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October 6, 2017

VIA FEDERAL EXPRESS

Heather Seidel, Esq.
Acting Director, Division of Trading and Markets
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: Application Seeking No-Action Relief Relating to Control Location and Special Reserve Account for the Exclusive Benefit of Customers for Certain Virtual Coin and/or Token Securities Pursuant to Rule 15c3-3(c)(7) and 15c3-3(e) under Securities Exchange Act of 1934, as amended.

Dear Ms. Seidel:

Prometheum Inc. (**"Prometheum"**) is a recently formed Delaware corporation in the process of developing an ecosystem for a decentralized securities "smart contract" and token network.[1] As part of its proposed ecosystem, Prometheum intends to create a licensed ATS order matching platform (the **"Order Matching Platform"**) for trading "Virtual Coin and/or Token

[1] A "smart contract" is defined as, "self-executing contracts with the terms of the agreement between buyer and seller being directly written into lines of code. [] Smart contracts permit trusted transactions and agreements to be carried out among disparate, anonymous parties without the need for a central authority, legal system, or external enforcement mechanism. They render transactions traceable, transparent, and irreversible. (*See:* http://www.investopedia.com/terms/s/smart-contracts.asp#ixzz4ueD6Ok78)

Securities[2]" (**"ICO Tokens"**)[3]. ICO Tokens are generally defined as digital assets based upon cryptographic protocols that have utility on an underlying network. Examples of ICO Tokens include, Ether, Bancor Network ICO Tokens (BNTs), Tezzies, DAO ICO Tokens, and Atoms[4].

Prometheum's goal is to establish a comprehensive infrastructure for decentralized ICO Tokens where all blockchain securities processes can occur. This intended infrastructure will include the creation of an exchange/ATS for primary issuance and secondary trading, settling and clearing mechanisms for ICO Tokens and systems for all other securities related processes.

A fundamental component to establish this proposed infrastructure is being able to hold ICO Tokens in a good location for custody and control purposes pursuant to Exchange Act Rule 15c3-3. Recognition of our proposed Tokenized Securities Custody Account (as defined below) as a good control location for ICO Tokens will allow for compliant processing and settling of ICO Tokens within the proposed ecosystem.

Prometheum will acquire or create a registered broker-dealer affiliate (the **"Introducing Broker-Dealer"**) which is intended to be a FINRA member. The Introducing Broker-Dealer will adhere to all applicable provisions of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), the applicable rules and regulations promulgated thereunder (the "**Exchange Act Rules**") and FINRA rules and standards including, without limitation, all such rules and regulations related to opening customer accounts, Anti-Money Laundering and creation,

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[2] Theoretically, "utility tokens" that are not securities could be held for safekeeping at a broker-dealer if and assuming favorable no-action treatment to this request. This theoretical distinction is necessary for those who would intellectualize the creation of a non-securities "utility token."

[3] ICO Tokens are known by various names including: smart securities, securitized ICO tokens, blockchain token securities, ICO Tokens, etc.

[4] All like ICO Tokens are fungible, i.e., one token is indistinguishable from another.

maintenance and retention of required books and records. Customers who establish accounts with the Introducing Broker-Dealer will be able to purchase and sell ICO Tokens through the Order Matching Platform. All orders to buy and sell ICO Tokens will be placed by registered broker-dealers as contractual participants in the Order Matching Platform.

Customers will be prohibited from directly or indirectly transferring ICO Tokens to third parties or to direct the transfer of ICO Tokens held at the Introducing Broker-Dealer's clearing firm (the **"Clearing Firm"**) for third party receipt.

Custody and control of customer property, the ICO Tokens, and account statements will be controlled and processed by the Clearing Firm which, will be fully compliant with all applicable Securities and Exchange Commission (the "**Commission**") rules, including, without limitation Exchange Act Rule 15c3-3. Customer ICO Tokens held by the Clearing Firm will be held in two secure electronic systems and recorded on the books and records of the Clearing Firm. One such secure electronic system will be used as a control location and designated as a "Special Custody Account for the Exclusive Benefit of Customers" (the **"Tokenized Securities Custody Account"**) and the other will be used as a reserve account and designated as a "Special Reserve Account for the Exclusive Benefit of Customers" (the **"Reserve Account"**).

