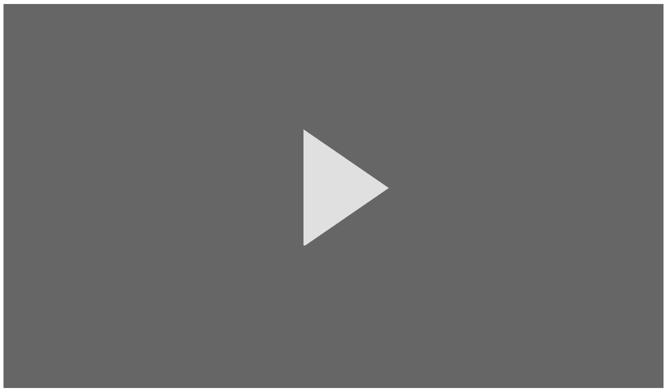
ICO predictions for 2018: Big changes for utility tokens

by HOWARD MARKS — 17 hours ago in CONTRIBUTORS

2017 was quite a banner year for the ICO marketplace with over $6.4 billion in crypto invested in hundreds of ICOs. Some investors thought the world had gone crazy, others were saying it was just the beginning. Will ICOs announce the end of Venture Capital as we know it?

Clearly 2017 was performative, however, the year was not without some serious flaws in the ICO economy. Remember Tezos, the famous uncapped ICO which raised over $200M when Bitcoin was $2,500? Today, it's dead in the water with lawsuits and disputes between founders, trustees of the foundation, and plaintiff lawyers representing unhappy investors.



So what will 2018 look like? I am predicting dramatic changes that will help the ICO marketplace grow into a healthy and trustworthy financial opportunity for investors.

The SEC strikes back

Last year, Jay Clayton, the chairman of the SEC, shot warnings to the ICO marketplace with an open letter. This was a rare, if not unprecedented, move from a very powerful bureaucrat. In summary, Clayton said he loved the idea of innovation, but he rejected any notion that ICOs can be viewed as non-investments escaping regulation.

He warned the participants including lawyers, accountants, and promoters. Yet despite the warning, no one really listened, and the party went on. Hundreds of ICOs continued to be portrayed as purchases of service in the form of utility tokens.

Today, much has changed. The SEC has stated that virtually all token assets are securities and issued subpoenas to ICOs for the unregulated sale of securities in the form of 'utility tokens.' The token market has taken a bearish turn, but even the changing climate is not stopping companies from launching ICOs. Lawyers are finally advising their clients to stay away from utility tokens, at least in the United States, but we are seeing more companies using SAFT, a Simple Agreement for Future Tokens, as the go-to sale of securities.

What is a SAFT?

A SAFT is simple: a company wants to issue a utility token, a token that can be used on their platform in exchange for services (think Chuck E. Cheese tokens, but in a digital form). However, the platform isn't built yet or perhaps the services aren't available. Regardless, the *utility tokens have no utility* at present.

Instead, companies offer a different token that has only one purpose: to be traded on exchanges, allowing the company to maintain liquidity, which is more appealing to investors. These tokens will later be swapped for the promised utility tokens when the company is able to deliver them. These companies hope SAFT will tame the SEC beast and provide safe cover for their ICO. They may be right, but a few complications are being created with SAFT's structure.

The problems with SAFT

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Yes, the sale of a SAFT to investors is a security, but what about the token delivered in the future? Is this a security or a utility token? This distinction is quite important because it will determine the appetite of the investors.

If the delivery is a security token, then all of the unregulated exchanges will not trade it. This means no liquidity and death for the company unable to raise any capital. We are seeing ICOs telling investors they should rest assured because the end product is a utility token, and the lawyers are behind this analysis. However, with the SEC saying that all tokens are securities, this seems an unlikely outcome and begs the question of why use a SAFT at all?

Add to this some other issues: The sales the SAFT generates could lead to taxation if the end product is a utility token because this is then revenue. Good news: the corporate tax rate is only 21 percent of all profits as of 2018. However, we are seeing companies incorporated in the Cayman Islands in order to avoid paying that tax. Imagine that. A US-based team, a US-based subsidiary, and yet the company is based in the Cayman Islands and under its jurisdiction or lack thereof.

Why are companies so determined to make their structure so complicated? Last year, the flavor was to create a foundation in Zug Switzerland. That ship has sailed. This year, everyone is moving to Puerto Rico and building their companies in the Cayman Islands. There must be a better way to do it.

Moving on from SAFT

I believe 2018 will see new innovation in the ICO structuring space. The SAFT was the de facto and very popular structure offered to investors. It includes a one year lock and no ability to trade until the token is delivered, and investors are voting in agreement with their cryptocurrency. The SAFT is a step in the right direction, but it comes with several issues, including taxation and an unclear designation of the token itself. If the end result is a security token, there is no reason to use a SAFT.

