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**PROGRAM MATERIALS**

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# **AI Blockchain and Cryptocurrency - The Impact on your Legal Practice & Regulatory Clarification**

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# AI, Blockchain and Cryptocurrency: The Impact on Your Legal Practice & Regulatory Clarification

Presentation by:  
Andrew Bull, Esq.  
Bull Blockchain Law LLP

## Agenda:

- Blockchain & Crypto Overview
  - Technology
  - Cryptocurrency
- Legal & Regulatory Issues
  - Governmental Agencies (SEC, CFTC, & FinCEN)
  - Jurisdictional Considerations & Enforcement Actions
- Smart Contracts
- Decentralized Finance (DeFi)
- The Second Trump Administration & Regulatory Shift
- Stablecoins & the GENIUS Act
- Cryptocurrency ETFs
- Custody & Tokenization
- Artificial Intelligence
  - Federal & State AI Regulation
  - AI Ethics for Lawyers (ABA Op. 512)



# Speaker:

## Andrew Bull, Esq.

Andrew is the founder of **Bull Blockchain Law LLP**. After finding Bitcoin in 2011, Andrew ran one of the first cryptocurrency mining companies in the U.S. as well as a digital asset hedge fund. Andrew's background in blockchain includes extensive business, legal, and academic experience. Since writing a thesis on Bitcoin regulation in 2013, he has written several publications for legal journals, been quoted in Forbes on digital assets, spoken at international blockchain conferences, contributed to a European Union publication on U.S. blockchain legislation, and developed some of the first blockchain-focused courses for law schools and graduate programs. In 2020, he was one of the American Bar Association's Top 40 Young Lawyer Award nominees, and is currently an adjunct professor of law at Drexel University's Thomas R. Kline's School of Law, teaching blockchain and cryptocurrency law.

Through his legal expertise in digital assets, experience in blockchain, and academic background in policy and regulation, Andrew offers a unique interdisciplinary perspective to address the wide range of issues his clients face. Andrew strives for advancement in the industry and believes bridging the gap between technology and law is essential to client services.

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# BLOCKCHAIN & CRYPTOCURRENCY: FOUNDATIONAL LAWS & CASES



# Initial Coin Offerings

- An Initial Coin Offering (ICO) is the cryptocurrency space's rough equivalent to an IPO in the mainstream investment world.
- Thousands of tech startups, businesses, and corporations have tapped into this new fundraising mechanism, e.g., Filecoin - \$257 million; Tezos - \$232 million; EOS - \$180 million.
  - 2016 – more than \$100 million raised through ICOs globally.
  - 2017 – global issuance volume exceeding \$3 billion.
  - 2018 – regulation & rise of Security Token Offerings



# SEC—The DAO Report

The SEC issued a Report of Investigation called “[The DAO Report](#)” in July 2017, informing the market of its views on registration of Coins and Tokens as securities

- A company called Slock.it created a DAO, and sold tokens as interests in the enterprise. Investors were told the coins would increase in value, and would be listed for trading on an exchange.
  - Based on these facts the SEC concluded the interests were securities
- The critical test (**Howey Test**) here is two-fold:
  - *SEC v. H.J. Howey Co.*, 328 U.S. 293 (1946) which considers:
    - An investment of money
    - In a common enterprise
    - With the expectation of profits
    - From the efforts of others