To ensure security, transactions through the Order Matching Platform will be subject to a number of checks prior to execution. Customers accessing the Order Matching Platform will only be able to purchase ICO Tokens if they have sufficient cash in their account held at the Clearing Firm. Customers can only sell specific ICO Tokens if such ICO Tokens are long in the customer's account and in the custody and control of the Clearing Firm. Buy and sell orders

entered into the Order Matching Platform will require multiple verifications prior to execution to verify ICO Token positions and cash in the relevant account. ICO Tokens held in customer accounts at the Clearing Firm will be verified and subjected to a highly secure electronic process as described below.

Prometheum requests the Division of Trading and Markets (**"Division"**) to advise that, on the basis of the facts stated herein, it will not recommend that the Commission take enforcement action against it, the Introducing Broker-Dealer or the Clearing Firm, if the Clearing Firm treats the Tokenized Securities Custody Account as a good control location for purposes of Exchange Act Rule 15c3-3(c)(7), and the Token Securities Reserve Account as an account for the exclusive benefit of customers as required by Exchange Act 15c3-3(e).

Discussion

The use of Initial Coin Offerings (**"ICOs"**) as a means of capital formation is growing and has broad economic implications. As with any marketplace for a new "investment" instrument, or derivative thereof, the marketplace for ICO Tokens is disorganized, extra-judicial and historically unregulated. The Commission's recent DAO release[5] has clarified that ICO Tokens that are sold with the purchaser expecting profits primarily from the efforts of others is a security and its distribution requires compliance with the Federal Securities Laws.

Prometheum, through the Introducing Broker-Dealer and the Clearing Firm, proposes to apply established rules and regulations for broker-dealers to ICO Tokens. This structure will increase security and transparency in the ICO marketplace by: (1) securing the validity of all

[5] Commission published Release No. 81207 Report Pursuant to Section 21(a) of the Securities Exchange Act of 1934: The DAO (the "**DAO Report**") July 25, 2017

customer orders by requiring that customers using the Order Matching Platform deposit cash and ICO Tokens in their accounts held at the Clearing Firm prior to allowing the execution of an order; (2) establishing books and records of all transactions pursuant to Exchange Act Rules 17a-3 and 17a-4; (3) reserving customer property and cash exclusively for the benefit of customers pursuant to Exchange Act Rule 15c3-3; (4) not allowing third party transactions; and (5) allowing same day and/or next day settlement because all of the proposed transactions will be settled internally on the Clearing Firm's books and will not require any counterparty verification, facilitating prompt settlement of ICO Token transactions executed on the Order Matching Platform.

I. Existing law and public policy favors Commission regulation of ICO Tokens

The overwhelming majority of ICO Tokens are securities since they meet the criteria of an "investment contract", as set forth in *Howey*[6] and its progeny. (See Section II herein for a more detailed discussion.) Moreover, the Commission recently advised that any determination of whether an ICO Token is a security will be determined on a review of the facts and circumstances. [7]

The duality of ICO Tokens as both a tokenized security and as a representation of a utility on an underlying network, is a securities innovation that will allow for increased liquidity and efficiency in future markets. The value of ICO Tokens is demonstrated by the growth of the ICO

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[6] Securities and Exchange Commission v. W. J. Howey Co., 328 U.S. 293 (1946).

