



# Newrl Identity and Tokenization Protocol

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Newrl is a layer-1 blockchain aimed at mainstream uses of the web3 technology stack. It overcomes several limitations of the current public blockchains like Ethereum in the context of real-world applications. The biggest of these are identity awareness at the chain protocol layer and legal enforceability of tokens and smart contracts. Newrl is also built for infinite scalability - emulating the architecture of the human brain, thus avoiding hyper redundancy of current blockchain architecture. Lastly, Newrl takes an “app-store” approach to smart contracts and DAOs instead of “bytecode” approach - making the smart contracts/DAOs nocode for wider use beyond just the tech-savvy audience, while also reducing the likelihood of frauds and bugs. We achieve superior contract adherence through a blockchain infrastructure that uses social capital of the participants and smart contracts with tokenized real-world assets.

Newrl is a ‘trust network’ - a highly scalable, memory-aware and multi-token blockchain with a rich protocol layer of template-driven transaction types, smart contracts and DAOs. It is focused on effective tokenization of real-world assets/contracts and their frictionless financing on-chain - ready to be used in institutional as well as DAO-based setups.

This documents helps in explaining the protocols for identity and type of tokens. While the documents recommends the protocols, the actual tokens can be customized to suit the requirements.



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## KYC and Beneficial Ownership

### Legal Persons & Relevance of Beneficial Ownership Information:

Corporate vehicles such as companies, trusts, foundations, partnerships, and other types of legal persons and arrangements—conduct a wide variety of commercial and entrepreneurial activities. However, despite the essential and legitimate role that corporate vehicles play in the global economy, under certain conditions, they have been misused for illicit purposes, including money laundering (ML), bribery and corruption, insider dealings, tax fraud, terrorist financing (TF), and other illegal activities. This is because, corporate vehicles are an attractive way to disguise and convert the proceeds of crime before introducing them into the financial system.

The misuse of corporate vehicles could be significantly reduced if information regarding both the legal owner and the beneficial owner, the source of the corporate vehicle’s assets, and its activities were readily available. This is particularly challenging when it involves legal persons and legal arrangements spread across multiple jurisdictions.

Every country/jurisdiction has different regulations and compliances set out for Legal Persons. For example, Trust is a widely accepted structure of a Legal Person. However, in a trust, the legal title and control of an asset are separated from the equitable interests in the asset. This means that different persons might own, benefit from, and control the trust, depending on the applicable trust law and the provisions of the document establishing the trust (for example, the trust deed). In some countries, trust law allows for the settlor and beneficiary (and sometimes even the trustee) to be the same person. Trust deeds also vary and may contain provisions that impact where ultimate control over the trust assets lies, including clauses under which the settlor reserves certain powers (such as the power to revoke the trust and have the trust assets returned). This may assist in determining the beneficial ownership of a trust and its related parties.

Depending on the jurisdiction, the type of Legal Persons allowed, and the related compliances and regulations will apply. We have provided for the types allowed in US and India.

#### 1. Jurisdiction

- 0 - Undefined
- 1 - On-chain entity on Newrl
- 2-99 - reserved for on-chain entity types in future including those on non-Newrl chains (e.g. DAO on Ethereum)
- Standard convention: UN/LOCODE Code List 2022-1 for each country or territory.

#### 2. Type of Person (Detailed explanation in Annexure A, B and C)

- Undefined: 0
- DAO on Newrl: 14
  - Smart contract on Newrl: 141
  - DAO LLC in US: 142
  - Variations in DAO to be 143-149
- Natural person: 1

Data Required	Documents Required
<ul style="list-style-type: none"><li>○ Name</li><li>○ Date of Birth</li><li>○ Nationality</li></ul>	<ul style="list-style-type: none"><li>○ Identity Proof</li><li>○ Address Proof</li></ul>



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- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>○ Status: Resident Individual/Non-Resident/Foreign National</li><li>○ Tax Identification Number</li><li>○ Permanent Address</li><li>○ Contact Details – Email ID/Phone Number</li><li>○ Accredited/Non-Accredited*</li><li>○ Politically Exposed/Related to Politically Exposed Person</li></ul> |  |
|--|--|

- Private company: 2
  - Limited Liability Company: 21
  - Professional Limited Liability Company: 22
  - Low Profit Limited Liability Company: 23
  - Unlimited Company: 24
  - One Person Company: 25
  - Variations in private company to be 26 – 29

Data Required	Documents Required
<ul style="list-style-type: none"><li>○ Name</li><li>○ Date of Incorporation</li><li>○ Registered Address</li><li>○ Tax Identification Number</li></ul>	<ul style="list-style-type: none"><li>○ Incorporation/Formation Certificate</li><li>○ Registered Address proof</li><li>○ Government issued Business License copy, if applicable</li><li>○ Certified Articles and Memorandum of Association</li></ul>
<b>Detailed KYC Requirements:</b> <ul style="list-style-type: none"><li>○ Copy of the balance sheets for the last 2 financial years</li><li>○ Copy of latest share holding pattern including list of all those holding control, either directly or indirectly</li><li>○ Photograph, POI, POA, PAN and DIN numbers of whole time directors/two directors in charge of day to day operations</li><li>○ Photograph, POI, POA, PAN of individual promoters holding control - either directly or indirectly</li><li>○ Authorised signatories list with specimen signatures</li></ul>	

