

CRYPTO SECURITY REPORT

JULY 2018

Crackdowns on Crypto Crime

Acting on their mission of keeping the crypto space free of fraud, **the Securities Exchange Commission is cracking down on ICOs** where funds may have been obtained through misdirection, [reports CryptoSlate](#). The latest sting involved an emergency court order issued on June 18th, one that enabled the SEC to freeze the assets of PlexCorps founders Dominic Lacroix and Sabrina Paradis-Royer.

Lacroix and Paradis-Royer are accused of a crypto ponzi scheme that allowed their company to raise nearly \$15 million through a fraudulent ICO. According to official statements, the SEC has been pursuing the pair since 2017 and worked with Canadian authorities in order to **put a stop to PlexCorps' scam**.

There is also a broader effort by governments to clamp down on illegal activities involving Bitcoin and cryptocurrencies. A recent operation by the U.S. **Department of Justice saw agents seize more than \$23.6 million in illegally-obtained assets** by posing as crypto traders on the darknet, [writes Cointelegraph](#). These included 2,000 bitcoins and other cryptocurrencies, bullion, paper money, and other valuables as well as illicit materials.

This operation, announced the DOJ on June 26, also led to 35 arrests of suspects involved in illegal sales using cryptocurrency. According to Derek Benner, an associate director at Customs Enforcement's Homeland Security Investigations (HSI), the arrests and seizures were the result of a lengthy investigation with multiple agencies working together. Benner went on to say that the success of the authorities represents an **important turning point where criminals will find it increasingly difficult to use crypto assets on the darknet**.



Security Breaches and Bugs

After a stellar opening ceremony that resulted in a record \$4 billion ICO, the star altcoin EOS has come under heavy fire due to the project leaders' direction, [notes CryptoSlate](#). The **latest round of criticism came after EOS updated its Termination of Agreement** (Article XV) with a stipulation that inactive accounts on the network can eventually be stripped of their funds.

This policy contrasts sharply with Bitcoin, Ethereum, and most other coins, and placed into question EOS's decentralized nature. Even co-founder Rick Schlesinger, while explaining the motives behind Article XV, agreed that tampering with users' accounts may be unjust regardless of circumstance. The debate coincided with **a fault in EOS's blockchain**, which temporarily halted the network while fixes were being applied.

EOS's technical difficulties pale in comparison to those of Bithumb, one of the largest crypto exchanges which **lost \$31 million in a hacker attack reported on June 19**, [writes Cointelegraph](#). The South Korean exchange was compromised just weeks after Coinrail, another exchange from the same country, lost \$37 million in a similar breach.

Fortunately, Bithumb announced on June 28 that **owners have since managed to recover around half of the stolen funds**, or \$14 million, with the remaining loot still being pursued, [reports CryptoSlate](#). The exchange is now offering full compensation to affected users while limiting withdrawals until the situation is resolved. Despite the formidable recovery, the attack is only the latest in a lengthy string of breaches that have elevated the topic of crypto exchange security to the forefront of industry debates.



Crypto Czars

U.S. regulators are generally seeking constructive ways to approach the new challenges posed by cryptocurrencies and are increasing the resources devoted to this growing industry. On June 4, the **SEC announced that Valerie A. Szczepanik had been appointed Senior Advisor for Digital Assets**, [writes Cointelegraph](#).

Szczepanik's official statement echoed her previous comments where she highlighted investor safety as a priority for the SEC when addressing the crypto space. Szczepanik, who has experience working with blockchain and related technologies, added that the market **should be regulated in a way that promotes funding and development**.

Other enforcement efforts by the SEC this year included a sweeping probe in February 2018 that resulted in the closure of several securities in the ICO space. The agency has also made an effort to educate investors, most recently creating [a fake website](#) that's meant to clue visitors in on the various "red flags" to look for in a new ICO.

It's not just the federal government that's taken a keen interest in regulating cryptocurrencies. On June 26, Florida's Chief Financial Officer, Jimmy Patronis, announced that a new statewide position has been created of, effectively, a "cryptocurrency chief" to deal with the rapid advancements (and toxic opportunism) in the crypto space.

[CoinDesk reports](#) that the new cryptocurrency chief is yet to be named, but, to Patronis, the position signals that **the state is taking proactive steps in dealing with digital currencies**. The new "crypto czar" in Florida will be tasked with reconciling existing securities and insurance laws with crypto assets.