# SEC v. LBRY, Inc., 26 F.4th 96 (1st Cir. 2022)

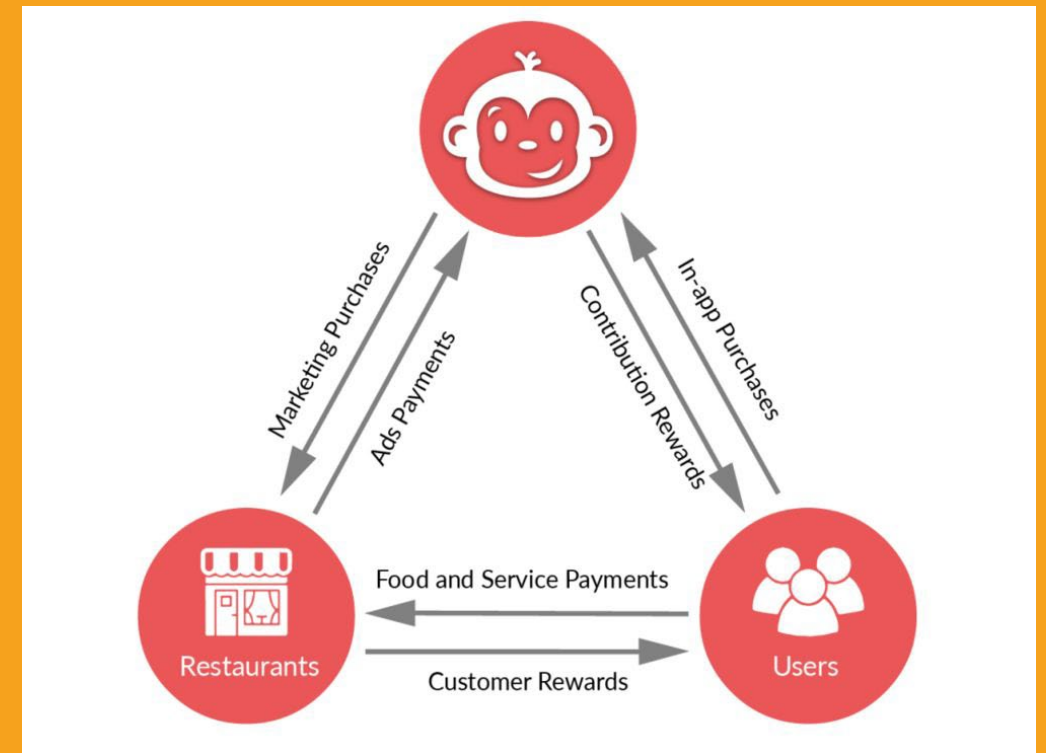
## Main Takeaways:

1. All communications related to token distribution may be subject to analysis.
2. Token retention may be a factor considered in analysis.
  1. The court found LBRY's holding of 100 million LBC + offer and sale of LBC = caused by an expectation of profits from the efforts of others.
3. Tokens having consumptive use will not impact the *Howey* test.
  1. Can be a security despite *some* purchasers buying LBC with consumptive intent.
4. The SEC's lack of prior similar enforcement action will not constitute lack of notice when Section 5 of the Securities Act expressly prohibits offering and selling unregistered security in interstate commerce and the SEC's interpretation of "security" is consistent with long-standing Supreme Court precedent.



## SEC—Beyond DAO

- On December 11, 2017, the SEC targeted an ICO launched by the company Munchee Inc., which raised \$15 million to develop an App that used blockchain technology to allow users to write restaurant reviews.
  - Munchee team stated it would both pay food reviewers and allow restaurant owners to purchase advertising in the Munchee Token (“MUN”).
  - SEC applied Howey and determined MUN tokens were securities because the tokens were sold to the general public and investors reasonably expected a profit from the rise in value of the token derived from the efforts of Munchee and its agents.
- **Subsequent Cases**
  - Telegram
  - Kik Messenger App
  - Tomahawk



## Subsequent Case—*SEC v. Telegram Grp. Inc.*, 448 F. Supp. 3d 352 (S.D.N.Y. 2020).

- **Pertinent Facts:** Telegram entered into agreements where the initial purchaser would provide upfront capital in exchange for the future delivery of a discounted asset (Gram) which would be resold in a public market with the expectation of earning profits. Telegram was ordered to disgorge \$1,224,000,000.00 in ill-gotten gains and pay a civil penalty of \$18,500,000.00.



