

## SEC Confirms That Some Initial Coin Offerings Are Illegal Unregistered Securities Offerings

July 27, 2017 | Client Update

In a much-anticipated action, on July 25 the SEC issued a [Section 21\(a\) report](#) of its investigation into an offering of digital tokens by “The DAO,” an unincorporated virtual organization. Though declining to take enforcement action against The DAO, the SEC used the opportunity to warn others engaged in similar activities that an unregistered sale of blockchain tokens can, depending on the circumstances, be an illegal public offering of securities. Simultaneously, the SEC issued a [bulletin](#) warning investors about such sales, often called “initial coin offerings” or ICOs. The DAO 21(a) report focused on a fact-pattern where the classic test for a “security” under federal law, announced in the Supreme Court’s 1946 case *SEC v. W.J. Howey Co.*, was easily met: the tokens were sold for value and represented ownership interests in a common enterprise, and the purchasers had an expectation of profit from the efforts of others. And the tokens were distributed in a manner that bore the hallmarks of a traditional securities offering.

We see the DAO 21(a) report as a clear announcement to the ICO market that new ICOs will be closely scrutinized.

*Summer law clerks Brienne Holland-Stergar and Jeremy M. Sklaroff helped with this client memorandum.*

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

**Joseph A. Hall**

+1 212 450 4565  
joseph.hall@davispolk.com

**Michael Kaplan**

+1 212 450 4111  
michael.kaplan@davispolk.com

**Annette L. Nazareth**

+1 202 962 7075  
annette.nazareth@davispolk.com

**Byron B. Rooney**

+1 212 450 4658  
byron.rooney@davispolk.com

**Gregory S. Rowland**

+1 212 450 4930  
gregory.rowland@davispolk.com

**Margaret E. Tahyar**

+1 212 450 4379  
margaret.tahyar@davispolk.com

**Zachary J. Zweihorn**

+1 202 962 7136  
zachary.zweihorn@davispolk.com

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