



# Initial Coin Offerings are Dead and They Were Killed by the SEC

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Initial Coin Offerings (ICO) are almost completely a thing of the past now and their demise began in 2018. The year was generally a very bad one for crypto because of the bear market but this situation affected the market a bit more. In November 2017, Bitcoin hit its all-time high of almost \$20,000 and by 2018 when the bear market began, the price had dropped all the way down to \$3,000 with effects felt by all the other altcoins. This eventually caused the entire crypto market to lose more than \$700 billion. The bear market continued until April 2019 when bitcoin surprisingly surged and kept rising. At the moment, Bitcoin currently has more than 200% in year-to-date (YTD) returns.

Another important thing that happened last year, probably as a result of the bear market was the noted drop in ICOs. As the year progressed, these ICOs were not as profitable or successful as they used to be and they began to phase out. After a while, Initial Exchange Offerings (IEOs), began to displace their predecessor and became popular for two major reasons.

The first was probably because the U.S. Securities and Exchange Commission (SEC) put its foot down on these ICOs and regulation was very unclear and controversial. The other reason was a little more organic as there seemed to be a natural explosion in the number of exchanges.

## The ICO/SEC Friction

A recent report by Longhash, the popular analytics firm, has detailed quite extensively, the problem being faced by ICOs. In the report titled "After Years of Regulatory Uncertainty, ICOs Are Fleeing the United States", Longhash discusses the SEC's reluctance to support these projects as well as possible solutions to stop their egress.

For the most part, there were no ICOs before cryptocurrency and blockchain technology and also, not a lot of fundraisers quite worked the way ICOs do. Regardless of this, the SEC was concerned about the operations and began to struggle to keep up. This suppression by the SEC then quickly spread to many other countries as their own SEC-equivalents quickly began to target ICOs.

Just last month, the commission announced that it was suing Kik Interactive Inc., "for conducting an illegal \$100 million securities offerings of digital tokens" in 2017 when it successfully raised more than \$55 million.

The SEC is obviously still cracking down on ICOs even though there is little clarity regarding regulations. Even with the disagreements, the commission still maintains that every ICO is a

security. Diego Zaluaga, a noted policy analyst with the Cato Institute Centre for Monetary and Financial Alternatives said:

*“The number of ICOs has declined sharply since mid-2018, after SEC officials made a series of statements suggesting that ‘all ICOs are securities’ and that the SEC would pursue enforcement actions against future ICOs,”*

Currently, ICOs are not exactly mandated to first register with the SEC before they kick off. Nevertheless, the SEC still has the power to act if it feels that a coin offering is a securities offering and take action citing a violation of securities law.

Escape from the U.S.

It would seem now that many of these projects are taking an escape from the U.S. as the best solution, in search of other favourable climates. According to a former member of the Chamber of Digital Commerce’s Token Alliance, Robert Greene:

*“The SEC’s regulatory posture has certainly driven projects seeking to conduct an open digital token offering to locate outside of the United States,”*

Greene has said that there is a serious decline and the SEC should be concerned. Describing the decline, Green mentioned that

*“U.S. registered projects accounted for over 10 percent of open digital token offering dollar-volume in 2017 versus just 2 percent in Q3/Q4 2018.”*

### **The SEC’s Placebo Framework**

Probably due to increasing backlash, the commission then announced a plan to publish a framework to help guide the ICO market. In April, the framework was eventually released but it was still very unclear and didn’t simplify issues, causing any change in the downward slope the ICO market already embarked on. Even Hester Peirce, the SEC’s commissioner, didn’t speak too kindly of the framework, saying it was bound to “contribute to the feeling that navigating the securities laws in this area is perilous business.

The regulation also began to scare companies away, resulting in a further decline. For example, BitTorrent launched an ICO earlier this year which specifically banned participation from American residents. The offering was still successful as it made more than \$7 million in 15 minutes.

At the end of March, the Wall Street Journal also reported that in the first quarter of 2018, the ICO market had successfully raised \$6.9 billion but a year later in the first quarter of 2019, that number had dropped very steeply to \$118 million.

### **Is There A Solution?**

The commission is not expected to leave the market unregulated but it needs to be very precise about the regulations governing ICOs if they are to return. The fact that ICOs can be quite vulnerable to exploitation in the form of scams just means that the SEC should be clear on its expectations and not stifle the market altogether.

People still hope to see a time where ICOs would buzz like they used to and hope that the SEC would encourage them even as it remains strict. This is especially because of projects that might not be able to leave the U.S.

As Longhash reports:

*“While some projects may be able to leave the U.S. in favour of friendlier regulatory environments, the SEC’s stance might mean others will have to give up on their ICO plans altogether.”*