PRESS RELEASE

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RISKS OF INITIAL COIN OFFERINGS (ICOs)

HAMILTON, BERMUDA – Bermuda Monetary Authority (BMA) is committed to providing a regulatory environment for Bermuda’s financial services industry that both protects stakeholders and supports innovation.

Says BMA CEO Jeremy Cox: “Today’s fast-paced global digital business environment needs to be accommodated for Bermuda to remain economically sound. Sometimes there may appear to be a contradiction between this fast forward new world and the BMA’s mandate to ensure that investors and other stakeholders can operate in a climate of confidence.”

“Bermuda’s financial services industry has benefited from its reputation as a highly regulated jurisdiction and we continue to strive for global standards. We will not falter in this duty to safeguard the public and other stakeholders, but we are aware that the regulator’s role is not to stand in the way of progress.”

Mr. Cox notes that while the BMA can create a regulatory framework that enables new business ideas, potential investors also need to take their responsibilities seriously. For example, “disruptive technology” is becoming increasingly important in the wider financial services industry. However, because of its pioneering nature, disruptive technology is ground-breaking and therefore does not have a proven, longer-term track record. Indeed, in the early days, the telephone and personal computer were considered to be disruptive technology.

The BMA closely monitors global technological developments such as Initial Coin Offerings (ICOs). At this time, these forms of investment vehicles are not subject to prudential regulation, which among other things requires regulated entities to hold sufficient capital and have adequate risk controls in place.

An ICO – sometimes referred to as an initial token offering – may be an unregulated method of raising funds for new ventures depending on the nature of the offering. It is used by start-ups to raise funds from various investors through the internet, bypassing the rigorous and regulated capital-raising process required by venture capitalists or banks.

With an ICO, investors are able to use cryptocurrency (such as bitcoin) to purchase coins or tokens via the internet for a set period of time. The ICOs are often global offerings which can be created and accepted anonymously.
Given their newness, and their inherent risks, ICOs tend to be supported by experienced investors with technical knowledge of cryptocurrency. Risks include:

- **Unregulated space**: Whether an ICO falls within BMA’s regulatory boundaries can only be decided on a case-by-case basis. Many ICOs are unregulated because there are no requirements with which they are required to comply at this time.

- **No investor protection**: Bermuda’s regulated financial services companies have made a commitment to adhere to market codes of practice and transparency. These codes do not apply to an unregulated ICO.

- **Early stage projects**: Typically, ICO projects are at the early stage of development and their business models are experimental, although traditional businesses may also use ICOs. Instead of a regulated prospectus, ICOs usually present potential investors with a ‘white paper’.

The BMA encourages the investing public to be prudent and mindful of their accountability for their actions in this increasingly fast-moving and complex landscape.

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