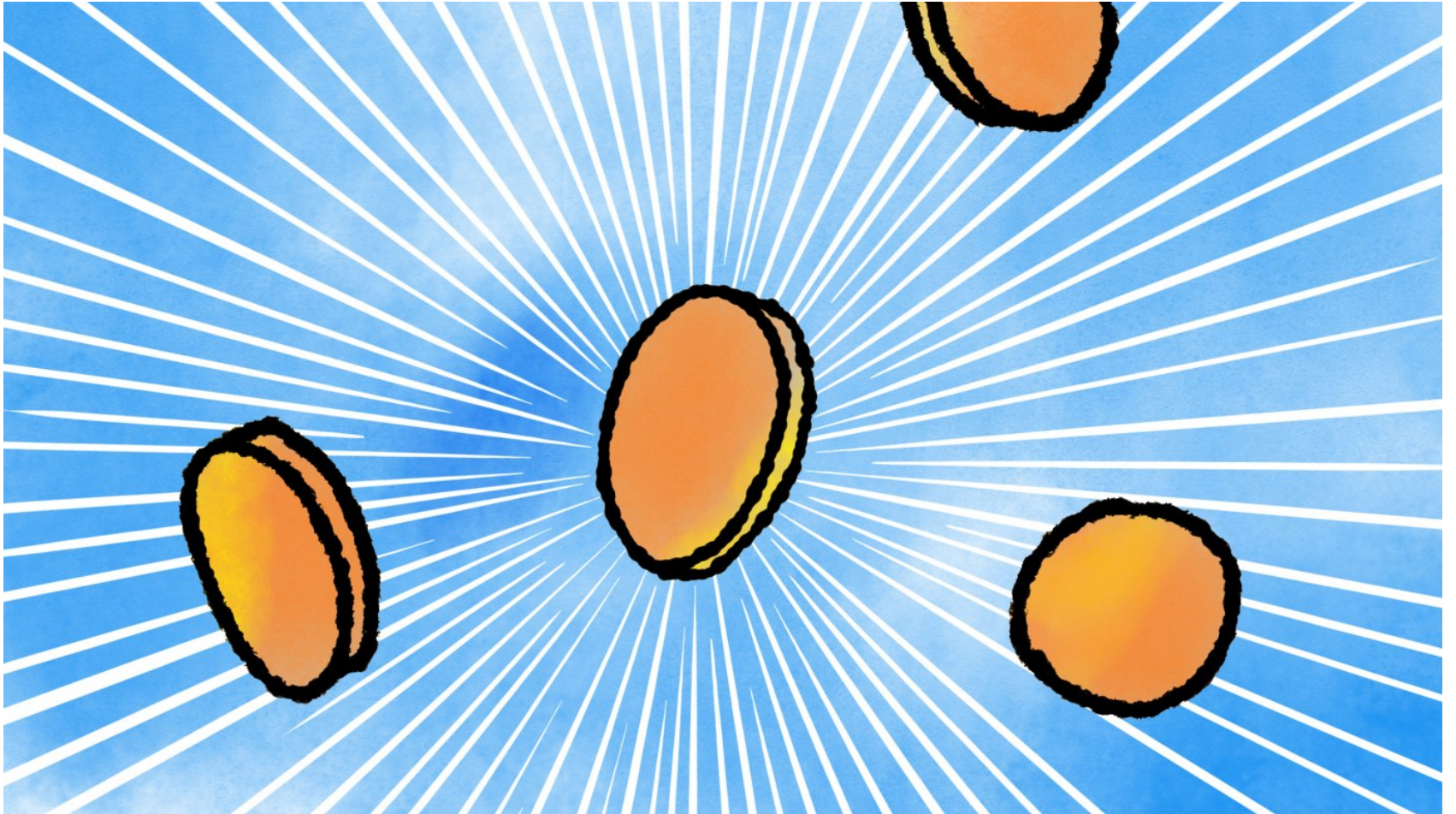


# WTF is an ICO?

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**It wasn't very** long ago that bitcoin felt nascent, laughable and small. In the ensuing years, bitcoin has matured, become far less risible and grown massively.

Underscoring bitcoin's maturation, the currency [set new price records this week](#) as the value of a single coin crossed the \$2,000 threshold. Since bitcoin was announced in 2009, and certainly since I [first wrote about it in 2013](#), the ecosystem of cryptocurrencies has exploded.

Cryptocurrencies have expanded since the days bitcoin shared some of the media's spotlight with litecoin and the [silly-by-design dogecoin](#). It was a time when [Mt. Gox ruled](#), cupcake shops could [become media darlings](#) by accepting the digital currency and pizza was a [critical bitcoin-pricing metric](#).

Now, there are [dozens of cryptocurrencies worth eight figures](#), and the birth pace of new entrants is accelerating.

In that particular milieu of freshly launched coins is a newly famous transaction type we need to understand called the “Initial Coin Offering” or ICO. An ICO is akin to an IPO, but in temporal reverse (sort of). Although confusing, it has recently acquired prominence as a favored way to launch a new cryptocurrency.

