

RSA[®]Conference2018

San Francisco | April 16 – 20 | Moscone Center



#RSAC

SESSION ID: LAW-W12

THE NEW BARONS OF CYBERSPACE: ICO CREATORS AND RANSOMWARE AUTHORS

Jonathan Levin

Co-Founder and CRO
Chainalysis
@jony_levin

Alan Cohn

Co-Chair, Blockchain and Digital Currency Practice
Steptoe & Johnson LLP
@fifteencharlie

Poll



- Who knows what blockchain is?
- Cryptocurrency?

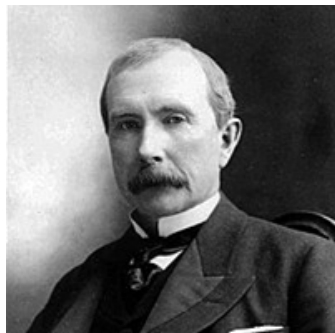




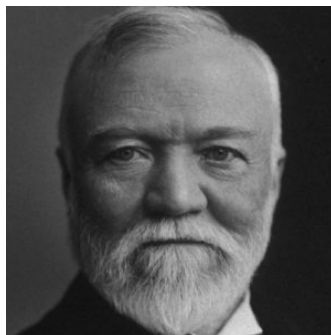
Baron n.

Definition: a person who held lands or property from the sovereign or a powerful overlord.

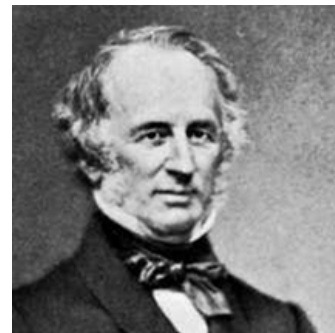
Some familiar barons



John D. Rockefeller



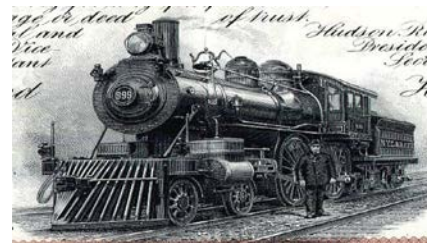
Andrew Carnegie



Cornelius Vanderbilt



**Carnegie
Mellon
University**





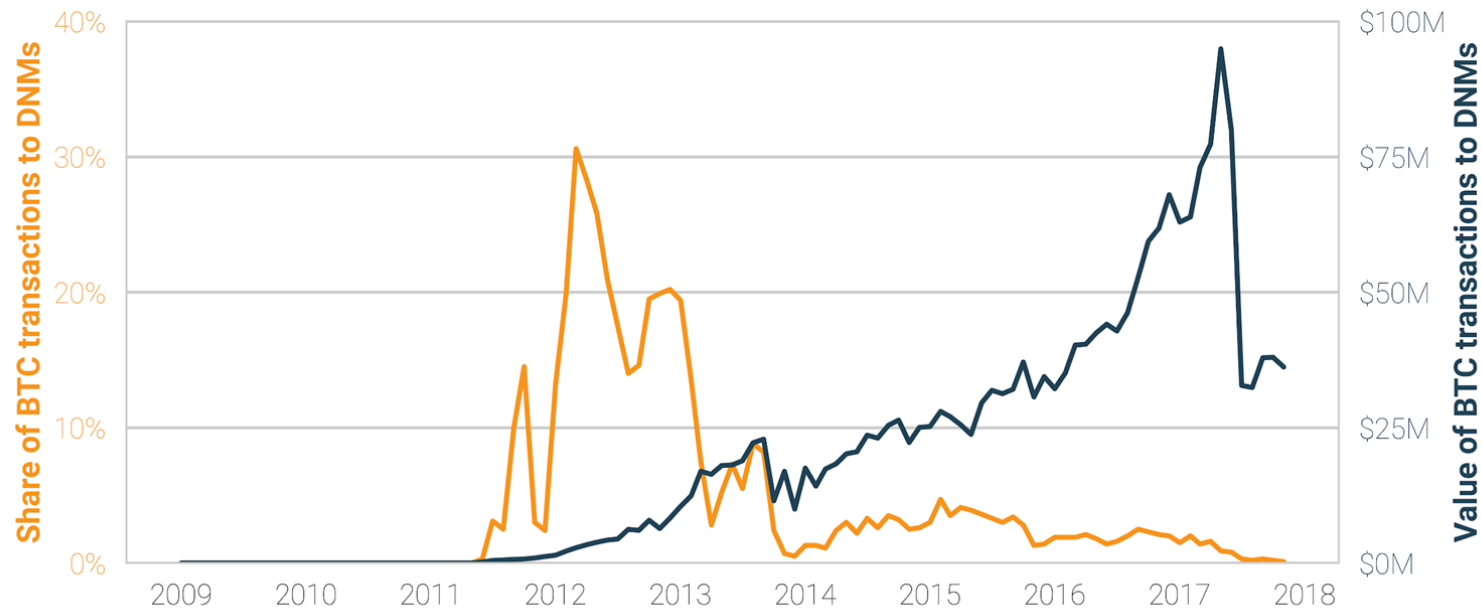
In 2009, was born the world's most accessible
financial asset