[7] See the DAO Report, p. 17. Within the DAO Report, the Commission determined that the DOA ICO Tokens were a security. *See* DOA Report, p. 1.

market to almost 2 billion-dollars.[8] The ICO market is an unregulated market for capital formation and it is in the interest of public policy for that market to be regulated under the Federal Securities Laws. To incorporate ICOs into the existing regulatory framework, ICO activity and related ICO Token securities activity should be a regulated activity of a registered broker-dealer. By applying this framework, the ICO market would promote security of customer assets and funds for ICO Tokens by the application of the Exchange Act Rule 15c3-3 to customers' ICO Tokens (as described herein) and ensure accurate and transparent transactions relating to ICO Tokens.

Prometheum believes that the Commission is the proper regulator for ICO Tokens.[9] ICO Token investment-related activities are within the Commission's historical areas of oversight e.g., securitization, capital formation, and transactions on exchanges.

II. Precedent for treating ICO Tokens as securities

There is ample precedent for treatment of ICO Tokens as a "security," and therefore, Prometheum proposes to treat ICO Tokens as such through the creation and maintenance of the Order Matching Platform operated by its affiliate registered Introducing Broker-Dealer.[10] This letter does not specifically seek the Commission's opinion or agreement with Prometheum's position that an ICO Token is a "security" under the Federal Securities Laws.

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[8] https://www.coindesk.com/ico-tracker/

[9] The Commission doesn't have to decide the broader policy issue of whether ICOs are securities. The Commission should further the protection of the public by allowing a broker-dealer to treat ICOs/ICO Tokens under 15c3-3 as requested by this no-action letter.

[10] It is the intent of the registered broker-dealer subsidiary to charge a transaction commission on each transaction executed through its Order Matching Platform.

Prometheum believes that *Howey* compels the conclusions that an ICO Token is an "investment contract" because, it is a "security-like" interest in a "common enterprise" expected to generate profits for the ICO Token holder through the efforts of others.

The first prong of the *Howey* test, an "investment of money" is satisfied because individuals who want to own ICO Tokens must exchange money or other assets having value (virtual currency) for the ICO Tokens they acquire.

The second and fourth elements, "common enterprise" and "efforts of the promoter or third party" are interrelated for ICOs. Investors in ICOs purchase ICO Tokens attached to an underlying network/infrastructure. The ICO issuer uses the funds raised in the ICO to build out the network, with the goal of increasing the underlying network's usage. Increased network usage increases the demand for the token thereby increasing the ICO Tokens' value. Thereafter, the ICO network's supporting software engineers and operators continuously engage in managerial efforts by continually developing and watching the network and making changes as needed for the ICO network to function. Based on these functions, the "common enterprise" and "efforts of the promoter or third party" are satisfied.

Lastly, there is an expectation of profits for those who invest in ICO Tokens. Investors in ICO Tokens usually invest before the underlying network and/or technology is built. Such investment is for speculative purposes and motivated "solely by the prospects of a return on the investment" through the efforts of the individuals/organization running/developing the underlying network to which the ICO Token is attached. ICO Token issuers use the money raised

in an ICO to develop/build out the underlying network and its features with the intention of attracting more/new users thereby increasing network activity. As activity on the underlying network increases, so does demand for the network ICO Token, which raises the value of the ICO Token. Investors, seeking a profit, speculate on ICO Tokens purchased in an ICO with the hope of making a profit as activity on the network attached to the token increases. The inherent liquidity of current extra-judicial ICOs is also viewed as an attractive feature by investors who can "exit" their investments at any time.

An ICO Token is the equivalent of an uncertificated security which evidences ownership on a book-entry basis through the "blockchain" similar to other uncertificated securities to which the Commission has granted no-action relief for purposes of Exchange Act Rule 15c3-3 (e.g., limited partnership interests, REIT interests, uncertificated notes and interests in a business trust and Cayman Island domiciled corporate entities.[11]) (A detailed discussion of these No-Action Letters is set forth in Section IV herein.)

