Quantum Privacy Token (QPT) Classifications, Governance, and Tax Considerations

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Hedera Implementation of PNX Token Platform and Tokenization Service Providers 27

Quantum Privacy Token (QPT) Classifications

Token	Fungibility	Asset-Backed	Economic Role	Legal Characterization
Exchange Tokens (EXCH)	**Fungible per network/pool**; Semi-fungible across PNX	**No** ecosystem revenue	**Commercial settlement & attribution** Exchange Fees, Resource derivatives	**Capital asset / Property Rights** not a security - no investment of money
Resource Tokens (RT)	**Non/Semi-Fungible**	**Yes** data, contractual rights, compute, etc.	**Ownership & rights** to specific resources	**Property Rights** may be securities if fractionalized
EasyAccess Rewards Tokens (EART)	**Fungible per network/pool**	**No** engagement & rights-enforcement based	**Viral adoption & loyalty incentives**; converts engagement into resource rights.	**Utility / Reward Tokens** generally treated like loyalty points rather than securities
Exchange Root Tokens (ERTs)	**Fungible**	**No** meta-governance	**Governance & treasury participation** 7.5% Exchange Root	**Governance Tokens** may be security if sold to passive investors
Privacy Network Tokens (PNT)	**Fungible or non-fungible**	**Yes** contractual/ resource rights	**Attribution & participation rights** via Privacy Network engagement or Privacy Network LLCs	**Hybrid - generally property/contract rights** may be securities if structured as revenue-sharing instruments
Accelerator Tokens (AT)	**Fungible** per Accelerator	**Indirect** portfolio revenues	**Revenue/token rights**; allocations set by participants; may include ENTs and RPTs	**Participation Tokens** Not securities if tied to C-Corp/LLC investments; could be securities if traded as stand-alone passive investments
Exchange Network Tokens (ENT)	**Fungible** per Exchange Network; may	**Indirect** flows of resources & derivatives	**Fractional rights to revenues & Resource Derivatives**;	**Resource Derivatives / Capital Assets.** Not securities when earned through participation; could be

	be pooled cross-network	within the Exchange Network	governance rights at network level	securities if marketed as passive investments.
Resource Pool Tokens (RPT)	**Semi-fungible** per pool; differing across pools	**Yes** backed by Resource Tokens held in the Pool	**Fractional interests in pooled Resource Tokens**; efficient pooling, reuse, liquidity	**Resource Derivatives** may be securities if pooled as investment products

Regulatory Characterization Baseline

Quantum Privacy Tokens (QPTs) are protocol-defined participation, attribution, and settlement instruments and are not issued, offered, or sold as investment contracts, securities, or capital-raising instruments. QPT allocations occur exclusively through verified non-investment contributions, participation, or programmatic attribution within the Quantum Privacy Network.

QPTs do not convey equity, profit-sharing rights, governance control, or claims on the revenues or assets of any issuing or operating entity, and no expectation of profit from the managerial or entrepreneurial efforts of others is created or promoted by their issuance.

The Universal Compliance architecture of the Quantum Privacy Network further reinforces this characterization. Because regulated, proprietary, and personal data is routed through one-way Privacy Algorithms into Quantum Privacy Domains where no meaningful information can be revealed outside the cryptographic perimeter, QPT holders do not gain access to underlying data, proprietary models, or regulated records. They hold economic rights derived from the governed utilization of those resources — rights that are structurally distinct from ownership of or access to the resources themselves. This architectural separation between economic rights (represented by tokens) and resource access (governed by Quantum Privacy Domains) strengthens the non-securities characterization by ensuring that token value is derived from protocol-defined commercial activity rather than from custody, control, or speculative access to underlying assets.

Optional Securitization Boundary

Certain classes of QPTs may be pooled, wrapped, or referenced in separate, jurisdiction-specific securitized instruments for the purpose of providing liquidity or institutional capital access. Such securitized instruments, where implemented, are explicitly distinct from native QPTs and are treated as regulated securities under applicable law.

The existence of a securitization pathway does not alter the regulatory characterization of native QPTs, which remain non-securitized protocol instruments unless and until affirmatively wrapped into a separate security issued by a distinct legal entity.

Jurisdictional Scope

QPTs are minted, administered, and held through non-U.S. entities and are not offered, marketed, or sold in the United States or other restricted jurisdictions. Regulatory obligations in such jurisdictions arise, if at all, only in connection with separate equity offerings or expressly securitized instruments, and not from the existence or operation of native QPTs within the Quantum Privacy Network.

- ## Exchange Tokens (EXCH)

  Exchange Tokens are the economic backbone of the Privacy Network Exchange. They represent fractional rights to revenues and value-added derivatives created whenever tokenized resources are reprocessed, reused, or recombined under the Unified Trust Model. Participants earn EXCH not by purchasing them directly, but by contributing resources, operating exchanges, or operating and

distributing solutions. This ties EXCH value to real ecosystem activity rather than speculation.

Exchange Tokens are fungible within a given Exchange Network or Resource Pool, where all tokens are issued under identical commercial terms. However, across the broader PNX ecosystem, Exchange Tokens are semi-fungible, since tokens issued by different Exchange Networks may embody distinct governance rules, trust criteria, and revenue-sharing models. This makes EXCH more akin to ERC-1155 semi-fungible tokens than purely fungible ERC-20 tokens.

- **Fungibility**: Fungible per network/pool; Semi-fungible across PNX due to varying terms
- **Asset-Backed**: No (protocol-level; backed by ecosystem activity)
- **Role**: Represent programmatic commercial terms for combining Resource Tokens into value-added Resource Derivatives or enabling solutions via Solution Providers. Exchange Tokens coordinate attribution, liquidity, and cross-network syndication, but do not themselves involve direct investment of money.
- **Classification**: Fungible commercial settlement and attribution tokens; structured as capital assets. They are not securities, since they are not sold for cash investment but are earned through participation and redeemed via Liquidity Pools.

Resource Tokens (RT)

Every resource—data, content, infrastructure, contracts, or user engagement—contributed into the Privacy Network is bound one-to-one with a Resource Token. RTs encode ownership, provenance, trust credentials, and commercial terms, making resources tradable, reusable, and enforceable across jurisdictions. They may be fungible (e.g., compute units) or non-fungible (e.g., a unique dataset). Resource Derivatives, created by recombining RTs in Exchange Networks or Resource Pools, also issue RTs with lineage graphs binding back to their atomic sources. This ensures attribution and revenue rights flow upstream through the network, supporting annuity-like revenue streams for original contributors.

- **Fungibility**: Non-fungible or semi-fungible (depending on resource type)
- **Asset-Backed**: Yes (tied to data, compute, apps, content, IP rights, contracts, nature-based assets, etc.)
- **Role**: Represent ownership, provenance, and rights to specific resources. Enable pooling, syndication, and annuity-like reuse.
- **Classification**: Asset-Backed Tokens (ABTs); can be securities if fractionalized.

EasyAccess Rewards Tokens (EART)

EasyAccess Rewards Tokens (EARTs) serve as the connective tissue between engagement activity (clicks, shares, opt-ins) and the creation of durable resources within the Quantum Privacy Network. Each EA opt-in or PPN activation not only grants an individual access but also authorizes or obligates participating systems or external enterprises to expose and link resources that the individual has a legal, regulatory, or contractual right to access. This transforms consents into valuable, reusable resources—fuel for the decentralized, person-centered privacy graph that underpins privacy-preserving access, personalization, and automation.

At the same time, EARTs function as **loyalty and incentive instruments** designed to drive viral network effects. They reward online users, builders, influencers, enterprises, and partners for generating engagement through EasyAccess Links, invitations, and messaging, and they can circulate as lightweight points for marketing and gamification. EARTs may be redeemed for Exchange Tokens, pooled

into Resource Tokens, or used to amplify engagement and distribution rights within Exchange Networks. In this way, they act as an **on-ramp token**: converting social participation and viral distribution into formal economic participation, while remaining flexible enough to support both off-chain loyalty use cases and fully fungible on-chain tokens within the Privacy Network Exchange.

- **Fungibility**: Fungible
- **Asset-Backed**: No (engagement and rights-enforcement-based)
- **Role**: Incentivize viral adoption of EasyAccess Links, Messaging, and Engagement Networks. Function like affiliate/loyalty points but with a deeper role: EARTs are created when individuals or enterprises enforce their rights through EasyAccess opt-ins or engage online, which activate Personal Privacy Networks (PPNs) and link legally accessible resources (accounts, records, content, data) into the Privacy Network Exchange. These newly aggregated resources themselves have enduring value and can be connected to the Exchange, converted into Resource Tokens, or monetized through attribution rights.
- **Classification**: Utility / reward token, generally treated like loyalty points rather than securities.

• Exchange Root Tokens (ERTs)

Exchange Root Tokens (ERTs) represent perpetual economic rights to the 7.5% Exchange Root allocation of all Exchange Tokens issued across the Privacy Network Exchange. These tokens provide revenue participation only — entitling holders to their pro-rata share of Exchange Root flows — but do not carry governance or voting rights over the EP3 Network Cayman entity. The governance authority over token platform operations, RWA integrations, and Liquidity Pools resides with the equity holders of the EP3 Network Cayman entity, ensuring foreign control and preserving favorable tax treatment.

Most ERTs will be distributed to EP3 Network USA equity owners, with a reserved allocation for WebShield equity holders, reflecting their foundational role in developing the Unified Trust Model and related intellectual property. EP3 Network USA and WebShield jointly develop, patent, and enforce this IP, set licensing terms, and cross-license rights to the EP3 Network Cayman for token issuance. ERTs also serve as the economic channel for philanthropic commitments: once benchmark thresholds are met, a portion of Exchange Root revenues is allocated to fund the EP3 Nature & Humanity Trust.

