



28 February 2019

Division Head

Financial System Division
The Treasury
Langton Crescent,
PARKES, ACT 2600

Dear Sir/Madam,

RE: Issues Paper: Initial Coin Offerings – Call for Submissions from Industry

Thank you for the opportunity to respond to the January 2019 Treasury Department Issues Paper on the subject of Initial Coin Offerings.

We note that the value of these industry submissions comes not from the length and breadth of attending to every question, but rather, to provide brevity and quality in the areas where Lakeba has relevant and expert knowledge. Our experience is a result of active participation in this sector through the launch of Lakeba's ICO initiatives and industry wide recognition of our first-mover position in blockchain development.

Our submission focuses on the following sections of the Issues Paper:

- 2.1. What is the effect and importance of secondary trading in the ICO market?
- 2.2. What will be the key drivers of the ICO market going forward?
- 3.1. How can ICOs contribute to innovation that is socially and economically valuable?
- 3.2. What do ICOs offer that existing funding mechanisms do not?
- 3.3. Are there other opportunities for consumers, industry or the economy that ICOs offer?
- 3.4. How important are ICOs to Australia's capability to being a global leader in FinTech?
- 3.5. Are there other risks associated with ICOs that policymakers and regulators should be aware of?

Lakeba is an established technology innovator with extensive experience delivering solutions that incorporate latest technologies such as AI, Mixed Reality and blockchain. With 150 staff, the

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company is headquartered in Sydney, NSW, with offices in Europe, UK, USA, and India. Through our unique business platform Lakeba rapidly creates, builds and scales new products and services to drive value for businesses and communities across the globe.

The company has taken a first mover advantage, rapidly expanding its blockchain capabilities and engaging with industry to drive the opportunities inherent in this new technology.

As CEO and Founder of Lakeba Group, I believe informed, constructive and consultative regulation will deliver the trust and confidence for Australian businesses to embrace a bolder, more innovative approach to the commercial impact of ICOs. It requires an aggregated effort, by Government regulators and the Australian business community, to create and find agreement on a regulatory environment that allows innovation to flourish, and our economy to be successful.

Sincerely,

A handwritten signature in black ink, appearing to read 'Giuseppe Porcelli', with a stylized flourish at the end.

Giuseppe Porcelli
CEO and Founder
Lakeba Group

Drivers of the ICO Market

Section 2.1. What is the effect and importance of secondary trading in the ICO market?

Effect of secondary trading in the ICO market:

Secondary trading on cryptocurrency exchanges provides the platform for ICO market trading, and whilst secondary trading provides a useful function of providing liquidity to the ICO token market, some secondary trading forces can lead to very volatile token prices.

Traders need to anticipate potential token volatility scenarios, and investors are required to prepare for the effects of secondary trading evidenced by large price moves in the market. ICO projects actively try to counter volatility effects by stabilising the price and flow of their token through tokenomics practices (a field of economics related to ICO based tokens). E.g. Bitcoin fluctuates with a money velocity of roughly 7 and depending on the project's tokenomics strategy, a token might have a lower velocity and stable price or greater than 7.

- Large token holders or market makers seek to liquidate their tokens by selling them on the secondary market. In fact, they have a greater incentive to do so than other players, because they hold a substantial share of the market and can easily manipulate prices for their own gain.
- Sale on secondary markets, especially shortly after an ICO launch, causes significant fluctuations in token values, and adversely affects other purchasers. Some projects stipulate a no-sale period for the market makers, which can range between several months or years. However, if the market maker has a large share of the market, they can manipulate the value of the currency which might be unfortunate to the current token holders.¹

Importance of secondary trading in the ICO market

¹ <https://www.lexology.com/library/detail.aspx?g=4ecaedda-8db6-479d-82b4-106de5b73b66>

Secondary trading in the ICO market is vital because it ensures liquidity and a marketplace for ICO token holders and serves as a place for trading a token following an ICO.²

An added importance of ICO capital raising and investment is that it offers Australians to now raise capital or invest more easily on a global scale. This represents a freer movement of global capital, and ICO capital raising is a technology to be celebrated, but the current downside is that there is not sufficient protection for ICO token buyers. Investors run the risk of losing their money in a scam project without recourse.

Understanding that there is a growing secondary market should lead to modernisation of security laws to accommodate ICOs.

The secondary market is also important because a well-regulated market can help facilitate job creation in Australia around these new ICO and internet-based industries based on cryptocurrency and the blockchain. Appropriate regulation will smooth out the hype in the secondary market and lead to more investments in projects driven by fundamentals, while at the same time, calming the market with less volatile prices in the secondary trading market.