Support for treating ICO Tokens as "securities" is found across many jurisdictions. The DAO Report declares that DAO ICO Tokens, a specific ICO Token, are securities. The DAO Report explains:

> The Commission deems it appropriate and in the public interest to issue this report of investigation ("Report") pursuant to Section 21(a) of the Exchange Act to advise those who would use a Decentralized Autonomous Organization ("DAO Entity"), or other distributed ledger or blockchain-enabled means for capital raising, to take appropriate steps to ensure compliance with the U.S. Federal Securities Laws. All

[11] See Wayne Hummer & Co., S.E.C. No-Action Letter (March 6, 1986); Charles Schwab & Co. Inc., S.E.C. No-Action Letter (Sept. 17, 1999); Wells Real Estate Investment Trust, Inc., S.E.C. No-Action Letter (Jan. 5, 2000); FOLIOfn Investments, Inc., S.E.C. No-Action Letter 2009 WL58414 (Jan. 9, 2009); Sanford C. Bernstein & Co., LLC, S.E.C. No-Action Letter (June 9, 2009)

> securities offered and sold in the United States must be registered with the Commission or must qualify for an exemption from the registration requirements. In addition, any entity or person engaging in the activities of an exchange must register as a national securities exchange or operate pursuant to an exemption from such registration. This Report reiterates these fundamental principles of the U.S. Federal Securities Laws and describes their applicability to a new paradigm—virtual organizations or capital raising entities that use distributed ledger or blockchain technology to facilitate capital raising and/or investment and the related offer and sale of securities.[12]

Other global securities regulators have also begun to actively consider ICO Tokens in the context of their respective jurisdiction's securities regulations (i.e., China[13], Canada[14], Israel[15], Singapore[16], Hong Kong[17], Thailand[18], etc.).

The breadth and scope of the Federal Securities Laws gives the Commission the authority to regulate ICO Tokens and related investment activities particularly under circumstances where the party requesting the no-action relief wants to operate as a broker-dealer and hold their customer's token securities under Exchange Act Rule 15c3-3. These laws and rules are intentionally flexible to further orderly markets, and protect the public, and to allow for adjustments for "new" developments, which could not have been specifically contemplated at the time the laws and rules were adopted, such as ICO Tokens, which didn't exist at the time of their promulgation.

III. ICO Tokens are "Customer Property" for Purposes of Exchange Act Rule 15c3-3

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[12] The DAO Report, p.1-2
[13] https://www.bloomberg.com/news/articles/2017-09-04/china-central-bank-says-initial-coin-offerings-are-illegal
[14] https://www.coindesk.com/canadian-regulators-many-ico-ICO Tokens-meet-securities-definition/
[15] https://www.coindesk.com/ico-oversight-israeli-regulators-form-token-sale-study-committee/
[16] https://www.coindesk.com/singapore-central-bank-token-sales-may-be-subject-to-securities-laws/
[17] https://www.coindesk.com/hong-kong-regulator-warns-ico-ICO Tokens-may-securities/
[18] https://www.coindesk.com/thai-securities-regulators-seek-appropriate-rules-icos/

This letter seeks no-action relief for the proposed Tokenized Securities Custody Account to be held at the Clearing Firm to be treated as a "good location" for purposes of Exchange Act Rule 15c3-3(c)(7), and the "Tokenized Securities Reserve Account" be treated as a customer reserve account for purposes of Exchange Act Rule 15c3-3(e)[19].

The overall purpose of Exchange Act Rule 15c3-3 is to protect customer property and funds held at broker-dealers. To accomplish this, broker-dealers must isolate customers' fully paid securities and free cash as readily identifiable "customer property."[20] Exchange Act Rule 15c3-3 generally requires every broker-dealer that carries customer accounts to maintain physical possession or control of all fully paid and margin securities and also requires broker-dealers to make a periodic computation ("customer reserve formula") to ascertain the amount of money that it holds that is either customer money or money obtained from the use of customer securities ("customer credits"). If customer credits exceed the amount that the customers owe the broker-dealer, the broker-dealer must deposit the excess in a special reserve account for the benefit of customers.