However, there are new structures being introduced to ICOs this year, including the RATE, a Real Agreement for Tokens and Equity. RATE is a combination of an equity raise, where a company sells shares to its investors, and a token offering, but the utility tokens are offered as perks. This structure has advantages for both the company and the investor.

Companies are not taxed on the investment received, and investors get equity, which is a real advantage when the company is eventually sold or goes public. Investors who only receive utility or securities tokens in a company won't get anything if the company is sold, pays dividends, or goes public. Investors may not care about this, but most of the wealth in our country has been generated through equity and not purchasing services.

This may be a small detail, but it matters, especially if the company in question ends up creating multiple blockchain solutions or does several token offerings. The RATE structure can manage how the equity is offered and how many tokens each shareholders ends up getting.

Similar to existing ICOs, the RATE can offer early investor discounts or bonuses. The main disadvantage is this: dilution. The owners of the company will be diluted by the number of shares they have issued. Welcome to the greedy capitalist club.

I remember when I raised capital for Activision, I sold shares and got diluted. What's the big deal? Owning a smaller piece of a big

Another option to avoid dilution is to issue non convertible preferred stock, which pays a revenue share. This is how tZERO structured their ICO. In this case, there is no dilution unless the company elects to convert it at a later date.

How the public can participate

As the security token economy grows, 2018 will usher RATE to the forefront as the utility-focused SAFT declines. So how will the ordinary investor participate in this feeding frenzy of the riches as the ICO marketplace continues to grow? It turns out the JOBS Act, signed into law in 2012, has two regulations which will help: Regulation Crowdfunding, allowing companies to raise up to $1.07 million, and Regulation A+, which increases that limit to $50 million.

ICOs can use the first regulation for the pre-sale, and the second one for the general sale. In both cases, anyone can be an investor as these regulations are not limited to accredited investors. With this structure, say goodbye to Cayman Islands companies and say hello to good old American corporations and real protections for investors.

The future will be regulated

My final prediction is the most disturbing one: the death of the unregulated exchange. Many people do not know that in order to sell securities, the company organizing the marketplace must be an exchange or a broker-dealer. Only 20 or so exchanges exist in the United States compared to 3,000+ broker-dealers. The broker-dealer can use an ATS, an Alternative Trading System, sometimes called Dark Pools, to trade securities.

The SEC has already enforced actions against ICOs but so far has only gone after one defunct exchange, Bitfunder. In 2018, the SEC will take action against more exchanges and require them to register or become broker-dealers. Japan did it, and other countries are gearing up to do the same. This change will mean investors will be under more scrutiny, and scammers will be in deep trouble. Introducing regulation with exchanges means investors are no longer anonymous, and those who cheat will have to accept the consequences with regulatory sanctions and civil lawsuits.

In 2017, celebrities such as Mark Cuban and Floyd Mayweather promoted ICOs. Many took tokens as commissions based on the amount raised. This is a clear violation of securities laws as outlined by Jay Clayton. Hey, who cared? The party was only getting better, and of course celebrities who can influence millions needed their piece of the pie. In 2018, lawyers representing celebrities are going to gag them. We will hear no more from them on ICOs.

2017 was a great year for ICOs, and 2018 will be even bigger with Telegram having the biggest ICO to date with $1.7 billion raised, all in cash. Yes, real USD. Together, Satoshi and Jay are going to make sure the party goes on while keeping thugs and scammers outside.

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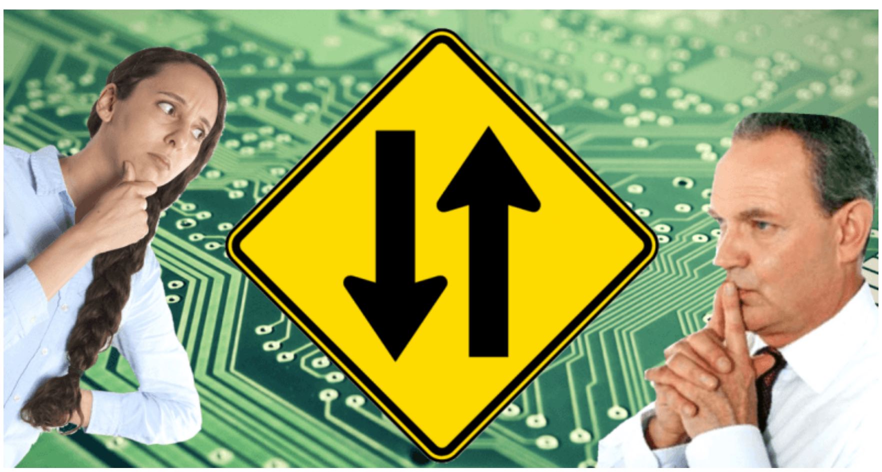

The first time I crossed paths with the person that would eventually become one of my favorite mentors, I wasn't exactly jumping for joy.

