



ICOs and Blockchain – different this time?

WongPartnership has dealt with numerous enquiries relating to ICOs and blockchain applications over the past few months. Partner, Tian Sion Yoong, comments.

Recent media releases¹ from the Monetary Authority of Singapore ("MAS") and the Commercial Affairs Department have put the spotlight on the emergence of initial coin (or token) offerings ("ICOs") as a new form of fund raising for companies and start-ups.

The message from the authorities is clear – depending on what these digital tokens purport to represent and the rights they carry, such digital tokens could be characterised as securities or units in a collective scheme. If so, issuers, intermediaries facilitating or advising on offers of such digital tokens and the platforms facilitating trading in such digital tokens, would be subject to licensing requirements and other regulations. Members of public are also advised to exercise caution and ensure that they understand the product before investing in such digital tokens.

It is unsurprising that the authorities are closely monitoring the issuance and trading of digital tokens in Singapore, as they are likely concerned with the risk of fraudulent schemes, money laundering and financing of terrorists being perpetrated under the guise of such ICOs.

On the other hand, proponents of ICOs and the blockchain technology upon which they are based, may claim that this time it is (finally) different – that we now have a new piece of revolutionary technology which in time to come would transform everything from the financial industry, supply chains and to how all forms of tangible and intangible assets are traded. This could turn out to be true, although the jury is still out in this regard. However, like so many financial and technological innovations in human history, its developmental path is unlikely to be linear and smooth.

Whether the comparison is justifiable or not, one cannot help but draw parallels between the recent hype surrounding ICOs and the blockchain technology with the dotcom boom at the beginning of this century. Both are sparked by a new technology that proponents view as a game-changer, and the speed in which some ICOs have managed to raise substantial amount of funds have tongues wagging that this is reminiscent of the dotcom bubble (we know what happened there).

To be fair, the internet did turn out to be revolutionary and it did transform our lives, but perhaps not at a speed and extent that would justify the runaway valuations of internet start-ups during the dotcom boom. So while the dotcom boom had ended with a crash, the internet is still with us and continues to transform how we live, work and play.

Time will tell whether a similar narrative will unfold for the blockchain technology. Hopefully, with the benefit of history and a good dose of prudence and common sense, this will be a less bumpy ride.

What is an ICO?

ICO refers to the issuance of new digital coins or tokens on a blockchain to raise funds for various purposes, typically to pay for the development of a new blockchain application. Such digital coins or tokens are a close cousin of blockchain-based virtual currencies such as bitcoins. However, unlike the latter which are used mainly as a medium of exchange for payment of goods and services, the former purport to carry with them certain rights e.g. rights to receive certain benefits, ownership rights over the issuer's assets or usage rights on the new blockchain application being developed.

¹ <http://www.mas.gov.sg/News-and-Publications/Media-Releases/2017/MAS-clarifies-regulatory-position-on-the-offer-of-digital-tokens-in-Singapore.aspx>
<http://www.mas.gov.sg/News-and-Publications/Media-Releases/2017/Consumer-Advisory-on-Investment-Schemes-Involving-Digital-Tokens.aspx>

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Next steps

WongPartnership approaches new technological developments such as ICOs and the blockchain technology with an open mind. Like many other FinTech innovations, there are financial regulations to consider for ICOs and the blockchain technology when used for the provision or delivery of financial products and services.

Whether you are a financial institution, payment solution provider, FinTech provider, technology corporation, investor, venture capitalist or a foreign law firm, and you wish to discuss the laws and regulations applicable to an ICO or a blockchain application, please contact any of our FinTech partners below.



Upcoming Events

- WongPartnership 2017 Regulatory Dialogues
30-31 October 2017
(FinTech Roundtable and FinTech Mini Regulatory Dialogues, 30 October 2017)
- WongPartnership Workshop,
Singapore FinTech Festival²
17 November 2017

²WongPartnership was the only Singapore law firm actively involved in last year's inaugural Singapore FinTech Festival organised by MAS. Not only did we conduct a workshop during last year's FinTech Festival, but we also took part in the pilot FinTech legal clinics organised by MAS. Our involvement will continue at this year's FinTech Festival.

CONTACT US

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