

A Study On The Movement Of Initial Coin Offering: A Swot Analysis

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Abstract: An initial coin offering is an innovative fund raising mechanism. It is a trend that uses idea of presale of cryptocurrency or token to raise fund for a blockchain project. Raising fund through Initial Coin Offering (ICO) captured the pace with the launch of Bitcoin blockchain in 2013 and Ethereum blockchain in 2014. ICO provides great opportunities for promising projects, boosting the economy and creating the ease of doing business. Many projects ideas could not be materialized due to hassles of legal paper work but introduction of ICO has paved the way towards breaking the barriers of crowd funding and unnecessary paperwork involved for raising capital through an ICO. A SWOT analysis is presented in the paper which throws light on importance of ICO in revolutionizing the concept of fund raising and at same time discussion is done on the risk associated with ICO's.

Index terms: SWOT, e funding, Initial coin offerings, blockchain, smart contract, cryptocurrency, digit tokens

1.INTRODUCTION

In present digital world, electronically generated capital plays a cardinal role as a source of finance. Crypto currencies are medium of exchange and means of carrying out a transaction digitally secured by strong cryptography. These currencies are not controlled by any government or any authority and are used in initial coin offering. Initial coin offering is a substantial financial innovation of digital era. It is similar to initial public offerings (IPO) but in an IPO the shares are allocated whereas in an ICO crypto currency (CC) is allocated in the name of "tokens" to the investors. ICO is a form of crowd funding in which investors invest in companies in the form of crypto currencies. The investment allocation can be done in a new crypto currency or in crypto currencies which are already present in the market like Bitcoin and Ethereum. So instead of caring about the share value, the investors are concerned about the Token value of ICO which will depend upon the demand and supply of token and the purpose for which the ICO is circulated in the market. It is an easy fund raising way especially for startups with no hassle in relation to paper work and time involved for the whole process. Entrepreneurs come up with a white paper whereby the business model, capital intake & other layout of project is laid. Companies are required to provide succinct roadmap of their plan of action. A company by the name of Master coin in 2013 first ever created a application on Bitcoin Blockchain and the very first project of ICO was laid which raised \$500k USD. Blockchain is the most common consensus mechanism on distributed ledgers; it is often used as a synonym for distributed ledgers in general (E&Y report). Since 2017, block chain startups have raised over \$7B through initial coin offerings as compared to \$1B through traditional venture capital flowing into the space (Catalini et al., 2017). A blockchain is a digital ledger maintained by miners for a particular crypto currency. The chain will add a block for every transaction which will happen in a particular CC and so the ledger continues to grow giving it a name of blockchain. The blockchain is digitally synchronized all over the world so that the transaction for same tokens cannot happen again. The trading in CC requires to have a digital wallet where the tokens are credited in the CC which used by the ICO. The name of the investor is not required instead he is recognized by a Public key (a code) who can send money to another public key with the help of locking the money

with his private key and authenticating the transaction with digital signature. Miners check the authenticity of this transaction and add a block of irreversible transaction in the blockchain. Being uncertain and volatile in nature is not affecting the popularity and use of ICO. Among other nations running after raising finance through their cryptocurrency, India also joined the league after PM Narendra Modi announced the demonetization drive. Since the identity is kept hidden which gave people to get their money utilized without any disclosure hence no income tax also. Majorly the developed nations which have highly skilled coders and high income investors are top ten nations in ICO capitalization(United States ,Switzerland ,Singapore ,United Kingdom, Canada, Russia, Australia, Estonia, Portugal, China) as they provide one of the stable operational environment for the start ups [1]. On the other hand China has out rightly banned the use of crypto currency. Some countries have started making rules to have a control on ICO whereas some are adding warning about the riskiness of ICO. Still the popularity of ICO has increased a lot and they are acting as great investment and funding vehicle. Malaysia is one such country which is slowly moving towards acceptance of crypto currency and ICO. The finance minister of Malaysia announced for stringent laws against those who would involve in launching of unauthorized ICO[2]. However the country has moved from a non acceptance platform of crypto to setting up of regulatory policies for the ICO by mid of 2019 to combat the degree of fraud associated with the handling of ICO[3]. Despite of so much of uncertainty, risk, unpredictability and lack of jurisdiction associated with the floating of ICO, they are gaining attraction in the market at rapid rate for various reasons. The graph below shows the pictorial representation of growth shown in the ICO market which picked up large pace from 2017 to 2018.