- Public Limited Company: 3
  - Public Sector Undertaking: 31
  - Variations in public company to be 32 – 39
  - KYC and Data requirements same as Private Limited Company
- General Partnership: 4
  - Variations in unlimited liability partnership to be 41-49

Data Required	Documents Required
<ul style="list-style-type: none"><li>○ Name</li><li>○ Date of Incorporation</li></ul>	<ul style="list-style-type: none"><li>○ Incorporation/Formation Certificate</li><li>○ Registered Address proof</li></ul>



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<ul style="list-style-type: none"><li>○ Registered Address</li><li>○ Tax Identification Number</li></ul>	<ul style="list-style-type: none"><li>○ Government issued Business License copy, if applicable</li><li>○ Partnership Deed</li></ul>
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Detailed KYC Requirements:

- Copy of the balance sheets for the last 2 financial years
- Certificate of registration (for registered partnership firms only)
- Authorised signatories list with specimen signatures
- Photograph, POI, POA, PAN of Partners

- Limited partnership: 5
  - Limited Liability Partnership: 51
  - Limited Liability Limited Partnership: 52
  - Variations in LLP to be 53-59
  - Data and KYC requirements will be similar to General Partnership
- Trust: 6
  - Charitable Trust: 61
  - NGO: 62
  - Variations in trust to be 63-69

Data Required	Documents Required
<ul style="list-style-type: none"><li>○ Name</li><li>○ Date of Incorporation</li><li>○ Registered Address</li><li>○ Tax Identification Number</li></ul>	<ul style="list-style-type: none"><li>○ Registered Address proof</li><li>○ Trust Deed</li></ul>
Detailed KYC Requirements:	
<ul style="list-style-type: none"><li>○ Copy of the balance sheets for the last 2 financial years</li><li>○ Certificate of registration (for registered trust only)</li><li>○ Copy of Trust deed</li><li>○ List of trustees</li><li>○ Photograph, POI, POA, PAN of Trustees</li></ul>	

- Sole Proprietorship: 9
  - Variations in Sole Proprietorship to be 91-99
  - KYC and Data requirements similar to Natural Person
- Hindu Undivided Family (HUF): 10
  - Variations in HUF to be 101-109

Data Required	Documents Required
<ul style="list-style-type: none"><li>○ Name</li><li>○ Date of Incorporation</li><li>○ Registered Address</li><li>○ Tax Identification Number</li></ul>	<ul style="list-style-type: none"><li>○ Registered Address proof</li><li>○ Deed of Declaration of HUF/List of Coparceners</li></ul>
Detailed KYC Requirements:	
<ul style="list-style-type: none"><li>○ Photograph, POI, POA, PAN of Karta</li></ul>	



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- Associations: 11
  - Unincorporated Associations: 111
  - Variations in Associations to be 112-119

Data Required	Documents Required
<ul style="list-style-type: none"><li>○ Name</li><li>○ Date of Constitution</li><li>○ Registered Address, if any</li><li>○ Tax Identification Number, if any</li></ul>	<ul style="list-style-type: none"><li>○ Proof of Existence/Constitution document</li><li>○ Tax Identification Document, if applicable</li><li>○ Registered Address Proof, if applicable</li></ul>
Detailed KYC Requirements: <ul style="list-style-type: none"><li>○ Resolution of the managing body &amp; Power of Attorney granted to transact business on its behalf</li><li>○ Authorized signatories list with specimen signatures</li></ul>	

- Cooperative Societies: 12
  - Variations in Cooperative Societies to be 121-129

Data Required	Documents Required
<ul style="list-style-type: none"><li>○ Name</li><li>○ Date of Constitution</li><li>○ Registered Address, if any</li><li>○ Tax Identification Number, if any</li></ul>	<ul style="list-style-type: none"><li>○ Copy of Registration Certificate</li><li>○ Tax Identification Document, if applicable</li><li>○ Registered Address Proof, if applicable</li></ul>
Detailed KYC Requirements: <ul style="list-style-type: none"><li>○ List of Managing Committee members</li><li>○ Committee resolution for persons authorised to act as authorised signatories with specimen signatures</li><li>○ True copy of Society Rules and Bye Laws certified by the Chairman/Secretary</li></ul>	

- Corporations: 13
  - Benefit Corporation: 131
  - Professional Corporation: 132
  - Public Benefit Non-Profit Corporation: 133
  - Mutual Benefit Non-Profit Corporation: 134
  - Religious Corporation: 135
  - Variations in Corporations to be 136-139
  - KYC and Data requirements will be like Private Limited Company

### 3. Beneficial Owner Details (Details included in Annexure D):

- Beneficial Owner (Natural Person who owns more than 25% shareholding): 1
  - KYC – Similar to Individual KYC
- Natural persons who may control the legal person through other means and their KYC: 2
  - The natural person(s) who exerts control of a legal person through other means such as personal connections to persons in positions described above or that possess ownership: 21



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- The natural person(s) who exerts control without ownership by participating in the financing of the enterprise, or because of close and intimate family relationships, historical or contractual associations, or if a company defaults on certain payments: 22
- The natural person(s) responsible for strategic decisions that fundamentally affect the business practices or general direction of the legal person: 23
- The natural person(s) who exercises executive control over the daily or regular affairs of the legal person through a senior management position: 24
- Any other way/means of indirect ownership: 25 to 29

### **Declaration that can be added regarding KYC:**

I hereby declare that the details furnished above are true and correct to the best of my knowledge and belief and I undertake to inform you of any changes therein, immediately. In case any of the above information is found to be false or untrue or misleading or misrepresenting, I am aware that I may be held liable for it.



