
ZCHF token classification

Public summary

To: Frankencoin Association (the "**Association**")

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1 Introduction & disclaimer

The following is a short summary (the "**Summary**") of a memorandum drafted by LEXR for the Association regarding the classification and the regulatory consequences of such classification of the Frankencoin (the "**ZCHF**") under the framework of the EU Regulation on Markets in Crypto-Assets ("**MiCA**"). Please take note of the following:

- **Legal uncertainty in DeFi:** There continues to be an elevated degree of regulatory uncertainty relating to decentralized financial (DeFi) applications, including the classification of tokens that are emitted based on a programmatic logic of such DeFi applications. As such, there is an elevated risk that European Supervisory Authorities, national competent authorities in the EU or competent courts would come to a different conclusion.
- **No legal advice:** This Summary is not legal advice and the publication of this Summary does not in any way create a legal expectation by any reader to rely on this Summary. Neither LEXR nor the Association are in any way liable for any damages or costs you may incur out of or in connection with your use of this Summary.
- **Limited scope:** This Summary is limited to the regulatory classification of ZCHF under MiCA.
- **Facts:** The Summary is based on the facts as they were made available on <https://www.frankencoin.com/> on the date of this Summary. Please refer to this website for further facts. Any changes in the facts may change the conclusions of this Summary.



2 Summary

Key facts: We understand that ZCHF is a freely transferable ERC-20 token and generated by a decentralized and oracle-free protocol (the "**Frankencoin System**") that is not centrally organized or controlled by anyone. The programmatic logic is such that the ZCHF are supposed to be pegged to the Swiss Franc. Users can mint ZCHF by depositing certain collateral in the Frankencoin System.

Classification: As per our analysis, the ZCHF qualifies solely as a crypto-asset under MiCA and, due to the decentralized nature of ZCHF, the applicability of MiCA is limited, for the following reasons:

- **No applicability of other EU regulations:** No other relevant EU regulation applies to the ZCHF. In particular, the Markets in Financial Instruments Directive ("**MiFiD II**") does not apply as the ZCHF does not qualify as a financial instrument under MiFiD II: The ZCHF does not represent ownership or equity rights in an entity, involves debt or repayment obligations, or grants rights to acquire or settle in transferable securities. Instead, ZCHF tracks the value of the CHF based on the programmatic logic of the decentralized Frankencoin System without any contractual or other legal rights attached to it whatsoever.
- **Applicability of the MiCA framework:** As no other relevant EU regulation applies and the ZCHF constitutes a crypto-asset, the ZCHF generally falls under the provisions of MiCA.
- **No identifiable issuer:** We understand that there is no identifiable issuer of ZCHF as no entity that has central control over the creation of the ZCHF. ZCHF's minting process is user-driven, governance is decentralized with mechanisms that prevent centralized control, and no oracle or centralized entity exercises control over the Frankencoin System.
- **Non-applicability of Title II, III and IV MiCA:** Title II, III and IV MiCA do not apply as there is no identifiable issuer.
- **Regulatory consequences:**
 - **No white paper requirement:** As the relevant articles of MiCA are not applicable, there is no requirement to provide a crypto-asset white paper for ZCHF according to Title II, III or IV MiCA.
 - **Crypto-asset service providers:** Crypto-asset service providers ("**CASPs**") are independently responsible for complying with their regulatory obligations under MiCA when offering crypto-asset services, including listing tokens such as the ZCHF. This includes any duties, particularly those outlined in Title V MiCA, including authorization and operational requirements.

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