

# Initial Coin Offerings

## What, Why, How

Beatrice Weder di Mauro  
INSEAD and CEPR



Singapore, 26-06-2018

# Outline

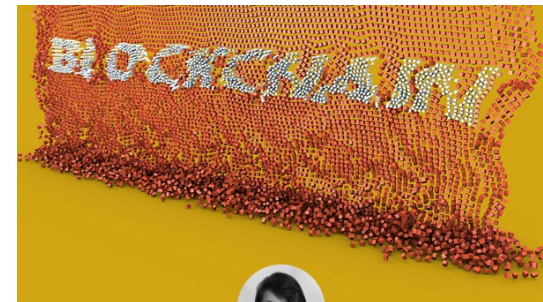
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1. What and why ICO
2. The good, the bad, the evil
3. Some stats
4. Regulating ICOs

# 1. The What

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- A new form of corporate finance
- A way of stimulating innovation in tech
- A new era of currency competition
- Liberation from government and central banks
- Save the world with a blockchain
- A perfect scam



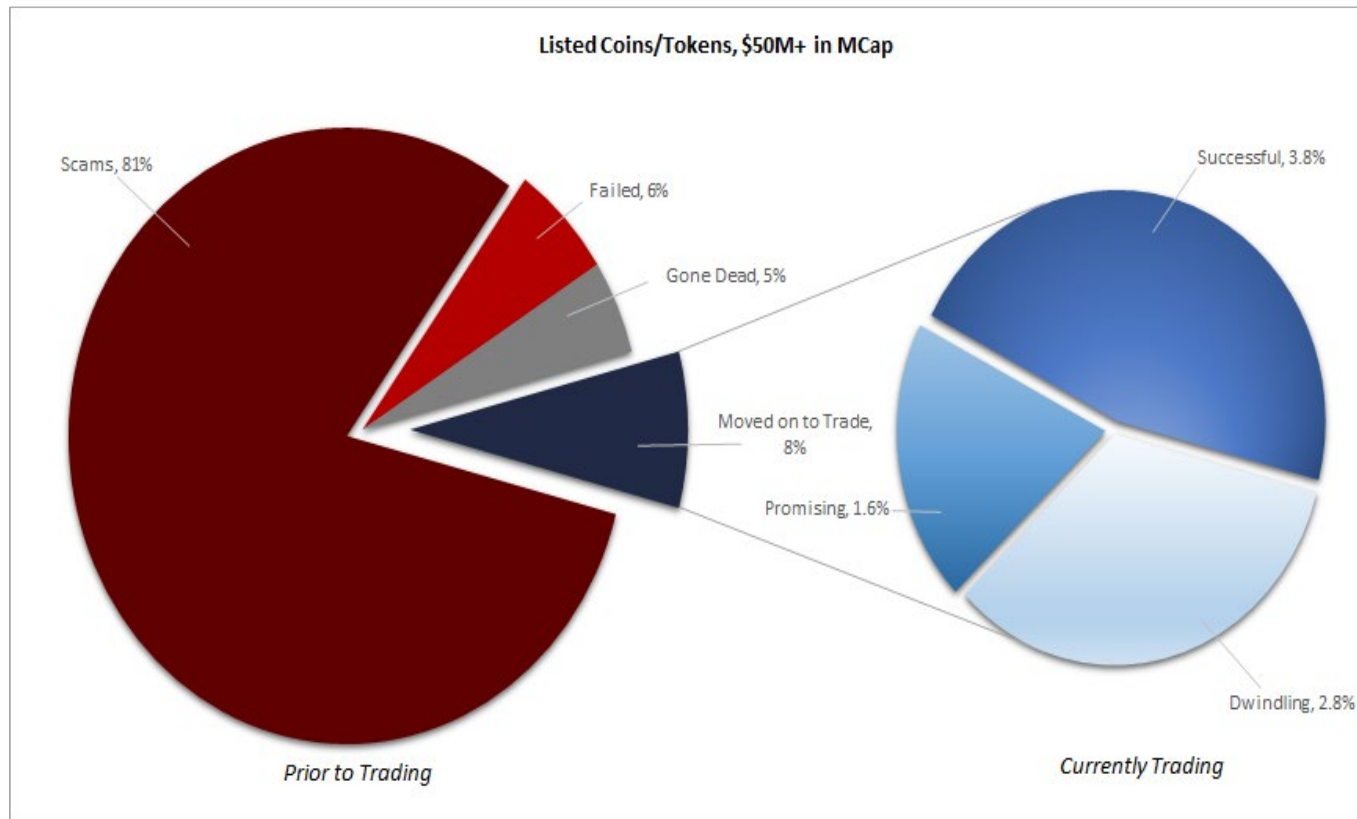
Posted 3rd October 2017 by - Laura Cox  
Senior Staff Writer - D/SRUPTION

