

Bitcoin and Cryptocurrencies

- Lecture 1: Bitcoin Protocol & Consensus: A High Level Overview
- Professor Radjabov Mukhammad



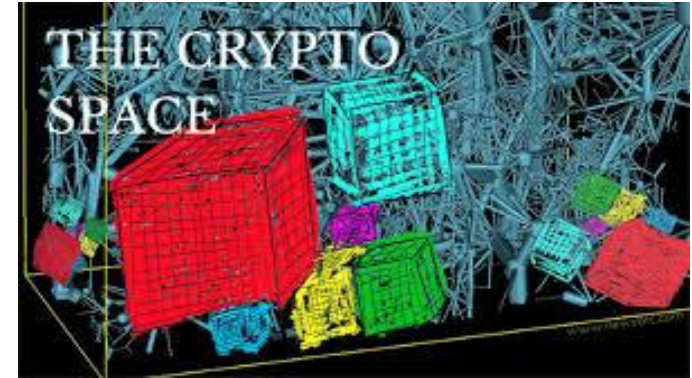
When You Leave Today you should...

- Understand Basic Terms and Concepts.
- Formulate ideas on how to tailor your practice to the changing world.
 - Protect yourself and your clients from disruption and attacks.
 - Learn to be humble and to rely on others
 - Leave with Clarity, Enthusiasm, Energy and Ideas.
 - Learn how to adapt and go fast with existing technology
 - Learn how to go faster with the Blockchain
 - Learn how to work together
 - Grow as a lawyer
 - Learn to innovate and be an early adopter



Discussion Topics for Today

Crypto is Fun



- Defining Terms
- How Lawyers fit into the Crypto Space.
- How to engage and represent clients
- Existing Technology and Blockchain
- Corporate Structure
- Litigation
- Compliance
- Initial coin offerings and the SEC
- Illinois Treatment of Crypto
- Case Law
- Smart Contract
- Virtual Currency Business Act
- Use cases
- Globalization
- Cyber protection and insurance
- The Evolution of the Attorney
- Random Bitcoin discussion
- Questions

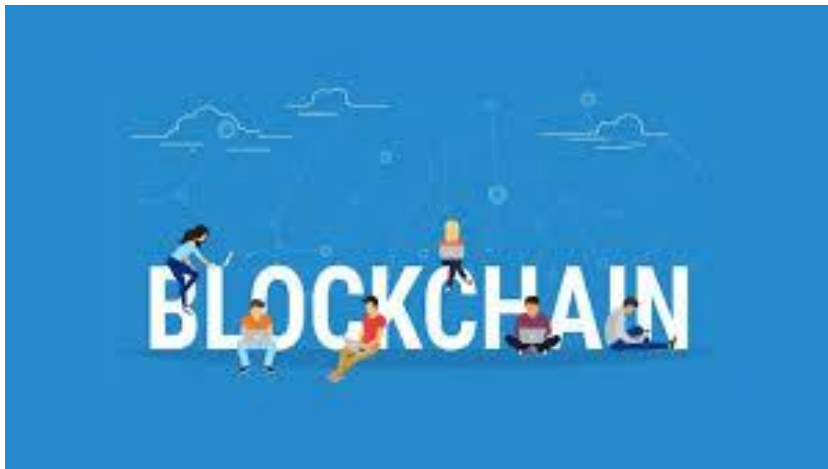
HOW BLOCKCHAIN IS GOING TO CHANGE YOUR LIFE



- Do you know what the Blockchain is?
- Do you know the difference between a public and private Blockchain?
- How long have you been in this space?
- Do you have Blockchain or cryptocurrency clients?
- Have you heard the term ICO?
- Have you been involved in an ICO?
- Do you know the difference between Bitcoin and Altcoin?
- How many people have heard of Bitcoin?

What in the World is Blockchain?

<https://youtu.be/r43LhSUUGTQ>



Definitions to familiarize the group as to terms so the rest of the presentation makes sense.

