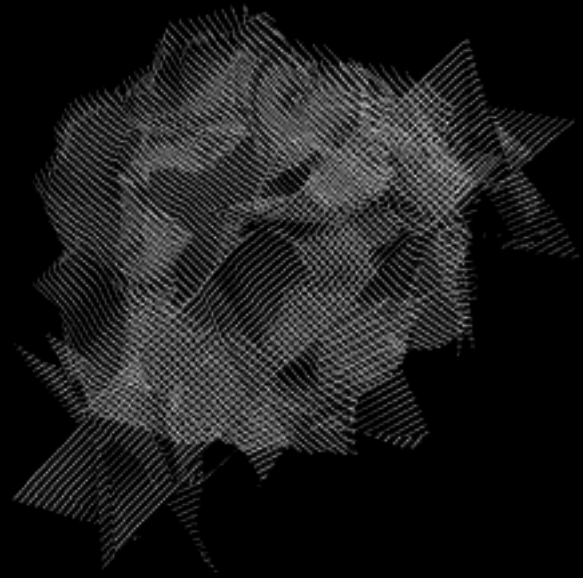


NAVIGATING WEB3: A LEGAL HANDBOOK FOR INNOVATORS



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CHAPTER 1:
INTRODUCTION

INTRODUCTION

OVERVIEW OF WEB3 AND ITS TRANSFORMATIVE POTENTIAL

Web3 marks the evolution from static, information-driven Web1 and interactive, centralized Web2 to a decentralized digital ecosystem. Built on blockchain technology, Web3 facilitates digital assets, decentralized finance (DeFi), and decentralized applications (dApps). Unlike previous iterations of the internet, Web3 puts users in control of their data, offering more transparent, trustless, and peer-to-peer interactions across the internet.

By enabling tokenized economies, self-executing smart contracts, and decentralized governance, Web3 has the potential to reshape industries from finance and gaming to supply chain management and identity verification. It fosters a more equitable digital environment by removing intermediaries, reducing transaction costs, and increasing accessibility.



IMPORTANCE OF LEGAL CONSIDERATIONS IN WEB3

While Web3 brings significant opportunities for innovation, it also introduces complex legal challenges. Regulatory uncertainty, cross-border data flows, and the novel treatment of digital assets like cryptocurrencies require careful navigation to avoid legal risks. Ensuring compliance with local and global laws is vital for the survival and scalability of any Web3 project.

This eBook will explore the critical legal issues that Web3 entrepreneurs must address. It provides strategies for minimizing legal risks and implementing best practices so innovators can build projects that thrive in a legally compliant manner. The goal with any legal support is to protect you and help you grow. That's what we try to do here at LDU for the Web3 community.



PURPOSE OF THE EBOOK


The goal of this eBook is to equip Web3 innovators, startups, and entrepreneurs with practical legal guidance specific to decentralized ecosystems. We aim to help you understand the key regulatory frameworks, avoid common legal pitfalls, and make informed decisions about compliance, fundraising, and offshore structuring.

ABOUT LDU

We are Legal Disruption Unit (LDU), and true to our name, we're here to disrupt. We are strategic and highly commercial legal advisors, invested in your growth by operating like your own in-house counsel. Book your **FREE 15min legal consultation here.**

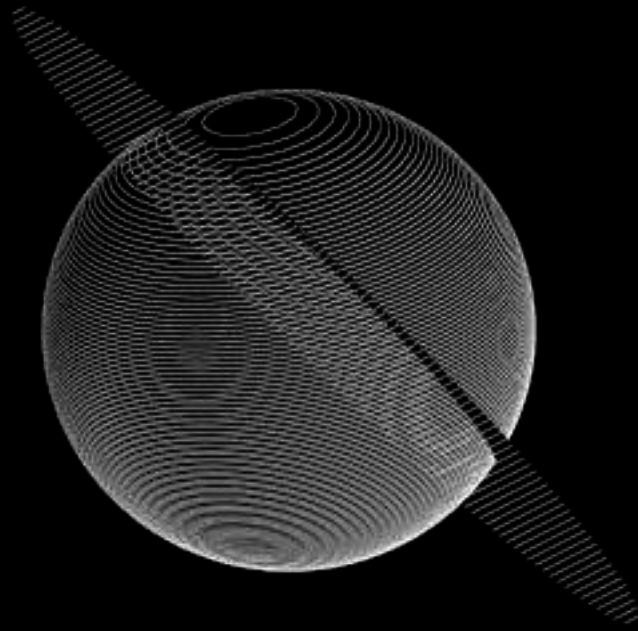
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CHAPTER 2:

REGULATORY CHALLENGES IN WEB3

UNDERSTANDING GLOBAL REGULATORY FRAMEWORKS

OVERVIEW OF KEY REGULATIONS IMPACTING WEB3 PROJECTS

Web3 projects intersect with multiple areas of law, depending on their structure and activities. For example, DeFi platforms may be subject to financial regulations, tokenized businesses may face securities law scrutiny, and dApps that process personal data need to comply with data protection laws like GDPR.

In the U.S., the Securities and Exchange Commission (SEC) plays a significant role in regulating token offerings, which may be classified as securities under the Howey Test. The Financial Conduct Authority (FCA) in the U.K. oversees activities like cryptocurrency trading, the European Securities and Markets Authority (ESMA) sets regulations for digital asset markets across Europe (ie. Markets in Crypto Assets Regulation), while the Monetary Authority of Singapore (MAS) governs the regulation of payment services and the providers of such services under a comprehensive regulatory framework called the Payment Services Act (PSA).

Regulations such as AML (Anti-Money Laundering) and KYC (Know Your Customer) are critical, especially for crypto exchanges and financial platforms, as these ensure transparency and prevent illicit activities. Data protection laws such as the General Data Protection Regulation (GDPR) in the EU and the Personal Data Protection Act (PDPA) in Singapore impacts any platform that collects user data, imposing stringent requirements on data privacy and processing within those jurisdictions and beyond.



DIFFERENCES BETWEEN JURISDICTIONS AND HOW THEY AFFECT YOUR OPERATIONS:

Regulatory approaches vary significantly across regions. For instance, the U.S. is often seen as having a stricter approach, classifying many tokens as securities. Europe emphasizes consumer protection and privacy, making GDPR compliance essential for data-handling Web3 projects. In contrast, regions like Singapore, Dubai and Abu Dhabi are considered more crypto-friendly, with clear regulatory frameworks that encourage blockchain innovation.

When choosing where to operate, projects must evaluate jurisdictional differences in legal frameworks, enforcement intensity, tax implications, and regulatory predictability.

IMPORTANCE OF STAYING UPDATED WITH REGULATORY CHANGES

The Web3 regulatory landscape is continuously evolving as governments and regulators respond to innovations. Projects must stay informed to avoid falling foul of new regulations. Tools like legal newsletters, industry reports, and government resources can help. Having legal advisors engaged that is familiar with Web3 ensures that projects are proactive, rather than reactive, to new laws and developments.

OFFSHORE STRUCTURING

OVERVIEW OF WHY OFFSHORE STRUCTURING IS CRUCIAL FOR WEB3 PROJECTS:

Offshore structuring can provide Web3 projects with greater flexibility in navigating regulatory uncertainty, optimizing tax efficiency, and protecting assets. Incorporating offshore can also help projects manage cross-border operations while complying with varying regional laws.

For example, decentralized projects may incorporate offshore to facilitate international fundraising or establish a legal wrapper for signing contracts and operating in traditional markets, while still benefiting from the decentralized nature of Web3.



TOP JURISDICTIONS FOR OFFSHORE STRUCTURING (E.G., BVI, SINGAPORE, DUBAI/ABU DHABI):

- **BVI (British Virgin Islands):**

Known for its favorable tax regime and political stability, BVI has become a hub for digital asset companies. Its robust legal framework supports blockchain projects, offering both flexibility and strong investor protections.

