



Federal Financial
Supervisory Authority

Law & Regulation

Topic Fintechs, Consumer protection

Consumer warning: the risks of initial coin offerings

Date: 09.11.2017

BaFin wishes to point out that the acquisition of cryptocurrency coins – also referred to as tokens, depending on their form – as part of so-called "initial coin offerings" (ICOs) may result in substantial risks for investors. ICOs are a highly speculative form of investment. Investors should therefore be prepared for the possibility of losing their investment completely. As is the case with most new trends, the high level of public interest in ICOs is also attracting fraudsters.

The term "initial coin offering" stems from that of "initial public offering" (IPO), i.e. a floatation on a stock exchange. The apparent similarity of the terms gives the impression that ICOs are comparable to the issuance of shares – this is not the case from either a technical or legal standpoint.

Numerous risks

Tokens acquired in an ICO often experience significant price fluctuations. There is a risk of there being no liquid secondary market or no secondary market at all where the investor can sell the tokens acquired in order to liquidate the investment at a profit.

Typically, projects financed using ICOs are still in their very early, in most cases experimental, stages and therefore their performance and business models have never been tested. Additionally, it is difficult for the investor to verify the descriptions of how the tokens function based on the underlying program code (smart contract) outlined in the accompanying white papers or terms and conditions. The code might also prove vulnerable to attack and manipulation.

Furthermore, the information stated by providers is often insufficient: in contrast to regulated prospectuses, the documentation provided by the white papers and terms and conditions is often objectively insufficient, incomprehensible or even misleading. Due to the lack of legal requirements and transparency rules, the consumer is left on their own when it comes to verifying the identity, reputability and credit standing of the token provider and understanding and assessing the investment on offer. It can also not be guaranteed that personal data will be protected in accordance with German standards.

The systemic vulnerability of ICOs to fraud, money laundering and terrorist financing increases the risk of investors losing the sums invested, all the more so due to the possibility of authorities taking necessary measures against operators or other persons or enterprises that are involved in such illegal dealings.

Notes for consumers

Before any consumer decides to participate in an ICO, they should make certain that they have fully understood the benefits and risks of the project or investment. They should also ask the issuer as many questions as necessary and verify the issuer's information from independent sources. Moreover, investors should ensure that the characteristics of the project or investment match both their investment needs and their appetite for risk. More detailed information on ICOs and their risks will be published in BaFinJournal on 15 November. An English translation will be made available here. BaFin provides further notes on blockchain technology and virtual currencies under the menu item Company start-ups and fintech companies on its website. In addition, the websites of many other national supervisory authorities and that of the European Securities and Markets Authority (ESMA [<http://www.esma.europa.eu>]) also provide information and warnings about this topic.

Additional information

German version

Verbraucherwarnung: Risiken von Initial
Coin Offerings (ICOs)
