

the  
**Brooklyn  
Project**

Framework for Consumer Tokens

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# Introduction

The following is a draft framework for consumer tokens, which are described in more detail in **The Brooklyn Project Token Taxonomy**. The framework contains principles and practices covering important aspects of consumer token projects, and outlines a set of “transparency goals” on which projects and communities should focus their attention.

The principles, practices and transparency goals are intended to provide a framework for long-term oriented behavior and to help establish

trust between the initiators of consumer token projects, their collaborators, the purchasers of the tokens, and the public at large. The framework represents the latest thinking, but best practices are expected to evolve based on ongoing experimentation and interaction between projects and their



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communities. The framework encourages projects to embrace transparency as a core principle and harness the input from their community members to improve how they structure, organize and manage themselves.

The framework is designed to work with centralized and decentralized consumer token projects. This is significant, because many of today’s legal and regulatory norms struggle to account for decentralized projects that rely on a network of actors, many of whom are not bound together by traditional contracts or

corporate structures. Although the setup and characteristics of consumer token projects differ, many problems they share are identical to those faced by traditional legal entities and markets—problems such as trust, cooperation, fairness, and safety.

The framework represents a first step towards establishing standards for consumer tokens by addressing potential market-failures head-on, without assuming the presence of centralized organizations or intermediaries. The successful application of these principles will most likely involve a collaborative effort between a project and their community.

# Application of the framework

A major challenge with “frameworks” is that recommended practices can be blindly applied as if they are specific rules that deserve uniform application. This can result in a meaningless compliance exercise. Mindful implementation of this framework requires careful thinking about which practices make most sense for a project. In this way, the review of practices becomes a value-adding process.

The current version consists of two parts: **principles and practices** which relate to the behavior of projects and collaborative **transparency goals** which relate to the transparency of a project.

## 1 Part 1 Principles and Practices

- **Principles:** The highest level of abstraction and core building blocks of the consumer token framework are the principles. They guide what each project should strive to achieve. Principles build upon one another serving as reinforcement. They hold true across all projects.
- **Practices:** Although practices are designed to be relevant across the majority of projects, they should be tailored to each project. Every project should include a narrative account referencing each of the practices that are being implemented and the rationale for the approach that has been taken given the specifics of the project. Practices should be tailored to the needs of a project and all stakeholders should be able to understand why a particular approach has been taken.

## 2 Part 2 Transparency Goals

- The framework encourages projects to achieve transparency goals on how they approach the principles and practices outlined in this framework. The framework introduces the notion of “collaborative transparency,” where tight collaboration with the community plays a paramount role in improving the transparency of projects. Transparency is not a one-way street, but achieved by tapping the expertise of project and industry communities to scrutinize and enhance the information available about projects. Projects and communities can in theory achieve transparency in a variety of ways, including through whitepapers, other stand-alone documents, blog posts, or social media.

By encouraging a transparent and open dialogue about these choices, we hope to enable further refinement and improvement of this framework.

## Open assessments

In addition to obvious benefits of enhancing transparency and consumer protection, the rationale for setting transparency goals is to assist in the community-driven evaluation of projects and continuous improvement of the framework. The contemplated process involves projects and their communities publicly describing which aspects of the framework their projects are applying based on reasonable and good faith efforts. The more reflection that goes into assessing these descriptions, the greater the chance that transparency will fulfill its purpose and the greater the likelihood that all relevant parties will be able to understand and evaluate the rationale for a given approach.

## Use of alternative practices

We fully expect that projects will develop alternatives and improvements to the recommended practices. By encouraging a transparent and open dialogue about these choices, we hope to enable further refinement and improvement of this framework. Whenever possible, projects should identify and give reasons for recommended practices that are not being implemented. Where applicable, it should be explained why alternative practices have been implemented.

## Legal basis for the framework

This framework offers a set of voluntary principles and leading practices. It is not a substitute for legal advice and does not eliminate all of the risks that are inherent in this nascent industry.

- **For token purchasers:** At present, implementation of this framework offers no accredited designations. Tokens, regardless of their status with respect to the Consumer Token Framework, carry substantial risk, and it is the responsibility of token purchasers to conduct a thorough assessment of whether purchasing and using a specific token is appropriate. Token purchasers should not rely upon a token’s implementation of this framework as a substitute for due diligence.
- **For token projects:** These principles and practices have been written with rules and regulations in mind but are no substitute for legal advice. It is essential for every token to seek the advice of a qualified lawyer in order to ensure full compliance with the rules and regulations in all relevant jurisdictions. If there is a conflict between this framework and the law, at present or in the future, the law prevails. Moreover, it is not necessarily expected that projects will be able to apply these principles and practices perfectly. Reasonable, transparent and good faith efforts are the goal.

