

diffusetap
Virtual Event Series

SEC Compliant Security Tokens

Guest Speakers:



Len Bland
CEO
Nano Gas



Dan Kelly
Founder
GSDFuel

Hosts:



Kenny Estes
CEO & Founder
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COO & Co-Founder
Diffuse



DiffuseTap: SEC Compliant Security Tokens

Last time on DiffuseTap, Len Bland, CEO of Nano Gas Environmental, and Dan Kelly, Founder of GSDFuel, talked to us about the process of setting up a preferred stock offering through SEC compliant security tokens, the difference between security tokens and utility tokens, and why the term “security token” can sometimes be misleading to investors.

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DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you’ll bump into at least a dozen high caliber fund managers) meets purposeful (you’ll tap into brand-new sources of ideas)... straight from your armchair like a boss.

Meet the Speakers



Len Bland is the CEO of [Nano Gas Environmental](#), an innovative clean energy company that provides a low-energy, chemical-free solution to many issues faced by the municipal wastewater and oil & gas industries. Nano Gas nanobubble solutions create tiny bubbles that clean up the environment, recover additional oil, and treat wastewater brought to the surface from oil wells. [Linkedin: @lenbland](#)



Dan Kelly is the Founder of [GSDFuel](#), an advisory firm that specializes in advising its clients on how to properly design dividend-paying, scarce, and liquid private preferred securities for distinguished clean energy companies around the world. Nano Gas Environmental is one of many clients of GSDFuel. [Linkedin: @dankelly1](#)

About Diffuse

We are an alternative fund platform offering differentiated investment products. From digital assets, to VC funds, and beyond, we identify green field investment opportunities we feel will have market beating returns and turn them into professionally managed funds. For more information visit www.diffusefunds.com.



KENNY ESTES: Len, can you please tell us a little bit about your background and what you're up to over at Nano Gas Environmental?

LEN BLAND: Yeah. Hi, my name is Len Bland. I'm the CEO of Nano Gas Environmental. We clean and energize water with tiny bubbles, and we've been trying to figure out a creative way to get our company funded because with technology, the world is changing. We're in three markets which are cleaning sewage wastewater, cleaning oil industry wastewater, and enhancing oil recovery, all without doing any drilling or fracking, or using any chemicals.

When I was introduced to Dan Kelly and GSDFuel, they were raising money and helping companies like us market and get our capital raise. They have a program for putting these together. That's how I found out about the opportunity to back up a private offering with SEC compliant security tokens.

KENNY: Awesome. Appreciate that, Len. Dan, over to you. Please tell us about what you're up to over GSDFuel.

DAN KELLY: Absolutely. Appreciate it, Kenny. Hi everyone, nice to meet you. I always enjoy these events, especially in this speed dating format. This is really neat. My name is Dan Kelly. I'm the Founder of a company called GSDFuel. As I was just sharing in our little breakout room, I'm a regulation first-minded crypto enthusiast, which is sometimes an oxymoron to put all those words together in one statement. But essentially, that is the security token market industry.

Basically, we design and develop SEC-compliant and fully regulated private securities for clean energy companies. We do this by leveraging all the existing regulations and regulated parties that the SEC has approved of, ranging from using the underwriting regulation called Regulation D, to regulated parties such as SEC approved Transfer Agents, which are independent entities in the background that are responsible for ensuring the capitalization table is accurate.

Historically, the Transfer Agents are really just managing a fancy spreadsheet to be honest with you. The Transfer Agent capitalization table is responsible for being an independent record authority that is an intermediary responsible for being the ultimate authority (on behalf of the issuer) identifying who owns shares and interests of a specific company. It shows how different shares are owned by different people, to alternative trading systems, and to other parties as well, which is one way we're making our clients into a fully regulated company. That way, what they're doing is they're offering a pre-IPO opportunity for people that are liquid within a year. That's what we do at the end of the day.

For my personal background, I was recruited out of college and spent five years in the FBI. I love the FBI, but hated working for the government. Two very distinct statements. The GSA schedule is not my jam, but I love the bureau and the mission. And so, I went to the private sector. Like I was sharing before, I figured out the hard way that I was an entrepreneur.



This is my third venture. I had a chance to exit the first. The second one was an [INC 5000](#) list. I'm very proud of that. And then, here we are. My real focus is on the clean energy space, because I love it. There is real tech out there that make a real difference, just like Len's company.

AYLA KREMB: Awesome. I'll start off with some definitions. It's not entirely obvious to everybody all the time, but what's the difference between a utility token and a security token? You could talk about it not just from a legal perspective, but maybe from the tech perspective too, if there is one. It will be really interesting to understand how these two types of coins differ.

