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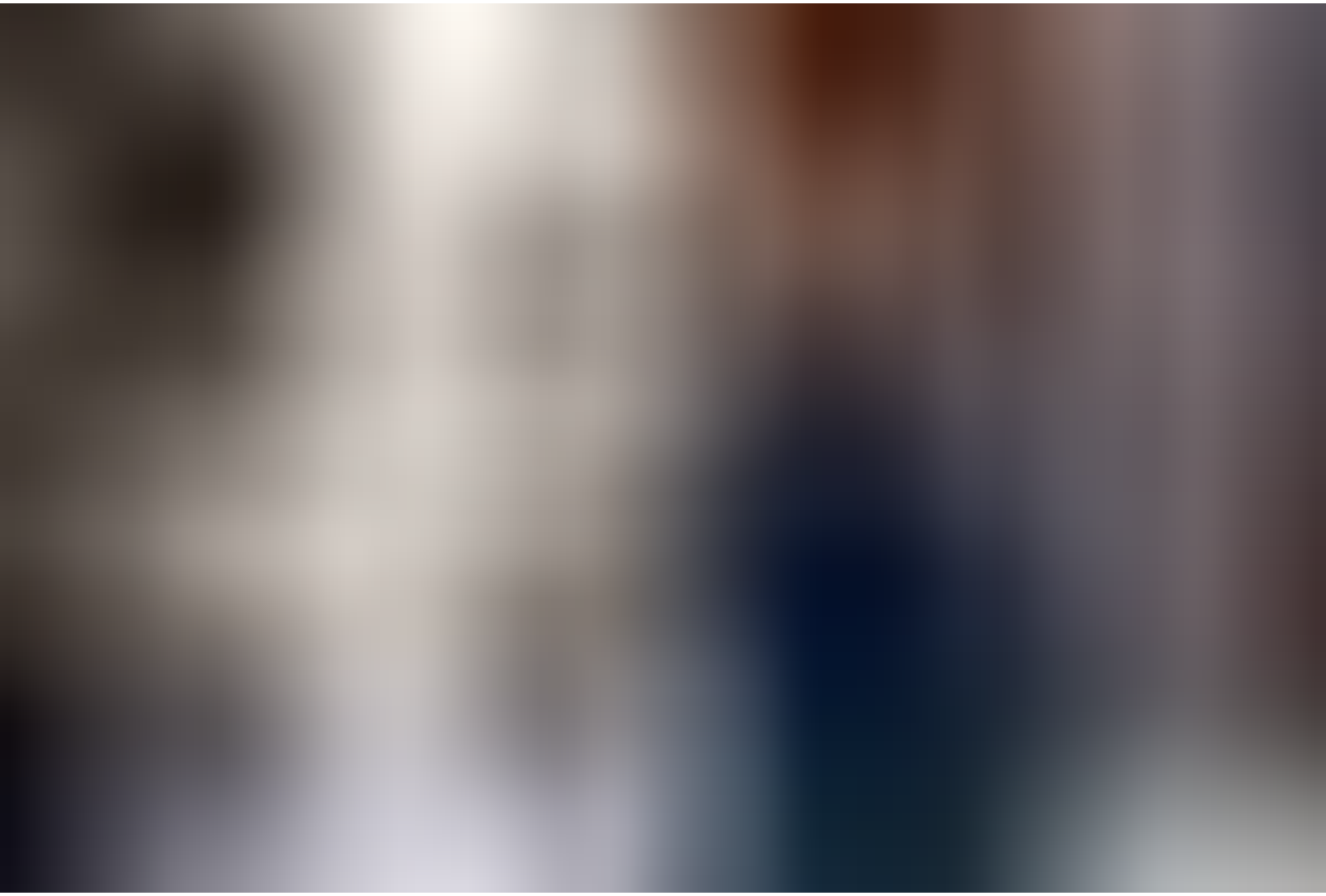
Indiegogo Goes Where Few Companies Dare: Into Initial Coin Offerings

I.C.O.s have been big this year, but few established names have touched them. Indiegogo, the crowdfunding site, is looking to change that.



Slava Rubin, one of Indiegogo’s founders, at the crowdfunding site’s offices in New York, Dec. 4, 2017 — Roger Kisby/The New York Times

By Nathaniel Popper

Indiegogo helped take crowdfunding mainstream. Now the company is hoping it can do the same for initial coin offerings, the popular but unregulated practice of selling custom virtual currencies to raise money for software projects.

