How do ICOs become an accepted asset class?

Start-ups and tech companies have been using ICOs for corporate finance for a few years now. In doing so, a company seeking capital sells its own coins or tokens against crypto or normal currencies and thus receives the necessary funds for investments. Many of the ICOs have had quite small volume, but there were also extremely large ones. The boom continues this year. However, voices warning against ICOs are increasing, as they are not standardized and regulated and are not really valuable, as tokens do not securitize a stake in the company, but usually only a utility or profit sharing.

For these reasons, it is clear that according to a survey, a maximum of 0.1% of investors worldwide invest in ICOs. In addition, those who do are mostly tech nerds or speculators. The right professional investors such as venture capital, investment companies, private equity or family offices avoid ICOs.

So what has to happen so that ICOs finally become their own or sub-asset class that is widely accepted around the world?

We, IR CONSULT, have been actively involved in the European ICO market for over a year, visiting several specialist meetings, talking to many private and professional investors, and using our many years of stock market experience to find answers. We found 8 reasons that are primarily in Central Europe, but mostly apply to the global ICO markets. In addition to that, we give tips to the ICO-Community.

1. **Negative Press**
   Especially in Germany and Austria, almost all press reports about ICOs - if any - are negative. Almost only fraud ICOs or unsuccessful ICOs are commented, but very rarely successful ones. After the warning from the BaFin (German regulator) in November 2017, this has again increased.

   Yes, unfortunately there are fraudulent ICOs and not successful ones. However, investing in a start-up is venture capital with a very high default rate. And in our opinion, it is wrong only to talk bad things about ICOs. ICOs support start-ups - as desired by governments. This is underlined by the fact that BaFin and others have not issued a ban. Other countries, such as Switzerland, Liechtenstein, Malta and Gibraltar, see opportunities here and support ICOs with clear regulations and laws; Germany lags behind here.

   ICOs are built on the blockchain technology. However, the press very often equates this with Bitcoin, Ether and other cryptocurrencies and comment that their volatility and lack of value are extremely bad.

   Every ICO candidate publishes a white paper that describes the operational business and token structure. This can be read by everyone and should also be critically questioned. If you are not convinced investors should not invest in this token.

   PLEASE, dear press, inform yourself better and also see the positive sides of ICOs!

2. **Too much diversity in the token economy**
   There is no standardization in defining the rights of tokens. Each ICO company defines its token differently. Even utility or security tokens are not comparable to each other. This means that a potential investor must read and understand the ICO candidate's white paper very carefully because of the way the tokens are designed. Often there are also further questions that need to be clarified.

This makes it even more difficult for investors, which clearly slows their decision-making and quickness.

PLEASE, dear ICO candidates, write very detailed white papers and strive for a standardization of the token economy!

3. **No ICO investment advisors, little independent information**
Traditional investments - such as equities, bonds, etc. - have an established infrastructure of investment advisors, banks, stock exchanges, and the financial press. All processes are recorded and complement each other; therefore, a securities investment is easy and cheap for the investor - whether a private or an institutional investor. Although additional regulations (MIFID and others) have caused some deterioration, many banks and asset managers have withdrawn completely from investment advice, but nevertheless the stock exchanges continue to be active and transparent markets for investments.

Capital markets live on information. Primarily, of course, the issuer himself is required to give his own company details and reports. However, there are also many additional and independent sources of information, such as research, ratings, etc. These are available to all investors today and keep the stock markets moving.

None of this is available at ICOs (yet).

While research and ratings are slowly building up, we do not think legislation and regulations will change it pro-ICO as quickly. So probably no longer investment advice for ICOs will be allowed. Thus, the investor must inform himself.

PLEASE regulators: do not patronize investors; otherwise, you only drive them into the global investment networks; that is not your task!

4. **ICO handling not suitable for the mass market**
Whether cryptocurrencies or corporate tokens, the purchase and sale as well as the whole process is not easy and thus not suitable for a wider expansion of ICOs. Everything is possible only digitally, such as wallet opening, payment, settlement and transfers. In addition, trading on ICO exchanges is not standardized and thus difficult for investors. In addition, there are significant risks from hackers, fraud sites and general cybersecurity.

In addition, there are already – in our opinion - too many crypto exchanges worldwide. In addition, nobody knows how sure they are and how long they will alive. What will then happen with the wallets etc.?

Other aspects that are increasingly coming to the fore are KYC (Know Your Customer) and AML (Anti Money Laundering), which are particularly demanded by all financial regulators in the world. This should make customers and their sources of money more transparent, so that no drug or war money for ICOs can be used and washed.

The plans of some European exchanges to open regulated ICO exchanges underline that the problem is recognized and will be solved. This will however take until 2019, but they are already on their way.

PLEASE stock exchanges, create faster a regulated standardization of the handling of ICOs!

5. **Tokens are no company shares**
   Corporate bonds are clearly debt and stocks are clearly equity. Thus, the owner holds a voting right at the annual general meeting and a dividend entitlement as profit sharing.