- **Singapore:**

Singapore has positioned itself as a global leader in blockchain innovation. Its clear and forward-thinking regulatory framework encourages the development of Web3 projects, making it an attractive destination for blockchain startups.

- **Dubai/Abu Dhabi:**

The UAE has emerged as a crypto-friendly jurisdiction, with Dubai establishing the Virtual Assets Regulatory Authority (VARA) and Abu Dhabi's ADGM providing clear regulatory frameworks for digital assets. The UAE's zero corporate tax policy and world-class infrastructure make it a strategic hub for Web3 businesses.



KEY CONSIDERATIONS FOR CHOOSING THE RIGHT JURISDICTION FOR YOUR PROJECT

When selecting a jurisdiction for your Web3 project, key factors to consider include the local regulatory environment, tax implications, and ease of doing business. For instance, some regions have lower corporate taxes, while others offer greater regulatory clarity. You'll also need to ensure compliance with international laws and be aware of potential reputational risks associated with offshore jurisdictions. Depending on your preference, you may also need jurisdictions which provide you with more anonymity in terms of shareholding structure. All to say, the jurisdictions suggested above will not work for everyone as considerations are different for all, speak to a legal advisor for more details.

COMPLIANCE STRATEGIES

AML/KYC

As Web3 and cryptocurrency services grow, compliance with Anti-Money Laundering (AML) and Know Your Customer (KYC) obligations is essential for mitigating the risks of illicit activities such as money laundering and terrorism financing. Key among these obligations is adherence to the “Travel Rule”, a requirement set by the Financial Action Task Force (FATF).

The Travel Rule mandates that Virtual Asset Service Providers (VASPs)—which include cryptocurrency exchanges, wallet providers, and payment processors—collect, maintain, and share information about the sender and recipient of cryptocurrency transactions above a certain threshold. This ensures that both the origin and destination of funds are tracked and recorded, helping authorities trace potential money laundering activities.

In addition to the Travel Rule, VASPs must implement ongoing AML/KYC processes to:

- Verify user identities before allowing access to services.
- Continuously monitor transactions for suspicious activities.
- Conduct due diligence, especially for high-risk accounts or large transfers.
- Report suspicious transactions to the relevant authorities.

WHO NEEDS TO COMPLY

• Cryptocurrency Exchanges:

Platforms like Binance, Coinbase, and Kraken must ensure transaction monitoring and AML/KYC compliance as they facilitate the buying, selling, and exchanging of digital assets.

• Payment Processors and Wallet Providers:

Services that allow users to send and receive cryptocurrencies across borders must comply with the Travel Rule, even if they aren't handling traditional fiat currencies.

• DeFi Platforms:

While decentralized platforms like Uniswap operate with fewer intermediaries, regulations increasingly require them to implement compliance protocols, particularly as the industry moves towards more formalized regulation.

• Custodial Services:

Providers that hold and safeguard user funds, like Gemini and BitGo, are also required to implement robust KYC and AML measures.



TOP 5 AML/KYC CRYPTO SERVICE PROVIDERS IN TRANSACTION MONITORING AND ONGOING CRYPTO AML/KYC

1. Chainalysis:

- Specialty: Chainalysis provides blockchain analytics and transaction monitoring tools to help cryptocurrency businesses comply with AML regulations. It tracks the flow of funds across multiple blockchains, identifying high-risk transactions and entities.
- Example: Chainalysis' "Know Your Transaction" (KYT) tool automates real-time transaction monitoring and supports Travel Rule compliance for exchanges and financial institutions.

2. Elliptic:

- Specialty: Elliptic offers transaction monitoring services that flag suspicious activities in cryptocurrency networks. Its platform uses machine learning and blockchain analysis to detect AML risks.
- Example: Elliptic's AML suite helps exchanges and custodial services comply with global regulations by identifying illegal activity and providing insights into transaction risk.