- **Single-Scheme View:** When SAFT offerings and token distributions are considered to be part of a single offering, then the SAFT sales won't qualify for the exemption from registration under either Section 4(a)(2) of the Securities Act or Rule 506(c) of Regulation D.
- When SAFT offerings are considered to be part of a single with token distributions then there is no intent for the tokens to “come to rest” with the SAFT purchasers. This effectively makes SAFT purchasers the statutory underwriters.



## Subsequent Case—*United States SEC v. Kik Interactive Inc.*, 492 F. Supp. 3d 169 (S.D.N.Y. 2020)

- **Pertinent Facts:** Kik created and sold a digital currency called “Kin.” At the time of distribution, Kin had no consumptive use. Kin would only have consumptive use if it turned out to be successful. Purchasers in Kin sales received the same class of securities, and the private and public sales took place at about the same time.



- **Integrated Offering Analysis:** When SAFT sales are considered integrated with the public token offering, the SAFT sales cannot qualify for the exemptions under either Section 4(a)(2) of the Securities Act or Rule 506(c) of Regulation D.
- From 2020-2023, Kik must provide notice to the SEC before engaging in enumerated future issuances, offers, sales, and transfers of digital assets. Kik will also pay a \$5 million penalty.



**Subsequent Case—*Securities and Exchange Commission v. Payward Ventures, Inc. (D/B/A Kraken) and Payward Trading, Ltd. (D/B/A Kraken)*, No. 3:23-cv-00588 (N.D. Cal. filed Feb. 9, 2023)**

- **Pertinent Facts:** The Kraken Staking Program aggregated investors' crypto assets, so Kraken could stake the pooled investor assets and obtain a competitive advantage in the staking marketplace.
- **Major Takeaway:** Staking-as-a-service providers, lenders, or other crypto-intermediaries must comply with Securities law via implementation of "proper disclosures and safeguards." Notably, this case ended in a settlement.



- Kraken agreed to immediately cease offering or selling securities through the Kraken Staking Program and pay \$30 million in disgorgement, prejudgement interest, and civil penalties.
- **2025 Update:** On March 27, 2025, the SEC and Kraken filed a joint stipulation to dismiss the broader enforcement action with prejudice, as part of the SEC's shift toward regulatory reform over enforcement.



# Financial Crimes Enforcement Network

## Bank Secrecy Act (BSA) – Money Service Businesses

- In 2013, FinCEN published guidance on the “Application of FinCEN’s Regulations to Persons Administering, Exchanging, or Using Virtual Currencies” (“the Guidance”).
- Virtual Currency is defined broadly in the Guidance to include a manner of items used as a “medium of exchange.”
- A narrower term, “Convertible Virtual Currency,” is defined as any virtual currency that “either has an equivalent value in real currency or acts as a substitute for real currency.”



## Silk Road

- A digital black-market platform that was popular for hosting money laundering activities and illegal drug transactions using Bitcoin.
- Launched in 2011 and eventually shut down by the FBI in 2013.
- Founded by Ross William Ulbricht, who is now serving a life sentence in prison for his role in Silk Road.



## State Regulation

- Pennsylvania's Department of Banking and Securities (DoBS) has [clarified](#) that crypto exchanges and service providers do not require a money transmission license to operate in the state.
- New York: BitLicense for virtual currency businesses
- Nevada: prevents local governments from taxing or regulating blockchain. Senate Bill 398
- Arizona: Signatures and records secured through blockchain technology; smart contracts. A.R.S. § 44-7061 (eff. Aug. 9, 2017)
- Vermont: Blockchain enabling (authentication and admissibility). V.S.A. Title 12, § 1913
- Delaware: SB 69 legalized the use of distributed ledgers for corporate stock. (eff. Aug. 1, 2017)



## CFTC Enforcement Actions, CFTC Registration

- The CFTC stated that the definition of a “commodity” is broad and “bitcoin and other virtual currencies are encompassed in the definition and properly defined as commodities.”
- As such, the CFTC has broadened its application of the Commodities Exchange Act to regulate digital exchange platforms where assets that would fall under the broad scope of the "commodities" definition are exchanged, offered, sold, or transferred.



