Civil unrest: How a blockchain-based journalism startup bumbled its launch

Enlarge / Civil CEO Matthew Iles, as seen in this promo video.

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In March 2018, Matthew Iles—the head of Civil, an ambitious blockchain-for-journalism startup—stood in a tiny New York conference room with a few colleagues seated around him. Wearing a peach-colored sweater, Iles looked up at a mounted camera to speak to dozens of colleagues spread around the world about how the future of Civil was looking bright.

“We’re feeling very bullish about the value of our tokens as it relates to the value that has been estimated in all of the agreements that we have shared with you guys so far,” the CEO said in an internal video recording obtained by Ars.

Civil aims to orchestrate the creation, sale, and management of an Ethereum-based crypto-token, known as CVL, meant to serve as the underpinning of a slew of recently founded ambitious news sites.

“Compared to the $0.75 estimation that we made with each of you and if we do our jobs right and execute the way we would like to, it’s looking like we could see a two to four X in that value by the time this token sale is complete, and I think that’s exciting for everybody,” Iles continued.

But even that $0.75 valuation put the tokens at more than 789 times what was actually listed in a formal filing. That document was marked as a confidential "Restricted Token Agreement" and has been provided to Ars. It cited the "fair market value" of one CVL at "$0.00095 per Token."

Now, months later, in a lengthy phone interview, Iles refused to explain this discrepancy to Ars.

Either way, Civil didn't even get that far. The initial coin offering (ICO) failed, badly. By October 2018, the Civil ICO raised just $1.4 million of a target $8 million. Civil's sole investor, ConsenSys, purchased the overwhelming majority of that investment: $1.1 of the $1.4 million.

Individuals who attempted to purchase CVL tokens had to go through a complex and lengthy series of steps that included online quizzes meant to demonstrate that investors knew what they were getting into. (All the money raised as part of the ICO has been refunded, according to Civil.)

"Victim of fraud"

Now, some within the Civil community have raised significant concerns about the entire premise of the company. Notably, a co-founder, Daniel Sieberg, told Ars that he sees himself as a "victim of fraud" after he was fired in July 2018.

"The fact that they are the people that are touting themselves as some saviors of journalism—the whole thing has reached a point where, as a victim of fraud, seeing this continuing is so insulting," he said, still lamenting the fact that he wasn't as skeptical as he should have been. "Did I, at the time, feel like I didn't know enough about blockchain to the amount that it needed to be evaluated? Yes, I'll take that to my grave."

Jay Cassano, a former reporter at Sludge, a Civil-affiliated

site, said that reporters were incentivized to take future salaries based on this $0.75 valuation—forgoing cash in favor of more tokens. But when that failed to materialize, he quit after five months. Since the ICO failed, reporters are now being paid entirely in cash.

“Even if they started with the best of intentions, they have now become bad actors and are willfully deceiving the reporters that work for them and the general public,” Cassano said.

On top of all that, Civil’s primary funder, ConsenSys, announced earlier this month that it would be cutting 13 percent of its workforce. How exactly this will impact Civil is anyone’s guess—but it can’t be beneficial.

- This March 2018 internal slide from Civil illustrates its planned ICO.
- While making this presentation, CEO Matthew Iles told staffers that the company had a “direct line” to the Securities and Exchange Commission.
- It is not clear whether this allocation of CVL tokens will go forward as planned, given that the sale failed.
- Civil told staffers it would be the “standard for all accurate information.”
- Civil made some ambitious claims about its future.

“It’s complicated”

The Civil Media Company, which has existed for over a year now, has touted its bold plan to “power sustainable journalism” via a “decentralized model based on blockchain and cryptoeconomics.”

Translated into plain English, that means the company wants to act as an umbrella entity for numerous independent online media outlets that have been operating since June 2018. Those

“newsrooms” cover a wide range of topics, ranging from local journalism (Colorado Sun), to national money and politics (Sludge), to marijuana industry news (CannabisWire), and more.

Few of Civil’s staff have actual experience as working journalists—it does not employ journalists. (The newsrooms, however, as independent entities, obviously do employ reporters and editors.) CEO Matthew Iles himself studied journalism but told Ars that he would “never call myself a journalist.”

He acknowledged that Civil’s first stab at creating a blockchain-based solution for journalism was problematic, but he remains confident in the model and vows that Civil will forge ahead.

“It’s complicated, and we’ve over-complicated it,” he said.

In a lengthy phone interview, Iles explained that he was driven by an admiration for the profession of journalism and wanted to help develop a new business model to fund and support it. He said he wants to help online media outlets break free of the traditional ad-based model, dependent on Facebook and Google.

“The reason why employees and why people committed to this project want tokens is because we are putting our sweat into this, and we want to grow this network where the value of our network is consistent with our mission, which is a global platform for sustainable journalism,” Iles said.

Revenue and constitutions

However, media outlets seek conventional sources of revenue—subscriptions, advertising, branded content—which is hard enough without having to introduce blockchain into this equation.

So, CVL is the theoretical vehicle to achieve those goals. The

well-intentioned token is described as “vital to Civil’s overall model, as it unlocks two vital business features for newsmakers: self-governance and permanent archiving.”

It is not clear exactly what is meant by “unlocking… self-governance”—all news sites, by definition, are self-governing. All such media entities choose what, when, and how to publish. Some even have publicly accessible codes of ethics and other guiding documents.

Civil has also created something similar called the Civil Constitution, which, in many ways, reads like a conventional journalistic code of ethics. However, the Constitution takes it one step further by establishing a “Civil Foundation, with the mission of upholding and advocating for the core values defined in the Civil Constitution.”

The Foundation was only formally organized as a Delaware-based non-profit entity in September 2018. It appoints the members of the “Council,” the governing body for the entire Civil platform. However, the Council has never met to discuss any substantive issues, according to two members who were granted anonymity by Ars. In fact, by design, the Council—composed mainly of journalism veterans—only convenes when there are disputes, and there have yet to be any.

“I think it’s legitimate to ask what happens to that role if the issue is with the Civil business itself,” one member said. “[That’s n]ot something that’s clear to me right now.”

The Constitution cannot be ratified without “Token Holders” approving it. Until that happens, its binding power appears largely meaningless.

“Permanent archiving”

With respect to “permanent archiving,” supporters often bring up the tale of DNAinfo and Gothamist, the news sites that were

temporarily yanked after their founder was upset by staff unionization. But those sites' archives were quickly restored. (In fact, DNAinfo.com redirects to Block Club Chicago, a Civil newsroom.)

Indeed, there are numerous websites that have years' worth of archives that have not been disturbed. Ars' 20 years of archives, for instance, are freely available on our website.

Neither of Civil's two pillars, or "business features," appear to need a blockchain-based token to address them.

"At one point, I thought the model made sense as a way to foster relationships between readers and reporters more directly and cut out wealthy funders of newsrooms as the only model for journalism today," Cassano told Ars. "But over time I realized that Civil was a solution in search of a problem, because we don't need technology to do those things. You look at Civil—they got $2.5 million in funding."

In October 2017, ConsenSys donated $2.5 million in cash to Civil, with an additional $2.5 million in donations of in-kind services, including office space.

"What technology has Civil created with that $5 million?" Cassano added. "As of now there are [over] a dozen WordPress sites that have launched. Did they need $5 million for that?"

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