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ACCA Professional
Insights

Blockchain and Initial Coin Offering (ICOs)

EFAA International
Conference
21 June 2018

Developing professional accountants the world needs



- **200,000+ members**
- **180+ countries**
- **100+ offices**

Some headline numbers

ACCA professional insights activity 2016-18

3,433

press mentions



11

practical guides



28,212

members attending insight webinars



67

consultation responses



29

research reports



17,049

downloads of the new insights app



1

new culture tool



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PI App, as at, 10 May 18

- 52, 061 users globally
- 201 countries
- Average 3 screens per session
- Average 3 minutes and 15 seconds per session

1. Background





1 of 7 – Ledger



✓ Set of records



✓ In digitised format

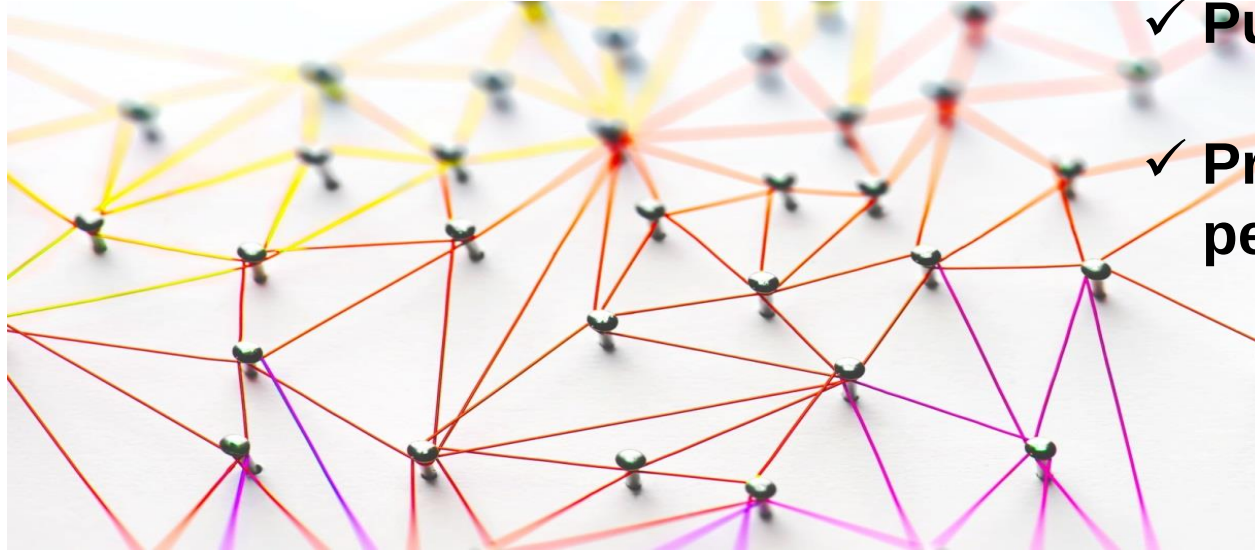


2 of 7 – Distributed



- ✓ **Shared common view**
- ✓ **Updated at same time for everyone**

3 of 7 – Network



✓ **Public /open**

✓ **Private/
permissioned**



4 of 7 – Immutable



- ✓ **Permanent audit trail**
- ✓ **Append-only mode**

5 of 7 – Encrypted



- ✓ **Restricting access**
- ✓ **Data protection: commercial use cases**



6 of 7 – Consensus



✓ **Decentralised
P2P**

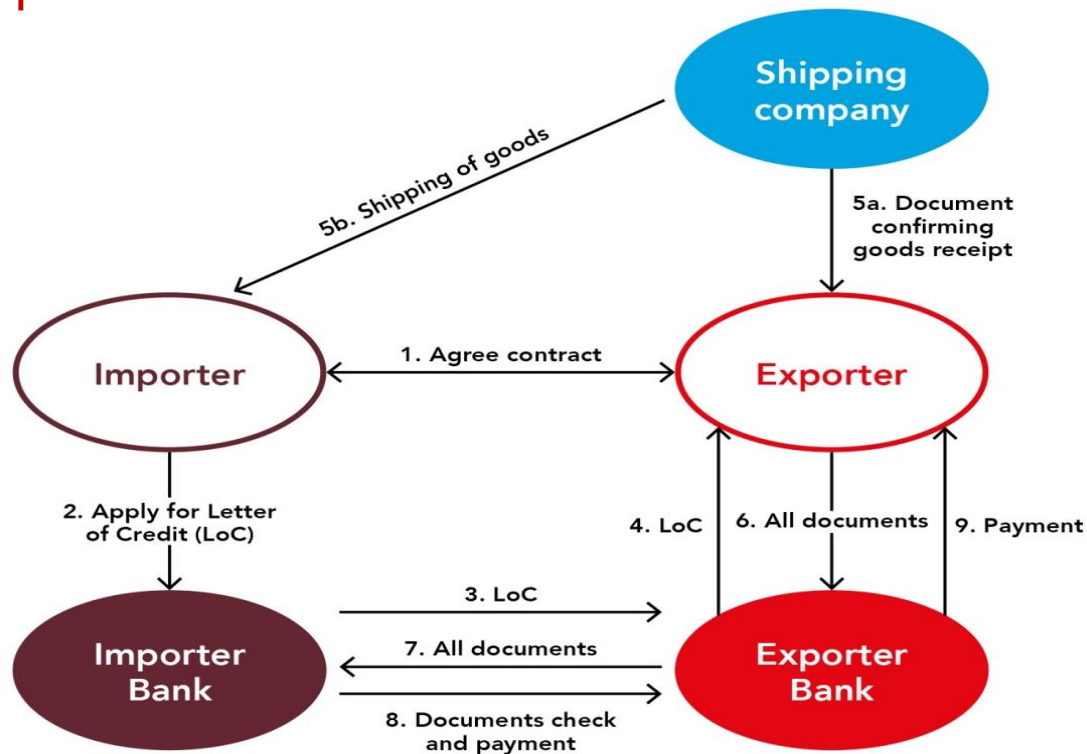
✓ **Hashing**

7 of 7 – Contract



- ✓ **Eg Smart contracts**
- ✓ **Auto triggers versus legal contracts**

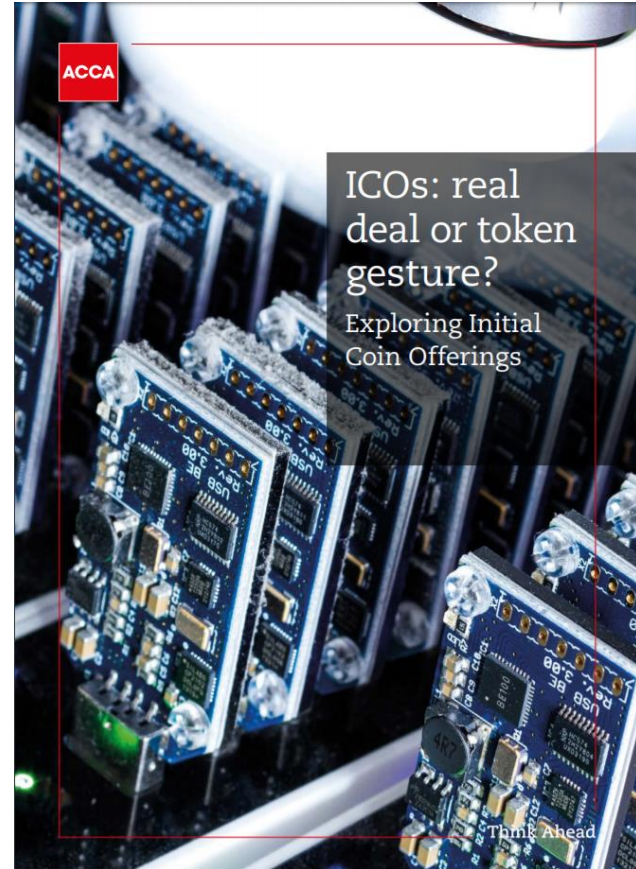
Example: trade finance



What is an ICO?

