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NEWS RELEASE

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Financial Literacy Month Tip of the Week

Take Caution When Investing in Initial Coin Offerings

Boise, Idaho...Initial Coin Offerings (ICOs) are attracting investors interested in new trends in technology investing. With considerably fewer investor protections than in traditional securities markets, investors considering participating in an ICO investment should be aware of the increased potential for fraud and manipulation these offerings present. "Innovative investment options in fintech can be exciting and hype can soar, but we advise investors to take a closer look," cautions Mary Hughes, Acting Director, Idaho Department of Finance. "Investors should do their research when considering any speculative investment option."

What is an Initial Coin Offering?

An ICO, also sometimes referred to as an Initial Token Offering (ITO), is a method used by an individual, group of individuals or organization to raise capital for a planned project. Most ICO's involve projects that are at the "idea" stage and in many instances may lack a prototype or "real world" implementation of the idea. To finance the idea or project through an ICO, promoters create a new virtual "coin" or "token," which is then sold online to participants in the ICO in exchange for fiat currency, such as the U.S. or Canadian dollar or Mexican peso.

Before participating in an ICO, potential investors should ask whether the "coins" or "tokens" are considered securities and whether the offering itself has been registered with appropriate securities regulators. Virtual "coins" or "tokens" considered to be securities must comply with securities laws, which require the individuals or firms selling them to be licensed or registered with securities regulators. It also is important that potential participants understand that an ICO should not to be confused with an Initial Public Offering (IPO), which requires potential offerings to undergo a very rigorous and robust process before they can attempt to raise capital on regulated securities markets. Potential purchasers can check the registration status and background of those selling "coins" and "tokens" by contacting the Department of Finance or by visiting <http://investor.gov>.

What is Blockchain Technology?

Many of the projects for which tokens are issued seek to leverage blockchain technology, which stores transaction information, similar to a ledger. "Blocks" on the blockchain are made up of digital pieces of information. Blocks store information about transactions, such as the date, time, and dollar amount of your most recent purchase from Amazon. Unlike a traditional ledger, blockchain is distributed through the Internet and transaction information is duplicated on many computers connected on a network.

Considerations for Investors

Investors should be aware of the following risks when considering whether to participate in an ICO:

- **Phony Initial Coin Offerings:** There is a risk that the ICO you are considering is a fraud. Scammers may create a fake ICO and simply steal investors' money, either outright or through a Ponzi-style prolonged investment scheme. Or, computer hackers "spoof" a legitimate ICO and trick investors into paying them instead of the company behind the ICO.
- **Lack of Investor Protection:** If a "token" or "coin" does not qualify as a security, the investor protections available under the securities laws will not apply. Because ICOs are conducted over the Internet, the promoters could be anywhere in the world, greatly increasing the risk that you will be unable to recover any losses.
- **Lack of Disclosure:** Individuals launching an ICO usually do so through their own websites or through various online blockchain and cryptocurrency forums. Unlike in a registered securities offering, potential purchasers in an ICO likely will not receive a prospectus with important disclosures required by the securities laws. Instead, the promoters behind an ICO may include a "white paper" describing the project and their goals on a website created specifically for the ICO project.
- **Unproven projects:** Unlike traditional capital raising processes, most ICOs are at the "idea" stage and usually not implemented in any real way.
- **Unclear terms:** What an investor actually receives when purchasing a coin or token varies greatly from ICO to ICO. Some ICO tokens may have little to no resale value or may constitute nothing more than a donation.
- **Lack of liquidity:** Some promoters may tell potential participants that they can sell their "coins" or "tokens" on a secondary market or alternative trading system. There is no guarantee that secondary markets or alternative trading exchanges would accept the "coins" or "tokens" of a particular ICO.
- **Price volatility:** The value of the token could swing up or down drastically.

How can Investors Protect Themselves?

- **Don't invest money you can't afford to lose.**
- Read the fine print.
- Research the ICO on the web. **Be skeptical.**
- Don't be star struck by celebrity promoted deals.

The Bottom Line

Before making any financial decisions, do your homework and contact the Department of Finance to check out any ICO offering and the person selling it or visit our website at <https://www.finance.idaho.gov> to learn more. The Department's website also has tips on saving and investing, as well as information on recognizing, avoiding and reporting investment fraud. You may also visit the North American Securities Administration Association website and view "Get in the Know About ICOs" at <https://vimeo.com/239995680>.

Governor Little has proclaimed April as Financial Literacy Month. Department of Finance Press Releases and other consumer information can be found on the Internet at <https://www.finance.idaho.gov> or may be obtained by contacting the Department at (208) 332-8000 or Idaho toll-free at 1-888-346-3378.