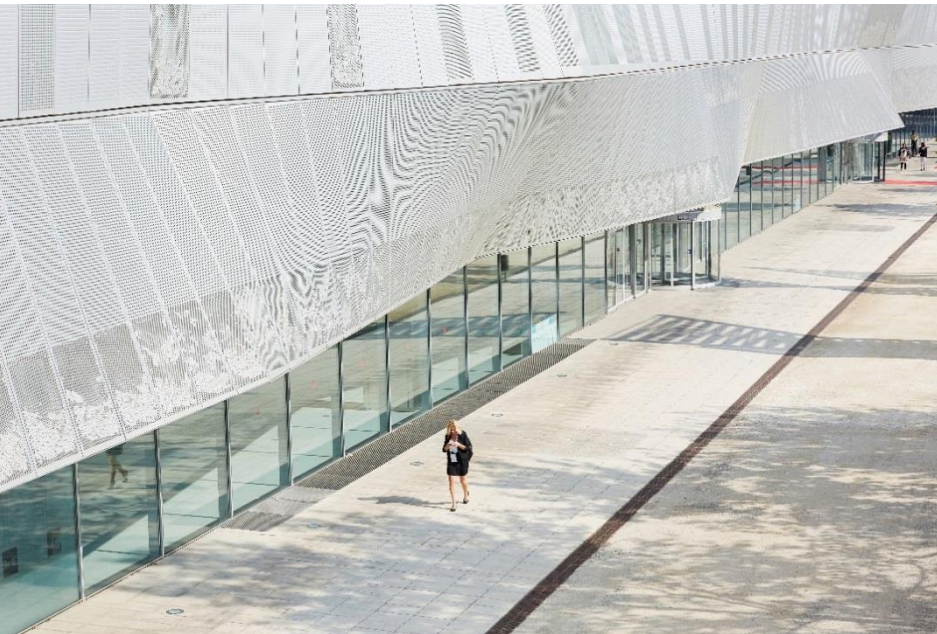

Introduction to Token Sales (ICO) Best Practices



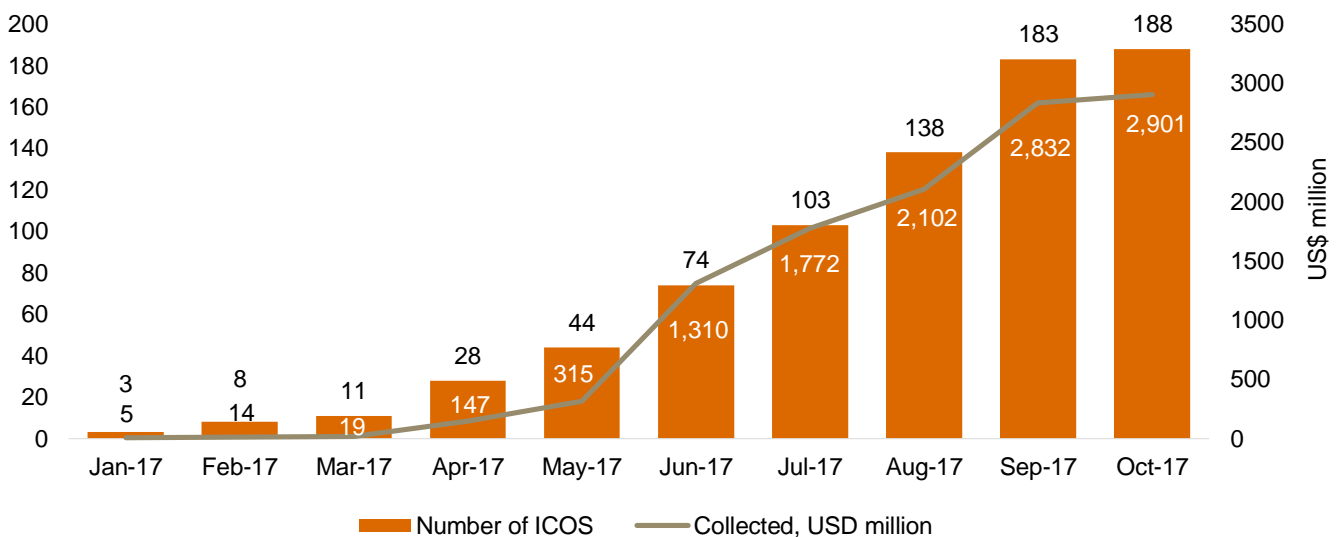
What is a token sale?

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).

How big is the market?

The ICO market has grown very rapidly in recent months and has been a new avenue for blockchain based start-ups and projects to get the funding needed to launch their projects.

