

Special Report **Initial coin offerings**

SEC cyber unit eyes initial coin offerings with suspicion

As corporate fundraising evolves, investors need greater protection



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Ben McLannahan in New York MARCH 15, 2018

PlexCorps was the latest in a long line of hot initial coin offerings. The Montreal-based company had published a white paper, setting out the ways in which it would shake up the world of payments.

It had raised \$15m from thousands of investors. In a Facebook user group, people were talking excitedly about a “bitcoin killer”.

But the Securities and Exchange Commission had seen enough. Early in December it froze assets and [filed charges](#) against PlexCorps’ chief executive, Dominic Lacroix, who had previously faced allegations of securities violations north of the US border.

This time, Mr Lacroix was making extravagant claims of a 1,354 per cent profit in less than a month; and the SEC said it had evidence that he and his partner, Sabrina Paradis-Royer, had diverted some of the ICO proceeds to spend on [home improvements](#). Mr Lacroix could not be reached for comment.

It was the debut action from the SEC’s new cyber unit, a special team of about two dozen attorneys set up in September last year to crack down on cyber-related misconduct.

\$5.5bn

Total amount raised in 2017 by initial coin offerings

It was a very good case to begin with, says William Mougayar, a Toronto-based author and producer of the Token Summit, a conference about the emerging token-based economy, in New York and San Francisco.

“The SEC showed they’re watching this space very diligently and are able to find out about companies not doing things 100 per cent right,” he says.

At the same time, the Washington DC-based agency demonstrated a willingness to reach beyond America’s borders. “It was a clear message to the market,” Mr Mougayar adds.

For Robert Cohen, too, it was good to get going. He had been appointed as the cyber unit’s first head, after two years as co-head of the market abuse unit within the enforcement division.

Akin to Eliot Ness, a Prohibition-era crime fighter, in baggy white shirt and braces, he had supervised cases such as an action against a Bulgarian trader for manipulating stocks through false filings to the SEC’s online public database. There was also an action against a clerk at a national law firm whose tips were passed on at New York’s Grand Central Terminal railway station.

At the cyber unit, the sixth specialist unit to be set up in the enforcement division and the first since 2010, Mr Cohen says he wants to focus on three broad areas of [activity](#).

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STEVEN GROSSMAN, VICE-PRESIDENT OF STRATEGY, BAY DYNAMICS

First is trading-related abuses: stealing information online for the purpose of insider trading or breaking into accounts to steal assets, trade against them or manipulate markets.

Second is cyber security, requiring public companies to think very carefully about disclosure obligations with respect to major incidents.

“Everyone’s now realised the risk of breaches and are all scrambling to put the right procedures in place,” says Steven Grossman, vice-president of strategy at Bay Dynamics, a cyber security software company.

Mr Cohen’s final area of focus is [cryptocurrency matters](#) such as ICOs, in which a company sells digital tokens that can eventually be redeemed for goods and services.

The coins can be traded in a secondary market, which the SEC says makes them securities and subject to its oversight. As a result, officials say many ICOs should be registered with the agency.

1996

Year of the landmark case by the SEC against William B Sellin

\$3bn.

“The key point is that innovative ways to raise capital are a great thing; it’s a core part of our mission, to support capital formation,” says Mr Cohen, who served as a law clerk in the US District of Maryland and in private practice, before joining the SEC in 2004. “But we also have to protect investors,” he adds.

Hence the dozens of subpoenas and requests for information that the SEC has made. The data requested typically include lists of investors, marketing materials, amounts raised, the location of the funds and the people involved.

“I think we’ve had an impact. I think we’ve gotten people’s attention,” says Mr Cohen.

This is why the SEC needs to keep on top of cases such as PlexCorps, which despite some novel features have plenty in common with decades-old scams.

David Chase, a former SEC prosecutor now running his own firm in Fort Lauderdale, Florida, recalls a landmark case in 1996, when a convicted felon named William B Sellin offered promissory notes through internet bulletin boards and advertising on CompuServe, the first big internet service provider in the US.

The securities were supposed to be linked to US Treasuries (they were not). Sellin said he could “guarantee” returns of anywhere from 12 per cent to 22 per cent annually (he could not).

“It is new and yet it is old,” says Mr Chase, of today’s ICO craze. It is a constant fight, he adds, between regulators and the “creativity of the fraudsters, trying to stay one step ahead”.

FT Cyber Security Summit Day 1

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