



CBCS warns for Initial Coin Offerings

The *Centrale Bank van Curaçao en Sint Maarten* (CBCS) has noticed the increasing use of digital tokens or coins based on Blockchain or Distributed Ledger Technology (DLT) as a means of raising finance, especially by start-ups. The sale of such tokens is often conducted using terms such as Initial Coin Offering (ICO), token sale, initial token offering and the like.

CBCS acknowledges the importance and opportunities provided by the underlying technologies. Despite the fact that CBCS wants to foster innovation and technological advancement, CBCS also acknowledges that there are currently clear risks associated with these offerings and assumes its responsibility by issuing this warning.

Warning for investors

ICOs are highly speculative investments in which investors are putting their entire invested capital at risk. While some ICOs are providing legitimate investment opportunities to fund projects or businesses, most ICOs are not subject to regulation or may be operating illegally in violation of existing laws which raises investor protection concerns. There have also been many instances of fraud, money laundering, misrepresentation and manipulation.

ICOs are often an unregulated means of raising finance in a venture or project, usually at an early stage and often those products and services have not yet been significantly designed, built or tested, let alone made operational or generating revenue. Such forms of crowdfunding are often used by start-ups to bypass the rigorous and regulated capital-raising process required by venture capitalists or financial institutions. In an ICO, tokens are sold to early supporters of a project in exchange for cash or cryptocurrency, such as bitcoin or ether.

Tokens vary widely in design and purpose. In some cases, tokens represent securities, such as shares in a company, and their promotion and sale are regulated as such. More often, tokens serve some cryptocurrency or functional use that is unregulated, such as prepayment for access to a product or service that is to be developed using funds raised in the ICO.

Due to its oftentimes unregulated status and the anonymous nature of the transactions involved, anyone considering investing in tokens through an ICO is advised to consider the following:

- Regulation: Most tokens and ICOs are unregulated and you have no recourse to any regulatory authority.
- Volatility: Be aware that the value of a token may be highly volatile and that you may not be able to trade or sell the tokens.

- Disclosures: Most ICO whitepapers are brief and may contain inadequate, inaccurate or misleading statements and disclosures. Make sure you have all the necessary information to make an informed decision.
- Risk appetite: Recognizing that investing in early-stage start-ups is high risk and speculative - can you afford to lose your entire investment?

Investors should make it a point to understand the product. Where sellers of digital tokens fail to highlight the risks, consumers should make the effort to gather more information about the underlying project, business or investment. In view of the risks, CBCS urges investors to take extra precaution in deciding whether to invest in ICOs.

Warning for issuers

Businesses that plan on launching an ICO in Curaçao and/or Sint Maarten must verify if they need to meet any legal obligations, since they could be subject to registration and/or regulation by the CBCS. CBCS will also closely monitor for unregistered ICOs to determine whether the existing regulations apply.

For more information you may contact Mrs. Janilla Arias at our Payment Oversight Department at telephone number +5999 434 5711 or by e-mail at J.Arias@centralbank.cw.

CENTRALE BANK VAN CURACAO EN SINT MAARTEN
Willemstad, May 8, 2018