How to capitalise your business in times of pandemic?

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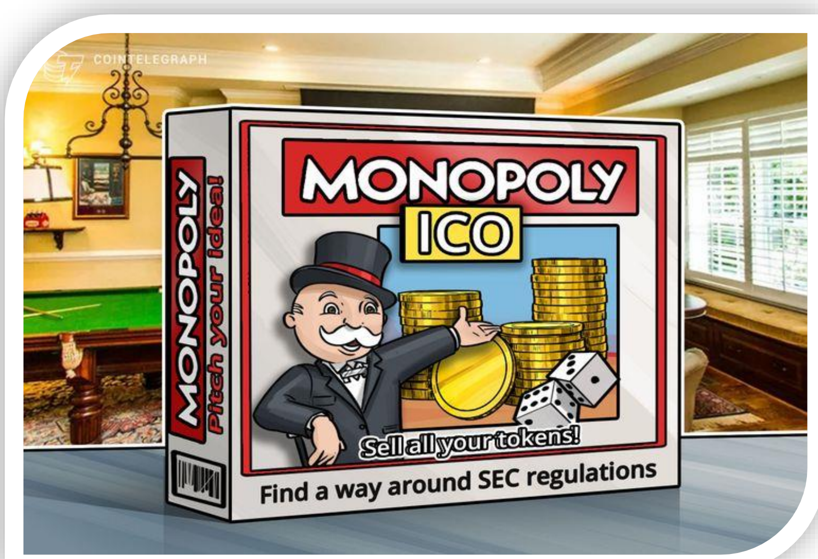
In addition to the innovation of cryptocurrencies and Blockchain technology, revolutions have been achieved in other important sectors, and one of them is precisely that of raising capital for companies. Concepts such as ICOs, IEOs and STOs have represented a significant change within the financial sector, opening up the market to new opportunities and democratising investments for a population that had been marginalised by traditional systems.

Now, in the midst of this growth, serious doubts arise among investors: Are all collection mechanisms within the cryptocurrency market the same? What do they each mean? Do some provide more security than others? These are all valid questions that many may have about the cryptocurrency sector.

What are ICOs?

ICOs stand for Initial Coin Offering. They were the first to hit the market and have proved to be a very useful mechanism for the sector. Important cryptocurrencies such as Ethereum, IOTA and NEO started as an ICO and thanks to this they managed to obtain the necessary monetary funds to develop the projects we know today.

Despite the enormous efforts made by financial authorities around the world to regulate ICOs, this market is still poorly regulated by governments. This means that their developers do not have to follow any kind of regulatory framework or follow a protocol established within legislation in order to go out and sell the tokens. The only thing they present to investors is a whitepaper detailing important information about the project, such as financial aspects, advertising, technological development, the team behind the project and the roadmap that the project will follow.



What do investors acquire from an ICO?

Unlike IPO's (Initial Public Offering) where investors are acquiring shares in a traditional company, in ICO's investors are acquiring a token early on. This token will have a specific utility within a specific platform that is developed by the representatives of the ICO in question.

How can an investor make money within an ICO?

In order to circumvent the respective legal regulations governing the investment market, the project's developers defend the idea that the acquisition of tokens at this stage is not really an investment, but the reality is different.

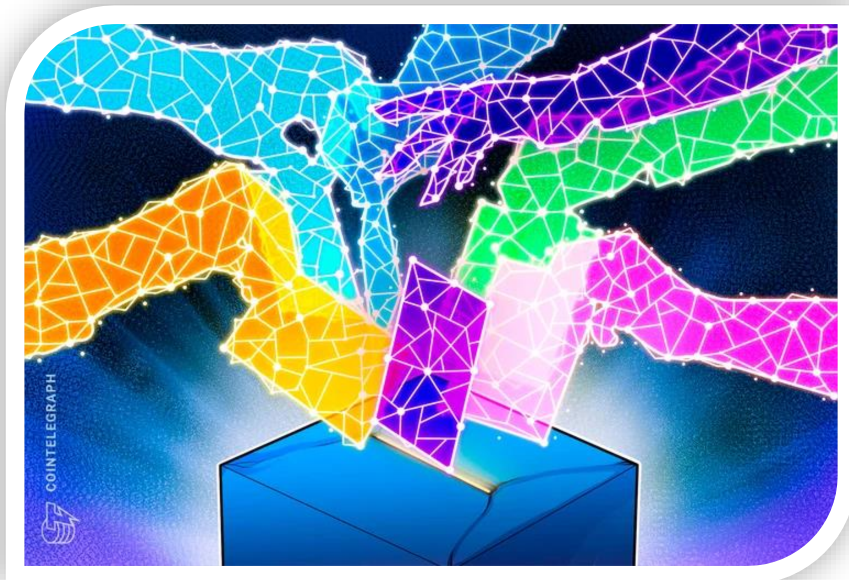
The investor makes the acquisition of the token with an expectation to make money and that is why he expects the platform where the digital currency will be of use to develop correctly and have a massive adoption. The investor's real hope goes beyond using the token within a system; the investor wants the currency to have a demand that is greater than its limited supply and that this will have a positive impact on the price of the asset he or she is acquiring.