Indiegogo started a new service Tuesday to vet coin offerings, also known as ICOs, and then help sell them to small and large investors.

The first project to use the service, a startup known as the Fan-Controlled Football League, will begin raising $5 million on Indiegogo this week. The startup aims to use the money to create a league of football teams that will be guided by people who buy the league's coins (a crazy-sounding idea that has already been tested).

"We want to bring a brand of trust to the entire industry, which we think will bring ICOs to the mainstream," said Slava Rubin, one of the founders of Indiegogo.

Smaller crowdfunding platforms like Republic and AngelList have started their own efforts to legitimize coin offerings. But until now, established companies essentially avoided coin offerings because of the numerous legal risks and uncertainties. It was, however, becoming increasingly hard for Indiegogo to ignore the market.

Programmers, entrepreneurs and scammers have raised over $3.5 billion through coin offerings this year, according to Coindesk, after rising out of almost nowhere. That is more than the best-known company in crowdfunding, Kickstarter, has helped companies raise in its entire eight-year history.

Initial coin offerings have been so hot—and some say so unhinged—that some companies have found success with them even after failed crowdfunding campaigns. An online art gallery known as Maecenas, which failed to raise 400,000 pounds (about $533,000) through crowdfunding this year, raised $15 million a few months later through an ICO, the Financial Times has reported.

Indiegogo and Kickstarter have been left out of the ICO craze, in large part because of the legal uncertainty.

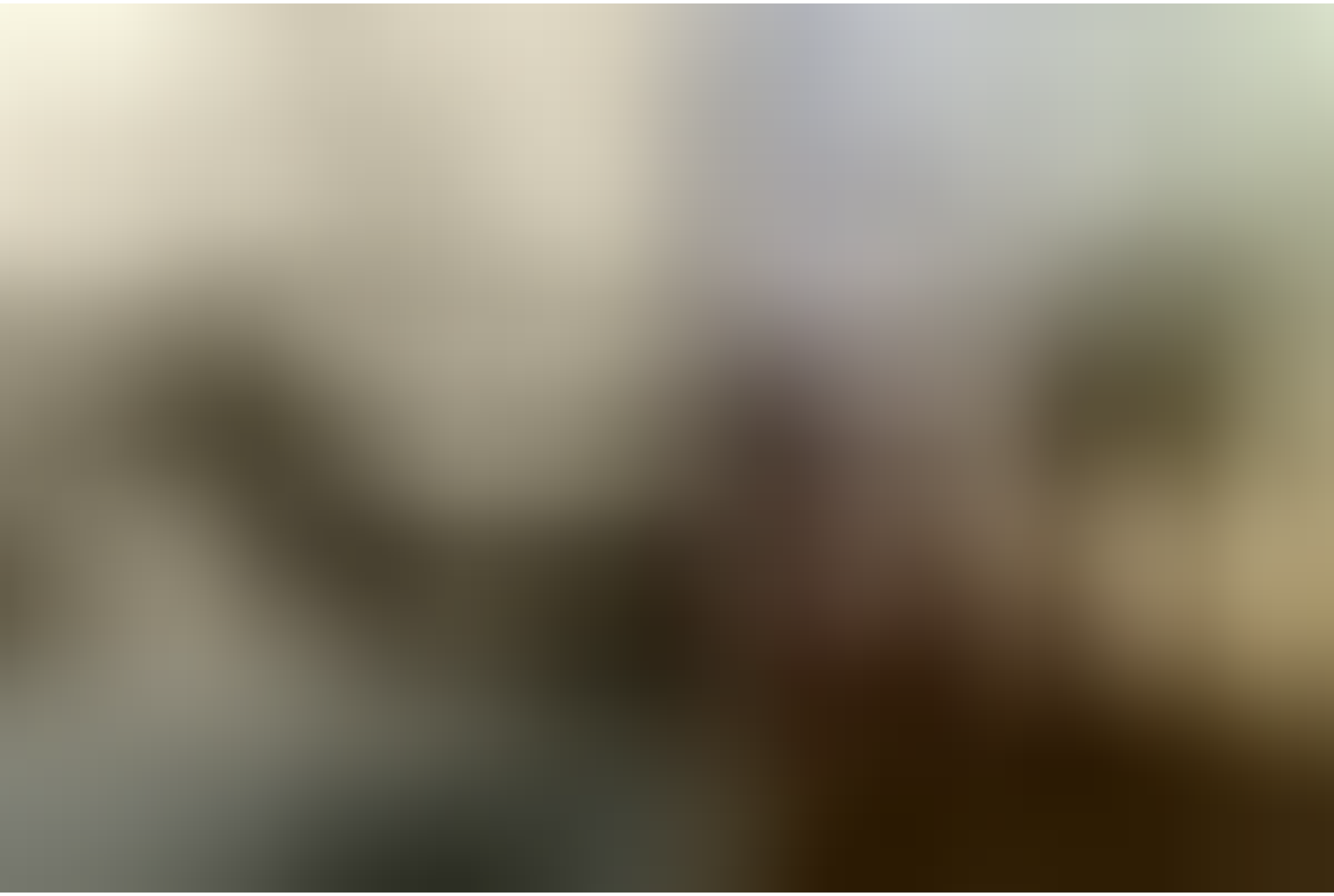
The head of the Securities and Exchange Commission, Jay Clayton, has said several times—most recently Monday—that many coins should be categorized as securities and be registered with the authorities, which almost no projects have done. The agency has recently cracked down on a number of projects that aren't legally compliant.

