

The background of the slide features three ripe oranges resting on a dark, textured wooden surface. The oranges are positioned in the upper left, center, and lower right areas. The text is overlaid on this image.

# **Regulatory Considerations for Dapp Development**

**An Introduction to Coin Center  
and an update on policy issues.**

**Peter Van Valkenburgh, Director of Research at Coin Center**

# **What is Coin Center?**

**Our mission is to build a better understanding of cryptocurrency and decentralized computing technologies like Bitcoin and Ethereum and to promote a regulatory climate that preserves the freedom to innovate using open, permissionless blockchain networks.**

**DECENTRALIZE ALL THE THINGS**



## THE TEAM



**Jerry Brito**  
Executive Director



**Robin Wesiman**  
Senior Policy Counsel



**Peter Van Valkenburgh**  
Research Director



**Neeraj Agrawal**  
Communications Director



**Antonie Hodge**  
Operations Director

## OUR SUPPORTERS



ANDREESSEN  
HOROWITZ



*bitpay*



BLOCKCHAIN



CETERUS



coinbase



Genesis

Grayscale



Ribbit Capital



xapo

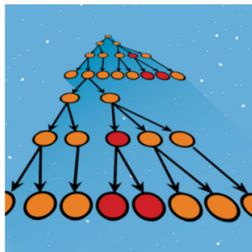




The background is a nighttime photograph of a city street. In the center, a large, illuminated building with a dome, likely a state capitol, is visible in the distance. The street is dark, but there are long, horizontal light trails from vehicles, with white trails on the left and red trails on the right. Trees line both sides of the street, and streetlights are visible. The overall scene is dark with some bright highlights from the lights and the building.

# **What we do: Education Policy Research Advocacy**

# Backgrounders



## How can law enforcement leverage the blockchain in investigations?

**Jason Weinstein** • May 12, 2015

Former federal prosecutor Jason Weinstein explains how the nature of Bitcoin's underlying blockchain can be good news for law enforcement, and how law enforcement can ultimately be good news for Bitcoin.

[Read More](#)



## What is OFAC and how does it apply to Bitcoin?

**Joshua Garcia** • May 5, 2015

Attorney Joshua Garcia explains what OFAC is, how it can interact with cryptocurrency businesses, and why it “always applies.”

[Read More](#)

# Reports

## State Digital Currency Principles and Framework

Peter Van Valkenburgh & Jerry Brito

Version 1.3  
Oct. 2015

Coin Center Report





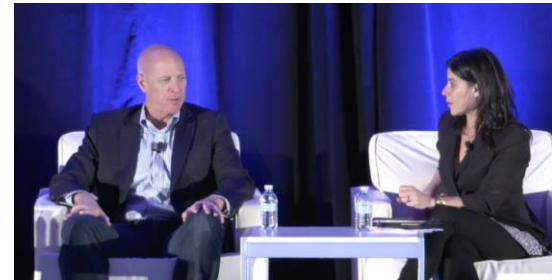
# Regulatory Filings



## **Comments to the European Securities and Markets Authority on its Consultation on Distributed Ledger Technology Applied to Securities Markets**

Our comments on ESMA's conclusion that "open" or "permissionless" blockchains may be inappropriate for financial services in its discussion paper entitled, "The Distributed Ledger Technology Applied to

# Testimony and Briefings





The background of the slide features three ripe oranges with vibrant orange and yellow hues, some still attached to green leaves. They are arranged on a dark, textured wooden surface with vertical planks. The lighting is soft, highlighting the texture of the fruit and the wood.

# **Regulatory Considerations for Dapp Development**

# Why *Securities Laws* and Dapp Tokens?

Securities Laws are *Heavy Duty* Regulation.

Crowdsales and Presales may subject developers to securities regulation.

Several Scams have drawn attention to this area.

Several vocal pundits have already suggested that *all* appcoin/crypto crowdsales qualify as unregistered securities issuance.

# Why *US* Securities Laws?

If you have any US purchasers you are subject to US Securities Regulations

US Securities Law are the Most Broadly applied.

In other jurisdictions, there is generally an enumerated list of what arrangements constitute a “security,” in the US there is a flexible and court-adjudicated test.

