

Morgan Lewis

KNOWING YOUR CRYPTOCUSTOMER – REGULATION OF THE BLOCKCHAIN

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June 7, 2018



INTRODUCTION TO BLOCKCHAIN

Blockchain – What is it?

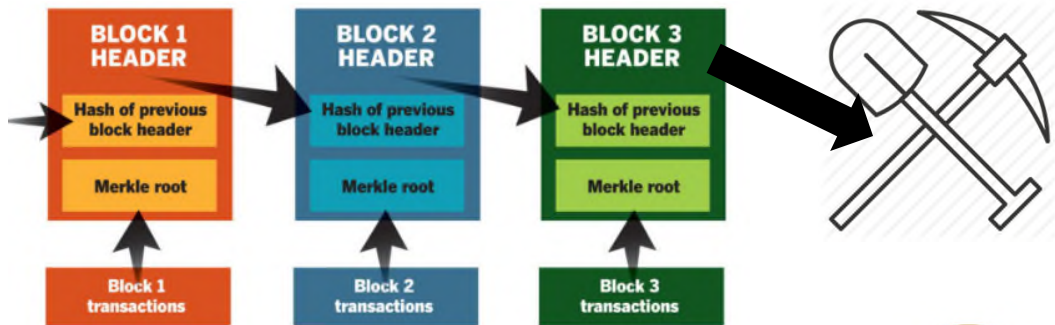
A consensus between users to create

1. A database,
2. that is distributed (not centralized),
3. whose data elements are immutable (unalterable); and
4. Cryptographically secure

“At its simplest level, a blockchain is nothing much more than a fancy kind of database”

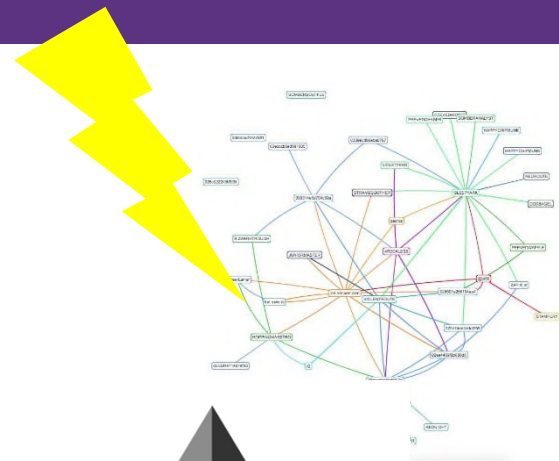
- *Blythe Masters, Digital Assets*

Blockchain Ecosystem



SIMPLIFIED BITCOIN BLOCK CHAIN

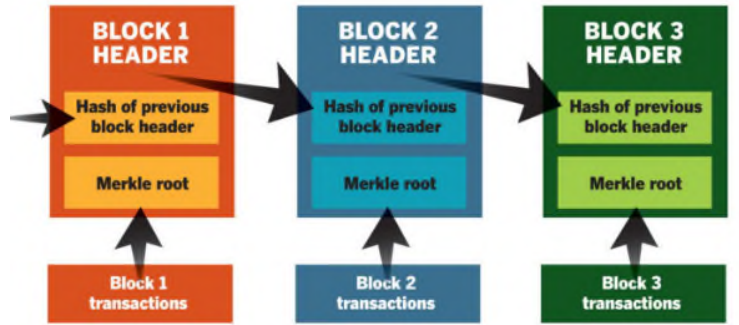
Network World



BITFINEX 
coinbase

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Blockchain Ecosystem

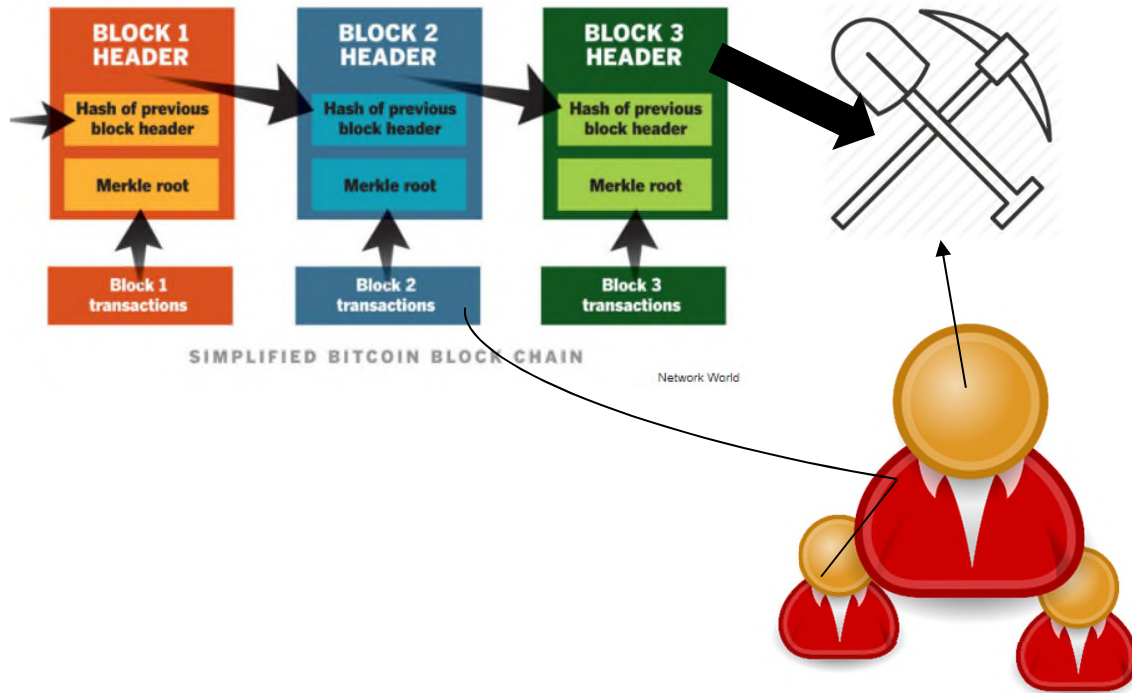


SIMPLIFIED BITCOIN BLOCK CHAIN

Network World

The blockchain is a series of “blocks” that each form a part of the ledger. They are linked together in a chain to show every valid transaction.