An Initial Coin Offering (ICO) is:

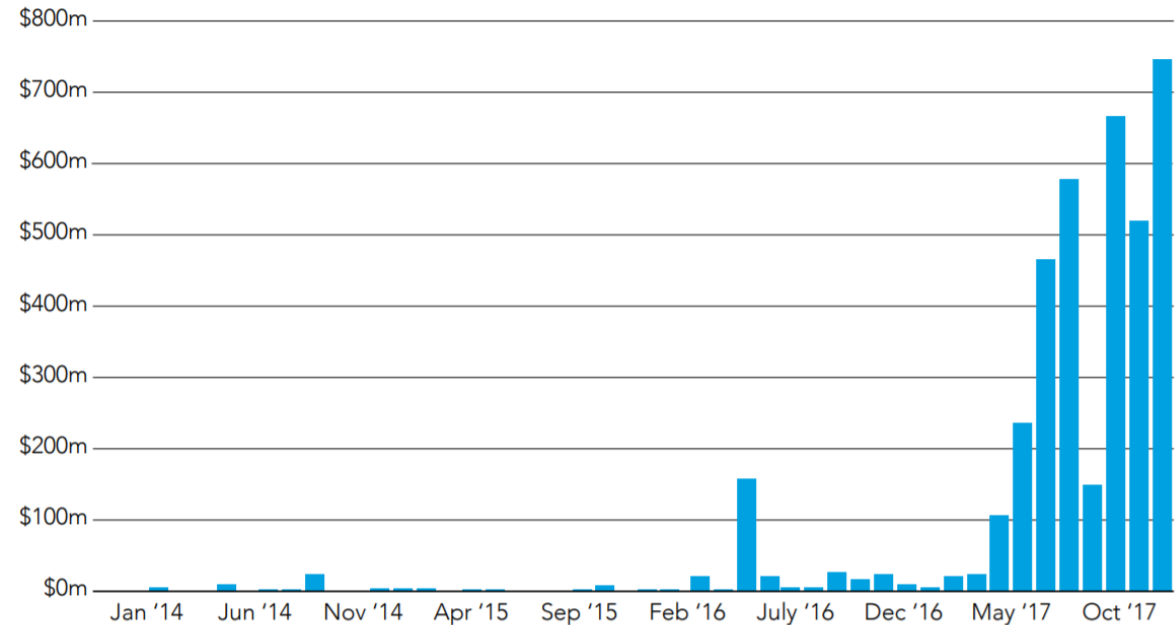
- A way to raise capital.
- The exchange of coins or tokens for capital investment (typically paid in cryptocurrency).
- Currently, an *anonymous* and *under-regulated* environment.



Dramatic increase in ICO activity in 2017

- ICOs raised about \$5.5 billion USD in 2017.
 - Compared to \$70m in the previous year.
- Attracting attention of entrepreneurs, investors, and regulators

