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FISCO Ltd.

Design Proposal for FISCO Decentralized Application Platform

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1. Project Overview

1) Project goals and development phases

- FISCO Ltd. (“FISCO”) is committed to realizing a fully compliant platform to run multiple decentralized applications (“DApps”) utilizing FISCO Coin (“FSCC”) as a utility token. Smart contracts are regarded as the technical solution to issues affecting existing financial systems such as agency costs and counterparty risk. Commercialization has failed to progress, however, due to problems with the crypto assets used and other issues from various legal and regulatory perspectives. The framework that FISCO is developing achieves the required transparency and decentralization for DApps, with the ultimate objective being to establish a special purpose company (SPC) or other legal entity to own DApps. SPC-based fintech to enable securitization or other functionality promises to insulate the process from the credit risk of the originator (in this case, FISCO) by using the SPC as a bankruptcy-remote structure. The equity in the SPC is owned by a charitable trust or other legal entity to which voting rights are inapplicable, and operations such as financial accounting and cash management are handled by an external independent accounting firm; all procedures are then carried out based on the prior contractual agreement. By branding the decentralization concept as “DApps” and combining with smart contracts, FISCO believes highly efficient, compliance-conforming financial schemes can be created. Note that, since it would not satisfy the conduit requirements needed for a conventional SPC, FDAP would pay corporate income tax on its taxable income.
- The SPC-owned smart contract has a cash flow application (“CF app”) to earn remuneration for services provided and a lending application (“loan app”) to track FSCC lending to the SPC by

investors participating in the FSCC community (a process commonly called staking). The CF app generates the cash flows required for business model operation, while the loan app enables management of debt-like liabilities. Open source and blockchain technologies allow real-time disclosure of the SPC accounts, ensuring full transparency, irreversibility and authenticity.

- With the CF app, the first stage in development involves facilitation of the exercising of voting rights at a General Meeting of Shareholders and other services to provide shareholder returns. The future goal is to develop multiple CF apps. With the loan app, the aim is to create a system for use by general investors based on real-time credit risk assessment.
- FISCO is working towards the complete decentralization of FDAP in three phases.

➤ Phase 1 (development)

A subsidiary is established (tentative name: FISCO Decentralized Application Platform (FDAP)) to own the CF and loan apps. Development funds in the form of FSCC are loaned by FISCO to FDAP, which uses part of the FSCC to pay development fees to developer firms. The remainder is kept as a reserve, while ensuring that the total amount lent is sufficient to fund principal and interest payments and any other projected expenses. The loan by the app developer of the FSCC received to FDAP initiates the staking service with two users, FISCO and the developer.

➤ Phase 2 (centralized operation)

In this adjustment phase prior to achieving decentralization in Phase 3, services using the CF and loan apps are initiated and managed under FISCO's centralized governance. A stable and sustainable FSCC economic operations model is established by clarifying the effects on the FSCC market of the relationships between a range of variables, including the risk-return profile of future cash flows, the setting of interest rates on FSCC lending, and the lending framework revision process. Preparations are made for decentralization by codifying the processes and functions involved in model-related decision-making and internal company procedures. While CF app users purchase FSCC to pay for services, general investors lend funds using the loan app. Note that services for these apps will start as soon as development is complete, but they will not necessarily launch at the same time. Cash flows may not be adequate immediately after CF app operations go live, but the reserve will not be used to delay any interest payments or loan repayments. Moreover, depending on demand, the plan is to develop CF apps to enable functions other than exercising of voting rights and shareholder returns facilitation.

➤ Phase 3 (decentralized operation)

FISCO sells its entire equity holding in FDAP to a charitable trust. This moves operations to a fully decentralized mode while at the same time shifting responsibility for decisions relating to the apps to FSCC holders (thereby making FSCC a governance token). This step requires prior resolution of any issues concerning the equity sale price or method and related compliance.

2) What is FISCO?

3) Fisco Cryptocurrency Exchange Inc., an equity-method affiliate of FISCO, is the FSA-registered operator of the cryptocurrency exchange Zaif Exchange. The FISCO Group is actively engaged in crypto asset (virtual currency) operations.