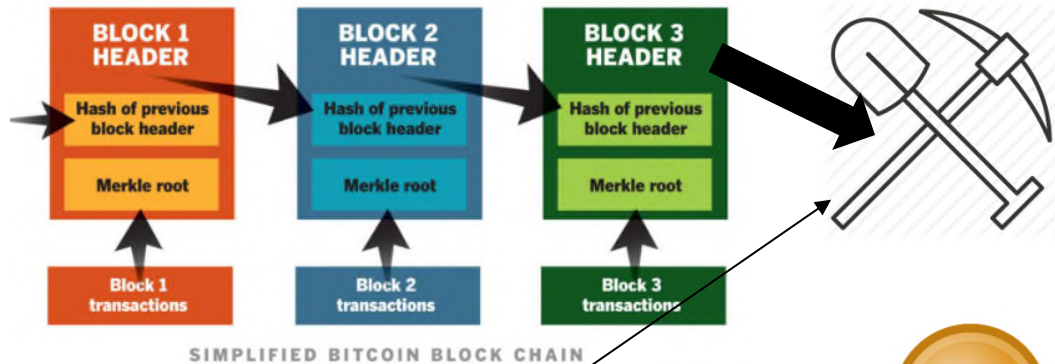
Blockchain Ecosystem



Miners compete to find the next block in the chain

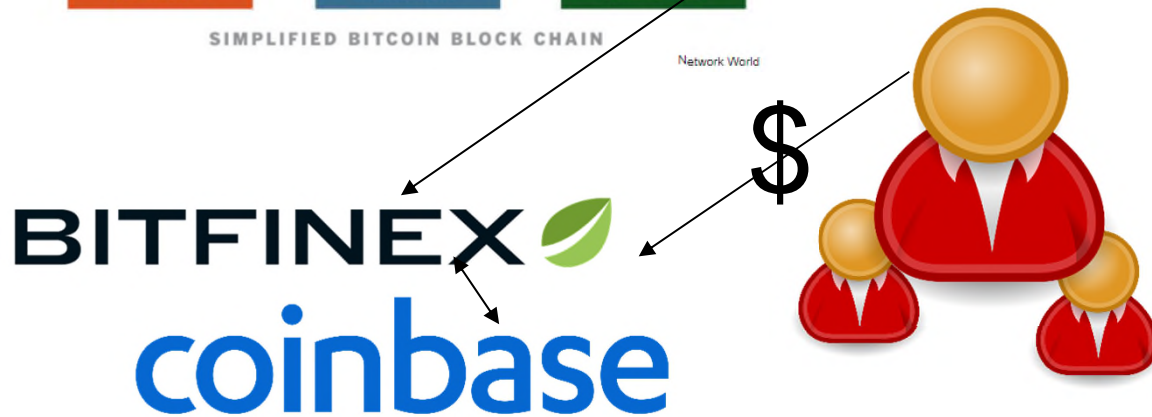
They also are responsible for recording user transactions.

Blockchain Ecosystem

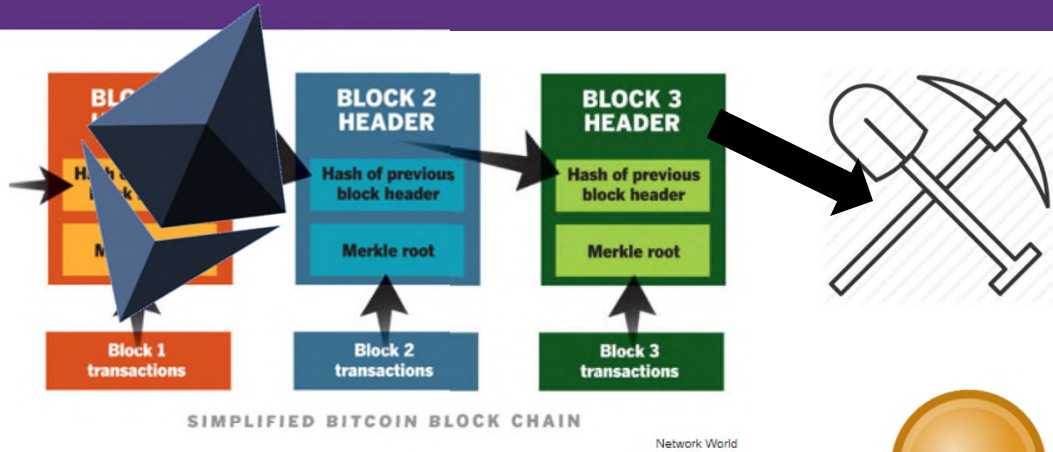


Many users purchase bitcoin through exchanges like coinbase using fiat currency.

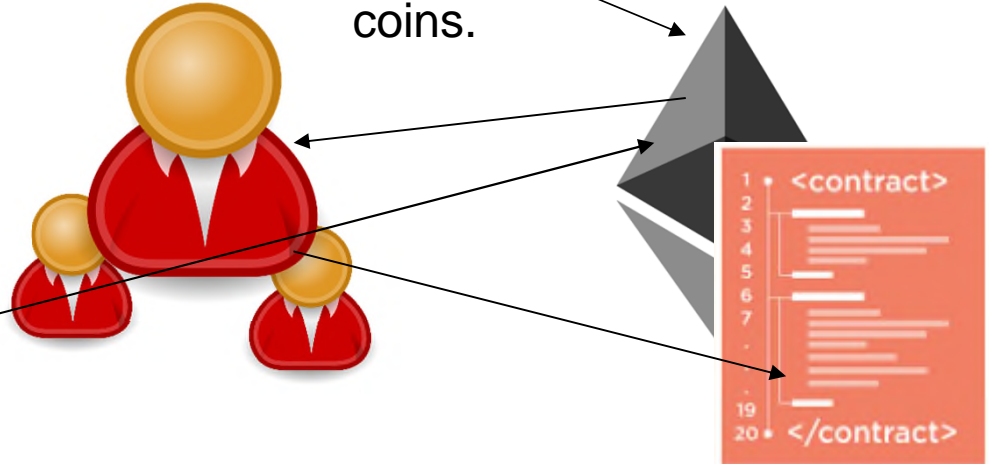
Coinbase may hold the cryptographic key for the users.



Blockchain Ecosystem



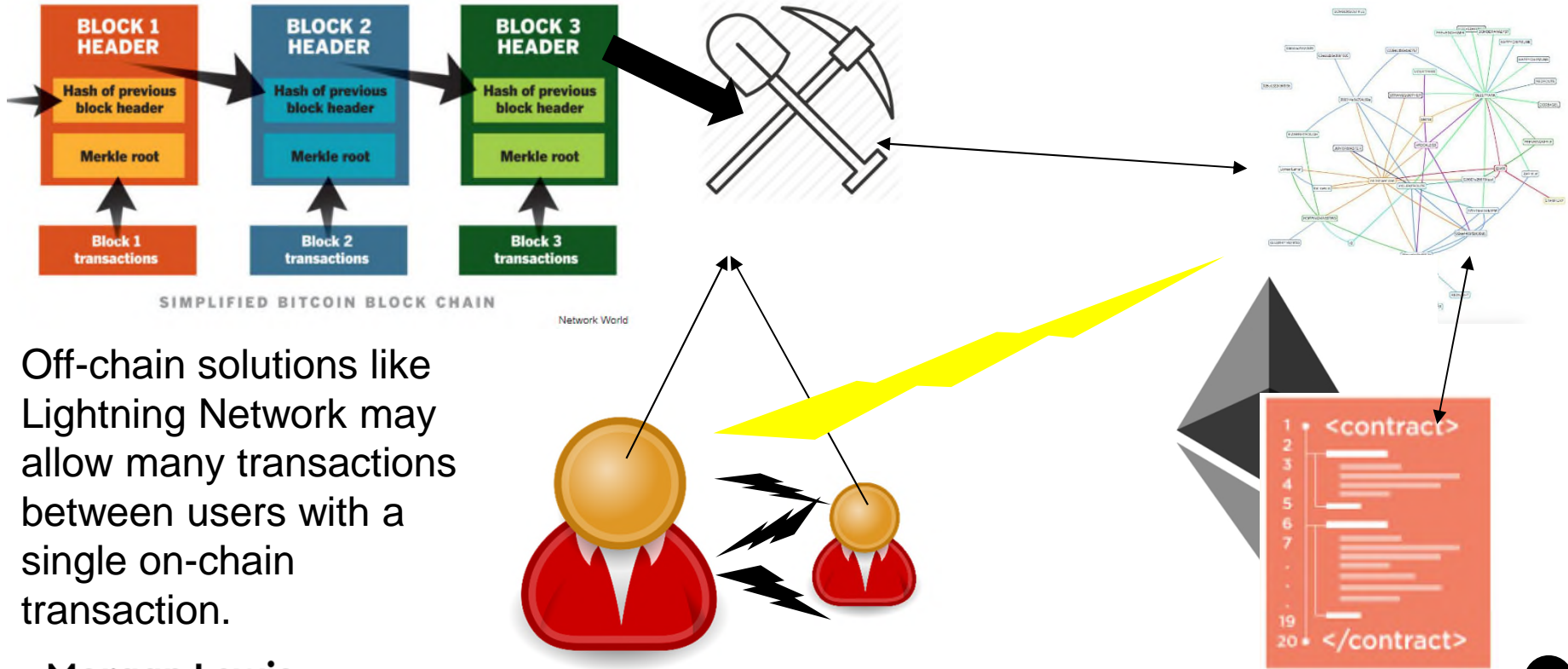
Smart Contracts are distributed applications that exist on some blockchains like Ethereum. They can be used to issue tokens or sell cute cat pictures. They are typically funded with well-known coins.