2.OPPORTUNITIES

1. Derivative Offering: - Derivative is a product or a contract whose value is derived from the value of another asset known as underlying which could be a share, stock , market index, an interest rate, a commodity or a currency[4].An ICO also works on same do pattern. It is a digital way of raising funds where the token which acts as

underlying asset is given in lieu of money invested. The value of the token depends upon the

- a) Ecosystem of crypto currency used for it
- b) The amount of token circulated in the system
- c) Mining done for a particular token
- d) How well the project for which the token has been raised is performing in the market.

2. Large Audience: -ICO is an innovative way of raising finance with large audience across the boundaries. On online Platform, this mode of raising finance is quite popular for the startups to get access to much needed capital. Raising fund through delimiting the boundaries across world is not possible in an IPO.

3. Hassle free conditions: - Entrepreneurs seeking finance from ICO are fascinated by turmoil free conditions of ICO. Traditional ways of investment lays predefined terms and conditions which are not user friendly. When a crypto currency startup firm wants to raise money through an ICO, it usually plan on white paper which states what the project is about, what need(s) the project will fulfill upon completion, how much virtual tokens are required and how long ICO campaign will run for.

4. Speed of raising capital increases as paper work and various legal procedures are not required. ICO helps the fund raiser to focus on the entrepreneurial activities and the working of the projects rather than getting involved in the legal Hassel and formalities

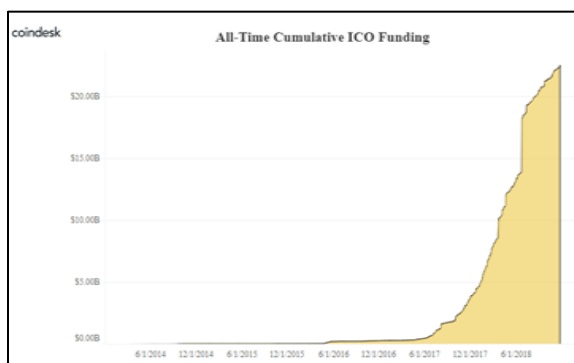


Figure 1. :- The graph below shows the increase in funds collected through an ICO. (Taken from <https://www.coindesk.com/ico-tracker>)

5. It becomes easy to approach an investor with an ICO as it is difficult to convince angle investors in case of traditional start ups. Suppose an entrepreneur is having a very good project idea in one country it may happen that he cannot access one angel investor for that idea in his country but he can find many through an ICO as market becomes boundary less in an ICO.

6. The investors is not holding any right in the company in which he invest but still he invest for two reasons;

- a) If the price of the token increases it can be sold to earn money
- b) Some benefits can be reaped on the basis of the agreement in smart contracts

3 STRENGTH

1. Immutable ledger :- Ledger in ICO has the advantage of its transparency of each detail with all the persons involved in funds raising process. The word of immutability means which cannot be changed. In context of ledger, it means a book which records the entry of each and every transactions which whenever takes place. It is a part of block chain process whose copies are interlinked with various networks widespread. The data entered in block chain cannot revert back. It cannot be altered also. It relies on proof of work (pow) which is a systematic and powerful method to secure the block chain. POW is used to exchange value with world validating these exchanges (new.bitcoin.com)

2. Easy to audit :- Audit is defined as the inspection & cross examination of process to ensure the compliance of rules and other time consuming task as the verification has to be checked. This is possible due to the presence of block chain technology which maintains the ledger for all transactions in an irrevocable form. The transactions are added by miners into block chain only after validating any fraudulent or double transaction.

3. Profitable Investment :- Investors invest their money with the desire to reap handsome return on it. Investing in ICOs can yield vast returns. Vigilant and verified selection of ICOs helps the investors in multiplying the returns in short period of time. Unlike other modes of finance which are times taking and tedious, ICO provides the complete digital payment systems[5].

