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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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SECURITIES AND EXCHANGE COMMISSION,	:	
	:	
Plaintiff,	:	19 Civ. 9439 (PKC)
	:	
- against -	:	ECF Case
	:	
TELEGRAM GROUP INC. and TON ISSUER INC.,	:	<u>Complaint</u>
	:	<u>Jury Trial</u>
Defendants.	:	<u>Demanded</u>
	:	
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Plaintiff Securities and Exchange Commission (“SEC” or “Commission”), for its Complaint against Defendants Telegram Group Inc. and its wholly owned subsidiary TON Issuer Inc. (together “Telegram” or “Defendants”), alleges as follows:

SUMMARY

1. The SEC brings this emergency action to stop Defendants—owners and operators of the mobile messaging application Telegram Messenger (“Messenger”)—from continuing their ongoing illegal offering of digital-asset securities called “Grams.” This offering is occurring in violation of the registration provisions of the federal securities laws. Defendants have committed to flood the U.S. capital markets with billions of Grams by October 31, 2019 and may do so as early as next week. Unless enjoined, Defendants will go forward without filing a registration statement for the Grams as they are required to do under the Securities Act of 1933 (“Securities

Act”). In other words, Defendants plan to sell billions of securities that will quickly come to rest in the hands of U.S. investors without providing those investors important information about their business operations, financial condition, risk factors and management.

2. Telegram’s illegal offering (the “Offering”) had an initial stage, which took place between January and March 2018. During this stage, Telegram raised approximately \$1.7 billion from sales of approximately 2.9 billion Grams to 171 purchasers (the “Initial Purchasers”). A large portion of this capital came from U.S. investors: Telegram sold more than 1 billion Grams to 39 U.S. Purchasers, raising \$424.5 million from the U.S. market. Telegram is using the proceeds of this initial offering to capitalize its business and finance the creation of its blockchain—the “Telegram Open Network” or “TON Blockchain.”

3. Grams are securities because the Initial Purchasers and subsequent investors expect to profit from Telegram’s work: the development of a TON “ecosystem,” integration with Messenger, and implementation of the new TON Blockchain. Grams are not a currency because, among other things, there are not any products or services that can be purchased with Grams. Rather, there is an expectation on the part of investors that they will profit if Telegram builds out the functionalities it has promised.

4. Telegram committed to deliver Grams to the Initial Purchasers in conjunction with the launch of the TON Blockchain by no later than October 31, 2019 and it plans to sell millions of additional Grams at the same time. As of October 11, 2019, Telegram has not filed a registration statement with the SEC for this planned offering of securities.

5. Once Telegram delivers the Grams to the Initial Purchasers, they will be able to resell billions of Grams on the open market to the investing public. Telegram and/or its affiliates will facilitate these sales on digital-asset trading platforms. Once these resales occur, Telegram

will have completed its unregistered offering with billions of Grams trading on multiple platforms to a dispersed group of investors.

6. Sections 5(a) and 5(c) of the Securities Act require that an issuer of securities like Telegram register its offers and sales of securities with the SEC. Telegram failed to file a registration statement and plans to sell billions of Grams to investors without providing them the type of basic information about the nature of the investment being offered, information that is included in hundreds of registration statements that are filed with the SEC every year.

7. Unless enjoined, Telegram's completion of the Offering will allow it to have circumvented the Securities Act's registration requirements, leaving U.S. investors to buy and sell Grams without the vital information about those securities and about Telegram that Congress intended registration to provide.

8. Once Grams reach the public markets, it will be virtually impossible to unwind the Offering, given that many purchasers' identities will be shrouded in secrecy, and given the variety of unregulated markets where Grams may be sold, including platforms that promise anonymity and encryption capability to mask transactions. Accordingly, a temporary restraining order and preliminary injunction are necessary to prevent the imminent delivery of Grams to the Initial Purchasers (who are likely to promptly resell millions of them into the public markets) and to prevent Defendants from offering, selling, transferring, or otherwise distributing or delivering Grams to any other persons and entities absent registration pursuant to the securities laws.

VIOLATIONS

9. By engaging in the conduct set forth in this Complaint, Defendants engaged in and are engaging in the unlawful sale and offer to sell securities in violation of Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c)].

10. Unless the Defendants are permanently restrained and enjoined, they will continue to engage in the acts, practices, and courses of business set forth in this Complaint and in acts, practices, and courses of business of similar type and object.

NATURE OF THE PROCEEDING AND RELIEF SOUGHT

11. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)].

12. The Commission seeks, as immediate relief:

(1) a temporary restraining order and a preliminary injunction against Defendants prohibiting them from participating in any offerings of unregistered securities or otherwise violating Sections 5(a) and 5(c) of the Securities Act [15 U.S.C. §§ 77e(a), 77e(c)], including but, not limited to, by distributing Grams to any persons;

(2) an order permitting the Commission to conduct expedited discovery and prohibiting Defendants from destroying or altering documents; and

(3) an order permitting service by alternative means, including service on Defendants' counsel in the underlying investigation by email.

13. The Commission also seeks a final judgment: (a) permanently enjoining the Defendants from engaging in the acts, practices, and courses of business alleged herein; (b) ordering Defendants to disgorge their ill-gotten gains and to pay prejudgment interest thereon; (c) prohibiting Defendants, pursuant to Section 21(d)(5) of the Exchange Act [15 U.S.C. § 78u(d)(5)], from participating in an offering of digital securities; and (d) imposing civil money penalties on Defendants pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)].

JURISDICTION AND VENUE

14. This Court has jurisdiction over this action pursuant to 28 U.S.C. § 1331 and Sections 20(b), 20(d), and 22 of the Securities Act [15 U.S.C. §§ 77t(b), 77t(d), and 77v]. Defendants, directly or indirectly, have made use of the means or instruments of transportation or communication in, and the means or instrumentalities of, interstate commerce, or of the mails, in connection with the transactions, acts, practices, and courses of business alleged herein.

15. Venue is proper in the Southern District of New York pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)]. Among other acts, Defendants sold the securities at issue in this case to purchasers with domiciles in this District, and also directed payments of funds denominated in U.S. dollars through a correspondent bank in this District.

DEFENDANTS

16. **Telegram Group Inc.** is a privately owned British Virgin Islands company with its principal place of business in Dubai, United Arab Emirates. Its primary product is Messenger, an encrypted messaging application with approximately 300 million monthly users worldwide that has been called the “cryptocurrency world’s preferred messaging app.”

17. **TON Issuer Inc.** is a British Virgin Islands company, wholly owned by Telegram Group Inc., with its principal place of business in Tortola.

RELATED INDIVIDUALS AND ENTITY

18. **Pavel Durov**, age 35, is a Russian and St. Kitts and Nevis citizen, and the co-founder, 100% owner, and CEO of Telegram Group Inc. In 2006, he founded a website called “VKontakte” or “VK,” a social networking site similar to Facebook that later became the largest Europe-based social network. Pavel is a self-described “outspoken libertarian” who “published

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