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Why Zenon Is Regulation-Proof

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In the Crypto Wild West, short-term traders are not as concerned with the potential future classification of their investment. But long-term holders are, and this article is for them.

We are going to cover:

1. Why does it matter if something is classified a security?
2. How does the SEC decide if something is a security?
3. Why Zenon Network is not a security
4. The consequences of being a community-run project

Disclaimer: This article is not financial advice and may contain speculation.
My opinions are my own only and I have not been elected to represent
Zenon in any way.



1) Why does it matter if something is classified as a security?

The SEC refers to an agency of the U.S. government which is tasked with overseeing the securities market and protecting investors. Their power to enforce laws and regulations is technically limited to America, but obviously

America's dominance makes the global markets pay close attention to SEC decisions.

Registering as a security already has significant drawbacks, such as disclosing the identity of the individuals involved and having to comply with requirements as determined by people with interests potentially counter to the crypto project's interests. **It is obviously self-defeating to challenge the current financial system while having that system sit on your shoulder and oversee everything that you do.** This is why crypto projects do not register as securities, and they also claim to not be securities regardless of whether that is true or not.

But the consequences are even more severe if the project is classified as an unregistered security. The law can be enforced which leads to being delisted from exchanges, hefty fines and a tarnished reputation. The SEC classification of the coins is therefore important to long-term investors.

2) How does the SEC decide if something is a security?

It is important to understand that crypto is a new phenomena and as such the SEC's approach to crypto is evolving. Furthermore, just because they can classify something as a security, does not mean that they will ... for example, maybe the people with the power to enforce the law have a financial conflict

of interest, in which case they choose not to enforce it. With Bitcoin's growing adoption and popularity, we are already seeing powerful entities in America publicly backing it. If Zenon does eventually make Bitcoin smart and scalable, it is unlikely anyone will try all that hard to hit Zenon with regulations, as they would be indirectly hurting themselves financially. However the game-theory of that scenario cannot and should not be relied upon — so we will examine **the Howey test** and see if it applies to Zenon in the next section.

The Howey test comes from a U.S. Supreme Court decision in 1946. To be considered a security, the asset must satisfy all of the following elements: 1) investment of money, 2) common enterprise, 3) expectation of profits; and solely from the efforts of others.

3) Why Zenon Network is not a security

The prongs of the Howey test will be contested where it is reasonable to do so. The format will be a screenshot from an SEC document, followed by a counter-response underneath the image. The 'Framework for “Investment Contract’ of Digital Assets' from the website of the SEC will be referred to.

A. The Investment of Money

The first prong of the *Howey* test is typically satisfied in an offer and sale of a digital asset because the digital asset is purchased or otherwise acquired in exchange for value, whether in the form of real (or fiat) currency, another digital asset, or other type of consideration.⁹

Screenshot 1

Response to Sceenshot 1. In Zenon there was not technically a sale for ZNN or for QSR; there was a public bond with only one condition to be satisfied. So was the digital asset purchased? No. Was it “acquired” via an “exchange” of value? It was acquired yes, but was there an exchange? Investors did not part with anything, they only gained. They were given ZNN and they were refunded their BTC in full if they satisfied the condition of the bond. The SEC could argue there was an exchange of value, in the sense that investors had to reliably run infrastructure during the snapshots to satisfy their bond condition; so a service was provided in exchange for the coins. But this is a weak argument in contentious legal territory, especially when you consider what ZNNAlien’s ‘bond contract’ actually was. A couple of images shared on Twitter from an account ran by anonymous people, in an industry filled with scammers? Where are the identities of the involved parties? Where are the signatures and witnesses to said signatures? **Most importantly: Were the investors even told this at the time of the distribution of coins?** Or did it

come later as a surprise, as in the case of QSR? From their initial perspective it was a sale, but from the network's perspective it was always a bond ...