## Fighting World Hunger with Blockchain



Benevolent uses of secure technology with real human impact

# 1. The What: Mostly scams?



Source: <https://news.bitcoin.com/80-of-icos-are-scams-only-8-reach-an-exchange/>

# 1. The What

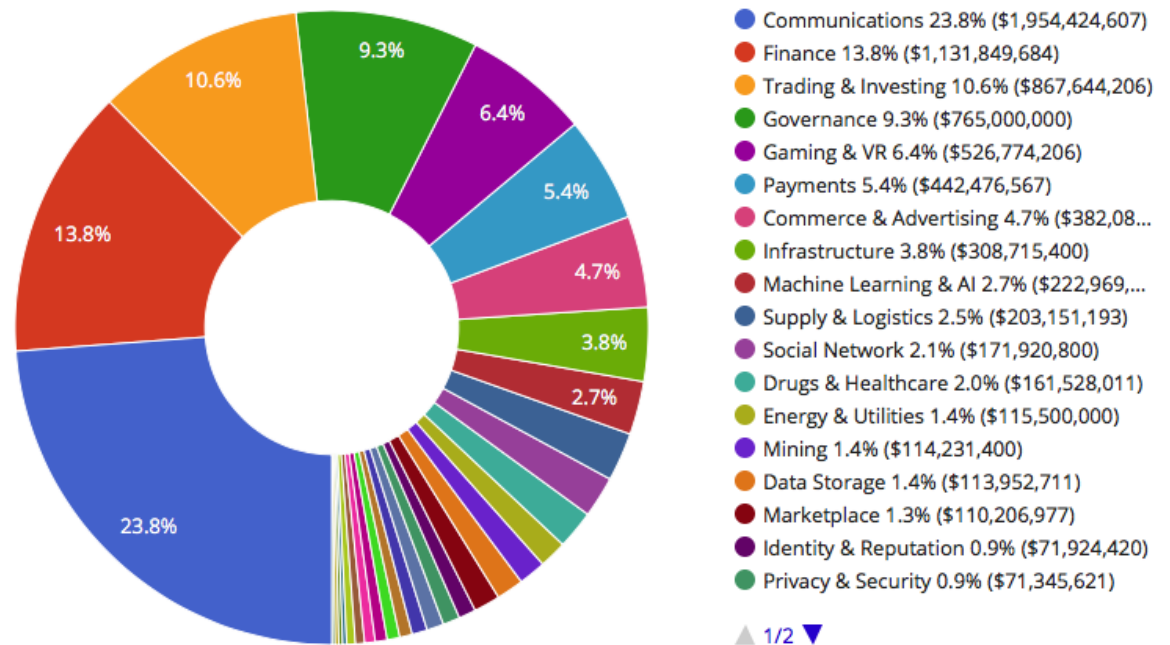
- Types of projects

- Technology
- A lot more ..

- Types of coin

- Payments
- Equity like
- Utility tokens

ICOs by Category 2018



Source: <https://www.coinschedule.com/stats.html?year=2018>

# 1. The What: Platforms with native (utility) tokens

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Howell, Niessner and Yermak 2018

- Disintermediation of internet-based marketplaces:
  - Decentralize platform management
  - value accrues to token holders
- Token's value = value of the network:
  - token buyers fund the development,
  - token rewards network creators without giving them control
  - token creates customer commitment since it's use is limited to the specific platform.