4. No geographical boundaries:- Traditionally raising finance is restricted to few locations or financial hubs.ICO removes this constraint and is open for investment beyond boundaries. This benefits the investment seeker to raise funds. Tokens are generated over the internet which has no geographical boundaries. It is freely floated in global world without any periphery. This option is quiet quick as the investment is in technology or offering based on trust.

5. Secured:- Each transaction is entered in a blockchian which contains the summary of each debit and credit entries. A unique id is generated meanwhile. Similarly, unique id of previous transactions also gets recorded and which are attached through a chain which cannot be altered or hampered. Blockchain series is broken if any alteration is done in these blocks[6].

6. Cost saver:-It has novel decentralized aspect as a means of payment whereby a file representing money can be easily decoded in place of reproduce. Other digital payment system takes the help of some trusted intermediary which further enhances the transaction cost[7].

7. High Profit :-The value of ICO also depends on the crypto currency being used in it. As the value of CC increases the value of ICO token also increases giving heavy profits to the investors in a short duration of time. ICO investors who invested in startups like Monero and

NEM made massive profits in year 2016. CC Ether doubled its value in three days thus paying high returns to the investors.

8. liquidity:- Investors may easily trade for the token enlisted on stock exchange after the issuance of ICO. They can be traded at any point of time. Possession of tokens authorize the investors to grab the liquid share of the projects as compared to other forms of funds raising methods .This feature makes it superior to other forms of funds raising.

4 WEAKNESS

1.Irreversible transactions:- Financial transactions done through this mode is impractical to change or modify.ICO is generating by exchanging tokens in exchange of cryptocurrency such as bitcoin. Once the Bitcoin transaction is sent to the network, transferring ownership of that spot on the blockchain the recipient will then be only to access the spot. Once the ownership is transferred, it becomes impossible to revert.

2.No Guarantee:- unlike banks and other financial institutions, no pledge of any asset or physical item is kept for funds raise. This makes ICO a risky affair. ICO investment is sheer on personal instinct. Neither any organization nor any company guarantees the return.

3.Waste of existing tokens:- In pursuance of raising finance, firms wish to grab the opportunity by issuing quickly the tokens although the existing tokens could have used. No regulation has been imposed till date by Securities and Exchange Commission. Issuing new tokens is rather easy process as the codes from a particular protocol do not needs to be changed or modified New token creation does not require any paper work or any third party indulgence which all together makes it a convenient and easy way of fund development.

4.The token offered in an ICO is not secured as it is not backed by any asset which makes it a highly risky affair. Only it is the white paper that tells the investors about the project and its team profile which build faith of the investor in the proposal. Moreover non modifiable smart contracts (it is a computer code which hold the conditions on which both the buyer and seller agree and only when these conditions are fulfilled a transaction can take place) add up to the faith of the investor in the project[8] .

There is no particular regulatory authority for the ICOs so fund raised through them cannot be correctly judged by any authority but still the below picture shows the performance recorded by various agencies.

5 THREATS

1. Phishing:- In electronic communication, this type of fraud is the most dangerous threat. Beetoken has suffered phishing attack of over US \$ 1 million. Beetoken ICO investors got a mail from criminals and gave theirQRcode and Ethereum addresses to them in turn losing their invested money[9].

2. Fraudulent ICO :- Before investing in an ICO the investor should check the ICO proposal very deeply. He should check the goals of the project, who are running the project , where are they located, what is their business plan, what is the time line of the business proposal, ICO funds are stored in an escrow account or not, how much experience is the founder having, what is the roadmap of implementation of the project and whether smart contracts are also a part of the proposal or not . It is really necessary for any investor to investigate above points before investing into an ICO as 81 percent of IPOs are fraud. As the ICO is not backed by any asset or security and it does not contain any legal procedure so it makes easy for the frauds to float an ICO. It is the alertness and knowledge carried by the investor which will allow him to invest in a promising ICO.

3. Poor Network processing data:- Companies are generating money with just a white paper & cryptocurrencies. The process of ICO depends on the functioning of software and hardware systems & of course the internet. Working on internet gives the problem of interrupted operations, shutdowns and malfunctioning of computer infrastructure.

