



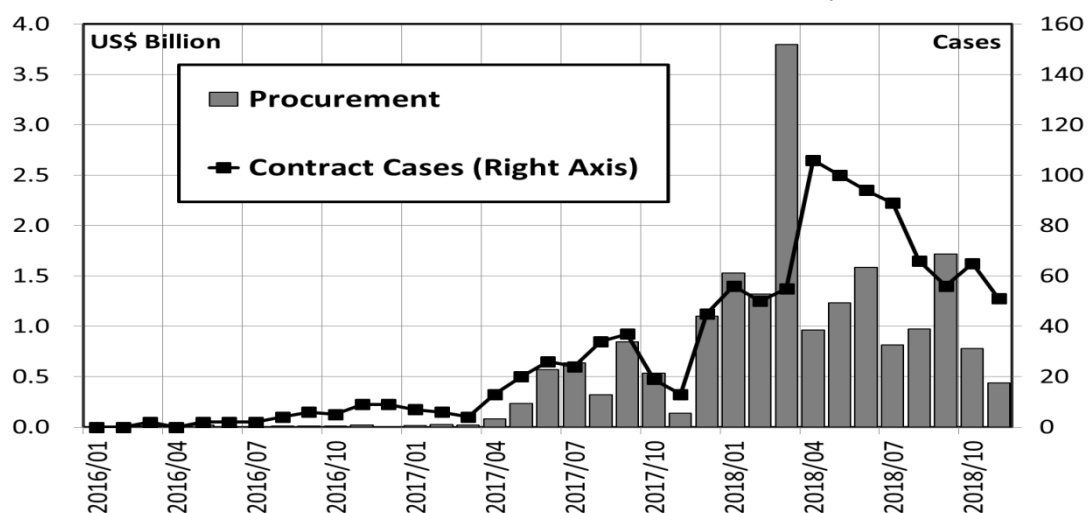
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## A Sudden Brake on the ICO Procurement

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ICO (Initial Coin Offering) attracted attention of SMEs and unlisted companies all over the world in 2017 as a means for a short-term finance that has no involvement of third parties such as financial institutions. But since this summer, both the number of contracts and the amount of funds are decreasing. According to the data of Coinschedule Ltd. (UK), the amount of funds raised by means of ICO amounted to about 440 million dollars in November 2018, which was the lowest level in a year.

【Chart 1】 Number of Contracts and Funds Raised by ICO



(Source) Coinschedule

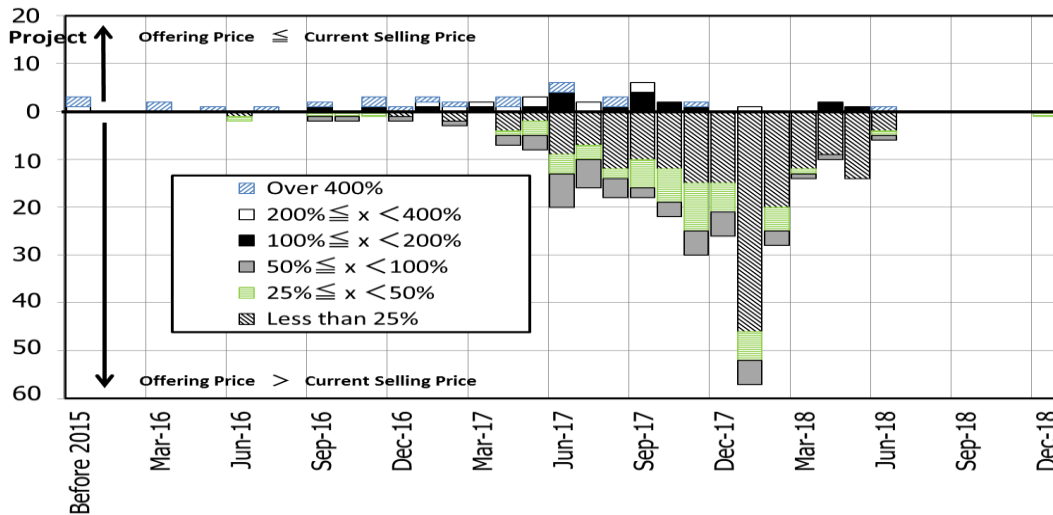
The decrease can be explained by the progress of investors' separation as many projects had not progressed as planned or the investors were frustrated with the uncertainty of their project management and/or rampant fraud. According to a report on ICO which was issued by Ernst & Young in October 2018<sup>1</sup>, 71% (61 projects) out of 86 projects of which progress can be confirmed on the homepage etc. found to have no development after the funding. As a result, it reported that the token price of 86% (132 projects) out of 141 projects that were funded by ICO

<sup>1</sup> EY study : Initial Coin Offerings (ICOs) "The Class of 2017 – one year later" (October 19, 2018).

in 2017 fell below the offering price, of which 30% (43 projects) were worth almost zero.