# 1. The Why : Economics

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- Completing markets?
- Financing : Market failure in financing new venture
  - Arguments for public support of infant industries
  - Imperfections of VC, PE, crowdfunding, seed funding,
  - Expanding club funding
- Savers: Access to assets class
- All of the above?

## 2. The good the bad and the evil

15:27 Mon Nov 12

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60%



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### ICO's review

Look up a specific of startups and analytical review

Search by name. For example: Bitcoin



All







Ongoing

Upcoming

Past

Scam

### Assessed projects

Project name	Boom rate	Risk rate	Category	Analytics	Start ICO	End ICO	Total rate
 MyDFS	★ PREMIUM HIGH	LOW	GAMING & VR	NO	15.10.2018	16.11.2018	A1
 Swachhcoin	★ PREMIUM HIGH	LOW	BLOCKCHAIN INFRASTRUCTURE	YES	16.07.2018	20.11.2018	A1
 MyCryptoBank	★ PREMIUM MEDIUM	LOW	BANKING	NO	11.09.2018	31.01.2019	A1
 Dream Real	★ PREMIUM HIGH	MEDIUM	SOCIAL NETWORK	NO	09.07.2018	25.11.2018	A1
 Buying	★ PREMIUM MEDIUM	LOW	ECOMMERCE	NO	01.10.2018	31.01.2019	A1
 Papa Carlo Buratino	★ PREMIUM MEDIUM	LOW	MANUFACTURING	YES	01.10.2018	30.11.2018	A1



## 2. The good

15:03 Mon Nov 12

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74%

I

Kev

Vox Talks [...]

Prof.dr. Ke...

Six Month...

War That E...

Economics...

Economics...

LSE appoi...

DB Konzer...


Kalina Man...

Beatrice, h...

sq495 - G...

Check-in b...

MyDFS

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MyDFS

Gaming & VR

### Overview

Boom score:

HIGH

Risk score:

LOW

Description:

Blockchain-powered daily fantasy sports platform from Utrener and KHL fantasy apps creators, that connects sports fans around the world in a transparent and easy-to-use manner





Founded:


Ireland

Website:

<https://tokensale.mydfs.net>

Social:





### Financial data

TIME

5 days left

15.10.2018 – 16.11.2018


Token	MYDFS
Price	1 MYDFS = \$1
Platform	Ethereum
Accepting	ETH, BTC, ETH Classic, BTC Cash, LTC, ZCash
Minimum investment	\$100

## 2. The good

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# Swachhcoin

Blockchain Infrastructure

## Overview

Boom score:

HIGH

Risk score:

LOW

ICOTOP Analytics:

[Show Analytics](#)

Description:

A decentralized waste management global ecosystem to create a sustainable ecosystem.






Founded:

India, 6th April 2016

Website:

<https://swachhcoin.com>

Social:



[Project description](#)

[ICO Details](#)

[TECH](#)

[Documents](#)

[Widget](#)

Swachhcoin is a unique blockchain-powered attempt at micromanaging wastes from households and industries and efficiently converting them into useful products. These products, at the end of the process, will be of higher economic value. We intend to delve into the realm of, but not limited to green-energy, fertilizers and power generating gases as of now. But given the rapid progress of fundamental research on efficient product

A1

ICOTOP rate

[Show analytics](#)

## Financial data

TIME

**9 days left**

16.07.2018 — 20.11.2018

Token	SCX
Price	1SCX = 0.075 USD
Platform	Ethereum
Accepting	ETH, BTC, BCH, XRP, LTC, KCS, BNB
Minimum investment	0.5 ETH


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## 2. The bad

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3D-Chain

Manufacturing

Overview

Boom score:

LOW

Risk score:

HIGH

Description:

First Global Decentralized Network Directly Connecting Manufacturers, Designers, and Consumers






Founded:

USA 2015

Website:

<http://www.3dchain.io/>

Social:



Project description

ICO Details

TECH

Documents

Widget

3D-Chain is an open-source protocol based on collections of smart contracts which aims to become the key ecosystem for manufacturers, designers and customers. It provides a coordinated decentralized network based on 3D Printing technology and will expand to other manufacturing environments. Within this framework, the benefits of manufacturing and 3D Printing become a global common infrastructure for all. Anyone can access the network, become a stakeholder in its development, add a fabrication technology (e.g. 3D

B1

ICOTOP rate

Financial data

TIME


230 days left

01.08.2018 – 30.06.2019

Token	3xD
Price	2000 3xD = 1 ETH
Platform	ERC20
Accepting	ETH
Minimum investment	0.1 ETH

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Hot ICO:

 XRT

## 2. The bad




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26 of 33




After completion of the ICO, the RMC can be freely transferred to a third party via the Mycelium wallet.

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### Pre-Sale

		
Transaction period 7.08 - 27.08	1 RMC coin \$4,000	Threshold of participation \$250,000

### ICO

		
Transaction period 28.08 – 28.09	1 RMC coin from \$4,100 to \$4,900	Threshold of participation 0.1 coin

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After the ICO is carried out, new coins will no longer be issued  
The number of MultiClet miners is limited.

### Target

**100 M \$**

26 / 32

## 2. The bad

“Surprisingly, in a community known for espousing a technolibertarian belief in the power of “trustless trust” built with carefully designed code, a significant fraction of issuers retained centralized control through previously undisclosed code permitting modification of the entities’ governing structures” (Cohney et. Al. 2018)

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### LEGAL GUARANTIES

At the foundation of the project is a juridical construction which makes it possible to regulate and establish the respective rights for Members of the RMC Club. The Russian Mining Coin is a digital asset which gives the right to acquire a new generation MultiClet miner, and also the right to acquire a Sunrise miner at a special price. In addition, the owner of the coin becomes a participant in the Joint Mining Club. De facto, the RMC coin is an asset which attests to the existence of obligations between the parties. The lack of legal status of cryptocurrency in the RF allowed the developers of the project to view it as a digital asset created in the mining process and at the same time as a discount coupon which gives the right to purchase an RMC coin at reduced price.

Moreover, the level of discount for purchase of a coin is directly proportional to the amount of invested digital assets (cryptocurrency). The right to membership in the Joint Mining Club is confirmed by the RMC coin. The right to membership can be transferred by means of transfer of the coin either for compensation or on a non-compensated basis.

### 6.2. DISCLAIMER OF RESPONSIBILITY

Information in this document can be changed and updated without preliminary notification. This document or its separate parts cannot be copied or reproduced without the written permission of the Russian Mining Company. The task of this document is only to provide information to potentially interested people. The information presented in this document is not legally binding in any sense of the word and does not amount to an offer to sell shares or securities.

## 2. The evil

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Platform

# Patron

### Overview

Boom score:

LOW

Risk score:

HIGH

Description:

Influencers and SNS users from around the world can publish, discover, reserve, or sell inflationary the information of "social network media sharing economy" about acquisition / PR ambassador matching, on the Internet, mobile phone or tablet. PATRON (Patron) is a highly reliable marketplace that can deliver all at once to LIVE.

Founded:

Japan

Website:

<https://patron-ico.io/>

Social:





### Financial data

TIME

Ended

14.02.2018 — 09.05.2018

Token	PAT
Price	1 PAT = 0.28 USD
Platform	ERC20
Accepting	ETH, BTC, LTC
Minimum investment	0.01 ETH

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Project description

ICO Details

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Project description


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TECH

Documents


Widget

## 2. The evil

DeadCoins

ADD A DEAD COIN

SIGN UP

DeadCoins

CURATED LIST

Of cryptocurrencies forgotten by this world....and more

Full List

Deceased

Hack

Scam

Parody






Detailed view

Search Entries:

Search

Clear

# A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Coin Name	Coin Code	Summary
 HyperPay	HPY	no connection with its product (an ugly as fuck wallet) ...
 Capital Expanse	CAPX	This coin was a Ponzi scheme lending token promoted by ...
 KimoCoin	KMC	<a href="https://bitcointalk.org/index.php?topic=524216.0">https://bitcointalk.org/index.php?topic=524216.0</a> "Comkort announced delist of KimoCoin, so, I think, this ...
 Befund	bfdt	scam
 Artax	XAX	Original Developers Abandoned the project after the appointed steering committee ...



