Cryptocurrencies

Switzerland sets out guidelines to support initial coin offerings

Regulator makes clear when anti-money laundering and securities laws apply

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Ralph Atkins in Zurich FEBRUARY 16, 2018

Switzerland's financial supervisor has bucked the trend of global regulators cracking down on cryptocurrencies by announcing guidelines that should help local initial coin offerings, where start-up companies sell digital tokens to investors.

The Finma financial authority hopes to support the ICO market and boost blockchain technologies by clarifying when entrepreneurs will have to apply anti-money laundering and securities laws.

Regulators around the world have taken an increasingly sceptical view of cryptocurrencies and China and South Korea have banned ICOs. But the Swiss government believes they could offer an economic opportunity. Johann Schneider-Ammann, economics minister, said last month that Switzerland wanted "to be the crypto nation".

Of the 10 biggest proposed initial coin offerings, four have used Switzerland as a base, according to PwC. More than 100 requests for guidance have been received by Finma.

Digital pioneers have been attracted to the affluent Alpine country because it offers a cluster of rich investors and technology specialists, as well as tax and regulatory advantages.

Mark Branson, Finma's chief executive, said on Friday that the regulator's "balanced approach" to ICO projects would allow "legitimate innovators to navigate the regulatory landscape and so launch their projects in a way consistent with our laws protecting investors and the integrity of the financial system."

Finma's guidelines would increase the number of Swiss ICOs, predicted Oliver Bussmann, president of the Crypto Valley Association in the canton of Zug. "It's about establishing a sustainable business in Switzerland - and not just about raising capital and moving on," he said. "If you remove uncertainty, it attracts more business."

Arnaud Masset, market analyst at Swissquote bank, said the new rule book "definitely sets up Switzerland as a crypto-friendly country and will encourage new crypto-start-ups"

Finma's move is intended to help the fast-growing cryptocurrency industry ahead of a broader review launched last month by the Swiss government, which will also consider possible legislative changes. The department for international finance has said its intention is to make Switzerland an "attractive location" for ICOs. The government ICO working group is expected to report by the end of the year.

ICOs build on the blockchain distributed ledger technology behind bitcoin. As well as encouraging speculative investors, they threaten to disrupt the venture capital industry by slashing the cost of fundraising — and opening up the possibility of investing in start-ups to anyone with a smartphone.

Globally, regulators worry about cryptocurrencies being used by criminals and for money laundering, as well as the risks to investors, and traditional banks have sought to prevent them from infiltrating the conventional financial system. The UK and US have been among those countries advising caution.

Finma's guidelines identify three categories of ICOs. The first are "payment ICOs", which are transferable and can function as means of payment. The regulator said these would have to comply with anti-money laundering regulations but would not be treated like financial securities.

Second are "utility ICOs", which will not qualify as securities if their only purpose is to confer digital access rights to an application or service. Third are "asset ICOs," which will be treated like equities or bonds if, for example, they pay dividends or interest, or give rights to earnings streams. These will be subject to strict securities law requirements.

Carlos Domingo, founder and managing partner at SPiCE VC, a venture capital firm which invests in ICOs, called Finma's guidance "the most positive thing I've seen from anyone", meaning other regulators.

"I think people will be looking at Switzerland more now because the guidance is very clear," said Mr Domingo, who is based in Dubai.

Additional reporting by Chloe Cornish in London