- **Fungibility:** Fungible
- **Asset-Backed:** No (economic rights only)
- **Role**: Provide perpetual economic participation in Exchange Root revenues, with the ability to sell or allocate proceeds. Governance and voting rights remain exclusively with EP3 Network Cayman equity holders.
- **Classification:** Governance-aligned capital assets, but without governance votes. Generally not securities when distributed for participation; could be treated as securities if marketed or sold as speculative instruments.

• Privacy Network Tokens (PNT)

Privacy Network Tokens capture the cumulative value of an individual's or enterprise's contributions across multiple domains. They can be issued by the Quantum Privacy LLC, Quantum Privacy Cells (Series of Quantum Privacy) or other similar entities to represent decentralized ownership and attribution rights for contributions such as introductions, partnerships, IP, or user engagement. PNTs are

hybrid instruments: sometimes fungible, sometimes non-fungible, and often asset-backed by contractual revenue shares. They function as an overlay, aggregating rights derived from RTs, EXCH, ENTs, ATs, EARTs, and RPTs associated with a given contributor, simplifying ownership and monetization across the ecosystem.

- **Fungibility**: Fungible or Non-Fungible
- **Asset-Backed**: Yes (linked to contractual rights, contributions via Quantum Privacy Cells, and aggregated value flows from Privacy Networks)
- **Role**: Enable decentralized ownership, attribution, and reward-sharing for contributions and value creation across the PNX ecosystem. Privacy Network Tokens aggregate the value derived from individual or enterprise activity, including: linking external resources to create Resource Tokens, user engagement and opt-ins via Privacy Networks, allocations of Exchange Network Tokens and Resource Pool Tokens from Accelerator participation, contributions via Enterprise or Personal Privacy Networks, and rights generated through Quantum Privacy Cells or other Quantum Privacy LLC entities.
- **Classification**: Hybrid / semi-fungible tokens, generally treated as property or capital assets. They may be considered securities only if structured explicitly as pooled revenue-sharing or investment instruments.

- ## Accelerator Tokens (AT)

Quantum Privacy Accelerators issue Accelerator Tokens to align incentives among startups, enterprises, investors, and individuals that contribute resources or capital to bootstrapping new ecosystems. Accelerators themselves are formed as C-Corps or LLCs and raise funds through conventional investment instruments such as SAFE Notes, Convertible Notes, or equity. Those funds are used to develop resources that enable Exchange Networks, Resource Pools, and Privacy Network solutions.

ATs are then distributed by the Accelerator to its stakeholders (founders, investors, teams, and partners) as attribution instruments that aggregate the long-term value created by the Accelerator's activities. They entitle holders to revenue rights flowing from the Exchange Networks and Resource Pools seeded by the Accelerator, including proportional allocations of ENTs and RPTs. Distribution and entitlements are defined by each Accelerator's governing agreements, allowing flexibility to customize economic models while staying consistent with the broader PNX framework.

- **Fungibility**: Fungible (per Accelerator)
- **Asset-Backed**: Indirect (rights to Accelerator portfolio revenues, incubated ventures, or pooled resources/solutions)
- **Role**: Represent post-investment revenue and token rights within an Accelerator ecosystem. Allocations are set by participants and governing agreements, ensuring alignment of founders, teams, and backers. Because investments are made into the Accelerator's C-Corp or LLC entity, ATs function as distribution rights tied to entity performance, not as investment contracts themselves.
- **Classification**: Fungible participation/distribution tokens. Not inherently securities, since the investment occurs at the C-Corp/LLC entity level via SAFE Notes or other contractual vehicles. They could be treated as securities only if structured or marketed as stand-alone investment products for passive buyers.

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- ### Exchange Network Tokens (ENTs)

  ENTs represent ownership and governance rights within a specific Exchange Network. Each Exchange Network aggregates and transforms Resource Tokens into standardized pools for particular markets (e.g., healthcare, e-commerce, finance), defining its own trust criteria and commercial terms, and contracts with PN Solution Providers for a share of revenue and value-added resource derivatives. ENTs entitle holders to a share of revenues generated by that network and give them voting power over governance parameters such as pricing models or attribution rules. By connecting multiple Exchange Networks through shared Resource Pools, ENTs help create scalable, domain-specific marketplaces while preserving interoperability.

  - **Fungibility**: Fungible (per Exchange Network; may be pooled cross-network)
  - **Asset-Backed**: Indirect (flows of resources & derivatives within the Exchange Network)
  - **Role**: Represent fractional rights to revenues and Resource Derivatives generated by an Exchange Network, as well as governance rights to influence network-level terms. ENTs serve as programmatic outputs of Exchange Networks, aligning value creation and attribution.
  - **Classification**: Resource Derivatives / Capital Assets. Not securities when earned through participation; could be treated as securities if separately marketed as passive investment products.

- ### Resource Pool Tokens (RPTs)

  RPTs are fungible claims on curated pools of Resource Tokens or derivatives, structured to support reuse and syndication at scale. They represent pro-rata participation in a basket of resources—such as health data, engagement rights, or AI training datasets—that share governance and commercial terms. RPTs simplify access for Solution Providers by standardizing valuation and usage rights across many heterogeneous resources. They also allow contributors to diversify risk and liquidity, with pool revenues distributed automatically to RPT holders based on pool performance.

  - **Fungibility**: Semi-fungible (per pool; identical within a pool, differing across pools)
  - **Asset-Backed**: Yes (backed by Resource Tokens held in the Pool)
  - **Role**: Represent fractional interests in standardized Resource Pools that bundle multiple Resource Tokens under shared governance, semantics, and commercial terms. Enable efficient pooling, reuse, syndication, and liquidity across markets.
  - **Classification**: Resource Derivatives. Generally capital assets when used for commercial pooling; may be treated as securities if structured as pooled investment products.

Entity Roles in Token Issuance

The operation and issuance of PNX tokens is supported by a carefully structured set of entities, each with distinct responsibilities. This model separates governance, intellectual property stewardship, and token issuance, while aligning incentives and ensuring favorable tax and regulatory treatment across jurisdictions:

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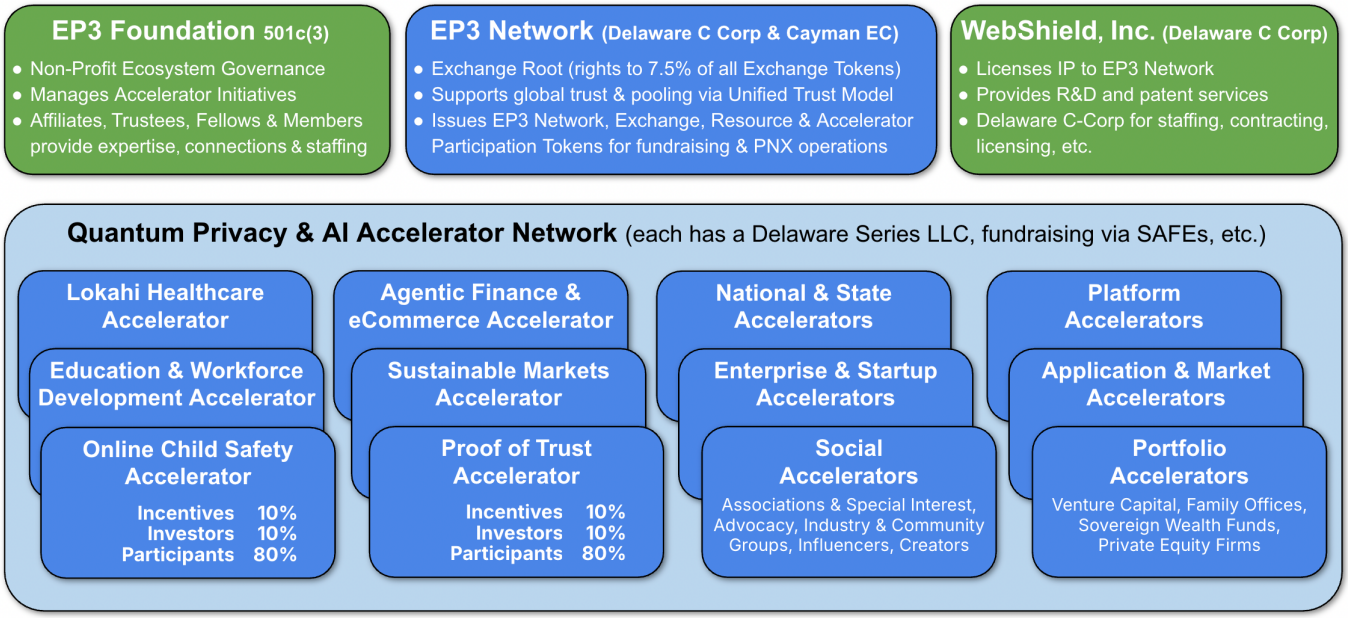

- ### EP3 Network USA (Delaware C-Corp)

  EP3 Network USA serves as the U.S. operating hub of the Privacy Network Exchange, responsible for fundraising, as well as research and development, ecosystem partnerships, and the design and support of Accelerators (all conducted jointly with WebShield under a cross-licensing agreement). It administers the cross-licensing of WebShield's foundational IP, ensuring commercialization and stewardship, while retaining control of investor funds to finance its own operations and cover the legal, regulatory, and operating costs of EP3 Network Cayman, EP3 Network BVI, and WebShield. By bridging U.S. innovation and investment with the Cayman tokenization platform, EP3 Network USA aligns founders, investors, and partners under a compliant, capital-efficient structure. Distributions of Exchange Root Tokens (ERTs) flow directly to WebShield and EP3 Network USA equity holders, preserving tax efficiency and reinforcing long-term incentive alignment.