BITFINEX 
coinbase

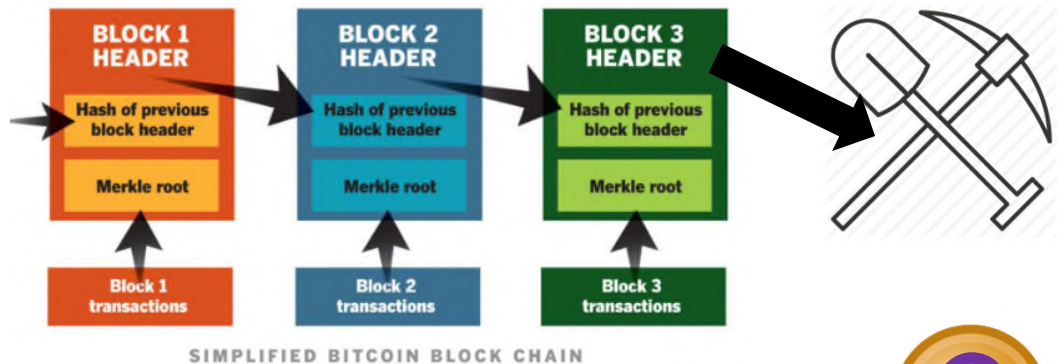
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Blockchain Ecosystem

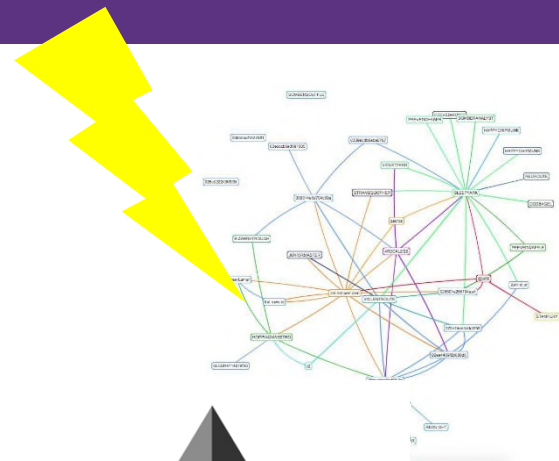


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Blockchain Ecosystem



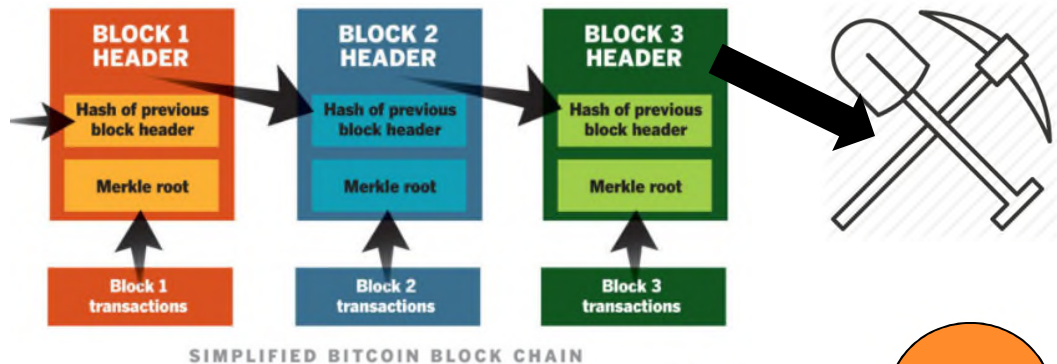
Network World



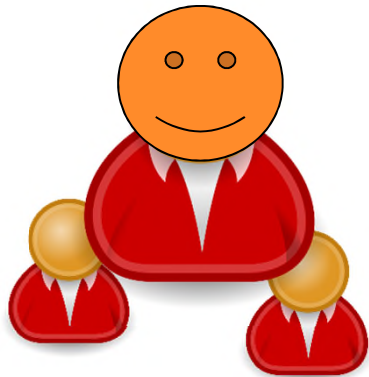
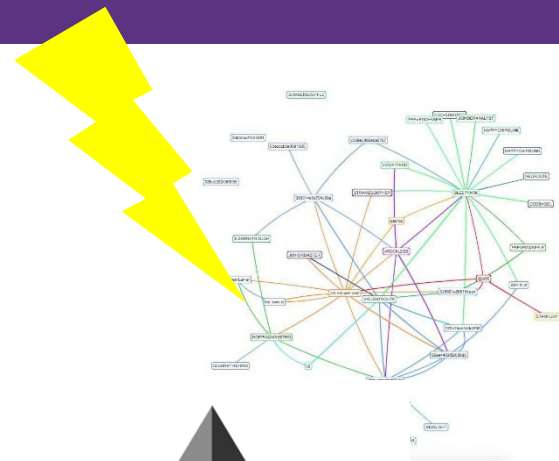
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Blockchain Ecosystem



