



Press statement

2 February, 2018

## Statement on regulation of Initial Coin Offerings (ICOs) in Jersey

The Jersey Financial Services Commission (JFSC) has been alerted to recent articles that claim that certain Initial Coin Offerings (ICOs) are regulated by the JFSC. The JFSC considers such statements to be misleading, and is issuing this statement to clarify the regulatory treatment of ICOs and to ensure that the public are fully aware of the role of the JFSC in respect of such ventures.

Most jurisdictions do not regulate ICOs. However, just like any other Jersey company raising capital through the issuance of shares, a Jersey company issuing digital coins or tokens from Jersey would need to obtain a consent (Control of Borrowing (Jersey) Order 1958, known as COBO) from the JFSC in order to set up the company. The grounds on which the JFSC would determine whether or not to grant a consent under these circumstances is limited by statute, and the focus is primarily on whether potential investors have been provided sufficient information about the company and the risks of investing in it. The JFSC does not consider the financial standing of, or conduct risks associated with, the unregulated company selling such ICOs or the digital coins/tokens.

In November 2017, the JFSC [issued a risk warning](#), explaining that ICOs, wherever they are issued from, tend to be unregulated and warning the public about the risks of “investing” in them. It should be remembered that the price of the coins or tokens issued can go down as well as up.

When asked to give an Article 2 consent under COBO with the aim of enhancing transparency for investors who are making a decision whether or not to invest in an ICO offering, the JFSC would consider attaching the following conditions to any consent granted. Other conditions may be applied and every application is considered on a case by case basis.

- › Marketing material produced by the Jersey company must contain clear consumer warnings highlighting that the initial coin offering is unregulated and may result in substantial risks for investors. In particular, the consumer warnings must clearly state that:
  - a. ICOs are a highly speculative form of investment;
  - b. Investors should be prepared for the possibility of losing their investment completely; and
  - c. This highly speculative form of investment is not subject to existing capital market regulations.
- › We remind potential investors that the JFSC is protected by the Control of Borrowing (Jersey) Law 1947, as amended, against liability arising from the discharge of its functions under that Law.
- › It must be distinctly understood that, in giving Control of Borrowing consents, the JFSC takes no responsibility for the financial soundness of the company or for the correctness of any statements made, or opinions expressed, with regard to it.

Ends.

## Notes to Editors:

### What are Initial Coin Offerings?

ICOs are a digital way of raising funds from the public. ICOs take place using distributed ledger or blockchain technology.

Participants are normally issued with digital tokens (coins) linked to a specific business or project. They will typically obtain tokens by transferring a certain amount of cryptocurrency to a blockchain-generated address supplied by those organising the ICO campaign. The tokens may represent a share in a business or project, a right to use a particular piece of technology in the future or in some cases offer no explicit rights or discernible value at all. "Token sale" or a "token-generating event" are other terms used to describe an ICO. How ICOs are structured from technical, functional and business standpoints varies markedly from offering to offering. There is no catch-all definition.

The JFSC recognises the innovative potential of distributed ledger/blockchain technology and Fintech more generally and supports efforts to responsibly innovate in Fintech in Jersey. However, we are concerned about retail investors participating in ICOs, which are typically highly speculative and risky investments often subject to high price volatility. Often ICO projects are at an early stage of development.

ICOs tend to be unregulated, and therefore typical investor protection requirements, such as the requirement to provide a fair and balanced description of the investment, are unlikely to apply. The JFSC is aware of some instances of ICOs being used for fraudulent purposes.