## Illustrative Cases

- *In the Matter of TeraExchange LLC.*
- *In the Matter of iFinex Inc., BFXNA Inc., and BFXWW Inc.*
- *In the Matter of XBT Corp. SARL d/b/a First Global Credit*
- *In the Matter of Plutus Financial, Inc. (d/b/a Abra) and Plutus Technologies Philippines Corp. (d/b/a Abra International).*
- *In the Matter of: Payward Ventures, Inc. (d/b/a Kraken)*
- *In the Matters of TradingForexPay, Cryptofxtrader, Bitfxprofit, Globalnationfx, BinancaFX Trade, MaxForexOption, ProCryptoMinners, ProFx-Capitals, Smarter Signals, Prime Expert Trade, Star Fx Pro, Excotradeoptions, Climax Capital Fx, Digitalexchange24.com (note these are 14 separate actions).*
- *In the Matter of Blockratize, Inc. d/b/a Polymarket.com*



## CFTC Enforcement Actions, AML Compliance

- Any digital exchange platform that the CFTC would find is subject to registration must comply with AML laws.
- **Illustrative Cases:**
- *Commodity Futures Trading Commission, v. IPOOL Ltd. and Patrick Brunner Trust Company Complex.*
- *Commodity Futures Trading Commission v. HDR Global Trading Limited, 100x Holdings Limited, ABS Global Trading Limited, Shine Effort Inc. Limited, HDR Global Services (Bermuda) Limited, Arthur Hayes, Benjamin Delo, and Samuel Reed*



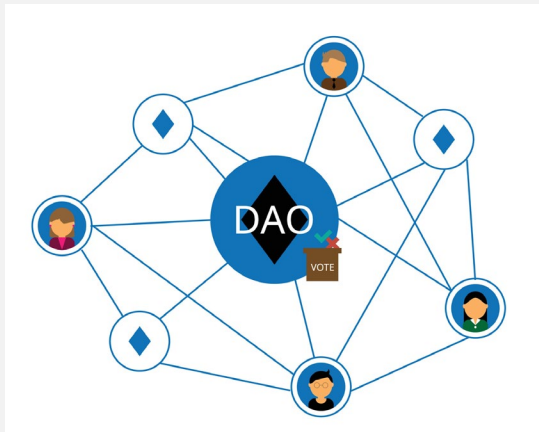
## CFTC Enforcement Actions, BSA Compliance

- Any digital exchange platform that the CFTC would find is subject to registration must comply with the BSA, specifically with the implementation of KYC procedures.
- **Illustrative Cases:**
- *Commodity Futures Trading Commission, v. IPOOL Ltd. and Patrick Brunner Trust Company Complex.*
- *Commodity Futures Trading Commission v. HDR Global Trading Limited, 100x Holdings Limited, ABS Global Trading Limited, Shine Effort Inc. Limited, HDR Global Services (Bermuda) Limited, Arthur Hayes, Benjamin Delo, and Samuel Reed*



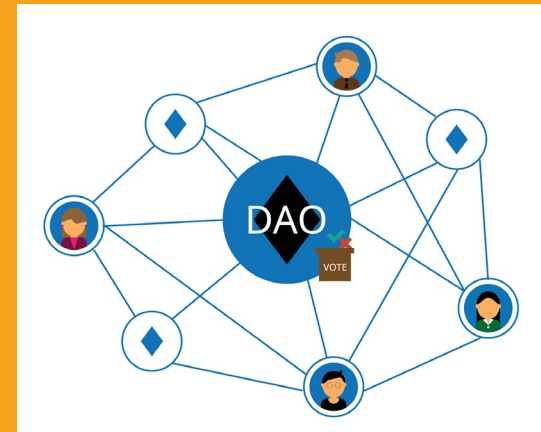
## CFTC Enforcement Actions and DAOs

- “DAOs” are governed by users who make decisions using both off-chain social governance and on-chain voting.
- Regardless of the DAO structure, or a business restructuring from one LLC to another, the CFTC will look to the *nature of the digital asset transactions* facilitated by the DAO, rather than the form of the DAO itself, in order to determine whether any commodity or derivatives laws are being violated.



