# Initial Coin Offering - ICO

## What is an ICO?

The term ICO stands for "Initial Coin Offering" and is a designation for a new form of **corporate or project financing** based on the blockchain technology. The purpose of the ICO is to raising capital for a company or project by means of an unregulated type of crowdfunding.

A company issues its own proprietary virtual currency in the form of "Tokens" or "Coins". These "Tokens" or "Coins" can be bought by investors using another currency, most frequently a virtual currency, for example Bitcoin or ether. An ICO may also be called a "token sale" or "coin sale".

## What is the purpose of a "Token" or a "Coin"?

A "token" or "coin" in relation to an ICO is connected to a specific company or project and may constitute a share in the company, a share in proceeds that are yet to be realised, or in some cases does not constitute any recognisable value.

**Investing in an ICO is generally associated with a high level of risk. It may also result in a total loss of the invested capital.**

## What risks may be associated with an ICO?

- <u>Uncertain prospects of success</u>: typically ICO projects are at a **very early stage of development** and their **business models are experimental**. It is uncertain whether the business idea will bring profits. The prospect of the ICO being financially success is therefore not guaranteed, and the development of the value of the investment is uncertain.
- <u>IT Risk</u>: the underlying technology (distributed ledger or blockchain) is usually relatively new and has not been adequately tested, and therefore might lead, not only for the project to be financed, but also for the technology used to problems (hacks, coding errors etc.)
- <u>Liquidity risk</u>: the possibility to trade or cash in the acquired Token on a platform, or to exchange it for a legal payment instrument, may be limited. Trading platforms are furthermore currently unregulated and are therefore not subject to the same strict transparency and trading regulations as say securities exchanges.

- Increased Risk of Fraud: Some companies may potentially not have the intention of using of used the collect funds or virtual currencies in the way that they promised they would be used.
- Inadequate documentation: instead of a regulated prospectus, ICOs as a rule only offer a "white paper". This "white paper" is not subject to any legal norms, and therefore may be incomplete or misleading.
- Insufficient transparency: investors as rule do not obtain any impression about the company or the development of the project. It is often necessary to have a complex technical comprehension to be able to understand the features and risks of the ICO in their entirety. No legal information obligations therefore exist, unless the offering falls within the scope of the obligation to produce a prospectus under the Capital Market Act (KMG).
- No investor protection: there is no deposit guarantee scheme and no legal investor protection.
- Lack of supervision: ICOs are as a rule not subject to any kind of regulation or supervision. ICOs are therefore frequently conducted in foreign countries as well as on the Internet. Consequently, legal enforcement may be significantly hindered to the extent of being rendered impossible.