



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

22nd Floor
20 Queen Street West
Toronto ON M5H 3S8

22e étage
20, rue queen ouest
Toronto ON M5H 3S8

**IN THE MATTER OF
COINLAUNCH CORP.**

STATEMENT OF ALLEGATIONS

(Subsection(s) 127(1) and Section 127.1 of the *Securities Act*, RSO 1990, c S.5)

A. ORDER SOUGHT

1. Staff of the Enforcement Branch of the Ontario Securities Commission (“Enforcement Staff”) requests that the Commission make the following order(s):
 - a. that trading in any securities or derivatives by the Respondent CoinLaunch Corp. (“**Coinlaunch**” or “**Respondent**”) cease permanently or for such period as is specified by the Commission, pursuant to paragraph 2 of subsection 127(1) of the Securities Act, RSO 1990, c S.5 (the “**Act**”);
 - b. that the acquisition of any securities or derivatives by the Respondent is prohibited permanently or for such period as is specified by the Commission, pursuant to paragraph 2.1 of subsection 127(1) of the Act;
 - c. that any exemptions contained in Ontario securities law do not apply to the Respondent permanently or for such period as is specified by the Commission, pursuant to paragraph 3 of subsection 127(1) of the Act;
 - d. that the Respondent be reprimanded, pursuant to paragraph 6 of subsection 127(1) of the Act;

- e. that the Respondent pay an administrative penalty of not more than \$1 million for each failure by the Respondent to comply with Ontario securities law, pursuant to paragraph 9 of subsection 127(1) of the Act;
- f. that the Respondent disgorge to the Commission any amounts obtained as a result of non-compliance with Ontario securities law, pursuant to paragraph 10 of subsection 127(1) of the Act;
- g. that the Respondent pay the costs of the Commission investigation and the hearing, pursuant to section 127.1 of the Act; and
- h. such other orders as the Commission considers appropriate in the public interest.

B. FACTS

Enforcement Staff makes the following allegations of fact:

OVERVIEW

2. Persons and companies that facilitate offerings of crypto-assets must turn their mind to whether requirements under Ontario securities law, including registration, apply to their activities. Registration is a cornerstone of Ontario securities law. The registration regime protects investors and promotes confidence in Ontario's capital markets by seeking to ensure that anyone who is in the business of trading securities meets the necessary standards of proficiency, solvency and integrity, among others.

3. CoinLaunch is a service provider that operated in the emerging crypto-asset sector. During the period between March 1, 2018 and September 30, 2018 (the "**Material Time**"), CoinLaunch held itself out as engaging in the business of trading securities by advertising a package of "crypto consulting" marketing and promotional services that included: (a) helping companies administer security token offerings; (b) helping companies solicit investors to register and complete the investment process; (c) taking offerings on roadshows; (d) planning and

consulting on all key aspects of a crowdsale campaign; and (e) marketing token offerings through marketing campaigns, “landing pages,” advertising, etc.

4. Furthermore, CoinLaunch facilitated offerings of the Buggyra Coin Zero token (“**BCZERO**”) and the EcoRealEstate token (“**ECOREAL**”) to the public during the Material Time. The BCZERO and ECoreal tokens each constituted securities.

5. In furtherance of the sale of BCZERO and ECoreal, CoinLaunch provided services to the issuers of the tokens in exchange for compensation. Services provided include: (a) creating and deploying the tokens on the Ethereum blockchain; (b) marketing and promoting the token offerings through “white papers” and “landing page” websites; (c) introducing the issuers to crypto-asset trading platforms to explore potential listing of the tokens; and (d) providing advice to the token issuers with respect to the structure of the token offerings. The services provided by CoinLaunch, taken together, constituted acts in furtherance of trades.

6. As a result, CoinLaunch engaged in and held itself out as engaging in the business of trading in securities, without registration under Ontario securities law and where no exemption from the registration requirement was available.

7. Since October 2018, the issuers of BCZERO and ECoreal tokens have listed the tokens on certain foreign crypto-asset trading platforms, although trading volumes appear to have been minimal.¹ CoinLaunch was not involved in the listing of the tokens on those trading platforms and had ceased its business relationship with the issuers before the tokens were sold to the public.²

THE RESPONDENT

1. CoinLaunch is a privately-owned company which was incorporated under the *Canada Business Corporations Act* on October 16, 2017. The registered address of CoinLaunch is in

¹ No prospectus or preliminary prospectus for the distribution of BCZERO or ECoreal has been filed with the Commission.

² The issuers of BCZERO and ECoreal are located and operate outside of Canada.

Oakville, Ontario. CoinLaunch is in the process of winding down its operations and has filed its intent to dissolve with the Government of Canada.