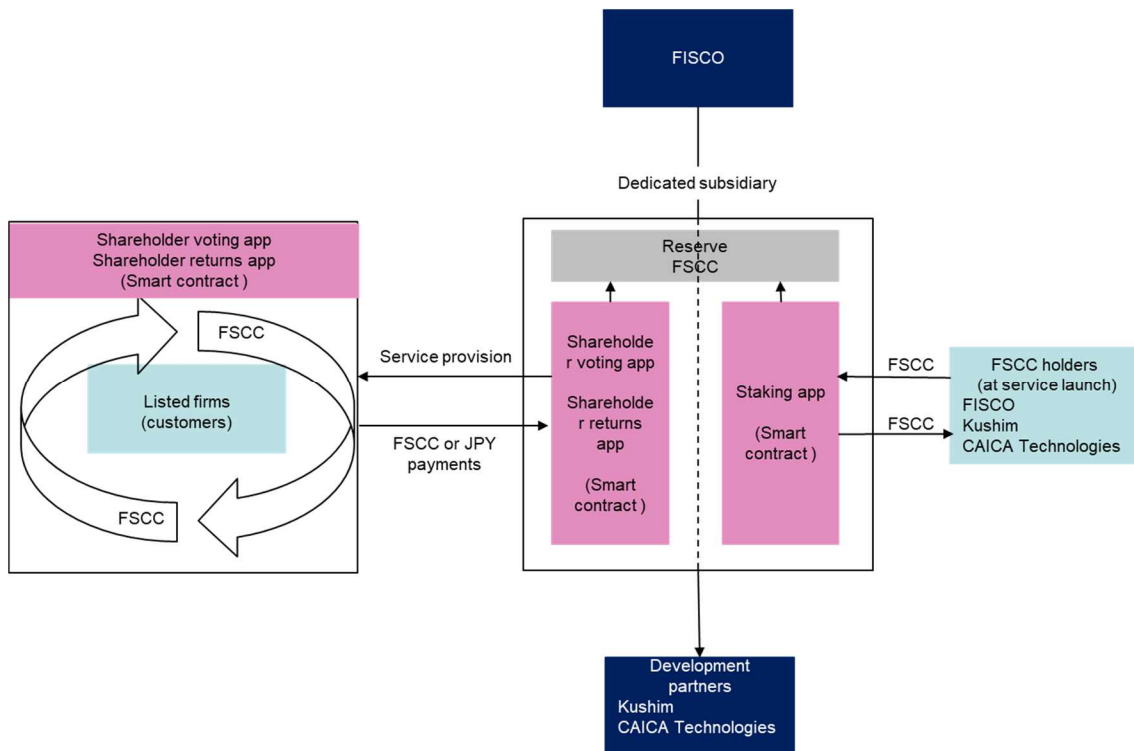
- FISCO became one of the few publicly listed Japanese cryptocurrency issuers in June 2016, when it announced the distribution of a new blockchain technology-based token, FISCO Coin (FSCC), to its shareholders (see http://www.fisco.co.jp/uploads/20160616_fisco_ir2.pdf). FISCO Coin was registered as a legal crypto asset for handling by virtual currency exchanges in April 2017. It was traded on two exchanges, Zaif Exchange and FISCO Cryptocurrency Exchange (FCCE).
- FISCO has previously indicated its intention to expand gradually the scope of usage of FSCC so that it can be utilized going forward as a medium of exchange for a variety of goods and services provided by Group companies and business partners. In April 2020, as part of the review of expanding the scope of utility, FSCC was selected as the settlement currency for Club FISCO.
- To expand the future scope of utility of FSCC, platform development work has been initiated to gain expertise in decentralized applications (DApps) and decentralized finance (DeFi), focusing on the development of smart contract-based service apps to facilitate shareholder voting, returns to shareholders, and staking services for FISCO Coin.
- FISCO's aim is to create new businesses based on the DApps and DeFi concepts while building enterprise value through increased value for FISCO Coin. At the same time, in an era where the utilization of blockchain technology promises to spark a value revolution in finance, through the creation of new norms based on crypto assets and tokens, FISCO aims to contribute to future possibilities based on advanced digital technology while cultivating sound asset markets.