## Legal Enforceability

Lack of robust documentation is a huge drawback in the current blockchains. General assets (like shares, bonds) and contracts (like loan agreement, options agreement) need legally enforceable ownership. For such legal enforceability, off-chain executed legal agreements play a crucial role. Newrl aims to solve for this. All Newrl tokens, contracts have off-chain agreement too.

To make the tokenization legally robust, Newrl includes two-way mapping of underlying contracts to tokens. To link the tokens or smart contracts on blockchain with a typical legal contract outside the blockchain, the executed legal contract document is cryptographically hashed. Next, this hash is included in the transaction submitted to the blockchain network for validation and inclusion in the next block. In the legal document itself, the blockchain is identified through its genesis block hash, one of the recent block hashes and the token creation transaction itself through its identifier on the blockchain.

We have explained an instance of tokenization of a Government Bond on Newrl:

1. In July 2021, we bought the bond from market
  - ISIN: IN0020180488
  - Issuer: GOI
  - Status: Listed, demat
  - Maturity: 28-Apr-2024
  - Coupon: 6-monthly
  - Rate: 7.32% p.a.
2. We transferred the beneficial interest through an agreement to the token issuer. The process is as follows:

### Parties Involved

- ABC (Security Holder) - The Security Holder has subscribed to and owns all right, title and interest in the security and has the right to transfer the Beneficial Interest in the Securities in favor of the Beneficiary.
- XYZ (Beneficiary) - The Beneficiary/Beneficial Holder has represented that it intends to obtain the economic beneficial interest (The Beneficial Interest shall cover the receivables, redemption pay-out, interest, and any related economic benefits) in the Securities from the Security Holder in return of a consideration amount which will be paid to the Security Holder.

### Process:

- ABC bought the bond.
- XYZ paid the consideration amount to ABC to obtain beneficial interest in the bond.
- An agreement is executed which captures the arrangement between ABC (Security Holder) and XYZ (Beneficiary/Beneficial Holder)
- On payment of the consideration amount, ABC issues beneficial interest tokens to XYZ
- The agreement includes all details of the security, demat details (where the bonds are held) of ABC, indicative cash flow of the security, blockchain details for recording beneficial interest. The agreement in its pdf form is used as legal document for the hash included in the token creation transaction.
- XYZ can either hold or sell the beneficial interest tokens to third parties
- On any coupon/principal payment date, ABC receives the credit in its bank account
- Depending on the ownership of tokens, ABC transfers the coupon/principal amount realized to the token holders depending on the ownership percentage





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महाराष्ट्र MAHARASHTRA 2021 BE 641292

जिल्हा कोषागार कार्यालय, ठाणे

INVESTMENT MANAGERS PRIVATE LIMITED, (CIN: 749001MH2016FTC274803) a company incorporated under the laws of India and having its registered office at Prabhakar Cellis Road, Bandra Kurla Complex, Bandra East, Mumbai Bandra Suburban Maharashtra- 400051 (hereinafter referred to as the "Beneficial Holder"/"Beneficiary" which expression shall, unless repugnant to the context or meaning thereof, be deemed to include its administrators, liquidators and successors) of the **SECOND PART**.

The Security Holder and the Beneficial Owner are hereinafter individually referred to as "Party" and collectively referred to as "Parties".

**WHEREAS,**

- The Security Holder has subscribed to and owns all right, title and interest in the securities more fully described under Schedule 1 hereof (hereafter referred to as "Security(ies)").
- The Beneficial Holder has represented that it intends to obtain the economic beneficial interest and such limited rights (as more fully provided under Part A of Schedule 2 of this Agreement and hereafter referred to as "Beneficial Interest") in the Securities from

2



### 3. We created a token on the Newrl blockchain

```
{
  "timestamp": "2021-07-08 13:56:33.460311",
  "trans_code": "56db46e448b077804e54c3f009e2e688303ce99a", "type":
  2,
  "currency": "INR",
  "fee": 0.0,
  "descr": "New token creation",
  "valid": 1,
  "specific_data":
    {
      "tokencode": 4,
      "tokenname": "732_GOI_CG_2024",
      "tokentype": "31",
      "tokenattributes": {},
      "first_owner": "0xef1ab9086fcfcadfb52c203b44c355e4bc0b848",
      "custodian": "0x7a3250a42b0abb80cdfc8bf3776c16fb53899e48",
      "legaldochash":
      "7578bedbf28158d5f6183e770b30457fda3450e96cd8854e23f5ef5d98977aab"
    },
  "amount_created": 5000,
  "value_created": 550000,
  "disallowed": [],
  "sc_flag": false}}

