissionless manner. There is no contribution to any business venture.

Nowadays, the matters of cryptocurrency turnover and production of digital assets have no special legal regulation. There are neither special laws, nor separate legal institutes or branches of law. Therefore, we cannot qualify a Coin as a unique legal essence.

Coin taxonomy according to the ESMA and the EBA

Although not legally binding at a supranational level, it is advisable to refer to the regulatory framework structured on the Advice on Initial Coin Offerings and Crypto-Assets of ESMA4 and the Report with advice for the European Commission on crypto-assets of EBA5; both published on 9th January 2019.

Presently, there is no common taxonomy of crypto assets in use by international standard-setting bodies. However, even if crypto assets may have different features or serve different functions, a basic taxonomy of crypto assets generally comprises three main categories:

**Payment/Exchange/Currency Coins:** Payment Coins are Coins which have no tangible value, except for the expectation they may serve as a means of exchange or payment to pay for goods or services that are external to the ecosystem in which they are built. "Stablecoins" are a relatively new form of payment/exchange Coin that are typically asset backed (by physical collateral or crypto-assets) or in the form of an algorithmic "stablecoin".

**Utility Coins:** Utility Coins are Coins which are intended to typically enable access to a specific product or service often provided using a DLT platform but are not accepted as a means of payment for other products or services.

**Investment Coins:** Investment Coins may represent financial assets such as a debt or equity claim on the Issuer. Investment Coins promise, for example, a share in future company earnings or future capital flows. In terms of their economic function, therefore, these Coins are analogous to financial instruments. However, investment Coins may also exclusively reflect the ownership rights of an asset, which may not be deemed as a financial instrument.

There are a wide variety of crypto-assets, some of which have features spanning more than one of the categories identified above. The individual Coin classifications are not mutually exclusive.

We will further analyze the legal qualification of crypto assets under the European Banking legislation and ESMA's remit (MiFID II), and under the E-Money Act in line with the second Electronic Money Directive (EMD2) and the second Payment Services Directive (PS2). Reflecting on the above, the current perimeter of regulation is such that crypto assets may, depending on their characteristics, qualify as financial instruments, electronic money, or none of the foregoing.

The definition of a financial instrument is the key element towards determining whether trading services with respect to a Coin can be deemed to be regulated in terms of the Banking Act and other relevant laws.

Financial instruments are defined in terms of Section C of the Banking Act as follows:

1. Transferable securities of all classes which are negotiable on the capital market, such as:
  - a. shares in companies and other securities equivalent to shares in companies, partnerships, or other entities, including depositary receipts in respect of such securities;
  - b. bonds or other forms of securitized debt, including depositary receipts in respect of such securities;
  - c. any other securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, or other indices or measures;
2. Money-market instruments which are normally dealt in on the money market, such as treasury bills, certificates of deposit, and commercial papers and excluding instruments of payment;
3. Units in undertakings for collective investment in transferable securities, units in investment undertakings, and units in alternative investment funds;
4. Options, futures, swaps, forward rate agreements, and any other derivative contract relating to securities, currencies, interest rates or yields, emission allowances or other derivative instruments, financial indices or financial measures which may be settled physically or in cash;
5. Options, futures, swaps, forwards and any other derivative contract relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination events;
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a multilateral trading facility, or an organized trading facility, except for wholesale energy products traded on an organized trading facility that must be physically settled;
7. Options, futures, swaps, forwards and any other derivative contract relating to commodities that can be physically settled, not otherwise mentioned in point 6 and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
8. Derivative instruments for the transfer of credit risk;
9. Financial contracts for differences; or
10. Options, futures, swaps, forward rate agreements and any other derivative contract relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination events, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, multilateral trading facility, or organized trading facility.
11. Emission allowances consisting of any units recognized for compliance within the requirements of the Emissions Trading legislation.

To round up a conclusion we can safely iterate the following:

- The market price of the Coin does not influence the company's profit and the company profit does not influence the Coin market price.
- There are no declarations in the whitepaper promising "An expectation of profits" to the Coin buyers. Coin holders can receive any income from the Coin by their own efforts, or they can also lose the Coins while trading.
- A EZCoin Coin is clearly not for greenhouse emission allowances.
- A EZCoin Coin does not constitute any sort of debt obligation. For essentially the same reason a EZCoin Coin is not a bond or other tradable debt obligation.
- A EZCoin Coin does not constitute a share because it neither entitles its holder to a dividend nor grants its holder any right to participate in the governance of EZCoin or of any other company.