DAN: Thanks, I'll take that. A [utility token](#) is what you generally understand the whole cryptocurrency industry to be. It's where there is a utilitarian value of holding an underlying asset to engage with a specific platform, or to receive some sort of value from that platform. What a utility token is not supposed to be in the U.S., which we all have seen every day in the news, is that it's not supposed to be something where people are expecting to gain a return or have any sort of actual asset backing to it, if you will.

There's obviously a lot of focus on utility tokens in the market today as traded unregulated securities. And to be very clear, many of them are. I'm not going to talk about individual securities here, but that's just the bottom line. A utility token is something that, quite frankly, lives outside of the traditional securities world. I think about it like almost a membership fee. I use the example of [REI](#). If REI wanted to make a utility token instead of charging people a membership to use it, it would be okay. It would be acceptable. That's what a utility token is. It's traded on multiple blockchains, unregulated exchanges like Binance, or FTX, etc.

A [security token](#), on the other hand, is a private security using the [USA Jobs Act of 2012](#). It's an exempt offering that allows companies or clients to raise funds to close the fund, to close their offering, and then list that underlying security on a fully regulated exchange. That exchange would have to be an alternative trading system. That is the secondary market for private securities that was introduced by the SEC many years ago.

You can literally just do a Google search for "[alternative trading systems](#)" and you will see the SEC website, and you will see all of them there. I don't know exactly how many there are at the top of my head, but there are probably a hundred of them. I work with about five of them. And to be very transparent, there are only three that focus on the security token world of those ATSS.

That's the difference. With a utility token, anyone can make one for any reason in the world, including third and second world countries. A security in the U.S. terms can be a utility token, and the more first world companies that have strong securities regulation, the more utility tokens out there right now are going to be deemed securities, for right or wrong. But that's a whole other political discussion.



KENNY: One more definitional thing, Dan. Let's talk about security tokens. Reg S, Reg D, Reg A, Reg A plus, what are the different types? Is there just one security token, or are there different ways to do a security token? What's the lay of land there?

DAN: Yeah, thank you. I'm going to answer that in two very succinct ways, but yes, they are different. The term security token is a generic term. It's not an SEC-approved way of explaining it. To be very clear, you can have a security token out of Singapore that could comply with their security laws, but not necessarily an SEC-approved security token. That just means it's complying with local securities laws.

The vast majority of security tokens in the world today are non US-based. They're out of Singapore, they're out of Malaysia, they're out of Asian or Eastern European areas that are truly in compliance with their laws. That's the different security. Now, on the U.S. side, there are underlying regulations. You can just type in the USA Jobs Act 2012 and you can see things like Reg A, Reg D, Reg C, Reg CF, Reg A plus, etc. You can give yourself a lot of midnight reading there. At the end of the day, it's all about who is allowed to invest in a private offering that is an alternative investment. That's for the primary raise functionality.

Primary means you're raising funds. Secondary means you're trading and you're actively listed. It's basically the same thing as being a publicly held company, just on a secondary market. It allows investors to be liquid within a year, and that's very important. Part of our process is melding the "What works great in crypto." It's the digital ecosystem. It's the transparency requirements. It's the accountability requirements. It's about developing an entire ecosystem to support an underlying company. And very importantly, it's the fixed supply.

Anybody in the crypto world that trades utility tokens and has a lot of experience will look at what's the total market cap, and what's the fixed supply. If you have a low max supply token, do the supply and demand economics prevail? The easiest example is Bitcoin. We use the same thing. We use the same underlying methodology on the utility token side in the regulated world, so that underlying investors can never be diluted.

My last example of this is when you go to Fidelity and you go to buy a share of Apple stock, Apple has no idea who Dan Kelly is. They could care less. They know who Fidelity is, and the overall book value within the brokers. Apple wants to raise more money, they will dilute me as a common stock shareholder, and they have every right to do so. In a situation like Len and Nano Gas, Len does not have that ability, legally or technically.

Legally or technically, the ability to issue more underlying securities is very important. That's what allows supply and demand economics to take part with developing a profit sharing company. It's a huge deal. Our whole focus is on helping people get through from the beginning to the end, through an ecosystem of partners. We're a guide to help them be very successful in that journey.



AYLA: Amazing. I might toss it over to Len. Len, how did you come across security token offerings? What is the process for evaluating them, and how did you get into this space?

