INITIAL COIN OFFERINGS

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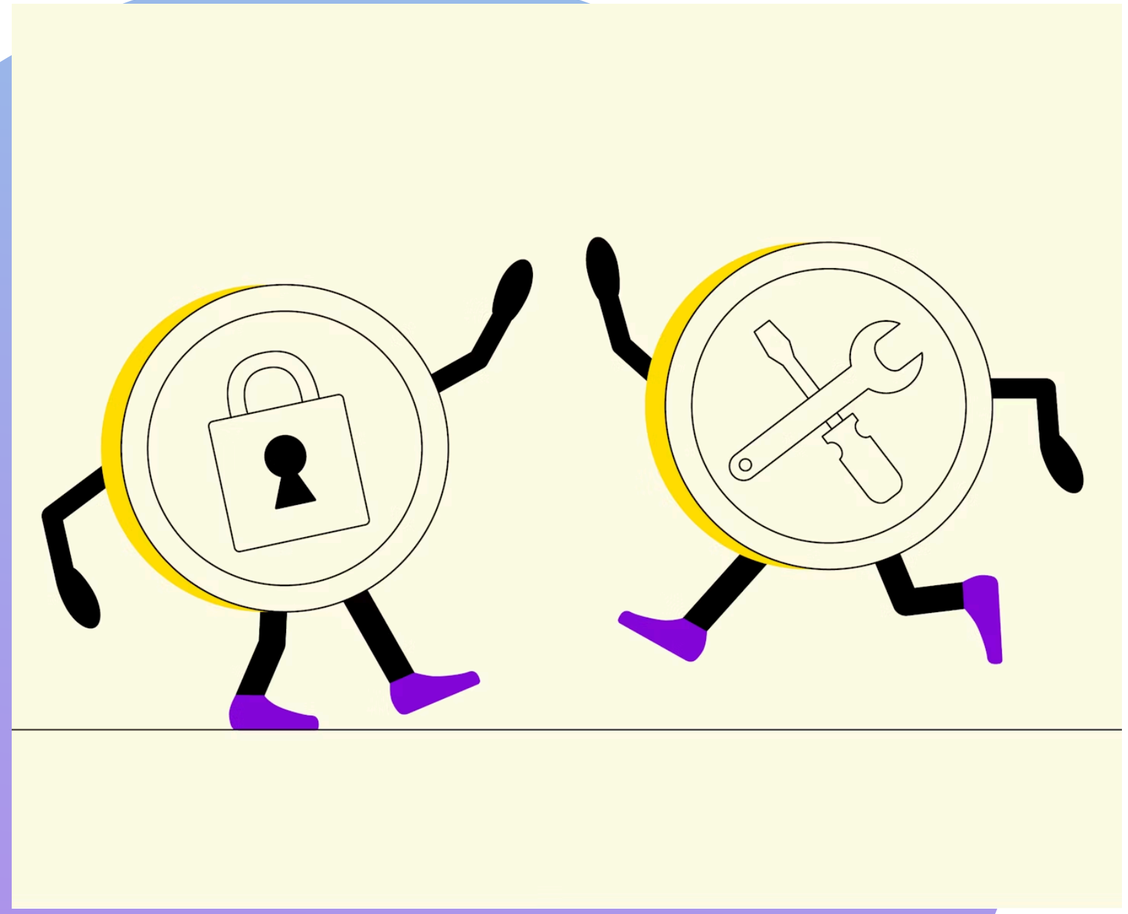
WHAT ARE ICOS ?

- An Initial Coin Offering (ICO) is a fundraising method used in the cryptocurrency sector, similar to an Initial Public Offering (IPO) in traditional finance.
- Companies aiming to gather resources for the creation of a new coin, application, or service can launch an ICO.
- Participants interested in the project can acquire tokens during the ICO and receive a new cryptocurrency token issued by the company.
- This token may have utility related to the product or service the company provides or represent a stake in the company or project.

HOW DO ICOS WORK?



- Through the ICO fundraising model, startups can raise capital by issuing tokens on a blockchain (a list of records secured using cryptography) and then distributing tokens in exchange for a financial contribution.

- These tokens, which can be transferred across the network and traded on cryptocurrency exchanges, can serve an array of different functions, from granting the holder access to a particular service, to entitling them to company dividends.

	ICO	IPO
STAGE	The project is in the early stages, even before product development.	Company has a track record and plans to expand further.
Regulation	Gray regulatory area, owing to the decentralized nature of blockchain technology.	Heavily regulated by financial authorities
Listing Requirements	Absence of prerequisites.	Companies must fulfill stringent requirements
Beneficiaries	Directly connect project creators with investors.	Multiple intermediaries like underwriters and brokers

UTILITY TOKENS

- Also known as “user tokens”
- Provide future access to a business’s product or service.
- ICO startups raise capital for blockchain projects in exchange for future access to services.
- Not intended as standard investments in company shares.
- Structured to avoid securities laws.
- Function like digital coupons for services in development.

SECURITY TOKENS

- Tokens derive value from an external, tradable asset or increase in value based on others' efforts.
- Classified as security tokens, making them subject to federal securities regulations.
- Non-compliance with regulations can result in costly penalties and project disruption.
- Security tokens can represent shares of company stock and offer a range of applications.

ICO REGULATIONS

- ICO regulations vary significantly across jurisdictions.
- Some countries, like China and South Korea, have banned ICOs entirely.
- Others, like Switzerland and Singapore, offer clear regulatory frameworks for ICOs.
- SEC in the U.S. regulates security tokens under federal securities laws.
- Lack of regulation makes due diligence harder for investors.
- However, many countries, including India, are developing more sophisticated frameworks to ensure investor protection.

ICO MARKET

- ICOs have raised billions of dollars globally, fueling blockchain-based projects.
- 2017-2018 saw a major boom, with ICOs raising over $5 billion in 2017 alone.
- The market has slowed due to regulatory scrutiny and market volatility.
- Popular ICO projects include Ethereum, Filecoin, and EOS.
- ICOs primarily attract tech startups and blockchain projects.
- Shift towards Security Token Offerings (STOs) and Initial Exchange Offerings (IEOs) as alternatives.
- Investor interest fluctuates due to the volatile cryptocurrency market.
- ICO success often depends on a project's whitepaper, team credibility, and market demand.

CONCERNS AND CRITICISMS

- Lack of regulation can lead to fraudulent ICOs and scams.
- High potential for market volatility and speculation.
- Investors may face difficulty in conducting proper due diligence.
- Token value can be inflated without tangible assets backing the project.
- Regulatory authorities are still catching up with ICO developments.
- Risk of loss of funds due to hacks or security breaches.
- Unsophisticated investors may not fully understand the risks involved.

REFERENCES :

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- Understanding initial coin offerings - European Parliament

THANK YOU