

Initial Coin Offerings

Momtaz (2020) describes Initial Coin Offerings (ICO) as a new means of raising capital, particularly within blockchain and cryptocurrency environments. Essentially, this means that ICOs are a form of Initial Public Offerings (IPOs), which utilises cryptocurrency to raise capital equity from investors in the public. This capital raising process involves the first-time issuance of new stocks to the public by a private corporation. In the case of ICOs, the company seeks public investors by offering new cryptocurrency tokens in exchange for capital investment. The cryptocurrency tokens in turn not only represent the ownership of stakes within the company, but are also linked to the services or products offered by the company.

ICO initially originated from a token sale held in 2013 by Mastercoin (Huang et al., 2020). This initial sale was then followed by an ICO token sale by Ethereum in 2014, which raised capital of around \$18 million. Consequently, the perceived success of ICO in raising capital led to its increased popularity in 2017. Nevertheless, the banning of ICO advertisements in 2018 by MailChimp, Google, and Twitter, as well as the implementation of strict advertisement regulations by Facebook led to the need for examination of new regulatory policies for this capital raising measure. As such, in order to sufficiently comprehend this need for regulation, an examination of the various forms of ICOs, as well as the associated benefits and pitfalls is necessary.

According to Huang et al. (2020), ICOs can be categorized as either public or private, on the basis of the number of target investors. For private ICOs, the number of target investors is limited to individuals and financial institutions with a high net worth. This limitation is usually

utilised to ensure that the amount of capital invested equates to a minimum amount set by the company. Comparatively, public ICOs target investors from the general public in a form of capital raising that is democratised. However, this ICO type requires the implementation of strict regulations due to the allowance of investment from anyone from the general public. These two types of ICO operate through a similar four-step sequence (Howell et al., 2020). More specifically, this sequence involves the identification of capital targets for investment, the creation of tradeable and fungible tokens in the form of cryptocurrency modifications to represent blockchain utilities or assets, the promotion of these tokens to target investors, and finally, the offer of these tokens to investors.

Although ICOs have been described as a form of IPOs that utilises cryptocurrency, differentiations in terms of operation and structure are necessary. Although both are centred around investment in company stock, with the hopes of increased value of assets in the future, the former does not necessarily lead to secure company stake ownership (Howell et al., 2020). Additionally, while IPOs encourage conservative investment in hopes of financial return assurance, ICOs encourage investors who are tolerant of risks in light of high loss probability. In terms of overall advantageousness, the benefit of ICOs over IPOs lies in the relative ease of generation, launching, and distribution of its tokens. Moreover, the success of ICO schemes leads to increased token values, thus, in turn, resulting in high returns for investors. Consequently, this implies that the main benefit of ICOs lies in the potential for profit margins that are extremely high. In contrast, while the potential for high-profit margins exists, ICOs also pose the risk of the incurrance of significant loss, as a result of failed success, or investment in fraudulent schemes. This drawback has led to the implementation of various regulatory measures on a global scale. The most intensive instance of this regulation is the complete prohibition of ICOs within South

Korea and China. Furthermore, while Canada, the U. S., and most European countries are working to develop new ICO regulation policies, new guidelines have already been published by countries such as the United Arab Emirates, New Zealand, and Hong Kong (Chohan, 2019).

While the benefits of ICOs have made them largely successful since their initial launch, the risks associated with their implementation have led to the increased need for creation of regulatory measures on a global scale. Ultimately, the future of ICOs will for a large part be determined by the successful implementation of effective policies to protect investors from the associated risks.

References

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