### 3. The Stats

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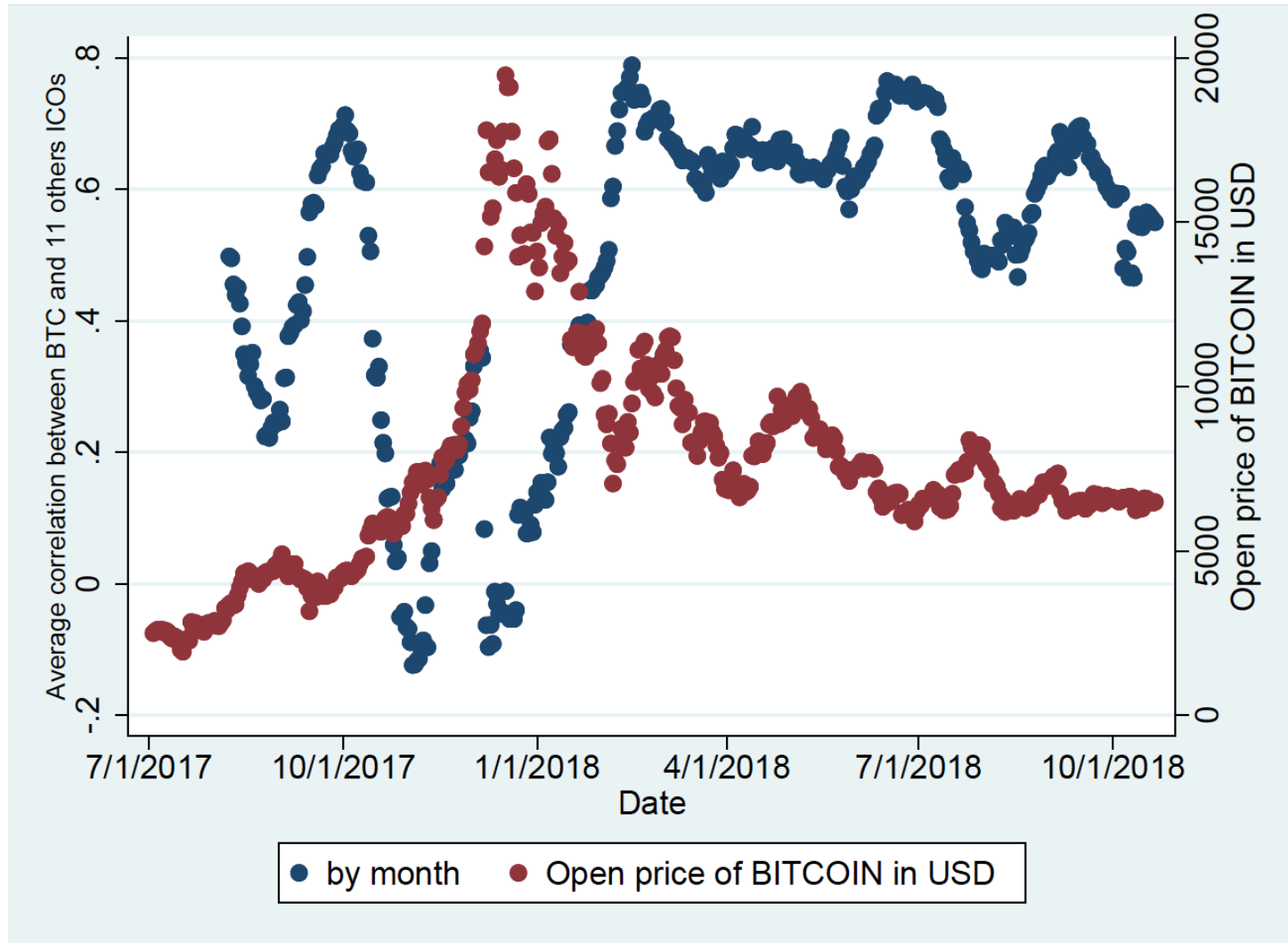
- Properties of a new asset class (Hu, Parlor, Rajan 2018)  
*Sample of 64 largest ICOs*

