



CAUTIONARY STATEMENT ON INITIAL COIN OFFERING

Initial Coin Offerings (ICOs) involve creation of digital tokens using distributed ledger technology and subsequent sale to investors. There are ongoing invitations to members of the public to invest in such coins in what is being marketed as “pre-sale before launch on public exchanges.”

It is notified for general information that the Capital Markets Authority (CMA) has not as of this date approved any Initial Coin offering. The ongoing offerings are unregulated and speculative investments, with considerable risk to the investor. Some of the risks as identified by the International Organization of Securities Commissions, which Kenya is a member include:

1. **Heightened potential for fraud** – While some ICOs are floated by entrepreneurs with genuine and innovative ideas for new products and services, there is a risk that some issuers could seek to perpetrate fraud against investors. Most ICOs operate solely over the internet – and the fact that the products and those selling them may in some cases not be subject to regulation, expose investors to fraud.
2. **Cross-border distribution risks** – As the issuer may also be operating the ICO from outside the investor’s jurisdiction, following the money in the event of a collapse of the ICO as well as recovering invested funds, may prove extremely difficult in practice.
3. **Information asymmetry** – Due to their complexity and the uncertainty around the rights or interests that an investor may be acquiring, many

retail investors may not be able to understand the risks, costs and expected returns and/or the drivers of risks and returns, arising from their investment. This hampers their ability to make informed investment decisions, and increase the likelihood of adverse consumer outcomes.

4. **Liquidity risks** – Like crypto-currencies in general, tokens traded on virtual currency exchanges (or over-the-counter) may give rise to opaque and volatile pricing, often coupled with insufficient liquidity to support reliable trading and market-making activities. In some jurisdictions, the crypto-currency exchanges may also be unregulated and operate without oversight. This can leave investors vulnerable to dramatic price changes and the possibility that they may not be able to exit their holdings.

Members of the public are therefore urged to exercise caution before participating in any ICO lacking regulatory sanction.

CMA is cognizant of the importance of Fintech and the benefits that can be derived from leveraging on block chain technology and is willing to work with interested parties through the already established Sand Box model for purposes of supporting innovative Fintech products in a controlled and safe environment.

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