3. CipherTrace:

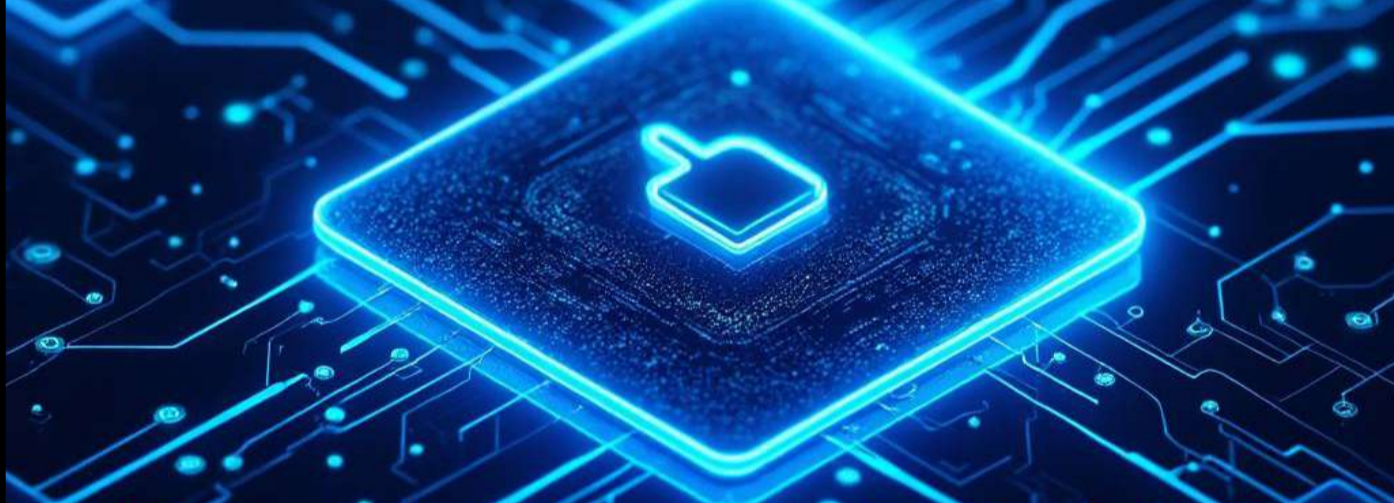
- Specialty: Known for its advanced blockchain intelligence solutions, CipherTrace helps businesses meet AML compliance requirements by monitoring transaction patterns and identifying potential money laundering activities.
- Example: CipherTrace provides services for Travel Rule compliance by identifying transfers involving high-risk wallets and reporting to relevant authorities.

4. Jumio:

- Specialty: Jumio specializes in identity verification, providing KYC solutions for crypto platforms to confirm the identity of their users during the onboarding process. Their system also supports ongoing monitoring to ensure compliance with regulatory updates.
- Example: Jumio's KYC solutions have been adopted by exchanges like Binance to streamline identity verification while remaining compliant with evolving regulations.

5. Coinfirm:

- Specialty: Coinfirm provides a range of AML solutions specifically for blockchain transactions, offering continuous transaction monitoring, enhanced due diligence, and risk analysis. Its platform integrates with crypto wallets and exchanges to support compliance efforts.
- Example: Coinfirm's AML platform enables real-time monitoring of blockchain transactions, identifying suspicious patterns and helping crypto businesses comply with the Travel Rule and other global AML regulations.



TIPS FOR STAYING COMPLIANT WHILE PUSHING THE BOUNDARIES OF INNOVATION

To balance innovation with compliance, Web3 projects must integrate AML and KYC procedures from the earliest stages of development. Automated KYC systems like Jumio can help streamline the onboarding process without disrupting user experience. Implementing real-time transaction monitoring tools (e.g., Chainalysis or Elliptic) allows projects to remain compliant while continuing to innovate.

For token issuance and governance, transparency is crucial. Disclosing details about the project's roadmap, leadership, and tokenomics will not only boost investor trust but also demonstrate commitment to compliance.



