

## [Securities Regulation Daily Wrap Up, BLOCKCHAIN—Unregistered broker-dealers settle SEC's first digital token case, \(Sept. 11, 2018\)](#)

Securities Regulation Daily Wrap Up

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By [Jay Fishman, J.D.](#)

Michigan unregistered broker-dealers selling digital tokens settled with the SEC in the Commission's first case charging unregistered broker-dealers with selling digital tokens after the 2017-released Digital Asset (DAO) Report. The broker-dealers agreed to pay \$471,000 in disgorgement, \$7,929 in interest and \$45,000 in penalties, along with consenting to industry and penny stock bars and an investment company prohibition with the right to reapply after three years (*In the Matter of TokenLot, LLC*, [Release No. 33-10543](#), September 11, 2018).

**Unregistered broker-dealers trade unregistered digital tokens.** Between July 2017 and February 2018, the unregistered broker-dealers created a website to advertise initial digital token offerings (ICOs) and secondary trading. Thereafter, the broker-dealers received orders from more than 6,100 retail investors and handled more than 200 different digital tokens, which they initially used for the ICOs and then for secondary trades of the ICO profits. The SEC found at least some of the tokens to be securities requiring registration but agreed to settle because the broker-dealers, after conducting the above transactions, had begun to wind down their operations and refund the investors' payments for unfilled orders.

The SEC Enforcement Division's Co-Director, Stephanie Avakian, [stated](#) that "U.S. securities laws protect investors by subjecting broker-dealers and other gatekeepers to SEC oversight, including those offering ICOs and secondary trading in digital tokens. We continue to encourage those developing digital asset trading businesses to contact the SEC staff at [FinTech@sec.gov](mailto:FinTech@sec.gov) for assistance in analyzing registration and other securities law requirements. The penalties in this case reflect the prompt cooperation and remedial actions by TokenLot, Kugel, and Lewitt, who provided valuable information to Commission staff, stopped the conduct and refunded money to investors."

The release is [No. 33-10543](#).

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