



# ICO Regulation

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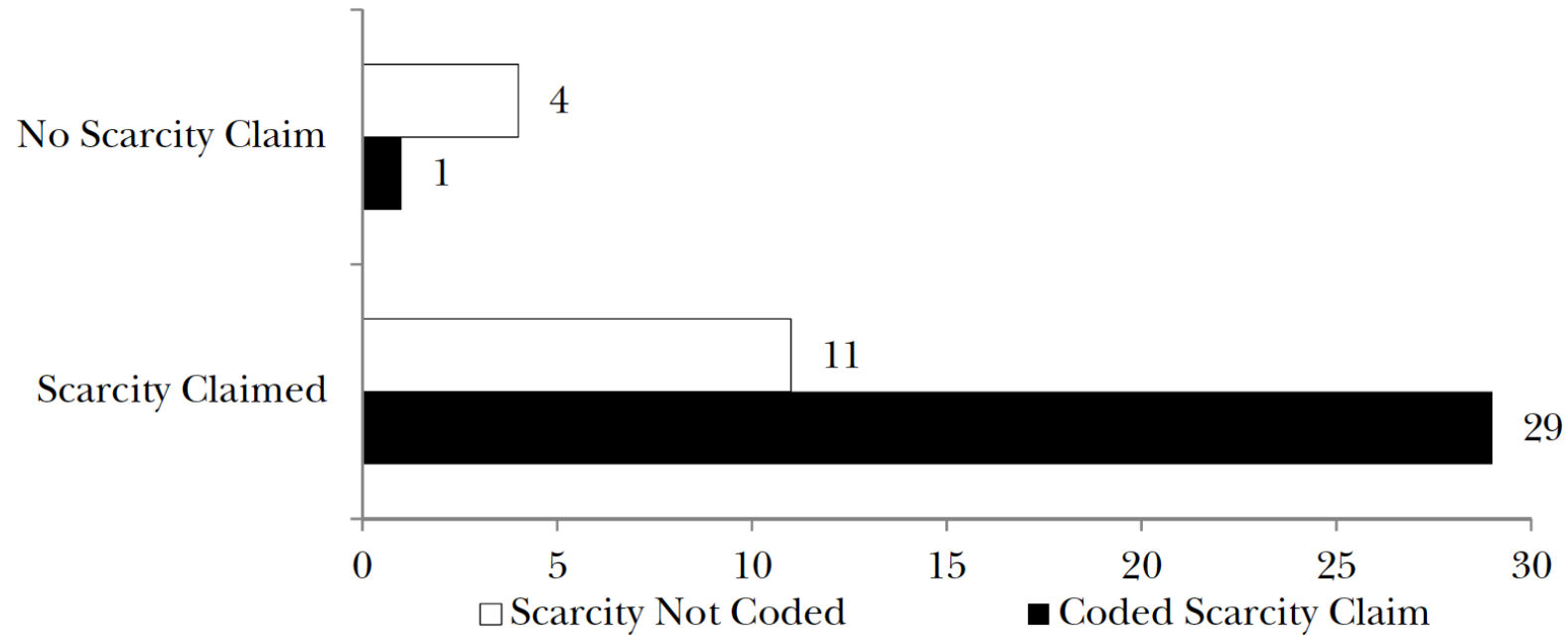


# The value of a CryptoAsset depends upon:

- Value of the enterprise to which the assets pertain
- Limits on increases in supply of the cryptoassets
- Limits on “Burning”
  - “Cryptoassets also can be used up, or “burned” —that is, destroyed. Burning can play important roles depending on the business model envisioned by project founders. Some might advertise that the token could be exchanged for the right to access the completed project. Then, the exchanged asset would be permanently “burned” upon use. Some projects described plans to actively buy tokens from holders and then burn them, creating token price appreciation similar to a stock buyback. In others, only those tokens exchanged for certain features in the product—for example, tokens paid as fees—are burned. Finally, burning is used as a mechanism in ICOs, as a way to destroy unsold supply.”
- Vesting restrictions
  - “If supply controls protect against the threat of dilution, vesting mechanisms protect against the threat of desertion. They work either by delaying when the founder is granted assets or deferring the moment of their liquidity. A smart contract usually provides for vesting by allocating a portion of minted tokens to insiders but then locking them up until some condition is satisfied. The code prohibits the transfer, sale, or use of the tokens until the condition’s trip-wire is hit. Most ICO-coded vesting is time-based, with few of the contractual conditions that come with stock vesting offline.”
- Commitments not to modify the system



