

# Intro to Cryptocurrencies

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# Cryptocurrencies ~ an introduction

- ❖ What are “cryptocurrencies”?
- ❖ How are cryptocurrencies valued?
- ❖ How can cryptocurrencies be used?
- ❖ Are cryptocurrencies regulated?
- ❖ What are the risks of owning it?
- ❖ Learn more ~ reference resources
- ❖ Questions (at/after the end)

# What are “cryptocurrencies”?

- ❖ A “cryptocurrency”, “crypto”, or “coin” is ~
  - a sub-type of *digital currency* (units of value)
  - created using algorithmic computer coding
  - electronically posted to a “blockchain”
  - relying on cryptography to secure its immutability
  - hosted on a “decentralized ledger” (a software platform)
  - recording transfers between sellers and buyers
  - secured by “digital keys” (PWs and user IDs)
  - accessed via the internet (usually via “digital wallets”)

# What are “cryptocurrencies”?

- ❖ Cryptocurrencies come in many “flavors” ~
  - More than an estimated 18,000 cryptos
    - Bitcoin and Ethereum are oldest/highest valued
    - “Dog-e-coin” was viewed as a “meme” (joke)
  - Most are privately issued using a “DAO”
    - “Decentralized autonomous organization”
  - Most were issued raising \$\$\$ capital to fund it
    - “Coins” were issued like stock certificates
    - Most cryptos are (theoretically) regulated as “securities”
      - Bitcoin and Ethereum now not viewed as “securities”

# What are “cryptocurrencies”?

- ❖ Cryptocurrencies come in many “flavors” ~
  - Most are privately created but publicly exchanged
  - “Central bank digital currencies” (government issued)
    - “Fiat” currency backed by its “full faith and credit”
    - U.S. and other central banks are considering it
    - Only one country’s “fiat” cryptocurrency to date
      - El Salvador adopted Bitcoin as “legal tender”
  - “Stable coins” ~ priced/structured with collateral assets to (theoretically) maintain a \$1 value per coin
    - TerraUSD and related Luna crashed in May 2022

# What “cryptocurrencies” are NOT

## ❖ Utility tokens ~

- Used for “in-app” or “in game” purchases
- Credits used to reserve/access issuer’s resources
  - Reserving/renting private jets or condos

## ❖ Non-fungible tokens ~ not fungible

- NFTs evidence ownership of “unique” assets
  - Digital sports memorabilia or digital art
  - Sports and entertainment admission tickets
  - Ownership of tangible assets (e.g., deeds, titles)

# What “cryptocurrencies” are NOT

## ❖ Supply chain orders for goods or services

- Blockchain technology can use “smart contracts”
  - Algorithmic “if/then” software programming
  - Smart contracts used to automate/track orders

## ❖ Fractionalized ownership interests ~

- Linked with utility-type tokens but sold for \$\$\$
- Buying fractional interests in real estate or assets
- Lending through fractionalized interests in loans

# How are cryptocurrencies valued?

## ❖ By supply and demand ~

- What a “willing buyer will pay a willing seller”
- Public value sentiment is easily manipulated
  - Social influencers and “whales” (large holders)
  - Speculative media articles and Twitter posts
- Governmental orders (China prohibits private crypto)
- No underlying economic value (e.g., stocks)
- No (reliably) enforced regulatory regime
- Crypto markets “melted down” in the last 30 days



# How are cryptocurrencies valued?

coinbase

Prices

Learn

Individuals

Businesses

Developers

Company

In the past 24 hours

Market is down 1.33%

Search

Top gainer



DFI.Money

+51.27% price change

New listing



Index Cooperative

Added Jun 8

Most visited



UMA









+1,452.5% views

Most traded



Bitcoin

\$52.57B volume (24h)

Name	Price	Chart	Change	Market cap ▲	Volume (24h)	Supply	Trade
☆  Bitcoin BTC	\$21,685.73		↘ 46.06%	\$412.9B	\$52.6B	19.1M	<a href="#">Trade</a>
☆  Ethereum ETH	\$1,176.77		↘ 53.74%	\$142.1B	\$35.6B	121.2M	<a href="#">Trade</a>
☆  Ethereum 2 ETH2	\$1,176.77		↘ 53.91%	\$142.1B	\$35.6B	121.2M	
☆  Tether USDT	\$1.00		↘ 0.11%	\$70.8B	\$84.9B	70.9B	<a href="#">Trade</a>

