UNITED STATES OF AMERICA
before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10714 / September 30, 2019

ADMINISTRATIVE PROCEEDING
File No. 3-19568

In the Matter of **Block.one,** Respondent.	ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act") against Block.one ("Block.one" or the "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement ("Offer") that the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant To Section 8A of the Securities Act of 1933, Making Findings, And Imposing a Cease-And-Desist Order ("Order"), as set forth below**.**

III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

<u>**Summary**</u>

Block.one is a Cayman Islands-registered technology company that was established in 2016, and developed the EOSIO software, an operating system that would underlie one or more anticipated EOSIO-based blockchains. From June 26, 2017 through June 1, 2018 (the "Relevant Period"), Block.one conducted a "token distribution," or "initial coin offering" ("ICO"), in which it publicly offered and sold 900 million digital assets ("ERC-20 Tokens") in exchange for Ether, a

digital asset, to raise capital to develop the EOSIO software and promote the launch of EOSIO-based blockchains.

Block.one raised Ether worth several billion dollars from the general public, including a portion from U.S. residents. Block.one did not register its offers and sales of the ERC-20 Tokens pursuant to the federal securities laws, nor did it qualify for an exemption to the registration requirements under the federal securities laws.

Based on the facts and circumstances set forth below, the ERC-20 Tokens were securities under the federal securities laws pursuant to *SEC v. W. J. Howey Co.*, 328 U.S. 293 (1946), and its progeny, including the cases discussed by the Commission in its *Report of Investigation Pursuant To Section 21(a) Of The Securities Exchange Act of 1934: The DAO* (Exchange Act Rel. No. 81207) (July 25, 2017) ("DAO Report"). A purchaser in the offering of ERC-20 Tokens would have had a reasonable expectation of obtaining a future profit based upon Block.one's efforts, including its development of the EOSIO software and its promotion of the adoption and success of EOSIO and the launch of the anticipated EOSIO blockchains. Block.one violated Sections 5(a) and 5(c) of the Securities Act by offering and selling these securities without having a registration statement filed or in effect with the Commission or qualifying for an exemption from registration.

IV.

Respondent

1.   Block.one is a Cayman Islands-registered company and it currently has offices in Hong Kong and Blacksburg, Virginia. Neither Block.one nor its securities are registered with the Commission in any capacity.

Background

2.   Block.one is a technology company that was established in 2016 to, among other things, develop the EOSIO software, an operating system designed to support public or private blockchains. The goal of the EOSIO software is to increase blockchain transaction speeds, reduce transaction costs, and improve scalability.

3.   Block.one launched a website ("EOS.IO Website") and published a Technical White Paper ("White Paper") to market the EOSIO software and proposed EOSIO-based blockchains, and announced that it would be conducting an approximately year-long "initial coin offering," or "ICO" of tokens distributed on the Ethereum blockchain using the ERC-20 protocol.

4.   Over the approximate one-year period from June 26, 2017 through June 1, 2018, Block.one offered and sold ERC-20 Tokens to the general public, selling and distributing 900 million ERC-20 Tokens in total. This was done through an automated and committed process, *i.e.,* a "smart contract." When purchasing tokens, investors also entered into an electronic token purchase agreement ("Token Purchase Agreement"). Block.one also reserved 100 million tokens, referred to as "founders' tokens," for its own account. Block.one sold and distributed the ERC-20 Tokens in Dutch-style auctions on the following schedule: 200 million tokens were sold and distributed during the first five days of the ICO, and thereafter, 700 million tokens were split evenly into 350 consecutive 23-hour "distribution periods" of 2 million tokens each. On average,

the ERC-20 Tokens sold for the equivalent of approximately $4.40 per token. In addition, the ERC-20 Tokens contained no restrictions on transfer following their initial sale and distribution, and the tokens began trading through online trading platforms as early as July 1, 2017.