Regulators may need to recognise that secondary trading in the ICO market represents a more modern version of the traditional stock market and consider extending a similar framework of regulatory protection to investors of ICOs as those provided for the purchase of shares.

Section 2.2. What will be the key drivers of the ICO market going forward?

For both Australia and the global cryptocurrency/blockchain industry, favourable regulation and regulatory certainty will drive and encourage fair expansion of the ICO market.

Switzerland and Singapore are two markets in Lakeba's opinion, that offer useful benchmarks for what Australian ICO regulation should be if we want to foster a pro-crypto blockchain ecosystem. Heavy handedness by regulators against security token offerings will lead to more Australian firms continuing to register their operations overseas, when they would prefer to register in Australia and contribute to the wealth and prosperity of our own economy and help sustain Australia's position as an innovation hub.

The below chart from PWC offers valuable reference on how governments in the below jurisdictions have held an overall positive attitude towards a wide variety of ICOs (both traditional ICO or Security

² <https://blockex.com/ico-primary-token-listing-service>

token and Reverse ICOs). The upshot of this is that these governments have been able to extract many benefits from this pro blockchain stance.

The USA has a new & centralized securities regulation, while CH and SGP continue their focus on regulating ecosystems

Global ICO hubs

USA	Switzerland	Singapore
<p> Overall positive attitude, but market still awaits more clarity on protectionary regulations</p> <p> All tokens treated as securities as per current communications</p> <p>Cryptocurrency & exchange</p> <ul style="list-style-type: none"> Each of the 50 states can have their own regulations (e.g. BitLicense) SEC retains jurisdiction over ICOs and definition of security tokens FinCEN requires all exchange to register <p>ICOs</p> <ul style="list-style-type: none"> Definition of security very broad (e.g. Howey Test) Strict SEC rules have dissuaded international issuers from raising capital from participants in the US to date <p>Implications</p> <ul style="list-style-type: none"> ICOs are increasingly beginning to register with the SEC Market awaits further regulatory clarity and alignment of state and federal rules 	<p> Overall positive attitude towards cryptocurrencies</p> <p> Tokens treated as assets</p> <p>Cryptocurrency & exchange</p> <ul style="list-style-type: none"> No special license required for cryptocurrency businesses Favorable treatment in line with Swiss Anti-Money Laundering Act <p>ICOs</p> <ul style="list-style-type: none"> Swiss Financial Market Supervisory Authority (FINMA) reviews new ICOs on a case-by-case basis Focus on AML and security regulations Regulations depend on function of tokens (payment, utility or asset/ security tokens) <p>Implications</p> <ul style="list-style-type: none"> Zug/ Zurich well known as "Crypto Valley" with established ecosystem Favored choice for many ICOs, especially EU and Asia based projects 	<p> Overall positive attitude towards cryptocurrencies</p> <p> Tokens treated as assets</p> <p>Cryptocurrency & exchange</p> <ul style="list-style-type: none"> Overall favorable regulatory treatment Monetary Authority of Singapore (MAS) report (Nov 2017) issued guidelines and will not regulate virtual currencies, but rather the involved activities MAS mandated that intermediaries of cryptocurrency transactions (incl. ICO) need to implement stricter due diligence and AML procedures <p>ICOs</p> <ul style="list-style-type: none"> MAS continues to monitor ICO industry More targeted legislation may be issued if necessary <p>Implications</p> <ul style="list-style-type: none"> Become a jurisdiction of choice for ICOs Established crypto/ Blockchain ecosystem

Source: PwC Strategy & analysis

According to Jason Lee from NEM, "Since November 2017 several large scale ICOs have entered the Top 15, dwarfing previous records from 2017 – with Telegram (USD 1.7 bn) and EOS (USD 4.1 bn), the first true ICO Unicorns have appeared."³

A pro ICO regulatory stance could see Australia raise a billion dollars for a single ICO and create extra work for legal and financial services required to stage an ICO in Australia, and further raise the profile of ICOs with the business community about the benefit of allowing more well-regulated ICOs in Australia.

³ <https://medium.com/@jasonleechunjon/ico-gold-rush-or-capital-raising-2-0-6d0c16f402e7>

Telegram & EOS have introduced the era of 'ICO Unicorns' with a record breaking USD 1.7bn and USD 4.1bn (estd.)