## Illustrative Cases:

- *In the Matter of bZeroX, LLC; Tom Bean; and Kyle Kistner.*
- *Commodity Futures Trading Commission v. Ooki DAO formerly d/b/a bZx DAO.*
  - The Ooki DAO complaint is the first time the CFTC has attempted to impose liability on a DAO or its members.
  - The CFTC referred to the Ooki DAO and the bZx DAO as "unincorporated associations."



# Exchange Regulation

- **Traditional AML and KYC Approach**
  - **Exchanges required to prove identity of users**
    - Coinbase user-log subpoenaed by the IRS
  - **Self-Regulated**
    - Exchanges are expected to implement their own best practices, but no federal regulation exists.
  - **New York State – Bit-license**
    - Requires a license from an independent board
  - **Wyoming – State Senate Bill: SF0111**
    - that "virtual currencies ... shall be exempt from property taxation."
  - **Security – Off-exchange vs. Exchange storage**



# POLICY SHIFTS

# THE SECOND TRUMP ADMINISTRATION: A REGULATORY PARADIGM SHIFT

## **Executive Order – "Strengthening American Leadership in Digital Financial Technology" (Jan. 23, 2025)**

- Declared it U.S. policy to "support the responsible growth and use of digital assets, blockchain technology, and related technologies"
- Revoked Biden-era Executive Order 14067 and the Treasury's Framework for International Engagement on Digital Assets
- Established the President's Working Group on Digital Asset Markets, chaired by Special Advisor David Sacks
- Prohibited agencies from pursuing a Central Bank Digital Currency (CBDC)

## **Strategic Bitcoin Reserve (EO of March 6, 2025)**

- Established the Strategic Bitcoin Reserve and U.S. Digital Asset Stockpile, funded by crypto assets seized through forfeiture proceedings

# SEC ENFORCEMENT SHIFT

## **SEC Crypto Task Force (Est. Jan. 21, 2025)**

- Led by Commissioner Hester Peirce; tasked with developing a "fit-for-purpose" regulatory framework for crypto asset markets
- Paul Atkins confirmed as SEC Chairman (April 2025); signaled regulation through engagement, not enforcement

## **Rescission of SAB 121 / Issuance of SAB 122 (Jan. 23, 2025)**

- Removed the requirement that crypto custodians record customer digital assets as liabilities on their balance sheets, opening the door for traditional financial institutions to offer custody services

## **Dismissal of Major Enforcement Actions**

- SEC dismissed or settled cases against Coinbase, Kraken, Ripple, Binance, Robinhood, OpenSea, Consensys, and others
  - Approximately 89 crypto enforcement cases were dropped or frozen
- DOJ disbanded the National Cryptocurrency Enforcement Team (April 2025)

# FEDERAL CRYPTO LEGISLATION

## **GENIUS Act (Signed into Law July 18, 2025)**

- First federal legislation on digital assets; establishes a regulatory framework for payment stablecoins (discussed in detail in the following section)
- Passed Senate 68-30 (June 17, 2025); House 308-122 (July 17, 2025)

## **CLARITY Act (Passed House July 17, 2025; Pending Senate Action)**

- Establishes a comprehensive market structure framework for digital assets
- Creates a classification of "digital commodities;" assigns the CFTC exclusive jurisdiction over digital commodity spot markets while maintaining SEC jurisdiction over investment contract assets
- Establishes new registration classes under the CFTC: Digital Commodity Exchanges, Digital Commodity Brokers, and Digital Commodity Dealers