Network World



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PLANNING AND EXECUTING ICOS



when Identity
Matters

ICO 101

June 2018
Morgan Lewis



Presented by



Dean Nicolls

Head of Global Marketing



Frank Marques

Enterprise Account Executive
ICO Specialist

Today's Agenda



ICOs Defined



How They Work



Regulations



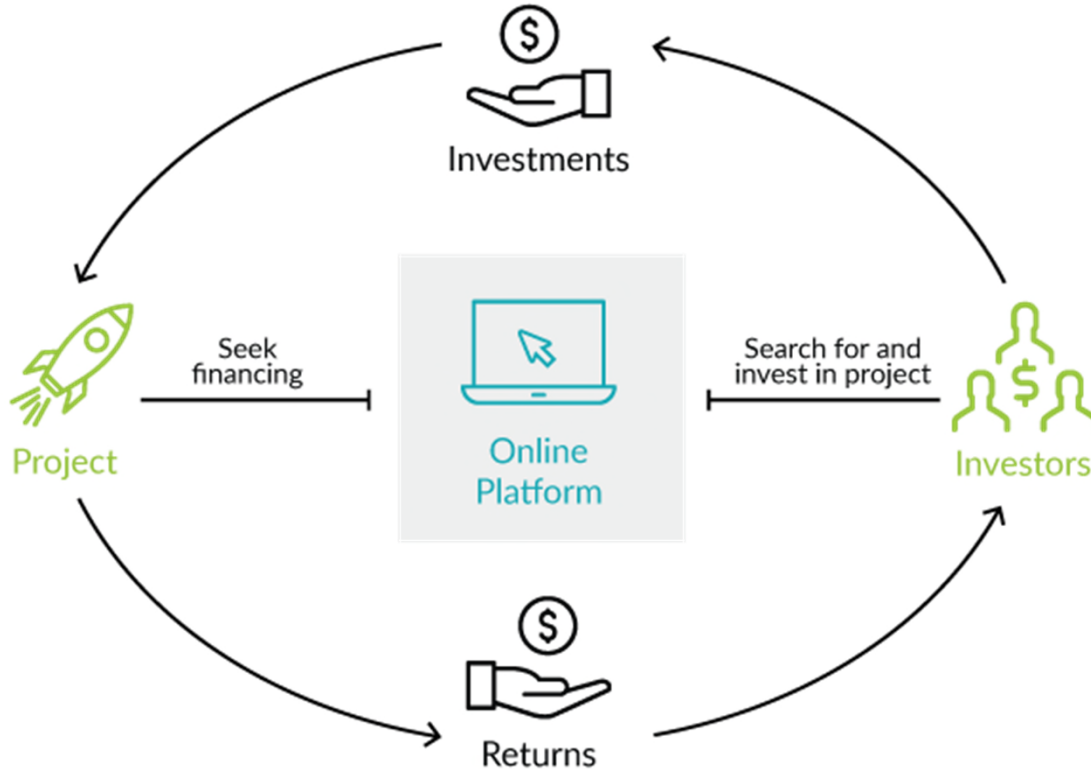
Best Practices

ICOs Defined

ICO
INITIAL COIN OFFERING

ICOs, also known as “token sales,” are a relatively new fundraising phenomenon used to launch new companies or fund a development project.

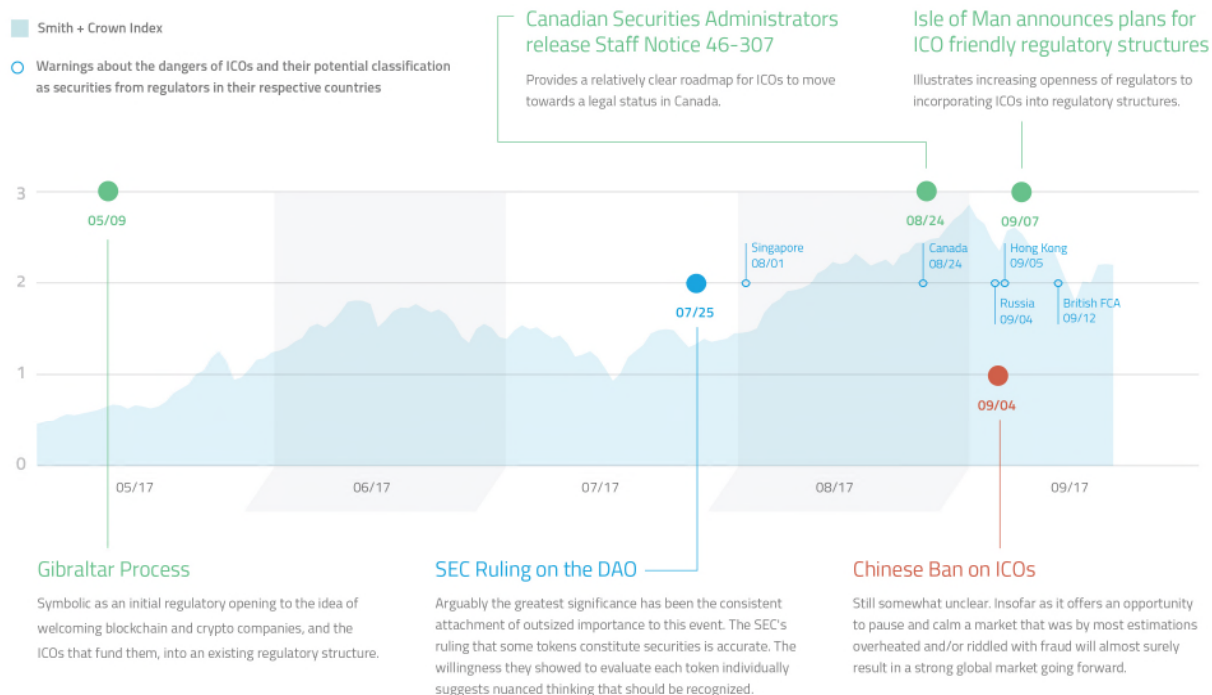
How ICOs Work



ICO vs IPO

	ICO	IPO
1. Regulatory Oversight	None	Comprehensive
2. Track Record & Credibility	Weak	Strong
3. Utility	Adoption	Dividends
4. Duration of Offerings	Short	Lengthy
5. Access to Offerings	Open to All	Exclusive

Key ICO-Related Regulatory Moments



Source: <https://www.smithandcrown.com/overview-analysis-ico-regulatory-developments/>

Countries Often Excluded from ICO



United States



Canada



Cuba



Iran



China



North Korea



Singapore



Iraq

The Pros



Alternative to VCs



Lack of Regulations
(for time being)



Democratization



PR & Buzz



Pure Speculation



Liquid

The Cons



Haven for Fraudsters



Security vs Asset



Tax Disincentives



Public Perception



Speed & Expense
(vs. equity round)

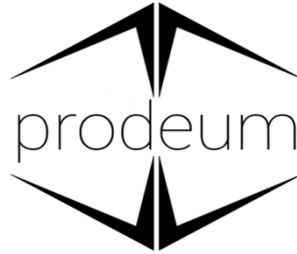


Lost Private Key

ICO Scams



July 2017: \$350m



January 2018: Unknown



April 2018: \$660m



January 2018: \$250m



April 2018: \$5m



May 2018: \$10.6m (hacked)

The Virtues of Voluntary Compliance



KYC
Know Your
Customer



AML
Anti-Money
Laundering

Know Your Customer / Anti-Money Laundering is a due diligence process by which a company can verify the identity of its customers, making sure that the money they wish to send was acquired legitimately and that the customer is not a part of a sanctioned list, a criminal, a terrorist, or a corrupt organization.

The Virtues of Voluntary Compliance



Credibility with
Banks



Stay ahead of
Compliance
Curve



Long-Term
Legitimacy



Improved Public
Perception



Expanded
Reach



Post Funding
Tracking



Avoid
Regulatory
Fines

About Jumio

Products



- Identity Verification
- ID Verification
- Document Verification

Awards



2017 Entrepreneurial Company of the Year Biometrics



2017 FinTech Breakthrough Fraud Detection



Named to 2017 RegTech 100



CDM Cutting Edge Biometrics Security Solution Award 2017

Global Enterprise Solution



Use Cases



KBA Replacement



Customer On-boarding



Fraud Detection



KYC & AML Compliance



High Risk Transactions



Verify Users

Our Vision

When identity matters

Increase customer conversions, detect fraud,
and meet compliance mandates through
accurate & speedy online verification of ID,
identity, and documents.

