Introduction to Token Sales (ICO) Best Practices
What is a Token Sale?

A Token Sale — also commonly referred to as an 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**

**Top 10 ICOs in history by total amount raised**

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

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

Sources: ICO Drops and CryptoRank
How are token sales structured?

How does a Token Sale/ICO work?
While 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.

**Actions**

- Understand market landscape and industry pain points
- Design and refine business and operating model
- Key team buildout

**Examples of Deliverables**

- Whitepaper
- Project Strategy
- Business Model

**High level timeline**

1. Business Strategy
   - 4-12 weeks

2. Token Utility and Economy Design
   - 4 weeks

3. Detailed Planning
   - 4 weeks

4. Sales Execution
   - 4 weeks

5. Business Execution
   - Legal documentation, drafting and review
   - Account planning and budgeting
   - Operational framework design
   - Governance framework design

**Project/ Ecosystem**

- Receive Tokens
- Provides funding & oversees project R&D
- Use the token to participate in the ecosystem

**Shareholders**

- Issues tokens
- Issues whitepaper and project information

**Token purchasers**

- Trade tokens
- Pays in crypto or fiat (e.g. ETH, BTC, USD)

**Founders and management team**

- Receive Tokens
- Manage the token issuance entity

**Companies Limited by Shares**

- Token issuing Entity (could also be a company limited by guarantee)

**Project/ Ecosystem**

- Receive Tokens
- Provides funding & oversees project R&D
- Use the token to participate in the ecosystem

**Token Sale Exchange**

- Token purchasers
- Receive Tokens
- Manage the token issuance entity
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.

<table>
<thead>
<tr>
<th>ICO</th>
<th>IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>No specific regulatory framework</td>
<td>Specific and well defined regulatory framework</td>
</tr>
<tr>
<td>Generally early stage company</td>
<td>Company needs minimum track record</td>
</tr>
<tr>
<td>Funds raised generally for specific purpose</td>
<td>Funds raised for company’s long term development</td>
</tr>
<tr>
<td>Limited rights given to token holders</td>
<td>Shareholders have well defined rights</td>
</tr>
<tr>
<td>Target audience often crypto community</td>
<td>Target audience often institutional investors</td>
</tr>
<tr>
<td>No direct economic exposure to issuing company</td>
<td>Provide economic exposure to company</td>
</tr>
<tr>
<td>Varied levels of transparency</td>
<td>Prescribed levels of transparency and reports</td>
</tr>
</tbody>
</table>
What makes a Token Sale successful?

There are various reasons token sales are successful.

- **Team**: Qualified, well rounded and capable team
- **Use Case**: Solves a problem, has a clear purpose and real application
- **Business Model**: Sustainable and scalable business model
- **Institutional Mindset**: Looking at building a long term institutional grade business

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
- 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

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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.

• 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.

• 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.

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.
Acknowledgements

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