- ### EP3 Network Cayman (Cayman Exempted Company or Foundation)

  EP3 Network Cayman serves as the neutral governance parent of the Privacy Network Exchange. It does not own the Privacy Network IP but operates under a limited license from EP3 Network USA and WebShield to oversee token issuance and administration through authorized Tokenization Service Providers. While retaining strategic governance authority, EP3 Network Cayman does not directly mint or issue tokens—thereby avoiding the cost and complexity of Cayman's Virtual Asset Service Provider (VASP) licensing regime. Instead, it delegates these regulated tokenization and operational functions to one or more Tokenization Service Providers—such as Palm Promax Investments or a wholly owned subsidiary (EP3 Network BVI)—while holding tokens at the parent level and providing fiduciary governance for the ecosystem.

  - With majority foreign-controlled equity ownership, EP3 Network Cayman avoids U.S. Controlled Foreign Corporation (CFC) and Passive Foreign Investment Company (PFIC) risks while maintaining neutrality.

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- The Cayman Islands offers a globally recognized tax-neutral regime, ensuring no entity-level corporate income or capital gains tax.
- By reserving governance and voting rights for EP3 Network Cayman equity holders while confining token holders to economic participation (e.g., through Exchange Root Tokens), the structure supports capital-asset treatment and deferred capital-gains taxation for U.S. investors.
- EP3 Network Cayman provides institutional credibility and fiduciary oversight, positioning the Privacy Network Exchange as a trusted global marketplace while maintaining a flexible, multi-jurisdictional issuance framework through its Tokenization Service Providers.

- ### EP3 Network BVI or Palm Promax Investments (Tokenization Service Provider)

  EP3 Network Cayman delegates the regulated functions of token minting, issuance, and lifecycle management for the Privacy Network Exchange (PNX) to authorized Tokenization Service Providers, which may include a wholly owned subsidiary, EP3 Network BVI, and/or a contracted institutional partner such as Palm Promax Investments. These entities operate under a sublicense from EP3 Network Cayman, enabling efficient, compliant, and globally scalable tokenization while maintaining fiduciary oversight and governance at the Cayman parent level.

  Both providers play critical roles in supporting the PNX token ecosystem—ensuring secure, auditable, and interoperable issuance of all PNX Token classes, including Exchange Tokens, Resource Tokens, Exchange Network Tokens, Resource Pool Tokens, Accelerator Tokens, Privacy Network Tokens, and Exchange Root Tokens.

  - **EP3 Network BVI** offers a faster, lower-cost, and lighter-regulation environment than Cayman's Virtual Asset Service Provider (VASP) regime or Abu Dhabi's ADGM framework, while retaining strong international credibility. This makes it ideally suited for high-frequency token issuance and cost-efficient operations.
  - **Palm Promax Investments** will provide an institutional-grade tokenization platform already integrated with $1.5 trillion in tokenized Real-World Assets (RWAs), enabling the PNX Liquidity Pools to access regulated, asset-backed liquidity under Abu Dhabi Global Market (ADGM) oversight.

  Hedera's Token Service (HTS) and Consensus Service (HCS) provide the unified technical foundation for these Tokenization Service Providers, delivering immutable audit trails, programmable fee distribution, and Proof-of-Trust enforcement. Combined with the Privacy Network's Quantum Privacy, Proof of Trust, and Unified Trust Model, this architecture ensures interoperability, transparency, and regulatory compliance across jurisdictions.

  This dual-provider model allows EP3 Network Cayman to flexibly issue and manage PNX Tokens across multiple jurisdictions and regulatory environments, preserving Cayman's neutrality, governance integrity, and globally recognized advantages in avoiding entity-level corporate taxation and enabling deferred capital gains treatment for PNX Tokens. By combining Cayman's tax-efficient structure with BVI's operational speed and Palm Promax's institutional-grade credibility, the PNX Token Platform achieves a uniquely balanced framework for compliance, cost efficiency, and long-term scalability. Together, these capabilities position the PNX for global reach, regulatory resilience, and sustained trust among institutional and retail participants.

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- ### WebShield (Delaware C-Corp)

  WebShield is the original developer of the Unified Trust Model and related intellectual property, retaining ownership of core patents and licensing rights while cross-licensing that IP to EP3 Network USA, Accelerators, and ecosystem participants for commercialization, development, and distribution. In addition to managing the patent portfolio, WebShield conducts R&D, joint development, and ecosystem initiatives, and maintains independent rights to enhance, distribute, and license the IP.

  Serving as an anchor of the Accelerator Network, WebShield provides a U.S. operating unit for contracting, hiring, licensing, strategic partnerships, government and defense engagements, and other operational activities across EP3 Network entities, Accelerators, and Exchange Networks.

  WebShield will continue to advance the Privacy Network IP with funding from EP3 Network Cayman, Accelerators, and strategic partners, while leveraging its cross-licensing terms with EP3 Network USA to launch and support Accelerators independently, pursue joint go-to-market initiatives, and form Exchange Networks, Resource Pools, and Engagement Networks with global enterprises, governments, investors, and philanthropic organizations. This structure accelerates ecosystem growth, delivers non-dilutive financing for WebShield, EP3 Network, and Accelerators, amplifies Exchange Root revenues, and ensures participants capture value from the substantial share of ecosystem revenues not reserved for the Exchange Root.

- ### Accelerators (Delaware Series LLCs)

  Accelerators are formed as independent legal entities—typically Delaware Series LLCs, C-Corps, or Cayman Segregated Portfolio Companies—to provide ring-fenced liability, governance, and ownership structures. These entities raise capital directly from investors through conventional instruments such as SAFE Notes, convertible notes, or equity. The funds are applied to develop resources and solutions that seed new Exchange Networks and Resource Pools.

  The EP3 Network Cayman mints and issues Accelerator Tokens (ATs) to investors, founders, teams, and ecosystem participants. These tokens are distributed according to each Accelerator's governing agreements and entitle holders to rights over revenues, attribution, and derivative value flows, including allocations of Exchange Network Tokens (ENTs) and Resource Pool Tokens (RPTs) generated by Accelerator-funded initiatives. In this way, Accelerators combine familiar corporate fundraising structures with tokenized value distribution through the PNX framework, ensuring both compliance and durable participation incentives.

- ### EP3 Foundation (California 501(c)(3))

  The EP3 Foundation serves as the nonprofit governance arm of the Privacy Network Exchange, providing neutral and trusted oversight of the Unified Trust Model. Acting as a **Trust Authority**, it accredits Proof of Trust compliance, incubates and certifies privacy-preserving, person-centered trust frameworks, and helps establish de facto standards across industries. The Foundation mobilizes a broad community of Affiliates, Trustees, Fellows, and Members whose expertise, networks, and staffing capacity accelerate adoption, scale, and credibility. It also plays a central role in recruiting, staffing, and providing shared services to Accelerators and in stewarding the EP3 Nature & Humanity Trust, ensuring mission alignment and governance across initiatives in healthcare, finance, sustainability, education, and online safety.

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- ### Quantum Privacy LLC

  The EP3 ecosystem have used Delaware's Series LLC framework to establish Quantum Privacy LLC, a Series LLC, jointly managed by WebShield, EP3 Network USA, and the EP3 Foundation. This structure authorizes each member to independently create new **Quantum Privacy Cells (QPCs)** on behalf of individuals, enterprises, Accelerators, Exchange Networks, and Resource Pools.

  Quantum Privacy Cells can be established at virtually no incremental cost, without additional state filings, and each operates as a legally distinct entity with ring-fenced liability, governance, and ownership. They may independently raise capital through SAFE Notes or similar instruments, making them highly flexible vehicles for early-stage participation. As fully recognized legal entities, QPCs can enter contracts, own property, purchase insurance, and conduct financial transactions in their own names.

  Delaware law does not require public disclosure of members or beneficiaries for each Series, allowing PN LLCs to be created confidentially, with beneficiaries exercising anonymity or selective transparency depending on their needs. Building on this, QPCs can also be proactively established by the Master LLC without requiring direct involvement from the anticipated members or beneficiaries, enabling rights and economic participation to be documented in advance. This makes it possible for contributors, investors, or influencers to participate passively, with their entitlements formally recognized and enforceable when they later engage. This design supports privacy-preserving resource pooling, policy enforcement, and compliance for both dual-use and privacy-centric solutions, as well as for Accelerators, Exchange Networks, and the distribution of EasyAccess Rewards.

  Initially, QPCs will be created for EP3 members, affiliates, and Accelerator initiatives using the Quantum Privacy Cell Participation Agreement. Individuals and enterprises can establish ownership and specify commercial terms for QPN Resources, linking them to Exchange Networks, Resource Pools, or Accelerators. In this way, QPCs provide the **legal scaffolding for decentralized ownership and revenue sharing** during the formative stages of the Privacy Network Exchange.

  QPCs also create a mechanism for **crowdsourcing the Quantum Privacy Network itself**. Participants can be rewarded not only for contributing tangible resources (data, compute, contracts, or technology) but also for providing introductions, expertise, or influence that generate measurable ecosystem value. For example, an individual who secures access to a strategic partner, consortium, or investor could have a QPC proactively established on their behalf, entitling them to Accelerator Tokens or Exchange Token rights tied to the value of their contribution. Similarly, institutional investors, strategic partners, and early Accelerator participants can receive QPCs that document and enforce their rights to Exchange Networks they help create—even if they did not directly form the QPC themselves.

  As the Privacy Network Exchange matures, resources and agreements tied to early QPCs will be **migrated onto the token platform**, with policies, commercial terms, and compliance enforced programmatically through the Unified Trust Model and Proof of Trust. This will ultimately enable the creation and operation of millions of QPCs at zero marginal cost, supported by privacy-preserving identity verification, financial records, and audit trails generated automatically by Personal or Enterprise Privacy Networks.