The Role of Jumio

- ✓ Verify and validate the investor's identity
- ✓ Understand the customer's profile, business and account activity
- ✓ Identify relevant adverse information and risk
- ✓ Assess the potential for money laundering and/or terrorist financing
- ✓ Help gate the ICO (to ensure fairness)
- ✓ Ensure participants are from correct geographies

Learn More



E-book:
ICOs & Compliant Token Sales –
A Best Practices Guide



Infographic:
7 Compelling Reasons Why ICOs Should
Comply with KYC and AML...ASAP

A man in a dark jacket and light shirt is taking a selfie with a smartphone. The background is a blurred city street with bokeh lights. The Jumio logo is overlaid on the image.

JUMIO[®]

When Identity Matters

MONEY TRANSMITTERS AND BLOCKCHAIN

Potential Money Transmitters on Blockchain

Who Might be Regulated?

- Miners
- Fiat Service Providers
- Developers
- Second Layer Nodes?

The FinCEN Framework

Who is a Money Service Business (“MSB”) subject to the Bank Secrecy Act and regulation by FinCEN?

- 2013 Guidance:
 - Users – “A user is a person that obtains virtual currency to purchase goods or services.”
 - “A user who obtains convertible virtual currency and uses it to purchase real or virtual goods or services is not an MSB under FinCEN’s regulations.”
 - Administrators – “An administrator is a person engaged as a business in issuing (putting into circulation) a virtual currency, and who has the authority to redeem (to withdraw from circulation) such virtual currency.”
 - Exchangers – “a person engaged as a business in the exchange of virtual currency for real currency, funds, or other virtual currency. ”

The FinCEN Framework

- 2013 Guidance – Results:
 - Users –
 - “A user who obtains convertible virtual currency and uses it to purchase real or virtual goods or services is not an MSB under FinCEN’s regulations.”
 - Administrators and Exchangers
 - “An administrator or exchanger that (1) accepts and transmits a convertible virtual currency or (2) buys or sells convertible virtual currency for any reason is a money transmitter under FinCEN’s regulations, unless a limitation to or exemption from the definition applies to the person”
 - This includes “decentralized virtual currencies” – “de-centralized convertible virtual currency (1) that has no central repository and no single administrator, and (2) that persons may obtain by their own computing or manufacturing effort.”

<https://www.fincen.gov/sites/default/files/shared/FIN-2013-G001.pdf>

The FinCEN Framework – 2014 Clarifications

- Miners

- “a user who obtains convertible virtual currency and uses it to purchase real or virtual goods or services is not an MSB under FinCEN's regulations.”
- “FinCEN **understands that Bitcoin mining imposes no obligations on a Bitcoin user to send mined Bitcoin to any other person or place for the benefit of another.** Instead, the user is free to use the mined virtual currency or its equivalent for the user's own purposes, such as to purchase real or virtual goods and services for the user's own use. To the extent that a user mines Bitcoin and uses the Bitcoin solely for the user's own purposes and not for the benefit of another, the user is not an MSB under FinCEN's regulations, because **these activities involve neither “acceptance” nor “transmission” of the convertible virtual currency** and are not the transmission of funds within the meaning of the Rule.”
- “From time to time, as your letter has indicated, it may be necessary for a user to **convert Bitcoin that it has mined into a real currency or another convertible virtual currency**, either because the seller of the goods or services the user wishes to purchase will not accept Bitcoin, or because the user wishes to diversify currency holdings in anticipation of future needs or for the user's own investment purposes. **In undertaking such a conversion transaction, the user is not acting as an exchanger, notwithstanding the fact that the user is accepting a real currency or another convertible virtual currency and transmitting Bitcoin, so long as the user is undertaking the transaction solely for the user's own purposes and not as a business service performed for the benefit of another.**”

<https://www.fincen.gov/sites/default/files/shared/FIN-2014-R001.pdf>

The FinCEN Framework – 2014 Clarifications

- Developers

- “To the extent that the Company **purchases and sells convertible virtual currency, paying and receiving the equivalent value in currency of legal tender to and from counterparties, all exclusively as investments for its own account, it is not engaged in the business of exchanging convertible virtual currency for currency of legal tender for other persons.** In effect, when the Company invests in a convertible virtual currency for its own account, and when it realizes the value of its investment, it is acting as a user of that convertible virtual currency within the meaning of the guidance.”
- “If the Company were to provide services to others (including investment-related or brokerage services) that involved the accepting and transmitting of convertible virtual currency, or the exchange of convertible virtual currency for currency of legal tender or another convertible virtual currency, of course, additional analysis would be necessary to determine the Company’s regulatory status and obligations with respect to such activity.”
 - Footnote specifically calls out CFTC and SEC
- “In addition, **should the Company begin to engage as a business in the exchange of virtual currency against currency of legal tender (or even against other convertible virtual currency), the Company would become a money transmitter under FinCEN’s regulations.** Under such circumstances, the Company would have to register with FinCEN, implement an effective, risk-based anti-money laundering program, and comply with the recordkeeping, reporting, and transaction monitoring requirements applicable to money transmitters.”

<https://www.fincen.gov/sites/default/files/shared/FIN-2014-R002.pdf>

FinCEN Enforcement Efforts - XRP

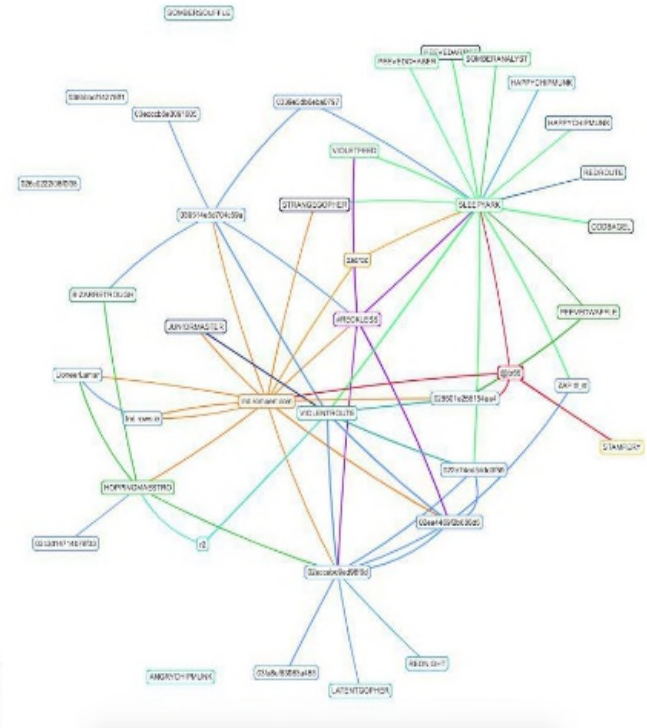
- FinCEN investigated Ripple for failure to comply with the MSB/KYC requirements for a money transmitter
 - Background – Ripple “pre-mined” all the coins in existence, then sold some of those coins
 - FinCEN noted its guidance from 2013
 - “Notwithstanding the Guidance, and after that Guidance was issued, Ripple Labs continued to engage in transactions whereby it sold Ripple currency (XRP) for fiat currency (i.e., currency declared by a government to be legal tender) even though it was not registered with FinCEN as an MSB. Throughout the month of April 2013, Ripple Labs effectuated multiple sales of XRP currency totaling over approximately \$1.3 million U.S. dollars.”
 - Also noted that Ripple didn’t comply with the KYC rules: No internal controls under the BSA; no compliance officer; no AML training; poor record keeping
 - \$700,000 Fine.
- Was XRP an Administrator or an Exchanger? Does it matter?
- https://www.fincen.gov/sites/default/files/shared/Ripple_Facts.pdf