LEN: We were introduced to the space by [Steve Goldsmith](#) of Green Generation Finance, which is a partner of Dan's. They're fantastic in helping us through the process, and they've been helping us look for ways to fund our company and other other sustainability companies as well. They found Dan and identified it as a great opportunity for us. What we're trying to do is raise money to accelerate the growth of our business, and we're right there where we can use it and create a business that is worth billions of dollars.

What intrigued me was that we could make an offering for the company's advantageous valuation. We wouldn't be giving away any of the control of the company. In fact, the security token holders get no ownership in the company. They are private securities. It's like preferred stock in that we're guaranteeing them a percentage of our profits. In that way, we've given away that portion of our profits to the token holders and the fixed token supply forever.

That works for us, and it works for the investor. We believe in rewarding the investor for making the investment. We think it's really a fair and great opportunity. That is going to enable us to grow in making the world a better place, by cleaning water and making the oil industry less bad.

KENNY: Okay, that makes a lot of sense. Walk me through the process. How long did it take you to put this together? Was a roadshow involved? This is a question more for Len I suppose. From the issuer's perspective, what were the steps you had to go through? And how difficult were the big hurdles you had to overcome?

LEN: We got an outline set of stats. Because I helped prepare companies for investment, most of them were not a surprise to me. They were standard stats, but it's about getting the issuance defined, getting the marketing defined, getting the offering defined, getting all the information available for the investor, and then looking towards GSD to help us with the tokenomics in the valuation of the company to define how that should best be structured.

It took us a month to a month and a half of focused energy to get all the materials together and to have a successful offering. That was before we circulated the offering at all. If you're talking about a [roadshow](#), we've done things electronically, with video and other types of things that we put together for the first time. We put a good [Video Explainer](#) of our company together. Once we had that, we turned it over to Dan and his team.

AYLA: We have a good question from the chat for you to handle here. What is the state of the liquidity environment of SEC compliant security tokens and different projects? Is there liquidity? Is



there no liquidity? Is liquidity coming in? Is it moving out? What is the state right now? Maybe I'll give the question back to you, Len. You might have some thoughts on that.

LEN: What we had to figure out was that calling it a security token was scary for most alternative investors. They really weren't quite ready, and we had to come to an understanding, which we did. What we have is a preferred stock offering. That's what it says in our PPM. We're offering preferred stock.

It has the characteristics of preferred stock. It has profit sharing. It's participating preferred. It has the rest of the term sheet that you can associate with preferred stock. The distinction is that this preferred stock is instantiated on a blockchain and tracked on a blockchain, and then instantiated as a digital token so it can be traded.

KENNY: Awesome. Dan, anything you want to add about that? Specifically about liquidity, the promise is that you're going to have a lot of secondary liquidity. In my former life, I was heavily involved with these. It didn't necessarily always come to fruition.

DAN: That's a great point, Kenny. The industry has been around for a while, but to your point, the secondary market has never been given a lot of attention. And that has been largely due, in my opinion, based on intermediaries within the finance industry that make a lot of money to be the middleman in the process. That's because the secondary market is all about direct interaction between investors and issuers. It's about trading private securities. The focus and attention has been on the public markets, for right and for wrong.

Again, I can give a lot of speeches about this. But in the interest of brevity, I'll say there are a lot of people that make a lot of money by just being that middle broker agent between investor and issuer. And so, the focus has been on the public markets. There is liquidity in the private markets. The vast majority of liquidity, if you look at the security token market as a whole, has been offshore outside the U.S.

That's because it's been more prevalent over there and more publicized. But there is liquidity in the U.S. markets. And on the security token front, if you want me to name specific exchanges, you can look at lon Ex, you can look at T Zero, you can look at Securitize, you can look at Rialto. I know all of them personally. We place our clients on the correct exchange where we know that there's an existing ecosystem that would be the best fit for them.

We just started the company about nine months ago. Instantly, we had about 17 clients. They're all active. We've got another 35 on the waiting list. We're the guide throughout the process, but the organizations are raising their own funding, legally. Otherwise, we are there to make sure that we can make that process as fast as possible so that the real payday for everybody is once the underlying securities are liquid, and paying dividends. We develop these things so that Warren Buffett loves them. Let's put it that way. With compounding interest.



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Dennis Chookaszian
Corporate Director, CME Group

DiffuseTap: Institutional Grade
Governance

Sharing his decades-long expertise on corporate governance, Dennis talked about how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. [Read on](#)



Susan Brazer
CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse
2022

Susan described the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. [Read on](#)



Raj Mukherjee J.D.
VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes
Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for [Coinbase](#) and [Binance](#) from scratch, and how investors can profit from crypto without getting caught in a taxation mess. [Read on](#)

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