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- ### Token Holder Governance Protections

  ERTs, ENTs, and ATs confer no governance, voting, or control rights over EP3 Network Cayman, EP3 Network BVI, or any Tokenization Service Providers. These instruments function exclusively as economic participation rights and are safeguarded through a combination of contractual covenants, jurisdictional governance, and programmatic enforcement mechanisms embedded in the Unified Trust Model.

  EP3 Network Cayman serves as the neutral governance parent, and its subsidiary EP3 Network BVI acts as the licensed issuer and administrator of tokens and the Quantum Privacy Liquidity Pool, pursuant to a limited license from EP3 Network USA. The core intellectual property of the Quantum Privacy Network and its embedded Privacy Network Exchange—including the Unified Trust Model, Proof-of-Trust framework, and tokenization architecture—remains jointly owned and controlled by EP3 Network USA and WebShield, who also retain the rights associated with all Exchange Root Tokens.

  Token holders' economic rights are protected not only through Cayman-level corporate governance and contractual appeal rights, but also through programmatic enforcement of eligibility, attribution, and constraint rules within the Unified Trust Model as instantiated through Quantum Privacy Cells. Quantum Privacy Cells function as legally recognized, compliance-bounded participation domains that ensure tokenized rights are allocated, exercised, and constrained strictly in accordance with verified contributions, governing policies, and applicable Trust Criteria, without conferring discretionary governance authority.

  In matters involving participation rights, attribution disputes, or enforcement of Trust Criteria, appeals may escalate from EP3 Network Cayman's board to the managers of Quantum Privacy LLC, which serves as the neutral administrator of Quantum Privacy Cells and the authoritative record of participation and contribution rights across the Privacy Network. Matters that cannot be resolved through this layered governance process may ultimately proceed to binding arbitration, as specified in applicable participation and token governance agreements.

  This multi-layered structure balances the neutrality and tax efficiency of Cayman and BVI issuance with the assurance that token holders' economic rights remain both contractually enforceable and programmatically protected by the Unified Trust Model, while preserving ultimate license enforcement authority in the hands of the core IP owners.

Organizational Entities of the Privacy Network Exchange

- ### Privacy Networks (Personal & Enterprise)

  Privacy Networks are the foundational entities anchoring the Privacy Network Exchange. They exist in two primary forms—Personal Privacy Networks (PPNs) and Enterprise Privacy Networks (EPNs)—and together they connect people, organizations, and systems into secure, privacy-first environments where resources can be shared, reused, and monetized without compromising privacy, compliance, or commercial rights.

  Personal Privacy Networks link an individual's apps, accounts, messaging clients, and digital content into a person-centered network. They enable anonymous interaction, personalized services, and payments with end-to-end privacy, security, and personal control. By enforcing legal and regulatory rights through EasyAccess opt-ins and Proof of Trust-accredited Exchange Providers, PPNs enable individuals to safely contribute their engagement, data, and digital assets as Privacy Network

Resources. In return, they can earn EasyAccess Rewards Tokens (EARTs) for participation and Exchange Tokens (EXCH) for the value their resources generate within the Exchange.

Enterprise Privacy Networks (EPNs) extend the same model to organizations, enabling privacy-preserving data sharing, analytics, policy enforcement, and AI-driven automation across people, systems, and jurisdictions — supported by the Universal Compliance path, which routes enterprise data through one-way Privacy Algorithms into Quantum Privacy Domains where any computation proceeds under cryptographic guarantees without revealing meaningful information to any external party. Enterprises can pool proprietary data, infrastructure, contracts, or brands as Resource Tokens (RTs), which may then be recombined into value-added Resource Derivatives and syndicated through Exchange Networks or Resource Pools. By doing so, EPNs earn Exchange Tokens or derivative rights while retaining strict control over compliance, security, and commercial terms.

Both individuals and enterprises can connect **dual-use resources**—assets, processes, or spending already embedded in their daily activities or existing business practices—to the Exchange at zero marginal cost, using existing APIs, interfaces, and clients, and based on existing legal agreements, commercial rights, and governance. Because existing infrastructure (e.g., IT systems, marketing budgets, data flows, or supply chains) can be reused without requiring new incremental investment while eliminating regulatory and contractual constraints, participants can unlock value that was previously unavailable or underutilized. This zero-marginal-cost reuse turns ordinary business processes—such as customer engagement, regulatory reporting, or operational data sharing—into tokenized contributions, earning Exchange Tokens or other rights without additional expense.

In practice, both PPNs and EPNs can act as **Solution Providers, Resource Providers, Exchange Providers**, **or Engagement Providers**, depending on context. They may independently participate in **Accelerators**, contribute to the formation of **Exchange Networks**, and link resources into **Resource Pools**, thereby shaping the broader ecosystem. By crowdsourcing engagement, resources, and trust at scale, Privacy Networks create a universal distribution channel for the Privacy Network Exchange—anchoring its growth, enabling liquidity, and ensuring equitable value-sharing among all participants.

- ## Quantum Privacy Accelerators

The Accelerator Network serves as a global coalition of innovators, investors, enterprises, governments, nonprofits, startups, academic institutions, philanthropic groups, and professional associations. It incubates and funds ventures, joint initiatives, and collaborations that leverage Quantum Privacy, Proof of Trust, and the Unified Trust Model, thereby proliferating and scaling the Privacy Network Exchange.

Each Accelerator is organized as an independent legal entity, with flexibility to select the most appropriate jurisdiction and form—Delaware or Nevada C-Corps, LLCs, or Series LLCs; Cayman Exempted Companies or Segregated Portfolio Companies (SPCs); or international structures such as ADGM (Abu Dhabi) or DIFC (Dubai) private companies. Regardless of form, each Accelerator functions as a ring-fenced entity capable of conducting operations, entering contracts, and independently raising capital through SAFE Notes or other conventional investment instruments. While Delaware Series LLCs provide low-cost, flexible U.S. structures, Cayman SPCs offer internationally recognized segregation of liabilities and ownership.

Quantum Privacy Token (QPT) Classifications, Governance, and Tax Considerations

Token minting and issuance for all Accelerators—covering Resource Tokens, Exchange Tokens, and Accelerator Tokens—are centralized through EP3 Network Cayman. This ensures consistency across jurisdictions and aligns Accelerator participation with the broader PNX framework, preserving favorable capital gains tax treatment for participants. Accelerator Tokens are then distributed to investors, founders, teams, and partners in accordance with each Accelerator's governing agreements, entitling holders to revenues, attribution, and derivative flows, including allocations of Exchange Network Tokens (ENTs) and Resource Pool Tokens (RPTs) seeded by Accelerator-funded initiatives.

Accelerators are designed to establish early Exchange Networks and Resource Pools, pooling resources with one another to achieve critical mass and first-mover advantage. They can also launch dual-use operations before the full Exchange Token platform rollout, relying on written contracts and transitioning to automated enforcement once tokenization infrastructure is live. Early participants gain the advantage of being among the first accredited under the Proof of Trust framework, helping define de facto standards for technologies and sectors integrated into the Unified Trust Model.

Thematic and sectoral Accelerators include the Lokahi Healthcare Accelerator, Agentic Finance & eCommerce Accelerator, Sustainable Markets Accelerator, Education & Workforce Development Accelerator, and the Online Child Safety Accelerator. Additional categories span Proof of Trust, enterprise and startup-focused initiatives, advocacy and association-based Accelerators, philanthropic and social-impact programs, and capital-driven Portfolio Accelerators sponsored by venture firms, family offices, sovereign wealth funds, and private equity groups. Collectively, they create a diversified and resilient Accelerator Network, ensuring rapid scaling, broad participation, and durable alignment with the mission of the Privacy Network Exchange.

- ### Exchange Networks

Exchange Networks are the governed marketplaces of the Privacy Network Exchange (PNX). They connect **Solution Providers, Resource Providers, Exchange Providers, and Engagement Providers** through agreements that govern how resources are **recombined, reprocessed, and syndicated** into value-added **Resource Derivatives**. By coordinating with Token Pools, Exchange Networks define the commercial terms, governance rules, and interoperability standards required to support diverse markets.

Each Exchange Network aggregates resources from multiple providers, transforms them into Resource Derivatives such as composites, augmentations, or computational outputs, and organizes them into Resource Pools with standardized governance and commercial frameworks. They also provide essential services—such as trust credentialing, interoperability, and policy enforcement—that enable reliable cross-network collaboration and attribution.

Governance of Exchange Networks is anchored by the Unified Trust Model (UTM) and enforced through Proof of Trust (PoT). While each network defines its own commercial and governance terms, an Exchange Network itself can also be treated as a PNX Resource, represented by metadata and a Resource Token, enabling decentralized ownership, participation, and revenue-sharing.

Economically, Exchange Networks allocate revenues and derivative rights among participants in proportion to their contributions. Contributors earn Exchange Tokens (EXCH) when their resources are combined within the network. Holding EXCH entitles participants to a share of revenues, attribution for

the value of derivatives, and governance input over the network's rules and operations. EXCH can also be pooled across networks in Exchange Token Pools, enabling liquidity, syndication, and reuse across multiple domains.

In this way, Exchange Networks function as the market-structuring layer of the overall Privacy Network Exchange, transforming fragmented resources into standardized, value-added derivatives and coordinating their use across Token Pools. Multiple Exchange Networks can operate in parallel across industries, geographies, or functions, scaling the Privacy Network Exchange into a global framework for resource pooling, reuse, and value creation.

- ### Resource Pools

  Resource Pools are standardized groupings of Resource Tokens (RTs), Exchange Tokens (EXCH), or Resource Derivatives that share common governance, commercial terms, and semantics. They provide a structured mechanism for pooling, reusing, and syndicating resources at scale, enabling efficient valuation, rights management, securitization, and liquidity across the Privacy Network Exchange (PNX).