These barons used to be darknet market vendors

Darknet market's share of Bitcoin transaction values has declined,
even while the absolute value has increased





Then their property and domain was seized



144,000 Bitcoin seized from Silk Road



THIS HIDDEN SITE HAS BEEN SEIZED

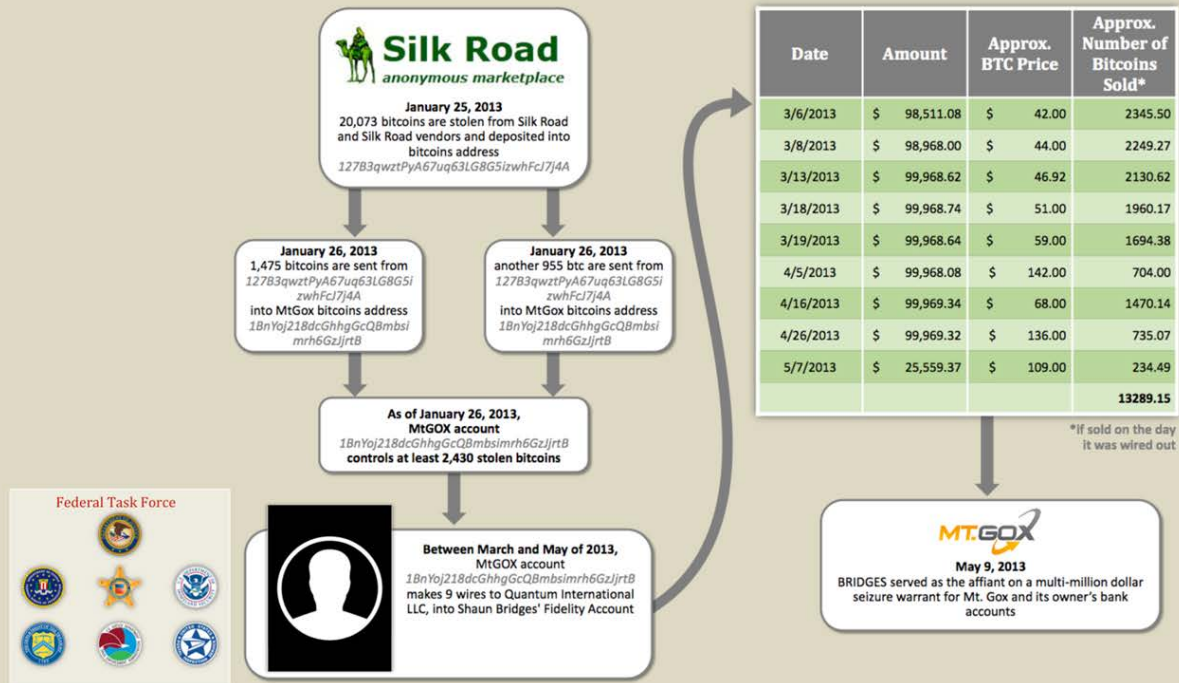
by the Federal Bureau of Investigation,
in conjunction with the IRS Criminal Investigation Division,
ICE Homeland Security Investigations, and the Drug Enforcement Administration,
in accordance with a seizure warrant obtained by the
United States Attorney's Office for the Southern District of New York
and issued pursuant to 18 U.S.C. § 983(j) by the
United States District Court for the Southern District of New York





21,000 BTC more was found later....

Liquidation of Silk Road Theft Proceeds





Years later, the governments took at a stab at
the business





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Notice

THIS HIDDEN SITE HAS BEEN SEIZED and controlled since June 20

by the Dutch National Police in conjunction with the Bundeskriminalamt, Lietuvos Policija, Federal Bureau of Investigation and Europol, under the authority of the Dutch National Prosecutor's Office and the Attorney General's office of the Federal State of Hesse (Germany).

The Dutch National Police have located Hansa Market and taken over control of this marketplace since June 20, 2017. We have modified the source code, which allowed us to capture passwords, PGP-encrypted order information, IP-addresses, Bitcoins and other relevant information that may help law enforcement agencies worldwide to identify users of this marketplace. For more information about this operation, please consult our hidden service at politepoh42eay.onion.

This seizure was part of **Operation Bayonet**, which includes the takeover of Hansa Market by the National Police of the Netherlands and the takedown of AlphaBay Market by the Federal Bureau of Investigation of the United States of America on July 4, 2017.

IN FRODOLOP  **HANSA**

@AlphaBay Market

OPENBAAR MINISTERIE

 **POLITIE**

 **EUROPOL**



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But barons have always been entrepreneurial

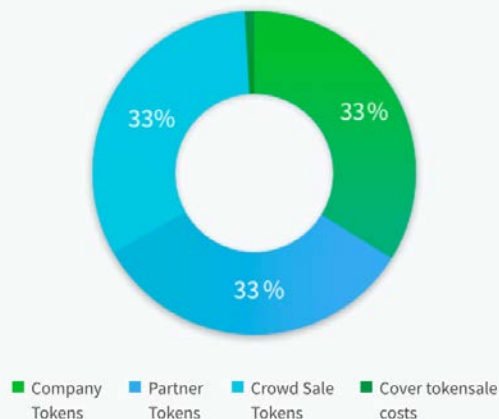


Civic “provide[s] trusted decentralized identity services that are compliant with laws and regulations around the world.”



- Conducted a token sale in June 2017
- Hard cap at \$33 million
- Sold as a “utility token” to accredited investors and individual users in the US and globally

1 Billion Tokens Issued





Sound futuristic? Some barons sell picks and shovels

BTC-e

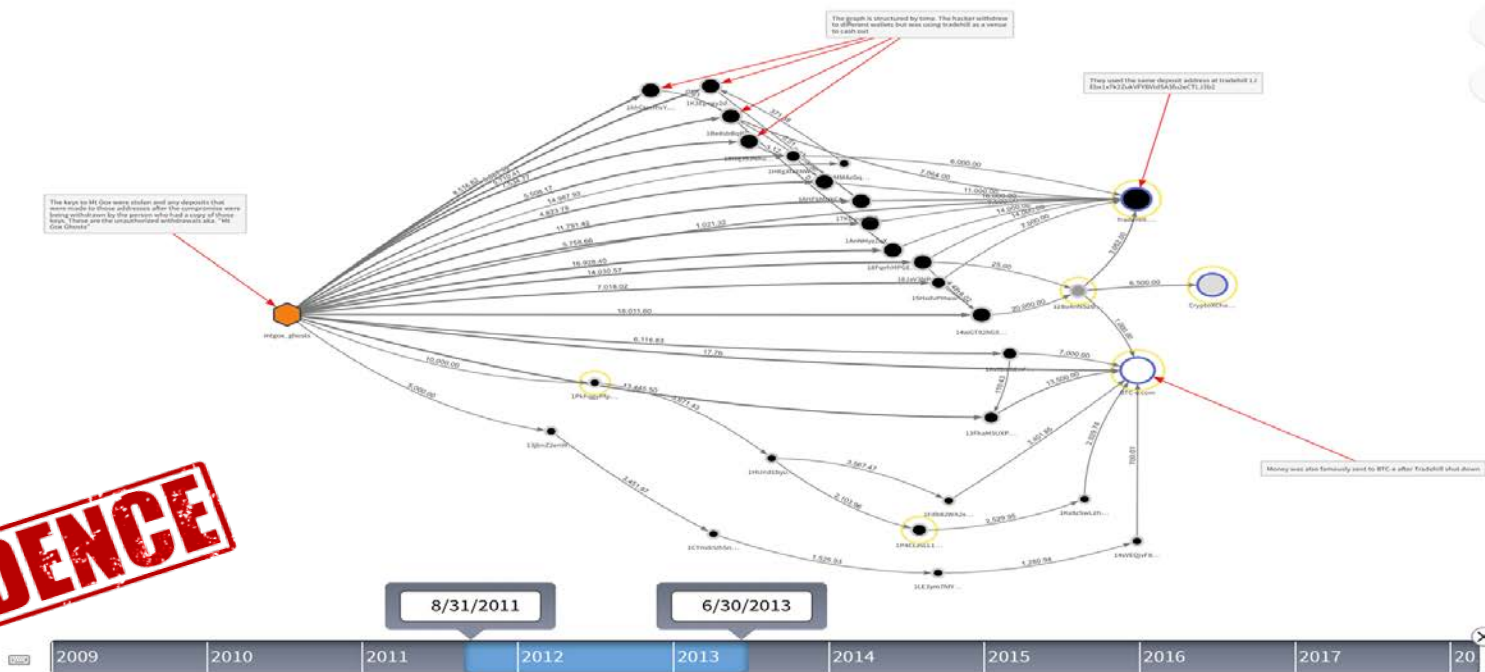


- Cryptocurrency exchange
- Started in 2011

BTC 



Graph Name
MtGox Heist





INDICTMENT



**THE DOMAIN FOR
BTC^e
HAS BEEN SEIZED**

Pursuant to a seizure warrant issued by the United States District Court for the District of New Jersey under the authority of 18 U.S.C., §§ 981, 1956 (a)(1)(A), and 1960 - as part of a joint law enforcement operation and action by:

- U.S. Department of Justice - Northern District of California and Computer Crime and Intellectual Property Section
- Internal Revenue Service - Criminal Investigation
- Homeland Security Investigations
- Federal Bureau of Investigation
- U.S. Secret Service
- Federal Deposit Insurance Corporation - Office of Inspector General



Alexander Vinnik



- FinCEN fines BTC-e \$110 million civil penalty and Vinnik \$12 million penalty
- 21-count indictment for
 - money laundering;
 - conspiracy to commit money laundering;
 - engaging in unlawful monetary transactions; and
 - the operation of an unlicensed money transmitting business.



BTC 





Barons typically sell the future...



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Our Team



Tyrone Fountain

Founder of multiple MedTech and IoT companies. Successful entrepreneur with a clear focus on business, media and cryptocurrency.



Perry Henderson

Successful entrepreneur, ICO and Blockchain enthusiast. CEO and Partner of multiple online companies.



Larry Smith

5+ years in web development and e-commerce marketing. Digital enthusiast and rap fan.



Thomas Yates

Experience-driven marketing specialist, 10+ years in communication and brand building.



Kevin Belanger

Experienced graphic designer with a clear focus on identities and illustration.



Jake Andrews

Associate at law firm with 9+ years of experience practicing business law. Ghent University graduate.



Robert Jackson

Professional with more than 10 years of experience in marketing – from B2B.



Donald Rivera

Highly experienced investment banker with a focus of interest on capital markets in the USA and Russia.

Kathleen & Arthur Breitman



- Born in New York
- Graduated from Cornell in 2012
- Former Management Associate at Bridgewater
- Former strategy consultant at De Dicto, Accenture and R3



- Born in France
- Received a Master's in Mathematics from NYU in 2007
- Former quantitative analyst at Goldman Sachs and Morgan Stanley



Kathleen & Arthur Breitman



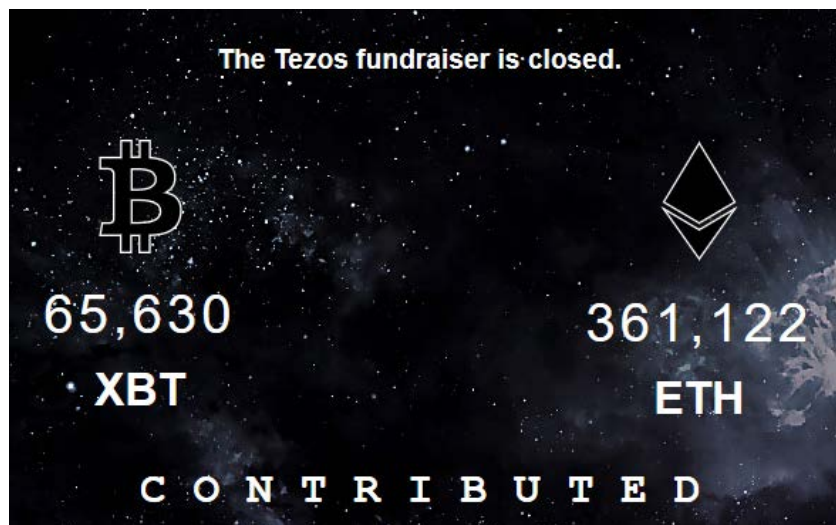
- Began developing blockchain ecosystem in 2014
- The Tezos blockchain:
 - Is a self-amending cryptographic ledger
 - Creates governance rules for stakeholders to approve protocol upgrades
 - Based on Proof-of-Stake
- “A new digital commonwealth”
- A US Entity, Dynamic Ledger Solutions (DLS), primarily developed the Tezos blockchain; a Swiss foundation, The Tezos Foundation, issued the tokens
- The Breitmans co-founded DLS and set up the foundation



Tezzies



600 million “Tezzies” = Equivalent of \$232 million at the time



Tezzies

600 n

LAWSUIT

FILE
San Francisco County Superior Court
OCT 25 2017
CLERK OF THE COURT
Deputy Clerk

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*Attorney for Individual and Representative
Plaintiff Andrew Baker*

**SUPERIOR COURT OF THE STATE OF CALIFORNIA
COUNTY OF SAN FRANCISCO, CIVIC CENTER COURTHOUSE**

Case No. **CSC-17-562144**

**CLASS ACTION
COMPLAINT FOR:**

(1) UNREGISTERED OFFER AND SALE OF SECURITIES IN VIOLATION OF SECTIONS 5(a) AND (c) OF THE SECURITIES ACT

(2) FRAUD IN THE OFFER OR SALE OF SECURITIES IN VIOLATION OF SECTION 17(a)(1) OF THE SECURITIES ACT

(3) FRAUD IN THE OFFER OR SALE OF SECURITIES IN VIOLATION OF SECTIONS 17(a)(2) AND (3) OF THE SECURITIES ACT

(4) FALSE ADVERTISING (BUSINESS AND PROFESSIONS CODE SECTIONS 17500, ET SEQ.)

(5) UNFAIR COMPETITION (BUSINESS AND PROFESSIONS CODE SECTIONS 17200, ET SEQ.)

(6) ALTER EGO LIABILITY

JURY TRIAL DEMANDED
DEMAND EXCEEDS \$25,000

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ANDREW BAKER, individually and on behalf of all others similarly situated Plaintiff,

v.

DYNAMIC LEDGER SOLUTIONS, INC., a Delaware corporation, THE TEZOS FOUNDATION, a Swiss foundation, KATHLEEN BREITMAN, an individual, JOHANN ARTHUR BREITMAN, an individual, JOHANN GEYERS, an individual, STRANGE BREW STRATEGIES, LLC, a California limited liability company, and DOES 1 through 100, Defendants.

COMPLAINT



at the time

3



- Six causes of action including:
 - Unregistered Office and Sale of Securities
 - Fraud in the Offer or Sale of Securities
 - False Advertising
 - Unfair Competition
 - Alter Ego Liability
- Token described as:
 - “A non-refundable donation” not a “speculative investment”
 - Receiving a “tote bag” in return for contributing to a public TV station
- Blockchain described as:
 - “Ernst & Young, Deloitte, LexiFi, etc. have adopted Tezos in their development environments and labs.”



Barons can be born overnight

Changpeng Zhao



From Zero to One







Some of our new barons are philanthropic

The Pineapple Fund



 Pineapple Fund [About](#) [Charities](#) [Apply](#) [FAQ](#) [Contact](#)

A photograph of a pineapple sitting on a rocky shore with the ocean in the background.

Donating \$86 million of bitcoins to charity
Because once you have enough money, money doesn't matter.

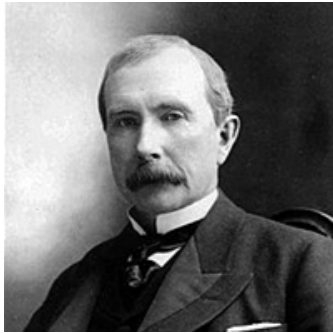
| | | |
|--|---------------------------------------|--|
| 5,057 BTC ~\$86 million USD total committed | \$54,671,242 donated so far | 60 charities supported so far |
|--|---------------------------------------|--|

CASE FILE

EPILOGUE



- Barons for 5 minutes or centuries?



John D. Rockefeller



Your picture here



Questions?



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@jony_levin

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Blockchain and Digital Currency Practice
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@fifteencharlie