FinCEN Enforcement Efforts - BTCe

- Substantive vs. Technical Violations:
 - BTC-e failed to obtain required information from customers beyond a username, a password, and an e-mail address. Instead of acting to prevent money laundering, BTC-e and its operators embraced the pervasive criminal activity conducted at the exchange. Users openly and explicitly discussed criminal activity on BTC-e's user chat. BTC-e's customer service representatives offered advice on how to process and access money obtained from illegal drug sales on dark net markets like Silk Road, Hansa Market, and AlphaBay.
 - BTC-e also processed transactions involving funds stolen between 2011 and 2014 from one of the world's largest bitcoin exchanges, Mt. Gox. BTC-e processed over 300,000 bitcoin in transactions traceable to the theft. FinCEN has also identified at least \$3 million of facilitated transactions tied to ransomware attacks such as "Cryptolocker" and "Locky."
- Result - \$110,003,314 Fine
- <https://www.fincen.gov/news/news-releases/fincen-fines-btc-e-virtual-currency-exchange-110-million-facilitating-ransomware>

Second Layer – This Matters

- The current implementation of Bitcoin only allows the network to process up to seven transactions a second, while Visa can process up to 50,000 a second and regularly processes 2,000 a second.
- Cryptomining uses almost have a percent of global energy.
- Transaction costs can rise to tens or hundreds of dollars during peak trading periods.
- Developers need a way to scale if Bitcoin is to have widespread adoption. One solution is a “second layer.”



The Next Big Question – Regulation of Nodes and Second Layer Solutions

- While a miner can mine without including another party's transaction, a node cannot. But recall FinCEN's justification for excluding miners:
 - "Bitcoin mining imposes no obligations on a Bitcoin user to send mined Bitcoin to any other person or place for the benefit of another."
 - To operate a node at a profit, you must balance transactions for another party
 - Nodes may also engage in cross-blockchain swaps
 - Accordingly, FinCEN may seek to regulate nodes as money transmitters
- But does this regulation make sense?
 - Nodes can't "know" all users that send through them, only the nodes they are immediately paired with.
 - New regulations and Commentary with FinCEN is needed.

Complying with Money Transmitter Requirements

- Registration
- AML Compliance
 - AML Officer
 - Training for Employees
 - KYC Laws
 - Report Suspicious Activity
 - Record Keeping
- State Registration and requirements

Other KYC related enforcement and regulation

- [http://abnk.assembly.ca.gov/sites/abnk.assembly.ca.gov/files/50%20State%20Survey%20-%20MTL%20Licensing%20Requirements\(72986803_4\).pdf](http://abnk.assembly.ca.gov/sites/abnk.assembly.ca.gov/files/50%20State%20Survey%20-%20MTL%20Licensing%20Requirements(72986803_4).pdf)
- <https://www.csbs.org/sites/default/files/2017-11/CSBS-Model-Regulatory-Framework%28September%2015%202015%29.pdf>
- <https://www.dfs.ny.gov/legal/regulations/adoptions/dfsp200t.pdf>

ENFORCEMENT ACTION UPDATE!

**IRS, SEC, CFTC, STATES AND
INTERNATIONAL**

HOWEYCOINS!

HOWEYCOINS



PRE-ICO SALE IS LIVE

15% BONUS ENDS IN

14 : 22 : 25 : 40

Day(s)

Hours(s)

Minute(s)

Second(s)

TESTIMONIALS

We anticipate OVER 1% daily returns, with DOUBLE 2% returns on Tier 1 investors in pre-ICO stage secured purchases. The average registered coin return over a two month period in 2017 was an amazing 72%. Based on market conditions, including record-setting prospects in both the digital asset and travel industries, we expect surpassing that BEFORE the Tier 2 offering closes.

HODL! We also forecast a minimum growth rate of between 7% to 15% annualized, making HoweyCoins attractive for long-term investment. In addition, HoweyCoins can serve as a GUARANTEED hedge against inflation and market loss.

HOWEYCOINS!

GOLD

Invest by June 15 to receive a **SINGLE**

25% discount

[Buy Coins Now!](#)

HOWEYCOINS! ... ? ... ☹️



Investor.gov

U.S. SECURITIES AND
EXCHANGE COMMISSION



HOME > ICO - Howeycoins

ICO - HOWEYCOINS

If You Responded To An Investment Offer Like This, You Could Have Been Scammed – HoweyCoins Are Completely Fake!

A screenshot of the HoweyCoins website. The header includes the "HOWEYCOINS" logo on the left and navigation links "ABOUT", "INVESTMENT LADDER", "MEET THE TEAM", "TESTIMONIALS", and "CONTACT" on the right. The main content area features a large banner image of a tropical resort with a swimming pool and palm trees. Overlaid on the banner is the text "PRE-ICO SALE IS LIVE" in white. Below this, there is a dark grey box with a white timer "15% BONUS ENDS IN" followed by a partially visible timer "01:44:00:50". To the right of the timer is a red button with white text that says "TOKEN SALE!".

SEC Actions Against Titanium

- An SEC complaint unsealed today charges that Titanium President Michael Alan Stollery, a/k/a Michael Stollaire, a self-described “blockchain evangelist,” lied about business relationships with the Federal Reserve and dozens of well-known firms, including PayPal, Verizon, Boeing, and The Walt Disney Company. The complaint alleges that Titanium’s website contained fabricated testimonials from corporate customers and that Stollaire publicly – and fraudulently – claimed to have relationships with numerous corporate clients. The complaint alleges that Stollaire promoted the ICO through videos and social media and compared it to investing in “Intel or Google.”
- “This ICO was based on a social media marketing blitz that allegedly deceived investors with purely fictional claims of business prospects,”

SEC and the DAO

- The SEC's [Report of Investigation](#) found that tokens offered and sold by a "virtual" organization known as "The DAO" were securities and therefore subject to the federal securities laws. The Report confirms that issuers of distributed ledger or blockchain technology-based securities must register offers and sales of such securities unless a valid exemption applies. Those participating in unregistered offerings also may be liable for violations of the securities laws. Additionally, securities exchanges providing for trading in these securities must register unless they are exempt.
- The DAO has been described as a "crowdfunding contract" but it would not have met the requirements of the Regulation Crowdfunding exemption because, among other things, it was not a broker-dealer or a funding portal registered with the SEC and the Financial Industry Regulatory Authority.
- In light of the facts and circumstances, the agency has decided not to bring charges in this instance, or make findings of violations in the Report, but rather to caution the industry and market participants

<https://www.sec.gov/news/press-release/2017-131>

SEC – Asserting Broad Enforcement Powers

When might virtual currency be a security?