- A EZCoin Coin is not a subscription right or other tradable right granting the right to acquire securities. A EZCoin Coin simply does not give its holder any option to acquire a bond or a share.
- The Company does not propose to use the monies received from the sale of EZCoin Coins for following any defined investment policy for the benefit of the buyers of EZCoin Coins in question and in their common interests: the buyers of EZCoin Coins will not have distributed to them any income earned as a result of operating the platform.

Furthermore, a derivative security comprises a tradable security expressing a right or an obligation to acquire, exchange or transfer, provided that its value depends, directly or indirectly, on:

1. The exchange or market price of a security;
2. On any interest rate;
3. Securities index, other financial index or financial indicator, including the inflation rate, freight rate, emission allowances or other official economic statistics;
4. Currency exchange rates;
5. Credit risk and other risks, including climatic variables;
6. The exchange or market price of a commodity.

The EZCoin Coin does not represent any of such cases.

While the value of a EZCoin Coin would likely depend on the success of the ecosystem, the content available via that ecosystem does not constitute a commodity. Thus, a EZCoin Coin is neither a derivative security nor a derivative contract.

Electronic money is commonly defined as a digital alternative to cash allowing users to make cashless payments with money stored over the internet with the final aim to facilitate the emergence of innovative electronic money services and encourage effective competition between all market participants.

A Coin is to be classified as electronic money if the following conditions are met altogether:

- Is electronically stored;
- Has monetary value;
- Represents a claim on the Issuer;
- Is issued on receipt of funds;
- Is issued for the purpose of making payment transactions;
- Is accepted by persons other than the Issuer.

In our legal view, the EZCoin Coin shall serve as an integral feature of the core processes of the platform as denoted in the whitepaper. However, nothing in the whitepaper provided by the protocol indicates that EZCoin Coin holders can have a claim against the issuer's assets arising from funds which were initially placed against such issuance of EZCoin and/or that such holders can redeem their funds at par value. Therefore, EZCoin Coins fall outside the scope of the definition of Electronic Money.

Finally, EZCoin Coins are likewise not depositary receipts. A depositary receipt is a security that represents ownership of the securities of a foreign issuer and which can be admitted to trading on a regulated market independent from the securities of the foreign issuer. To constitute a depositary, receipt of a EZCoin Coin would need to represent an ownership of a security. All the functions of a EZCoin Coin are listed above. An instrument fulfilling only those functions does not constitute a security.

## **Conclusion**

- 1. The EZCoin Coin is more likely not to be deemed a “security” under the US, EU and other international legislation.**
- 2. In the future stage, the EZCoin Coin should maintain the utility legal qualification, based on the company’s business plan and the technical development of the blockchain.**
- 3. We have found no signs of possible fraud and scam, Ponzi scheme, tort, consumer fraud, or known schemes of income laundering and tax evasion.**

4. Coin buyers do not have any rights to company profit. The EZCoin Coin doesn't give equal rights to their holders. This fact excludes the identification of the Coin as securities.
5. The founders of EZCoin do not possess any ability to affect the Coin price. The market price of a Coin does not influence a company's profit and a company's profit does not influence the Coin market price.
6. All scenarios of the turnover of the Coin are strictly ordered and implemented on the blockchain by smart contracts. No other scenarios are technically feasible. None of the scenarios of utilizing the Coin has the signs of security rights realizing.



**Disclaimer:**

The above analysis is based on information obtained from a representative of EZCoin, the team's whitepaper, publicly available information, and the law as it exists as of the date hereof. Considered herein were the U.S. federal and the EU securities laws. We have also analyzed other legislations. No opinion is expressed with regard to any other body of law or legal construct, including without limitation the franchise laws of any other country. No court has addressed the question of whether any blockchain-based Coins are "securities" under U.S. federal law; as such, the SEC or a court of competent jurisdiction may reach an alternative conclusion to that stated in this opinion letter. No warranties or guarantees of any kind as to the future treatment of the EZCoin Coin are being made herein.