



Regulatory Update December 10, 2018

In this update, we discuss two new cryptocurrency bills introduced by U.S. congressmen, the NYDFS's approval of Signature Bank's Signet digital payment solution, and a lawsuit alleging manipulation of the bitcoin cash network.

U.S. Congressmen Introduce Two Bills Aimed at Cryptocurrency Price Manipulation, More Forthcoming

In a bipartisan push for cryptocurrency regulation in the United States, Representative Darren Soto (D) of Florida and Ted Budd (R) of North Carolina introduced two pieces of legislation to Congress Thursday that aim to reduce price manipulation in cryptocurrency markets, promote domestic economic growth in the space, and increase adoption of virtual currencies.

The bills focus on increasing regulatory understanding of crypto products in hopes

of assessing how to better address many of the issues presented by the New York Attorney General's virtual currency [report](#), like price manipulation by virtual currency exchanges, lack of transparency for investors, and unfair trading practices conducted by bots using automated algorithmic trading technology. In a [joint statement](#), the Congressmen described how the bills will "provide data on how Congress can best mitigate these risks while propelling development that benefits our economy."

The [Virtual Currency Consumer Protection Act of 2018](#) seeks to balance innovation and protection for investors by calling on the CFTC to investigate how it can better surveil and prevent manipulative acts in connection with crypto-asset transactions. It directs the CFTC to consult with the SEC and other regulators to deliver, within a year, a report discussing how cryptocurrency prices can be manipulated, the types most susceptible to manipulation, and the resulting harm. It instructs the agency to consider how existing authority permits surveillance of the crypto markets and enforcements against manipulators. It further asks the CFTC to recommend how legislation might be updated to better

accommodate regulatory efforts at ensuring market integrity.

The [U.S. Virtual Currency Market and Regulatory Competitiveness Act of 2018](#), on the other hand, invites the CFTC to take a comparative look at international regulatory endeavors in the virtual currency space and deliver a report that analyzes how the United States stacks up in order to promote “competitiveness in the global marketplace.” The bill asks for recommendations as to how to increase adoption of virtual currencies while also advancing transparency in the industry. It also requests the agency contemplate how the legal status of virtual currencies can be clarified and what an optimal regulatory framework would include, as well as the costs of implementing such structure.

Other legislators have similarly revealed plans to introduce crypto-specific legislation in the coming months. Representative Tom Emmer (R) [said](#) that he will propose legislation that “provides clarity to entities that never take control of consumer funds” and “establishes a safe harbor for taxpayers with ‘forked’ digital assets.” Representative Warren Davidson

(R) [stated](#) that he will back a bill that would exempt ICOs from federal securities laws.

NYDFS Announces Approval of Signature Bank’s Blockchain Payment Platform

On Tuesday, the New York Department of Financial Services (NYDFS) shared a [press release](#) in which it announced its grant of approval for Signature Bank to operate its Signet platform for digital payments. The platform will launch on January 1, 2019, providing its commercial clients (who meet the minimum \$250,000 account threshold) real-time fund transfers with no transaction fees or time restrictions leveraging blockchain technology.

Signature, a New York State-chartered bank, developed [Signet](#) to allow a more effective means of low-cost payment transfer. Funds are converted to ERC-20 tokens called ‘Signets,’ which are sent between clients over a permissioned ethereum blockchain, thus reducing reliance on third-party institutions. Deposits on Signet will be covered up to the legal amount provided by FDIC insurance.

The approval comes with the obligation that Signature complies with New York's rigorous standards regarding anti-money laundering, fraud, and consumer protection. It must maintain comprehensive policies and procedures geared toward transaction monitoring, cybersecurity, and resolving customer complaints.

[Read more on our website](#)

Bitcoin Cash at Center of New Lawsuit, Gemini Adds It As Fifth Crypto for Trading on Platform

A lawsuit filed in Florida on Thursday by Miami-based United American Corp. alleges that "a tight knit network of individuals" collectively schemed to "hijack" the Bitcoin Cash (BCH) network, centralizing the market, manipulating the price, and "violating all accepted standards... associated with bitcoin since its inception."¹ The defendants include Bitcoin.com, its infamous founder Roger

Ver, Beijing-based Bitmain (one of the largest bitcoin mining chip manufacturers), cryptocurrency exchange Kraken, and its CEO Jesse Powell. The complaint describes how defendants' orchestrated fraud caused "a global capitalization meltdown of more than \$4 billion" and created "significant long-term implications for world economies."

United American dove into the blockchain space in late 2017 with plans of offering network and mining solutions. It developed a patent-pending DLT called [BlockNum](#)—the first blockchain based on a SIP-Protocol (Session Initiated Protocol), which allows telecommunication companies to confirm blockchain transactions between phone numbers without the need for cryptocurrency wallets. The company invested more than \$4 million in creating a mining solution called [BlockchainDome](#), intended to provide low-cost mining of the BCH network, incentivized by the transaction fees of a P2P payment system.

The dispute arises from the contentious November upgrade of BCH network whereby a "hash war" ensued between two different camps of software supporters—one

¹ Complaint, *United American Corp., v. Bitmain, Inc. et al.*, Case No. 1-18-CV-25106 (S.D. Fla. Dec. 6, 2018).

going by Bitcoin ABC and the other as Bitcoin SV ("Satoshi's Vision"). The nodes of the mining network would "vote with their CPU power" on the preferred set of rules to govern moving forward. The complaint details how defendants together used their dominance of bitcoin mining pools to manipulate the vote and secure ABC as the "winner" of the network upgrade.

The complaint claims that Ver colluded with Bitmain and others to temporarily convert or "rent" hashing power from Bitcoin Core to ABC minutes before the upgrade. After which, it describes how defendants implemented a "poison pill" essentially locking down the blockchain and cementing ABC as the controlling software. Kraken, in which Ver is a principal investor, then announced its support for ABC, which would trade under the BCH ticker. Together, these acts constituted the centralization of what was meant to be a decentralized process, according to the complaint, and caused the value of the assets mined by plaintiff's BlockchainDomes to fall significantly.

The lawsuit is followed by the Friday [announcement](#) that virtual currency

exchange Gemini will list BCH (the ABC fork) with NYDFS approval starting on December 10th, making it the fifth crypto offered on the platform. Coinbase also [shared plans](#) Friday detailing its hopes to offer up to 30 new crypto-assets, including Stellar (XLM), XRP (XRP), and Tezos (XTZ). While not providing a clear timeframe, it said the assets will be listed on a "jurisdiction-by-jurisdiction basis."

Other News

- The NY Times: [Australia Government Passes Contentious Data Encryption Law](#)
- Crowdfund Insider: [SEC Shuts Down Unregistered CoinAlpha Crypto Fund](#)
- CoinDesk: [SEC Again Delays Decision on VanEck-SolidX Bitcoin ETF](#)

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