Ex-PayPal executive David Sacks explains how his new company will change crypto trading

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I interviewed David Sacks last August about his interest in cryptocurrency. His interest was well-founded as the whole asset class took off last fall.

In a recent report by Axios, Sacks said he's raised a new venture fund with partner and well-known Silicon Valley angel investor Bill Lee. It felt like a good time to reconnect with Sacks, the former COO of PayPal and CEO of Yammer, and get his first on-the-record comments on that fund (including its name), as well as a new start-up he's incubated since last year and which is formally announcing its Series A financing Tuesday (called Harbor), and his continued interest in the cryptoasset space.

Here's an edited version of our discussion from a few days ago:

Eric Jackson: Since we last spoke, you launched a new investment fund. Tell us about it.

David Sacks: For the past two decades, Bill and I have been angel investors as well as entrepreneurs. So we're doing what we've always

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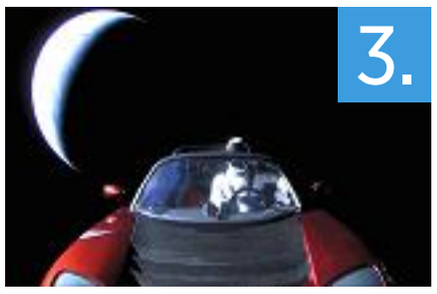

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done, in terms of helping other founders, except now we can write larger checks. The fund is called Craft, which represents our view that company building is a craft that we've learned over the course of founding four companies with successful exits. The same lessons play out time and time again even though the technologies constantly change.

Jackson: Are you focused specifically on crypto investments?

Sacks: Blockchain is a major theme, but we have a broad interest in next-wave technologies. We recently invested in Bitgo to fund its acquisition of Kingdom Trust, creating the first full-stack solution for institutional custody of cryptocurrency. But we've also made investments in Cloud9, an esports company, and SpaceX. The common denominator is supporting founders who are creating unique, market-defining products.

Jackson: Let's talk about Harbor — a decentralized compliance protocol designed to standardize the way crypto securities are issued and traded on the blockchain that launched Tuesday with a $10 million Series A round. What problem is Harbor solving?

Sacks: Harbor solves compliance for asset tokenization. The idea first came about when Bill and I were raising the new fund. We asked whether it would be possible to do it through an ICO (initial currency offering). The short answer is that the compliance challenges of issuing a regulated security on the blockchain make it extremely difficult. At the same time, we felt that there is an enormous opportunity for the blockchain to bring more liquidity and transparency to private securities. So we incubated and seed-funded Harbor to solve that compliance problem.

Jackson: Coincidentally, **I recently interviewed Stephen McKeon — a University of Oregon finance professor — for CNBC** about tokenizing traditional assets.

Sacks: Steve has spoken and **written** very articulately about the potential for tokenizing traditional assets like real estate. It was very much in line with our thinking, so we reached out and started talking. Steve is now an advisor to Harbor.

Jackson: How does Harbor solve the problem?

Sacks: Today Harbor announced the Regulated Token Standard, or "R-Token", which is a standard ERC20 token, except it contains additional code to check an on-chain whitelist (called a "Regulator Service") before it trades. The Regulator Service can be configured to enforce any number of regulatory requirements — from securities to tax laws, across multiple jurisdictions. In addition to the basics like KYC, AML and accreditation, it can be customized for specific types of assets like real estate, which require tax withholdings on foreign investors under FIRPTA.

When a trade is requested, the R-Token checks with the Regulator Service to make sure that the investor has been verified and meets all the legal requirements; otherwise the token throws off an error message and will not transfer. This ensures that every trade is compliant.

Harbor is making R-Token available to the blockchain community as an open-source standard. This includes publishing the smart contracts for R-Token and the Regulator Service. We want to help standardize how tokenized securities are issued and traded.

Jackson: There have been some recent announcements about new exchanges for crypto securities. Does R-Token compete with those?

Sacks: The problem with relying exclusively on centralized exchanges for compliance is that trades can always happen outside their walled garden. R-Token bakes compliance into the token itself, so it works regardless of whether it's an ICO or a secondary trade, whether it's traded on an exchange or person-to-person. We hope exchanges will adopt R-Token — there's no reason for them not to, and it provides a more complete solution.

R-Token also has the advantage of being compatible with decentralized exchanges, which is a major emerging theme in crypto. We are investors in the 0x Protocol (token: ZRX), which allows for the exchange of ERC20 tokens without the need for a trusted intermediary. There's an exciting ecosystem of developers building on 0x.

Jackson: Why did you build R-Token on Ethereum?

Sacks: R-Token would work fine on other blockchains, but there are big advantages to using Ethereum. The killer feature of Ethereum is ERC20, which creates a standard interface for tokens. By building the R-Token standard as an additional layer on ERC20, all security tokens issued as R-Tokens will automatically be compatible with all the wallets and exchanges that already support ERC20. Yet, R-Tokens are fully compliant securities.

Jackson: But what about scalability? The big knock on Ethereum is that it's not scalable. Is that your biggest risk in backing Harbor or making any bet on Ethereum?

Sacks: If we had to move off Ethereum, we could, but I'm pretty optimistic scalability will get solved. Historically, scalability has been a high-class problem that occurs because a new technology gains rapid adoption. That popularity is precisely what attracts the resources necessary to solve the problem. This has been the pattern going back to our own experience with early scalability challenges at PayPal or to the "fail whale" at Twitter.

Jackson: Is it your view that the utility tokens we've seen in ICOs in the past year or so are going to move to become security tokens eventually?

Sacks: I think there's a very legitimate argument that utility tokens are not securities, because they perform a role in a software ecosystem and are more akin to a software license. That said, R-Token could provide a migration path if regulators decided otherwise.

That's not part of our plan, however. We're really focused on helping to create a new category of regulated asset ICOs. There have been thousands of ICOs for utility tokens. There have only been a couple of ICOs for securities. That seems very out of whack to us. In the long run, we actually think there should be more asset tokens than utility tokens, because there are far more assets in the world than viable open-source software protocols.

Jackson: What do you think the future of security tokens looks like?

Sacks: I'm a token maximalist. I believe that a wide range of assets and many forms of value will ultimately tokenize because ownership belongs on a blockchain. After all, the original reason why the blockchain was invented was to track ownership. It was originally ownership of bitcoin, but it could be ownership of any asset. In one of your previous interviews, **Balaji Srinivasan** made the point that ownership will get blockchained the same way that content got packetized. I agree with that.

If you told people in the early 1990s that every disparate form of content — TV, movies, music, news, photography — were all the same thing and would all be turned into packets on the internet, massively disrupting those industries, people would have thought you were crazy. Something analogous is true today about the disparate forms of ownership that will ultimately be blockchained. As a start, open-source software protocols, security tokens, derivatives, prediction markets — all of these will be turned into ERC20 tokens in 2018.

This is one of the themes we are building our investment portfolio around — to facilitate a complete framework for a crypto-securitized world: Bitgo/Kingdom Trust for institutional security/custody; Harbor for the creation of ICO-able security tokens; and 0x Protocol for the discovery of counterparties and decentralized exchange. If we look forward five to 10 years, we envision all of these pieces interacting to create a new kind of global, digital capital market that is built on standard interfaces and open-source software, and therefore is a new platform for a wide variety of innovation that is just getting started.

Jackson: Thanks, David.

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Eric Jackson
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