ASIC Australian Securities & Investments Commission

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Initial coin offerings (ICOs)

Investment or scam?

Initial coin offerings (ICOs) are a way for developers of blockchain technology to raise development funds. ICOs have been used to raise hundreds of millions of dollars for blockchain-related projects, often with limited information about their goals.

ICOs may look attractive, but they are high-risk speculative investments where you could lose some or all of your money if the project fails.

- What is an initial coin offering?
- What are you really buying when you invest in an ICO?
- Are ICO tokens the same as shares?
- Are ICOs managed investment schemes?
- The risks of investing in an ICO

What is an initial coin offering?

An ICO is a way projects can raise money over the internet. You invest in them by sending money or cryptocurrency to a blockchain project, and in return you receive digital tokens related to that project. ICO tokens are held in a digital wallet.

Warning about ICOs

There has been a lot of hype around some popular cryptocurrencies, but not all ICOs are cryptocurrencies. Some are high-risk investments in start-up blockchain projects that may be nothing more than an idea. Some have turned out to be scams.

You could lose a lot of money if you buy into an ICO without doing your research first.

ICOs sound similar to initial public offerings (IPOs); however, they aren't the same and usually don't offer any legal rights and protections, or claims to any underlying assets. Offers of shares in an IPO do offer legal rights and protections.

ICOs use the internet to raise money, but they are not the same as crowd-sourced funding which is regulated under Australian law and offers basic investor protections.

What are you really buying when you invest in an ICO?

ICOs are speculative, high-risk investments. Many ICOs are for projects that are experimental, are at a very early stage of development or may not have even started yet. As a result, some projects may take years before they become commercially viable, if at all. A large number of ICOs fail or do not increase in value.

ICO white papers

There will usually be a 'white paper' that provides information about the ICO and the project it is funding. The white paper should, at the very least, provide the names and contact details of the people behind the scheme and information on what they are planning to do with your money. This will help you conduct your own research before committing money to the project.

However, the information in the white paper can be unbalanced or misleading. For example, estimates on profitability may be very optimistic, or it may explain what the technology could do in the future without discussing how difficult it could be to develop.

If the white paper claims the ICO is not a financial product, this may indicate that the promoter is trying to avoid regulation, leaving you with no consumer protection. These papers can also be very technical, which may make it difficult to understand what your rights and obligations will be after you've bought the ICO token, and what the risks are.

Can I trust what I read about ICOs on social media?

ICOs are often promoted through closed groups on social media platforms and messaging apps. You may be urged to get in early to make a profit. You may get the impression that the project has been endorsed by a celebrity or that it's more popular than it really is. These types of online claims are really just marketing tricks to get you to part with your cash. Look for real evidence from other sources to support any claims made on social media.

Are ICO tokens the same as shares?

Unlike shares, most ICO tokens do not come with ownership, voting rights, or even a promise to share in future profits. If you have no ownership rights, you won't have a claim over the company's assets if it fails. ICO tokens generally only give you access to the platform or service the project is developing, which could take months or years to function.

Has the ICO issued a prospectus?

Most shares need to be offered to Australian investors using a prospectus. Some ICO issuers offer tokens that look or act like shares in a company, promising ownership rights or future payments. However, if there is no prospectus for a token offered under an ICO, it is probably not giving investors the same rights as a share or it may be operating illegally in Australia.

Investors have basic protections if they invest in companies that have a prospectus; however, this may not protect you if an unscrupulous ICO operator creates a fake prospectus that does not comply with Australian law.

Are ICOs managed investment schemes?

Some ICO tokens could represent units in a managed investment scheme, which is regulated by Australian law. Most units in a managed investment scheme need to be offered to Australian investors using a product disclosure statement (PDS), which gives investors some basic protections.

If the token does not have a PDS, or does not comply with Australian law, you probably won't have the same rights and protections as a unit in a managed investment scheme, or it may be operating illegally in Australia.

The risks of investing in an ICO

ICOs are highly speculative investments that are mostly unregulated, and many have turned out to be scams. If the ICO is issued by an overseas entity, it will be even harder to get your money back if it turns out to be a scam. Token values can fluctuate drastically and it's possible for a computer hacker to steal them.

Before you decide to invest in an ICO, you'll need to do a lot of research. Look for forums or websites that explain the product in detail and present a balanced perspective.

Initial coin offering scams

Because ICOs are sold internationally, online and usually paid for with cryptocurrencies, it can be difficult for regulators to make sure proper investor protections are in place. It is often unclear where the entity is incorporated and what laws and regulations apply to it.

Some issuers disappear as soon as they've finished fundraising, which is a good indication that it is actually a scam. When this happens, investors have very little or no chance of getting their money back.

Initial coin offering tokens can change in value

The value of ICO tokens can change rapidly. The technology behind ICOs (and the potential uses for this technology) are in the early stages of development, so token values tend to fluctuate based on popularity rather than any real underlying value.

Online applications, including social media and messaging apps, have been used to push up the price of tokens, in order to sell them to other buyers at artificially inflated prices. This is known as a 'pump and dump' scheme.

Your money could be stolen

Just as your real wallet can be stolen by a thief, the contents of your digital wallet can be stolen by a computer hacker.

Your digital wallet, where your ICO tokens are stored, has a public key and a private key, like a password or a PIN. If hackers steal your ICO tokens you'll have little hope of getting them back. You also have no protection against unauthorised or incorrect debits from your digital wallet.

Cryptocurrency exchanges are generally not regulated like traditional exchanges, such as the ASX. If you choose to keep your tokens on an exchange, they can still be stolen if the exchange is hacked. There is a history of cryptocurrency exchanges being hacked and users losing all of their funds.

An ICO is a highly speculative investment that could be a potential blockchain project or it could be a scam. While the potential returns may look attractive, these projects are mostly unregulated and the chance of losing your investment is high.

Related links

- **ASIC guidance on ICOs**
- **Cryptocurrencies**
- **Financial Conduct Authority's warning on the risks of initial coin offerings**

- Binary options
- Foreign exchange trading
- How to pick an investment scam

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