```



#### 4. A user bought 1 token for Rs. 110

```
{ "timestamp": "2021-07-14 05:42:39.095226", "trans_code":  
  "118e550a65cc8c3977bfe7580a9ae27b103193a7",  
  "type": 4,  
  "currency": "INR",  
  "fee": 0.0,  
  "descr": "",  
  "valid": 1,  
  "specific_data":  
    { "asset1_code": 2,  
      "asset2_code": 4,  
      "wallet1": "0x97246f464c273c8d223fd4c49d7a383713dbf798",  
      "wallet2": "0xef1ab9086fcfcadfb52c203b44c355e4bcb0b848",  
      "asset1_number": 11000,  
      "asset2_number": 1}}},  
  "signatures":  
  { "wallet_address": "0x97246f464c273c8d223fd4c49d7a383713dbf798",  
    "msgsign":  
    "j9Z2E/02Q0SG/92dj+EDtWYgbc+Y0E5/0AtLZVuemMBa9r+bxZg5jGDF58QuIsf  
    7puYoMC7JfqV9Hy6DKezJQg=="}, { "wallet_address":  
    "0xef1ab9086fcfcadfb52c203b44c355e4bcb0b848", "msgsign":  
    "9mgo9HGCSPPKgmMn5lYsg+etb3bAnaRkuBIX7jhzSj8eFufQwglIcYpHZz0Moalw  
    0/XLcBHWX21E0Hr4ctXumrQ=="}}]
```



## Type of Tokens & Token Attributes

Assets as well as cash-flow-bearing contracts can be tokenized. Assets can be tokenized through either custody-based issuance or native issuance. Contracts can be tokenized through native issuance.

### 1. Asset tokenization through custody

In this mode, the asset - financial or real - is transferred by an owner to a pre-identified asset-keeper. The asset-keeper and the owner execute a contract that transfers the beneficial ownership and interest in that asset back to the owner from the asset-keeper in the form of tokens created on a blockchain. The ownership of tokens is based on the wallet they belong to on the blockchain. The tokens are transferable. They can also be converted back into the asset (i.e. de-tokenized) by their owner.

### 2. Tokenization through native issuance

Native issuance refers to the tokens created being the sole representation of the asset. It works in instances where the issuer/creator of the asset is involved in the tokenization process. The issuer/creator moves its ownership records of the asset (e.g. a share register) to the blockchain and creates transferrable new tokens that refer to the asset issuance contract (e.g. shareholding agreement or bond issue document) through the two-way mapping process described above. In case of native issuance, since the tokens directly represent the asset, there is no custodian or asset-keeper involved.

### 3. Contract tokenization through Native Tokens

Contracts like loans, derivatives and revenue sharing arrangements are tokenized by creating a new token mapped to the specific executed contract, as mentioned above. In case of contracts, it is important to note that the underlying conditions of the contract should also be translated into smart contracts on the blockchain platform, to the extent they are deterministic. An important reason to tokenize a contract is to enable it to be transferred. This part too needs to be in line with the underlying contract's specifications about the feasibility of transferability of participation in that contract.

Following are the various token types which can be tokenized by any one of the above methods:

Basic type of token:

1. Alterable vs Non-Alterable – In alterable tokens, the attributes can be changed subject to a set of certain rules and requirements. In case of non-alterable tokens, the attributes cannot be changed over the life of the token.
2. Fungible vs Non-Fungible Token - Fungible tokens are not unique, they're identical and dividable and can work like currency. Non-fungible tokens, on the other hand, are 100% unique and have only one owner. They can represent assets ranging from collectible items to real estate in blockchain games.
3. Traceable vs Non-Traceable Token – Traceable tokens can be traced in terms of transfer from one owner to another. In case of non-traceable

1	platform token (utility as well as governance, includes NWRL token)
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2	Stablecoin backed by custody of fiat
3	Stablecoin backed by custody of stablecoin
4	Stablecoin backed by custody of other native tokens
5	Stablecoin created by DAO
6	Algorithm backed stablecoin
7 to 9	Other variants of stablecoin
11	IOU / payment undertaking / personal guarantee
12 to 19	Other variants of IOU
31	Simple bonds
32 to 39	Other variants of simple bonds
41	Common stock
42	Preference shares
43	SAFE notes
44	Compulsorily convertible debentures
45 to 49	Other variants of equity
51	ETF
52	Mutual fund
53 to 59	Other variants of managed funds
61	Unsecured loan
62	Secured loan
63	Convertible loan
64 to 69	other varieties of loan
71	Residential real estate
72	Commercial real estate
73	Land
74	Industrial real estate
75	Warehouse
76	Agricultural land
77 to 79	Other types of real estate
81	Warehouse receipt of agricultural commodities
82	WHR of base metals
83	WHR of gold
84	WHR of precious metals other than gold



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85	WHR of diamonds and precious stones
91	Brand ownership
92 to 94	Brand specific other tokens
101	Generic contract with cash-flows
102	Lease or rent contract
103 to 109	Various contract types
111	Intellectual property rights
112	Copyright
121	Carbon credits
122	Water offset credits/tokens

## Token Attributes & Change in Attributes:

Each token will have a specific set of attributes depending on the type. Essentially, in case of asset tokenization the attributes will be similar to terms and features of the asset that the token is representing. Some attributes for asset tokens are mentioned below:

1. Underlying Asset type
2. Issuer of Asset/Token
3. Divisible/Indivisible
4. Transferable/Non-transferable
5. Dividend/Coupon/Rent and whether it is fixed or variable
6. Premium/Discount on redemption
7. Date of payment of Dividend/Coupon/Rent
8. Allotment Date
9. Maturity Date/Conversion Date/Lease Renewal Date/Call or Put Date
10. Minimum Investment Amount
11. Jurisdictions allowed/not allowed for investment.
12. Types of Investors allowed – individuals/non-individuals and any restrictions
13. Penalty if applicable and penalty rate
14. Drawdown schedule
15. Principal repayment schedule
16. Secured/Unsecured
17. Lock-in period
18. Rated and the rating/Unrated
19. Voting rights

Attributes for Contract tokenization:

1. Underlying contract type
2. Payment structure



3. Lessor/Asset or Service Provider
4. Lessee/User
5. Contract tenor

### Rules for change in Token Attributes:

Due to some real-world situations, the token attributes might need changes. For instance, in case of a bond token, if the Issuer defaults on payment of interest to bond holders, there can be a change in the coupon rate and the coupon payment schedule. For such change in token attributes, a specific process should be set with a set of rules that allow the changes.

Some rules can be as follows:

1. **Voting Mechanism** – there should be a way to take majority consent from all token holders for a particular token type. If a change in token attribute is approved by majority of the token holders, then the change can be executed.  
The voting mechanism will also be helpful in situations where the token holders are required to provide consent for certain matters. Like in case of shareholders agreement, the shareholders are required to give consent for reserved matters. Such consent can be taken through the voting mechanism.
2. **Reset mechanism** – in some token types, there should be reset mechanism with fixed set of rules on changes that can be done and who can do the changes. A participant should be authorized to change the attributes subject to certain conditions. For instance, change in coupon rate of a bond will be communicated to all investors and updated in the master document of the bond. The new master document will have to be cryptographically hashed to allow the change in coupon rate by the authorized representative.
3. **Standard Rules** – Depending on the type of token, some standard set of rules should be built in at the time of creating tokens. For instance, in case of a lease contract, the contract will be terminated when the property is destroyed in a natural calamity. With consent of lessor and lessee, the token can be burnt.
4. **Blocklist** – Tokens should have a blocklist which essentially list all restrictions applicable to the token. For example, companies issuing equity tokens can have a blocklist of all competitors who are not allowed to buy the equity tokens.



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## Annexure A

### Legal Person Definition

**Source** - <https://www.fatf-gafi.org/media/fatf/documents/reports/guidance-transparency-beneficial-ownership.pdf>

As per FATF guidance on Transparency & Beneficial Ownership, Legal persons means any entities, other than natural persons, that can establish a permanent customer relationship with a financial institution or otherwise own property. This can include companies, bodies corporate, foundations, partnerships, or associations and other relevantly similar entities that have legal personality. This can include non-profit organisations (NPOs) that can take a variety of forms which vary between jurisdictions, such as foundations, associations or cooperative societies.

## Annexure B

### India – Legal Persons allowed:

#### Source:

[https://www.rbi.org.in/Scripts/BS\\_ViewMasDirections.aspx?id=11261#:~:text=a.,exercise%20control%20throu,gh%20other%20means.](https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11261#:~:text=a.,exercise%20control%20throu,gh%20other%20means.)

[https://www.sebi.gov.in/legal/circulars/oct-2011/uniform-know-your-client-kyc-requirements-for-the-securities-market\\_20819.html](https://www.sebi.gov.in/legal/circulars/oct-2011/uniform-know-your-client-kyc-requirements-for-the-securities-market_20819.html)

[https://en.wikipedia.org/wiki/List\\_of\\_legal\\_entity\\_types\\_by\\_country](https://en.wikipedia.org/wiki/List_of_legal_entity_types_by_country)

<https://www.fatf-gafi.org/media/fatf/documents/reports/guidance-transparency-beneficial-ownership.pdf>

1. Sole Proprietorship – Sole Proprietorship firm is the simplest form of business entity in India that is owned and managed by a single person. It is the easiest way of registering and starting a business. It is not governed by any law and hence it is the easiest form of business in India. All the decisions and management of the business are in the hands of one person. Documents required for the registration of a sole proprietorship in India are Aadhar card, PAN card, bank account and a proof of registered office.
2. Partnership – liability is joint and unlimited. Registration is not compulsory and can be done through the registrar of firms. Active partners take part in day-to-day operations of the business, in addition to investing in it. Active partners are entitled to a share of the enterprise's profits. Sleeping partners invest in the business and are entitled to a share of its profits, but do not participate in day-to-day operations.
3. Limited Liability Partnership – Liability is limited and similar to Partnership except for registration is mandatory and liability is limited. At least two partners are 'designated partner' (equivalent to directors in the company), who manages day-to-day working. Regulated by the union government.
4. Company – Private Limited Company: have 2–200 shareholders; shares are held privately and cannot be offered to the public. Have limited liability and registration is mandatory. Regulated by the union government.
5. Public Limited Company: have more than 200 shareholders. Can be listed or unlisted in the share market.
6. One-person company – It is a type of private company which can have only one director and member.
7. Unlimited Company – A company, similar to its limited company (Ltd, or Pvt Ltd) counterpart, but where the liability of the members or shareholders is not limited.





