

SEC Flexes Funny Bone in Fictional Token Offering

Blockchain and the Law Blog on **May 18, 2018**

The Securities and Exchange Commission (the “SEC”) has taken to using humor and sarcasm to educate retail investors about the potential risks of purchasing tokens in initial coin offerings (“ICOs”).

This week, the SEC issued a press release presenting “a hot investment opportunity.” The release pointed to a [website](#) touting the HoweyCoin—a fictional crypto token intending to disrupt the luxury travel industry—as “one of the largest cryptocurrency platforms ever built” and promising that it would provide potential investors with “excitement and guaranteed returns.” The website closely mimics common components of ICO issuer websites, including offers for tiered pre-sale purchaser discounts and an invitation to review a whitepaper, and contains egregious claims that the tokens are SEC-compliant, images of opulence, and fake celebrity endorsements for good measure.

For those of you who are not securities lawyers, the name “Howeycoin” is a reference to the seminal Supreme Court decision in [SEC v. W.J. Howey Co.](#), which first set forth the test for what constitutes an “investment contract” (and thus, a security) under the U.S. federal securities laws.

HoweyCoin is marketed as a token directly redeemable for travel services or merchandise, in addition to being an investment vehicle. Presenting HoweyCoin as a token with purported functionality highlights the SEC’s [position](#) that even tokens with “utility” (e.g., eligibility to be exchanged for goods or services) remain subject to SEC scrutiny.

Clicking on “Buy Coins Now!” takes the visitor to a SEC information [page](#) that warns retail investors as to the risks of ICOs.

This education effort comes as the SEC, along with various state securities commissions, remain vigilant in shutting down fraudulent, unregistered and non-exempt ICOs.

[View Original](#)