- Blockchain
- Satoshi Nakamoto
- Centralized vs. Decentralized
- Open Source
- Mining
- Altcoin
- Distributive Ledger Technology
- Consensus
- Nodes
- Master Nodes
- Dapps
- Cybercurrency
- Virtual currency
- Initial Coin Offering (ICO) and Crowdfunding
- White Paper
- ICO Circular
- Pitch Deck
- Blockchain compliance
- Smart Contracts
- Internet of Things (IOT)
- Wallet
- Exchange
- Bubble
- Escrow (Ripple)
- The Space
- P2P
- Use Case
- Fork



Lawyers are a Perfect Fit for the Crypto World

- The Crypto client is not much different than our current clients.
- The Blockchain requires a trusted third party, agreements, consensus, and guidance through regulation.
- We already are trusted. We hold money in our client fund accounts, we maintain confidentiality through the attorney/client relationship, we protect client information.
- Smart contracts and the protocols that go into them have to be designed and written by someone. Those people will be lawyers. A smart contract is just an agreement that is used in a set and secure format.
- We explain, interpret and litigate regulation

Lawyers are a Perfect Fit for the Crypto World

- We draft complex contracts, corporate documents, private placement memorandums., research skills, creativity, advocacy
- We will help define the future of what the Blockchain looks like.
- Our network and guidance of our clients will shape how the Blockchain is developed.
- We will help create best practices as we all become fluent in the space.
- Embrace this space.
- DO NOT BE AFRAID.



How do we engage and represent clients in the space?

- Use the knowledge that you obtained today and act like a lawyer.
- Most attorneys are hiding under a rock just like we did when the internet and email came out.
- We need to be available to educate and advise our clients at a high level.
- We cannot just research once and provide a standard answer. It is hard work now as everything changes at a moments notice. Even this power point drove me crazy, because I had to recreate it so many times.
- Should we accept Bitcoin and Altcoin for payment?
- How about our Client Fund Account?
- What about money from an exchange?

The future attorney and the future of the law.

Integrating our skills into the future world

- Practice Management Software
- Portals
- Artificial Intelligence
- Smart Contracts
- Business Minded Attorneys
- Network and Connection
- Forward Thinking
- Apply legal fundamentals to new challenges
- Use your instinct
- The Blockchain and Crypto



Interaction between Blockchain and existing technology

- Do not be reckless with technology
- Having technology just to have technology is not the answer
- Spend money wisely and ensure the technologies have synergy
- If two technologies cannot integrate with one another your attempt at efficiency becomes even more complicated.
- The Blockchain is not automatically the solution.
- There are tremendous alternatives already
- I waited on my Practice Management Software until I found a good fit. I almost made a Blockchain custom made solution but my current software provides a better choice currently

The practice areas which we are assisting our clients

- Corporate Structure
- Arbitration and Litigation
- Compliance
- Initial Coin Offerings and the SEC
- Estate Planning
- General Counsel
- Employment Agreements
- Vendor Agreements



Proper corporate structure. It is still the starting point

- Still protect clients in Delaware
- Still need clients to work with other professionals like accountants
- Private Placement Memorandums are usually needed
- Properly structured Operating Agreements are a must
- The clients that are coming in are typically young and need legal guidance
- Need to take a more global and national view of corporate structure and external factors
- Should we form entities outside of the United States?
- Does that create safety for United States investors?

Arbitration and Litigation on the Blockchain.

- Our litigation skills are still necessary
- People are still litigating and disputes are occurring.
- Arbitration and mediation rules
- Will smart contracts play a role?
- Will judges take judicial notice of the Blockchain?
- Violation of regulations.
- Look out for the SEC Cyber Unit formed in December, 2017

How to deal with people that are defrauded. What if they are international companies?

- Blockchain may appear to be anonymous but tracing can occur
- The race from Bitcoin to Monero for the criminals
- IRS jumping in with technology
- SEC chiming in
- Technology problems begets technological solutions
- Ease of trading within coins.
- Problems with the exchanges and the hackers.
- Where is the insurance and FDIC protection?





Bitcoin Compliance Issues

- AML (Anti Money Laundering)
- SEC (Security Exchange Commission)
- PPM (Private Placement Memorandum)
- State vs Federal
- FINCEN –Financial Crimes Enforcement Network(The key to compliance)
- Structuring
- Tax Issues
- Illinois Transmitter of Money Licensee
- Changes in Regulation (Fluid changes)
- USA Patriot Act
- State Transmitter of Money Act
- Bank Secrecy Act
- Reporting Requirements: the currency transaction reporting (CTR) and Suspicious activity reporting (SAR)
- Debit Cards
- What level of identity IRS form 8300
- Policy Manual
- TOMA
- Terrorist Funding
- Policies



ICO (Initial Coin Offering)

An unregulated means by which funds are raised for a new cryptocurrency venture. In an **ICO** campaign, a percentage of the cryptocurrency is sold to early backers of the project in exchange for legal tender or other cryptocurrencies, but usually for Bitcoin.

- StartEngine as a locator for ICO start ups
- What publication specified 15,000 ICOs in existence
- The Utility Token (it is not the “Catchall”)
- Is this a coin or is it a security? The Howey test.
- SEC is starting to chime in Regulations D, CF & A+
- Startups want to advance and people want to invest, but obstacles exist. What do we do?
- Will the ICO format work?