IMPORTANCE OF WORKING WITH REGULATORS AND LEGAL ADVISORS

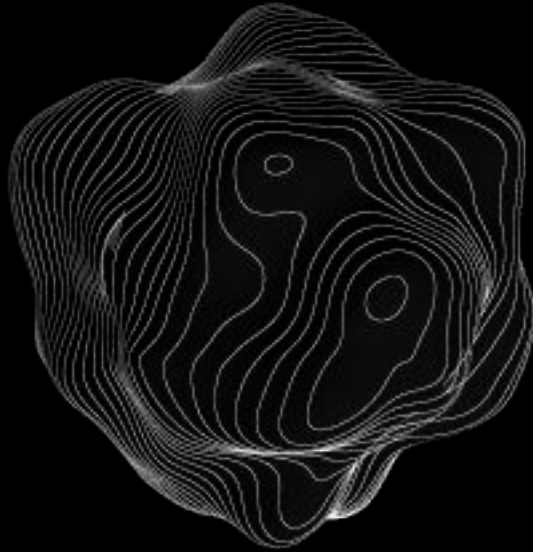
Working proactively with regulators can help projects gain clarity on their legal requirements and avoid penalties or enforcement actions. Legal advisors play an essential role in drafting key compliance documents, such as privacy policies, terms of service, and AML/KYC procedures.

Some projects have successfully collaborated with regulators to develop industry standards. For instance, Coinbase's partnership with U.S. regulators has enabled the platform to navigate the complexities of securities and AML laws while scaling its operations globally. Binance, although decentralized, has taken a similar approach by aligning its global operations with local regulations, setting up compliance offices in several jurisdictions.

EXAMPLES OF SUCCESSFUL COMPLIANCE STRATEGIES IN WEB3:

- **Binance:** Binance has implemented a sophisticated global compliance program, integrating KYC and AML checks across over 100 jurisdictions. Their partnership with Chainalysis and CipherTrace helps identify high-risk transactions and comply with Travel Rule requirements.
- **Uniswap:** Uniswap's decentralized model minimizes regulatory risk, but the platform still implements governance mechanisms to maintain transparency and security in its operations. By emphasizing decentralization and community governance, Uniswap can limit certain regulatory pressures while ensuring user trust.

By focusing on compliance, Web3 projects can gain access to broader markets, earn investor confidence, and sustain long-term growth. Compliance doesn't need to stifle



CHAPTER 3:

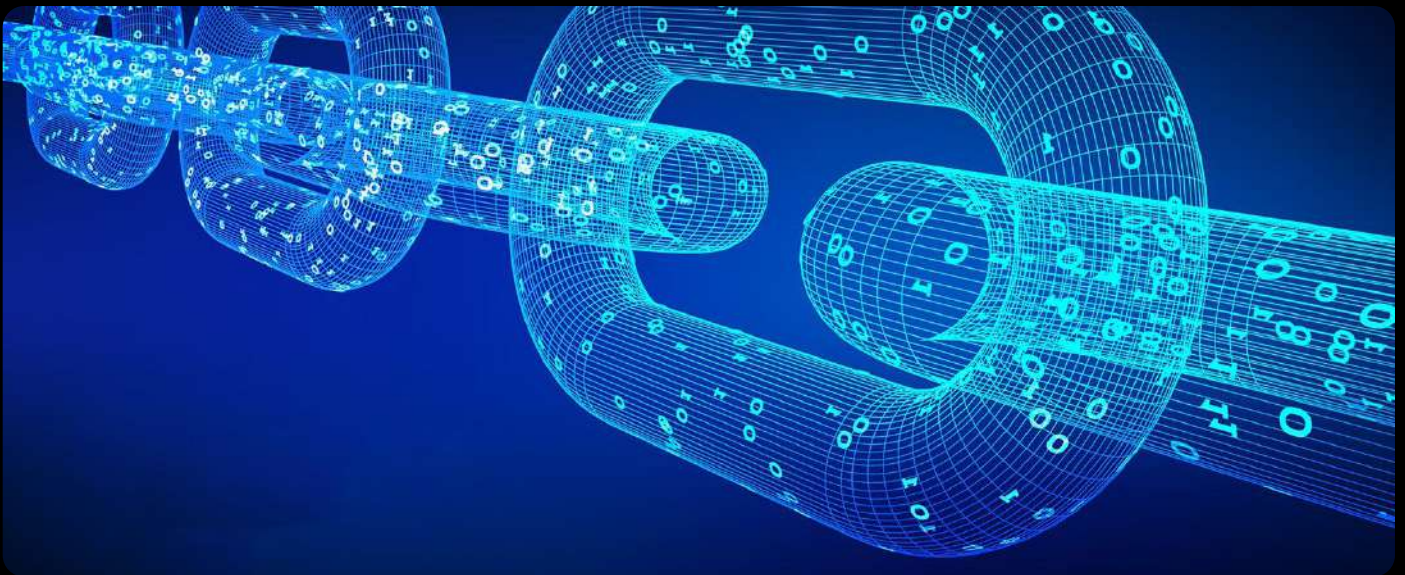
**FUNDRAISING VIA SAFT
(SIMPLE AGREEMENT FOR
FUTURE TOKENS)**

UNDERSTANDING SAFT

EXPLANATION OF SAFT AND ITS ROLE IN WEB3 FUNDRAISING

The SAFT (Simple Agreement for Future Tokens) framework was designed to help blockchain projects raise capital by selling rights to future tokens. SAFT simplifies early-stage fundraising, allowing investors to purchase rights to tokens that will be released once the network is fully developed.

This model aligns the interests of investors and project teams by linking token issuance to specific project milestones. It also gives investors access to tokens early, often at a discount, compared to post-launch market prices.



LEGAL IMPLICATIONS OF USING SAFT FOR RAISING CAPITAL

SAFT agreements must comply with securities regulations, as tokens may be considered securities depending on their function and distribution. Failure to comply can lead to enforcement actions, as seen in the case of Telegram's \$1.7 billion token sale, which was halted by the SEC due to non-compliance with securities laws.

Conducting thorough legal due diligence is essential when structuring a SAFT, as both regulatory interpretation and token market conditions are subject to change. In some instances, you may want to consider getting a legal opinion to ease investor worries about your token being scoped in as a security in a particular jurisdiction.

DIFFERENCES BETWEEN SAFT AND TRADITIONAL FUNDRAISING METHODS

SAFT offers flexibility compared to traditional equity financing. While traditional fundraising typically involves issuing shares in exchange for capital, SAFT focuses on future tokens.

This token-based model also allows for more flexibility in valuation, as tokenomics and project milestones impact the value of tokens differently than traditional equity.

ESSENTIAL LEGAL TERMS AND CONDITIONS FOR A SAFT AGREEMENT

01. TOKEN DELIVERY TERMS

One of the most important aspects of a SAFT is the clarity around token delivery. Investors want to know when they'll receive their tokens, and founders need to define this timeline carefully. You'll need to set specific triggers—like network launch or the achievement of key milestones. Importantly, be crystal clear on what "network launch" or "network maturity" means to avoid confusion or disputes. Also the term "token generation event" means something different to everyone, define this carefully.

Pro Tip:

Don't leave this vague. Disputes over token delivery can derail trust and cause friction with your investor base, which no project can afford in its early stages