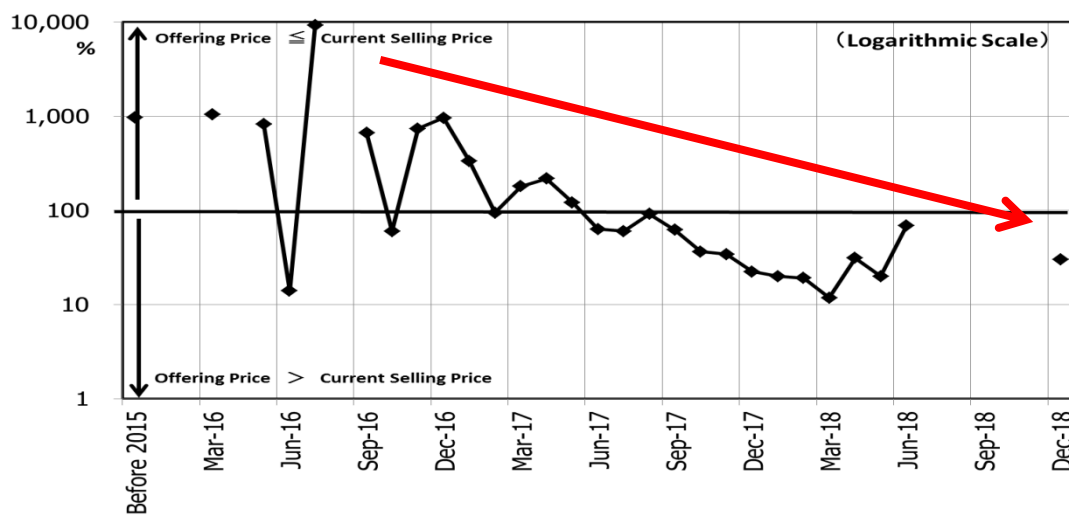
Actually, the latest data published by the research site TokenData<sup>2</sup> also supports that fact. Of the 359 tokens of ICO's tokens with sales price as of December 10th, only about 15% (52 tokens) of the total had a return of 100% or more (the current selling price above the offering price). While about 54% of the total (195 tokens) had returns of less than 25%, and about 30% of the total (113 tokens) less than 10%. In addition, ICO's average return (weighted average by procured amount) has tended to decline as the procurement date is closer to present.

【Chart 2】 Return of each ICO (By Procurement Year / Month, As of December 10<sup>th</sup>, 2018)



(Source) TokenData

【Chart 3】 Average Return of ICO (By Procurement Year / Month, As of December 10<sup>th</sup>, 2018)



(Source) TokenData

In addition, while national regulatory agencies are discussing ICO regulations, uncertainty over whether ICO will be legally accepted or not as a means of raising funds in the future is

<sup>2</sup> Refer to <https://www.tokendata.io/advanced>.

causing the sluggish investment<sup>3</sup>.

Recently, financial instruments such as "IEO (Initial Exchange Offering)" on which virtual currency exchanges intervene in the sales/transactions of tokens, and "STO (Security Token Offering)" whose tokens are issued under the supervision of national regulatory authorities, have been born instead of ICO. However, none of them have spread as broadly as ICO as they sacrifice ICO's best advantages like "low-cost financing", "prompt procurement", etc.

【Chart 4】 Pros/Cons of IEO and STO

	IEO (Initial Exchange Offering)	STO (Security Token Offering)
Pros	<p>(1) As a result of examinations and investigations of the token by the exchange, fraudulent deals will be expected to decline.</p> <p>(2) The seller can prevent money laundering in advance by selling the token to a user who opened his account at the exchange after completion of KYC.</p> <p>(3) It is possible to reduce the risk of running-off wiith funds by the issuer.</p>	<p>(1) It can be issued legally under the existing "Law on Sales of Financial Products". (It is possible to remove legally "gray" parts of ICO)</p>
Cons	<p>(1) There is an increased cost or examination and investigation of the token by the exchange.</p> <p>(2) It is necessary to establish in advance a uniform and unified policy in order to enhance the transparency of the examination / investigation method for each exchange.</p>	<p>(1) The procedural and management costs increase as it is necessary to comply with the existing "Law on Sales of Financial Products".</p> <p>(2) It will make it hard to procure funds quickly.</p>

(Source) Various reports

Against this backdrop, the "T20 (Think 20) Japan 2019"<sup>4</sup> Inception Conference was held in Tokyo on December 4th and 5th. And, "An International Financial Architecture for Stability and Development / Cryptocurrency and Fintech" was set up as one of the 10 task forces organized for suggesting various measures to the "G20 Summit Meeting" which will be held in Osaka (Japan) on June 28th and 29th, 2019. Since there is a possibility that a basic framework concerning regulations of ICO and the like will be considered and discussed in the task force in the coming days, financing through ICO and similar methods will remain sluggish at least until mid-2019.

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<sup>3</sup> In Japan as well, intensive discussions were held on ICO regulation at the meeting of "Study Group on Virtual Currency Exchange Industry (11th)" at the Financial Services Agency (FSA) on December 14<sup>th</sup>. At the meeting, certain direction had been made by the participants about ICO regulation, and the legislation will be done in the future. For the minutes and documents, please refer to <https://www.fsa.go.jp/news/30/singi/kasoukenkyuukai.html> (Japanese Language only).

<sup>4</sup> T20 is positioned as an "idea bank" of G20, and it is composed of experts from think-tanks of G20 countries. There, policy issues related to the main themes of the G20 summit will be discussed and recommendations will be submitted to G20. The president country in 2019 is Japan. For details, please refer to <https://t20japan.org/>.