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8. Public sector undertaking (PSU) – Alternatively known as Public Sector Enterprise (PSE). It may be a public limited company listed on stock exchanges with a major ownership by a state government, central government, or local government, or it may be an unlisted entity with a major ownership by a state government, central Government, or local government. Some of these entities are formed as business entities through special legislation, where these entities are governed by the statutes of this legislation and may or may not be governed by company laws like a typical business entity.
9. Cooperative Societies - E.g. Gujarat Co-operative Milk Marketing Federation Ltd. (GCMMF) owner of Amul brand.
10. NGO – A non-governmental organization (NGO), Section 8 company, or a non-profit company is a citizen-led organization that functions separately from the government, usually to advance some social cause.

## Annexure C

### United States Legal Persons allowed:

#### Sources:

<https://www.sec.gov/about/offices/ocie/amlsourcetool#4>

<https://www.ecfr.gov/current/title-31/subtitle-B/chapter-X/part-1023#1023.220>

In the United States, most legal entities are incorporated under the law of a particular state. The federal government does not generally incorporate entities (the verb "charter" is used instead), with a few narrow exceptions, either government-sponsored corporations or government-owned corporations.

Those entities existing on the state level have two separate identities: their legal entity type, e.g., partnership, corporation, or LLC, and their tax classification, what they are regarded as for federal income tax purposes. A further way to classify an entity is whether it is a for-profit or nonprofit enterprise, each classification with its own taxonomy and implications on federal income tax law. For-profit entities exist for the purpose of producing a profit for their owners whereas nonprofits exist for any purpose other than profit.

#### Tax classifications:

For federal tax purposes, the Internal Revenue Service has separate entity classification rules, generally depending on whether an entity is a for-profit or non-profit organization. For-profit entities can be collectively regarded as "taxable organizations" while nonprofit entities are collectively regarded as "tax-exempt organizations" or simply "exempt organizations."

- Taxable Organizations:

Under the Internal Revenue Code, a for-profit entity may be classified as a corporation, a partnership, a cooperative or a disregarded entity. A corporation is taxed as a C corporation unless it elects and meets the requirements to be taxed as an S Corporation. A disregarded entity has one owner (or a married couple as owner) that is not recognized for tax purposes as an entity separate from its owner, so the owner is taxed on the individual level. Types of disregarded entities include single-member LLCs; qualified sub-chapter S subsidiaries and qualified real estate investment trust subsidiaries. A disregarded entity's transparent tax status does not affect its status under state law. For example, for federal tax purposes, a sole-member LLC (SMLLC) is disregarded, so that all its assets and liabilities are treated as owned by its single member. But under state law, an SMLLC can contract in its own name and its owner is generally not personally liable for the debts and obligations of the entity. To be



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recognized as a Cooperative for tax purposes Cooperatives must follow certain rules under Sub Chapter T of the Internal Revenue Code.

- **Tax Exempt Organizations**

Nonprofit organizations on the state level are exempt from federal income taxation for most types of income. There are two main types of tax exempt organizations under the Internal Revenue Code: 501(c) organizations and 527 organizations. Tax exemption has two components: exemption from income taxation and the allowance of a deduction on the tax returns of donors.

Section 501(c) encompasses most types of nonprofit entities other than ones engaged substantially in political activity. There are 29 subtypes of 501(c) organizations. For example, section 501(c)(10) includes "domestic fraternal societies, orders, or associations, operating under the lodge system," while section 501(c)(6) includes "business leagues, chambers of commerce, real-estate boards, boards of trade, or professional football leagues" under certain circumstances. The most prevalent type of 501(c)s are 501(c)(3) organizations, known broadly as "charitable organizations," those whose purpose is charitable (i.e., relief from poverty), educational, scientific, religious, or advocacy, among others, as long as such organization does not engage in substantial political activity or inure the benefit of net earnings to shareholders or other individuals. This is the preferred tax status because it is the only 501(c) that obtains both income tax exemption and tax deductible donations. All other 501(c) types only obtain tax exemption. Section 501(c)(3)s can be further divided into private foundations, public charities, and private operating foundations with private foundations given the least favorable deductibility rate. State-level unincorporated nonprofit associations, charitable trusts, and nonprofit corporations may fall into any one of the 501(c) categories depending on their purpose and the activities they engage in.

Section 527 organizations, also called "political organizations," are any nonprofit substantially engaged in "political activity," such as election campaigning or lobbying. These are organizations like political parties and election campaign committees, which are often called political action committees (PACs) or Super-PACs. These organizations are subject to more stringent regulations than 501(c) organizations and only receive tax exemption; donations to 527s are not deductible. Any type of nonprofit entity existing on the state level will be regarded as a 527 if it substantially engages in political activity.

### **Federally chartered:**

Of the few types of companies that may exist under a federally issued charter, the bulk are banks, credit unions, and similar depository institutions. Such institutions are distinguished from state-chartered banks by including a key word in their formal names. For a bank, the key word is "national". A bank chartered by the Office of the Comptroller of the Currency (OCC) must have the word "national" in its name. A bank chartered by a state cannot have "national" in its name.

