Overstock Wins SEC's Nod To Upend How Companies Issue Shares

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- SEC to let Overstock issue digital stock via blockchain
- Aim is to speed up settlements and validation of transactions

Overstock.com Inc. has a plan to refashion how companies go public and dole out shares in secondary offerings. The online discounter moved a step closer when its strategy of using bitcoin-based technology won permission last week from the top U.S. securities regulator.

The idea, according to a filing with the U.S. Securities and Exchange Commission, is to issue company stock using blockchain, the underlying software that governs how bitcoins work. Essentially, the blockchain is a public ledger that records all transactions for whatever instrument it supports, be it a virtual cryptocurrency or company stock. While Salt Lake City-based Overstock is an online retailer, Chief Executive Officer Patrick Byrne has embraced bitcoin with gusto, accepting payments on the Web store and speaking frequently on the topic.

The embossed word Bitcoin sits on the edge of Bitcoins stacked in this arranged photograph in Danbury, U.K. Photographer: Chris Ratcliffe/Bloomberg
There’s no guarantee the plan will work. Blockchain-based shares won’t be traded on a public market, so there are questions over whether there will be enough supply and demand to form a market. Still, if Overstock’s plan works, it could set a blueprint for how businesses sell shares in initial public offerings or secondary offerings. Using blockchain to distribute shares may also pose a challenge to the banks and securities firms that earn fees for handling stock offerings.

"If any company wants to raise money by issuing a crypto-security, they could just copy the language in our S-3 and do their own filing," Byrne said. "We now have not just the language, but the actual technology."

**Digital Instruments**

Byrne said he is still evaluating how Overstock might use the SEC approval for blockchain-based shares. He didn’t detail any plans by the company, because the act of doing so would mean that he’s disclosing an offering. Overstock can now issue as much as $500 million in stock and other securities through a digital trading system, according to the filing. In June, Overstock issued corporate bonds through blockchain, which didn’t require SEC approval.

The SEC decision comes as Wall Street banks, exchanges and startups ponder ways in which blockchain software and digital ledgers can reduce the time it takes to process financial transactions. Banks are looking at blockchain’s potential to revamp the process of tracking ownership and transfer. Nasdaq OMX Group Inc. announced earlier this year that it’s testing blockchain technology for trading among privately held companies. By using such technology, stock trades could be settled almost instantly, instead of the usual three days.

"This is the first glimpse of the future of equity trading," said Campbell Harvey, professor of finance at Duke University, who teaches a class on bitcoin and blockchain. "It’s showing how vulnerable the traditional methods of equity trading potentially are, and how easy it will be to disrupt the status quo."