The number of ICOs and the amount of funds collected in 2017

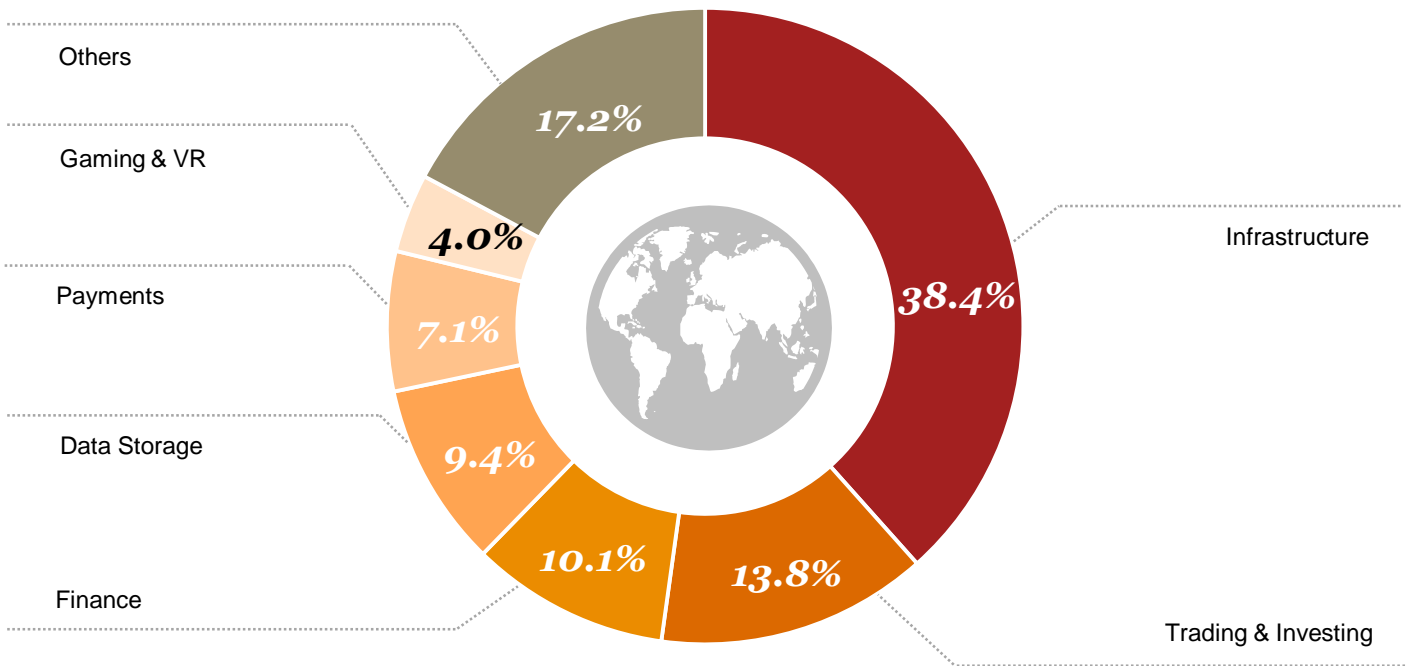


Source: Smith+Crown

*Note: The terms ICO and Token sale have been used interchangeably in this report.