- ICO First day returns High (mean 4,7% median 115%)
- IPO first day return IPO (mean 12.1%)

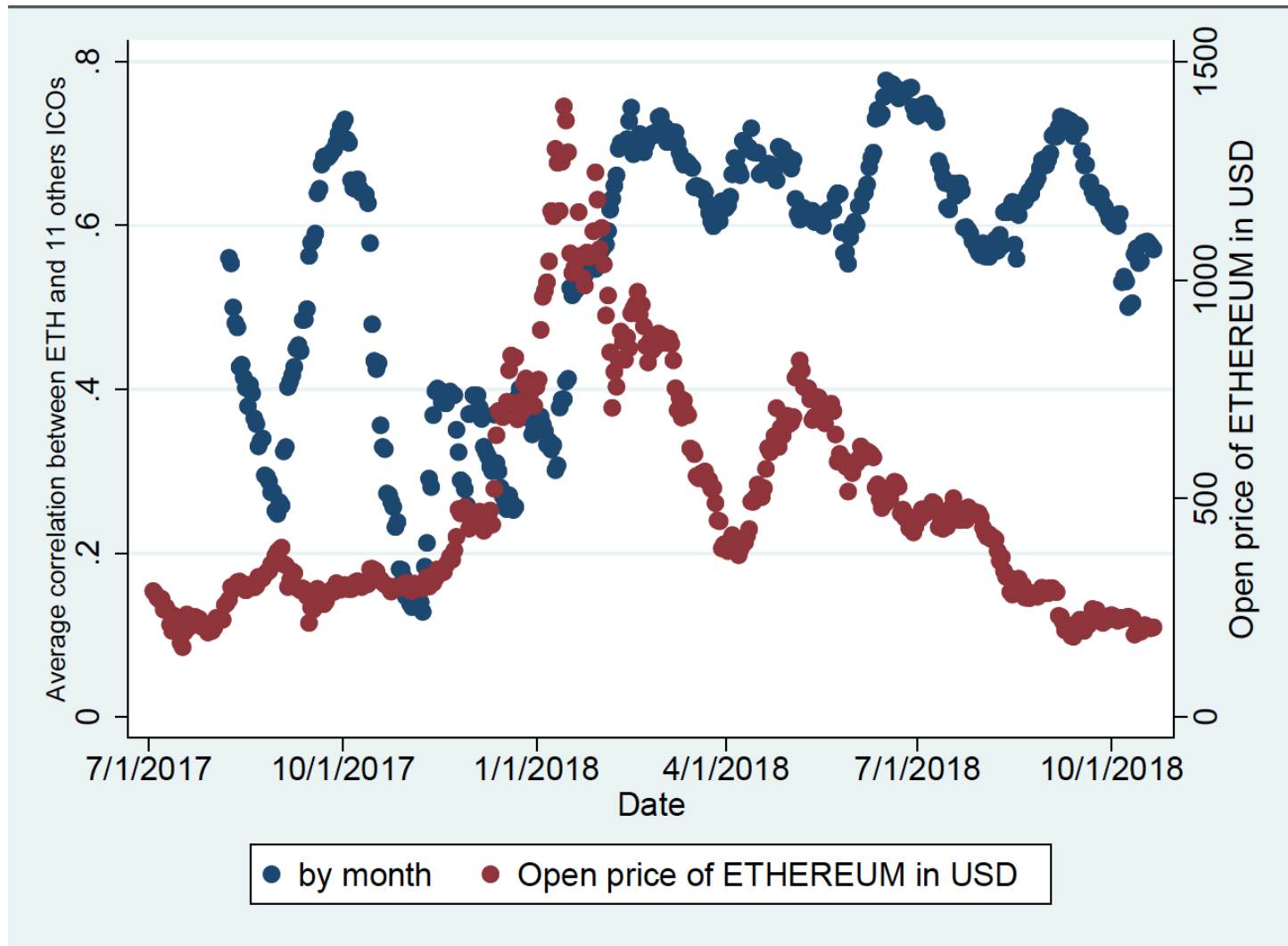
#### Secondary market

- Correlation with S&P low 0.0045 (daily return)
- Correlation with Gold low 0.061
- Correlation with Bitcoin low 0.021