Making a winning investment in the ICO market is very complicated. The market really is very voracious and the lack of regulation has caused many investors to lose their money. Unfinished projects that were presented as utopias in white papers abound in the market and this has caused many investors to view the sector with a lot of fear and suspicion.

Moreover, not many investors (especially traditional investors) understand very well the fact of investing in an asset that does not yield a fixed return like the shares of a company purchased through the various stock exchanges around the world.

Do I have rights over the company if I invest in an ICO? Not directly over the company behind the ICO, as the company is a separate legal entity that is already incorporated before it goes public. However, it is possible to see cases where the token holders have some management capacity within the project if the project is incorporated as a DAO.

A DAO (Decentralized Autonomous Organization) is a unique form of structure within the cryptocurrency market. Such a structure allows token holders to make decisions about the future of the company. Many DAOs that are formed after an ICO allow the users of the tokens purchased to determine where the money that has been collected during the ICO itself will be spent. Such determinations are made through proposal and voting systems that are open to token holders.



What is an STO?

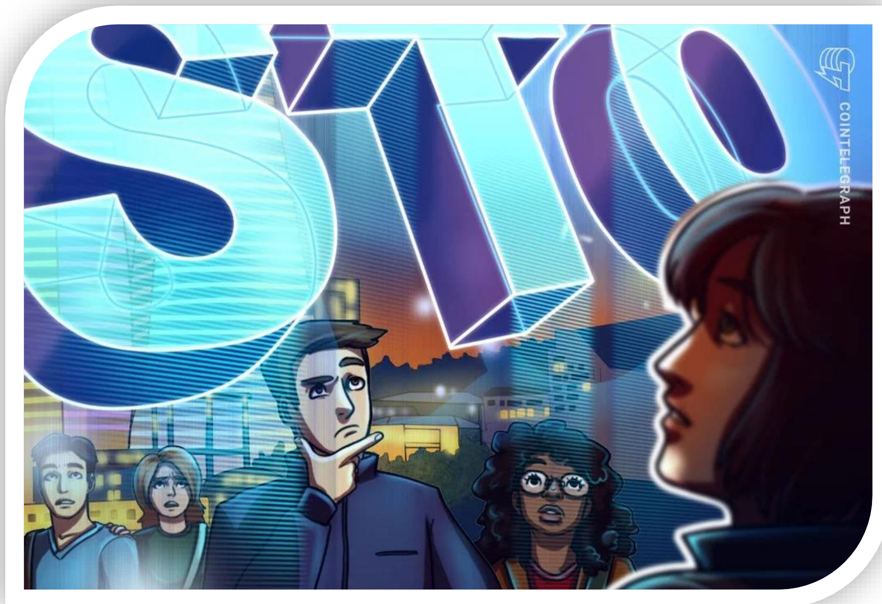
Being a wild market with little regulation, large investors were (and still are) not very convinced about putting their money into ICOs. It appears to be an excessively risky operation for anyone who wants to get their money back from an investment. In response to the situation, many developers came up with the idea of STOs (Security Token Offering) and the proposal was actually to bring together the best of ICOs and IPOs in one presentation.

On the IPO side, STOs would offer token holders dividends from the profits earned by the company behind the STO during its years of operation. On the ICO side, STOs wanted to demonstrate how the Blockchain can be used to provide a more transparent and efficient system than the current share system they employ within the markets.

Obviously, by offering this, STOs are bound by a series of legal regulations that do not apply to ICOs. Public accounting records, control by financial authorities and many other elements typical of listed companies are now sought to be applied to cryptocurrency and blockchain-related projects.

Do all STOs give rights over the management of the company?

This is one of the most confusing points within the STO market, as by offering a dividend to holders, it is believed that ownership also infers an automatic right to the management of the company. The truth is not so clear.