Overview: 15 biggest ICOs overall since 2016

			Total raised amount (USD mn) ¹	End of ICO (month)	Focus	Industry	Country
1	EOS ²⁾	1 Year ICO	4100.0	06.2018	Infrastructure for decentralized apps	BC infrastructure	Cayman Islands
2	Telegram	NEW	1700.0	03.2018	Tokens for messenger	Social Media	British Virgin Islands
3	Dragon	NEW	320.0	03.2018	Decentralized Currency for Casinos	Gambling	British Virgin Islands
4	Huobi Token	NEW	300.0	02.2018	Coin for South Korean crypto exchange	FinTech	Singapore
5	HDAC	NEW	258.0	12.2017	IOT platform backed by Hyundai BS&C	Internet of Things	Switzerland
6	Filecoin		257.0	09.2017	Decentralized Market for Data Storage	Data storage	USA
7	Tezos		232.0	07.2017	Platform for decentralized apps	BC infrastructure	Switzerland
8	Sirin Labs	NEW	157.9	12.2017	Secure open source consumer electronics	Consumer electronics	Switzerland
9	Bancor		153.0	06.2017	Enabling direct conversion between tokens	FinTech	Switzerland
10	Bankera	NEW	150.9	03.2018	Banking for the Blockchain era	FinTech	Lithuania
11	Polkadot		145.2	10.2017	Simultaneous use of multiple Blockchain	BC infrastructure	Switzerland
12	The DAO		142.5	05.2016	Decentralized autonomous organization	Venture capital	Switzerland
13	Polymath	NEW	139.4	01.2018	Security token platform	FinTech	Barbados
14	Basis	NEW	133.0	04.2018	Stablecoin without price volatility	FinTech	USA
15	Orbs	NEW	118.0	05.2018	Public Blockchain for decentralized apps	BC infrastructure	Israel

1) Calculations based on currency exchange rates on end date of ICO. As Ether and Bitcoin exchange rates are highly volatile, actual and current market capitalization of the companies today may differ significantly from figures shown in the table. ICO funding amount until 29.05.2018 considered.

2) Petro, the acclaimed USD 5bn ICO by the Maduro government of Venezuela was not considered, as the political opposition claims that the funds did not reach Venezuela

2) EOS conducted a two-phased ICO. In the 1st phase (5 days in June 2017), USD 185 mn were raised. The second phase lasted 350 days, ending in June 2018.

Source: PwC Strategy& analysis

The insights we can draw from the PWC data is as follows:

- **Price of cryptocurrency will influence knowledge about ICOs and the crypto blockchain industry.**

As the price of cryptocurrency increases, general public interest in the crypto blockchain sphere will grow in proportion. As a result, businesses will be increasingly more interested in launching an ICO as a method of raising global capital with a low barrier of entry not typically available to capital raising. There will be a greater call for technical skills rather than hiring costly legal and financial expertise.

- **Increased Cryptocurrency adoption as awareness increases naturally over time.**

ICOs could fundamentally change how private companies raise capital in the future. As more companies realise the benefits of cryptocurrency and ICOs due to reduced costs and need for middlemen, such as the costs of conducting an IPO, more companies will adopt the easier, more rapid process of raising funds whether it be a security ICO, reverse ICO or traditional ICO.

Opportunities and Risks

Section 3.1. How can ICOs contribute to innovation that is socially and economically valuable?

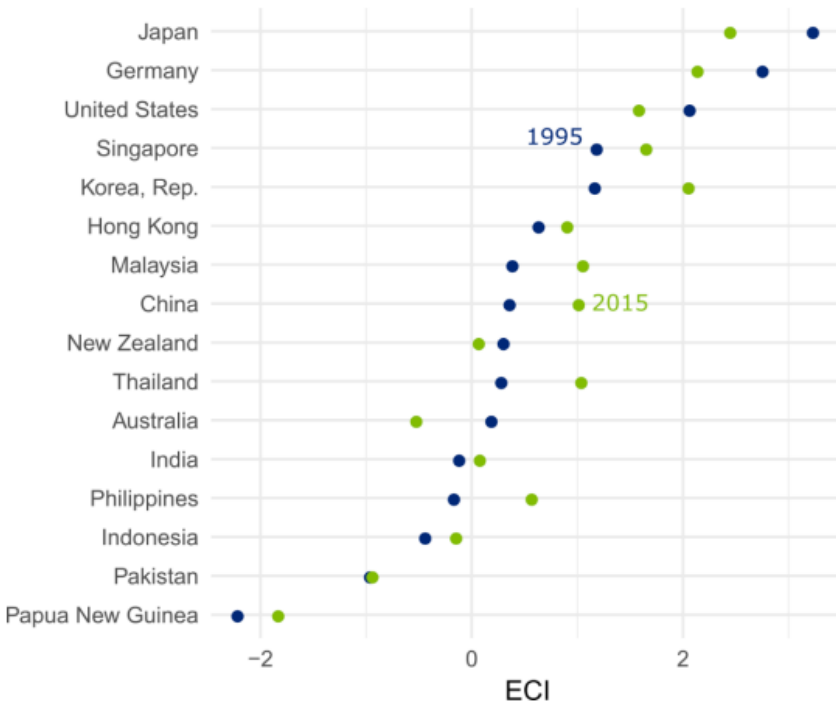
ICOs offer a more cost effective and efficient way of raising capital. Large amounts of money can be raised by smaller teams than traditionally possible.

