Blockchain Legal Breakfast: A Cryptocurrency Funding Revolution

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Our Context: Blockchain = DLT

Distributed ledger technology is not a panacea; instead it should be viewed as one of many technologies that will form the foundation of next-generation financial services infrastructure.

Over the last 50 years, technology innovation has been fundamental to financial services industry transformation. Today, multiple technologies poised to drive the next wave of financial services innovation are converging in maturity.

Gartner: Blockchain Technology Past Peak “Hype”
Cryptocurrencies and Tokenization

Bitcoin
P2P Digital Cash
“Internet of Value”
1st Blockchain

Ethereum
“World Computer”
“Programmable Money”
2nd Generation
Blockchain

Blockchain Funding Grew Dramatically in Q2, ICOs Exceeded VC by Over 3x

Q2 2017 Blockchain Funding

ICO
$797m
VC
$235m

Top ICO Deals:
Bancor - $153m
Status - $95m
ToriX - $83.1m
MobileGo - $53.1m

Top VC Deals:
R3 - $107m
Canaan - $43.6m
Blockchain - $40m
Axson - $20m

Q1
ICO
$36m
VC
$107m

Data Source: coindesk.com; coindesk, TokenFunder; IC3
Note: Deals under $50,000 excluded. $ amount at time raised, excluding any fundraising ending in Q2 2017. (3/17 – 5/31/17)
Tokenized Financing: How it Works

- Investigate
- Token Transfer Functions
- Token Governance

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Ethereum Public Blockchain

INVESTORS → TOKEN → BUSINESS

Public Blockchain:
- Permissionless
- Transparency
- Auditability

Smart Contract (ERC-20):
- Token Holder Register
- Token Transfer Functions
- Token Governance

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TokenFunder ITO Services Platform

- Token Platform and Services to help companies launch regulated token offerings in Canada
- Innovative Investment & Governance Model
- Canadian Regulated Initial Token Offering (FNDR Token)

FNDR ITO Coming Soon!

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TokenFunder.com

Top 25 Up and Coming ICT

Las Vegas Oct 2017
Securities Law Issues – Initial Coin Offerings (“ICOs”)

BACKGROUND

• First ICO in 2013 by Mastercoin

• SEC on alert following DAO attack

ARE TOKENS SECURITIES?

• The test in Pacific Coast Coin Exchange
  • An investment of money
  • In a common enterprise
  • With an expectation of profit
  • To come significantly from the efforts of others

• CSA Staff Notice 46-307 – Cryptocurrency Offerings

• How will regulators apply Pacific Coast?
ICOS IN THE WILD

- DAO
- Kik
- Impak

Securities Law Issues – Investment Funds

- Clear nexus with securities law
- Registrations- IFM, Dealer, Advisor
- Prospectus Exemptions- Accredited Investor, Offering Memorandum
- Exposure limited to Bitcoin
  - FBC Bitcoin Trust (First Block Capital Inc.)
  - Evolve Bitcoin ETF (Evolve Funds Group Inc.)
- Regulatory concerns- custody, dealers and valuations
Securities Law Issues – Cryptocurrency Exchanges

- CSA Staff Notice 46-307 – to date, no cryptocurrency exchanges registered or exempted
- Are tokens securities?
- Coinbase/IRS

Is cryptocurrency “money”?

- **Currency Act**
  - Establishes Canadian currency as legal tender
  - Requires contracts and transactions relating to money or involving the payment of money to be made and carried out the currency of Canada or the currency of a country other than Canada

- Money is generally considered to have the following characteristics:
  1. Medium of exchange
  2. Unit of account
  3. Store of value
• Recommendations include:
  – Recommendation 1: the government should exercise a regulatory “light touch” that minimizes actions that might stifle the development of these new technologies
  – Recommendation 3: the federal government should require digital currency exchanges…to meet the same requirements as money services businesses

AML legislation

• The Proceeds of Crime (Money Laundering) and Terrorist Financing Act and its regulations apply to, among others, money services businesses (MSBs), which are defined as: persons and entities engaged in the business of foreign exchange dealing, of remitting funds or transmitting funds by any means or through any person, entity or electronic funds transfer network, or of issuing or redeeming money orders, traveller’s cheques or other similar negotiable instruments except for cheques payable to a named person or entity
  • Amendments not yet in force would extend the definition of MSB to persons and entities dealing in virtual currencies
Are cryptocurrency businesses MSBs?

• Consider the following scenarios:
  1. Fiat currency A → cryptocurrency → fiat currency B
  2. Fiat currency A → convert to cryptocurrency to facilitate monetary movement → recipient receives fiat currency

• The PCMLTFA also applies to persons and entities authorized under provincial legislation to engage in the business of dealing in securities or any other financial instruments or to provide portfolio management or investment advising services

• Québec’s Money-Services Business Act – application to ATMs offering “virtual money” exchanges