- Federal securities laws are designed “to regulate investments, in whatever form they are made and by whatever name they are called.” The definition of “security” is broad enough “to encompass ***virtually any instrument that might be sold as an investment.***”
 - *SEC v. Edwards*, 540 U.S. 389, 393 (2004); 15 U.S.C. § 77b(a)(1)
- SEC’s July 2017 DAO Report confirms the prevailing view that the test of an “investment contract” is central. An “investment contract” is a contract, transaction, arrangement, or scheme (need not be a formal contract) in which:
 - 1) a person invests money
 - 2) in a common enterprise
 - 3) with expectation of profit from the efforts of others
 - *SEC v. W.J. Howey Co.*, 328 U.S. 293, 298-99 (1946)

SEC – Recent Guidance

- “[C]ertain **market professionals have attempted to highlight utility characteristics of their proposed initial coin offerings** in an effort to claim that their proposed tokens or coins are not securities. **Many of these assertions appear to elevate form over substance.** Merely calling a token a “utility” token or structuring it to provide some utility does not prevent the token from being a security. Tokens and offerings that incorporate features and marketing efforts that emphasize the potential for profits based on the entrepreneurial or managerial efforts of others continue to contain the hallmarks of a security under U.S. law. **On this and other points where the application of expertise and judgment is expected, I believe that gatekeepers and others, including securities lawyers, accountants and consultants, need to focus on their responsibilities.** I urge you to be guided by the principal motivation for our registration, offering process and disclosure requirements: investor protection and, in particular, the protection of our Main Street investors.

<https://www.sec.gov/news/public-statement/statement-clayton-2017-12-11>

Consequences of Security Treatment

1. Securities registration requirement

- To be lawfully offered or sold, a security must be registered with the SEC, or qualify for an exemption from registration (under the Securities Act of 1933)
 - Registration is a multi-step, expensive process
 - Common exemptions include sales limited to institutional investors and sales in private offerings to “accredited investors” (special requirements)
- Registration or exemption requirement applies to **every** sale, including secondary market resales by initial purchaser
- Securities registration noncompliance gives rise to an onerous **rescission** remedy under federal law and the laws of most states

Consequences of Security Treatment (cont'd)

2. Securities fraud statutes apply

- Any material misrepresentation or omission in connection with an offer, sale, or resale may give rise to liability
- Laws governing initial offerings and some state statutes allow remedies without intentional fraud; due care is only a defense
- SEC warning re celebrity ICO endorsements (failure to disclose compensation)
- Several SEC/USAO actions and several putative securities class actions filed within the last few months re particular ICOs

3. Broker-Dealer Registration Requirements

- Anyone in the business of buying or selling securities (a dealer) or effecting securities transactions for others (a broker), unless exempt, must register with the SEC and state securities regulators

4. Exchange Registration

- Any organization or group that “maintains or provides a market place or facilities for bringing together purchasers and sellers of securities” is subject to SEC regulation as a national securities exchange.

IRS Actions Coming Soon!

- November 28, 2017, Judge Corley of N.D. Cal. Ordered Coinbase to turn over records to the IRS.
 - This affected users with over \$20,000 in transactions.
 - The proffered declaration from the IRS stated Bitcoin had 5.9 million users and only about 900 returns.
 - Originally sought all records including KYC diligence, Agreements, and correspondence, but the judge narrowed the scope of the request. Coinbase was ordered to produce
 - Taxpayer ID number, name, DoB, address;
 - Expressly not ordered to produce public keys(?!)
 - Tx logs identifying date, amount, and type, balance, and names of the parties

A Growing Investigative Team at the IRS

- The Coinbase Order noted “Mr. Utzke is a senior revenue agent in the IRS’s offshore compliance initiatives program and is assigned to virtual currency matters”
- Other articles suggest a team of at least 10 investigators:
https://www.bloomberg.com/amp/news/articles/2018-02-08/irs-cops-scouring-crypto-accounts-to-build-tax-evasion-cases?__twitter_impression=true
- This criminal investigations team has operated for at least 5 years since 2013.

CFTC – Recent Guidance

- “US law does not provide for direct, comprehensive Federal oversight of underlying Bitcoin or virtual currency spot markets. As a result, US regulation of virtual currencies has evolved into a multifaceted, multi-regulatory approach”
 - State Banking regulators oversee certain US and foreign virtual currency spot exchanges largely through state money transfer laws.
 - The Internal Revenue Service
 - The Treasury’s Financial Crimes Enforcement Network (FinCEN) monitors Bitcoin and other virtual currency transfers for anti-money laundering purposes.
 - The Securities and Exchange Commission (SEC) takes increasingly strong action against unregistered initial coin offerings.
 - The CFTC also has an important role to play. In 2014, the CFTC declared virtual currencies to be a “commodity” subject to oversight under its authority under the Commodity Exchange Act (CEA).¹
- <https://www.cftc.gov/sites/default/files/idc/groups/public/%40customerprotection/documents/file/backgroundervirtualcurrency01.pdf>

CFTC – Bitfinex And Aggressive Derivatives Enforcement

- 2016 Bitfinex Action – Unauthorized Margin Trading
- CFTC Rejected A “Multisignature Wallet” shell game:
 - In January 2016 and for the remainder of the Relevant Period, during the course of the Division of Enforcement's investigation, Bitfinex changed its model again so that bitcoins purchased using both the Exchange Trading and Margin Trading features were held in individually enumerated, multi-signature wallets. However, Bitfinex continued to retain control over the private keys to those wallets. ... Bitfinex' s accounting for individual customer interests in the bitcoin held in the omnibus settlement wallet in its own database was insufficient to constitute "actual delivery." See Retail Commodity Transactions Under Commodity Exchange Act, 78 Fed. Reg. 52,426, 52,428 (Aug. 23, 2013) ("book entry" purporting to show delivery insufficient). Similarly, when Bitfinex changed its model in August 2015 and January 2016, it retained control over the private keys to those wallets, and the Financing Recipients had no contractual relationship with the third party firm that established the wallets. See id.
- Therefore, Bitfinex's transactions are not excepted from the Commission's jurisdiction under Section 2(c)(2)(D)(ii)(III)(aa) of the Act. Also, Bitfinex had the authority to force liquidate customers' positions without the customers' prior consent if their equity fell beneath a preset level, which further evidenced Bitfinex's possession and control over the bitcoins.
- <https://www.cftc.gov/sites/default/files/idc/groups/public/@lrenforcementactions/documents/legalpleading/enfbfxnaorder060216.pdf>

CFTC – Investigation of Tether (and more attention for Bitfinex)

- What is Tether?
- Why has it been subpoenaed?
(<https://www.coindesk.com/report-cftc-sends-subpoenas-bitfinex-tether/>)
 - Coindesk reports that relationship with auditor has “dissolved”
 - 2.5 Billion USDT Outstanding
- A Tether Crash Could Have Ripple Effects



CFTC – Anti-Fraud Measures

- <https://www.cftc.gov/PressRoom/PressReleases/pr7678-18> - the MBC website, maintained and operated by the Defendants, conveyed to customers numerous solicitation materials, MBC trade data, and other materials (1) misrepresenting that MBC was actively being traded on several currency exchanges, including the MBC Exchange website, when in fact it was not; (2) misrepresenting in reports the daily trading price, when in fact no price existed because MBC was not trading; (3) misrepresenting that MBC was backed by gold, when in fact it was not; and (4) misrepresenting that MBC had partnered with MasterCard, with the promise that MBC could be used anywhere MasterCard was accepted, when in fact no such partnership existed and MBC could not be used anywhere MasterCard was accepted.