# PART 1 Principles and Practices

## Principle 1 Consumer Token Design

*The token should be usable and have the intrinsic characteristics of a consumer token.*

1. Ensure token's intrinsic features do not include equity ownership, equity-like economic rights (e.g. passively-earned dividends), or other characteristics of a financial instrument.
2. Ensure the token is consumptive in nature—i.e., it represents or provides access to a good, service, and/or content.
3. Ensure the token is usable as intended.

## Principle 2 Project Governance and Operation

*The project should have an appropriate and transparent governance structure.*

1. Define an appropriate organizational and governance structure for the project and review it periodically for improvement.
2. Delineate aspects of the project controlled centrally by the project team or other entity, and aspects of the project controlled in a decentralized fashion by a network of people.
3. Delineate aspects of the project that will be “open source” and/or “forkable” by anyone in the public.
4. Ensure the backgrounds of key people involved in the project are easily accessible and not misrepresented.
5. Track and provide ongoing transparency regarding project progress.

## Principle 3 Responsible Token Distribution

*Token distributions should be orderly, fair, and carried out in a transparent manner.*

1. Minimize or eliminate the following practices:
  - a. Token bonuses, discounts, and other preferential terms that give purchasers the expectation of a passive return on their purchase.
  - b. Distribution of tokens to individuals who intend only to speculate on the token price and do not intend to use it.
  - c. Distribution of tokens in quantities that exceed the reasonable expected use or consumption of such tokens by purchasers.
  - d. Selling tokens in quantities exceeding the cost or risk a token purchaser can reasonably bear.
2. Ensure token distribution terms are transparent.

## Principle 4 Purpose of Token Distribution

*If a token distribution is used as a fundraising mechanism, the purpose of the token distribution and planned use of proceeds should be transparent.*

1. Track and provide regular, ongoing transparency regarding the use of any funds raised from investors and/or consumers in a token distribution.
2. Foster enhanced accountability on the use of any funds raised in a token distribution.

## Principle 5 Token Supply

*Projects should define token supply parameters and prudently manage retained inventory.*

1. Define the rules that will govern total token supply or inventory—i.e., how new tokens can be created or existing tokens can be destroyed.
2. Define the factors that may impact the number of tokens in circulation—e.g., lockup periods and transfer restrictions.
3. Define the governance for token inventory that is retained by all project-related entities.

4. Where applicable, ensure governance parameters of token inventory are auditable in production code.

## Principle 6 Mitigation of Conflicts and Improper Trading

*The project should strive to create a level playing field in any secondary markets.*

1. Identify, manage, and mitigate potential conflicts of interest including self-dealing by project leaders.
2. Do not engage in intentional conduct to manipulate the value of the token, i.e. by spreading false or misleading information, improperly affecting the number of tokens available for purchase, or rigging token quotes or prices on any forums.

## Principle 7 Token Safety and Security

*Any tokens offered should be safe to use and own.*

1. Ensure the project has passed a sufficient third-party audit of all relevant smart contracts.
2. Implement effective mechanisms for the safety and security of the token and project.
3. Acknowledge the security risks inherent in the technology and inform token purchasers promptly of any discovered security risks or vulnerabilities in the technology.

## Principle 8 Marketing Practices

*Marketing should be fair and accurately reflect the project and product.*

1. Ensure all product advertising is fair and does not mislead token purchasers.
2. When reasonably possible, ensure promises about governance provisions made in whitepapers, blog posts and websites marketed to token purchasers are aligned with rules encoded in a project's smart contracts.

3. Avoid marketing the token as a security or financial investment unless in full compliance with applicable laws governing securities or financial products.
4. Avoid marketing the ability of token purchasers to re-trade the token for passive financial profit on speculative secondary markets.

## Principle 9 Protecting and Empowering Consumers

*The project should protect and empower token purchasers.*

1. Implement effective mechanisms for redressing or refunding token purchasers, in whole or part, as appropriate, including if the project is canceled or abandoned.
2. Implement effective mechanisms for token purchasers to be recognized or receive value for their contributions to the projects (e.g. through bounties).
3. Confirm responsibilities, applicable restrictions and expectations of token purchasers in one or more legally binding documents.
4. Confirm responsibilities, applicable restrictions and expectations of token projects in one or more legally binding documents.