Underlying use case distribution

ICO market distribution by industry, 2017



Source: Coinschedule

Top 10 ICOs of 2017 by total amount raised

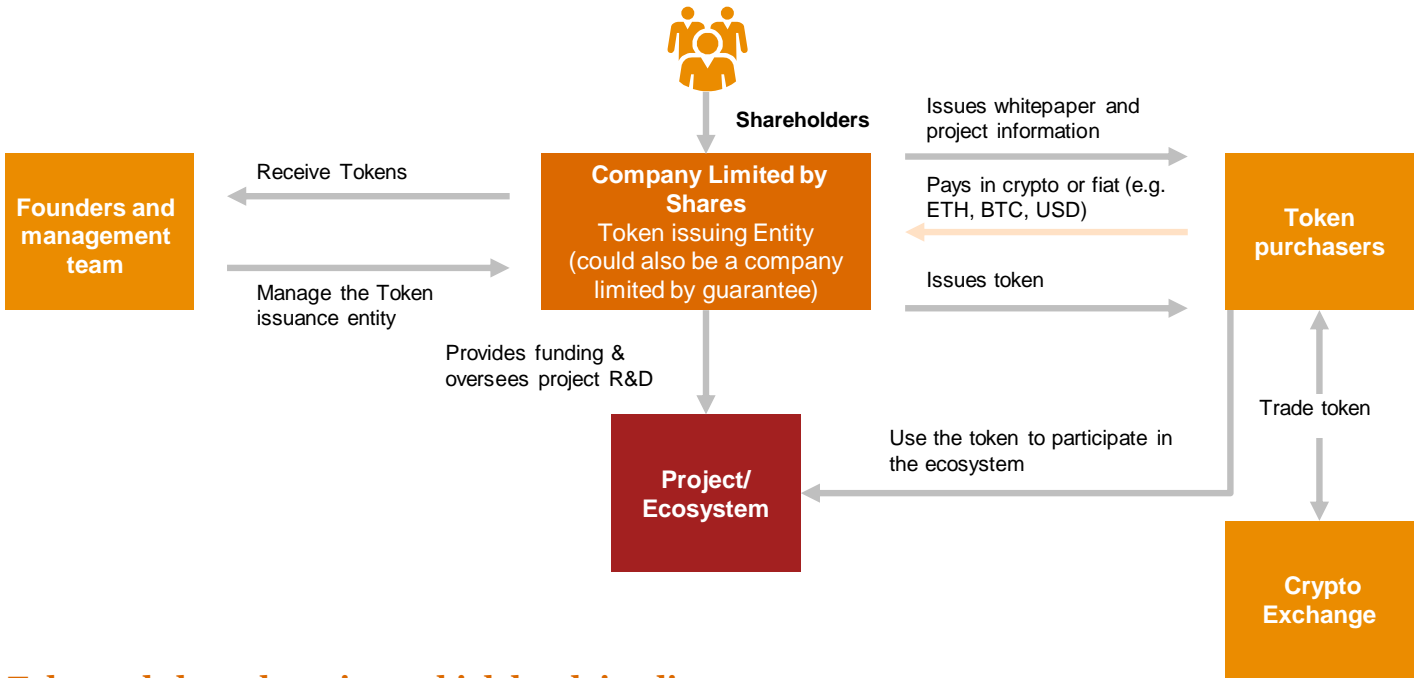
Position	Project	Total Raised (USD)
1	Filecoin	\$257,000,000
2	Tezos	\$232,319,985
3	EOS Stage 1	\$185,000,000
4	Paragon	\$183,157,275
5	Bancor	\$153,000,000
6	Kin	\$97,041,936
7	Status	\$90,000,000
8	TenX	\$64,000,000
9	MobileGO	\$53,069,235
10	KyberNetwork	\$48,000,000

Source: Coin Schedule, ICO Websites, Medium, Bitcoin Talk, Ether Scan, Forbes, CNBC, Techcrunch; PwC Strategy&

How are token sales structured?

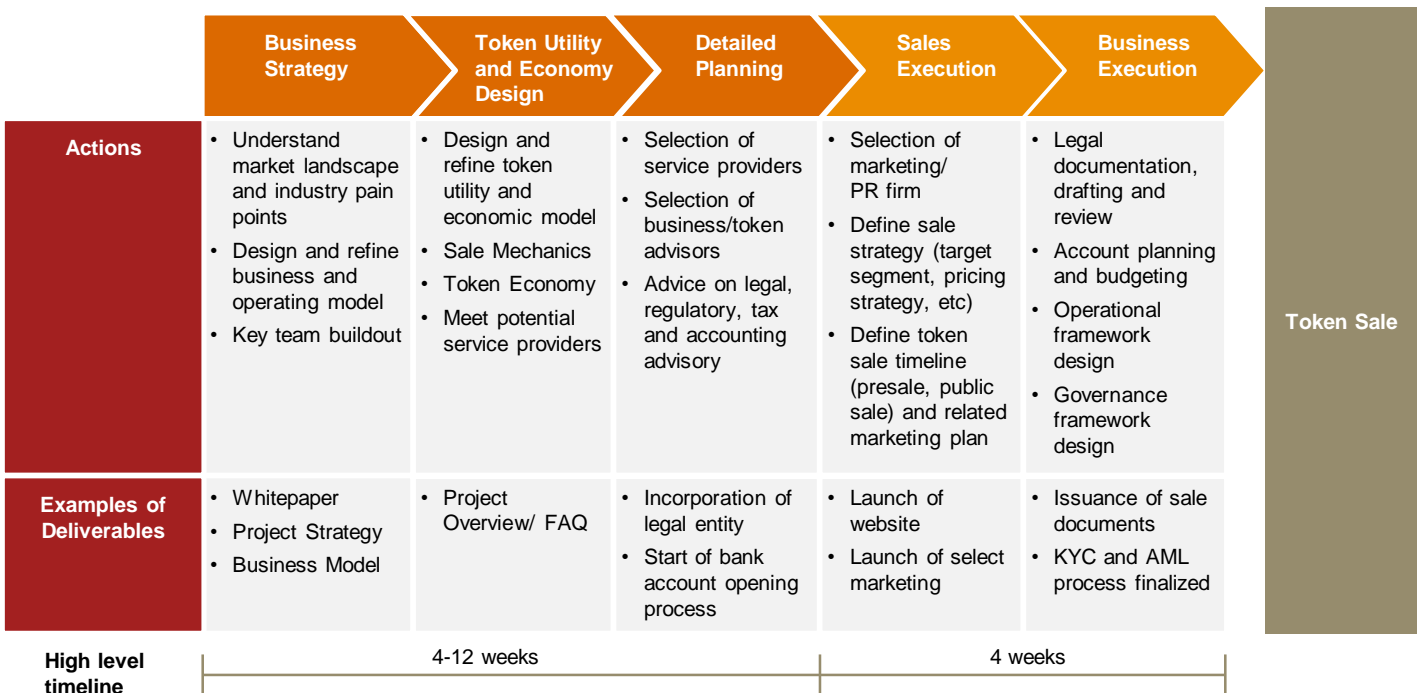
How does a token sale/ICO work?