### 3. The Stats

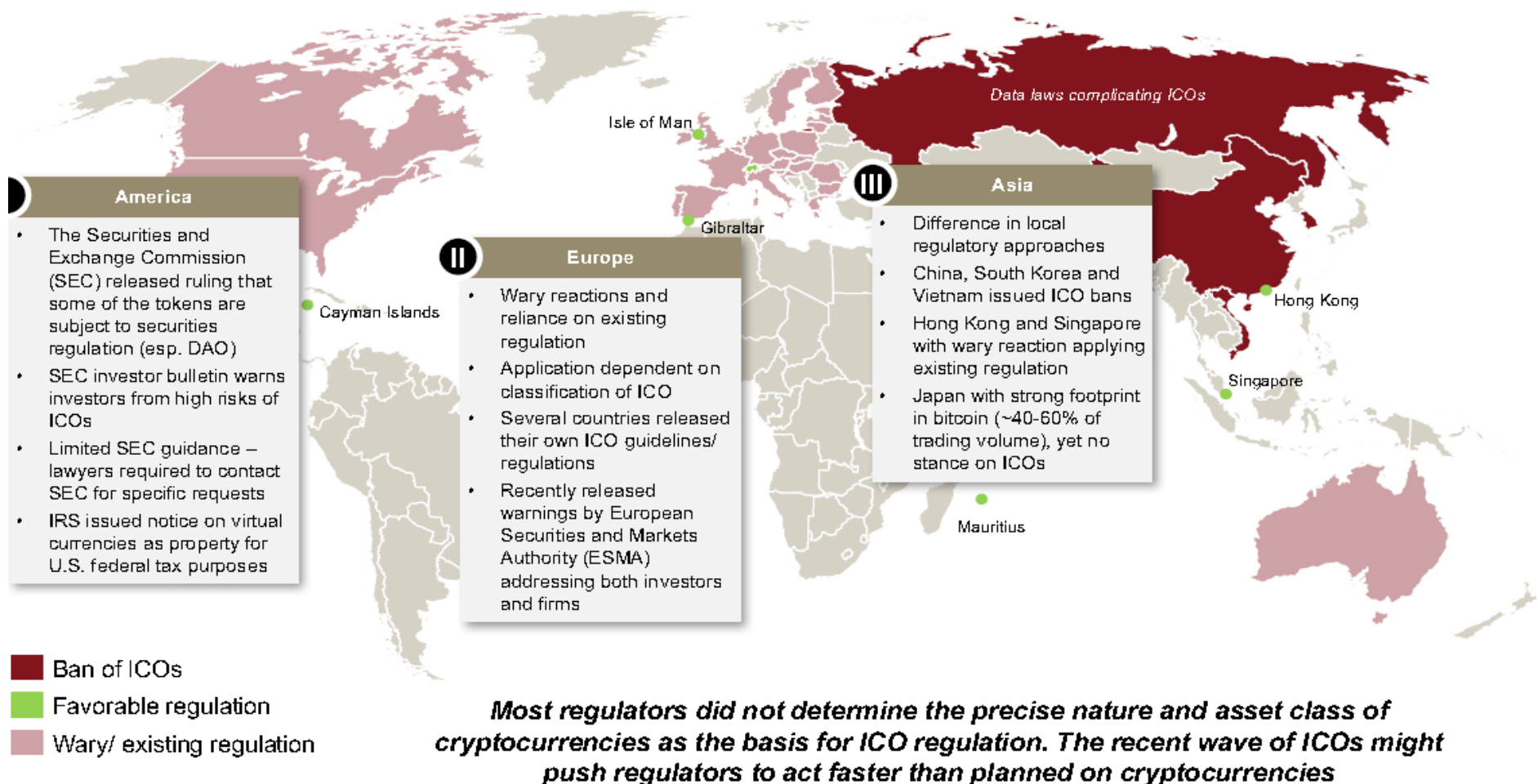


### 3. The Stats



# Globally, diverse ICO regulation is emerging – different approaches by geographies identified

## Overview emerging regulation



Source: PwC Strategy& analysis

## 4. Regulation uncertainty

### SEC statement on cryptocurrencies and ICOs (11 Dec 2017)

- Chairman Jay Clayton warns investors to put money into cryptocurrencies
- Trading cryptos and ICO activity may be in violation of federal security law
- Many platforms trading in cryptocurrencies may also be in violation of laws
- Calling a token a “utility” does not prevent token from being a security
- The disruptive potential of cryptocurrencies and blockchain is recognized

### ICO ROAD MAP



## 4. Regulation

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- On what grounds?
  - What benefits does the asset class provides (diversification, new venture financing (see point 1.)?)
  - What costs/externalities (environment, social assistance, misallocation of resources)?
- Protection of what/who?
  - Financial system stability
  - Financial center competitiveness
  - Investors protection

## 4. Regulation

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- On grounds of level playing field (Duck test)
  - Technologically neutral
  - By type of token
- Investor protection ok, but how
  - Prohibition
  - Risk tolerance/knowledge
  - Transparency

# Conclusions, what I would like to know

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1. Why token financing?
2. What are the properties?
3. Why regulate?

Research & Policy Network @ CEPR  
on Fintech and Digital Currency  
Lead by Antonio Fatas





# Thank you

# ICOs disrupt traditional VC funding – hybrid models are ‘en vogue’ as they combine smart money & crowd support

## Archetypes of fundraising

Dec 2017

	Traditional VC funding	Hybrid funding	Pure ICO funding