A more accurate summation is the founders of Zenon decided to allocate more capital to people who were reliably running infrastructure:

- **ZNN was distributed via a public bond**, with only one condition. Investors had to reliably run their ZNN node, as determined by a series of snapshots. As long as they did that, the BTC they sent was returned to them 100% in full.
- **QSR was distributed via an air-drop**, with only one condition. Investors had to reliably run their ZNN node, as determined by a series of snapshots. As long as they did that, 5k ZNN nodes were given 50k QSR and 15k ZNN nodes were given 150k QSR.

C. **Reasonable Expectation of Profits Derived from Efforts of Others**

Usually, the main issue in analyzing a digital asset under the *Howey* test is whether a purchaser has a reasonable expectation of profits (or other financial returns) derived from the efforts of others. A purchaser may expect to realize a return through participating in

Screenshot 2

gain in a secondary market. When a promoter, sponsor, or other third party (or affiliated group of third parties) (each, an “Active Participant” or “AP”) provides essential managerial efforts that affect the success of the enterprise, and investors reasonably expect to derive profit from those efforts, then this prong of the test is met. Relevant to this inquiry is the “economic reality”¹² of

Screenshot 3

Response to Screenshots 2 & 3. In Zenon the founders are anonymous, the only known member being the pseudonymous ‘Mr Kaine’ who the SEC would classify as an official promoter or ‘AP’. Kaine has historically communicated exclusively through Telegram messages and Twitter/X posts. It is unknown if Kaine is one person or multiple people.

So has there been an expectation of profits derived from his efforts? There are actually two elements to address within this third prong of the Howey test. It is not usual to contest the first element (expectation of profits), as Zenon’s main argument is the second element (derived from his efforts) but on analysis, in Zenon’s case we can actually strongly contest both.

Expectation Of Profits

The more the following characteristics are present, the more likely it is that there is a reasonable expectation of profit:

Screenshot 4

Response to Screenshot 4. Already we can see this is an inexact science, as no one characteristic is determinative. Instead, they must be weighed against each other to see what the overall conclusion is.

- An AP creates or supports a market for,¹⁷ or the price of, the digital asset. This can include, for example, an AP that: (1) controls the creation and issuance of the digital asset; or (2) takes other actions to support a market price of the digital asset, such as by limiting supply or ensuring scarcity, through, for example, buybacks, “burning,” or other activities.

Screenshot 5

Response to Screenshot 5. In 2021, it is true that Kaine created the BSC bridge where legacy ZNN could be sent to be traded with BNB. So he did create a market for the price of the digital asset. But as already noted, satisfying one characteristic does not seal the argument — other characteristics must be considered.

- The future (and not present) functionality of the network or digital asset, and the prospect that an AP will deliver that functionality.

Screenshot 6

Response to Screenshot 6. The future functionality of the network yes, but not the prospect that Kaine would deliver that. He repeatedly said that the community will have to take control of the project and build the milestones required for a “Phase 1 delivery” as the network was far from finished, and very far from the vision which itself was never even articulated. More on this later though.

- The AP has raised an amount of funds in excess of what may be needed to establish a functional network or digital asset.

Screenshot 7

Response to Screenshot 7. As already mentioned, ZNN was a public bond and Kaine returned as much of the Bitcoin as he could; it is not his fault that some investors were unreliable with running their nodes during the snapshot. It seems as though he did not raise funds in excess; it seems like he actually planned to raise no funds at all. This should create an

expectation that he will not be able to deliver much for the network. Any speculation contrary to this can be attributed to a confirmation bias.

- The digital asset is marketed, directly or indirectly, using any of the following:

Screenshot 8

- The potential profitability of the operations of the network, or the potential appreciation in the value of the digital asset, is emphasized in marketing or other promotional materials.

Screenshot 9

Response to Screenshots 8 & 9. Kaine never emphasised or even mentioned price in any of his communications, let alone in his marketing on Twitter. Kaine was always a techie who conveyed his passion for the tech and admiration for Bitcoin's ideals. The closest he came to ever mentioning the price was a fun post on Twitter/X in 2019 during the “Bitcoin Pizza Day”, which was just a nod to Bitcoin's culture. Another time a bullish “crypto influencer” was retweeted, but they have also retweeted someone who later scammed the DAO's treasury by not delivering an article after being paid to do so (John-Z that rascal), which lends weight to their disclaimer at the time:

“Retweets are not endorsements.” For all we know, Kaine was highlighting some posts to invite debate and expose them to fair scrutiny.