## Principle 10 Compliance with Applicable Laws and Regulations

*The project and related organizations should engage in reasonable best efforts to comply with applicable laws.*

1. Comply with all applicable laws, e.g.:
  - a. Securities regulations.
  - b. Tax laws.
  - c. Truth-in-advertising laws.
  - d. Data protection and privacy laws (e.g., GDPR).
  - e. Know-your-customer (KYC), anti-money laundering, and financial sanctions.
  - f. State and federal money service business laws and regulations.



## PART 2

# Transparency Goals

Here is a suggested list of pertinent topics for project teams and their communities to cover when jointly working to establish project transparency:

### Principle 1 Consumer Token Design

- Description of token's intrinsic features and operation.
- Token classification under **The Brooklyn Project Token Taxonomy** and applicable law.

### Principle 2 Project Governance and Operation

- Description of how and by whom the project will operate and be governed.
- Relevant holding or operating company(ies), associated jurisdiction(s) and, if regulated, their status.
- Backgrounds of key people in the project.
- Description of what part of project is decentralized, centralized, open-sourced or "forkable".
- Project roadmap, including key technical and project milestones.
- Regular updates on project progress towards milestones and use of funds.

### Principle 3 Token Distributions

- Purpose of any token distributions.
- Legal identity(ies), if any, that distribute(d) or plan to distribute tokens.
- Conditions that a token purchaser must meet in order to buy or receive tokens.
- The terms of any token distributions—including to founders, employees, and advisors—such as the price paid and number of tokens received, as well as any lockups, vesting, or transfer restrictions.
- Stage of development of the project at the time of token distributions.
- Steps taken to minimize or eliminate distribution to people who intend only to speculate on the price of the token and do not intend to use the token for its intended purpose (e.g. "user quizzes", "self-signed attestations", etc.).
- Steps taken to clarify any duties owed (or not owed) to maximize or increase token price.
- Plans/restrictions for secondary trading of tokens.

### Principle 4 Use of Token Proceeds

- Planned use of proceeds.
- Actual use of proceeds, by function line.
- A aggregate amount of tokens reserved for the remuneration of team members.
- Description of token distribution proceeds.
- Regular updates on the project's progress and use of funds, preferably on an ongoing basis at specified dates or intervals (e.g. quarterly).

### Principle 5 Token Supply

- Total initial token supply, and how the supply will or may change over time.
- Explanation of any differences over time between total token supply and tokens in circulation, e.g. due to lockups.
- Auditability of the token supply governance in production code.

### Principle 6 Mitigation of Conflicts and Improper Trading

- Steps taken to identify, manage and mitigate conflicts of interest.
- Steps taken to prevent improper trading.

### Principle 7 Token Safety and Security

- Report of the independent technological audit(s) of the token and related code.
- Mechanisms for notifying users of any security risks and/or vulnerabilities.
- Links to project github repositories or other open source code repositories.

### Principle 8 Marketing Practices

- Steps taken to comply with the marketing principles outlined in this document.
- Explanations of the relationship between promises made in marketing materials about a token's governance provisions and a project's actual smart contracts (e.g. related to token supply, insider vesting schedules, modifiability of the governance rules).
- Links to project website(s) and social media accounts (e.g., Telegram, Reddit, Slack).
- Mechanisms for the community to identify issues—e.g., bounty programs to find, report, or correct marketing or sales errors.

### Principle 9 Protecting and Empowering Consumers

- Description of token holder rights and obligations.
- Description of any refund policies and the conditions and procedures, if any, that apply to refund requests.
- Description of risks related to project completion and how buyers can be reimbursed if the project is scaled down or cancelled.
- Privacy policy.

### Principle 10 Compliance with Applicable Laws

- Statement of Good Faith affirming the token and distributions comply with applicable laws and regulations, including securities, data privacy, truth-in-advertising, KYC, anti-money laundering, and tax laws.
- Statement of whether the project has received legal and other professional advice in connection with the matters outlined in its Statement of Good Faith.

# Give us your feedback

The development of these guidelines is an open-source initiative led by The Brooklyn Project. The current version of this document follows several months of consultations with The Brooklyn Project's community members. We welcome ongoing feedback to help with the release of future versions of the framework. The framework is the beginning of an evolving conversation and should not be viewed as hard and fast rules.

Everyone is invited to join the conversation at

[framework.thebcp.com](https://framework.thebcp.com)

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