The costing saving arises from the direct way in which funds can be raised in the ICO era, negating the need for legal and financial advisers savvy in raising capital or having the requisite knowledge required for navigating the Venture Capital pathway or IPO process.

It is possible to take two countries with similar levels of income, but the growth prospects of the more complex country are measurably more resilient and stronger than those for the less complex nation. Embracing ICOs and the crypto blockchain provides complexity to the economy. Looking at the data below, complexity is a better yardstick when forecasting a nation's economic future, more so than many other measures, such as a country's average education levels, governance levels or the World Economic Forum's competitiveness index.⁴

⁴ <https://www.policyforum.net/australian-economy-simple/>

Chart: ECI rankings for selected countries in 1995 and 2015



Source: "The Atlas of Economic Complexity," Center for International Development at Harvard University, <http://www.atlas.cid.harvard.edu>

Australia is the 20th largest export economy in the world and the 59th most complex economy according to the Economic Complexity Index (ECI).⁵

For the past half century, the structure of Australia's economy has been relatively simple compared to other developed economies.

Australia is a country full of inspired start-ups and entrepreneurs trying to create a new source of wealth for Australia. We believe this can be accelerated by being open to new methods of wealth creation such as the crypto blockchain industry, which ICOs fall under. ICOs can help forward thinking firms like Lakeba to stay abreast of the global trend of tech companies growing at an exponential rate and creating added wealth.

Startups have left Australia due to ambiguous or anti-crypto regulation prior to the removal of double taxation, and relatively high company tax rates. [Coinjar](#) was one Australian startup that left for the UK in 2014 due to attractive company tax rates there and no double taxation of crypto at the time.

⁵ <https://atlas.media.mit.edu/en/profile/country/aus/>

ICOs have fundamentally changed how companies can now raise global capital without having to leave their domestic market. This is an innovation breakthrough that should be fostered, as it will bring greater foreign inflows of cash to Australia and thus foster new and creative industries as well as increase broader economic prosperity.

Tech savvy people can think and raise globally, at much less cost than an IPO, with less expertise required in how to raise capital for innovative ideas. In short, people can stay focused on building out their idea rather than jumping through regulatory hoops.

Reducing friction in raising capital enables a freer economy and an environment for more innovation to take place at a greater pace.

Examples of ICO benefit for Australia.

Reverse ICOs are a type of ICO that can have significant benefit to the economy and assist existing businesses. They are generally used by established businesses who have already created a product and are looking to launch related tokens in order to gather funds to expand the company.⁶

Example of a successful reverse ICOs -Telegram.

This coin offering has been the cause of widespread news time and again with the funds that it just keeps pulling – reaching a whopping \$1.7 billion USD – and the Telegram train seems to gain steam at every cryptocurrency corner and has become popular in the crypto community. Russia currently receives a significant portion of these funds, when Australia could benefit more with an injection of \$1 billion plus into the economy.⁷

Section 3.2. What do ICOs offer that existing funding mechanisms do not?

PWC notes that *'Traditionally, IPOs can operate within a rigid framework that involves ongoing reporting, several middlemen and added service fees, whereas ICOs bypass this lengthy process and allow unsurpassed flexibility.'*

'ICOs increasingly continue to crowd out traditional VC funding, especially in technology and Blockchain-related startups. Hybrid models (combining classic VC/PE funding and ICO) are increasingly establishing themselves as a valid funding alternative.'

⁶ <https://www.coininsider.com/notable-reverse-icos/>

⁷ <https://www.coininsider.com/notable-reverse-icos/>

ICOs offer a far more democratic, rapid, efficient method of fund raising. Anyone can effectively raise capital for their project without having to spend costly fees on lawyers and large finance teams in order to raise capital for their ideas. If you are technically savvy with a good idea, an ICO offers the platform and the trajectory to secure funds required for growth.

Traditional funding has an intrinsic challenge of people only buying shares in their own geographical location, thus limiting the size of capital raised to the funds from a single country. ICOs can raise capital electronically from global sources of funds and thus raise a greater amount of funds for their project and scale faster. This is a frictionless, free flow of capital that represents a freer market mechanism than traditional funding models and means the barrier to entry of raising capital has been drastically reduced.