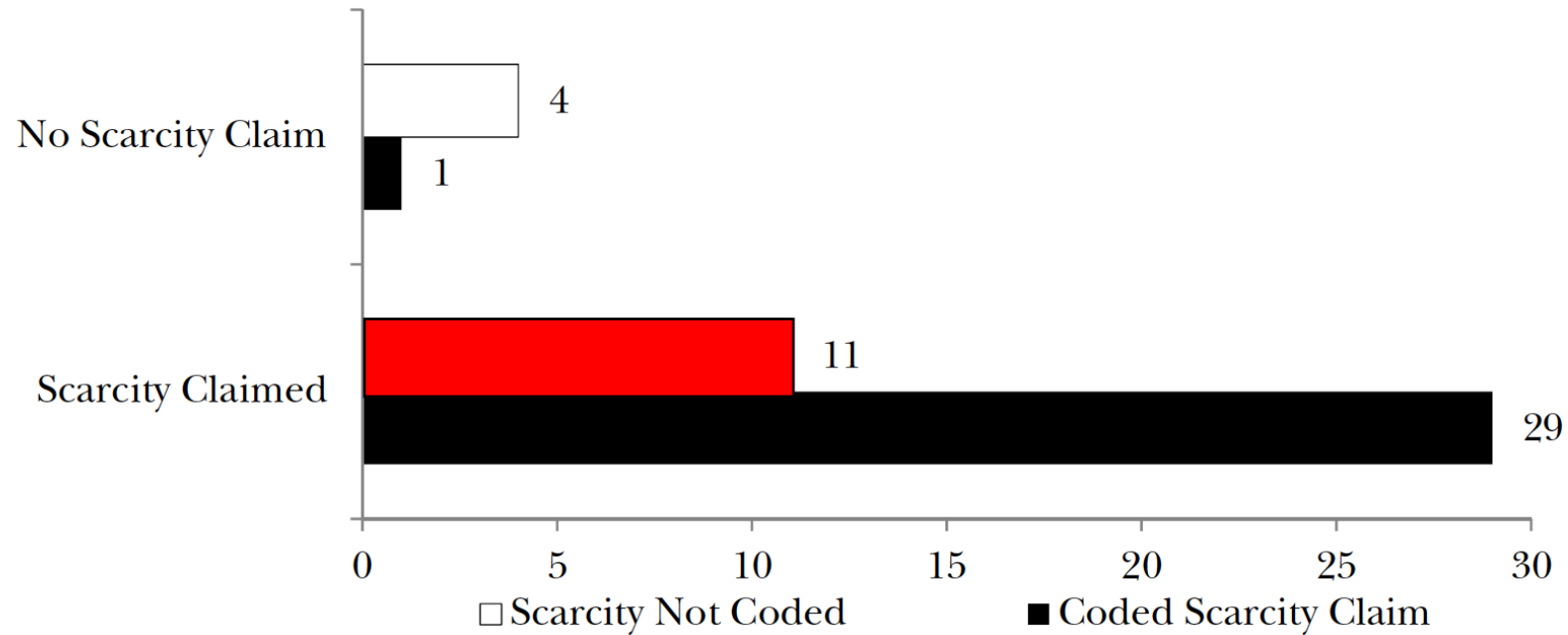
FIGURE 14: SCARCITY AUDIT RESULTS<sup>227</sup>



Almost all issuers promise a supply restriction in their marketing documents (40 of 45, or approximately 90%). And most of those that promise a restriction deliver it (29 of 40, or approximately 75%). Overall, though, only about two in three (29 of 45, or approximately 64%) firms that we audited encoded a supply restriction. To be clear, this is not to say that the firms that did not deliver coded scarcity limits actually promised to do so—their marketing promises either did not mention scarcity or may not have discussed how it was to be effected.



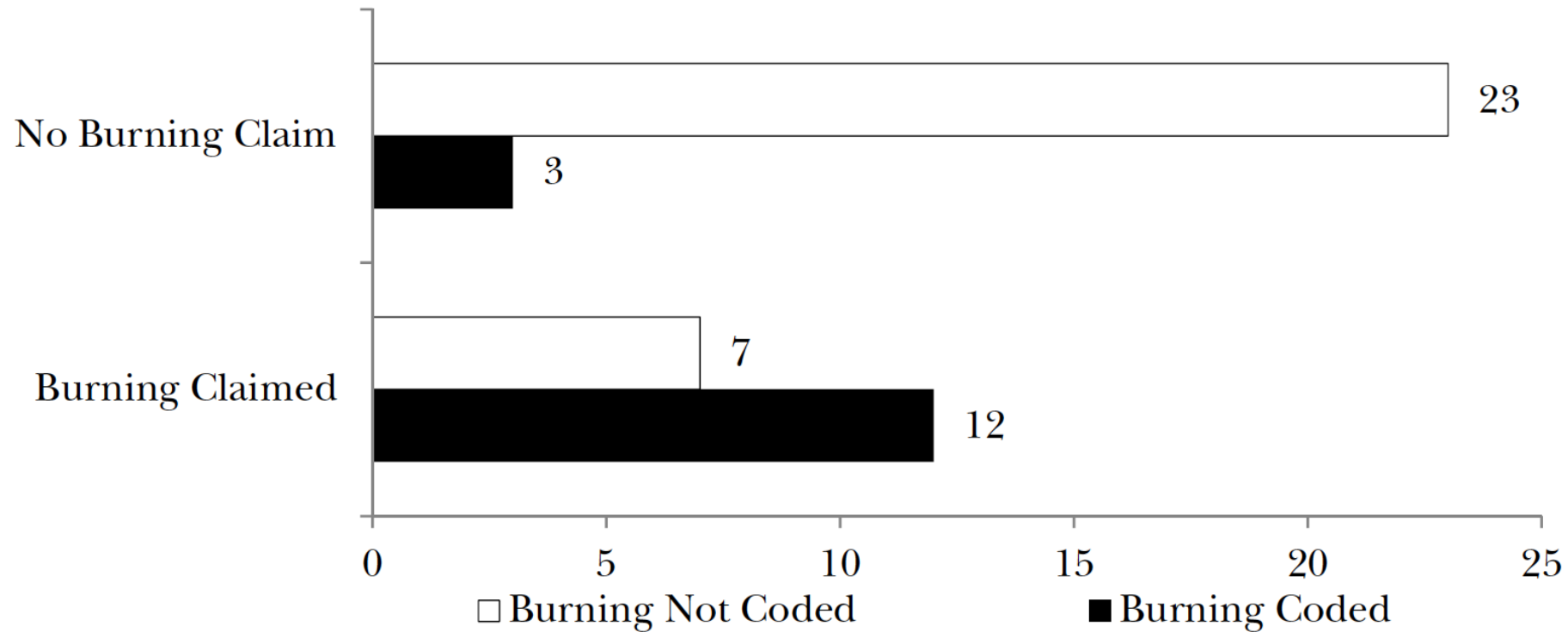
FIGURE 14: SCARCITY AUDIT RESULTS<sup>227</sup>