More ICO Discussion



- Should we form in the United States or outside the United States?
- The SEC will watch you everywhere in the world as soon as you offer tokens to US Investors.....
- Is the gravy train over?
- Does the white paper and the ICO circular comply with the securities law?
- Is there a dispute resolution protocol?
- What about US investors who want their cousin to buy them a token that is forbidden to US investors

How the SEC fits into the legal picture. Lawyers need to take a fluid rather than a static approach

Do not ignore or underestimate the effect that the SEC has on the future of Crypto. We need to guide and advise our clients on the changing landscape.

- The focus on SEC regulation is investor protection and to maintain fair markets.
- The SEC is taking its time because Cryptocurrency is not like current investments.
- Why do they not give us a sandbox to play in. They just are not ready. They are communicating on where they are going. They are ok with a dialogue. Fast and furious now. Safe haven.
- Valuation of crypto is difficult due to volatility, lack of regulations, Forks
- Liquidity is a concern (can investor get their money out)

The SEC is Watching and Commenting

- Crypto exchanges are prone to fraud and manipulation.
- Let the war on the Initial Coin Offering begin. Despite our clients opinion, every token sale is not a utility token.
- The Howey test.
- Every word matters to the SEC.
- Do not be afraid to let your clients know that trying to avoid the SEC is far worse than going through the legal process is necessary. The process exists, why not follow it.
- Do not fall in love with your advice.
- Changing processes means that your advice may change.



Introduction of the smart contract

A smart contract is a computer protocol intended to facilitate, verify or enforce negotiation of performance of a contract. Smart contracts allow these transactions to occur without a third party.

Hey! Wait! We are third parties! Are we out of a job?

Still need consensus and rules. Not everything will be on the Blockchain.

Still in its infancy.

We have a long way to go before we are extinguished.

That doesn't mean we should not determine a proper use case as to where it may be applicable.

Consensus is key

Virtual Currency Businesses Act

ADOPTED!

- Not everyone has adopted.
- Illinois has not adopted.
- Hawaii, Washington, Utah, New Mexico, California are working towards adoption.
- State vs. Federal (Fincen and then confusion).
- Licensure.
- TOMA
- Role as virtual currency vendor. Are you controlling other people's money?
- Uniformity would be nice. We are not there yet.

Estate planning and leaving cryptocurrency to heirs.

- How do we transfer wallets?
- Private key storage
- Is there a step up in basis upon death?
- How do we know the person who died was the owner of the coin?
- How do you value the asset?
- Can you gift coin during life?
- What if there is no trust or will?
- Estate Tax Issues
- New documents will need to be drafted
- Does your financial planner know about your holdings?
- Are you having a hard time finding professionals to support you in this type of representation?
- Treated as an asset or currency.
- Transfer on Death or beneficiary.
- Is it on an exchange.

Cyber Insurance



- Do you have it?
- What about insurance for a stolen wire?
- Have you spoken to your insurance agent about ransomware protection?



Use cases and early adopters.

1. Voting & Government
2. Financial Transactions
3. Health care and medical records.
4. Real Estate and title companies.
5. We will place some matters into Blockchain protocol and some off
6. Consensus again is key
7. Will we use a distributed ledger to hold an escrow?



Globalization and the International Lawyer.



- If you are thinking locally forget about this space. The world is small now and everybody is part of the crypto future.
- We are looking for relationships worldwide.
- Overseas investors into startups (Re: Blue Sky Provisions)

Open Source and the Dramatic Changes Coming

- The concept of decentralization is being embraced by the younger generation.
- The idea of sharing ideas (Open Source) is built into the idea of a Public Blockchain.
- We as attorneys need to share ideas to help facilitate the growth of this space.
- Once you actively participate in the advancement of something through collaboration the result is even more sweet.

We are Evolving

- We are evolving as humans. Computers and the internet has dramatically advance the evolution process. Now the Blockchain used in conjunction with the internet and artificial intelligence will drive us even higher on the evolutionary ladder.
- This is liberating and invigorating.
- We are in the first inning of this thing. What we do now will create a legacy framework for the future of lawyers and the clients that we represent.
- Hopefully, you will join me in advancing this space and being part of this very special time.

Random Bitcoin Discussion

I am happy whenever I have the opportunity to talk about Bitcoin.

This has nothing to do with the legal discussion we just had.

Before we wrap this up with questions let's talk about first experiences with Bitcoin



Reference

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