Jersey Financial Services Commission

Press statement

30 November 2017

JFSC warning on Initial Coin Offerings

The Jersey Financial Services Commission (**JFSC**) has today issued a warning regarding initial coin offerings (**ICO**), as part of its statutory duty in seeking to reduce the risk of financial loss to the investing public.

The notice follows other recent warnings from countries including the UK, US, Canada, Germany, Singapore, among others regarding this type of activity.

What are Initial Coin Offerings?

ICOs are a digital way of raising funds from the public. ICOs take place using distributed ledger or blockchain technology.

Participants are normally issued with digital tokens (**coins**) linked to a specific business or project. They will typically obtain tokens by transferring a certain amount of cryptocurrency to a blockchain-generated address supplied by those organising the ICO campaign. The tokens may represent a share in a business or project, a right to use a particular piece of technology in the future or in some cases offer no explicit rights or discernible value at all. "Token sale" or a "token-generating event" are other terms used to describe an ICO. How ICOs are structured from technical, functional and business standpoints varies markedly from offering to offering. There is no catch-all definition.

The JFSC recognises the innovative potential of distributed ledger/blockchain technology and Fintech more generally and supports efforts to responsibly innovate in Fintech in Jersey. However, we are concerned about retail investors participating in ICOs, which are typically highly speculative and risky investments often subject to high price volatility. Often ICO projects are at an early stage of development.

ICOs tend to be unregulated, and therefore typical investor protection requirements, such as the requirement to provide a fair and balanced description of the investment, are unlikely to apply. The JFSC is aware of some instances of ICOs being used for fraudulent purposes.

What are the risks?

There are a number of significant risks, including:

- **Complex and uncertain nature of rights** – in many cases it is unclear exactly what the investor is entitled to receive back from their investment
- **Price volatility** – the value of cryptocurrencies generally is extremely volatile; it can rise or fall dramatically
- **Unregulated space** – many ICOs are unregulated and operate with no or limited investor protection measures in place, as such there is a higher risk of fraud, money laundering or association with illicit activities

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- **Difficulty in exiting the investment** – the digital tokens may not be able to be traded for traditional / fiat currencies and where they are able to be traded on an exchange the exchange itself may not be regulated
- **Inadequate information** – ICOs, particularly those that are not regulated, are unlikely to subject to fair disclosure obligations, and therefore the information issued to investors (often in the form of a *White Paper*) may be misleading or inaccurate
- **Flaws in technology** – the technology used by the digital tokens may not have been tested or verified, and could result in failures or leave the tokens vulnerable to theft.
- **High risk of losing all of the investment** – the above risks mean that potential investors should be prepared to lose the entire amount of their investment.

A number of other regulatory agencies, including European Securities and Markets Authority (**ESMA**) and the Financial Conduct Authority (**FCA**), have also issued statements providing more information about the risks of this activity[1].

Anybody thinking of investing in an ICO should ensure that they carefully consider the risks above and how they relate to the offer. Potential investors should be sufficiently experienced and knowledgeable, confident in the quality of the ICO project itself (e.g. business plan, technology, people involved) and be prepared to lose their entire stake.

What is the regulatory treatment in Jersey?

ICOs can take many forms (technically, functionally and economically) and therefore it is not possible to provide a “one-size-fits-all” overview of how or whether they would be regulated in Jersey.

Depending on the form of the offer, ICO activity in Jersey may be regulated in Jersey and therefore it is essential that persons looking to issue digital tokens in or from within Jersey understand the regulatory framework and approach the JFSC at an early stage if they consider that their activity may be regulated or require consent.

In some cases an ICO may require a consent under the Control of Borrowing (Jersey) Law 1947. Where such a consent has been granted it must be understood that the JFSC does not take any responsibility for the financial soundness of any schemes or for the correctness of any statements made or opinions expressed with regard to them. The Jersey Financial Services Commission is protected by the Control of Borrowing (Jersey) Law 1947, as amended, against liability arising from the discharge of its functions under that Law.

Ends.

[1] https://www.esma.europa.eu/sites/default/files/library/esma50-157-829_ico_statement_investors.pdf and https://www.fca.org.uk/news/statements/initial-coin-offerings