Indiegogo will help coin offerings follow the law by registering them as securities in most cases. This approach puts many restrictions on investors and on projects.

Small investors will be allowed to invest about $10,000 in most projects, and companies will be able to raise no more than $1 million from these investors, because of restrictions put in place by the 2012 JOBS Act. That is a tiny amount compared with the tens of millions of dollars that many coin offerings have raised this year.

Projects going through Indiegogo will be able to raise more money from sophisticated investors. But these investors will also face limitations, such as lockup periods, before they begin selling their tokens to others.

These restrictions could make the new service unattractive. Most coin offerings have been able to garner unlimited amounts of money from any investor; the biggest have raised over $200 million. And at least so far, regulators have cracked down on few of them.



The Indiegogo offices in New York, Dec. 4, 2017 — Roger Kisby/The New York Times

Several law firms have already been working on creating legally compliant methods of initial coin offerings. Indiegogo is working with one of those firms, Cooley.

Sohrob Farudi, the chief executive of the Fan-Controlled Football League, said he was willing to accept the restrictions involved in working with Indiegogo to stay on the right side of the law.

“We want to be sure that nobody on our side is going to jail and that when we bring this product to market that it will be done the right way,” Farudi said.

His group previously raised $63,000 in an Indiegogo campaign to create a minor league football team guided by fans. Now it is hoping to create a full league with the same principles.

The league will begin this week with what is known as a token presale. Early next year, it expects to do a full initial coin offering and will likely look to raise around $30 million, Farudi said. At that point, people who invested in the presale will receive coins, also referred to as tokens, at a discounted rate.

When the league opens next summer, people who hold the tokens will be able to vote on everything, from what color the jerseys should be to what plays the coaches should call during a game, with votes taken in real time.

The tokens will initially be stored and recorded on the ledger, or blockchain, associated with the Ethereum virtual currency network, though recent congestion on the Ethereum system has the league looking at other blockchain alternatives for the long term.

Farudi said having the tokens on a virtual currency blockchain would allow every vote to be recorded for all the participants to see.

“The voting mechanism has to be transparent,” he said. “The blockchain is the best example we could find for how to implement that.”

When the league does its ICO, Indiegogo plans to categorize it as a utility token, rather than a security, because its main purpose will be to allow for voting on league decisions. Utility tokens come with fewer restrictions than securities.

Rubin of Indiegogo said most companies doing coin offerings would probably have to register as securities. For now, he thinks that coin offerings won’t make sense for most companies, given the additional complications.

In the long run, though, he has joined the chorus of believers who think that all investments are likely to be done on some sort of blockchain because of the way it allows decisions and changes of ownership to be recorded transparently.

“Over time, I don’t think it’s going to be a discussion—I think all of it will be on a blockchain infrastructure,” Rubin said. “The New York Stock Exchange, or the Nasdaq, 20 years from now will be on blockchain. That’s what we’re talking about.”

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