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Blockchain Bites: Cuban Criticism, Crypto Rating Council formed, NBA disallows contract tokenization

Mark Cuban gives a frank assessment on blockchain and cryptocurrencies, the Crypto Rating Council is formed by a crypto consortium, and the NBA intervenes to bring a stop to the modern day Bowie Bond. Michael Bacina, Tom Skevington, Louisa Xu and Petros Xenos bring you a round-up of the latest legal, regulatory and project updates in Blockchain.

Security Token Offerings To Debut In Japan Next Year

Japan has pushed forward plans to allow digital security offerings as early as April next year in an attempt to catch up to the rest of East Asia. Leading Japanese old-line and online brokerages formed an association last Tuesday in order to set clear rules for issuing blockchain-based digital securities.

The association plan to establish a digital securities watchdog, and to propose rules for self-regulation, involving greater clarification of disclosure requirements, to the Japanese Financial Services Agency by March 2020. Other associations have been formed around digital securities in Japan previously, but without brokerages involved there was an ever present hurdle to FSA approval.

Mark Cuban: Crypto Critic – Believes in Blockchain not Bitcoin

Mr Mark Cuban, the billionaire star of the popular pitch show Shark Tank and owner of the NBA team the Dallas Mavericks, gave an interview responding to questions from Twitter in which he gave a frank assessment of blockchain and cryptocurrencies. Cuban drew on the lack of intrinsic value stored in Bitcoin, even drawing a comparison on the between Bitcoin and collectibles such as baseball cards, art, and comic books.

Cuban also, somewhat ironically, compared Bitcoin to a commodity with an intrinsic value, gold. In contrast to his relatively dour outlook on Bitcoin, Cuban qualified his pessimism about Bitcoin by stating that a great argument could be made for value in blockchain technology.

Crypto consortium creates crypto classification council (aka Crypto Rating Council)

A group of crypto businesses mostly made up by crypto exchange operators have created the Crypto Rating Council. The Council was established to create a quantitative framework to rate the likelihood of certain cryptocurrencies being considered securities under US law. The founding members of the Crypto Rating Council are Coinbase, Kraken Digital Asset Exchange, Circle (operator of Poloniex), Bittrex, Anchorage, DRW Cumberland, Genesis Exchange and Grayscale Investments.

Cryptocurrencies analysed by the Council are assigned a score between 1 and 5. A score of 1 means the Council's analysis suggests the asset is very unlikely to be characterised a traditional regulated security in the USA. A score of 5 suggests that the crypto is likely to be characterised as a security. As yet there is no Australian equivalent.

Block.one Binds into Settlement with SEC

Block.one, which conducted a multi-year token sale into the billions of dollars to create the EOS blockchain, made an announcement last week that it had reached a settlement on a "no-admissions" basis with the U.S. Securities and Exchange Commission (SEC) under which it will pay a USD$24M fine. This was a marked departure from earlier SEC enforcement actions where ICO offerors inside the USA were required to repay funds to participants in the offer.

Importantly, the SEC included a waiver in the settlement which may be useful for Block.one in the future. Block.one can conduct future offerings of tokens if they are compliant with US law (ie. Reg A or Reg D offerings). This waiver is appears important to Block.one, featuring prominently in the formal request for waiver submitted by Cooley, lawyers for Block.one.

NBA calls foul on Brooklyn Net's star's plan to tokenize his NBA contract

The news that the National Basketball Association (NBA) star Spencer Dinwiddie was planning on issuing structured debt securities backed by his NBA player contract on the Ethereum blockchain through tokens called Professional Athlete Investment Tokens was met with eager posts by the blockchain community. However, the NBA intervened to bring a stop to this modern day Bowie Bond.

The NBA rejected Dinwiddie's tokenization on the grounds of Dinwiddie's player contract, which states that "no player shall assign or otherwise transfer to any third party" his right to receive compensation from the team under his uniform player contract. Mr Dinwiddie took the position that the sale of SD8 tokens was not an assignment or transfer of his right to receive compensation. It remains to be seen if he is willing to go to war with the NBA over the issue.

To save Kin, Kik kills Kik messenger?

Kik recently announced that it would be shutting the KiK messenger and downsizing to "an elite 19 person team" in a bid to survive the SEC lawsuit running in relation to the nearly USD$100M Initial Coin Offering operated by Kik in 2017 in which the Kin token was offered.

Kik messenger had 300 million users and 600,000 active monthly users, with 40% of teenagers in the USA using the app (in 2016 at least). Questions were being rapidly asked as to why and how a company which raised USD$100M in 2017 for a token which was designed to be used inside of the Kik messenger, is now terminating the messaging service all together.

Ukraine moving to regulate cryptocurrencies

Ukraine has been in most Western media recently for President Trump related matters, but a recent article in Ligamedia has quoted Mikhail Fedorov, Digital Transformation Minister, as pointing to a move to regulate cryptocurrencies.

While cryptocurrencies are not illegal in Ukraine (unlike in India which is seeing a "brain drain" as talent relocates out of that country), they have existed in a grey area. However, there seems to be a strong financial incentive behind Minister Fedorov's push, as he referred to tax needing to be paid by traders.

Bank for International Settlement's Statements on Blockchain Regulation

The Bank for International Settlements recently published a working paper on building

regulation into blockchain finance. The paper argued that "while regulation should remain technology-neutral, supervision should evolve in parallel with technology." This is a positive sentiment however, "should" remains the key word.

As it stands, the blockchain space is moving so fast that governments and regulators are unable to invest time and money into making sure regulations can enable the latest changes. The concept of embedded supervision in the paper is an interesting one, as it cuts right to the heart of what made many enthusiastic about blockchain in the first place (ie automated compliancy). The paper also adopted the Swiss Financial Market Supervisory Authority FINMA's recent use of the "same risk, same regulation" principle from its stable coin guidance.