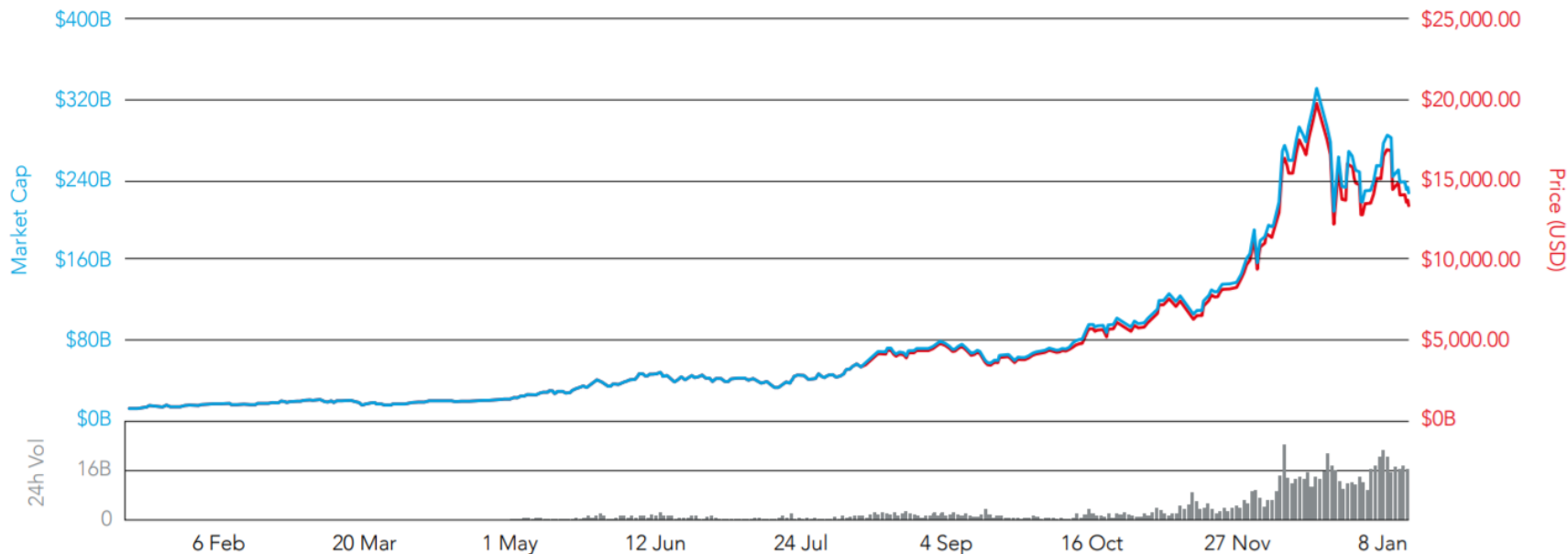
FIGURE 1.1: Monthly new ICO funding



Source: www.coindesk.com

Returns driven by underlying increases in cryptocurrencies

FIGURE 1.2: The changing value of Bitcoin 2017–18



Bitcoin MarketCap 2017–18. Source: www.coinmarketcap.com

2. Risks



Risks for investors



Risks for regulators and economies



3. Regulation

Focus on consumer protection

Chapter 1 Notices / News Releases

1.1 Notices

1.1.1 CSA Staff Notice 46-307 Cryptocurrency Offerings



CSA Staff Notice 46-307 Cryptocurrency Offerings¹

August 24, 2017

Introduction and purpose

Staff (we or staff) of the Canadian Securities Administrators (CSA) are aware of an increase in the number of offerings, such as initial coin offerings (ICO), initial token offerings (ITO)² and sales of securities of crypto funds.

Cryptocurrency offerings can provide new opportunities for businesses to raise capital and for investor range of investments. However, they can also raise investor protection concerns, due to issues around valuation, custody and liquidity, as well as the use of unregulated cryptocurrency exchanges.³ Also, investors may not understand the promises of the investment opportunities that may be offered.



ASIC
Australian Securities & Investments

Initial coin offerings

This information sheet (INFO 225) gives guidance about the potential application of the Corporations Act to businesses that are considering raising funds through an initial coin offering (ICO). The information sheet covers:



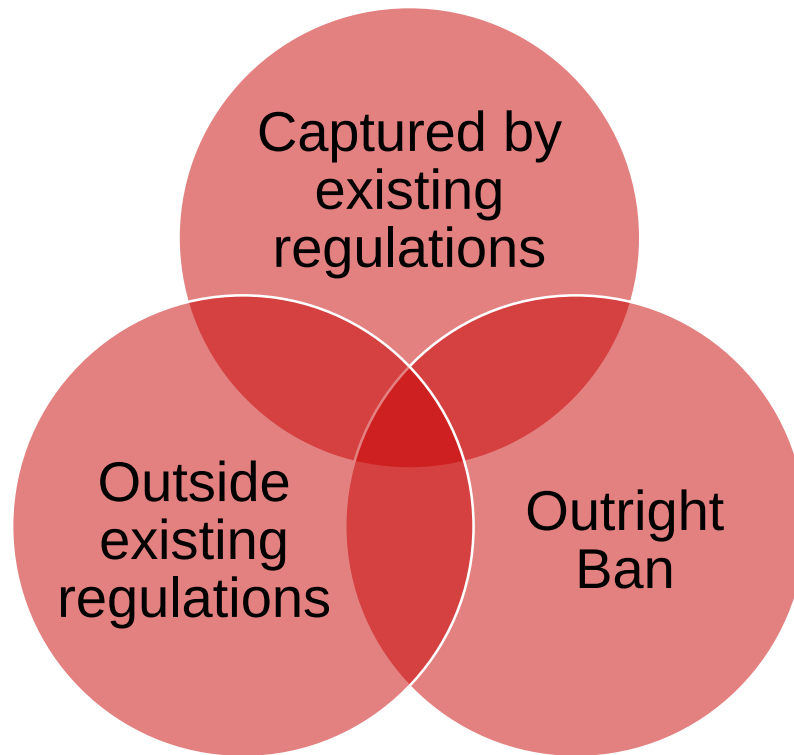
MAS cautions against investments in cryptocurrencies

