

[Securities Regulation Daily Wrap Up, TOP STORY—Blockstack launches first SEC-qualified token offering, \(Jul. 11, 2019\)](#)

Securities Regulation Daily Wrap Up

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By [Anne Sherry, J.D.](#)

Through the Reg A+ offering, Blockstack will raise up to \$28 million to grow its existing "can't be evil" computing network.

The first token offering under Regulation A+ launched this morning, one day after the SEC [qualified](#) the offering. Blockstack, which maintains a decentralized computing network on which applications can be built, said that the qualification "can help mature the broader crypto industry."

Details of offering. Using the Reg A+ framework, Blockstack [began](#) a \$28 million cash [offering](#) through which investors receive one Stacks token per \$0.30 invested. Participants who received vouchers in earlier programs were able to redeem the vouchers and pay \$0.12 per token. Tokens are available for purchase exclusively at [stackstoken.com](#), and Blockstack will verify users' identities in order to comply with know-your-customer and anti-money-laundering requirements.

Holders of tokens can use them to register digital assets, write and enact smart contracts, and process transaction fees on Blockstack's network, which supports applications developed under a "can't be evil" philosophy—an allusion to Google's now-defunct "don't be evil" mission statement.

Blockstack described its path to SEC qualification as "the harder but better path to take," as it wanted to offer tokens to the general public, including U.S. investors. The company said it hopes that other projects can use the legal framework under which it received qualification as an example. Blockstack retained Wilson Sonsini Goodrich & Rosati as special counsel in connection with the offering.

Regulatory framework. The SEC had asked Blockstack for legal analysis supporting its conclusions about the nature of miners and other entities and the need to register entities or transactions. WSGR [responded](#) that miners on the Blockstack network would not be broker-dealers because they would not effect transactions by mining and the payments for mining would not create a "salesman's stake" in transactions in Stacks tokens. The firm also said that using Stacks tokens to pay fees on the Blockstack network does not violate Regulation M because tokens so used are "burned" by being sent to a black hole address that no one, not even Blockstack, can access.

[Mining](#) is not yet available on Blockstack, so the supply of tokens is expected to decline over time due to burning. Blockstack said it hopes to introduce mining next year, with the creation of new and replacement tokens to be determined by an algorithm.

WSGR also opined that Blockstack and its miners will not be required to register as a transfer agent or clearing agency. Transfer agent registration is only required with respect to Section 12 securities, which does not include the Stacks tokens, in the firm's view. Furthermore, Blockstack and the miners do not perform the functions of a transfer agent or clearing agency as described in the Exchange Act. Counsel also said that Blockstack need not engage a registered transfer agent because no rule under Regulation A requires an issuer to use a registered transfer agent in connection with a Regulation A offering. Although Blockstack could be required to use a transfer agent to continue to benefit from the on-ramp if the Stacks tokens were equity securities, they do not have equity-like features.

The law firm also concluded that the network need not register as an exchange or ATS because it is not a marketplace for securities; that Blockstack is not a money transmitter or money services business; and that an LLC subsidiary is not an investment company because the Stacks tokens it holds can reasonably be treated as

non-securities under *Howey* and should not be treated as "investment securities" for purposes of the Investment Company Act.

Attorneys: Robert H. Rosenblum (Wilson Sonsini Goodrich & Rosati).

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