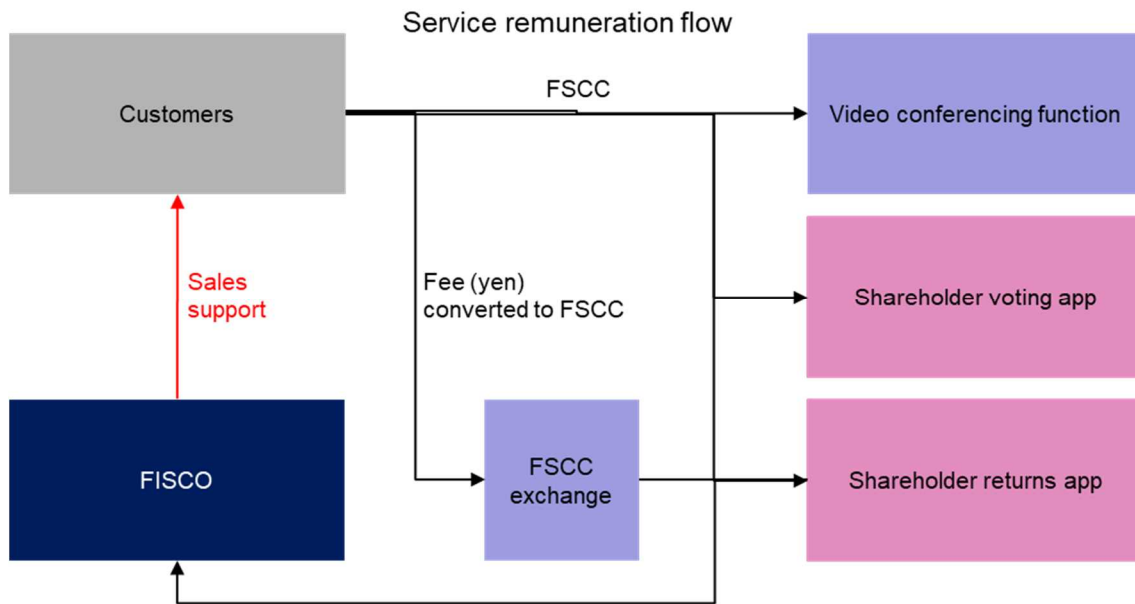
2. Business Scheme Outline

1) Business scheme

- In a press release issued on June 9, 2020, FISCO announced the start of support operations for hybrid virtual General Meeting of Shareholders (participative type) for publicly listed companies based on a collaboration between FISCO, CAICA Inc. and Kushim Inc. (see http://www.fisco.co.jp/uploads/20200609_fisco_pr.pdf). FISCO's development partners for this initiative are Kushim Inc. ("Kushim": TSE2-listed, ticker code 2345; Head Office: Minato-ku, Tokyo; President & Representative Director Hiroki Nakagawa) and the CAICA subsidiary CAICA Technologies Inc. (Head Office: Minato-ku, Tokyo; President & Representative Director Shin Suzuki).

- The business model for the virtual General Meeting of Shareholders system identifies the three related component functions as (1) video conferencing, (2) shareholder voting, and (3) shareholder returns facilitation. Shareholder voting and shareholder returns facilitation depend mainly on smart contracts, and these functions are connected seamlessly to video conferencing or similar systems.





2) Scheme characteristics (up to Phase 2)

(1) Scheme-registered players and functions

- JASDAQ-listed FISCO provides financial information services, IR consulting services, and advertising and creative support services.
- FDAP is a dedicated subsidiary of FISCO set up specifically to own all the apps utilized in the scheme while minimizing arbitrary involvement by FISCO.
- FISCO is the main party involved in the scheme until the end of Phase 2. Under Japanese company law, FISCO is responsible for governance of subsidiary FDAP and for the specific design of the various apps.
- FISCO is also responsible for the accounting and tax affairs of FDAP.
- FISCO is responsible for governance of the scheme to ensure that FSCC economic operations are stable and sustainable.
- The development partners are Kushim and CAICA Technologies. Kushim will provide development services on a subcontracted basis for a lump-sum fee, while CAICA Technologies will provide technical support.
- TSE Second Section-listed Kushim will develop and supply HR/education-related technical solutions, provide advanced training for IT engineers, and develop services to support digital transformation across varied industries and enterprises.
- CAICA, the parent company of CAICA Technologies, is also listed on JASDAQ. Employing a workforce of engineers trained in blockchain technologies, wholly owned subsidiary CAICA Technologies is engaged in systems development. To date, by leveraging blockchain and other crypto asset-related technologies and

expertise, CAICA Technologies has established a strong track record in supplying blockchain proof-of-concept (PoC) solutions and related consulting services to companies across a range of sectors.

