

Blockchain dreams: Biden pals, GOP lawmaker, gov't loan and shares from China

Posted: November 1, 2018 - 11:45 AM

By [Joseph N. DiStefano](#) | [@PhillyJoeD](#) | JoeD@phillynews.com



JOSEPH N. DISTEFANO

A plan to build a small-company-focused, blockchain-enabled securities market in Wilmington's [flagging financial district](#) has drawn interest from investors in China, Abu Dhabi, and Canada, but it hasn't produced the hoped-for influx of securities traders, more than three years after the local government agreed to lend organizers [\\$3 million](#).

Documents filed with the Securities and Exchange Commission this year show a group of well-connected local investors were poised to profit if the Delaware Board of Trade (DBOT) proved successful. But there are few signs of the hoped-for economic stimulus. Shawn Sloves, a New York trading software developer and DBOT investor who agreed to provide the market with its core

software, has stepped down from the board, and told me he fears DBOT's moment has come and gone.

DBOT started out with plans to trade shares in start-ups and other small and regional stocks under a law signed by President Barack Obama. It added a proposal for a system to use electronic blockchain ledgers and smart-contract tokens, rather than traditional securities clearinghouses and dollar payments, as a way to speed new investments while complying with SEC rules. But so far, DBOT has mostly served as a reminder how tough it remains for new markets remote from Wall Street and other financial centers to gain traction as alternatives.

In 2015, DBOT organizers, led by former Philadelphia Stock Exchange chairman John Wallace, at first listed ex-New York Stock Exchange chief Richard Grasso and other Wall Street worthies as their backers. Even after Grasso and the other New Yorkers pulled out, then-County Executive [Tom Gordon authorized](#) a \$3 million, five-year loan to DBOT, which projected it would attract [50 traders and staff, earning an average \\$136,000 annually in its first year of operation](#), and up to 100 by this year — a welcome boost for a town Wilmington's size.

But two-thirds of the way into that loan term, the people DBOT has actually drawn to Wilmington fit into DBOT's recently downsized office suite at the underused former Hercules Inc. tower, where Wallace and a couple of staffers keep busy planning for business that has not materialized so far. Wallace said DBOT and its blockchain proposal have continued to attract backers, including the exchange's new president, Michael Zavet, who mostly divides his time between New York and his native Toronto, and Brett McGonegal, a Hong Kong banker whose firm is a shareholder. They'll be a big help attracting order flow to DBOT, Wallace said — once the exchange prepares a blockchain trading plan, gets it approved by the SEC, and builds and deploys trading systems that fit. He acknowledges the market has a modest local profile: "It's not in Wilmington anymore, it's scattered," Wallace told me. "Look at the world today. But it will grow as we get products." DBOT's biggest investment to date is from China, where [media mogul Bruno Wu last winter swapped shares of his Seven Stars Cloud Group](#) and its China Broadband Ltd. affiliate for a DBOT stake initially valued at \$8 million.

[Seven Stars' financial reports](#) since then have detailed the DBOT investors who traded DBOT shares for the buyer's. There's a strong local flavor: They include John Hynansky, millionaire owner of the Winner auto-dealership group, who once [accompanied his friend Vice President Joe Biden to Ukraine](#) and got \$20 million in [U.S. government financing for auto dealerships there](#); Dennis Toner, a former Biden aide; and Delaware State Rep. Mike Ramone, a Republican from suburban Pike Creek. Ramone held the most shares in that transaction, worth around \$3 million at Seven Stars' trading price when the deal was announced.

Ramone recorded his investment in DBOT on his annual state financial disclosure form for 2017. In June of that year, he voted for a bill that would recognize [blockchain-based corporate records](#), giving DBOT backers something to point to when promoting their Delaware location as blockchain-friendly. It passed by a wide bipartisan margin.

Ramone, a landlord, fitness-center, and swim-school operator when he's not making law in Dover, didn't recuse himself from that vote. In his brief response to my calls and emails, Ramone did not address questions about why he joined those Democrats investing in DBOT when Wall Street declined to invest, or explain his non-recusal. He did write, when I asked about DBOT falling short

of projections, that "DEBOT [sic] has not closed and left Delaware." Toner referred questions to Wallace. Hynansky didn't respond to a message left at his Newark, Del., dealership office. Like other Delaware reps, Ramone is up for reelection Tuesday, against a Democrat who, [local news accounts say](#), departed from her pet-shelter job after Ramone asked why the candidate was mentioning her campaign on the nonprofit shelter's Facebook page (the shelter gets a state grant). I expect Ramone will be reelected, as veteran incumbents are.

But we need not worry about a Ramone conflict of interest, Shawn Sloves, a former DBOT director (he resigned in September) who runs a New York technology firm that agreed to provide DBOT's trading systems, told me, a little sadly. "He will never benefit from what Delaware is doing on the blockchain," Sloves predicted. At least not through DBOT, which Sloves says has been overtaken by "inertia."

Sloves was bullish on DBOT when we talked in January. Then, Sloves said DBOT had a year's lead on any other blockchain-based exchange, since it had moved fast to get SEC permission to operate as a small-stocks trading node.

But since, "there hasn't been much movement or growth," Sloves lamented when I called him in New York last week.

As America's "corporate capital," with hundreds of the biggest U.S. companies and hundreds of thousands of smaller ones incorporated there for legal purposes, "Wilmington should be the center of blockchain," Sloves said. But DBOT can only beat well-funded rival blockchain markets-information, if the state agrees to recognize blockchain shares, and if Wallace's team can get the SEC and Wall Street traders to accept it as a fully blockchain-based market, he added. Alas, Sloves has concluded "the state doesn't seem to be going in that direction," and DBOT has not attracted traders, more than three years into the five-year period covered by the government loan.

Both Sloves and Wallace say Sloves remains committed to providing DBOT's core technology, as needed. But Sloves says the two haven't talked since before he left the board, and he's moved on to other projects. "Where are the jobs? Where is the local market center? They should give the money back" to New Castle County, Sloves concluded.

Seven Stars doesn't seem to have profited since its DBOT investment. The stock traded last week below \$3 a share, down from around \$5 when it announced the deal last winter.