

Initial Exchange Offerings (IEOs) – Investor Alert

Jan. 14, 2020

The SEC’s Office of Investor Education and Advocacy is issuing this alert to urge investors to use caution before investing in so-called “initial exchange offerings” through online trading platforms.

Initial exchange offerings (IEOs) are a recent development in the rapidly evolving digital asset space. IEOs are similar to [initial coin offerings \(ICOs\)](#) in that they are initial offerings of digital assets (e.g., coins or tokens) to raise capital. However, IEOs are being touted as an innovation on ICOs because they are offered directly by online trading platforms on behalf of companies—usually for a fee—to provide immediate trading opportunities for the digital assets. These online trading platforms, which are typically not registered with the SEC and which may improperly refer to themselves as “exchanges,” may also claim to perform due diligence or other quality assessments of the IEOs.

Be cautious if considering an investment in an IEO. Claims of new technologies and financial products, such as those associated with digital asset offerings, and claims that IEOs are vetted by trading platforms, can be used improperly to entice investors with the false promise of high returns in a new investment space. As described below, IEOs may be conducted in violation of the federal securities laws and lack many of the investor protections of registered and exempt securities offerings.

Is the IEO a securities offering?

There are important issues investors should be aware of before investing in an IEO. As in the case of ICOs, depending on the facts and circumstances of the offering, the offering may involve the offer and sale of securities. This means the IEO may be subject to [registration](#) requirements that apply to offerings under the federal securities laws. Among other things, registration means that the company offering the digital asset has to provide important disclosures about itself, its business, the digital asset offered, and the terms of the offering to investors.

Is the platform a securities exchange?

In addition, if the IEO involves securities, the [online trading platform](#) on which the IEO is being offered may need to register with the SEC separately as a national securities exchange or operate pursuant to an

exemption, such as an alternative trading system (ATS). An ATS must be a registered broker-dealer and comply with applicable requirements in order to legally operate in the United States.

The federal laws and regulations governing registered national securities exchanges and ATSs are designed to protect investors and prevent fraudulent and manipulative trading practices. Many online trading platforms may give the misimpression to investors that they are registered or meet the regulatory requirements for a national securities exchange or ATS, and therefore may lack the investor protections that a national securities exchange or an ATS provide to investors.

Is the platform a broker-dealer?

Further, the online trading platform involved in an IEO may also be acting as a *broker* or *dealer* that is required to register with the SEC and become a member of a self-regulatory organization, typically [FINRA](#). SEC-registered *broker-dealers* are subject to legal and regulatory requirements that govern their conduct and provide important safeguards for investors, including acting in a manner consistent with the SEC's customer protection standards.

Is the IEO in compliance with federal securities laws?

Noncompliance with the federal securities laws means the IEO and/or trading platform may be operating unlawfully and the investor and market protections and remedies these laws are intended to provide may be absent. You should carefully consider whether the company and the trading platform involved in the IEO has complied with federal securities laws.

It is a red flag if the IEO and its participants, including the online trading platform, do not address or discuss the applicability of the federal securities laws. The past few years have seen opportunistic fraudsters take advantage of the quickly evolving [investment space](#) around digital assets, “cryptocurrencies” and ICOs to conduct fraudulent schemes. The development of IEOs provides a similar opportunity for fraudsters. Investors should be careful.

Saying something is registered doesn't make it so. In addition, be careful if the promoter of the IEO or the digital trading platform hosting the IEO states that they are approved or registered with the SEC. ***There is no such thing as an SEC-approved IEO.*** It is common for a fraudster to make false and misleading statements or exaggerated claims about regulatory approvals and oversight to lure potential investors. It pays to independently investigate these claims for yourself.

Can I invest in an overseas IEO?

Because of the potential applicability of the federal securities laws to an IEO, many IEOs that you may learn about may be offered by offshore entities or persons. However, if the IEO is being offered to a person in the United States, such as through the website of an online trading platform that is based overseas, then the federal securities laws still may apply. ***Any offering purporting to avoid the federal securities laws because it is occurring on an overseas trading platform but otherwise allows persons from the United States to invest is a red flag.***

Further, [investing](#) in an IEO conducted on an offshore trading platform presents additional risks that you should carefully consider. Offshore trading platforms that attempt to avoid regulatory scrutiny can leave investors without important information, including information about the IEO issuer, the digital asset offered, and any arrangements between the trading platforms and IEO issuers that enable them to make informed judgments about whether to invest in an IEO.

Investors also should be mindful that they may have no effective legal remedies in U.S. courts against offshore trading platforms or IEOs issuing on the platforms. Even if investors sue successfully in a U.S. court, they may not be able to collect on a U.S. judgment against a foreign company, entity or person. Investors may have to rely on legal remedies in a foreign country. These remedies may not exist or may differ greatly from remedies available in the United States.

Additional Resources

To learn more about red flags to consider with unregistered offerings, see our [Investor Bulletin](#).

To learn more about the dangers of unregistered trading platforms, see the [Statement on Potentially Unlawful Online Platforms for Trading Digital Assets](#) and the [Statement on Digital Asset Securities Issuance and Trading](#) by the SEC's staff.

For additional investor educational information, see the SEC's website for individual investors, [Investor.gov](#).

If you are considering participating in an investment opportunity involving digital assets, see the SEC resources available at [Spotlight on Initial Coin Offerings and Digital Assets](#).

The Office of Investor Education and Advocacy has provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.

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