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Initial Coin Offerings - Questions and Answers

Q. What is an Initial Coin Offering ('ICO')? ^

A. An Initial Coin Offering, or an 'ICO' is a way of raising money. The money is raised by selling a new type of 'coin', 'virtual currency' or 'token' (for ease, this document will use the word token). The money raised by selling tokens could then be used by the persons raising the money for many different purposes. ICOs may also be called 'token sales', 'coin sales' or something similar.

Q. If I choose to invest in some tokens, do the same rules around investments apply? ^

A. No – those rules do not apply. The [Regulated Activities Order 2011](#) defines what constitutes an "investment" for the purposes of the Financial Services Act 2008. The tokens issued through an ICO do not fall within that definition, and therefore the tokens are not regulated investments and the protections afforded to investors of traditional investment products regulated under the Financial Services Act 2008 do not apply.

Q. How do I pay for an ICO? ^

A. A common similarity among all ICOs is the issuance of new token in exchange for money, for another cryptocurrency (such as Bitcoin) or in exchange for goods or services.

Q. What is the money raised from ICOs used for? ^

A. Each ICO is different. Some ICOs have set plans for the money received, which is often to develop software or games. However, sometimes the purpose is not known in advance.

Q. What rights do buyers of tokens get? ^

A. There are many ICOs and they all vary dramatically. Sometimes buyers might get an opportunity to use software or goods at a discounted rate, in other cases buyers get no rights or benefits at all.

It is very important to understand, before purchasing, what rights you are entitled to and how you can exercise your rights. Remember; if it looks too good to be true, it probably is.

Q. I want to invest into a fund or a collective investment scheme which itself invests in a basket of tokens or other convertible virtual currency, what questions should I ask? ^

A. The FSA has publicised FAQs on Collective investment schemes ("funds") and pooled investments. These FAQs apply to any fund regardless of what asset class the fund holds:

<https://www.iomfsa.im/consumer-material/faqs-collective-investment-schemes-funds-and-pooled-investments/>

Additional consideration should be given to the risks posed by tokens as well as any crypto currency. The values can be highly volatile and they may become illiquid in a very short space of time.

Q. Is an ICO business regulated in the Isle of Man? 


A. In April 2015 the Proceeds of Crime (Business in the Regulated Sector) Order 2015 amended the law to bring certain businesses involved in virtual currencies under the oversight of, but not regulation by, the FSA.

Q. What does the FSA “oversee” about the business? 

A. Businesses which are subject to registration under the Designated Businesses (Registration and Oversight) Act 2015 (‘Designated Businesses’), such as virtual currency businesses, are required to comply with the Anti-Money Laundering and Countering the Financing of Terrorism legislation. The FSA only oversees whether Designated Businesses comply with Anti-Money Laundering laws.

The FSA does not supervise or regulate a registered Designated Business in the same way that it supervises and regulates regulated entities such as banks or life insurance companies. Regulated entities are subject to a wide range of requirements governing treatment of client money, conduct of business and solvency. These requirements do not apply to Designated Businesses.

It is important to note that a Designated Business is not a regulated entity and must not hold out that it is anything but a registered Designated Business which is overseen only for compliance with the Anti-Money Laundering and Countering the Financing of Terrorism legislation.

Q. Where a business is “registered” with the FSA as a Designated Business, what requirements are imposed on such a business? 

A. In summary, the law requires that the Designated Business must identify, and take reasonable steps to verify, the identity of their customers, including the beneficial owners of the customers and any persons who are empowered to act on their customers’ behalf. The law also requires that they monitor the transactions and activity of their customers on an ongoing basis.

Q. If I purchase a token or coin, is my money protected by any schemes? 

A. No – your money is not protected. You should be prepared for the fact that you might lose all of the money you use for the purchase. Any money or assets provided to a virtual currency business is not covered by any compensation scheme, and not subject to any protections afforded by the Isle of Man Financial Ombudsman Scheme.

If you wish to purchase tokens as part of an ICO, particularly if this is with the hope of growing the value of your money, you should be fully aware of the risks, and you should conduct your own research. You should only purchase tokens if you have suitable experience, you are confident in the quality of the ICO project and you are prepared to lose all the money that you paid for the tokens.

Q. Does the FSA vet Designated Businesses or the directors of a Designated Businesses? 

A. When a Designated Business applies for registration, the FSA will assess its integrity and the integrity of that applicant’s controllers (owners) and the directors.

The FSA is not empowered to assess the competence or professional conduct of Designated Businesses, nor does it examine or vet the business model of any Designated Business.

Q. Can I make a complaint to the FSA about an ICO business? ^

A. The FSA's functions in respect of Designated Businesses extend only to overseeing their compliance with the Anti-Money Laundering and Countering the Financing of Terrorism legislation and guidance. If the matter you wish to complain about relates to potential money laundering or terrorist financing issues, then, and only then, can a complaint be made using the FSA's published process:

<https://www.iomfsa.im/about/how-to-complain/>

The FSA does not have the legal power to investigate complaints about any other matters to do with ICOs or any other Designated Businesses, such as poor service, mishandling of client money or assets.

Q. If I come across an ICO business, should I report this to the FSA? ^

A. If the business is operating in or from the Island and that business is not registered under the Designated Businesses (Registration and Oversight) Act 2015, then this should be reported to the FSA at dnfbp@iomfsa.im

A link to the FSA's register of all registered designated businesses can be found here at <https://www.iomfsa.im/register-search/>

However, if you suspect that an ICO is a scam, this should be reported to the Office of Fair Trading. Further information and advice on scams in general can be found under the 'Consumer Advice' section on the OFT's website <https://www.gov.im/oft>

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