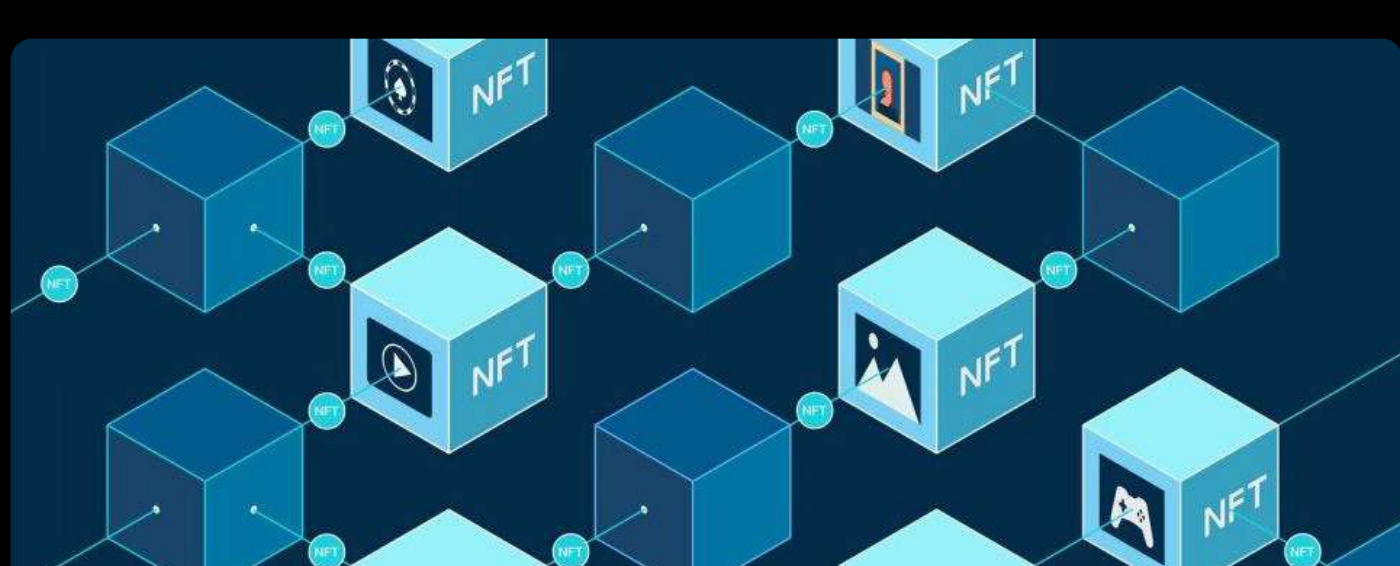


02. INVESTOR RIGHTS

Investors are essential to your project's growth, but it's important to strike the right balance when defining their rights. Providing transparency and certain rights (like progress updates) is great for building trust. However, be careful not to over-promise on rights that could risk classifying your tokens as securities, which would trigger heavier regulatory scrutiny.

Pro Tip:

Be transparent, but keep investor rights aligned with your project's structure and regulatory requirements. Too many rights might risk turning your tokens into securities.



03. PROJECT MILESTONES

Setting clear and achievable project milestones in your SAFT is essential. These milestones help ensure that tokens are distributed only when significant progress has been made. Milestones should mirror your whitepaper or business plan and reflect realistic goals. There should be contingencies built in for if certain milestones cannot be achieved, so that there are ways to move forward with the project without derailing the entire thing. Most often, these contingencies can be at the discretion of your team, but need to agree with investors from the beginning.

Pro Tip:

Avoid setting overly ambitious milestones just to impress investors. Failing to meet them could lead to a loss of investor confidence and legal claims.



04. VESTING SCHEDULES AND LOCK-UP PERIODS

Vesting schedules ensure that founders and early team members stay committed for the long haul. Lock-up periods for investors, meanwhile, help maintain market stability by preventing large-scale token sell-offs after the network launch.

Pro Tip:

A well-structured vesting schedule shows investors that you're serious about your long-term vision, while lock-up periods prevent sudden price crashes and protect token value. It is best practice to provide advisors with shorter vesting schedules given their shorter engagements usually, while core team members have longer vesting schedules in order to align interests.



05. TOKEN REDEMPTION TIMELINES

Investors need clarity on when they can redeem or transfer their tokens, and also the process involved. Define these timelines and procedures carefully, and ensure that your redemption process complies with regulatory requirements such as AML and KYC protocols.

Pro Tip:

Early planning around redemption processes will prevent headaches down the road, particularly when it comes to regulatory compliance. Defining your process and which wallet addresses to transfer to will help with facilitating faster redemptions without going back and forth to confirm with parties.



06. DISPUTE RESOLUTION

Every agreement should include a clear dispute resolution mechanism. Decide early whether you'll handle disputes through arbitration, mediation, or litigation, and specify the jurisdiction and governing law. This can save time and money if disagreements arise.