## **CBDC Anti-Surveillance State Act (Passed House; Pending Senate)**

- Prohibits the Federal Reserve from issuing a central bank digital currency

# STABLECOINS

# WHAT ARE STABLECOINS?

- A stablecoin is a type of cryptocurrency designed to maintain a stable value relative to a reference asset (typically the U.S. dollar) making it suitable for use as a medium of exchange and store of value
- Stablecoins are commonly used to transfer funds between different cryptocurrency tokens and to facilitate transactions on decentralized platforms

## Types of Stablecoins:

- **Fiat-Backed:** Backed 1:1 by reserves of fiat currency (e.g., USDT, USDC)
- **Crypto-Backed:** Over-collateralized with other crypto assets (e.g., DAI)
- **Algorithmic:** Uses algorithms to maintain price stability without traditional collateral (e.g., former TerraUSD, collapsed in 2022)
- The stablecoin market has grown rapidly; stablecoins are increasingly viewed as critical infrastructure for crypto markets and cross-border payments

# THE GENIUS ACT: KEY PROVISIONS

## **Permitted Issuers; Only approved entities may issue payment stablecoins:**

- Subsidiaries of insured depository institutions (regulated by their primary federal banking agency)
- Federally licensed nonbank stablecoin issuers (supervised by the OCC)
- State-licensed issuers under substantially similar state regulatory regimes (for issuers with <\$10B market cap)

## **Key Requirements:**

- 1:1 reserve backing by U.S. dollars or other low-risk assets
- Monthly reserve audits and public disclosure
- Compliance with Bank Secrecy Act (AML/KYC obligations)

## **Regulatory Classification:**

- Payment stablecoins are explicitly not securities or commodities (i.e. not subject to SEC or CFTC oversight)
- Endogenously collateralized stablecoins (backed only by other digital assets from the same issuer) are prohibited

# THE GENIUS ACT: IMPLICATIONS FOR LEGAL PRACTICE

## **Implementation Timeline:**

- Effective date: The earlier of (i) 18 months after enactment (est. January 2027) or (ii) 120 days after regulators issue final implementing regulations
- Federal regulators (OCC, FDIC, Fed) are currently engaged in rulemaking; draft regulations began appearing in early 2026

## **Practical Implications for Practitioners:**

- Clients seeking to issue stablecoins must navigate new federal/state licensing requirements
- Payment stablecoin holders receive first-priority claims in issuer insolvency proceedings Non-financial public companies are generally prohibited from issuing stablecoins (absent unanimous Stablecoin Certification Review Committee approval)
- Foreign stablecoin issuers must register with OCC and maintain reserves in U.S. financial institutions; home country regulator must be deemed "comparable"
- Customer data use restrictions: issuers are limited in how they may use stablecoin holder data, with narrow compliance exceptions

# CUSTODY & TOKENIZATION

# DIGITAL ASSET CUSTODY

## **What Is Digital Asset Custody?**

- Safekeeping and management of digital assets (private keys) on behalf of clients
- Two models: self-custody (individual holds own keys) vs. third-party custody (qualified custodian holds keys)

## **OCC Interpretive Letters: Banks as Custodians**

- IL 1170 (2020): National banks may provide crypto-asset custody services
- IL 1183 (Mar. 2025): Rescinded supervisory non-objection requirement
- IL 1184 (May 2025): Banks may buy/sell digital assets in custody at customer direction; may outsource custody to third parties
- Dec. 2025: OCC approved five national trust bank charters for digital asset custody, settlement, and staking services

## **Legal Considerations:**

- Custodians must implement controls for cybersecurity, AML/KYC, and operational risk
- GENIUS Act reinforces custody obligations for stablecoin reserve assets

# TOKENIZATION OF REAL-WORLD ASSETS (RWA)

## **What Is RWA Tokenization?**

- Representing ownership rights in real-world assets (real estate, bonds, equities) as digital tokens on a blockchain
- Enables fractional ownership, 24/7 trading, faster on-chain settlement, and automated compliance via smart contracts
- On-chain RWA market: ~\$5B (2022) to over \$20B (2025); projected \$2T+ by 2030