*'An ICO drastically reduces the time and effort required to source the required capital. A team of 3 people could theoretically raise millions without middlemen if they can launch an ICO smart contract and market their idea effectively. They can also do this from their own house or small office if the team is technically savvy.'*⁸

*For example, IPO roadshows and meetings at several major cities may require 20-40 brokers and investors, doing the same presentation, and fielding similar questions every round of finance. This a physically and mentally demanding exercise.'*⁸

An ICO is open to anyone globally with internet access and a credit card (or Bitcoin/Ether).

This results in users/investors being able to purchase from any geographic location and allows prominent investors to buy thousands of tokens. This negates the need for a broker and recasts the fund-raising field to a one-on-one transaction.

People can buy a dollars' worth of an ICO or they can buy thousands of dollars' worth delivering a direct peer to peer relationship between investor and ICO fund raiser. This is in effect closer to a free market than the traditional financial system.

This also gives Australian ICOs access to a global market of capital sources greatly increasing their ability to reach their required fund-raising cap. With less regulations to deal with for ICOs, more time can be spent on developing their product than satisfying burdensome legal conditions and producing documents for prospective Venture Capital funders.

⁸ <https://www.theaustralian.com.au/business/technology/why-icos-are-the-real-deal/news-story/588f72fad5e09dd73f89270fefac19e7>

This is true capitalism. ICOs enable and financially lubricate a more efficient free market.

3.3. Are there other opportunities for consumers, industry or the economy that ICOs offer?

Australia has a unique opportunity to establish itself as a jurisdiction of choice for ICOs.

With Gen Y millennials effectively locked out of a prohibitively expensive property market, cryptocurrency and blockchain represents a new economic segment for government to provide prosperity to the upcoming generations of Australian innovators and businesses.

ICOs and the burgeoning blockchain / cryptocurrency industry provide a new opportunity to change Australia's conservative business culture and support a new industry that will power the future economy.

Further, for those incumbent industries supporting traditional capital raising, the legal industry and financial services industry can re-position themselves in the inflow of forward-thinking ideas and global capital that will inflow from ICOs launching in Australia.

Job creation is possible for a plethora of industries not only limited to the blockchain crypto industries but other existing industries. Even though Australia has much talent engaged in the crypto blockchain industry, the overall sentiment is that the industry has been constrained by the conservativeness and flat footedness of previous governments regarding cryptocurrency and ICOs. That said, industry acknowledges the tone is shifting and becoming more productive at State and Federal level.

We have the technological knowledge to drive Australia's prosperity, and we believe it is only legal ambiguity and lack of clear regulation holding back Australian technological and ICO competitiveness in a world where technological progress and companies are accelerating at an exponential rate.

Australia's economy has a lack of complexity, where industries such as crypto blockchain can help secure our prosperity. Currently our only tech company in the top ten ASX is medical tech company CSL.

Largest US companies in 2018 vs 2008							
2018				2008			
Rank	Company	Founded	USbn	Rank	Company	Founded	USbn
1.	Apple	1976	890	1.	Exxon	1870	492
2.	Google	1998	768	2.	General Electric	1892	358
3.	Microsoft	1975	680	3.	Microsoft	1975	313
4.	Amazon	1994	592	4.	AT&T	1885	238
5.	Facebook	2004	545	5.	Proctor & Gamble	1837	226
6.	Berkshire	1955	496	6.	Berkshire	1955	206
7.	J&J	1886	380	7.	Google	1998	198
8.	JP Morgan	1871	375	8.	Chevron	1879	192
9.	Exxon	1870	367	9.	J&J	1886	192
10.	Bank of America	1909	316	10.	Walmart	1962	184

Source: Bloomberg, Google

Largest Australian companies in 2018 vs 2008							
2018				2008			
Rank	Company	Founded	USbn	Rank	Company	Founded	USbn
1.	BHP Billiton	1885	122	1.	BHP Billiton	1885	184
2.	CBA	1911	112	2.	CBA	1911	67
3.	Westpac	1817	84	3.	NAB	1893	52
4.	ANZ	1835	66	4.	Telstra	1901	50
5.	NAB	1893	64	5.	ANZ	1835	45
6.	CSL	1916	51	6.	Westpac	1817	45
7.	Wesfarmers	1914	40	7.	Woolworths	1924	35
8.	Telstra	1901	35	8.	Westfield	1960	32
9.	Woolworths	1924	28	9.	Woodside	1886	31
10.	Macquarie	1970	27	10.	Wesfarmers	1914	25

Source: Bloomberg, Google

Australia is comparable to third world economies reliant on old industries such as banking and mining, compared to the US where the top companies are technology stocks making these economies far more progressive and with greater opportunity for economic prosperity and growth.