2. During the Material Time, all of the directors and officers of CoinLaunch were residents of Ontario.
3. CoinLaunch is not, and has never been, registered with the Commission in any capacity.

THE BUSINESS MODEL OF COINLAUNCH

4. Since its inception, CoinLaunch's business model has evolved over time.
5. Prior to and during the Material Time, CoinLaunch operated and maintained a platform on its website. The CoinLaunch platform enabled members of the public to create and deploy tokens on the Ethereum blockchain³ ("**ERC20 tokens**")⁴ and create "smart contracts" on the Ethereum blockchain to distribute these ERC20 tokens.
6. This platform was the business focus of CoinLaunch during the first few months after its inception but did not result in any actual deployment of ERC20 tokens on the Ethereum blockchain. However, by March 1, 2018, CoinLaunch began to hold itself out as engaging in the business of trading securities. In particular, CoinLaunch advertised a package of "crypto consulting" services on its website during the Material Time aimed at marketing and promoting token offerings. These services included:
 - a. Security token offering – helping companies administer their token offerings;
 - b. Security token management – helping companies solicit investors to register and go through the investment process, including "KYC/AML", accreditation, and other legal requirements;
 - c. Pre-funding – helping companies create a plan to get "seed funding" for token offerings;

- d. Roadshow – taking fully vetted, high-quality offerings on roadshows;
 - e. Workshops – providing full day workshops to help companies develop the optimal approach, tactics and strategy for their offerings;
 - f. ICO⁵ campaign consulting – planning and consulting on all key aspects of crowdsale campaigns; and
 - g. ICO marketing – marketing token offerings through marketing campaigns, “landing pages”, advertising, etc.
7. Providing crypto consulting services became the focus of CoinLaunch’s business by March 1, 2018.
8. By advertising the above collection of crypto consulting services, CoinLaunch held itself out as engaging in the business of trading in securities.

COINLAUNCH FACILITATED THE BCZERO AND ECOREAL TOKEN OFFERINGS

9. In practice, CoinLaunch did not provide the full array of crypto consulting services that was advertised on its website.
10. During the Material Time, CoinLaunch provided the following crypto consulting services to the issuers of BCZERO and ECOREAL tokens in furtherance of the sale of those tokens to the public, including:
- a. creating and deploying BCZERO and ECOREAL tokens to Ethereum addresses associated with the token issuers;
 - b. creating and preparing promotional materials termed “white papers” for the token offerings;

³ Ethereum is an open-source public blockchain-based distributed computing platform which offers a smart contract functionality.

⁴ ERC20 tokens are standardized tokens designed and used solely on the Ethereum blockchain.

⁵ ICO stands for initial coin offering, which is a common capital-raising process in the crypto-asset space involving the sale of new crypto-assets to investors in exchange for fiat currency or other pre-existing crypto-assets.

- c. creating and managing live websites to promote the token offerings (the “**Landing Pages**”), including by hosting websites, updating content, and/or by making white papers available for download on the Landing Pages. CoinLaunch’s contemplated business model called for it to ultimately hand over the Landing Pages to the token issuers;
- d. providing advice to the token issuers with respect to the structure of the token offerings;
- e. booking a booth for an agent of the BCZERO token issuer to market the BCZERO offering at the 2018 Blockchain Expo in London, UK;
- f. introducing the token issuers to crypto-asset trading platforms to “list” the tokens for public trading, although no listing was ultimately achieved on those particular platforms; and
- g. introducing the token issuers to a moderator on bitcointalk.org – an online forum dedicated to bitcoin and other crypto-assets⁶ which subsequently announced the launch of BCZERO and ECOREAL along with marketing and promotional materials that resembled those on the Landing Pages.

11. The services that CoinLaunch provided with respect to BCZERO and ECOREAL were consistent with the focus of its business during the Material Time and, taken together, constituted acts in furtherance of trading.

12. As compensation for its services regarding the BCZERO offering, CoinLaunch received \$12,233.06 and 500,000,000 BCZERO tokens (5% of all BCZERO tokens issued).⁷ CoinLaunch also received approximately 46,140,000 ECOREAL tokens (over 4.6% of all ECOREAL tokens)⁸ as compensation for the services it provided with respect to the ECOREAL offering. CoinLaunch was supposed to be compensated with additional fiat currency, which it did not receive.

⁶ Many ICOs are announced on this forum.

13. In or about October 2018, after CoinLaunch ceased its business relationship with these token issuers, the token issuers listed BCZERO and ECOREAL for public trading on several foreign crypto-asset trading platforms, including DDEX.io, instantbitex.com, livecoin.net and bitker.com.⁹ To date, the trading volumes of BCZERO and ECOREAL on these crypto-asset trading platforms have been minimal.