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But as is typical of nascent cryptoproducts, there are legal questions and unethical players in the mix. So let's explore what an ICO is in the current cryptocurrency market.

## ICO basics

An ICO is a fundraising tool that trades future cryptocurrencies in exchange for cryptocurrencies of immediate, liquid value. You give the ICO bitcoin or ethereum, and you get some of Billy's New Super Great Coin or [the infamous CrunchCoin](#).

The *Financial Times* [calls ICOs](#) “unregulated issuances of cryptocurrencies where investors can raise money in bitcoin or other [cryptocurrencies],” which is accurate, especially if you underline the word “unregulated.” We'll get to that in a moment.

Sticking close to the older financial publications, *The Economist* also took a look at the financing mechanism, [describing what you buy in an ICO in the following fashion](#):

ICO “coins” are essentially digital coupons, tokens issued on an indelible distributed ledger, or blockchain, of the kind that underpins bitcoin, a crypto-currency. That means they can easily be traded, although unlike shares they do not confer ownership rights. [...]  
Investors hope that successful projects will cause tokens' value to rise.

The referenced value increase is critical to understanding the appeal of ICOs. These are not transactions of love. They are investments made in hopes of quick, strong returns.

Notably, not all ICOs are for cryptos that will maintain their own blockchain. According to [the crypto-focused Smith + Crown research group](#), some ICOs are actually “launching ‘meta-tokens’ built on Ethereum, Bitcoin, NXT or others.”

After all, why not.

So ICOs can be coins on top of coins funded by the transfer of other cryptos to accounts in the hunt for what’s next. That might sound crazy, but it’s hot times in the crypto world.

And that heat is keeping ICOs bubbling. The same *Economist* piece, published in April of 2017, notes: “[n]early \$250m has already been invested in [ICOs], of which \$107m alone has flowed in this year,” a metric that it attributes to the aforementioned Smith + Crown.

That is a lot of money, making ICOs large in terms of their sheer dollar-scale. It’s therefore not hard to understand why more traditional business publications are paying attention. Following the money is their jam.

In short: ICOs are the new funding slingshot by which nascent cryptos are flung into the world.

## **Thieves, lies and laws**

As with any boom, there are bad actors to be found in the land of ICOs. Given bitcoin and the larger cryptocurrency world’s [deep tradition of enduring bad behavior](#), it is not a surprise that ICOs are attracting humans of base intent.

ICO fraud and skullduggery is common enough that a quick search yields heart-melting headlines like “[Ver Backed Qtum Founder Ran Previous ICO Scam](#),” “[To everyone that bought into the Matchpool ICO, it looks like it was maybe a scam...](#),” and “[A Digital Currency Scam is Misusing the Rothschild Family Name](#).” All of the articles are from this year to date.

In the world of ICOs, fraud is never hard to find. Add in regular sums of



incompetence that any new venture could fall prey to, and ICOs feel a bit Old West.

## Laws

But what about regulation, you reasonably protest. Surely that must exist to protect consumers?

Returning to [Smith + Crown](#), skirting usual rules concerning fundraising is nearly normal in the realm of ICOs — at least partially explaining why guard rails in crypto offerings may remain a homegrown affair:

Most ICOs today are marketed as ‘software presale tokens’ akin to giving early access to an online game to early supporters. In order to try to avoid legal requirements that come with any form of a security sale, many ICOs today use language such as ‘crowdsale’ or ‘donation’ instead of ICOs.

So regulation is out of the mix for now.

There is an argument to be made that a dearth of regulatory oversight is actually good, as it allows the ICO market to iterate and innovate quickly. It is a reasonable(ish) argument and likely technically correct, but that doesn’t mitigate the potential for unsophisticated investors to be preyed upon.

*Caveat emptor* and *moral hazard* are fine arguments in favor of no rules regarding ICOs and cryptos, but if the market wants to keep growing, it will need to do more to attract consistently larger pools of capital.

## Bubble me this

Is there a chance that ICOs will slow? Of course, but the forces behind them run a bit deeper than we might have first guessed.

*CryptoHustle* [makes the related point in a recent article that](#) “ICO mania is likely due to early Ethereum adopters making serious returns after the last

bull run.” Ethereum’s run [has certainly been staggering](#). If it is fueling the ICO craze, we could be in for a long cycle.

Regardless, the point doesn’t mean that cryptomarkets are as they *should* be. That ICOs would eventually get ahead of themselves and bubble like so many young technology niches was predicted [at least since last October](#). How long the good times will last isn’t obvious. But the correction will come, as always, and when it does, we’ll see which cryptos have a real shot.

## **Take this away**

The cryptocurrency market is hot once again. And while it continues to set new records, a host of altcoins will demand its slice of the market.

Should you buy into an ICO? Only if you have a massive appetite for risk, zero fear of losing your capital and are willing to take a flying chance on an idea that could flop.

Then again, crowdfunding has similar risks and seems perfectly healthy. Your call.