<b>Funding rounds &amp; collected funding</b>	<p>Relative funding amount per round</p>	<p>Relative funding amount per round</p>	<p>Relative funding amount per round</p>
<b>Funding rationale</b>	<ul style="list-style-type: none"> <li>• Receive initial funding after business plan, prototype and team validation</li> <li>• Additional funding for promising KPIs &amp; market and improved product</li> </ul>	<ul style="list-style-type: none"> <li>• Receive initial funding after business plan, prototype and team validation</li> <li>• Receive ICO funding after proofing concept and potential of idea</li> </ul>	<ul style="list-style-type: none"> <li>• Receive funding based on whitepaper, founder team and idea</li> <li>• Additional TGE (Token Generating Events) only if necessary</li> </ul>
<b>Pros &amp; cons</b>	<ul style="list-style-type: none"> <li>+ Investors cautiously validate ideas before committing funds</li> <li>+ Founders cautious with spending money</li> <li>– Founders often focused on next funding round (hinders innovation)</li> </ul>	<ul style="list-style-type: none"> <li>+ Founders get “smart money” as well as crowd support (first customer)</li> <li>+ VCs validate seriousness of business, crowd validates idea &amp; market potential</li> <li>+ Founders are free to innovate</li> </ul>	<ul style="list-style-type: none"> <li>+ Founders get crowd support</li> <li>+ Founders are free to innovate</li> <li>– Governance risks if no framework</li> <li>– Transparency risks on use of proceeds and product development</li> </ul>
<b>Initial Investors</b>	<p>Business Angels    Venture capitalists</p>	<p>Business Angels    Venture capitalists    Tech-savvy    BC/ crypto-community    Anonymous investors</p>	<p>Tech-savvy    BC/ crypto-community    Anonymous investors</p>

Note: anonymous investors only at ICOs that do not provide KYC/AML procedures (assumption: regulation will increasingly target ICOs that do not provide KYC/AML process)  
Source: PwC Strategy& analysis