## **Key Legal Considerations:**

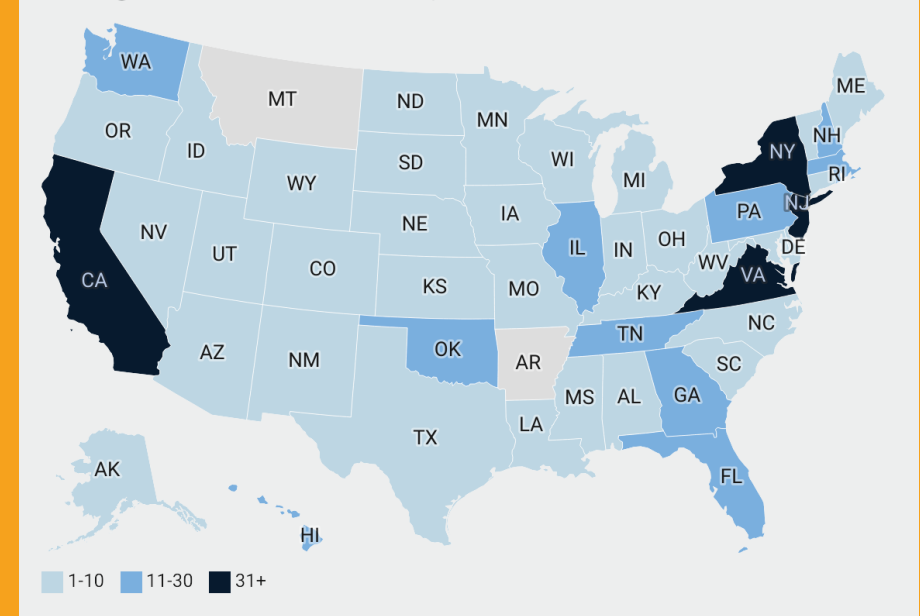
- Tokenized assets remain subject to existing securities laws — a token is just a form; a security is still a security
- Most structures use SPVs or custodians holding legal title off-chain, with the token representing a contractual claim
- Several states (Delaware, Wyoming) recognize blockchain records as evidence of asset ownership
- No unified "RWA law" exists; practitioners must navigate securities, commodities, and banking regulations
- SEC Crypto Task Force held a dedicated tokenization roundtable (May 2025), signaling regulatory openness

# ARTIFICIAL INTELLIGENCE

# AI Regulatory Landscape Overview

- No comprehensive federal AI law exists
  - Unlike the EU AI Act, the U.S. has taken a sector-specific and largely voluntary approach
  - Federal policy has emphasized an "innovation-first" posture under the current administration
- States have filled the regulatory vacuum
  - In 2025, all 50 states introduced AI-related legislation; 38 states adopted or enacted laws
- Key tension: federal preemption vs. state regulation
- Existing regulators (FTC, EEOC, FDA) apply current authorities to AI within their sectors