Pro Tip:

A well-defined dispute resolution clause will give you peace of mind and prevent costly legal battles in the future—especially if you have international investors. Our suggestion is always to have a mediation/arbitration clause, in order to protect the privacy of all parties involved and can lead to quicker outcomes if all parties are aligned on finding a solution. The seat of arbitration should be a jurisdiction that has a good grasp of crypto, such as Singapore, London and Switzerland, Hong Kong and New York.

COMMON PITFALLS TO AVOID WHEN DRAFTING A SAFT

01. VAGUE OR OVERLY OPTIMISTIC PROJECT FORECASTS:

It's easy to get caught up in the excitement of what your project could achieve, but making unrealistic promises is a common pitfall. If you set milestones or projections that you later can't meet, it could open you up to legal disputes or even damage your project's reputation.

Pro Tip:

Keep your milestones grounded in reality. Over-promising now can lead to costly legal battles later.



02. FAILURE TO COMPLY WITH SECURITIES LAWS

One of the primary reasons for using a SAFT is to avoid being classified as a security. However, this isn't without risk still. The structure of your token, investor rights, and where and how you issue tokens all play into whether regulators like the SEC or the MAS will view your tokens as securities.

Pro Tip:

Work closely with your legal advisor to ensure your SAFT is compliant. Failure to do so could result in fines, enforcement actions, or having to refund investors, as we've seen with cases like Kik Interactive and Telegram.



03. IMPROPER STRUCTURING OF TOKENOMICS

Tokenomics are the backbone of your project's ecosystem. Poorly structured token distribution, inflation, or ill-considered token burns can lead to market volatility and regulatory challenges. It is important to establish this at the outset as constantly changing your tokenomics throughout your fundraising journey will erode trust in early investors and ecosystem partners.

Pro Tip:

Align your tokenomics with long-term sustainability. Bad tokenomics can erode investor and ecosystem confidence and put your project in legal hot water.



04. AMBIGUOUS DEFINITIONS

Defining key terms like "network maturity" or "token utility" or "token generation event" is essential. If these definitions are too vague, they could cause disputes between you and your investors down the line. Investors may push for token distribution earlier than you intended if the criteria for network launch aren't clearly defined. If your project involves intellectual property assets, properly define these as well so that it is clear who owns what.

Pro Tip:

Take the time to define key terms in your SAFT. Clear definitions now can save you from confusion or legal disputes later.



WHY LDU IS THE RIGHT CHOICE FOR YOUR WEB3 BUSINESS



You've seen how critical it is to protect your business legally, but implementing these tips can be overwhelming and time-consuming. These aren't just nice-to-haves—they're essentials that can make or break your company's future in the Web3 space. That's where LDU comes in.

HERE'S WHY LDU IS THE RIGHT CHOICE:

1. Cost-Effective Legal Expertise:

LDU offers two services: contract support and fractional general counsel. Contract support service is provided between USD \$300 - 350/hr, far less than the USD \$600 - 700/hr charged by other legal providers. Our fractional general counsel service provides you with a seasoned senior team of legal advisors with 7 - 8 yrs of experience for USD \$12,000/ month, compared to hiring one lawyer for USD \$15,000/ month.

2. Proven Results:

At LDU, we've helped companies like Zegal and a number of other startups reduce their compliance costs by 40%. Our track record speaks for itself—when you partner with us, you're working with a team that knows how to deliver real savings and results.

3. Expert Guidance and Support:


Navigating the legal complexities of Web3 isn't something you should do alone. LDU's experienced team will guide you through every step, ensuring that you're compliant, protected, and ready to grow.


DON'T RISK YOUR FUTURE—ACT NOW


The legal challenges you face in Web3 are real and urgent. Don't let them derail your business. Contact LDU today for a **FREE 15-minute consultation** and let's make sure you're on the right path. Your success depends on the decisions you make now—choose LDU and secure your business's future with confidence.

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