- FSCC is a digital token issued by FISCO (owning about 36% of total issuance) with an issuance ceiling of 50 million tokens. As of 30 June 2020, the aggregate FSCC holdings of FISCO and its affiliate Thunder Capital were about 30 million.
- The FSCC reserve held by FDAP includes FSCC tokens received from corporate customers as remuneration for supply of shareholder voting and other CF apps, as well as the FSCC tokens lent by FISCO to FDAP at the start of Phase 1 to fund the payment of development fees. The reserve will be sufficiently large to fund three years of working capital from the start of operations in the worst-case scenario.
- Supplied by Kushim, the video conferencing function will be designed to operate seamlessly with the two apps outlined below.
- FISCO will plan and design the shareholder voting app (using a smart contract) for supply to publicly listed corporate customers by the dedicated subsidiary, which will generate cash flows from the related remuneration.
- The shareholder benefits app will enable publicly listed corporate customers to provide special benefits to shareholders using a dedicated token as the medium of exchange. This will help foster a community of companies with FSCC holdings.
- While customers will normally be required to pay for these services using FSCC tokens, the assumption is that some customers will prefer to pay in Japanese yen. Hence, a service to convert any legal tender (yen) received into FSCC by means of a cryptocurrency exchange will also be offered.
- The staking service (using a smart contract) enables investors to earn interest on FSCC as part of the virtual currency's operation, thereby incentivizing them to participate in the FSCC community.
- FISCO and development partner Kushim will undertake the staking during Phase 1, but the staking service will be made available to general investors once launched.
- Interest rates and the other terms and conditions for FSCC lending applicable to general investors will usually be determined based on the popularity of the CF app and prevailing economic circumstances.
- Since the market created by a wide range of users accessing the above apps must be sustainable, an iterative feasibility study of the apps will be conducted to help optimize app design and specifications prior to official launch.

- The plan is to develop further CP apps over time beyond the apps to facilitate shareholder voting and returns to shareholders.
- (2) Transparency of decision-making and internal procedures relating to construction of stable FSCC economic model
- During Phase 2, in preparation for the move to fully decentralized operations in Phase 3, the different operating variables and their relationships will be analyzed to help characterize their effect on FSCC price movements and liquidity with the aim of constructing a stable model for the FSCC market that is free of speculative activity. This phase will also feature evaluation of factors such as (1) service price setting for the CF apps and its effect on cash flows, (2) the returns generated by marketing measures and other related expenditures such as incremental product development, and (3) the risks associated with business conditions. In addition, a correlational analysis will be conducted to study the relationship between the CF apps and the staking app, based on close monitoring of the impact of the different variables such as interest-rate determination and lending framework changes.
 - The processes involved in operational decision-making and any measures taken to help stabilize the FSCC market will be transparent. Guidelines will be created on the assumption that token holders will be responsible for governance in Phase 3. Relevant internal processes will also be rendered transparent, in part by delegating to external professionals and using automatic programming wherever possible.

3. App Development

1) Virtual General Meeting of Shareholders system: shareholder voting app

- The shareholder voting app is one of the CF apps that FISCO expects to generate cash flows, as outlined in the press release of June 9, 2020 in which FISCO announced the start of support operations for hybrid virtual General Meeting of Shareholders (participative type) for publicly listed companies via a collaboration with CAICA Inc. and Kushim Inc. (see http://www.fisco.co.jp/uploads/20200609_fisco_pr.pdf).
- The app provides any shareholders who are entitled to vote at the General Meeting with a specially created digital token (voting token) for exercising voting rights so that the act of voting becomes a blockchain-registered transaction. In this case, the blockchain uses ERC20 tokens to comply with the technical standard for smart contracts on Ethereum, thus ensuring full transparency, irreversibility and authenticity. Shareholders register for the voting tokens needed to vote for or against resolutions and receive numbers of voting tokens proportionate to their shareholding. Shareholders use the voting tokens to vote for

or against the resolutions.

- While customers must purchase FSCC to pay the usage charges for the shareholder voting app, since FSCC is designated as the utility token, they will also be able to use FSCC for a range of purposes within the app.