Customer ICO Token assets are "customer property" within the contemplation of the Securities Investor Protection Act of 1970. The definition of "customer property" includes, "any other property of the debtor which upon compliance with applicable laws, rules, and regulations, would have been set aside or held for the benefit of customers."[21] The textual language allows

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[19] Arguably, virtual tokens can be considered akin to other fungible things of value, i.e., gold, depository receipts which may be held by a broker-dealer for the account of a customer and treated under 15c3-3.
[20] *See* Financial Responsibility Rules for Broker-Dealers, Release No. 24-70072 (effective Oct. 21, 2013), citing The Securities Investor Protection Act of 1970 (15 U.S.C. 78aaa et. seq.)
[21] 15 U.S.C. § 78lll(2)(4)(E)

for a broader interpretation of "customer property" beyond traditional securities and cash which are specifically enumerated in 15 U.S.C. § 78lll(2)(4)(A) through (D). The treatment of non-cash non-conventional securities under the definition of "customer property" within 15 U.S.C. § 78lll(2)(4) demonstrates the drafters understanding that future developments were unpredictable and the need for malleability in protecting "customer property" under the Federal Securities Laws was required.

Based on the foregoing, we believe that fully paid customer ICO Tokens held in the customer's account and safely kept in the Tokenized Securities Custody Account at the Clearing Firm falls within "customer property" under 15 U.S.C. § 78lll(2)(4).

IV. Possession or Control of ICO Tokens

The possession or control requirement of Exchange Act Rule 15c3-3(b) requires broker-dealers to have physical possession of securities or to hold securities at one of the several "control locations" identified by Rule 15c3-3(c). Under Section 15c3-3(c)(7) such locations may include such other locations as the Commission shall, upon application from a broker-dealer, find and designate to be adequate for the protection of customer securities. Because uncertificated securities generally cannot be physically held in a broker dealer's possession, the broker-dealer must establish that the uncertificated securities are lodged in a "satisfactory control location."

As identified above, the Commission has granted no-action relief to registered broker-dealers to designate certain entity locations as satisfactory control locations and book-entry recordkeeping for uncertificated securities. In 1986, the Commission granted no action relief to

a broker-dealer allowing a general partner to be treated as a good location for non-certificated limited partnership interests provided certain conditions were met.[22] In 1999, the Commission granted no action relief to a broker-dealer allowing it to treat book entries of uncertificated limited partnership units as a good location provided certain conditions were met.[23] In 2000, the Commission granted no action relief to a broker-dealer allowing the contractual advisor of a REIT as a good location in connection with uncertificated shares of the REIT. Upon acceptance of a subscription agreement the advisor provided the broker-dealer on behalf of its customer a confirmation and acknowledgement indicating the book-entry number of shares provided certain conditions were met.[24] In 2004, the Commission granted no-action relief to a broker-dealer which designated a cooperative association as a good location for certain book-entry shares of specified notes, provided certain conditions were met.[25] In 2009, the Commission granted no action relief to a broker-dealer that planned to operate an alternative trading system where members of an internet-based social lending platform ("FOLIOfn Investments") who also have customer accounts with the broker-dealer ("Subscribers") may engage in resales of uncertificated notes from the issuer. The issuer was obligated to maintain all records of note holders. As set forth in the no action letter, the broker-dealer will carry the uncertificated notes "long" in the Subscriber's account when a Subscriber orders the issuer to deliver the notes to the broker-dealer, and the broker-dealer will reflect separately all Subscriber positions in the notes in its records pursuant to Exchange Act Rule 17a-3 until or unless delivered back to the

[22] Wayne Hummer & Co., S.E.C. No-Action Letter (March 6, 1986)
[23] Charles Schwab & Co., Inc., S.E.C. No-Action Letter (Sept. 17, 1999)
[24] Wells Real Estate Investment Trust, Inc., S.E.C. No-Action Letter (Jan. 5, 2000)
[25] National Financial Services, LLC, S.E.C. No-Action Letter (July 28, 2004)