For a savings bank (formerly called a savings and loan association) or credit union, the key word is "federal", and the same rules apply; a federally chartered savings bank or credit union must have the word "federal" in its name, while a state chartered savings bank or credit union cannot have "federal" in its name.

- **Federal Savings Bank (FSB):** formerly called federal savings and loan association
- **National Association (NA):** a designation used by banks chartered by the Office of the Comptroller of the Currency (OCC)
- **National Trust and Savings Association (NT&SA):** a less common designation used by national banks
- **Federal Credit Union:** chartered by the National Credit Union Association (NCUA)



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Many federal governmental units are specially formed public corporations (which, for tax purposes are also generally 501(c)(1) organizations) and government-sponsored enterprises, while some private organizations have received a Congressional charter.

## **State, territory or commonwealth; unincorporated:**

The following are the entity structures that can be created without licensure by the government, or in other words are "unincorporated":

1. Sole proprietorship: a business consisting of a single owner (which may in turn be a business entity), not in a separately recognized business form.
2. Trusts
  - a. Trust: a legal relationship wherein one person (a "settlor") grants another property to another (a "trustee") for the benefit of a single or limited amount of third-parties ("beneficiaries").
  - b. Charitable trust: a trust wherein the beneficiary is the general public.

3. Partnerships

General partnership: an association of two or more persons for the purpose of producing a profit for the members of the partnership (called "general partners" or simply "partners"). All partners jointly and separately liable for the debts of the partnership. In most U.S. states, it can be created by agreement without requiring a public filing or any written agreement, as long as all parties must have an intend to establish a business relationship with one another. The partners may themselves be individuals or legal entities (in which case it is generally called a joint venture).

To determine whether a general partnership exists courts analyze a few factors: (1) intention of the parties, (2) sharing of profits and losses (3) joint administration and control of business operation, (4) capital investment by each partner, and (5) common ownership of property.

4. Unincorporated Associations

Unincorporated nonprofit association: an association of two or more persons for the purpose of accomplishing a common goal other than profit; this is the nonprofit equivalent to general partnerships.

5. State, territory or commonwealth; incorporated

Please refer: *United States corporate law, Delaware General Corporation Law, Nevada corporation, Delaware statutory trust, and Massachusetts business trust*

6. Partnerships

- a. Limited partnership (LP): a partnership where at least one partner (the general partner, which may itself be an entity or an individual) has unlimited liability for the LP's debts and one or more partners (the limited partners) have limited liability (which means that they are not responsible for the LP's debts beyond the amount they agreed to invest). Limited partners generally do not participate in the management of the entity or its business.
- b. Limited liability partnership (LLP): a partnership where a partner's liability for the debts of the partnership is limited except in the case of liability for acts of professional negligence or malpractice. In some states, LLPs may only be formed for purposes of practicing a licensed profession, typically attorneys, accountants and architects. This is often the only form of limited partnership allowed for law firms (as opposed to general partnerships).
- c. Limited liability limited partnership (LLLLP): a combination of LP and LLP, available in some states.



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## 7. Limited Liability Companies

- a. Limited liability company (LLC, LC, Ltd., or Co.): a form of business whose owners enjoy limited liability, but which is not a corporation. Allowable abbreviations vary by state. Note that in some states Ltd. by itself is not a valid abbreviation for an LLC, because in some states (e.g. Texas), it may denote a corporation instead. See also Series LLC. For U.S. federal tax purposes, in general, an LLC with two or more members is treated as a partnership, and an LLC with one member is treated as a sole proprietorship.
- b. Professional limited liability company (PLLC): some states do not allow certain professionals to form an LLC that would limit the liability that results from the services professionals provide such as doctors, medical care; lawyers, legal advice; and accountants, accounting services; architects, architectural services; when the company formed offers the services of the professionals. Instead those states allow a PLLC or in the LLC statutes, the liability limitation only applies to the business side, such as creditors of the company, as opposed to the client/customer service side, the level of medical care, legal services, or accounting provided to clients. This is meant to maintain the higher ethical standards that these professionals have committed themselves to by becoming licensed in their profession and to prevent them from being immune (or at least limit their immunity) to malpractice suits.
- c. Low-profit limited liability company (L3C): a hybrid for-profit and nonprofit entity available in some states. It is an LLC that is allowed to have a primary nonprofit purpose, and a secondary for-profit purpose.

## 8. Corporations

- a. For-profit:
  - i. Corporation (Corp., Inc., or Incorporated): a legal entity that is owned by shareholders and managed by directors and officers, all of which enjoy limited liability. A corporation can be a public or private company. In some states other suffixes may be used to identify a corporation, such as Ltd., Co./Company, or the Italian term S.p.A. (in Connecticut; see under Italy). Some states that allow the use of "Company" prohibit the use of "and Company", "and Co.", "& Company" or "& Co.". In most states sole proprietorships and partnerships may register a fictitious "doing business as" name with the word "Company" in it.
  - ii. Benefit corporation (PBC): a for-profit corporation that includes positive impact on society, workers, the community, and the environment in addition to profit as its legally defined goals, in that the definition of "best interest of the corporation" is specified to include those impacts. Some states require the corporation to have "Public Benefit Corporation" or "PBC" in its name (or a similar designation), while others allow any prefix allowed by a corporation (such as Corp. or Inc.), but require that shareholders, investors, and other parties be informed that the company is a public benefit corporation.
  - iii. Professional corporation (PC or P.C.): those corporate entities for which many corporation statutes make special provision, regulating the use of the corporate form by licensed professionals such as attorneys, architects, accountants, and doctors.
- b. Nonprofit corporation: a corporation whose primary purpose is to serve a social goal instead of producing a profit for shareholders. As such, nonprofit corporations do not have shareholders but may still have directors and officers which still enjoy limited liability. The naming conventions for nonprofit corporations vary, with naming requirements similar to



