



The New Digital Era: Blockchain, Cryptocurrency, and ICOs PART 2

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FEBRUARY 2018

WHAT IS CRYPTOCURRENCY USED FOR?

There are plenty of uses of cryptocurrencies, many of which have nothing to do with the sordid affairs of the dark web. Cryptocurrency can be used for purchases in the real world, as a replacement for fiat currency. This can be from the mundane of [buying a hotdog in Fortitude Valley](#) in Brisbane, beer at the pub, to [paying the rent](#) (in the UK) or buying [real estate](#) (even [in Australia!](#)). Granted, many [US businesses](#) have been quicker on the uptake, allowing customers to use cryptocurrencies like Bitcoin, Bitcoin Cash, Ethereum, and Litecoin to make their purchases. But acceptance in Australia is increasing.

However, the far more interesting use of cryptocurrency is to purchase tokens and participate in Initial Coin Offerings or token trading.

INITIAL COIN OFFERINGS

Ordinarily, if a company wants to raise a large amount of money from the public it will conduct an Initial Public Offering (IPO), and the resulting shares issued are listed on a stock exchange.

A new wave of companies, many with a tech and blockchain focus are seeking to raise money through an Initial Coin Offering (ICO). To be clear, the term “Initial Coin Offering” is a bit of a misnomer, because it is tokens created by the issuer that are being sold, rather than coins. However, most people will refer to these as an

ICO, so for the purposes of this discussion we will stick with that.

Already over 1000 forms of tokens exist, with ICOs occurring daily now. It is very common for tokens to be developed for new platforms which use the Ethereum blockchain. This means that Ethereum will often be the “currency” used to purchase those tokens, but Bitcoin and some other cryptocurrencies may also be accepted by the issuer.

If you are contemplating an ICO and your token is an equity token or your business is not based on blockchain technology then there’s a fairly compelling argument that you should just do a standard IPO. After all, the same laws apply and you are most likely running a traditional business. Successful ICOs tend to have a compelling underlying product or service through which the token can be swapped via the blockchain for that good or service. And this product or service is all wrapped up in a well articulated and presented whitepaper backed by a knowledgeable and experienced team.

WHAT IS THE DIFFERENCE BETWEEN ICO AND IPO?

In short:

- If you are raising money by issuing tokens which do not give the holder any equity or voting rights – you are conducting an ICO and will need a “white paper”;

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- If you are raising money by issuing shares or tokens that resemble shares – you are conducting an IPO and will need a prospectus.

One of the main reasons that tech companies are turning to ICOs is that they are less regulated than IPOs and therefore much cheaper and quicker to get up and running.

There is a reason for this. True tokens which give the holder no voting rights in the issuer, no dividend or redemptions rights, and whose value is not tied to the value of the issuer/company – are not securities. The characteristics of a token are completely up to the issuer, but if your token looks like a security (at law) then it probably is a security. If so, doing an ICO will not preclude you from the prospectus laws required for an IPO and securities more broadly.

With an ICO there is no dilution in the equity of the issuer because the tokens are completely separate to the shares and give the token holder no ownership rights in the company itself. An ICO allows the founders to retain complete control over their company whilst giving them an avenue to raise funds and afford to build out their platform/business.

THE WHITE PAPER

The white paper is the key document for the launch of an ICO. It sets out what the company is all about, what problem it is solving, the solution it proposes to solve and/or what platform it will build. The more credible the white paper, the more likely the ICO will succeed.

People are becoming much more discerning and demanding information on the company, its founders, its board of directors, its product/platform/service and what its ambitions are. It may sound like a prospectus but the reality is white papers are much briefer because they are not subject to what ASIC or the Corporations Act tells them needs to be included. This means there is no need to include financial accounts or prescribed information intended to protect retail investors. Ordinarily these requirements can result in a 200 page prospectus – compared to a white paper which might only be 20 or 30 pages (or sometimes less).

This doesn't mean the issuer has free reign. Consumer protection laws around making false and misleading

statements will apply. Issuers can't just go around making wild unsubstantiated or false claims about their future plans.

A RECENT AUSTRALIAN ICO

Right at the end of 2017 Australian company [CanYa](#) concluded their ICO with \$12 million, becoming the second most successful ICO in Australia.

The success of their campaign can probably be attributed to the fact they already had a functioning online marketplace. CanYa facilitates Peer-to-Peer offers and requests for services, of anything from tradies to tutors. Adding the blockchain layer to the service is intended to better record and automate these transactions.

By issuing their own token, "CanYaCoin", people can transact on the platform in a much more secure and efficient manner than a standard fiat currency such as AUD. It also offers a powerful rewards system where people can earn CanYaCoins by interacting and transacting on the platform.



HOW MUCH MONEY IS INVOLVED IN AN ICO?

In November 2016 it was considered exciting that an ICO raised \$1 million for the development of a blockchain platform to make it easier for businesses to create and maintain loyalty programs. Jump forward to August 2017 when \$10 million was raised in just a couple of days by DMarket, whose mission was to build a better platform for gamers to do in-game trading and make money. Then in October last year Australian company Power Ledger launched their ICO for peer-to-peer trading of excess solar energy. They raised almost \$34 million.

And these still aren't the most astonishing figures. In June 2017, Swiss company Bancor Network [raised over \\$150 million](#) during their ICO, which fast tracked their ability to become a self-sustaining business. And then two months later [FileCoin](#) raised an astonishing \$257 million. In 2017, [the total world raising](#) using ICOs was \$3.6 billion, with a wide range of individual results across the board.

THINKING OF DOING YOUR OWN ICO?

If you are thinking of conducting your own ICO we are actively advising entrepreneurs in this space and are well versed in the landscape, technology and legal aspects.

NEXT INSTALMENT

In the next instalment of this intriguing discussion we will delve into:

- The legal and regulatory aspects of blockchain and ICOs
- Know Your Client (KYC) and Anti-Money Laundering (AML) regulations
- How you can start participating in the world of coins, tokens and ICOs



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