**Attachment to Form 1023 (Part IV)**

**Ethereum Classic Cooperative EIN #**

**PART IV. Narrative Description of Activities**

1. **Description of Activities**

Ethereum Classic Cooperative (the “Cooperative”) is organized and shall be operated exclusively in furtherance of its exempt educational, charitable, and scientific purposes in compliance with Section 501(c)(3) of the Code, including but not limited to furthering education, information, resources, advocacy, support, community, and research relating to digital assets[[1]](#footnote-1).

1. **Educational Activities**

The Cooperative will create and operate a website pertaining to the digital asset known as Ethereum Classic (“ETC”) and its infrastructure, which includes the computing networks, protocol and blockchain platform that power it and the smart contracts that run on top of it. Below we describe each of these features of Ethereum Classic and digital asset networks in general.

*Digital Assets*

Digital assets, sometimes referred to as virtual currencies or cryptocurrencies, are designed to work as a medium of exchange using cryptography to secure digital transactions and to control the creation of additional units of such assets without a trusted third-party intermediary. Usually this trusted third-party intermediary is a central or commercial bank, but many parts of the world either do not have modern banking infrastructure (*i.e.*, the “unbanked”) or cannot trust their central banks to maintain the value of their local currency. Digital assets, like ETC, solve this issue by removing the need for some of the services provided by banks and the reliance on trusted third-parties.

*Computing Networks*

Digital Assets are powered by open (anyone with an Internet-connected computer can participate) computing networks that run on top of the internet. These networks distribute to all participants a continuously updated ledger, referred to as a blockchain, accounting for all transactions. No party on the network acts as a centralized clearinghouse or otherwise has power to stop or redirect the transactions of any participant.

*Protocol*

The protocol for a digital asset is the rules that the computing network follows in order to secure digital transactions and control the creation of additional units of such digital assets. This is similar to how websites are served on the internet based on the rules of the HyperText Transfer Protocol (HTTP) and how emails are delivered based on the rules of the Simple Mail Transport Protocol (SMTP).

*Blockchain Platform*

A blockchain platform is the data structure that securely records the digital asset transactions that take place on a digital asset network. Ethereum Classic, specifically, is a next generation blockchain platform for a new internet infrastructure. In contrast to other digital assets, such as Bitcoin and Zcash, which use their blockchain platforms to record financial transactions, Ethereum Classic’s blockchain allows for more complex transactions, which includes financial transactions, but also “smart contracts.”

*Smart Contracts*

A smart contract is a program that can digitally facilitate, verify, or enforce the negotiation or performance of a contract. Smart contracts allow for the performance of transactions without third-parties. This means that all kinds of transactions can take place in a more secure and efficient way without the additional costs of recordation, interpretation and enforcement by lawyers, court systems and other mediators. The Cooperative believes that the previously mentioned “unbanked” parts of the world similarly suffer from a lack of modern legal infrastructure. Smart contracts, like the ones offered by Ethereum Classic, solve this issue by allowing parties to enter into unlimited types of agreements so long as the agreements can be programmed into code. Ethereum Classic, specifically, features a flexible and intuitive smart contract programming platform. In addition to opening up legally enforceable transactions to underserved parts of the world Ethereum Classic can also propel the development of a global, secure, and decentralized Internet of Things.

*Internet of Things*

The Internet of Things is the network of physical devices, vehicles, home appliances and other items embedded with electronics, software, sensors, actuators, and connectivity which enables these objects to connect, transact and exchange data. As the world becomes more digitally connected, the Cooperative believes that not only will humans need to engage in secure and efficient financial and legal transactions, but so will their devices. Ethereum Classic provides the tools and platform that will allow for this future.

The Cooperative believes that the Ethereum Classic infrastructure can enhance the ways that information and value are shared in a digital economy in parts of the world that do not have the benefits of modern banking or legal infrastructure and the Cooperative is committed to doing its part to realize this potential. The Cooperative will educate the public regarding ETC and digital assets through a variety of potential methods, including dissemination or publication of guides, manuals, videos, online libraries, blogs, and forums, among other possible resources. These materials will be made available for free on the Cooperative’s website and social media. These materials will provide education on a variety of topics, including the basics of ETC and digital assets, the role and importance of digital assets in society, future developments in digital assets, and the need for ongoing development.

The Cooperative may also organize, host or support public educational events in-person or online like trainings, workshops, conferences, public speaking events, exhibits, discussions and panels on topics related to digital assets. The Cooperative may also develop online networks so interested members of the public may share ideas and further discussions regarding issues related to digital assets.

1. **Research Activities**

The Cooperative may also support, design, conduct and publish research on its own or in collaboration with academics, developers, institutions and other persons who may or may not already be conducting research related to digital assets. All results of this research and/or development of related technology such as software or other innovations will generally[[2]](#footnote-2) be made available to the public gratis. Research results related to software will be made available through open source software publication, wherein all source code will be made available to the general public under free software licenses permitting redistribution and modification of the original code.