Singapore, 19 December 2017... The Monetary Authority of Singapore advises the public to act with extreme caution and understand the significant risks they take on if they choose to invest in cryptocurrencies¹. MAS is concerned that members of the public may be attracted to invest in cryptocurrencies, such as Bitcoin, due to the recent escalation in their prices.

- MAS reminds the public that cryptocurrencies are not legal tender. They are not issued by any government and are not backed by any asset or issuer.
- MAS considers the recent surge in the prices of cryptocurrencies to be driven by speculation. The risk of a sharp reduction in prices is high. Investors in cryptocurrencies should be aware that they run the risk of losing all their capital.
- There is no regulatory safeguard for investments in cryptocurrencies. As in most jurisdictions, MAS does not regulate cryptocurrencies. Nor do MAS regulations extend to the safety and soundness of cryptocurrency intermediaries or the proper processing of cryptocurrency transactions.

Банк России подтверждает позицию, высказанную в январе 2014 года, в отношении разного рода частных «виртуальных валют» (криптовалют). Банк России отмечает, что в последнее время резко возросло количество запросов участников финансового рынка и СМИ по поводу криптовалют, получивших широкое распространение в мире. Совместно с заинтересованными федеральными органами государственной власти Банк России осуществляет мониторинг рынка криптовалют и вырабатывает подходы к определению и регулированию криптовалют в Российской Федерации. Большинство операций с криптовалютами совершается вне правового регулирования как Российской Федерации, так и большинства других государств. Криптовалюты не гарантируются и не обеспечиваются Банком России. Криптовалюты выпускаются неограниченным кругом анонимных субъектов. В силу анонимного характера деятельности по выпуску криптовалют граждане и юридические лица могут быть вовлечены в противоправную деятельность, включая легализацию (отмывание) доходов, полученных преступным путем, и финансирование терроризма.

3 tribes of regulatory response to ICOs



Whether an ICO qualifies as a security: USA's Howey Test

Howey Test

A contract, transaction or scheme

The investment of real money in a common enterprise

With a reasonable expectation of profits

Derived from the managerial efforts of others

France's regulatory response to ICOs

- Consultation launched
26 October 2017
 - Emphasises risks and potential opportunities
 - Launched UNICORN
 - Will publish ICO impact analysis in late 2018
- Consultation closed
22 December 2017 for views on new regulatory approach



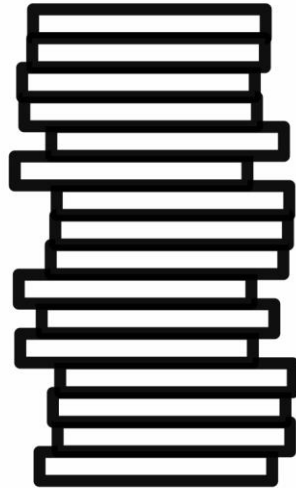
China's regulatory response to ICOs

- Joint notice by Chinese bodies banning ICOs
 - “These activities have disrupted the economic and financial order”
 - “From the date of release of this Notice, fundraising through coin offering shall be banned immediately”
 - Order to end all virtual-currency exchanges in October
- Counterbalanced by China's ambition to lead in blockchain, AI and big data



4. ICOs and the professional accountant





**A new
way to
raise
capital**

What are the implications for professional accountants?



- Knowledge
 - Securities offerings and trading
 - Prospectus requirements
 - AML / TF
- Interpreting business and operating models
- Service offers
- Ethics

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Thank you