14. CoinLaunch was not involved in the listing of the tokens on the above trading platforms and had ceased its business relationship with the issuers of BCZERO and ECOREAL before the tokens were sold to the public.

DESCRIPTION OF THE BCZERO AND ECOREAL TOKENS

15. BCZERO and ECOREAL tokens each constituted securities under the Act. In particular, they each constituted “investment contracts”.

1. BCZERO

16. According to its white paper, BCZERO is a token related to Buggyra, an off-road truck racing team based in the Czech Republic. The white paper characterized BCZERO as an “investment” and a means for Buggyra to “raise equity”. It stated that BCZERO was intended to: (a) provide Buggyra fans with a “single payment source within the Buggyra Coin Zero marketplace” to buy goods and services from racing teams, receive discounts on fees charged within the system, and access exclusive events and experiences; (b) create an “ecosystem” for other racing teams to “host details about their equity/financing offerings” and offer merchandise and fan experiences; (c) provide “sponsors” of racing teams “with the ability to have a direct equity ownership in a team”; and (d) “enable racing teams to raise capital using non-traditional means – namely, cryptocurrency.”

⁷ 500,000,000 BCZERO tokens were sent from the Ethereum address associated with the issuer to CoinLaunch’s Ethereum address.

⁸ These tokens were sent from the Ethereum address associated with the issuer to CoinLaunch’s Ethereum address.

⁹ A significant portion of the deployed BCZERO tokens remain at the Ethereum address associated with the issuers.

17. Purchase of BCZERO tokens would require an investment of money. Through foreign crypto-asset trading platforms, investors could purchase BCZERO tokens in exchange for bitcoin or ether, both of which are crypto-assets of value and exchangeable with fiat currencies.

18. BCZERO token purchasers would have a reasonable expectation of profit from their investment in BCZERO. The whitepaper referred to prospective BCZERO purchasers as “investors” and claimed that “Buggyra is the perfect partner and brand for any investor to receive substantial profit and growth in their investment in Buggyra Coin Zero”. The “Risk Factors” section of the whitepaper outlined “risks associated with an investment in the Buggyra Racing Coin”. While the whitepaper described a planned BCZERO marketplace for purchasing goods and services and accessing events, there is no marketplace or platform that enables this use of BCZERO. The proceeds of the BCZERO offering are intended to be used to build a marketplace that would create demand for BCZERO tokens. Investors would reasonably expect to profit from the success of the issuer’s efforts to build and grow the marketplace and the concomitant rise in the value of BCZERO tokens.

19. In addition, BCZERO tokens have been available for secondary trading on crypto-asset trading platforms prior to the creation of the marketplace. This indicates that purchases of BCZERO tokens would have been speculative in nature.

20. The profits for investors would be derived from the significant managerial efforts of Buggyra. In fact, the white paper listed dependence on key personnel of “[t]he issuer” as one of the risks in an “investment” in BCZERO.

2. ECOREAL

21. ECOREAL was characterized in its white paper as a “securities token” and a new way for people to access “ecotourism investment opportunities in Portugal.”

22. According to the white paper, funds raised from the sale of ECOREAL would be used to acquire and develop a village resort located at Aldeia da Pedralva, Algarve, Portugal (“**Pedralva**”). The white paper provided high level statistics relating to the operation of the

Pedralva resort in prior years and further stated that: (1) ECOREAL would represent a fractional ownership in the resort; and (2) all net revenue of the resort would be distributed to the ECOREAL holders every year.

23. Purchase of ECOREAL tokens required an investment of money. Through foreign crypto-asset trading platforms, investors could purchase ECOREAL tokens in exchange for bitcoin or ether.

24. ECOREAL token purchasers would have a reasonable expectation of profit from their investment in ECOREAL through the *pro rata* distribution of the Pedralva resort's net revenue each year.

25. The profits for investors would be derived from the significant managerial efforts of the issuer to operate and manage the Pedralva resort. In fact, the white paper listed dependence on key personnel of the issuer as one of the risks in an "investment" in ECOREAL.

C. BREACHES AND CONDUCT CONTRARY TO THE PUBLIC INTEREST

26. Enforcement Staff alleges the following breaches of Ontario securities law:

- a. CoinLaunch engaged in and held itself out as engaging in the business of trading in securities, without being registered to do so and where no exemption to the registration requirement of Ontario securities law was available, contrary to subsection 25(1) of the Act.

27. Enforcement Staff reserve the right to amend these allegations and to make further and other allegations as Enforcement Staff may advise and the Commission may permit.

DATED this 22nd day of July, 2019.

Katrina Gustafson
Senior Litigation Counsel
Enforcement Branch

Tel: (416) 597-7209
Email: kgustafson@osc.gov.on.ca