It was 2012, and I met Richard Hopkins while we were both working for Deloitte. We were both assigned to this massive project that required us to fly in and out of a remote location, and I vividly recall sifting through pictures of my new teammates. I came across Richard's photo and immediately thought: "I don't

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like this guy. I don't want to work with him."

I quickly learned not to judge a book by its cover, as Richard and I became close friends. Thankfully, Richard has helped me analyze and navigate difficult career decisions by providing the sort of mentorship many people in the tech world struggle to find.

Tech professionals need mentors who have their best interests at heart, lending them the wisdom of experience and giving them a head start in various endeavors.

Newcomers to the tech world often ask me how to find a mentor, but the question itself is too broad: There isn't a well-defined approach to mentorship in the tech industry, and what works for one person isn't necessarily right for everyone else.

Mentorships should be mutually beneficial

Mentors can play as large or as small a role in your career as you want, but a mentor who's invested in your success can lend a different perspective to challenges, motivate you when you've plateaued, and even help you tune out unnecessary distractions to regain focus on what truly matters.

One of the biggest reasons my relationship with Richard has been so beneficial is that we bring complementary skill sets to the table while still sharing core values and personality traits. We worked together to build a foundation of mutual respect, agreeing to prioritize sincerity over all else. We try to find the best way possible to address even the most uncomfortable situations — particularly when we believe it will positively affect the other person.

When people look for a mentor, they typically try to find someone who can offer advice regarding a particular career hurdle instead of looking for someone who can be supportive personally as well as professionally. Richard and I definitely discuss our careers, but our friendship goes far beyond the working world. His advice has been incredibly helpful in good times and bad.

I wish there were an easy way to steer people toward their ideal mentor, but life doesn't always work that way. I've been lucky enough to find the right mentors at the right stages of my career. Your path to finding a similar mentor will not be the same, and that's fine. Just remember that you never know where or when you'll meet the perfect candidate.

An open mind is key to finding your dream mentor

There's no one-size-fits-all approach to finding a mentor in the tech world, but patience and an open mind eventually yield results. The most important element of a successful mentorship is finding someone with whom you can establish a sustainable two-way connection.

Start by imagining your ideal mentor. Whether it's a vague list of descriptors or a precise job title and qualifications, think carefully about what you'd like in an advisor. Work history and career path are important, but you also want to factor life experience into the equation. Think long and hard about what you want to get out of

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the partnership because you're going to spend a lot of time together. You need to find someone whose company you enjoy and, most importantly, whose advice you trust.

Once you have a rough idea of your dream mentor, be on the lookout for individuals who fit the description. Try to engage in new activities and start conversations with people you typically might not speak with. For example, attend local networking events or join groups of like-minded individuals on a social networking site like Meetup. You could also browse online networks dedicated to pairing mentors with mentees, including the aptly named Find a Mentor.

You might be surprised by where you connect with potential mentors. I met Richard through work, but if you actively engage with the people around you, you can find intelligent and accomplished individuals in even the most unexpected places.

When you reach out to someone who you think might be a good fit, try to be as direct as possible. I'm not surprised when a person feels the need to "beat around the bush" and avoid asking someone to be his or her mentor, but it's best to start things off with complete transparency — this sets the tone for the rest of the relationship. German researchers found that transparency plays a key role in the success of business relationships. Being clear about your intentions works wonders while ensuring both parties are on the same page.

Remember to not go into the situation thinking solely about what you stand to gain. It's important to consider what you can offer your prospective mentor. All relationships — personal and professional — should be a two-way street. Both parties are investing time, which is arguably anyone's most valuable asset. By ensuring your mentor also gets something out of the partnership, you're building the foundation for a lasting union.

Above all else, try to be patient as you search for your ideal mentor. You won't always find the perfect person right away. You might also initially overlook wonderful people who end up making a profound impact on you or your business. Trust the process, and be open to all opportunities.

Finally, remember that you can't force a fruitful mentorship. It typically involves a significant time investment from both parties, so find someone who is willing to be as involved as you are and who cares just as much as you do. In other words, don't ask a random person to advise you solely because you think it will benefit your career. It requires plenty of trust, but the benefits of a meaningful and mutually beneficial partnership far outweigh the effort necessary to find a solid mentor.

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