CFTC – Anti-Fraud Measures

- <https://www.cftc.gov/PressRoom/PressReleases/7714-18> - ATM Coin - Defendants have solicited potential customers through emails, phone calls, and a website to purchase illegal off-exchange binary options. According to the Complaint, Defendants falsely claimed customers' accounts would generate significant profits based upon Kantor's purported past profitable trading. Also according to the Complaint, Defendants misappropriated a substantial amount of the customer funds for the Defendants' own personal use.
- <https://www.cftc.gov/PressRoom/PressReleases/pr7702-18> - CabbageTech, Corp. and Coin Drop Markets (<https://www.cftc.gov/PressRoom/PressReleases/pr7675-18>)

State Regulation

- New York
 - Bitlicense
 - Questionnaire to 13 Blockchain companies - https://ag.ny.gov/sites/default/files/virtual_markets_integrity_initiative_questionnaire.pdf
 - Fraud Prevention Requirements
- Embracing Blockchain
 - Proposed Legislation in Arizona *“The Department shall study whether a taxpayer may pay the taxpayer's income tax liability by using a payment gateway, such as bitcoin, litecoin or any other cryptocurrency that uses electronic peer-to-peer systems.”*

We've Updated Our Privacy Policy – GDPR and the Blockchain

- The EU's General Data Protection Regulation
 - Obligation on data processors to pseudonymize data
 - Right for data subjects to request erasure of their personal data (the 'right to be forgotten').
 - Personal data must be deleted to or corrected if it is incorrect.
 - The person concerned has the right to limit the processing of his/her data.

TAKEAWAYS AND THE FUTURE OF CRYPTOCURRENCY REGULATION

What Are Regulators Targeting?

- **Fraud**

- Most of the enforcement actions are still focused on “low hanging fruit” where schemes are (or become) clear efforts at fraud and Ponzi schemes.

- **Derivatives Trading**

- CFTC is aggressively targeting non-spot transactions
- Determination requires a thoughtful technical analysis – it is not enough to simply make a bookkeeping entry and claim delivery

- **Securities**

- Lawyers need to take a stronger role in counseling clients about the nature of their products

- **Money Transmitters?**

- Future

Biography



Dean Nicolls

Dean Nicolls is Jumio's most recent addition to the executive team. He has 25+ years experience in B2B marketing focusing on cloud services. These include roles at Starbucks, Microsoft and variety of early stage cloud-based security companies including LiveOffice (acquired by Symantec), TeleSign (acquired by BICS) and, most recently, Infracore. At Jumio, Dean is responsible for all branding, PR/analyst relations, product messaging, demand generation, and sales/channel enablement. He holds a Bachelor of Science degree in Business Administration from Pepperdine University and an MBA from the University of Washington.

Biography



Frank Marques

Frank Marques, Enterprise Account Executive. Frank is one of Jumio's top account executives and an ICO specialist. Jumio currently serves most of the top crypto-currency exchanges on the planet with the leading online identity verification solution on the market. Frank has helped many ICOs with their KYC and AML compliance and helped raise the legitimacy of their token sales.

Biography



Andrew J. Gray IV

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Serving as the leader of Morgan Lewis's semiconductor practice, Andrew J. Gray IV concentrates his practice on intellectual property (IP) litigation and prosecution and on strategic IP counseling. Andrew advises both established companies and startups on computer and Internet law issues, financing and transactional matters that involve technology firms, and the sale and licensing of technology. He represents clients in patent, trademark, copyright, and trade secret cases before state and federal trial and appellate courts throughout the United States, and before the US International Trade Commission.

Biography



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Nathan J. Hochman, the former head of the US Department of Justice's Tax Division, practices complex civil and criminal litigation, with a focus on white collar criminal defense, tax controversy, securities, and environmental matters. He represents individuals and organizations involved as targets, subjects, or witnesses in state and federal criminal investigations and related grand jury and pre-trial proceedings, conducts internal investigations, and handles complex civil litigation, arbitrations, trials, and appeals.

Biography



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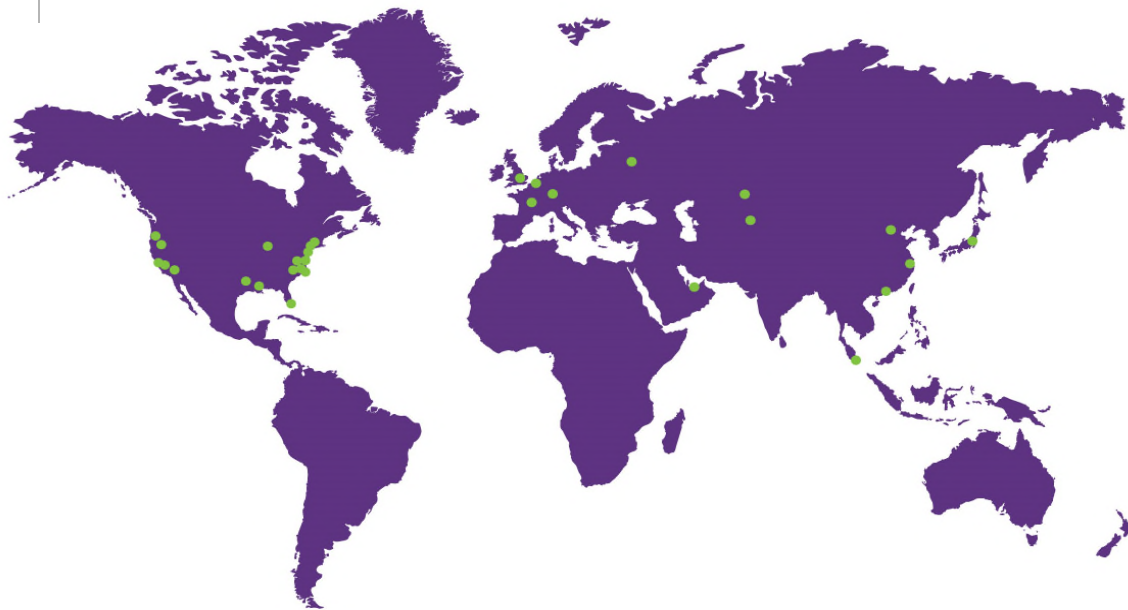
Jacob Minne advises clients on patent, trademark, copyright, and trade secret litigation, as well as related antitrust matters. His litigation experience includes cases for clients in a diverse range of technology fields such as semiconductor chip manufacturing methods, medical devices, and mobile software. He has experience in forums including the US District Court for the Central District of California, the US Court of Appeals for the Federal Circuit, and the US International Trade Commission (USITC).

Our Global Reach

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