5.　　　　Block.one ultimately raised several billion dollars' worth of Ether in the ICO, a portion of which was raised from U.S. persons notwithstanding certain measures, described below, undertaken by Block.one to prohibit U.S. persons from participating. At the close of the ICO, approximately 330,690 individual wallet addresses held the ERC-20 Tokens, with approximately 75% of all tokens held by 100 wallets.

6.　　　　The EOS.IO Website stated that the proceeds of the ICO would be "revenue" of Block.one, and it "intends to use certain of the proceeds for general administration and operating expenses, as well as to build a blockchain consulting business focusing on helping businesses re-imagine or build their businesses on the blockchain, developing more open source software that may be helpful to the community and building decentralized applications using EOS.IO Software."

7.　　　　As set forth in the Token Purchase Agreement, which was posted on the EOS.IO Website, and in other public statements, the ERC-20 Token was not the same token that eventually would be used on any anticipated EOSIO-based blockchains. Rather, the ERC-20 Token was designed to become fixed and nontransferable on the Ethereum blockchain (a different blockchain platform) at the close of the ERC-20 Token sale, meaning that while a record of past transactions could be confirmed on the Ethereum blockchain, new transfers of the ERC-20 Token could not occur on the Ethereum blockchain and the smart contract would have no further functionality at that point. Beginning in December 2017, Block.one began to release beta versions of the EOSIO software and explained that once the official version was published under an open source software license, anyone could view the software's code and use it to configure and launch blockchains (such as the EOS Blockchain, which would be a different blockchain than an Ethereum blockchain).

8.　　　　As anticipated, on June 1, 2018, Block.one's ICO closed, and the ERC-20 Token – which prior to this time had been transferrable in secondary market transactions – became fixed and nontransferable. In addition to the EOSIO software, Block.one developed a "snapshot tool" that when used in conjunction with EOSIO, would allow any developer to launch a blockchain that, upon their election, could also contain the final ERC-20 Token register of accounts. Block.one advised that ERC-20 Token holders would need to register their token ownership through a smart contract on the Ethereum blockchain in order to be eligible to receive any native EOSIO-based blockchain tokens utilizing the snapshot tool, if and when those blockchains launched.

9.　　　　On June 14, 2018, the EOS Blockchain, the first EOSIO-based blockchain, was launched. The ERC-20 Tokens sold in the ICO remain fixed on the Ethereum blockchain, and the ERC-20 Tokens cannot be transferred.

Block.one Offered and Sold Securities
Without Registration or an Applicable Exemption

10. Block.one launched the EOS.IO Website on May 11, 2017. Block.one subsequently sold and distributed the ERC-20 Tokens directly through the EOS.IO Website in exchange for Ether. The EOS.IO Website included certain measures intended to block U.S.-based purchasers from buying ERC-20 Tokens, including by blocking U.S.-based IP addresses from accessing the EOS.IO Website token sale page. In addition, Block.one required all ERC-20 Token purchasers to agree to the Token Purchase Agreement, which included provisions that U.S. persons were prohibited from purchasing ERC-20 Tokens, and that any purchase by a U.S. person was unlawful and rendered the purchase agreement null and void. Block.one did not, however, ascertain from purchasers whether they were in fact U.S.-based persons, and a number of U.S.-based persons purchased ERC-20 Tokens directly through the EOS.IO Website.

11. Block.one also undertook efforts for the purpose of, or that could reasonably be expected to have the effect of, conditioning the market in the U.S. for the ERC-20 Tokens, including by engaging in directed selling efforts. Among other things, Block.one participated in blockchain conferences in the U.S., including a prominent conference held in New York City in May 2017, to promote Block.one and which at times also promoted its ICO. In connection with the May 2017 Conference, Block.one advertised EOSIO on a large billboard in Times Square on May 22, 2017, promoted EOSIO in informal informational sessions, and hosted a post-conference reception. Block.one also promoted its proposed business and ICO to U.S.-based persons on the EOS.IO Website and through various social media and forum posts. The EOS.IO Website, White Paper, and other promotional statements were accessible to purchasers and potential purchasers, and viewable by U.S. persons.