  Each Resource Pool aggregates heterogeneous resources—such as datasets, compute units, contractual rights, or engagement tokens—into baskets that can be accessed by Solution Providers under standardized terms. By doing so, Resource Pools simplify access to diverse resources, reduce negotiation complexity, and make resources more useful for specific domains (e.g., healthcare, finance, logistics, or AI training). The pooled structure allows Resource Providers to diversify risk and ensures attribution and revenue distribution flow back to contributors based on agreed terms.

  Governance of Resource Pools is enforced by the Unified Trust Model (UTM) and Proof of Trust (PoT), which ensure that pooled resources meet common trust criteria, provenance standards, and semantic requirements. Pools can also be registered as PNX Resources in their own right, with metadata and a Resource Pool Token (RPT) that represents pro-rata ownership or participation rights in the pool. This enables Resource Pools themselves to be referenced, syndicated, or traded as units.

  Economically, RPT holders receive fractional rights to revenues generated by the use of the pool's resources, creating ongoing attribution and annuity-like flows. Pools may be organized by Exchange Networks, Accelerators, or Privacy Network LLCs to support specific markets or solutions, and can interoperate across networks, making them foundational to scaling liquidity and reuse in the PNX.

  In this way, Resource Pools function as the aggregation layer of the Privacy Network Exchange, transforming fragmented contributions into standardized, reusable bundles that enable sustainable market growth, deeper liquidity, and efficient participation for both contributors and consumers.

Tax Treatment

Exchange Root Tokens (ERTs) and Accelerator Tokens (ATs) accrue rights to Exchange Tokens (EXCH) through the operation of the Privacy Network Exchange. These tokens are deliberately structured as **non-voting, revenue-accruing instruments** designed to qualify as **capital assets** under U.S. tax law. Because they represent economic rights rather than governance or periodic income streams, they are positioned for **capital gains treatment** upon sale or redemption.

Quantum Privacy Token (QPT) Classifications, Governance, and Tax Considerations

When Exchange Tokens accrued by ERTs or ATs are held for more than one year, gains on sale generally qualify for **long-term capital gains treatment**. Issuance through **EP3 Network Cayman** reinforces this outcome by separating token rights from U.S. operations, thereby avoiding corporate-level taxation and mitigating **Controlled Foreign Corporation (CFC)** and **Passive Foreign Investment Company (PFIC)** risks. Tokens are delivered with a low or near-zero basis, allowing appreciation to accrue tax-deferred until liquidation. Importantly, common activities such as borrowing against tokens or staking them for liquidity do not trigger taxable events so long as beneficial ownership is retained, avoiding phantom income and preserving capital asset treatment.

Implementation Considerations

The token framework is designed to preserve favorable tax treatment while ensuring compliance:

- **CFC Risk:** CFC status arises if more than 50% of EP3 Network Cayman's voting power or value is held by U.S. shareholders with ≥10% stakes. To mitigate this, EP3 Network Cayman can be structured with **broad foreign participation** through Palm Promax, Privacy Network Nodes (PPNs), and Enterprise Privacy Networks (EPNs), ensuring non-U.S. majority ownership. In addition, **strategic equity allocations** to foreign fiduciaries, institutions, or governing bodies (e.g., Big 4 audit firms or the Hedera Governing Council) can provide further credibility, neutrality, and safeguards against U.S. tax attribution. The 7.5% Exchange Root right held by WebShield/EP3 Network USA remains below the 10% shareholder threshold, further limiting exposure.
- **CFC Risk:** CFC status arises if more than 50% of EP3 Network Cayman's voting power or value is held by U.S. shareholders with ≥10% stakes. To mitigate this risk, EP3 Network Cayman can be structured with broad foreign participation through **Palm Promax Investments**, **Quantum Privacy Cells (QPCs)**, and **Enterprise Privacy Networks (EPNs), or other Accelerator Participants**, ensuring non-U.S. majority ownership. In addition, strategic equity allocations to foreign fiduciaries, institutions, or governing bodies (e.g., Big 4 audit firms or the Hedera Governing Council) can further enhance neutrality, credibility, and safeguards against U.S. tax attribution. The 7.5% Exchange Root right held by WebShield / EP3 Network USA remains below the 10% shareholder threshold, further limiting exposure.
- **PFIC Risk:** PFIC rules apply if ≥75% of income or ≥50% of assets are passive. EP3 Network Cayman mitigates this by operating as an **active platform** that sponsors or funds Accelerators, develops resources, and manages R&D, rather than serving as a passive holding vehicle.
- **Quantum Privacy Liquidity Pools:** Liquidity Pools can anchor fiat and stablecoin integration with regulated, yield-bearing real-world assets. Structured to favor **accrual-based growth** rather than ongoing distributions, they ensure no taxable event occurs until redemption into fiat, supporting capital gains treatment and avoiding ordinary income recognition.
- **Governance Separation:** Governance and voting rights remain with Cayman equity holders, while token holders receive only economic rights. This distinction is essential to maintaining favorable U.S. tax treatment.

Streaming vs. Accrual of Income

U.S. tax treatment of EXCH depends on how value flows are structured:

- **Streaming designs** (revenue paid out periodically) risk classification as **ordinary income**, creating annual tax obligations.

Quantum Privacy Token (QPT) Classifications, Governance, and Tax Considerations

- **Accrual-based designs** (value builds in token price) defer taxation until tokens are sold, generally allowing for **capital gains treatment** if held over one year.

Structuring ERTs, ATs, and EXCH as capital assets with accrual-based value growth, rather than streaming instruments, provides the clearest path to favorable capital gains treatment. Final treatment will depend on specific facts, circumstances, and IRS guidance, and should be confirmed with tax counsel in all relevant jurisdictions.

The following section describes how these principles are operationalized through Quantum Privacy Liquidity Pools in collaboration with Palm Promax and Hedera, providing the practical foundation for tax efficiency and compliance.

Quantum Privacy Liquidity Pools

Liquidity Pools are specialized token pools that act as the Treasury of the Privacy Network Exchange. They provide a unified mechanism for stabilizing inflows and outflows, supporting exchange, pricing, and collateralization of resources across the ecosystem. By converting fiat, stablecoins, or tokenized assets into Exchange Tokens (EXCH) under standardized allocation rules, Liquidity Pools enable continuous market liquidity without requiring public listings. They also create a foundation for deferred capital gains treatment, allow participants to hedge or borrow against token holdings, and facilitate market-based price discovery for diverse and often illiquid assets.

- **Benefits to Token Holders:** For participants, Liquidity Pools provide the ability to buy, sell, hedge, or borrow against Quantum Privacy Token interests, while generally deferring taxation until redemption into fiat. Tokens are structured to accrue value over time rather than distribute periodic income, avoiding phantom income so long as beneficial ownership remains unchanged. This design positions tokens for treatment as capital assets, with gains recognized at sale or redemption—often eligible for long-term capital gains if held more than one year. Participants thus gain liquidity, collateralization opportunities, and financing capacity without losing ownership of their tokens, subject to the structure of specific lending or derivative arrangements.
- **Benefits to the Exchange and Network Efficiency:** At the system level, Liquidity Pools enhance the efficiency of the Privacy Network Exchange by enabling transparent price discovery for assets that are complex, privacy-sensitive, or have long-term horizons — such as healthcare outcomes, human capital, or nature-based assets. By pooling tokenized claims from multiple Exchange Networks and Resource Pools, Liquidity Pools enable markets to assign forward-looking valuations, diversify idiosyncratic risks, and improve overall liquidity across the ecosystem.
- **Securitization and Market Formation:** Liquidity Pools also enable the securitization of Quantum Privacy Tokens, creating more efficient, liquid markets for novel asset classes. Tokens that represent perpetual annuities, deferred entitlements, or complex derivatives can be pooled, standardized, and linked to bond-like financial instruments. This reduces the cost of capital, attracts institutional participation, and allows capital to flow more efficiently into ecosystems that depend on cross-organizational resources and deferred outcomes.
- **Palm Promax and Hedera Partnerships:** To anchor Quantum Privacy Liquidity Pools with real-world credibility, scalability, and compliance, the EP3 Network partners with Palm Promax Investments and

Hedera. The Palm Promax RWA tokenization platform supports many of the core capabilities required by the PNX—portfolio-scale tokenization, regulated issuance, securitization, custody, and investor workflow integration. These capabilities, along with Palm Promax's global institutional network, can be directly reused and enhanced with Quantum Privacy and Proof of Trust, forming the foundation of the Quantum Privacy Tokenization Platform and Liquidity Pools.

On the technical side, Hedera provides compliance-grade infrastructure uniquely suited to PNX's use cases. Its Token Service (HTS) enables fungible and non-fungible token issuance with programmable fee distribution, while its Consensus Service (HCS) delivers immutable audit trails, governance guardrails, and regulatory assurance. In addition, Hedera's Governing Council—comprising leading global enterprises, universities, and organizations—offers a proven model for decentralized yet credible governance that EP3 Network may integrate into its own structure. By incorporating elements of the Hedera Council's framework, EP3 can strengthen neutrality, align governance with globally recognized standards, and accelerate adoption of the PNX by tapping into the Council's ecosystem reach and institutional credibility.

Looking forward, EP3 may also explore inviting the Hedera Governing Council and/or its members (e.g., Google, IBM, Boeing, DBS Bank, Standard Bank, London School of Economics, LG, Hitachi, Nomura, Tata Communications, etc.) to participate directly as equity holders of EP3 Network Cayman. Such participation would reinforce institutional trust, provide strategic alignment, and further dilute U.S. ownership concentration—helping mitigate Controlled Foreign Corporation (CFC) risk while embedding global oversight into the heart of the Privacy Network Exchange.

Together, Palm Promax and Hedera create a turnkey bridge between institutional RWA markets and decentralized trust infrastructure, ensuring that PNX Liquidity Pools combine decentralized programmability with institutional-grade asset backing, compliance, and global scalability.

- **Summary:** PNX Liquidity Pools form the institutional-grade Treasury of the Privacy Network Exchange. By securitizing and collateralizing tokens against real-world assets, they create a bridge between decentralized token economics and traditional financial markets. This design stabilizes token liquidity, supports hedging and borrowing, reduces capital costs, and ensures tax-efficient accrual of value—positioning the PNX for global adoption at scale.

Quantum Privacy Token Platform

EP3 Network Cayman will operate the Quantum Privacy Tokenization Platform on Hedera infrastructure through authorized Tokenization Service Providers, such as Palm Promax Investments and/or a wholly owned EP3 Network BVI subsidiary. This multi-jurisdictional model enables EP3 Network Cayman to maintain neutral, transparent, and compliant governance of all token issuance, distribution, and lifecycle activities while leveraging regulated infrastructure across Abu Dhabi Global Market (ADGM), the BVI, and/or other jurisdictions to enhance flexibility, scalability, and cost efficiency.

EP3 Network Cayman retains ultimate fiduciary oversight, holding and governing the tokens at the parent level while delegating regulated minting, issuance, and operational functions to its authorized service providers. Hedera's Token Service (HTS) and Consensus Service (HCS) provide immutable audit trails, programmable fee distribution, and Proof-of-Trust enforcement, ensuring transparency, accountability, and compliance across all Quantum Privacy Token operations.

Quantum Privacy Token (QPT) Classifications, Governance, and Tax Considerations

Hedera's architecture—combined with the Quantum Privacy Network's Quantum Privacy™, Proof of Trust, and Unified Trust Model—forms the foundational interoperability and trust infrastructure that allows the PNX to function seamlessly across disparate tokenization systems, jurisdictions, and regulatory frameworks. Through Hedera's HTS and HCS, QP Tokens can be minted, validated, and settled across multiple service providers—such as Palm Promax in Abu Dhabi and EP3 Network BVI—under a unified governance and audit framework. Together, these technologies enable secure interoperability across regulated, enterprise, and decentralized environments, allowing assets, liquidity, and value to move frictionlessly while maintaining full transparency, verifiable provenance, and zero-marginal-cost reuse across the global Privacy Network Exchange.

Tokenization Service Providers:

- **Palm Promax Investments** – Palm Promax offers an institutional-grade framework for Real-World Asset (RWA) tokenization, custody, and liquidity management, integrated with global financial networks and compliant with ADGM and other regulatory regimes. Its $1.5 trillion portfolio of tokenized RWAs can anchor the Quantum Privacy Liquidity Pools, providing regulated, asset-backed liquidity and aligning the PNX with global institutional finance standards. Partnering with Palm Promax enhances institutional adoption, provides immediate access to regulated liquidity, and supports token issuance within a trusted ADGM regulatory perimeter.
- **EP3 Network BVI (Wholly Owned Subsidiary)** – As an alternative or complementary path, EP3 Network Cayman may establish a wholly owned BVI subsidiary dedicated to token minting and issuance. The BVI jurisdiction provides a faster, lower-cost, and lighter-regulation environment than Cayman's Virtual Asset Service Provider (VASP) regime or Abu Dhabi's ADGM framework, while still maintaining strong international credibility and regulatory recognition. The subsidiary ensures consistent token standards, cross-jurisdictional interoperability, and the ability to issue tokens efficiently in coordination with EP3 Network Cayman's governance and Palm Promax's institutional infrastructure.

Together, this multi-jurisdictional structure combines Cayman's neutrality and governance integrity, BVI's speed and cost efficiency, and Palm Promax's institutional-grade RWA tokenization infrastructure, all built on Hedera's quantum-secure, trust-enforcing architecture. This approach positions the Quantum Privacy Token Platform for global scalability, regulatory adaptability, and sustained institutional confidence.

Tax Treatment Design Considerations

This section summarizes potential U.S. tax treatments for ERTs and EXCH, depending on how revenue rights are structured. It is intended as general analysis, not legal or tax advice. Final treatment depends on facts, circumstances, and IRS guidance.

- ### Dividend-like / Ordinary Income Treatment
  - If distributions from Exchange Tokens stream directly to holders on a periodic basis (like cash dividends from a corporation), they may be characterized by the IRS as ordinary income at the time they are received.
  - Each distribution is a taxable event, and the amount credited to a wallet is included in gross income for that year.

- This treatment is similar to staking rewards or airdrops, which are generally taxed as ordinary income when received.

- **Capital Asset Treatment**
  - If Exchange Tokens are structured so that revenue accrual increases their intrinsic value rather than being streamed out, the tokens are treated as capital assets.
  - In this case, there is no taxable event until the token is sold or exchanged.
  - When sold, the gain over cost basis is taxed as a capital gain (long-term if held over 12 months, short-term if held less).

- **Hybrid Treatment**
  In hybrid models, part of the token's value may be distributed as ongoing yield (taxed as income), while appreciation in token value is taxed as capital gain at disposal.

Structuring Exchange Root Tokens and Exchange Tokens as capital assets with accrual-based value growth, rather than as streaming dividend-like instruments, provides a clearer path to favorable capital gains tax treatment for investors. Tax counsel should confirm treatment in all relevant jurisdictions.

Securities Considerations for Quantum Privacy Tokens

The legal characterization of QP Tokens depends on their structure and use. Most tokens—EXCH, RTs, ATs, EARTs, ERTs, PNTs, ENTs, and RPTs—are designed as capital assets, property rights, or utilities, with value earned through participation, contribution, or attribution within Quantum Privacy Cells, Accelerators, and the Privacy Network Exchange. They generally avoid the Howey test criteria because they do not involve an investment of money into a common enterprise with an expectation of profits from the efforts of others. Instead, they function as attribution, settlement, or resource ownership instruments tied directly to commercial or governance activity.

Securities treatment would only arise if tokens were deliberately structured or marketed as speculative investment products—for example, if fractionalized and sold directly to passive investors, or positioned as stand-alone yield-bearing instruments in secondary markets. Properly structured, QP Tokens remain capital assets or utility instruments, eligible for property and capital gains treatment under U.S. tax law, with securities law applying only in exceptional cases of misuse or mischaracterization.

While none of the categories of QP Tokens are required to be classified as securities in their native form, the Privacy Network Exchange and its Liquidity Pools also make it possible to deliberately securitize certain tokens—particularly Exchange Network Tokens (ENTs), Resource Pool Tokens (RPTs), Exchange Root Tokens (ERTs), and Accelerator Tokens (ATs). This optional layer avoids the time, cost, and complexity of subjecting tokens to securities qualification and regulatory approval from the outset, while preserving the flexibility to pursue securitization when doing so improves liquidity or unlocks new investor channels. Through this process, tokens can be standardized, pooled, and linked to bond-like financial instruments, improving liquidity for holders and creating transparent, tradable markets. Securitization lowers the cost of capital, attracts institutional participation, and enables forward-looking market valuations to flow more efficiently into ecosystems that rely on long-duration or cross-organizational resources. In this way, securitization is a strategic option layered onto the token framework—not an inherent characteristic of the tokens

themselves—providing maximum flexibility while maintaining baseline treatment as capital assets or property rights.

An additional option is **ETF-style securitization**, in which token classes are pooled into a single, securitized vehicle tied to the Quantum Privacy Liquidity Pool. Ownership of this instrument could be proportionally allocated based on the relative value of participants' token holdings, effectively creating a diversified, exchange-traded product backed by the entire PNX ecosystem. This structure would further enhance liquidity, provide institutional-grade access, and lower the cost of capital by enabling forward-looking market valuations for tokens representing perpetual annuities, deferred entitlements, or novel asset categories.

The availability of securitization pathways should not be interpreted as a requirement for liquidity, regulatory compliance, or adoption of Quantum Privacy Tokens. Native token liquidity is expected to arise through Exchange Network settlement and participation-driven flows independent of any securitized instruments.

Securitization, where utilized, is an additive mechanism for specific investor classes and does not alter the regulatory characterization or functional role of native tokens within the Quantum Privacy Network or the Privacy Network Exchange.

Exchange Tokens (EXCH) — Generally Not Securities

Exchange Tokens represent annuity-like rights tied to commercial activity within Exchange Networks. They differ fundamentally from investment contracts:

- **No direct investment of money:** EXCH are earned through contribution and recombination of Resource Tokens into Resource Derivatives.
- **Commercial settlement units:** If Solution Providers pay fiat currency for resources, fiat is routed through Liquidity Pools and converted into EXCH, so tokens never directly represent cash investments.
- **Economic role:** EXCH function as attribution and settlement units, defining the commercial terms under which resources are combined, reused, and syndicated.
- **Structural separation from underlying assets:** The Universal Compliance architecture ensures that Exchange Token holders never gain access to the regulated, proprietary, or personal data whose utilization generates Exchange Token settlement. Data flows through one-way Privacy Algorithms into Quantum Privacy Domains from which no meaningful information can be extracted. Exchange Tokens therefore represent economic rights to settlement flows derived from governed resource utilization — not claims on, custody of, or access to underlying assets. This architectural separation further distinguishes Exchange Tokens from investment contracts, which typically involve an expectation of profit derived from access to or control over identifiable assets managed by others.

Because Exchange Tokens are tied to real commercial activity rather than speculative holding, they are best treated as **capital assets or property**, taxable under capital gains rules when sold, but not as securities under U.S. law.

Resource Tokens (RTs) — Asset-Backed Property Rights

Resource Tokens represent ownership, provenance, or usage rights for specific resources (data, compute, content, contracts, IP rights, or natural assets).

Quantum Privacy Token (QPT) Classifications, Governance, and Tax Considerations

- **Why not securities:** Most RTs function as **NFTs or semi-fungible tokens**, tied to specific assets or rights, akin to property.
- **Classification:** Generally **asset-backed property rights**, not securities.
- **When they could be securities:** If fractionalized into investment interests (e.g., dividing rights to a dataset or contract into many tradable slices).

Accelerator Tokens (ATs) — Not Inherently Securities

Accelerators are formed as C-Corps, LLCs, or similar entities that may raise funds from investors through traditional instruments (SAFE Notes, convertible notes, equity). The capital is used to develop resources that seed Exchange Networks and Resource Pools.

Accelerator Tokens are then minted and distributed by the EP3 Network Cayman to investors, founders, teams, and participants, serving as distribution instruments that reflect rights over revenues, attribution, and derivative value flows.

- **Why not securities:** ATs are not sold directly as fundraising contracts. Investments are made into the Accelerator entities themselves, not into the tokens.
- **Classification:** Best treated as **capital assets or distribution rights** earned by participation.
- **When they could be securities:** If marketed as stand-alone profit-sharing products or if traded on secondary markets independent of Accelerator entities.

EasyAccess Reward Tokens (EARTs) — Utility / Rewards

EARTs incentivize viral adoption of EasyAccess links, messaging, and opt-ins. They function like loyalty points, rewarding engagement and allowing optional conversion into Exchange Tokens.

- **Why not securities:** They operate as loyalty/utility rewards, not investment instruments.
- **Classification: Utility/reward tokens**, similar to affiliate or points systems.
- **When they could be securities:** Practically never, unless reframed and marketed explicitly as investment products.

Exchange Root Tokens (ERTs) — Capital Assets, Not Voting Securities

ERTs represent the **perpetual 7.5% Exchange Root allocation** of all Exchange Tokens. They carry **economic rights only**—no governance or voting power—making them closer to property interests than securities.

- **Why not securities:** They are best understood as capital assets with accrual-based value growth, not as investment contracts.
- **Classification: Capital assets/property interests**, eligible for capital gains treatment when sold.
- **When they could be securities:** If marketed or sold directly to investors as passive profit-sharing claims.

Quantum Privacy Token (QPT) Classifications, Governance, and Tax Considerations

Privacy Network Tokens (PNTs) — Hybrid Property Rights

PNTs represent ownership, attribution, or reward-sharing rights tied to contributions through Privacy Networks or Quantum Privacy Cells. They may aggregate rights from opt-ins, IP contributions, or Accelerator participation.

- **Why not securities:** PNTs are structured as hybrid property or participation rights earned by individuals or enterprises through engagement.
- **Classification: Hybrid/semi-fungible property tokens**, not securities.
- **When they could be securities:** If fractionalized into passive investment shares or marketed primarily as yield-bearing instruments.

Exchange Network Tokens (ENTs) — Governance/Distribution Tokens

Exchange Networks are governed marketplaces within the Privacy Network Exchange. They:

- Organize how resources are pooled, recombined, and syndicated.
- Define governance rules, commercial terms, and trust criteria.
- Attribute value programmatically to participants based on contributions and usage.

An Exchange Network is a **marketplace or coordination framework**, not an investment contract. There is no "investment of money into a common enterprise" as contemplated by securities law. Exchange Networks are better understood as **infrastructure layers**, comparable to markets or clearinghouses, where Exchange Tokens function as attribution and settlement instruments.

Resource Pool Tokens (RPTs) — Capital Assets with Conditional Risk

RPTs represent proportional rights to **pools of Resource Derivatives** curated by Exchange Networks. They are fungible and operate much like "pool shares" in resource baskets.

- **Why not securities:** RPTs are issued as participation rights for contributors, functioning more like pooled property interests.
- **Classification: Capital assets tied to pools**, not inherently securities.
- **When they could be securities:** If marketed as passive fund interests or structured primarily as yield-bearing investments.

Conclusion

Most QP Tokens—including EXCH, RTs, ATs, EARTs, ERTs, PNTs, ENTs, and RPTs—are structured as capital assets, property rights, or utilities, with value derived from participation, resource contributions, or commercial activity rather than from passive investment. Securities treatment would only arise if they were deliberately structured or marketed as speculative profit-sharing instruments—for example, if fractionalized and sold to passive investors or positioned as stand-alone yield-bearing assets in secondary markets.

Jurisdictional Pathways for Token Securitization

While all QP Tokens are issued through EP3 Network Cayman under a neutral, tax-efficient framework, tokenization and securitization may be conducted through authorized **Tokenization Service Providers**—such as a wholly owned EP3 Network BVI subsidiary or Palm Promax Investments under the Abu Dhabi

Quantum Privacy Token (QPT) Classifications, Governance, and Tax Considerations

Global Market (ADGM)—to optimize regulatory fit, liquidity access, and operational efficiency. Cayman provides the globally recognized governance and tax-neutral foundation, while BVI and ADGM offer complementary advantages in cost, speed, and institutional reach. The United States and European Union, though higher cost and slower, offer access to the deepest pools of institutional capital. This flexible, multi-jurisdictional model enables EP3 to maintain tax neutrality and governance integrity under Cayman oversight while pursuing securitization where it best supports market, investor, or asset-class objectives.

Comparative Jurisdictional Landscape for Token Securitization

Jurisdiction	Typical Cost	Timeline	Advantages	Drawbacks
Cayman Islands	$200K – $500K	3–6 months	Global recognition; neutral tax regime; aligns with EP3 Network Cayman structure	Higher cost and longer process; more compliance-heavy than BVI
British Virgin Islands (BVI)	$100K – $300K	2–4 months	Lower cost; faster approval; flexible structures; credible for many investors	Less prestigious than Cayman/ADGM; may require parallel structures for institutional investors
Abu Dhabi Global Market (ADGM)	$300K – $750K	3–9 months	Institutional credibility; clear digital asset regulations; attractive for RWA tokenization	Higher cost; slower than BVI
United States (SEC)	$500K – $2M+	6–12 months	Access to U.S. markets; strong investor protections	Very expensive; long timelines; heavy compliance burden
European Union (MiCA)	€250K – €750K	6–9 months	Passportable across 27 member states; unified regime emerging	Still evolving; high compliance requirements; early uncertainty

Execution-Time Jurisdiction Selection

The multi-jurisdiction Tokenization Service Provider architecture described above enables not only multi-jurisdiction issuance — where QPT instruments can be created through service providers operating in different regulatory regimes (Cayman, BVI, ADGM, EU, Singapore, and others) — but also execution-time jurisdiction selection for value conversion and settlement events.

When a QPT holder converts tokens into fiat currency, tangible assets, or services outside the QPN, the conversion event must occur within a specific regulatory jurisdiction. The QPN architecture enables the holder to select the conversion jurisdiction at the time of the transaction, choosing from any jurisdiction where a qualified Tokenization Service Provider, custodian, or Liquidity Pool counterparty operates. This selection is not a one-time election — it can differ for each conversion event, enabling participants to optimize across regulatory, tax, and liquidity considerations on a transaction-by-transaction basis.

This capability is enabled by the jurisdiction-neutral nature of the underlying QPT instruments, the decentralized and replicated Privacy Graph infrastructure that evidences token value, and the modular Tokenization Service Provider architecture that permits multiple service providers operating across different jurisdictions to independently facilitate conversion events. The Quantum Privacy Liquidity Pool's multi-

substrate design supports concurrent operation across multiple jurisdictions, with each jurisdiction's regulatory requirements satisfied by the local Tokenization Service Provider without imposing those requirements on the global token infrastructure.

For participants, execution-time jurisdiction selection eliminates the risk that regulatory changes in any single jurisdiction can strand or impair their accrued economic rights. For the network, it ensures that liquidity formation is not gated by regulatory approval in any specific jurisdiction — if one jurisdiction becomes unfavorable, conversion activity routes to alternatives without disrupting the underlying settlement economics.

The Universal Compliance architecture reinforces jurisdictional resilience at the data level. Because all resource data flows through one-way Privacy Algorithms into Quantum Privacy Domains from which no meaningful information can be extracted, the economic rights evidenced by QPTs are not dependent on data custody arrangements, cross-border data transfer agreements, or jurisdiction-specific data sovereignty requirements. The tokens represent rights to settlement flows derived from computation within cryptographic perimeters — not rights to data that must be physically located in or transferred between specific jurisdictions. This decouples token value from data localization requirements and ensures that jurisdictional modularity operates not only at the token issuance layer (through Tokenization Service Providers) but also at the underlying data and resource layer.

The execution-time jurisdiction selection capability is further strengthened by entangled token embodiment. A single Quantum Privacy Token can be simultaneously embodied as multiple entangled tokens issued on different token platforms (e.g., Hedera HTS, Ethereum/L2, sovereign DLT systems) and through different Tokenization Service Providers operating in different jurisdictions. Each entangled embodiment carries the full economic rights of the underlying QPT and is independently convertible through the local jurisdiction's Liquidity Pool and custodial infrastructure. Conversion of any one entangled embodiment triggers a cryptographic lock on all others — enforced through cross-platform smart contract coordination and Trust Block attestation — ensuring that the total value realized never exceeds the value of the underlying QPT. This mechanism provides three structural guarantees: first, holders are never dependent on a single token platform's availability, performance, or governance; second, holders are never dependent on a single jurisdiction's regulatory posture; and third, the network can expand its jurisdictional footprint incrementally — adding new entangled embodiments in new jurisdictions as Tokenization Service Providers are onboarded, or as circumstances require, such as when a holder relocates to another jurisdiction — without requiring migration or replacement of existing embodiments. In the limiting case, even if all but one jurisdiction became unavailable, the remaining entangled embodiment would preserve the holder's full economic rights. Even in the extreme scenario where all existing entangled embodiments become simultaneously unavailable, the holder's economic rights are not destroyed — they can be reconstituted by creating a new entangled embodiment from the decentralized Privacy Graph and contribution records that evidence the underlying value, because the token is a representation of those rights, not the rights themselves.