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?

What are the advantages of doing a token sale?

Whilst most token sale projects could raise funds using the traditional angel or venture capital routes, there are certain advantages in 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 IPOs. However, there are some basic differences between both, especially when it comes to utility tokens.

ICO	IPO
No specific regulatory framework	Specific and well defined regulatory framework
Generally early stage company	Company needs minimum track record
Funds raised generally for specific purpose	Funds raised for company's long term development
Limited rights given to token holders	Shareholders have well defined rights
Target audience often crypto community	Target audience often institutional investors
No direct economic exposure to issuing company	Provide economic exposure to company
Varied levels of transparency	Prescribed levels of transparency and reports

Common ICO jurisdictions

Hong Kong vs Singapore

Hong Kong and Singapore have become common jurisdictions for token issuances.

	Hong Kong	Singapore
Incorporation Timing	< 1 week	< 1 week
Audit Requirement	Yes	Yes
Minimum Number of Directors and Shareholders	1	1
Local Director Requirement	No	Yes
Personal Tax (maximum rate)	17%	22%
Corporate tax	16.5%	17%
GST	No	Yes (7%)
Foreign Exchange Controls	No	No
Strong IP Laws	Yes	Yes
Regulatory Clarity on token sales	Yes	Yes
Talent availability (e.g. sales, developers)	Yes	Yes
Active crypto and blockchain community	Yes	Yes

Source: PwC World Tax Summaries

What makes an ICO successful?

There are various reasons that make most token sales 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

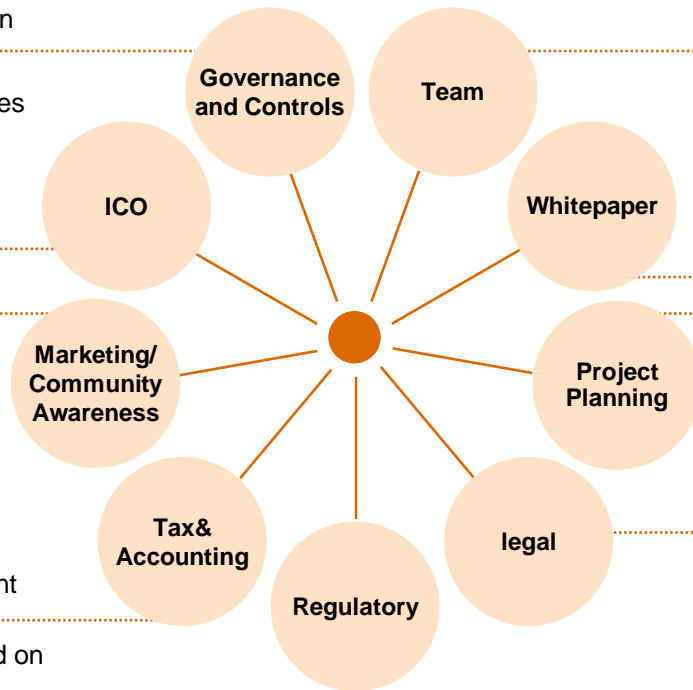
Taken sale best practice features

- 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

- Ensure relevant risk and tax language is inserted in documents
- Ensure documentation reflects nature of the sale
- Compliance with relevant regulatory requirements
- Proper KYC and AML framework and processes

Areas of focus

Token Sale Best Practice Areas of focus

KYC/AML

Each ICO 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 ICO.



Screening



Sanctions list monitoring



Risk based framework



Tax, accounting and transfer pricing considerations

ICOs 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 ICO — 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?



Institutional Mind-set

- A group of best in class ICOs 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.



Focus areas

- 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.



Shift to Asia

- 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.



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 ICOs.



Regulatory developments

- 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.

PwC argues that whilst there is a need for rational regulation of ICOs that does not stifle innovation but provides appropriate protection for token purchasers, we are likely to see a set of best practices 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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