In STOs, as with ICOs, the power that token holders may or may not have depends exclusively on whether or not a DAO is formed for the project. If there is a DAO, then the holders will have the possibility of deciding on the different aspects of the project.

However, in the event that we are not given any indications in this respect, we must understand that there will be no possibility to decide on the future of the company. This is important to be clear even if the project indicates that the acquisition of the token will allow the holder to be considered a Shareholder.

Differences between an ICO and an STO - Token Offerings

Within the English-speaking world it is more common to find the differentiation between Security-Utility and it refers to the tokens that are offered within ICOs and STOs, respectively. The explanation is very simple: ICOs offer a utility token (hence the term utility) for a specific platform or space.

On the other hand, STOs offer a Security, which is a fungible, tradable security that has some form of monetary value in the financial sector. The Security Token offered gives the holder the right to earn dividends from the net profits earned by the company within a specified period of time.

- Legal regulations

The legal teams behind the various ICOs that have come to market have put forward a variety of options to circumvent financial regulations for the investment market. Some have framed ICOs as a forward sale of an asset while others see it from the point of view of selling a right to access a particular space. All arguments seek one and the same thing, not to be seen as a security that can be regulated by strict legal rules.

STOs cannot use the same legal argument as ICOs since their very concept is the offering of a security as regulated in the investment market. This means that STOs must comply with the same requirements that a company seeking to go public would have to publish.

The legal status of STOs has led many of these projects to seek to locate in jurisdictions that are more flexible in terms of financial regulations. Countries such as Cyprus, Panama and Estonia have offered less stringent regulations for these projects and have presented themselves as an oasis for such projects within their jurisdictions.

What are IEOs?

Initial Exchange Offerings are referred to by many as second-generation ICOs. They started to gain fame in the so-called "Cryptoinverno" of cryptocurrencies where ICOs had the lowest fundraising levels in their entire history.

The concept of these projects is also very simple, they are ICO's that limit the raising of capital with users and funds from a specific exchange. The first major exchange to implement IEO's was Binance with its Launchpad. After that, many other exchanges wanted to copy the model and today more than 20 exchanges within the market offer the service to their users.

Differences between IEO's and ICO's

Subjection of the project to a centralised authority or body
To launch an ICO (at least in most jurisdictions) you don't need to be authorised by anyone, you just need to create a website, a white paper and start with an aggressive marketing plan to convince investors about the project. Additionally, you could add the need to create a MVP (Minimum Viable Product) to give investors more confidence in your project.
This is not the case for IEOs. In order for a project to participate in an exchange, the exchange will need to authorise and indicate the conditions that the project must meet in order to access its users. In addition, projects often have to pass a series of requirements established by the exchange in order to be listed on the portal.
Along with licensing and review, doing an IEO within an exchange will require a commission fee, an element that we will also not see within an ICO. This fee is usually established as a percentage of the funds raised by the project and varies according to each of the exchanges that offer this service.

- Investors are limited to one exchange

As mentioned above, an IEO is limited to only users of a specific exchange. If the project has a potential investor who is not registered on the platform, he or she will have to go through the entire registration and identity verification process of the exchange in order to subsequently deposit their cryptocurrencies on the portal and be able to invest in the project in question.

This feature has its advantages and disadvantages. On the one hand, it is positive because it presents projects with a base of users and funds that can become potential investors.

The downside is that the project is closed to investments from other sources. If they have potential investors who have their cryptocurrencies on another exchange or who do not trust the exchanges themselves, they have to go through a cumbersome process of account opening and identity verification that in many cases do not end up being carried out by the potential investor, thus generating a loss for the project.

In addition, they limit the project to not acquiring any funds through FIAT money, which can also represent a loss since not all investors have the necessary cryptocurrencies to make a major investment in projects of this type.

- There is more "security" for investors

On the investors' side, an IEO can be presented as a safer option than an ICO. First, IEOs (at least those on established exchanges) assure investors that they will be delivered the tokens they are actually acquiring.

As a second point, we can see that IEOs provide investors with the security that the asset acquired will have some kind of commercialisation thanks to the fact that it will be listed on the exchange where the IEO was carried out. Although this point may go under the table, it is important to mention it because there are many ICOs that end up being abandoned because their developers fail to list the token on an exchange.

At OOwiki.com and Bankoin.org we develop ICO, IPO, STO and IEO projects for all types of private and public sectors, with proven projects and experience.

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