

Isle of Man to Consider ICO Warning Following UK's Lead

19TH SEP 2017 | WRITTEN BY: SCOTT LONGLEY

The Isle of Man Financial Services Authority (FSA) said it is considering following the UK financial watchdog's lead in warning that initial coin offerings (ICOs) are "very high-risk, speculative investments" that could result in investors losing all of their investment.

The UK Financial Conduct Authority (FCA) sounded the alarm over the crypto-currency funding method last week when it warned investors that ICOs are a wholly unregulated space where there are no investor protections and that come laden with the potential for fraud.

Dan Johnson, an AML manager in the FSA's enforcement division, said late last week that the UK FCA's warning was "sensible and positive advice". He added that the FSA was "considering its options as to whether we issue something similar in due course".

He said the FSA would not be taking any steps towards further regulating ICOs beyond previously announced measures around money laundering and the financing of terrorism. "At this time there are no plans to extend the registration and oversight regime beyond AML/CTF and there are no plans to broaden the statutory definitions beyond what we discussed below earlier this week."

The Isle of Man extended the types of businesses required to implement preventative measures regarding money laundering and terrorist financing to businesses operating in the sphere of convertible virtual currencies in April 2015.

Gambling-related ICOs have captured the headlines in recent months, including the \$26m raise in mid-July on the part of FunFair.io, the blockchain-based proto-games supplier.

Jez San, chief executive and founder of FunFair and previously founder of PKR, said in early September that his company had **shelved plans** for a second larger fundraising after legal and regulatory advice.

Another high-profile gambling-related ICO will take place later this month when esports-only betting operator Unikrn **launches** a planned \$100m raise via an offering of its Unikrn Gold tokens.

Rahul Sood, chief executive and founder of Unikrn, said he welcomed the FCA's move. "I welcome regulation. I think there are too many ICOs with companies that have no business or understanding of how blockchain is meant to work. I think the majority of ICOs are set up like securities or are set up to fail, and they are setting themselves and the community up for massive failure."

He pointed out that the Unikrn concept had been built two years' ago and was now at the centre of the company's ecosystem. "I not only welcome regulation, but I am willing to help further regulation by working with regulators on this," he added.

A number of gambling-related ICOs have been undertaken in the last few months or are **in the pipeline**, including a number of "decentralised" casino, poker and lottery platforms including Edgeless, Acebusters, DAO Casino, BitDice and Wild Crypto.

David Clifton, director of legal consultancy Clifton Davies, said the FCA warning has highlighted the risks involved in ICOs and suggested it chimed with the views of the UK Gambling Commission.

The gambling regulator has separately cautioned against the history of hacking, theft and criminal activity often associated with virtual and digital currencies.

"There's a common theme here and until those concerns are adequately addressed to the satisfaction of both regulators, I expect these warnings to impact negatively on future gambling and esports-related ICO plans," he said.

However, Joseph Borg, senior advisor at Malta-based legal consultancy WH Partners, said that ICOs are "here to stay" and that the gambling industry would "weather" any potential gambling-related scandals.

He added that he hoped to see both the Isle of Man and Malta "working on a framework in which they plan to regulate ICOs".

"That would be ground breaking," he said.

Other jurisdictions have also moved to control the growth of ICOs within recent months. It was reported in local Chinese media outlet Caixin last week that the authorities there had banned ICOs on the basis that they were unauthorised fundraising tools that may involve financial scams.

The Chinese authorities also appear to have instigated a move to ban Bitcoin exchanges. The well-known China-domiciled exchange BTC China said it would end trading as of the end of September. The news caused the price of the currency to tumble more than 20 percent last week before staging another recovery at the close on Friday.

The Chinese ICO ban followed on from the intervention of the US Securities & Exchange Commission, which had cautioned at the end of August that some ICOs might be considered to be securities under the terms of US regulations.

When it comes to blockchain, the UK's FCA is one of the more advanced jurisdictions in the world, having launched a regulatory sandbox initiative in 2015 which, among its two annual intakes since, has included various blockchain-based start-ups.

The regulator said in a statement last week that FCA compliant-ICO where, for instance, tokens are regarded as financial instruments "could potentially be part of such support or testing".

The FCA warning noted that some ICOs "fall outside the regulated space. However, depending on how they are structured, some ICOs may involve regulated investments and firms involved in an ICO may be conducting regulated activities," the document added.

"Some ICOs feature parallels with initial public offerings (IPOs), private placement of securities, crowdfunding or even collective investment schemes. Some tokens may also constitute transferable securities and therefore may fall within the prospectus regime."

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