- The availability of a market for the trading of the digital asset, particularly where the AP implicitly or explicitly promises to create or otherwise support a trading market for the digital asset.

Screenshot 10

Response to Screenshot 10 (this characteristic is in relation to marketing performed by the AP). In the Kaine era, the availability of a trading market was inconsistent and there was no explicit promise to change this either. If you look at the period of time from late November 2021 to 12th of February 2022, the BSC bridge was 1-way for 3 months meaning the coins were trapped inside SYRIUS. Investors had no idea for how long the coins would be trapped there. There was no explicit mention of when the bridge would become 2-way. Many people asked when, but Kaine ignored investors for months, typical behaviour from him.

From The Efforts Of Others

In evaluating whether a digital asset previously sold as a security should be reevaluated at the time of later offers or sales, there would be additional considerations as they relate to the “reasonable expectation of profits,” including but not limited to:

- Purchasers of the digital asset no longer reasonably expect that continued development efforts of an AP will be a key factor for determining the value of the digital asset.

Screenshot 11

Response to Screenshot 11. Firstly, there are no “continued development efforts of an AP” after Kaine delivered his last work in 22nd of April, 2022. Kaine released “Accelerator-Z” which is the on-chain funding mechanism. It allows anyone in the world to submit a proposal through the SYRIUS wallet, and if successful they would be paid in ZNN and QSR coins from the network’s treasury in exchange for adding value to the ecosystem. Your country of origin, your university degree, your appearance — these are all antiquated barriers to contribution. Kaine knocked them all down and delivered AZ to make it viable for global talent to work for Zenon. As such, the network no longer needed him and investors would instead have to rely on community developers (who now had a way to be paid via AZ proposals).

Although no one of the following characteristics of use or consumption is necessarily determinative, the stronger their presence, the less likely the *Howey* test is met:

- The distributed ledger network and digital asset are fully developed and operational.
- Holders of the digital asset are immediately able to use it for its intended functionality on the network, particularly where there are built-in incentives to encourage such use.

Screenshot 12

Response to Screenshot 12. Again a reminder that nothing is determinative, the points must be stacked and weighed against one another. Investors could not use it for its “intended functionality” for two reasons. Firstly, the tech was incomplete. As outlined in the draft whitepaper, the majority of things had not been built yet; for example the sentinels were inactive and did not take part in the consensus, they were just placeholders.

Secondly, what was the intended functionality? The draft whitepaper was a draft, and just a discussion of the tech divorced from all else it touches. Kaine never even explicitly gave a vision. In fact, when asked, he simply said his vision was the community’s. That sounds rather outcome-agnostic, like he is more concerned with the process being done right. As long as the community is walking on its own two feet without his help, he is happy.

- Any economic benefit that may be derived from appreciation in the value of the digital asset is incidental to obtaining the right to use it for its intended functionality.
- The digital asset is marketed in a manner that emphasizes the functionality of the digital asset, and not the potential for the increase in market value of the digital asset.
- Potential purchasers have the ability to use the network and use (or have used) the digital asset for its intended functionality.

Screenshot 13

Response to Screenshot 13. The SEC also considers how the tokens are being used; if they're being "consumed" or if they "have a use". In Zenon, they are both utility coins integral to the functioning of the network. ZNN is used for a functional governance as it lets the users order the validators through delegation, meaning that more capital is minted for those "doing good" in the ecosystem. QSR is used for managing transaction throughput as demand changes (an innovation on the gas concept as from a network perspective QSR allows for fast & complex feeless transactions). Both coins are required for running infrastructure. So people buying and selling the coins as speculators are just a byproduct; they are utility tokens whose primary use is for the network's governance, gas and infrastructure.

4) The consequences of being a community-run project

This lack of a central operator and lack of leadership is good in the long-run, but has issues which become apparent in the short-term. This shows for both tech and marketing.