Australia needs to shift more rapidly in this direction, reducing our need and economic dependence on resources and property stocks. We need to balance this with increasingly valuable technology stocks

and a forward-thinking attitude that puts our country on par with the rest of the developed world. There is no argument that technology is the new economic driver of this century.

According to the Australian census of 2016, manufacturing in Australia declined 24% in the years leading up to 2016. Jobs in healthcare increased 16%. Australia needs a greater sense of urgency from both government and business leaders to create new avenues of wealth for the country.⁹

Australia's innovation and capital has been poured into an unproductive housing bubble and property that have not led to an innovative country. Australia requires visionary and progressive policy and pro ICO and crypto blockchain regulation is a great start. For all the discussion on risk, business and investing requires due diligence on the part of all involved.

Ethereum is revolutionary for example, and an investment of \$1000 when it first launched its ICO in 2015 would be worth \$2,000,000 now. It is a technology now embraced by governments, enterprise, traders and regular crypto fanatics worldwide bringing a new type of economy and improved payments to the world. We are confident technologies like this can be launched from Australia given the right environment and regulation.

Australia had the potential to have first mover advantage in the cryptocurrency and blockchain space in the early to mid-2010's, however forfeited this by making it cumbersome for forward thinking Australian companies. As a result, Coinjar was one of the first entrepreneurial cryptocurrency/blockchain related companies to move to the UK. Many others followed.

For Australian economic prosperity to continue in the modern era, continued innovation is the key to financial prosperity. The question to raise is do we have the appropriate or fit-for-purpose regulators to help navigate this new regulatory terrain? Those who are currently responsible for regulation may have evolved in a different era where economic complexity was not necessary for economic prosperity. Further, do we have the required regulatory agility of experience and thinking demanded by this new technological environment?

Despite the prominence of innovative and entrepreneurial Australians, there has been a lack of urgency from government due to being one step removed from the new economic paradigm of cryptocurrency and blockchain tech. From our perspective, with Lakeba being deeply embedded in the blockchain and ICO world, this technology is going to change the world for the better, driving exponential positive impact for productivity, transparency and efficiency as well as profitable growth for Australian businesses.

⁹ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Previousproducts/8155.0Media%20Release12012-13?opendocument&tabname=Summary&prodno=8155.0&issue=2012-13&num=&view=>

3.4. How important are ICOs to Australia's capability to being a global leader in FinTech?

While the original ICO trend may have passed for now, maturing security ICOs may be an important trend to consider in the future. We need to maintain an open mind to alternative trends of ICOs such as Security tokens and Reverse ICOs, finding the right balance of strategies and regulations such as those outlined below. Australia has the opportunity and the ability to attract global ICO and crypto projects who would further use our legal and financial services and bring innovative ideas to Australian companies. Our sense is that ICOs are vital for Australia to strengthen its position as an innovative global leader in the Fin Tech sector.

The below research from PwC supports our belief that the creation of best practice regulatory guidelines can help Australia become the global leader the blockchain community believes it has the potential to be. Signaling to the global community that we understand, embrace and encourage what ICOs can bring to the economy is best demonstrated by progressive regulation.

Summary: After ICOs went through a hype-cycle in 2017, they are becoming more mature and established in 2018

Summary and ICO best practices

Fundraising process

- **Structured fundraising rounds with caps** of funding increase transparency and need-based funding of projects
- **Combination with VC funding** to diversify funding sources and validate project with professional investors (e.g. offering pre-sales to VCs)
- **"Less promotion is better promotion"**: avoidance of over-promoting ICO aggressively as it dilutes credibility of project; more focus on pre-sale phase with targeted investors

Investor relations

- **Interactive protocol** to solve certainty of participation and certainty of valuation problem by specifying desired purchase quantity at each valuation via smart contract techniques
- **Lock-up period for tokens** requires investors to weigh benefits/ risks of investment decision more carefully
- **Transparent communication** while and after ICO (e.g. what happens with tokens and potential legal issues)

Legal setup

- Careful **evaluation and selection of jurisdiction**, where company/ foundation to issue tokens should be set up
- **Stronger focus on governance** and legal entity set-up
- **Pre-registering requirement** for investors combined with **KYC/ AML investor identification** limits max. purchase by investor solving distribution problem (e.g. Sybil attacks) without need for uncapped ICO

Business

- **Staggered release of funds** to development team including voting mechanisms ensures appropriate use of funds and increases accountability for efficient allocation of resources
- **More focus on cybersecurity** pre- and post-ICO
- Increasingly, **traditional businesses and start-ups** are looking at ICOs (as a pure form of crowdfunding/lending)
- More focus on **building communities of interest & thriving ecosystems** vs. pure tech development

Sydney and Melbourne in particular, are positioning themselves to be prominent finance hubs in the Asia Pacific region.

