Initial Coin Offerings

Consumer warning about the risks of Initial Coin Offerings ('ICOs')

What are ICOs?
The term ICO refers to a digital way of raising funds from the public using a virtual currency, also known as cryptocurrency. An ICO can also be known as 'token sale' or 'coin sale'.

 ICO issuers accept a cryptocurrency, like Bitcoin or Ether, in exchange for a proprietary 'coin' or 'token' that is related to a specific firm or project. ICOs vary widely in design. The digital token issued may represent a share in a firm, a prepayment voucher for future services or in some cases offer no discernible value at all. Often ICO projects are in a very early stage of development.

ICOs are very high-risk, speculative investments.

You should be conscious of the risks involved (highlighted below) and fully research the specific project if you are thinking about buying digital tokens. You should only invest in an ICO project if you are an experienced investor, confident in the quality of the ICO project itself (e.g. business plan, technology, people involved) and prepared to lose your entire stake.

What are the risks?

- **Unregulated space**: Most ICOs are not regulated by the FCA and many are based overseas.
- **No investor protection**: You are extremely unlikely to have access to UK regulatory protections like the Financial Services Compensation Scheme or the Financial Ombudsman Service.
- **Price volatility**: Like cryptocurrencies in general, the value of a token may be extremely volatile – vulnerable to dramatic changes.
- **Potential for fraud**: Some issuers might not have the intention to use the funds raised in the way set out when the project was marketed.
- **Inadequate documentation**: Instead of a regulated prospectus, ICOs usually only provide a 'white paper'. An ICO white paper might be unbalanced, incomplete or misleading. A sophisticated technical understanding is needed to fully understand the tokens' characteristics and risks.
- **Early stage projects**: Typically ICO projects are in a very early stage of development and their business models are experimental. There is a good chance of losing your whole stake.

Are ICOs regulated by the FCA?

Whether an ICO falls within the FCA's regulatory boundaries or not can only be decided case by case.

Many ICOs will fall outside the regulated space. However, depending on how they are structured, some ICOs may involve regulated investments and firms involved in an ICO may be conducting regulated activities.

Some ICOs feature parallels with Initial Public Offerings (IPOs), private placement of securities, crowdfunding or even collective investment schemes. Some tokens may also constitute transferable securities and therefore may fall within the prospectus regime.

Businesses involved in an ICO should carefully consider if their activities could mean they are arranging, dealing or advising on regulated financial investments. Each promoter needs to consider whether their activities amount to regulated activities under the relevant law. In addition, digital currency exchanges that facilitate the exchange of certain tokens should consider if they need to be authorised by the FCA to be able to deliver their services.

Should I report ICOs to the FCA?

If you suspect that an ICO is a scam, report it to the FCA via our online form [3].

To learn more about general warning signs of scams, visit our ScamSmart pages [4].

Further Links

To learn more about potential benefits and challenges of the underlying technology that facilitates ICOs, please refer to the FCA's Discussion Paper DP17/3 on distributed ledger technology [5] (DLT) from April 2017. We are currently reviewing responses to this discussion paper and are looking to publish our findings at the end of this year.

Certain other national regulators have issued bulletins or statements on ICOs, including the U.S. Securities and Exchange Commission [6], the Monetary Authority of Singapore [7], the Canadian Securities Administrators [8], the People's Bank of China [9] and the Securities and Futures Commission [10] of Hong Kong.

Source URL: https://www.fca.org.uk/node/45241

Published: 12/09/2017 | Last updated: 12/09/2017
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