   However, tokens are neither debt nor equity, although the owners may also receive interest or profit sharing, depending on the token definition. Nevertheless, they are not a part of the company and have no voting rights. This is especially important when selling the company as the buyer often has to make a takeover bid to the free shareholders. A token owner has no claim here. Thus, he will get nothing.

   Especially for institutional investors - such as VC, PE or funds - this is a crucial hurdle, since in extreme cases, they do not have any voting rights and do not have any influence on the management.

   PLEASE dear ICO candidates, finance your growth via tokens, but also clarify what you will do with the tokens in the medium term? Repurchase or an exchange in shares would be good solutions.

6. **Value of a Token**
   While the price of a corporate bond depends on the interest rate, maturity, and rating, and the price of a stock depends on various ratios such as earnings per share, price-earnings ratio, dividend yield, etc., the value of a token is not actually to determine. The classic valuation methods cannot be used here.

   However, are tokens therefore "worthless"?

   The answer is a clear yes-and-no: yes, according to the above and no, as there is a price on an ICO exchange and the investor can buy and sale their tokens. In addition, this price should reflect the added value that comes with investing the ICO money in the company. If there is and interest or profit sharing, even some of the above key figures can be calculated and compared. Ultimately, token price on an exchange are a result of supply and demand and it can also give some temporary distortions.

   PLEASE ICO companies: arrange a quick listing of your tokens on a relevant and regulated ICO exchange and live investor relations; i.e. inform your token owners about the course of business on a regular basis. After all, they have left you with confidence in the money.

7. **Regulation and Legislation**
   For a long time, the issue of tokens was completely unregulated, so regulators in many countries have introduced modest regulations since this year. In addition, that is a good thing: now it is quite clear that once a token owner receives interest or profit sharing, the coin is unequivocally a security or equity token. That means that the ICO candidate must have a prospectus prepared and approved. This is a bit more complex and expensive, but also allows the possibility of a public offering of tokens. Thus, they can be marketed officially - thanks to EU passporting - then even throughout the EU.

   However, what is still missing on ICOs are clear laws and also fixed tax regulations. Some countries are on their way, but this will certainly take until 2019. Until then, ICO candidates still live on the goodwill of the authorities, which are, however, willing to support start-up financing.

   For these reasons, there are also no regulated ICO exchanges yet. There are many exchanges worldwide - and new ones start weekly - but they all have their own rules and procedures. This is clearly contra-productive, as an investor must register everywhere with all the difficulties, such as KYC etc.

In addition, that brings us to the second and most important part of securities supervision: ICO candidates and exchanges also need to collect many data from their investors (KYC) in order to produce a clear pro-fil and ensure that the money invested does not come from criminal activities. Moreover, this needs to be constantly updated to make money laundering (AML) impossible. These reviews are not easy and therefore unfortunately not cheap for market participants. At the same time, they make ICOs from start-ups so expensive that they may no longer be able to realize their ICOs, since the costs are incurred even before the money is received.

PLEASE legislators: hurry to set clear rules on taxes, laws and regulations. That will professionalize and support the ICO market.

8. **Too few professional Investors**
   Unfortunately, there are very few institutional investors for ICOs in Europe. Funds are not even allowed to invest in ICOs, as there are no laws, supervisions and official token prices, in some cases they do not want it, such as VC, PE or family offices, since their business model is based on a share purchase.

   However, the first special funds are in the pipeline, which target and are allowed to invest exclusively in crypto assets. In addition, VCs are more and more likely to participate in ICO candidates as they see that ICOs facilitate additional rounds of financing without diluting their assets.

   PLEASE professional investors: realize the opportunities of ICOs and support them as soon as possible. There will certainly be some high-flyers, and you can benefit as well.

Unfortunately, there is still a lot of room for improvements and regulations in the still relatively young market of ICOs, but some countries have already initiated their solutions. However, the players in the ICO markets (corporations, stock exchanges, advisors) still need to do a lot to standardize and facilitate ICOs. Only simple products are suitable for a mass market.

In our view, losers will be investment banks and traditional stock exchanges, as ICOs can attract investors worldwide, digital exchanges provide global access to tokens, and the blockchain technology allows efficient and secure management of smart contracts and settlement.

The winners are companies with new ideas and products, which can finance their growth via ICOs and thus already build-up awareness, supporters and users – and this worldwide!

CONCLUSION: ICOs are on their way to become an accepted asset class. Not this year, but maybe in 2019. The ICO wave of success continues and will certainly be increasingly used by established companies from all sectors to finance growth too.

About IR CONSULT:
Since 1994, IR CONSULT has advised companies on their way to the stock market and supported them in the on-going investor relations. With almost 100 IPOs and over 100 IR mandates, our team is one of the leading specialists in Central Europe. Since 2017, we also realize ICOs in Europe and have built up a broad network of really experienced partners. This makes us fast, cost-efficient and with a high success rate.
More information at www.ico-ipo.eu, www.ipo-advisor.com and www.ir-consult.com.

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