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those of other corporate entities, with some states forbidding names that might mislead the public. Nonprofit corporations are generally divided into three subcategories:

- i. Public-benefit nonprofit corporation: a nonprofit corporation formed for the purpose of benefitting the public at large, such as charities, educational and research institutions, and hospitals.
- ii. Mutual-benefit nonprofit corporation: a nonprofit corporation formed for the purpose of benefitting its members, such as unions, professional or homeowner's associations, and social clubs.
- iii. Religious corporation: a nonprofit corporation formed for the purpose of practicing or proselytizing a religion, such as an organized congregation or missionary organization.

## 9. Cooperatives

Cooperative (Co-Op, Coop, or CP): a for-profit entity owned and democratically operated by a group of people who share a common economic goal, such as worker cooperatives, agricultural cooperatives, or a utility cooperatives. In most states, a cooperative must have a signifier in its name indicating that it is a cooperative, such as coop, co-op, CP, or cooperative.

## 10. Other

Doing Business As (DBA or Fictitious Name): a business name used by a person or entity that is different from the person's or entity's true legal name. DBAs are not separate entities and do not shield the person or entity who uses the DBA as a business name from liability for debts or lawsuits. Filing requirements vary and are not permitted for some types of businesses or professional practices.

## Annexure D

### Transparency & Beneficial Ownership:

<https://www.fatf-gafi.org/media/fatf/documents/reports/guidance-transparency-beneficial-ownership.pdf>

Beneficial owner refers to the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement. Reference to "ultimately owns or controls" and "ultimate effective control" refer to situations in which ownership/control is exercised through a chain of ownership or by means of control other than direct control. This definition should also apply to beneficial owner or a beneficiary under a life or other investment linked insurance policy.

Natural persons who may control the legal person through ownership interests:

- The natural person(s) who directly or indirectly holds a minimum percentage of ownership interest in the legal person - for example, any persons owning more than a certain percentage of the company, such as 25%. The FATF Recommendations do not specify what threshold may be appropriate. We will consider 25% as the threshold which is considered as per US and India regulations.
  - United States (FinCEN)  
<https://www.fincen.gov/news/news-releases/fact-sheet-beneficial-ownership-information-reporting-notice-proposed-rulemaking>



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- Under the proposed rule, a beneficial owner would include any individual who (1) exercises substantial control over a reporting company, or (2) owns or controls at least 25 percent of the ownership interests of a reporting company. The proposed regulation defines the terms “substantial control” and “ownership interest” and sets forth standards for determining whether an individual owns or controls 25 percent of the ownership interests of a reporting company. In keeping with the CTA, the proposed rule exempts five types of individuals from the definition of “beneficial owner.”
  - In defining the contours of who has “substantial control,” the proposed rule sets forth a range of activities that could constitute “substantial control” of a company. This list would capture anyone who is able to make significant decisions on behalf of the entity. FinCEN’s approach is designed to close loopholes that would allow corporate structuring that obscures owners or decision-makers. This is crucial to unmasking shell companies.
- India
- [https://www.rbi.org.in/Scripts/BS\\_ViewMasDirections.aspx?id=11261#:~:text=a.,exercise%20control%20through%20other%20means.](https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11261#:~:text=a.,exercise%20control%20through%20other%20means.)

Extract - Where the customer is a company, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have a controlling ownership interest or who exercise control through other means.

Explanation- For the purpose of this sub-clause-

1. “Controlling ownership interest” means ownership of/entitlement to more than 25 per cent of the shares or capital or profits of the company.
2. “Control” shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.
  - b. Where the customer is a partnership firm, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership of/entitlement to more than 15 per cent of capital or profits of the partnership.
  - c. Where the customer is an unincorporated association or body of individuals, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership of/entitlement to more than 15 per cent of the property or capital or profits of the unincorporated association or body of individuals.

Explanation: Term ‘body of individuals’ includes societies. Where no natural person is identified under (a), (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official.



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d. Where the customer is a trust, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

SEBI

[https://www.sebi.gov.in/legal/circulars/jan-2013/guidelines-on-identification-of-beneficial-ownership\\_24206.html](https://www.sebi.gov.in/legal/circulars/jan-2013/guidelines-on-identification-of-beneficial-ownership_24206.html)

- Shareholders who exercise control alone or together with other shareholders, including through any contract, understanding, relationship, intermediary or tiered entity (a majority interest approach). It is also important to highlight that this approach includes the notion of indirect control which may extend beyond legal (direct) ownership or could be through a chain of corporate vehicles and through nominees. This indirect control could be identified through various means, as shareholder's agreement, exercise of dominant influence or power to appoint senior management. Shareholders may thus collaborate to increase the level of control by a person through formal or informal agreements, or through the use of nominee shareholders.