

Telegram must halt sale of its crypto token due to an SEC emergency restraining order

The US Securities and Exchange Commission has formally instructed Telegram Group, the parent company of the Telegram encrypted messaging service, to halt sales of its cryptocurrency Gram. The SEC says the company, and its crypto-focused subsidiary TON Issuer Inc., failed to register an early sale of \$1.7 billion of its crypto tokens prior to the October 31st launch of its blockchain network. Because the SEC treats cryptocurrency as securities, the agency says Telegram is in violation of the Securities Act.

“Our emergency action today is intended to prevent Telegram from flooding the US markets with digital tokens that we allege were unlawfully sold,” writes Stephanie Avakian, the co-director of the SEC’s Division of Enforcement, in a statement. “We allege that the defendants have failed to provide investors with information regarding Grams and Telegram’s business operations, financial condition, risk factors, and management that the securities laws require.”

But if Telegram doesn’t distribute the “first batch” of tokens by October 31st, it has to give back the money it raised, according to documents reviewed by *The New York Times*. According to the SEC, the investors in Gram included 171 individuals and organizations worldwide that purchased 2.9 million tokens. One million of those tokens were bought by 39 US purchasers. But Telegram never registered the sale, and as

a result it broke the law, the SEC says, and may have to forfeit the \$1.7 billion it's raised.

Telegram may to forfeit the \$1.7 billion it's reported raised in token sales

Telegram has also remained oddly quiet about key details of its so-called TON network. The blockchain platform is designed to be paired with a digital wallet that, like Facebook's struggling Libra project, aims to offer decentralized currency to anyone with a smartphone.

But the company only formally acknowledged the network's existence earlier this month in a letter to investors disclosing its official launch date, according to crypto news website *CoinDesk*. Telegram has refused to disclose key details about the project since canceling an initial coin offering in May of last year, in part due to regulatory concerns. The pre-sale of its tokens, later reported to have generated \$1.7 billion, raised red flags among regulators and security researchers concerned that the lack of oversight would make Telegram's network appealing to money launderers and drug dealers.

"We have repeatedly stated that issuers cannot avoid the federal securities laws just by labeling their product a cryptocurrency or a digital token," writes Steven Peikin, fellow co-director of the SEC's Division of Enforcement, in a statement. "Telegram seeks to obtain the benefits of a public offering without complying with the long-established disclosure responsibilities designed to protect the investing public."

The SEC filed today's complaint in federal district court in Manhattan. It charges Telegram and TON Issuer with violating two registration provisions of the Securities Act. The agency is seeking "certain emergency relief, as well as permanent injunctions, disgorgement with prejudgment interest, and civil penalties."

<https://www.theverge.com/2019/10/11/20910587/telegram-the-gram-crypto-token-sale-1-7-billion-sec-halt>