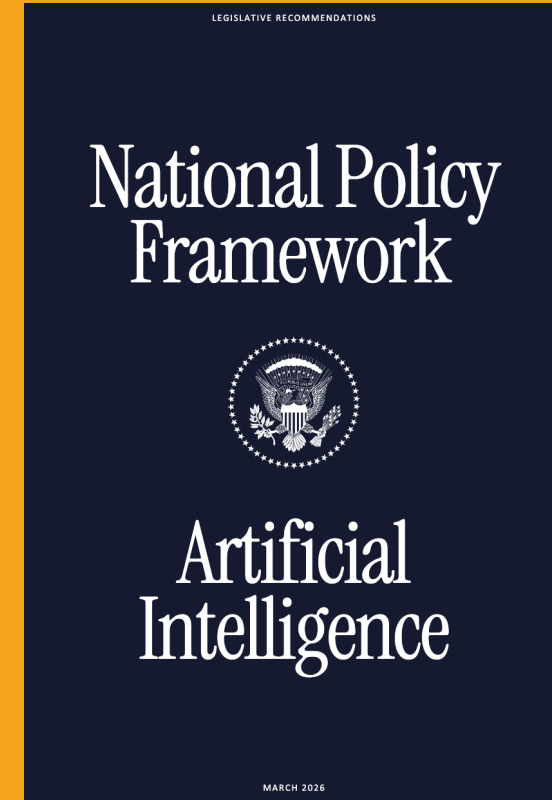
AI Legislation Volume By State



Source: <https://www.lexisnexis.com/en-us/products/state-net/ai-feed.page>

## Key Federal Actions on AI

- EO 14179 (Jan. 2025): Revoked Biden-era AI safeguards; directed agencies to remove barriers to AI innovation
- TAKE IT DOWN Act (May 2025): First AI-specific federal statute; criminalizes nonconsensual deepfakes
- America's AI Action Plan (July 2025): Federal policy roadmap across innovation, infrastructure, & security
- EO 14365 (Dec. 2025): "Ensuring a National Policy Framework for AI"; created AI Litigation Task Force to challenge state AI laws
- National Policy Framework (March 2026): Legislative recommendations urging Congress to develop a uniform federal standard



## Key State AI Laws

- **California** (effective Jan. 1, 2026)
  - TFAIA (SB 53): Safety protocols for frontier AI model developers
  - AB 2013: Training data transparency for generative AI systems
- **Texas** (effective Jan. 1, 2026): RAIGA (HB 149) requires AI governance frameworks for state agencies; prohibits social scoring; penalties up to \$200K/violation
- **Illinois** (effective Jan. 1, 2026): HB 3773 amends the Human Rights Act to prohibit employer use of AI that discriminates against protected classes
- **Colorado** (effective June 30, 2026): AI Act (SB 24-205) requires reasonable care to protect against algorithmic discrimination; specifically targeted by EO 14365



# AI & Legal Ethics: ABA Formal Op. 512

- First ABA ethics opinion on generative AI (July 2024)
  - Competence (Rule 1.1): Understand AI capabilities & limitations
  - Confidentiality (Rule 1.6): Protect client data in AI tools
  - Communication (Rule 1.4): Disclose AI use to clients
  - Fees (Rule 1.5): Must charge reasonably for AI-assisted work
  - Supervision (Rules 5.1 & 5.3): Establish firm AI policies
- 600+ AI hallucination cases on record, implicating 128 lawyers, including attorneys from top-tier firms
- Courts hold counsel personally responsible for AI-generated errors regardless of the tool or vendor



# Practical Implications for Law Firms

- Multi-jurisdictional compliance is essential
  - Map client matters to applicable state rules; federal preemption status remains uncertain
- Establish firm-wide AI governance
  - Vet AI tools for security and confidentiality; create usage policies; document AI use in client matters
- Always verify AI-generated output
  - Hallucination risk remains high; human review is non-negotiable for all AI-assisted work product
- Update client engagement letters & billing practices to address AI use and its impact on fees



# PRACTICAL TAKEAWAYS FOR LEGAL PRACTITIONERS

- **Understand the technology before advising on it.** Blockchain, smart contracts, DeFi, and AI create novel legal questions; effective counsel requires a working knowledge of the underlying mechanics
- **Classification is the threshold question for crypto.** Determine whether a digital asset is a security, commodity, or payment stablecoin; the answer dictates the entire regulatory framework
- **The regulatory landscape has shifted dramatically.** Executive orders, the GENIUS Act, and pending federal AI legislation represent a fundamental reorientation of U.S. technology policy
- **Traditional finance, crypto, and AI are converging.** Spot ETFs, tokenization, stablecoin legislation, and AI-assisted legal tools mean your clients will increasingly encounter these questions
- **AI governance is now a professional obligation.** ABA Formal Opinion 512 establishes that competent use of AI is required; firms must vet tools, verify output, and maintain AI usage policies
- **Both areas of law are still evolving.** Federal/state preemption battles, pending crypto legislation, and rapidly changing AI rules mean staying current is essential