

## FinancialQuotient

# What is initial coin offering?

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**WHAT DOES IT MEAN?**

Initial coin offering (ICO) is an innovative fund-raising method used by start-ups to raise money at an early stage of a company's life cycle.

The ICO issuer publishes a white paper describing the developing product or service. It then sells coins or tokens that allow investors future access to this product or service.

After the initial sale, ICO coins or tokens are traded on crypto exchanges, which provide liquidity

to ICO investors.

**WHY IS IT IMPORTANT?**

ICOs allow retail investors to invest in start-ups. On the other hand, retail investors provide funds to companies that do not have access to traditional financing sources.

Last year, hundreds of ICOs raised billions of dollars as they seemed to be a useful substitute for venture capital funding.

The largest ICO so far has attracted US\$1.7 billion (S\$2.3 billion).

Investing in start-ups is highly risky, as a large fraction of them fail

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and investors may lose all of their money.

On the other hand, successful early-stage investments earn spectacular returns. Famously, SoftBank's early-stage investment in Alibaba earned a 300,000 per cent return by the time of its initial public offering.

**IF YOU WANT TO USE THE TERM, JUST SAY:**

Blockchain start-up companies may be better off raising funds via an initial coin offering than by any other method.

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- The writer is a visiting senior research fellow at the Centre for Asset Management Research and Investments at National University of Singapore Business School. The opinions expressed are those of the writer and do not represent the views and opinions of NUS.