Investor Bulletin: Initial Coin Offerings

On July 25, 2017, the SEC issued a Staff Statement on Initial Coin Offerings. The Staff Statement provides guidance on how to analyze and evaluate initial coin offerings (ICO), which are transactions in which virtual tokens or coins (i.e., cryptocurrencies or blockchain assets) are sold to the public in exchange for virtual currencies or fiat currencies on the basis of an initial offering or sale of the virtual tokens or coins. The announcement is designed to help investors and others assess security offerings that are structured as initial sales of virtual tokens or coins, to help ensure that they understand the nature of what they are buying and that they are not participating in fraudulent securities offers.

What is a virtual currency or virtual token or coin?

Virtual currencies are digital representations of a medium of exchange, unit of account, or store of value. Virtual tokens or coins may represent other currencies (e.g., U.S. dollars) or virtual currencies to buy these virtual coins or tokens. Promoters may tell purchasers that the capital raised from the sales will be used to fund development of a digital platform, app, or service. Promoters may also create virtual coins or tokens as a means of securing or distributing rewards, incentives, or points to users of their product and for use within their virtual platform.

Developers, businesses, and individuals increasingly are using initial coin offerings, also called ICOs or token sales, to raise capital. These activities may provide fair and lawful investment opportunities. However, unscrupulous promoters have been using ICOs to solicit investors who, in some cases, have lost money.

Who issues virtual tokens or coins?

The software, or otherwise participate in the project. Some promoters and initial sellers may lead buyers to believe that the tokens or coins will be backed by a specific asset or guaranteed to be used in a specific manner. They may also lead purchasers that the capital raised from the sales will be used to fund development of a digital platform, app, or service. Promoters may also create virtual coins or tokens as a means of securing or distributing rewards, incentives, or points to users of their product and for use within their virtual platform.

What is a blockchain?

Virtual coins or tokens are created and disseminated using distributed ledger or blockchain technology. Virtual currencies are different from virtual coins or tokens. Virtual currencies (i.e., digital currencies) are assets (i.e., tokens) that use distributed ledger or blockchain technology, but they may not be attributable to a specific project or platform.

What is a virtual organization?

A virtual organization, is an example of a virtual organization.

What is a virtual currency exchange?

A virtual currency exchange is a person or entity that exchanges virtual currency for fiat currency, funds, virtual currencies, or other virtual currencies. Virtual currency exchanges may be unregistered and operate outside the United States or be operated and owned by unregistered persons located overseas. Virtual currency exchanges may lawfully sold without registration with the SEC or pursuant to an exemption from registration.

Background – Initial Coin Offerings

Initial coin offerings, or ICOs, are transactions in which virtual tokens or coins (i.e., cryptocurrencies or blockchain assets) are sold to the public in exchange for virtual currencies or fiat currencies on the basis of an initial offering or sale of the virtual tokens or coins. The announcement is designed to help investors and others assess security offerings that are structured as initial sales of virtual tokens or coins, to help ensure that they understand the nature of what they are buying and that they are not participating in fraudulent securities offers.

Investors should consider the risks of investing in any ICO. Whether the sale is registered or not, you could lose all of your money. Fraud is a leading cause of failing internet ventures. Many ICOs are scams. The typical ICO is a Ponzi scheme that is nothing more than a Ponzi scheme.

What are the risks posed by ICOs or virtual currencies?

The SEC has observed that virtual currency exchanges and other entities holding virtual currencies, virtual tokens or coins, and related services are not subject to uniform federal regulation. The SEC has enforcement authority under the federal securities laws. However, virtual currencies and virtual currencies transactions are not subject to uniform federal regulation.

Can my virtual currency be frozen or seized by the government?

You should be aware that virtual currencies are not regulated in the same way as fiat currencies. Virtual currencies are not protected by government guarantees.

What should I look for when investing in an ICO?

You should understand before investing in virtual coins or tokens:

- The operating company
- The virtual tokens or coins
- The funding
- The technology
- The use of proceeds
- The legal structure
- The management
- The advisors

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What does it mean to invest in an ICO?

Investing in an ICO does not mean you will be the next Bill Gates or the next Elon Musk. We have seen many of the most successful ICOs fail. Many of them were scams. We have seen many companies that did not have a solid business plan or a clear product.

When will ICOs be subject to federal securities laws?

The SEC generally will not bring an enforcement action against a virtual currency exchange or other person that is not an investment or securities broker, dealer, or investment advisor, if that person does not engage in any offer or sale of an unregistered security. However, the SEC has discretion to take action against a person or entity that is not an investment or securities broker, dealer, or investment advisor, if that person does not engage in any offer or sale of an unregistered security and the SEC determines that the facts and circumstances warrant an action.

What is a virtual currency?

Virtual currencies are digital representations of a medium of exchange, unit of account, or store of value. Virtual currencies may be used to create and track transactions in bitcoin and ether, respectively. Virtual currencies are different from virtual coins or tokens. Virtual currencies (i.e., digital currencies) are assets (i.e., tokens) that use distributed ledger or blockchain technology.

How do virtual currencies differ from financial products?

Virtual currencies differ from other financial products in that they are not subject to uniform federal regulation. The SEC has enforcement authority under the federal securities laws. However, virtual currencies and virtual currencies transactions are not subject to uniform federal regulation.

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How do I know if I am being scammed?

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