Universal Marketplace – Tokenization of Human and Nature-Based Assets

The Privacy Network Exchange (PNX) uniquely enables the creation of liquid, trustworthy markets for categories of assets and resources that have historically resisted tokenization and securitization due to their complexity, regulatory sensitivity, and deferred value realization. Traditional marketplaces are limited to

assets with standardized data and near-term cash flows; the PNX extends market mechanisms to resources that:

- Require ongoing, cross-organizational access to regulated, proprietary, or personal data (e.g., healthcare records, financial entitlements, education and workforce credentials, carbon registries).
- Involve long-running, multi-stakeholder processes where outcomes accrue over years or decades (e.g., public health interventions, climate restoration, human capital development).
- Generate value that must be measured both at the level of individuals and at the population scale, with attribution and rights distributed equitably across diverse participants.

How the PNX Unlocks These Markets

- **Unified Trust Model (UTM) + Proof of Trust (PoT) + Universal Compliance:** The Universal Compliance path (described in *Quantum Privacy Network — Universal Exchange, Ownership & AI* and in Appendix B of the *Accelerator Catalyst PRD*) routes regulated, proprietary, and personal data through one-way Privacy Algorithms into shared Quantum Privacy Domains where any computation proceeds under cryptographic guarantees — without revealing meaningful information to any person, system, or organization. Trust Block inheritance ensures end-to-end enforcement of all upstream privacy, regulatory, and commercial constraints regardless of how resources are combined or reused. Resource-level accreditation is not required within the protected perimeter; only the cryptographic layer and core EasyAccess capabilities require accreditation. This makes it structurally safe to tokenize, share, and monetize sensitive resources across enterprises, governments, and jurisdictions — enabling the token classes described below to represent economic rights in resources that were previously non-marketable due to regulatory, privacy, or compliance barriers.
- **Resource Tokens:** Encode ownership, provenance, and usage rights for regulated or long-duration assets (data, IP, contracts, ecological entitlements, workforce credentials). These persist across decades of reuse, allowing long-term rights and derivative value flows to be recognized and traded.
- **Exchange Networks:** Syndicate Resource Tokens into governed marketplaces that define commercial terms, interoperability, and attribution across many contributors.
- **Liquidity Pools & Securitization:** Resource and Exchange Tokens can be pooled, securitized, and linked to stablecoins or RWA-backed instruments (e.g., PalmPromax's fixed-income tokens), providing near-term liquidity, hedging, and collateralization even when the underlying assets realize value over decades.
- **Deferred Value Realization:** Tokens capture future entitlements but remain liquid in the present through secondary markets, collateralization, or securitization structures.

Example Applications

- ***Healthcare:*** Tokenized rights to population-scale data that accrue value through research, payer savings, and chronic care outcomes—monetizable immediately via PNX Liquidity Pools even though outcomes span decades.
- ***Human Capital:*** Education and workforce credentials represented as tokens that reflect lifetime earning potential; securitization enables upfront financing for skills while long-term value accrues over careers.

- ***Nature-Based Assets:*** Forests, biodiversity, regenerative agriculture, and carbon credits tokenized as Resource Pools; derivatives capture ecological restoration and sequestration outcomes that unfold over decades, while securitization provides liquidity today.

By embedding privacy, compliance, and attribution into its market architecture, the PNX transforms "non-marketable" resources into investable assets. This allows platforms such as PalmPromax to extend fixed-income and RWA-linked markets into categories previously excluded from capital markets, massively broadening the investable universe while ensuring equitable value distribution and compliance by design.

Hedera Implementation of PNX Token Platform and Tokenization Service Providers

This section outlines the implementation blueprint for the Privacy Network Exchange (PNX) on Hedera infrastructure, operated through authorized Tokenization Service Providers—such as Palm Promax Investments under the Abu Dhabi Global Market (ADGM) and/or a wholly owned EP3 Network BVI subsidiary—under EP3 Network Cayman's fiduciary governance.

This multi-jurisdictional model combines Hedera's compliance-grade infrastructure with institutional and regulatory flexibility, supporting secure, auditable, and tax-efficient tokenization across multiple frameworks while preserving Cayman's neutrality, lack of entity-level taxation, and deferred-capital-gains advantages. Together, EP3 Network Cayman and its Tokenization Service Providers use Hedera's Token Service (HTS), Smart Contract Service (HSCS), and Consensus Service (HCS) to ensure uniform governance, auditability, and cross-jurisdiction interoperability. This architecture leverages ADGM and BVI frameworks for operational speed and regulatory diversification while anchoring trust and tax efficiency under Cayman oversight.

1) Tokenization on Hedera (HTS) — Mapping PNX Tokens

Hedera Token Service (HTS) enables native, low-fee issuance of fungible and non-fungible tokens with compliance features such as KYC, pause/freeze, account associations, atomic swaps, and custom fees/royalties.

- **Exchange Tokens (EXCH):** Fungible settlement and attribution tokens. Programmatic fractional fees route Exchange revenues (e.g., 30% Exchange Fees, with 25% of that flowing to Exchange Root Tokens) directly to designated accounts. They coordinate attribution, liquidity, and cross-network syndication without involving direct investment of money.
- **Resource Tokens (RTs)**: Asset-backed NFTs or semi-fungible tokens representing datasets, compute, IP, or content. Royalty or fractional fee ensures upstream attribution and revenue rights.
- **Exchange Network Tokens (ENTs):** Fungible tokens per Exchange Network. Provide governance and fractional rights to revenues and Resource Derivatives within each Exchange Network.
- **Resource Pool Tokens (RPTs):** Semi-fungible tokens representing pro-rata interests in pooled Resource Tokens or derivatives. Enable efficient pooling, reuse, and liquidity across markets.
- **Accelerator Tokens (ATs):** Fungible tokens created by Accelerators (C-Corps/LLCs) to allocate rights and revenues to stakeholders. Entitlements may include proportional allocations of ENTs and RPTs. They are distribution instruments, not fundraising contracts.

Quantum Privacy Token (QPT) Classifications, Governance, and Tax Considerations

- **Exchange Root Tokens (ERTs):** Fungible governance tokens representing rights to 7.5% of all Exchange Tokens (the Exchange Root allocation). Aggregate value across the entire Privacy Network Exchange: Fungible reward tokens earned via EasyAccess opt-ins, links, and viral distribution. They transform engagement and consent into durable resources and can be redeemed for EXCH, pooled into RTs, or used to amplify engagement within Exchange Networks. Serve as on-ramp tokens bridging viral adoption with the formal token economy.
- **Why HTS?** Native tokenization with automatic fee distribution and governance features keeps complex revenue-sharing declarative, while still allowing smart contracts for advanced business logic.

2) Smart Contracts (HSCS, EVM) — Business Logic & Pools

Hedera Smart Contract Service (HSCS) provides EVM-compatible contracts to handle logic that goes beyond HTS capabilities:

- **Liquidity Pool AMMs/Vaults**: Support EXCH/ENT/RPT pairs, LP receipts, and fee routing to HTS collectors.
- **Attribution Router**: Splits usage revenues across EXCH, ENTs, RPTs, and RT royalties, with HCS logging for Proof of Trust.
- **Governance Modules:** Enable per-network voting, upgrades, and parameter changes.

3) Proof-of-Trust & Audit — Hedera Consensus Service (HCS)

HCS provides immutable, timestamped event logs for attribution, consent, governance, and compliance, anchoring the Unified Trust Model (UTM) and Proof of Trust (PoT).

4) Palm Promax Integration — RWA Rails & Fiat Bridge

Palm Promax provides compliant fiat on/off-ramp, custody, and securitization for real-world assets.

- **On/Off-ramp:** Investors subscribe with fiat; Palm issues RWA claims that can be swapped into PNX Liquidity Pool receipts.
- **RWA Collateral:** Palm-issued yield-bearing assets can be held in pools, streaming yield into EXCH/ENT/RPT fee collectors.
- **Compliance Note:** Structuring EXCH as “earned” through participation, not sold, decouples them from “investment of money” criteria under securities law. Investors recognize capital gains upon liquidation.

5) End-to-End Flows

- **Resource Contribution → EXCH:** RT minted with provenance; usage triggers HTS fractional fee distribution and HCS audit log; EXCH accrues automatically to contributors and Exchange Providers.
- **Exchange Networks and Resource Pools:** ENTs minted per Exchange Network; RPTs minted per pool; pools distribute revenues via HTS fees.
- **Liquidity & Routing:** LPs deposit EXCH/ENT/RPT (or Palm RWA receipts) → receive LP tokens; AMMs route trades with fees disbursed via HTS.
- **Controls & Safety:** HTS pause/freeze enables quarantines pending governance votes.

6) Developer Stack & Operations

- **Tokenization:** HTS via SDKs (Java/JS); scheduled mints/burns; custom fee updates.
- **Contracts:** Hardhat/Foundry on HSCS; OpenZeppelin standards; UUPS proxy upgrades.
- **Bridging:** Hedera system contracts let Solidity call HTS for mint/associate.
- **Audit:** HashScan + HCS logs provide immutable transparency.

7) Why Hedera Fits the PNX

- Native fractional revenue-sharing (via HTS custom fees).
- EVM compatibility for AMMs, pools, attribution, and governance.
- ABFT (Asynchronous Byzantine Fault Tolerant) consensus & HCS logging for regulatory-grade trust and auditability.
- Supports multi-jurisdictional issuance through Tokenization Service Providers, enabling evolution or substitution of providers or jurisdictions without disrupting token economics, compliance, or security.