1. **Maintenance of Public Infrastructure**

The Cooperative will financially support the growth and development of the Ethereum Classic infrastructure. To accomplish this, the Cooperative has established guidelines for the deployment of its capital across three core investment areas: (1) development; (2) marketing; and (3) community. The Cooperative will also introduce accountability standards that will be used to monitor the progress of its investment program. The Cooperative’s spending policy is implemented to meet the above objectives in the following way:

*Development*: The Cooperative will directly support the development of the Ethereum Classic protocol, infrastructure, and associated applications.

*Marketing*: The Cooperative will accelerate the deployment of Ethereum Classic-based technologies for use by individuals, business operators, and enterprises through effective branding, marketing, and education.

*Community*: The Cooperative will foster community and collaboration between the various Ethereum Classic constituents including developers, miners, investors, and business operators.

The Cooperative may also support, design, and otherwise encourage the development of software generally made available to the general public, gratis and under open source licenses. This software, when run voluntarily on the internet-connected computers of members of the general public, will support the growth and development of the Ethereum Classic infrastructure, which enables participants to send and receive information and value over the internet by engaging in secure financial, legal and other types of transactions. This peer-to-peer network is a public information and value infrastructure developed and deployed as a benefit for the general public. The unique qualities of the software and the network it creates should enhance the ways that information and value are shared in a digital economy. The Cooperative wishes to aid the development and maintenance of this public infrastructure, in part, because financial and legal freedom is a fundamental human right necessary to guaranteeing the dignity of individuals and the diversity of society and because financial and legal infrastructure is becoming increasingly more digital.

1. **Grants and Other Support**

The Cooperative may also grant funds to other organizations in furtherance of its exempt purpose. Recipient organizations will be identified by the Directors (or a committee established by the Directors). The Cooperative will base grant-making decisions on a variety of criteria, including the exempt purpose of the organization and the proposed exempt use of the funds. The Cooperative may require a potential recipient to state the organization’s goals and its intended exempt use (within the meaning of Section 501(c)(3)) of the grant. The Cooperative may also require a potential recipient to provide a budget regarding the use of the funds.

When applicable, the Cooperative will confirm that each potential recipient is qualified under Section 501(c)(3) of the Code (*e.g.*, through IRS Publication 78 and/or review of a favorable determination letter). Regarding other potential recipients, the Cooperative will develop certain safeguards to help ensure that its grant or contributions are used for their intended exempt purposes. For example, the Cooperative may require a recipient to sign a grant agreement restricting the grant to its stated exempt purposes. The Cooperative also may require a recipient to satisfy certain on-going reporting requirements to verify that funds are used in furtherance of the intended exempt purposes. When applicable (*e.g.*, where the recipient is not a public charity), the Cooperative will satisfy the expenditure responsibility and taxable expenditure requirements of Section 4942 and 4945 of the Code. The Cooperative will not make grants or contributions to support a political candidate. The Directors (or committee established by the Directors) will comply with the conflict of interest policy regarding selection of recipients.

1. **Furtherance of Exempt Purpose**
2. **Educational Activities**

The term “educational” includes (a) the instruction or training of the individual for the purpose of improving or developing his capabilities and (b) the instruction of the public on subjects useful to the individual and beneficial to the community. Treas Reg. Section 1.501(c)(3)-1(d)(3). Examples of educational organizations include organizations whose activities consist of presenting forums, panels, lectures, or other similar programs, and organizations which present a course of instruction by means of correspondence or through the utilization of television or radio. Similarly, the production and dissemination of multimedia educational materials has likewise been determined to be educational within the meaning of Section 501(c)(3). See e.g., Priv. Ltr. Rul. 8751051 (IRS ruled that funding and distributions of documentary and receipt of income by public charity contributes importantly to accomplishment of charity’s exempt educational purposes, and won’t be unrelated trade or business income). Here, the Cooperative’s activities fit firmly within these established IRS precedents.

1. **Research**

As used in Section 501(c)(3), the term “scientific” attaches to research carried on in the public interest. Treas. Reg. § 1.501(c)(3)-1(d)(2). Scientific research will be regarded as carried on in the “public interest” if one of the following are satisfied: (1) The research results (including any patents, copyrights, processes, or formulae resulting from such research) are made available to the public on a nondiscriminatory basis; … (3) The research is directed toward benefiting the public, including (a) scientific research carried on to aid in the scientific education of college or university students; (b) scientific research carried on to obtain scientific information, which is published in a treatise, thesis, trade publication, or in any other form available to the interested public; …” Treas. Reg. § 1.501(c)(3)-1(d)(5)(iii) Here, the Cooperative’s scientific activities fit firmly within these established IRS precedents. The results of all research and any resulting intellectual property will generally be published and/or made available to the public for free.

