CMVM warns investors on Initial Coin Offerings (ICOs)

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What are Initial Coin Offerings?

An ICO refers to a form of raising public funds via the internet using a virtual/digital currency or crypto currency. An ICO may also be a sale of tokens or of virtual currencies. The issuers of ICOs accept a cryptocurrency, i.e. bitcoin, ether or official currency, such as the Euro or USD dollar in exchange for a new currency or token which in turn is related to a company or a specific project.

What are the associated risks?

- **Unregulated activity:** due to the way in which said are structured, the clear majority of ICOs are not regulated which entails the possibility of falling outside the regulated space. Albeit, each actual case requires analysis (as per the circumstances and regardless of the terminology used) so one may determine whether the instruments are covered or not by the mentioned regulation.

Due to the fact that ICOs are not covered by regulation, investors are left unprotected.

- **Price Volatility/Lack of Liquidity:** the value of a token is prone to high volatility and may be subject to significant market change. Tokens may lack liquidity and investors may not be able to transact said.

- **Potential Fraud/Money laundering:** some issuers may direct raised funds towards other purposes other than those disclosed during marketing.

- **Inadequate Information:** Instead of a prospectus, the ICOs usually merely provides a ‘White Paper’ – said may have unbalanced, incomplete, unclear and non-explanatory information. Thus sophisticated technical knowledge is required in order to understand the characteristics and risks of crypto currency or tokens.

- **Initial Stage Projects:** projects financed via ICOs are generally in the initial stage of development and their business models are usually experimental.

- **High risk of entire loss of invested capital:** capital invested in an ICO is not guaranteed thus the entire loss of the invested capital may occur. The risks linked to the investment may not be mentioned in the documents.