To that end, Security Token ICOs will be an important part of the financial services tapestry of Australia, and ideally, we should foster an environment that provides an alternative for the region rather than have emerging ICOs default to Singapore, Hong Kong or the Philippines.

Singapore and Malta are also consuming Australian talent that would ideally like to remain in Australia. We urgently need to retain the ICO and blockchain brains trust in Australia for our own gain. Crypto start up Perlin, amongst numerous others for example, has relocated from Sydney to Singapore to be amongst the exciting and fast moving crypto blockchain scene in that jurisdiction. Similarly, Lakeba's Quixi Connect operation is registered in Singapore, however, were the regulatory environment to be more favourable, we would not hesitate to register this business in Australia.

Australian regulators should ideally be looking at Switzerland and Singapore as role models. The best practice models are outlined in the table above.

Such a great injection of capital and fintech blockchain ideas would be beneficial to growing the wealth of Australia.

Below is an example of wealth going to other countries because of their pro-ICO stance.

While USA, CH and SGP have been clearly the main ICO hubs in 2017, countries like UK and HK are gaining ground in 2018

Countries with most ICO traction

Leading ICO countries in 2018 (based on funding volume)			
Country	Raised USD mn	Closed ICO	Planned ICOs
Cayman Islands	4,254	10	16
British Virgin Islands	2,227	16	2
Singapore	1,192	53	52
USA	1,092	56	50
UK	507	48	51
Switzerland	456	28	36
Estonia	323	31	40
Lithuania	259	6	5
Israel	226	5	5
Hong Kong	223	20	15

Leading ICO countries in 2017 (based on funding volume)			
Country	Raised USD mn	Closed ICO	'Unclosed' ICOs
USA	1,722	87	40
Switzerland	1,462	33	1
Singapore	641	35	13
Russia	438	57	43
China	306	14	2
UK	275	26	23
Japan	195	6	6
Canada	163	10	5
Cayman Islands	162	3	0
USA	1,722	87	40

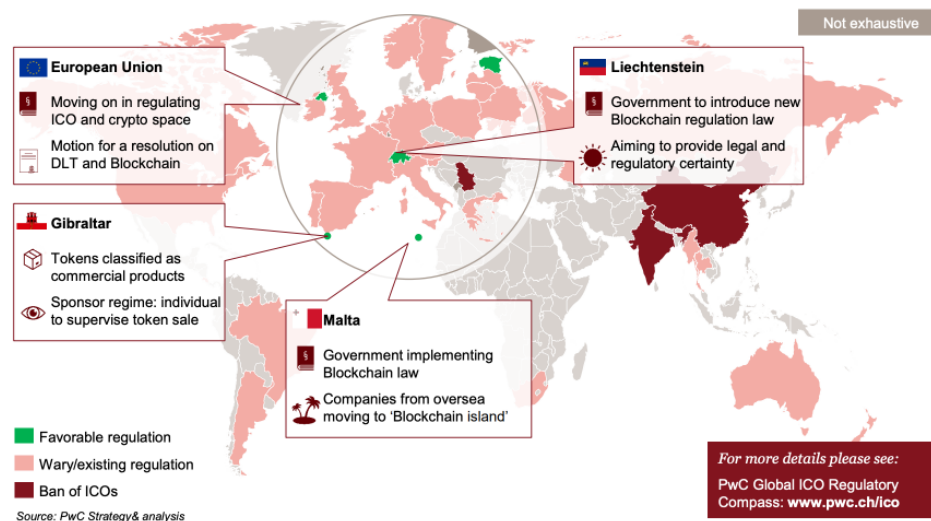
Source: PwC Strategy& analysis

Key Take-Aways

- **USA** remains a leading ICO destination, reinforced by clear and firm regulatory requirements (e.g. KYC)
- Within **Europe**, **Switzerland** stands out as the ICO capital, but in 2018, **UK** has gained terrain in terms of volume and numbers
- Across **Asia**, **Singapore** is the main ICO hub, followed by **Hong Kong**
- **Cayman Island** and **British Virgin Islands** rank among top ICO countries volume-wise, as they hosted Unicorn ICOs EOS (USD 4.1bn) and Telegram (USD 1.7 bn)
- **Other countries** not known for being large financial markets also appear among top ICO countries (e.g. **Estonia, Lithuania, Israel**)
- **"Dormant ICOs"**: In 2017, many planned ICOs did not happen in the end or were not further publicly documented or communicated

Liechtenstein, Gibraltar and Malta follow in the footsteps of Switzerland to position themselves as ICO-friendly hubs

PwC Global ICO Compass



We have to let ICOs and the crypto blockchain industry in Australia flourish with the right amount of regulation, however driven by a *pro-active* rather than reactive approach.