1. **Maintenance of Public Infrastructure**

The benefits to be derived from the Cooperative’s activities will flow principally to the general public through the maintenance and improvement of a public, non-proprietary computing network, the Ethereum Classic network. As used in Section 501(c)(3), the term “charitable” includes the “erection or maintenance of public buildings, monuments, or works;” and “lessening of the burdens of Governments.” Treas. Reg § 1.501(c)(3)-1(d)(2). The term “public work,” is not defined in law or regulation but it is reasonable to apply the doctrine of *noseitar a sociis* and look to whether the computer software and network software developed, supported, and maintained by the Cooperative possesses the general characteristics of a public work. A plain language interpretation of “public work” would be a broad category of infrastructure (*i.e.*, physical and organizational structures and facilities needed for efficient and safe operation of society and enterprise) that includes water supplies, sewage, roads, electrical grids, and telecommunications.

The Ethereum Classic network and network software is information and value infrastructure that allows the underserved to engage in secure financial, legal and other types of transactions. It enables members of the general public to send and receive information and engage in transactions with increased accessibility, efficiency, and security as compared to existing infrastructure. This information and value infrastructure is not a permissioned network, anyone can join the network without the need to license software from the Cooperative or any other person under copyright law and without the need to pay any fee to the Cooperative or any other person. Just as no one owns the internet, the network is also an unowned public good. Once a member of the general public installs the free and open source Ethereum Classic software on an Internet-connected device, she is able to create electronic addresses on the public network at which she can receive information or value from other members of the public on the network. The software will also create a virtual wallet on her computer to safekeep the credentials necessary to spend any ETC digitally sent to her at those addresses to engage in financial transactions or legal and other types of transactions using smart contracts. All of this can be done without seeking any permission, contractual agreement, or license from the Cooperative or any other person. A physical infrastructure analogy would be a network of pneumatic tubes that reach, gratis, into the homes of any member of the general public who wishes to be connected, and are capable of securely routing, locked and hardened capsules containing documents and valuables that only the authorized recipient (designated by the sender) can open. The network is useful infrastructure that is made freely available to the general public, therefore it fits within a reasonable interpretation of public works.

The Internal Revenue Service has previously ruled that the creation of a public park, the preservation and improvement of a lake used for public recreation, solid waste recycling, and the development and maintenance of community parking lots all qualify as charitable purposes. While the Ethereum Classic network may be a *virtual* public space rather than one existing in the physical world, it still allows the public unencumbered, to enjoy a benefit. Much as a public park provides vistas to a neighborhood, a public network for secure information and value transactions provides a valuable service to persons across the nation via their internet-connected devices. In this case, the benefit is secure transactions and financial and legal freedom.

Encouraging the creation of secure electronic transaction networks is understood as a governmental responsibility. The Ethereum Classic network, therefore, provides citizens with utility ordinarily provided by the state. For example, the Federal Reserve Board of Governors (the Board) fosters the safety, efficiency, and accessibility of the Fedwire Funds Service, an electronic payments system. The Ethereum Classic network, in part, provides similar functionality to the Fedwire service, and the role of the Cooperative in maintaining the Ethereum Classic network is similar to the Board fostering the payment network’s safety, efficiency, and accessibility for the use of the public at large. By encouraging the development of these public works, the Cooperative lessens the burdens of government.

1. **Grants and Other Support**

It is also well established that an organization formed for the purpose of providing financial assistance to Section 501(c)(3) organizations is exempt under Section 501(c)(3). See Treas. Reg. (S) 1.501(c)(3)-1(b)(1)(ii) (providing that an organization created solely “to receive contributions and pay them over to organizations which are described in Section 501(c)(3) and exempt from taxation under Section 501(a)” satisfies the organizational test); Rev. Rul. 67-149, 1967-1 C.B. 133 (concluding that an organization formed for the purpose of providing financial assistance to several different types of 501(c)(3) organizations is exempt under Section 501(c)(3)); National Foundation, Inc. v. U.S., 13 CL. Ct. 486 (1987). It is likewise well-settled that an organization supporting the exempt activities of other organizations is exempt under Section 501(c)(3). See Rev. Rul. 68-489, 1986-2 C.B. 210 (concluding a Section 501(c)(3) organization could transfer funds to any other type of non-501(c)(3) organization, provided that such organization used the funds for activities that the Section 501(c)(3) transferor could conduct directly and the transferor maintains control over the use of the funds and documents such use). The Cooperative’s activities fit firmly within these established IRS precedents.

1. **Conduct of Activities**

The Cooperative’s board, officers, staff, volunteers, and other persons retained by the Cooperative will conduct the Cooperative’s activities.

1. Although Notice 2014-21 of the Internal Revenue Service referred to digital assets, such as Ethereum Classic, as “virtual currencies”, we use the more broader term “digital asset” here to highlight the fact that Ethereum Classic allows for applications beyond financial transactions. [↑](#footnote-ref-1)
2. Note to VStock: The Cooperative plans to open source its research. We say “generally” here because it would be inaccurate to say that all software developed by the Cooperative will be available to the public. For instance, the Cooperative’s configuration its website that runs on Wordpress on obviously is not open source. [↑](#footnote-ref-2)