4. Lack of due diligence; Lack of regulatory authority over the cryptocurrency market makes it highly risky affair. Current legal uncertainties in cryptocurrency are associated with ICO also. The investor cannot follow any legal procedure if the ICO in which he invested wipes away from internet.

5. Presence of whale: Whale is referred as big players like hedge funds which may be big institutions. They can influence the price of CC value as they can trade in large quantities. Whales can create panic in the market by selling the CC lower than market rate and once the panic bubble continues making the value of the CC very low they can buy back it.

6.The codes that make up smart contracts should not contain any bugs else it can lead to mistakes and the scammers can exploit the bugs making loss to the investor.

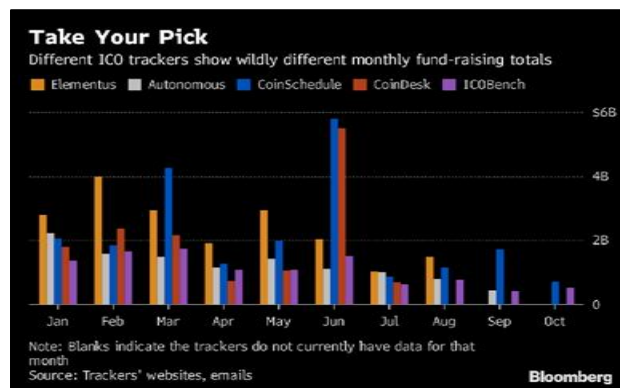
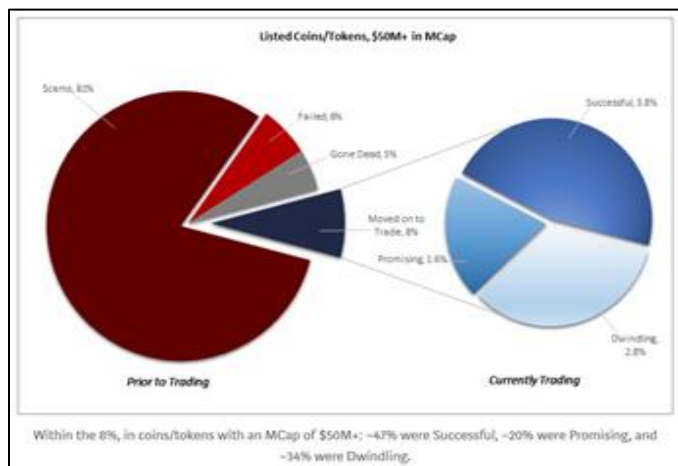


Figure 2 :- Below picture shows various ICO tracker show different values for total fund raised in the year 2018. (Taken <https://www.bloomberg.com/news/articles/2018-11-05/how-much-have-token-sales-raised-in-2018-depends-on-who-you-ask>).



The graph given below shows that 81% of the ICO are all scams.

Figure 3 :-taken from <https://btcmanager.com/satis-group-analysts-81-percent-of-icos-are-scams/>

6 CONCLUSION

ICO has picked up pace in the market as far as fund raising procedure is concerned. However it is still in its development phase and it is difficult to visualize its mainstream existence in the market. Many countries are like Canada, U.K, U.S and many European countries are taking initiatives in regard of spreading awareness among the investors about ICO and risk involved with it. Cryptocurrency friendly countries are like Switzerland, Netherlands, Japan, Denmark are trying to make some act in favor of ICO so the investors can be protected from the fraudulent ones. ICO is a platform not only for entrepreneurs but also for the investors as it is delimiting the economic as well as physical boundaries for both the parties. In this rapidly changing digital era, information is the basic key for good performance so is the case with the investments in ICO. More the investor learns about the details of the white paper given by ICO the more secured transaction he can perform. The details provided in it depict the fine detailing related to the proposal which increase the authenticity of the proposal which will help the investor to judge whether to invest or not to invest in a particular project. Presence of smart contracts in crypto currency block chain makes the ICO more lucrative as it checks the conditions on which buyer and seller agree for the transaction to take place. Four years back ICO was only a concept but has gained importance in a very short span. If digital security issues, functioning of computer infrastructure and authentication of project proposals can be controlled properly the Concept of ICO can give momentum to economy.

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