

*Securities Regulation in Cyberspace:
The Application of Securities Law to Virtual Worlds*

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The advent of the internet has given birth to societies that transcend traditional “brick and mortar” reality and exist only in cyberspace. These virtual societies present new opportunities for study and research because of their similarities and dissimilarities with societies in the real world. The nascent institutions of these virtual worlds offer unique opportunities for regulators to understand the development of political, financial, and other sorts of institutions and to experiment with how to regulate them.

This presentation will explore a variety of issues relating to the regulation of securities markets in virtual worlds. Questions addressed will include:

- How should the term “security” be defined for purposes of regulating virtual securities markets?
- What sort of disclosure and registration requirements should be placed on securities in virtual worlds?
- What is the best regulatory structure for preventing securities fraud in virtual societies?
- What lessons regarding securities regulation can be imported from virtual worlds to the real world?

Special discussion will be made of SLCapex a securities exchange that was created and operated by members of the virtual world of Second Life. Because of its poor financial performance, SLCapex offers empirical proof of the dangers of unregulated securities markets in virtual worlds.

Ultimately, an argument will be made that the best solution to regulating securities markets in virtual worlds is to create a transnational entity to promulgate and enforce a harmonized and centralized system of securities regulation. This approach offers the best solution to securities regulation in virtual worlds because of the global presence of the internet. In addition, this approach offers an opportunity to experiment with globalized securities regulation, an idea with which many nations have flirted, but have refused to undertake.