

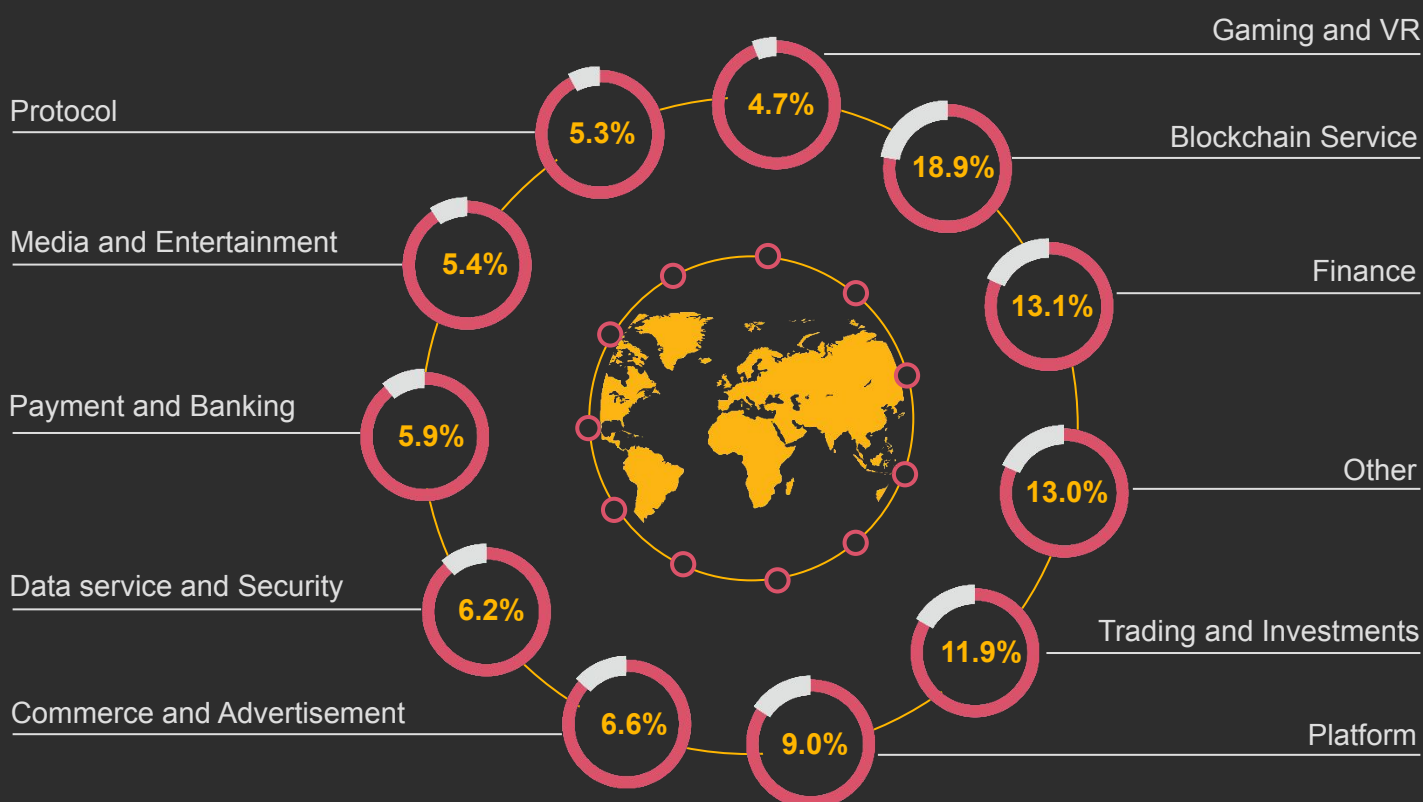
Introduction to Token Sales (ICO) Best Practices

What is a Token Sale?

A Token Sale — also commonly referred to as a initial coin offering (ICO)* — is a limited period of sale of a predefined number of crypto tokens to the public, typically in exchange for major crypto-currencies (mainly Bitcoin and Ether).



ICO market distribution by industry, 2021



Sources: ICO Drops, Zendo, CryptoRank, ICO HOT List and icobench

Top 10 ICOs in history by total amount raised

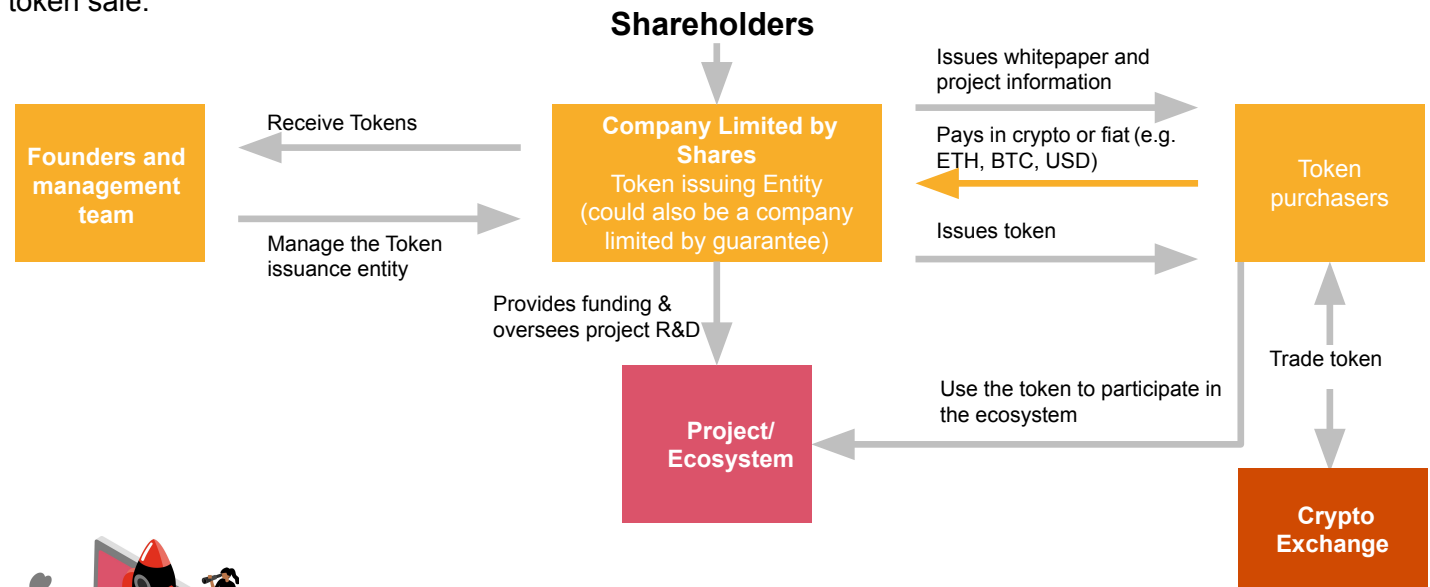
Position	Project (Date)	Total Raised (USD)
1	EOS (2018)	\$ 4,200,000,000.00
2	Telegram (2019)	\$ 1,700,000,000.00
3	Fei Protocol (2021)	\$ 1,681,200,000.00
4	Bitfinex (2019)	\$ 1,000,000,000.00
5	Huobi token (2018)	\$ 300,000,000.00
6	Filecoin (2017)	\$ 257,000,000.00
7	Tezos (2017)	\$ 228,200,000.00
8	Polymath (2018)	\$ 207,300,000.00
9	Dotcoin (2017)	\$ 201,800,000.00
10	Sirin Labs (2017)	\$ 157,900,000.00

Sources: ICO Drops and CryptoRank

How are token sales structured?

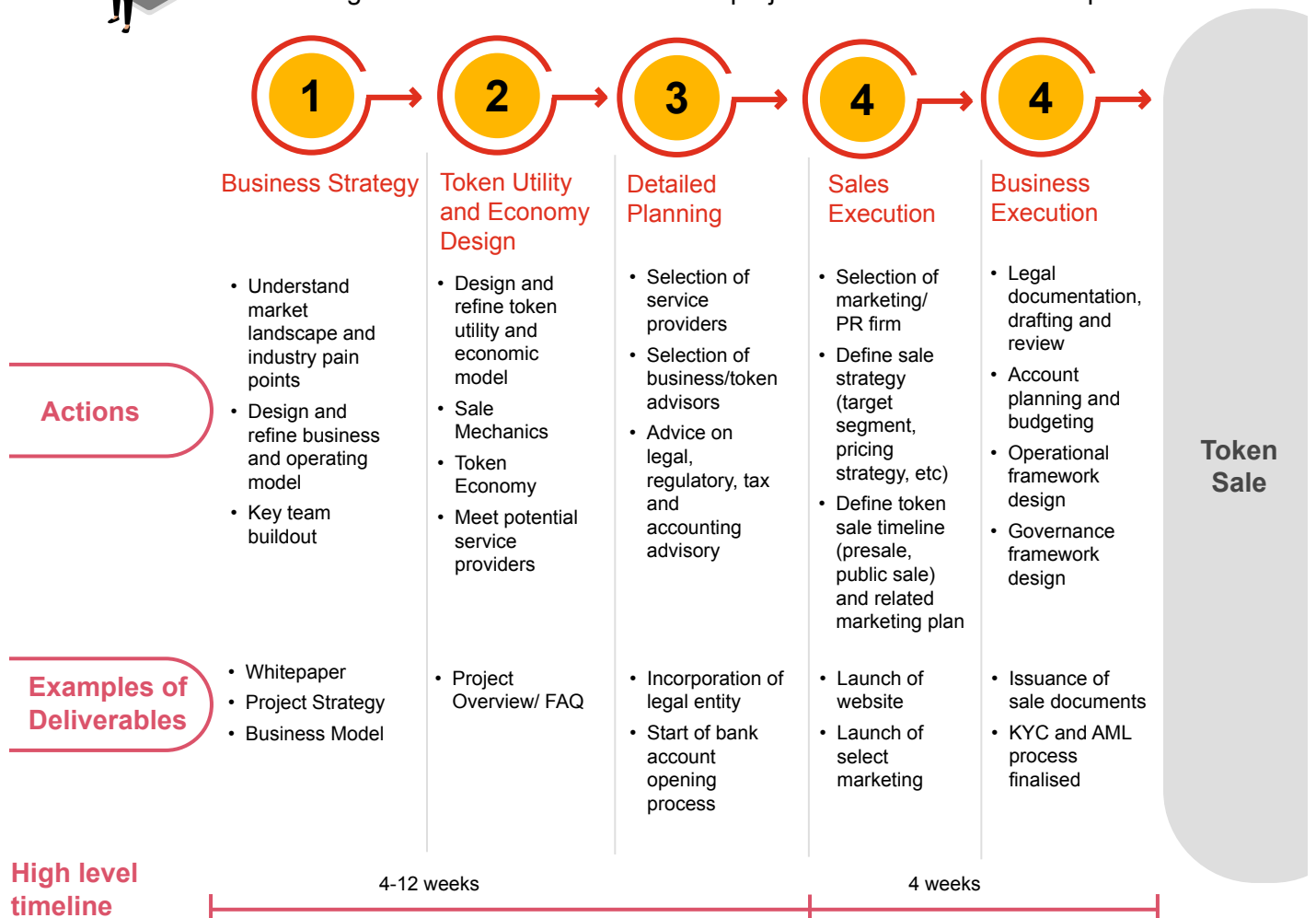
How does a Token Sale/ICO work?

Whilst each token sale has a different structure, the below is a common structure for a for profit entity doing a token sale.



Token Sale launch project — high level timeline

Launching a Token Sale in a multi month project involves numerous steps.



How are token sales structured?

Reasons for a Token Sale/ICO

Whilst each token sale has a different structure, the below is a common structure for a for profit entity doing a token sale.



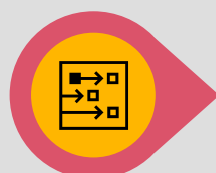
An effective way to raise capital for blockchain-based projects



Removes many of the hurdles present in the equity capital raising process



Receive funding without diluting equity or control



Allows to put together talented team fairly quickly



Allows the setup of an ecosystem



Provides optimal visibility in market

ICO vs IPO

Many in the media compare ICOs with initial public offerings (IPOs). However, there are some basic differences between both, especially when it comes to utility tokens.



ICO

No specific regulatory framework

Generally early stage company

Funds raised generally for specific purpose

Limited rights given to token holders

Target audience often crypto community

No direct economic exposure to issuing company

Varied levels of transparency

IPO

Specific and well defined regulatory framework

Company needs minimum track record

Funds raised for company's long term development

Shareholders have well defined rights

Target audience often institutional investors

Provide economic exposure to company

Prescribed levels of transparency and reports

What makes a Token Sale successful?

There are various reasons token sales are successful.



Token sale best practice features

- Clear processes and procedures
- Transparency and accountability
- Clear framework of escalation and operation

- Pedigree of team
- Well rounded skills set from business to technology

- Presales and public sales
- Pricing
- Timing
- Sale characteristics

- Technical details on token and ecosystem
- Clear vision and roadmap
- Innovative tech features
- Clear governance mindset

- Awareness of project in community
- Marketing to public and crypto- channels
- Clear and consistent messaging
- Social media and community management

- Defined timeline and milestones
- Clear execution roadmap
- Roles and responsibilities
- Accountability

- Tax footprint of ICO and on ongoing basis
- Accounting framework and transfer pricing
- Tax footprint of founders and investors

- Compliance with relevant regulatory requirements
- Proper KYC and AML framework and processes

- Ensure relevant risk and tax language is inserted in documents
- Ensure documentation reflects nature of the sale



Areas of focus

Token Sale best practice areas of focus



KYC/AML

Each Token Sale should consider having in place an appropriate KYC and AML framework to help ensure that not only individuals from certain prohibited jurisdictions are not able to participate, but also that proceeds from criminal activities are not being invested in the Token Sale.



Screening



Sanctions list
monitoring



Risk based
framework



Tax, accounting and transfer pricing considerations

Token Sales also raise various tax considerations — not only in terms of the optimal jurisdiction for the issuing entity but also the most appropriate legal structure.



Tax impact on
founding team and
management



Tax footprint of
issuing entities



Accounting
treatments



Transfer
pricing



Accounting
advisory



Areas of focus

Token Sale best practice areas of focus



Legal and regulatory

The various legal documents relating to the Token Sale — from the white paper to the token sales agreement — need to be reviewed to ensure they are compliant as well.



Incorporation and drafting of Articles of Association



Token Sale documents



Regulatory advisory



White paper review



Terms and conditions of token sale



Pitchbook/FAQ review



Social media and marketing language review



Employment and services agreements



Intellectual property



Governance and controls

Certain basic governance and control items — from the definition of rights of token holders to the appointment and removal of directors to the use of proceeds and the decision-making process — need to be carefully thought through and put in place.



Governance Structure



Code of Conduct



Transparency and Disclosure



Information Security



Use of Proceeds



Cyber Security



Risk Management



Media Policies



Management accountability



Conflicts of Interest



What is next for ICOs?

- A group of best in class Token Sales are shaping up where the founding team have a long term business building mindset from the beginning and a desire to put in place best practices ranging from proper KYC/AML to governance.
- This means working together with top tier partners, advisors and service providers.



Institutional Mind-set



Focus Area

- Key areas like governance will gather more attention in the coming months following recent public scandals.
- KYC/AML is also an important area of focus not only to be able to block token purchasers from certain countries but also to ensure transparency of token purchasers.
- Following recent hacks, cybersecurity will continue to remain high on the priority list.

- Areas of excellence shaping up in the broader token sale space in jurisdictions like Hong Kong, Singapore or Switzerland where there is regulatory clarity and an established ecosystem of service providers and talent.
- New jurisdictions are emerging that are positioning themselves with interesting offerings for token sales.



Shift to Asia



Fund raising

- May remain a challenge in the coming months due to challenges that past token sales have had with many investors deciding to stay on the sidelines.
- Further regulatory clarity, the media hype around Bitcoin and the entry of more traditional players in the crypto space should encourage more institutional investors into Token Sales.

- Many countries' regulators have issued statements for ICOs. This is expected to continue for the foreseeable future.
- It is also likely that we will see enforcement cases where regulators seek to set examples of some questionable ICO transactions.
- Many in the crypto community would actually welcome increased regulations in this space — not only for the ICOs but also for crypto exchanges. This would not only give additional comfort to the public but also make business as usual easier for such crypto firms for basic activities such as opening and maintaining bank accounts.



Regulatory developments

Whilst there is a need for regulation of ICOs that does not stifle innovation but provides appropriate protection for token purchasers, a set of best practices will likely emerge naturally. Many ICOs have already started to shift from a start-up mentality to an institutional mind-set and work with top tier partners, advisors and service providers.



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