

Article Information

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Litigation likely as Steemit saga continues, with stakeholders' Steem "stolen"

Issues in the Steemit community continue to escalate, with a class action or other significant legal action fast becoming the only possible outcome. The key issue is a controversial hard fork to the Steemit blockchain on May 19, which effectively allowed for the confiscation of certain users tokens.

First, a brief explanation of the Steem ecosystem. The underlying technology is [Steem](#), which is a delegated proof-of-stake blockchain (DPoS) not dissimilar to EOS (which is having its own class action issues at the moment, [read here](#)). The primary token for the Steem blockchain is the STEEM token, which at the time of writing has a circulating supply of 384,010,065 STEEM tokens. The most popular app on the Steem blockchain is Steemit, a social media platform which is an approximation of Reddit and Medium, and that uses STEEM Tokens to assess users popularity and reward content producers.

This latest escalation, and arguable theft of tokens from users, has come about following TRON founder Justin Sun's acquisition of a controlling stake in the Steemit platform on 14 February 2020. Steemit also controls a significant quantity of STEEM tokens, and is seen to have a significant amount of sway in how decisions are made on the Steem blockchain.

When the acquisition was announced, various members of the Steem community expressed concerns that Steemit would use its STEEM tokens to effectively control the Steem blockchain, and operate it in accordance with Sun's priorities. To address this, a softfork was proposed and initiated on 23 February 2020, which was described by its authors as follows:

"To this end, we have updated to a temporary protective protocol to maintain the status quo currently established in regards to Steemit Inc's stake and its intended usage."

The effect of the soft fork was to prevent particular STEEM held by a limited set of accounts (related to Steemit) from exercising voting rights on who governs the network and participating in other ways that might allow the holders of those tokens to seize control. While the previous owner of Steemit had made promises to the effect that Steemit's STEEM tokens would never be used as a voting stake, and would only be used to encourage ecosystem growth, it was unclear (and unlikely) whether those promises could or would bind the new owners of Steemit. The initial softfork was thereby an attempt to enshrine that promise in the code of the Steem blockchain. In response, Steemit posted an open letter to the community describing the soft fork as:

"maliciously structured, intending to freeze a handful of very targeted accounts and taking away their rights and possession to their owned asset, and may be deemed illegal and criminal"

Subsequently, as stated in the Steemit post, new witnesses (essentially operating as block validators, or miners in the Bitcoin context) were voted in with [overwhelming support](#) in terms of STEEM-denominated votes, but with very few actual user accounts exercising those votes. Large exchanges Binance, Huobi and Poloniex were all seen to be staking STEEM tokens they controlled (but not necessarily owned) in order to vote for the group of witnesses. This was described by Sun on [Twitter](#) as:

"a successful attempt at defeating the 'hackers' who froze assets legally owned by Steemit"

This in turn led to a community-initiated hard-fork, creating a separate blockchain called [Hive](#). The hard fork took place on March 20 and was accompanied by a 1:1 airdrop of HIVE tokens, which notably [blacklisted](#) the purported owners of Steemit's

STEEM token stake, as well as the alleged “Tron puppets” who proxied their vote to Steemit-affiliated witnesses during the infamous takeover.

Finally, those witnesses and participants who remained on the Steem blockchain proposed and initiated a further Steem hardfork, proposed on 19 May and executed the next day. This hard fork was describing in its announcement through a Steemit blog post as being intended to:

“seize some user accounts that participated in criminal activities by actively contributing to the threat against the Steem blockchain and/or to the theft of STEEM holders’ assets”

A template (and highly questionable) [notice of a pending class action](#) was almost immediately circulated around the community. However, to the author’s knowledge, no litigation has actually been filed at the time of writing. Of course, with all the above, its likely only a matter of time.

To summarise a shopping list of key legal issues:

1. first and foremost, are STEEM or HIVE financial products?
2. what is the appropriate legal jurisdiction to sort this out?
3. was the initial softfork limiting the exercisable rights of Steemit’s STEEM Tokens validly done and legally viable?
4. if it occurred, were exchanges able to validly exercise of voting rights of user tokens on behalf of those users without instruction?
5. in the HIVE hardfork, were certain users excluded arbitrarily or wrongly, and do they have any recourse?
6. Is the subsequent Steem hardfork which confiscated STEEM Tokens from users theft?
7. who is responsible for each of the above? Individual token holders, witnesses or Sun himself?

How this will be resolved remains to be seen, but it will almost certainly be messy.