12. In addition, ERC-20 Tokens were traded and widely available for purchase on numerous online trading platforms open to U.S.-based purchasers throughout the duration of the ICO. Block.one did not take any steps to prevent the ERC-20 Tokens from being immediately resellable to U.S.-based purchasers in secondary market trades.

13. No registration statement concerning the offers and sales of ERC-20 Tokens was in effect at any time prior to or during the offering. The offers and sales did not qualify for any exemption from registration under the federal securities laws.

ERC-20 Token Purchasers Would Reasonably Have Expected
That They Would Profit From the Efforts of Block.one

14. Block.one offered ERC-20 Tokens in order to raise capital and build a profitable enterprise, and ERC-20 Token purchasers would reasonably have understood that if Block.one was successful in doing so, their token purchase would be profitable.

15. At the time the ICO launched in June 2017, Block.one did not have any product in place, and its proposed software was largely conceptual. Purchasers would have understood that Block.one was a for-profit entity. Block.one stated that the ICO proceeds were "revenue" of the Company, and that it would use the proceeds to build a profitable enterprise by, among other things, developing the EOSIO software and promoting the widespread adoption of EOSIO and

launch of anticipated EOSIO-based blockchains. Purchasers thus would have understood that Block.one's success in building and promoting the EOSIO software and promoting the launch of one or more EOSIO-based blockchains would make their token purchase profitable.

16.   In January 2018, seven months into the 12-month ERC-20 Token offering, Block.one announced that it would invest $1 billion from the offering proceeds to "offer[] developers and entrepreneurs the funding they need to create community driven businesses leveraging EOSIO software."

17.   In describing Block.one's plans to invest the proceeds of the ERC-20 Token sale to fund businesses that would use, directly or indirectly, an EOSIO-based blockchain, Block.one stated that "the money we spent on those initiatives will be returned value for the network" and that the money raised in the ICO would be spent wisely to fund development of EOSIO-based blockchains.

18.   Over the approximately year-long ICO, ERC-20 Token purchasers' expectations were primed by Block.one's marketing of the ERC-20 Token and anticipated EOSIO blockchains. To market the ERC-20 Token, Block.one created the EOS.IO Website and published an EOS White Paper and an "Introduction to EOS" technical paper. During the ICO, Block.one also was developing EOSIO software and released beta versions of the software to the public. Its founders also published articles and blog posts to promote the EOSIO software, and actively engaged U.S. purchasers and potential U.S. purchasers on social media, online message boards, and other outlets. In the course of marketing the EOSIO software, Block.one encouraged U.S. purchasers to rely on the founders' expertise and vision to secure the widespread adoption of the EOSIO software and anticipated launch of one or more EOSIO blockchains.

V.

Violations

19.   As a result of the conduct described above regarding the offers and sales of ERC-20 Tokens in the ICO, Block.one violated Section 5(a) of the Securities Act, which states that unless a registration statement is in effect as to a security, it shall be unlawful for any person, directly or indirectly, to make use of any means or instruments of transportation or communication in interstate commerce or of the mails to sell such security through the use or medium of any prospectus or otherwise; or to carry or cause to be carried through the mails or in interstate commerce, by any means or instruments of transportation, any such security for the purpose of sale or for delivery after sale.

20.   As a result of the conduct described above, Block.one violated Section 5(c) of the Securities Act, which states that it shall be unlawful for any person, directly or indirectly, to make use of any means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell or offer to buy through the use or medium of any prospectus or otherwise any security, unless a registration statement has been filed as to such security.

<center>**VI.**</center>

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 8A of the Securities Act, Respondent Block.one cease and desist from committing or causing any violations and any future violations of Sections 5(a) and 5(c) of the Securities Act.

B. Respondents shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of $24,000,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

> Enterprise Services Center
> Accounts Receivable Branch
> HQ Bldg., Room 181, AMZ-341
> 6500 South MacArthur Boulevard
> Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Block.one as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Lara Shalov Mehraban, Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, New York Regional Office, 200 Vesey Street, Suite 400, New York, New York 10281.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a

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Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary