

Goodmans^{LLP} Update

Ontario Securities Commission Approves Settlement with Crypto Consulting Firm

The Ontario Securities Commission (OSC) recently approved a settlement agreement with cryptocurrency consulting company CoinLaunch Corp over allegations the company engaged in, and held itself out as engaging in, the business of trading in securities, without being registered to do so.

Under the settlement agreement, CoinLaunch will pay more than \$50,000 in penalties, costs and disgorged profits. The agreement also prohibits the firm from trading in or acquiring any securities or derivatives for five years.

The Allegations

Founded in 2017, CoinLaunch initially operated a platform whereby members of the public could develop tokens on the Ethereum blockchain. However, soon thereafter, the Oakville, Ontario-based company shifted its business to providing a web-based service that helped companies build, deploy and monetize end-to-end initial coin offerings (ICOs).

According to the OSC, from March 1, 2018 to September 30, 2018, CoinLaunch advertised and provided services to issuers of crypto-asset tokens and assisted clients with administering and promoting crypto-asset token offerings. The firm helped with soliciting investors, marketing offerings and taking new virtual currency offerings on roadshows. Taken together, the OSC found these services constituted acts in furtherance of trades, requiring registration as an advisor under Ontario securities laws.

Specifically, the OSC found that CoinLaunch facilitated the offerings of two tokens which were deemed to be securities: the Buggyra Coin, launched by a truck-racing team from the Czech Republic and the EcoRealEstate token, which was issued to finance the acquisition and development of a resort in Portugal.

The Settlement

During the investigation, CoinLaunch cooperated with the OSC and took steps to remediate its conduct, including ceasing its business relationship with token issuers and removing websites created for crypto-asset token issuers.

Under the settlement, CoinLaunch will pay over \$50,000 in administrative penalties, disgorged profits, and costs to the OSC, and the company agreed to delete the private keys for the Buggyra Coin and EcoRealEstate tokens received by CoinLaunch as payment for their services, rendering such tokens inaccessible.

Furthermore, CoinLaunch is prohibited from trading in or acquiring any securities for five years, and the company's founder and CEO has undertaken not to act as a director or officer of any company engaging in, or holding itself out as engaging in, the business of trading in securities without registration under Ontario securities laws.

According to the statement of allegations, CoinLaunch is in the process of winding up its business and has filed notice of its intent to dissolve.

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Implications

The CoinLaunch settlement underlines that all participants involved in the cryptocurrency sector – and not just token issuers – must carefully consider the potential application of securities laws to their activities beyond distribution and trading of tokens. CoinLaunch's difficulties demonstrate how ancillary activities, such as advising token issuers or otherwise facilitating an ICO, may also be subject to regulation. As CoinLaunch discovered, being unaware of these requirements is no defense. Therefore, companies who facilitate crypto-asset offerings should determine whether securities laws, including registration requirements, apply to their activities.

The CoinLaunch settlement is the second significant regulatory development involving a Canadian crypto company in recent months. In June of this year, the U.S. Securities and Exchange Commission sued Canadian company Kik Interactive Inc. alleging the company's 2017 sale of approximately US\$100 million of its "Kin" tokens amounted to an illegal offering of securities. For further information on the Kik suit, see our June 5, 2019 Update, [SEC Sues Canadian Company for Conducting Illegal Token Offering](#).

Cases such as CoinLaunch and Kik signal that regulators are pursuing enforcement actions for securities law violations relating to ICOs and cryptocurrency trading and provide further clarity on regulators' perspective on the application of existing laws to those activities. What remains less clear is whether, or when, a new framework for regulating the cryptocurrency sector might be introduced.

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