# How are cryptocurrencies valued?

Price charts > Bitcoin price



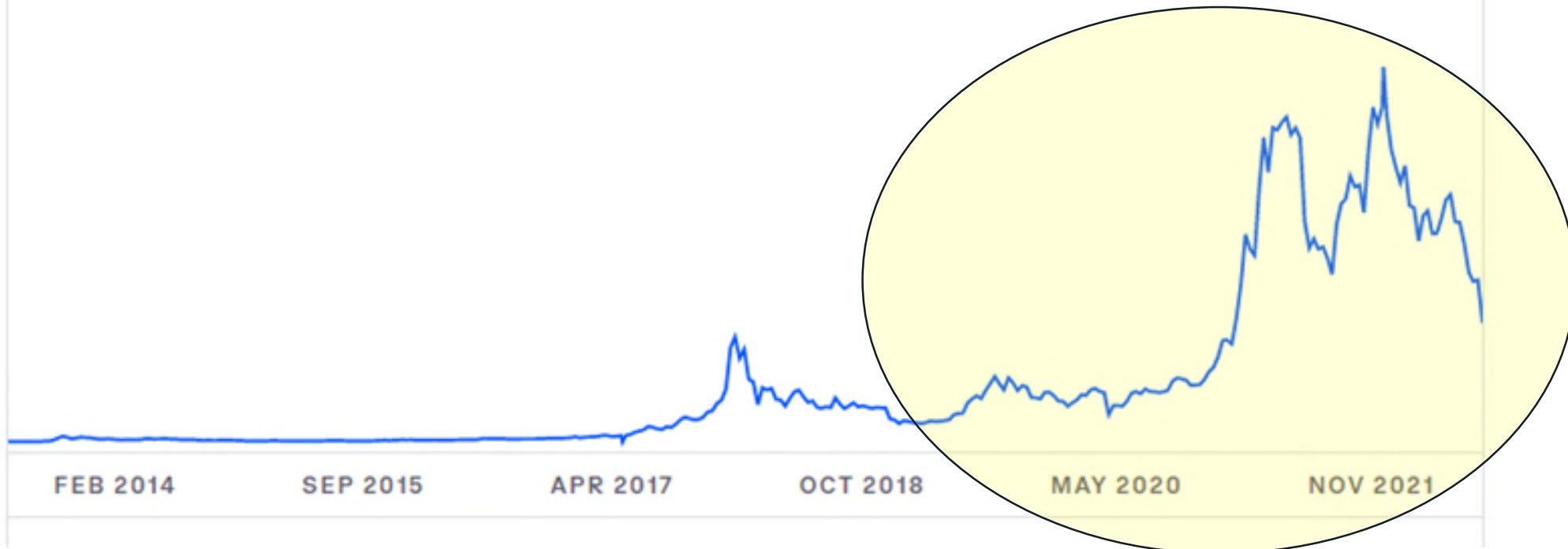
## Bitcoin price

(BTC / USD)



\$21,668.45 +20,642.07%

1H 1D 1W 1M 1Y ALL



# What are cryptocurrency uses?

## ❖ Bitcoin, Ethereum, and a few others ~

### – Transmission of value between willing parties

- Large retailers (reportedly) planning to accept crypto
  - Cannabis industry can't "bank" its business receipts

### • Parties are "pseudonymous" (fictitious names)

- Sender needs receiver's target account e-address
- Law enforcement concerns with money-laundering
  - FBI and Interpol are sometimes able to recover crypto
  - "Dark web" users may be identified converting to cash

### • Blockchain is (supposedly) "immutable" ~

- But, no (easy) way to correct errors once crypto is sent
- Crypto accounts are hacked using stolen PW/IDs

# What are cryptocurrency uses?

## ❖ Investments (gamblers and highly speculative risk takers)

- Coins can be “staked” to “earn” more coins
- Coins can be “created” by “mining” (high speed servers running algorithms (massive electric consumption))
- Crypto (seems) “not correlated” with stock market
  - But, clearly it is correlated to macro economics

## ❖ Decentralized finance (defi) applications

- “Lenders” stake coins to fund loans (or funding pools)
  - “Deposits” earn taxable “interest”
- Platforms match crypto “deposits” with borrowers

# Are cryptocurrencies regulated?

## – Federal and state securities laws ~

- As an “investment contract” between the issuer/promoter and the investors
- SEC as issued extensive guidance, but lacks the enforcement resources to pursue 18,000+ issuers
- SEC Enforcement
  - <https://www.sec.gov/spotlight/cybersecurity-enforcement-actions>

## – Commodities Futures Trading Commission

- <https://www.cftc.gov/digitalassets/index.htm>

## – State banking/money transmission regulators

## – U.S. Congress ~

- S.4356 Lummis-Gillibrand Responsible Financial Innovation Act (2022)

## – UK, EU, Australia, and some other countries

# Are there other relevant laws?

## ❖ Internal Revenue Service (IRS) guidance

- <https://www.irs.gov/businesses/small-businesses-self-employed/virtual-currencies>
- Digital assets are treated like other property
- Income is taxable and reportable to IRS
- Capital gains taxable and losses deductible