In tech, there is currently a debate across the forums about altering the plasma generation model. Some want to add ZNN fees as an additional option, others want to keep it to just PoW and dynamic plasma. The impact on incentives, tokenomics and defending against an attacker are all being discussed and debated. Notably, there is no Mr Kaine to weigh-in and resolve the discussion.

In marketing there is some collaboration, there are also competing factions who advocate for different approaches. The 'official site' zenon.network is being largely left alone while others spin up their own websites to compete. Again, no Mr Kaine to step-in and unify everybody.

Speaking of which, on the 27th of July, 2023 Kaine air-dropped the keys to the Github and Twitter/X to the community. He passed all of his power on to trusted members of the community, a clear signal he was preparing to pull a Satoshi and vanish soon. They weren't just people of good reputation, they were people who had specifically built a reputation within Zenon with sweat-equity. Mehowz for example was a growth-hacker from Thorchain; but he had done work with ZenonORG building a landing page, educational

content, tutorials, job listings, a marketing attribute system and engagement on Twitter under the ZenonOrg handle. There was also DeeZNNutz and his work coordinating between developers and with Zenon Info's landing page, educational content as well as news & updates, and engagement on Twitter under the Learn_Zenon handle. Both had demonstrated many hours of commitment to Zenon and embodied the spirit of taking action. Mr Kaine transferred the last of his power to the community so they could make their own vision and build it out themselves.

Conclusion

Zenon's unique and principled launch is largely driven by philosophical reasons, but there are also legal and regulatory ones. As we've seen, the principled approach of the idealistic Mr Kaine has given Zenon a buffer of protection against potential future regulations.

The resulting teething issues of being community-run can also be seen as a blessing in disguise, because rather than having single-points of failure we are a decentralised network with multiple players each trying their own approach. The one thing they all do have in common? They are all united in wanting what's best for Zenon. Over time, it will become more and more clear just how strong that makes the network's foundation. Anonymous founders, open-source and community-run — just like Bitcoin.

Thanks for reading!

– Zyler

Sources

[The SEC Website](#)

[‘Framework for “Investment Contract’ of Digital Assets’](#)

Join The Community

[Zenon.Network](#)

[Twitter/X](#)

[Telegram](#)

[Discord](#)

Zenon Community Public Key:

npub1msvlamqj6j5azykts7sewtzr062a0km0p4hajw2dmchtm5xpz0aqylw09w

The Zyler Reading List

1. [The Zenon Storybook](#) (updated version coming soon)
2. [Progressive Decentralisation](#)
3. [A Blistering Need For Speed](#)
4. [Alien Plans For Bitcoin](#)

5. Why Zenon Is Regulation-Proof

6. Zenon's Synergy With Nostr

7. Merged Mining Bitcoin (updated version coming soon)

8. How Zenon Mirrors The Bitcoin Ethos

9. The Zenon Ethos

10. Zenon Network: A Noir Story

11. The Dream of Satoshi's Ethereum

12. Zenostroin (Coming 2024)



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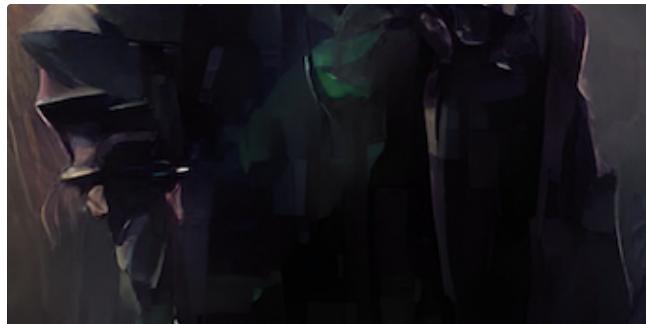
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- Recovered Saudi Arabia checkout failure impacting 4000+ customers due to incorrect GET form redirection

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- Implemented Docker with Seccomp to safely run user submitted code with < 2.2s runtime

HeatMap (JavaScript)

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- Implemented Express to include routing between pages and jQuery to parse Google Map and implement heatmap overlay



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