Issuer.[26] In 2009, the Commission granted no action relief to an entity in connection with uncertificated interests in a business trust and Cayman Island domiciled corporate entities which were being held at a bank and a trustee. The Commission stated that in the case of the bank holding the uncertificated units the possession and control requirement would be satisfied. In the case of the trustee holding the uncertificated shares, it would be a good location if certain conditions were met.[27]

In each of the various No-Action Letters referenced above, the conditions for approval generally imposed by the Commission are as follows:

1. The broker-dealer carries the investment "long" in customers' accounts;
2. All securities positions of each securities issuer are reflected separately in securities records or ledgers maintained pursuant to Exchange Act Rule 17a-3;
3. The broker-dealer is not aware of any substantial problems of an operational nature which the investment may be experiencing and which may endanger the interests of the customer;
4. The broker-dealer will obtain written assurances that the securities are not subject to any right, charge, security interest, lien, or claim of any kind in favor of the securities issuer or sponsor of the issuer (e.g., the general partner, managing member trustee, etc.); and
5. The broker-dealer will maintain in a separate file a current list of all

[26] FOLIOfn Investments, Inc., S.E.C. No-Action Letter 2009 WL58414 (Jan. 9, 2009)
[27] Sanford C. Bernstein & Co., LLC, S.E.C. No-Action Letter (June 9, 2009)

collective investment vehicles of which interests will be carried on its books and records subject to the terms and conditions set forth above. The list will contain the name of the contact person, telephone number, and address for each collective investment vehicle.

The Introducing Broker-Dealer and Clearing Firm's proposed system for facilitating ICO Token transactions is similar to the FOLIOfn Investments system which was granted no-action relief involving an alternative trading system for members of an internet–based social lending platform. Customers of the Introducing Broker-Dealer will have access through the broker dealer to the internet-based Order Matching Platform and be introduced to the Clearing Firm on a fully disclosed basis. The Introducing Broker-Dealer's customers can engage in purchases and sales of uncertificated ICO Tokens. The Clearing Firm will carry ICO Tokens "long" in the customers' accounts. Maintenance of records of ICO Token ownership will be processed by a blockchain distributed ledger. The Introducing Broker-Dealer will reflect all customer transactions separately in its records pursuant to Exchange Act Rule 17a-3. All ICO token transactions transferred internally will be for settlement and delivered to new purchasers accounts either the same day or on T+1.

The Clearing Firm should be deemed a good location for purposes of Exchange Act Rule 15c3-3 since it will impose the security protocols described herein and be able to meet similar conditions as those imposed by the Commission in the No-Action Letters discussed above as follows:

1. Introducing Broker-Dealer's Clearing Firm will carry the ICO Tokens "long" in customers' accounts which are located at the Clearing Firm. (Customers must have available cash, or buying power, to pay for a ICO Token purchase in the customer's account maintained at the Clearing Firm);
2. Introducing Broker-Dealer's Clearing Firm will reflect ICO Tokens separately in records or ledgers maintained pursuant to Exchange Act Rule 17a-3 under the Exchange Act (In addition, the Introducing Broker-Dealer will maintain a log of all order activity on the Order Matching Platform);
3. When accepting custody of ICO Tokens, neither the Clearing Firm nor the Introducing Broker-Dealer will be aware of any substantial problems of an operational nature which the ICO Tokens may be experiencing and which may endanger the interests of the customer;
4. The Clearing Firm will obtain and record an electronic communication from the Token's blockchain, that the ICO Token which is the subject of the transaction is not subject to any right, charge, security interest, lien, or claim of any kind in favor of anyone;
5. The ICO Tokens are registered with the Commission pursuant to the Securities Act, exempt from registration, or not required to be registered; and
6. The Clearing Firm and the Introducing Broker-Dealer will maintain in a

separate file a current list of all ICO Tokens allowed on the Order Matching Platform which will be carried on the Clearing Firm's books and records subject to the terms and conditions set forth above.

V. The Clearing Firm's Security Protocols

The Clearing Firm will implement the following technical protocol to establish the "Tokenized Securities Custody Account" as a "good location" for compliance with Exchange Act Rule 15c3-3(c)(7). The premise of the technical protocol is to combine human authentication and technological procedures to ensure customer property and funds are safe.

Before a customer may access the Order Matching Platform, he must establish an account with the Clearing Firm.[28] Further, before a customer with an account can enter into a transaction, he must have cash[29] and/or ICO Tokens in the account.

The Tokenized Securities Custody Account or the "Cold Wallet"[30] will have a system of secure addresses which are dedicated to holding ICO Tokens. Access to the Cold Wallet to effectuate transfers of verified transactions for ICO Tokens requires a combination of human and technical authorizations by the Clearing Firm and the blockchain. The "Cold Wallet" will require multiple signatures, including those provided by devices not connected to the internet, to announce to the underlying blockchain that it is effectuating transactions. It is expected that the

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[28] Maintaining a brokerage account at the Clearing firm will subject each individual to the Clearing Firm's established account opening procedures including, but not limited to identity verification, AML policies, etc.

[29] All free cash will be held at a good location, i.e. a bank, and such account will be captioned as being held "for the exclusive benefit of customers."

[30] "Cold" means that the computer where the Cold Wallet is maintained will have extremely limited connectivity to the internet and will remain off unless it is activated pursuant to security procedures for transferring virtual tokens.

vast majority of transactions in ICO Tokens will be "internal" and thus reflected in "book entries" on the Introducing Broker-Dealer's and the Clearing Firm's records.

Deposits can be made at any time. The process for deposits involves a customer providing the Clearing Firm's public virtual token address (the "Hot Wallet") to the location from which he/she is withdrawing the ICO Tokens. Upon receiving multiple confirmations of the transaction from the blockchain, the Clearing Firm will transfer the ICO Tokens into its "Cold Wallet." The customer can only sell the ICO Tokens once they have been moved to the "Cold Wallet."

Purchases of ICO Tokens will involve the entry of a purchase order into the Order Matching Platform. The Clearing Firm will verify that the user has enough cash in the customer's account to cover the value of the transaction. Upon such verification, the ICO Tokens will be moved into the customer's account and can be viewed on the Introducing Broker-Dealer's system.

Requests for withdrawal of ICO Tokens will undergo a strict security protocol and will generally be settled on a T+1 basis to allow time for verification by the Clearing Firm and blockchain. To effectuate a withdrawal, the customer will input withdrawal transaction on the Order Management Platform to present a request to the Clearing Firm's Cold Wallet to release ICO Tokens. The amount of the request is made as a memo entry request from the Hot Wallet to the Cold Wallet at the Clearing Firm. The amount of requested funds are removed out of the customer's account. The Clearing Firm vets the transaction based on its internal order

verification procedures for the proposed transaction. The Clearing Firm then directs to release the funds to the customer, and thereafter the transaction is confirmed by the blockchain.

In order to prevent third parties from accessing the Clearing Firm's Cold Wallet the security protocols establish "cold storage" with multiple required signatures, including those provided by devices not connected to the internet, prior to execution of a proposed Token transaction.

The proposed use of the Tokenized Securities Custody Account is comparable to a clearing firm's cage where certificated securities of issuers who do not qualify for DTCC participation are held and processed.

Conclusion

Based on the foregoing facts and analysis, Prometheum requests that the Division confirm that it will recommend no-action against it, the Introducing Broker Dealer, or the Clearing Firm for the treatment of the proposed Tokenized Securities Custody Account as a good location for purposes of Exchange Act Rule 15c3-3, and that such proposed treatment does not conflict with the requirements of Exchange Act Rule 15c3-3.

Should you or your staff have any questions please contact the undersigned, or in my absence, my associate, Aaron L. Kaplan.

Very truly yours,

Martin H. Kaplan

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Estimated shipping charges: 21.95 USD

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