## ❖ States regulating crypto and digital assets

- NY “BitLicense” licensing virtual currency activities
- Wyoming digital LLC (a “digital entity’s sand box”)

# What are the risks of owning it?

## ❖ Highly speculative asset class ~

- No economic drivers to evaluate/monitor
- Valuations are driven by public sentiment
- Valuations are easily manipulated
- Regulatory enforcement is nominal (so far)
- Lost PW/ID cannot be recovered ~ *it's gone*

## ❖ As a low-cost payment system ~

- Errors usually cannot be corrected
- Lost/stolen PW/ID hacking impossible to recover

# Learn more ~ reference resources

## ❖ SEC

- <https://www.investor.gov/additional-resources/spotlight/crypto-assets>

## ❖ FINRA (Financial Industry Regulatory Authority)

- <https://www.finra.org/investors/learn-to-invest/types-investments/initial-coin-offerings-and-cryptocurrencies/cryptocurrencies>
- <https://www.finra.org/investors/insights/virtual-currencies>
- <https://www.finra.org/investors/insights/bitcoin-basics-9-things-you-should-know-about-digital-currency>
- <https://www.finra.org/investors/insights/3-things-stablecoins>
- <https://www.finra.org/investors/insights/cryptocurrency-storage>

## ❖ NASAA (State securities regulators)

- <https://www.nasaa.org/44848/informed-investor-advisory-cryptocurrencies/>



# QUESTIONS

**Follow-up questions can be directed to:**

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SHANE B. HANSEN  
BIOGRAPHICAL SUMMARY



SHANE B. HANSEN is a partner and member of the Funds and Investment Services Practice in the law firm of Warner Norcross & Judd LLP. His 39-year law practice concentrates in the area of financial services regulation, primarily involving federal and state securities and banking laws and related rules. He advises broker-dealers, investment advisers, private fund advisers, M&A advisors and business brokers (M&A brokers), banks, family offices, and individual professionals about a wide range of business, corporate, contract, compliance, and regulatory topics. He has substantial experience involving formations, mergers, acquisitions, and sales of brokerage and investment advisory firms and professional practices.

Shane serves as the lead securities counsel and principal draftsman of pending federal legislation, H.R. 935, the *Small Business Mergers, Acquisitions, and Sales Brokerage Simplification Act of 2021*. In this and prior Congressional sessions, this bill and its progenitors have three-times unanimously passed the U.S. House of Representatives. This bill would amend the Securities Exchange Act of 1934 to exempt M&A brokers from federal broker-dealer registration. He provided oral and written testimony about the legislation before the U.S. House Committee on Financial Services. He has worked closely with the Securities and Exchange Commission (SEC) staff and with state securities regulators through the North American Securities Administrators Association (NASAA). In 2015, NASAA adopted a model state M&A broker rule substantially based upon the text of the pending federal legislation. To date, 20 states have granted similar exemptive relief by law, rule, or no-action letter.

Shane is AV Preeminent Peer Review Rated in Martindale-Hubbell, recognized in *The Best Lawyers in America*®, *Corporate Law and Securities Regulation, 2007 to present*, named a “super lawyer” in various editions of *Michigan Super Lawyers*®, and the 2013 Strategic Partner of the Year, Alliance of Merger & Acquisition Advisors®. He is active in the Grand Rapids community through nearly 18 years of service on the Board of Directors of the Frederik Meijer Gardens and Sculpture Park.

Shane frequently speaks on current securities-related legal and compliance topics, including moderating the broker-dealer/investment adviser panel for the Midwest Securities Institute annually hosted by Michigan State University College of Law. He is active in the American Bar Association, including its Committee on State Regulation of Securities and served as the Committee’s chair from 2011 to 2014. He is an active member of the ABA’s Committee on Federal Securities Regulation and its various committees. He has served on the Business Law Section Council, State Bar of Michigan (2014-2020), and is an active member of both its Securities and Financial Institutions Committees. Other professional associations include the National Society of Compliance Professionals (NSCP), the Investment Adviser Association (IAA), the Compliance and Legal Society of the Securities Industry and Financial Markets Association (SIFMA), and the Financial Planning Association (FPA). Mr. Hansen graduated with honors from the University of Michigan Law School in 1982. He graduated with high honors from Albion College in 1979.

Warner Norcross + Judd LLP is a full service law firm with 230+ attorneys practicing from nine Michigan offices. The Funds and Investment Services Practice is an interdisciplinary group of attorneys and securities compliance consultants with substantial experience in the securities industry and related M&A transactions, litigation, arbitration, and all aspects of federal and state securities laws, and rules, as well as FINRA rules, regulation, and enforcement.

More information about Shane and Warner Norcross + Judd LLP can be found on the Internet at: [www.wnj.com](http://www.wnj.com). He can be reached at 616-752-2145 or [shansen@wnj.com](mailto:shansen@wnj.com).

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