The US Securities and Exchange Commission is already investigating Paycoin.  
The DAO got the attention of some staff.



# Why are US Securities Laws Broadly Applied?

Definition of Security includes an undefined term: “investment contract”

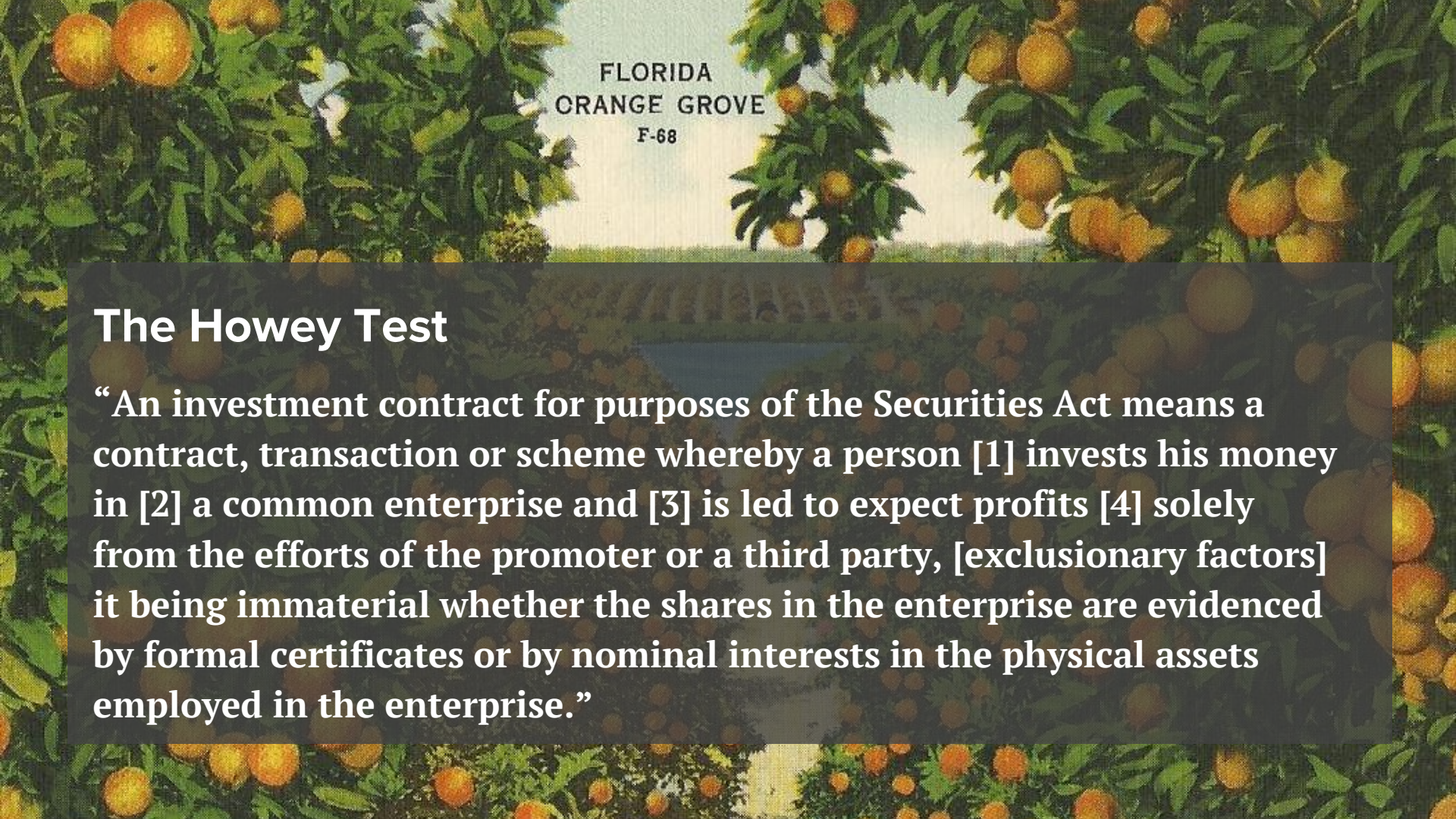
Term has been defined by Federal Courts

Courts have sought to ensure that definition is inclusive in order to reach:

*“the countless and variable schemes devised by those who seek the use of the money of others on the promise of profits”*

Primary Case is *SEC v. W. J. Howey Co.*

From that case we get the Howey Test for a Security

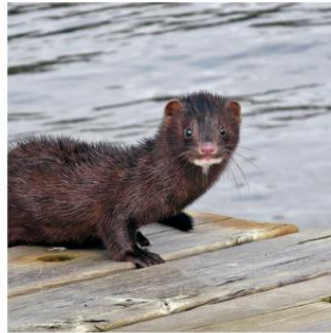
A vintage postcard featuring a lush orange grove with ripe fruit hanging from the trees. The scene is framed by the branches and leaves of the trees. In the center, there is a rectangular area with a light background containing the text 'FLORIDA ORANGE GROVE' and 'F-68'.

FLORIDA  
ORANGE GROVE  
F-68

## The Howey Test

“An investment contract for purposes of the Securities Act means a contract, transaction or scheme whereby a person [1] invests his money in [2] a common enterprise and [3] is led to expect profits [4] solely from the efforts of the promoter or a third party, [exclusionary factors] it being immaterial whether the shares in the enterprise are evidenced by formal certificates or by nominal interests in the physical assets employed in the enterprise.”





# What Is PayCoin™?

PayCoin™ is a global currency that lets you send money to anyone, anywhere, anytime.  
Sending and accepting money is totally free, lightning fast and insanely easy  
- whether you're a person or a business.

Purchase PayCoin

Buy Now

# Framework for Securities Regulation of Cryptocurrencies

Version 1  
Peter Van Valkenburgh  
January 2016

Coin Center Report



## Likely to qualify as securities:

### Closed-source or low-transparency

cryptocurrencies because without visibility into the operation of the technology there is no reason to believe that profits come from anything other than a promoter's hype.

Open but heavily marketed **pre-sales** or sales of **pre-mined cryptocurrencies** with a **small and non-diverse mining and developer community** when the facts indicate that profits come primarily from the efforts of this discrete and profit-motivated group.

Cryptocurrencies with **permissioned ledgers** or a **highly centralized community of transaction validators**.

## Framework for Securities Regulation of Cryptocurrencies

Version 1  
Peter Van Valkenburgh  
January 2016

Coin Center Report



## Less likely to qualify as securities:

### **Highly decentralized cryptocurrencies** (e.g.

Bitcoin, Litecoin) because of a lack of vertical commonality or a discernible third party or promoter upon whose efforts investors rely.

### **Sidechained** Cryptocurrencies/Blockchains

because there is no expectation of profits if value pegged to their existing bitcoin holdings.

Cryptocurrencies where initial distribution is made through **open competitive mining or proof-of-burn** because there is no investment of money.

### **App-Coins or Distributed Computing Platforms**

(e.g. Ethereum) because participants seek access to these tokens for their use-value rather than an expectation of profits.



# Key findings for Appcoins or Dapp Tokens

The following are less likely to be treated as securities:

Token was purchased for *use-value* rather than profit expectation.

(Condominium cases: *Goldberg v. North Wabash Venture, United Housing*)

Token was purchased after application is already up and running.

(Country Club cases: *Silver Hills Country Club v. Sobieski, All Seasons Resorts*)

Token's value is dependent on the purchaser's own efforts and/or the efforts of a large number of other unaffiliated investors/users/developers.

# Some things to avoid.

Language that suggests securities issuance:

Initial (coin) Offering

Profit Sharing

Endorsing risky ventures or claiming endorsements:

Severe penalties can await anyone who is deemed a “promoter” of an unregistered security.

The definition of “promoter” is vague.

The background of the image shows three oranges with green leaves resting on a dark, textured wooden surface. The oranges are positioned around the central text, with one in the upper center, one in the lower left, and one in the lower right. The lighting is soft, highlighting the texture of the oranges' skin and the grain of the wood.

**Please don't hesitate to  
contact us.**

**[peter@coincenter.org](mailto:peter@coincenter.org)**