Crypto Faces 'The Man Who Took on Wall Street'

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Eleven cryptocurrency issuers and exchanges including Tron, Block.one, and Binance were hit with class action lawsuits over their initial coin offerings last week.

The cases were filed on April 3, the last day possible under the statute of limitations. That was a year to the day after the U.S. Securities and Exchange Commission issued its long-awaited "plain English" guidance on what makes an ICO a securities sale.

Ominously, they were filed by a group of lawyers led by Philippe Selendy, who the Financial Times called "The man who took on Wall Street" after he forced 16 major banks including Citigroup, Goldman Sachs, and JPMorgan Chase to pay $25 billion for their part in the subprime mortgage crisis that sparked the Great Recession of 2007.

The details of the 11 current lawsuits differ, but all revolve around one core allegation: the token-issuers held and the exchanges promoted illegal, unregistered securities offerings.

In doing this, they "failed to comply with federal and state securities laws intended to protect investors from unscrupulous behavior in the rush to capitalize on this enthusiasm," said Kyle Roche, a lead partner on the cases, in a release.

It's not just the companies that are being sued.

The firms Roche Cyrulnik Freedman and Selendy & Gay are also going after top executives individually on behalf of their clients and the class of investors they represent. These include blockchain developer Tron's Justin Sun, EOS-issuer Block.one's CEO Brendan Blumer, and Changpeng "CZ" Zhao, CEO of leading cryptocurrency exchange Binance.

The big gun

On Sept. 2, 2011, Selendy filed a lawsuit on behalf of the U.S. Federal Housing Finance Authority (FHFA) for the losses taxpayers suffered when borrowers defaulted on so-called subprime mortgages they could not possibly afford, spurring one of the worst economic downturns in U.S. history.

No one gave Selendy much chance against the combined might of financial giants that also included international financial institutions such as Deutsche Bank, HSBC, Nomura, Credit Suisse, and Société Générale.

Five years later Selendy had beaten them all. In total, he claims to have recovered a total of $35 billion for clients over the last decade.

Despite that pedigree, Kyle Roche and Velvel Freedman of Roche Cyrulnik Freedman are more familiar to crypto insiders because of their lawsuits seeking $5 billion and half of the Bitcoin intellectual property from self-proclaimed Satoshi Nakamoto Craig Wright, and the $1.4 trillion class action accusing Tether and Bitfinex of causing the entire Crypto Winter.

"To me, the stronger sign here, the more interesting signal, is that they're all co-counseled by Philippe Selendy. He's a really serious player… a top notch, big time legal mind," a source told Modern Consensus.

Betrayal of trust

"The crypto-asset market has exploded in the last few years with ICOs that make great promises but deny investors critical information on the securities sold," Selendy said in an April 6 release.

"Not unlike the mortgage crisis that led to the Great Recession, the alleged pattern of misconduct by exchanges and issuers yielded billions in profits for wrongdoers through a basic betrayal of public trust," he said. "The lawsuits we filed seek to restore integrity and transparency to these new financial markets."

Kyle Roche said that one common theme runs through all 11 cases: dishonesty about the status of the digital tokens on offer. Regardless of whether they were presented as cryptocurrencies or utility tokens, the success of Bitcoin led to a "growing enthusiasm" that spilled over into the market for initial coin offerings.

As a result, investors flocked, hoping to get in on the next Bitcoin. "The cases allege that exchanges and issuers failed to comply with federal and state securities laws intended to protect investors from unscrupulous behavior in the rush to capitalize on this enthusiasm," Roche added.

Read the full article here.

Attorney

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Practices

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- Class Actions