Australia has always been a country of innovation from the ground up. We have the brains, attitude, mental resilience and wholly unique Australian approach to innovation to be a global leader. Modern Regulators must learn to stand back and let ICO and fintech innovation flourish allowing Australian innovators to lead the world. Fintech companies are extremely important to the future of Australian prosperity, we are ready to go boldly into the world with our ideas, and only require regulators to come on the journey with us and create greater economic prosperity.

3.5. Are there other risks associated with ICOs that policymakers and regulators should be aware of?

Other risks will arise if policymakers & regulators do not provide Australia a friction-free, safe environment for entrepreneurs, and, ICOs. These businesses will move to countries where it is safe to operate their business and where the taxation burden is reduced. This means those economies/governments that support ICO's will flourish for the next few decades and Australia runs the risk of becoming a laggard.

Further, there is a currently a large gap between ICO and Corporation Act (protecting IPOs) that enforce laws against investors being scammed, with little or no protection afforded to ICO investors.

In terms of protecting ICOs, if a cryptocurrency project raises a volume of funds and holds all of its reserves in crypto, then the ICO raising project will be vulnerable to price fluctuations not only in the positive direction but also in the negative direction. For example, if a firm raises \$50 million AUD equivalent of Ethereum and neglects to cash out a portion of their ICO raise into fiat \$AUD currency, then they have not locked in their raise so to speak, on the hope of the cryptocurrency rallying higher.

Many ICO startups have this issue which represents a significant concern for investors. Due to financial mismanagement and greed of the ICO raiser, people who invested will be negatively impacted when the project folds due to financial mismanagement by the ICO.

Other risks include:

- Startups launching ICO raises have no obligation by law to create what they have promised to build in their whitepaper
- Token holders don't get a proper vote in the direction of the ICO raising company unless the ICO company has benevolent and community driven inclusive management of the project such as UBIQ or Quixxi Connect, however these aspects of inclusive management are currently not enforceable
- ICOs currently don't subscribe to the discipline of annual meetings where listed companies have regular shareholder meetings. This again leaves the investor vulnerable and without knowledge or informed direction of how the ICO stocks are performing
- Most ICO utility tokens aren't traded on traditional stock exchanges, but on special cryptocurrency exchanges and thus investors are not subject to traditional protections afforded by regulators in stock markets
- A well-regulated secondary market will lead to more depth of bids and offers and thus better price discovery and better results for investors.
- Being aware of the [Howey test](#) (Applied by the SEC in the United States towards transactions to determine whether they are securities) and recognising that some ICOs could act like traditional securities, will see the need for some security tokens to become regulated as they would on a stock exchange (E.g. an ICO considered to be a security would need to provide an investor prospectus.)
- Policymakers and regulators should know of the price volatility risks investors are exposed to when ICO raising firms do not have a firm grasp on the key concepts of token economics, and who consequently don't structure their token and project infrastructure appropriately. For example, bitcoin has a money vector of 7, which means the coin price swings wildly. If a new ICO raising company chooses a lower money vector as a benchmark, for example 2, the price of their ICO coin would swing less wildly. A money vector above 7 means a token could easily be liquidated and sold off on an exchange and easily crash the price. If a new ICO does modelling and takes steps in their ecosystem to either speed up or slow down the velocity of their token on

- secondary markets, they can reduce price volatility and present a more stable investment for investors thereby reducing the risk of the project failing.
- There are many other variables affecting ICO tokens price stability / price volatility. Tokenomics (token economics) is traditional money-based economics and quantitative techniques applied to token economies such as ICO's and ICO tokens and used to help predict price movements of a coin. If regulators could encourage education of ICO raising firms about the need to understand the concepts of token velocity, and encourage the study of tokenomics, ICO projects could structure their tokens and technical infrastructure in a sounder way. With more adequate prices, tokens will become less volatile and thus more appealing to investors in the ICO secondary markets.
 - As secondary trading starts to grow in volume, regulators should be aware of the potential for AML risks. Awareness of closing loopholes and the mandatory requirement that traders should not be able to transact in any type of ICO under anonymity. KYC on the secondary market on and off ramps is important for regulators.
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