2) Virtual General Meeting of Shareholders system: shareholder benefits app

- The shareholder returns facilitation app will provide services to FSCC community participants, as outlined in the press release of June 9, 2020 in which FISCO announced the start of support operations for hybrid virtual General Meeting of Shareholders (participative type) for publicly listed companies via a collaboration with CAICA Inc. and Kushim Inc. (see http://www.fisco.co.jp/uploads/20200609_fisco_pr.pdf).
- The app provides a platform for administering shareholder benefits, one of the forms of returns to shareholders provided by publicly listed companies. FSCC is utilized within the app either as a form of shareholder benefit or for the delivery of such.
- The shareholder benefits provided by publicly listed companies fall into the following categories:
 - (a) Products/services of the company
 - (b) Products/services of another company
 - (c) Monetary rewards

Depending on the benefit classification, the following options are possible:

- (a) Secondary market purchases of in-house company products/services with FSCC
 - (b) With products/services of another company or monetary rewards, FSCC can be distributed as a shareholder benefit (or as a medium of exchange for such).
- These various transactions are trustless and tamper-proof because they are registered as smart contracts.
 - This service promises to help cultivate the FSCC economic community by encouraging more widespread economic transactions between FSCC holders.

3) Staking app

- This app is designed by FISCO to facilitate FISCO Coin operations.
- The app works by enabling investors with FSCC holdings to lock a portion of holdings with FDAP (as a deposit). These investors earn interest (remuneration) in return for their participation in the FSCC community.
- The balance of FSCC set as the initial reserve will be sufficient to fund reliable staking interest payments for three years from the launch of the service.

- According to the quantity of FSCC locked (deposited) with FDAP, investors with FSCC holdings earn remuneration (as interest or other income) for their participation in the FSCC community in the form of FSCC taken from the dedicated subsidiary's reserve.
- Participation in the FSCC community enables investors to monetize gains from handling FSCC other than capital gains. Investors can make highly precise investment decisions due to the transparency, authenticity and real-time disclosure of CF app-derived cash flows and other financial information for FDAP as the result of blockchain recording.

4. Rationale for DApps Ownership by FISCO Subsidiary

- 1) If, as implied in the name, DApps were decentralized apps without an administrator, there could be a lack of clarity regarding answers to the following questions.
 - Who is the beneficial owner of the business? (not a corporation, individual, association or other corporate entity)
 - If DApps recorded profits or losses from business income or payment of remuneration against procurement:
 - ◇ To whom would these profits/losses accrue, and who would pay the tax?
 - ◇ Would the profits/losses be passed through as distributions to investors?
 - ◇ Would any tokens utilized for DApps decision-making have the characteristics of governance tokens?
 - ◇ Token holders could incur issues relating to consolidation or taxation if they were deemed to be in control of the token:
 - How can stable business operations be feasible in the absence of a business entity, even if the latter arrangement is legal?
 - Who is liable or accountable for the transaction risk?
- 2) The kinds of questions outlined above are inevitable, even if the DApps framework is first created in Japan. From the perspective of compliance with tax, accounting and commercial laws, there are many issues that must be resolved in developing fully decentralized apps. This makes immediate implementation problematic. However, while designating FISCO subsidiary FDAP as the business entity might weaken decentralization, it enables many of these issues to be resolved. For these reasons, FDAP will be the owner of DApps.

5. Role of FSCC in Scheme

- FSCC will be the utility token for each of these apps. For instance, FSCC tokens could be used as an incentive to vote using the shareholder voting app, or as a medium of exchange for shareholder benefits provided as shareholder returns.
- In addition, the plan in Phase 3 is to use FSCC as the governance token determining the

design of each app (smart contract).

- In such case, FISCO plans to institute a consensus rule that would necessitate the consent of a majority (i.e., at least 51%) of all FSCC holders to resolve important matters relating to apps (at this stage, referring to the apps for shareholder voting, shareholder benefits and staking).

6. Disclaimers

- This report is for informational purposes only, and provides neither legal interpretation nor any solicitation to invest or to take other actions.
- This report includes forward-looking statements such as forecasts, outlooks, targets and plans relating to FISCO. Such statements are based on general information as well as plans and predictions that were available at the time of writing. FISCO provides no guarantee as to the veracity, completeness, accuracy or reliability of the contents of the report or the information contained therein.
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