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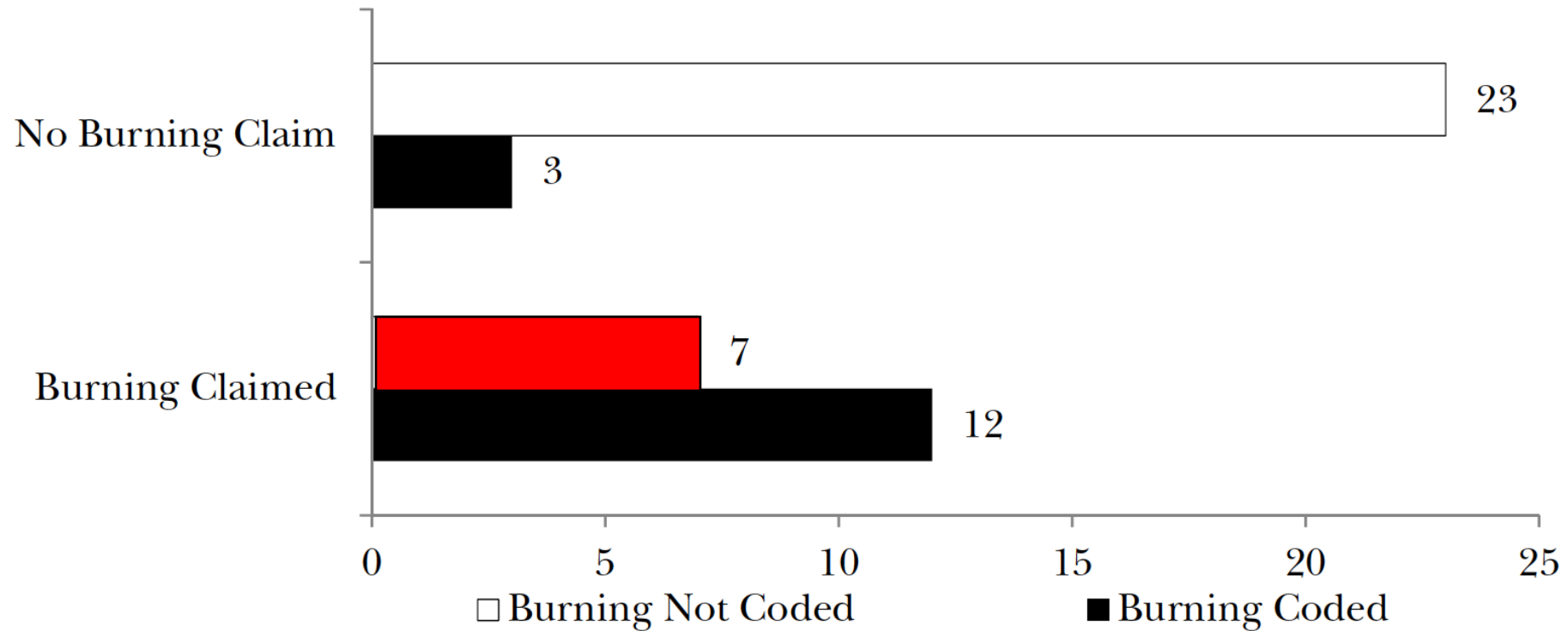
FIGURE 15: BURNING AUDIT RESULTS<sup>228</sup>



Here, fewer firms promised to burn tokens than promised to cap supply in the initial mint (19 as compared to 40). Of those that promised to burn supply, approximately 36% (7 of 19) did not fix that claim with code.



FIGURE 15: BURNING AUDIT RESULTS<sup>228</sup>



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FIGURE 16: VESTING AUDIT RESULTS<sup>229</sup>

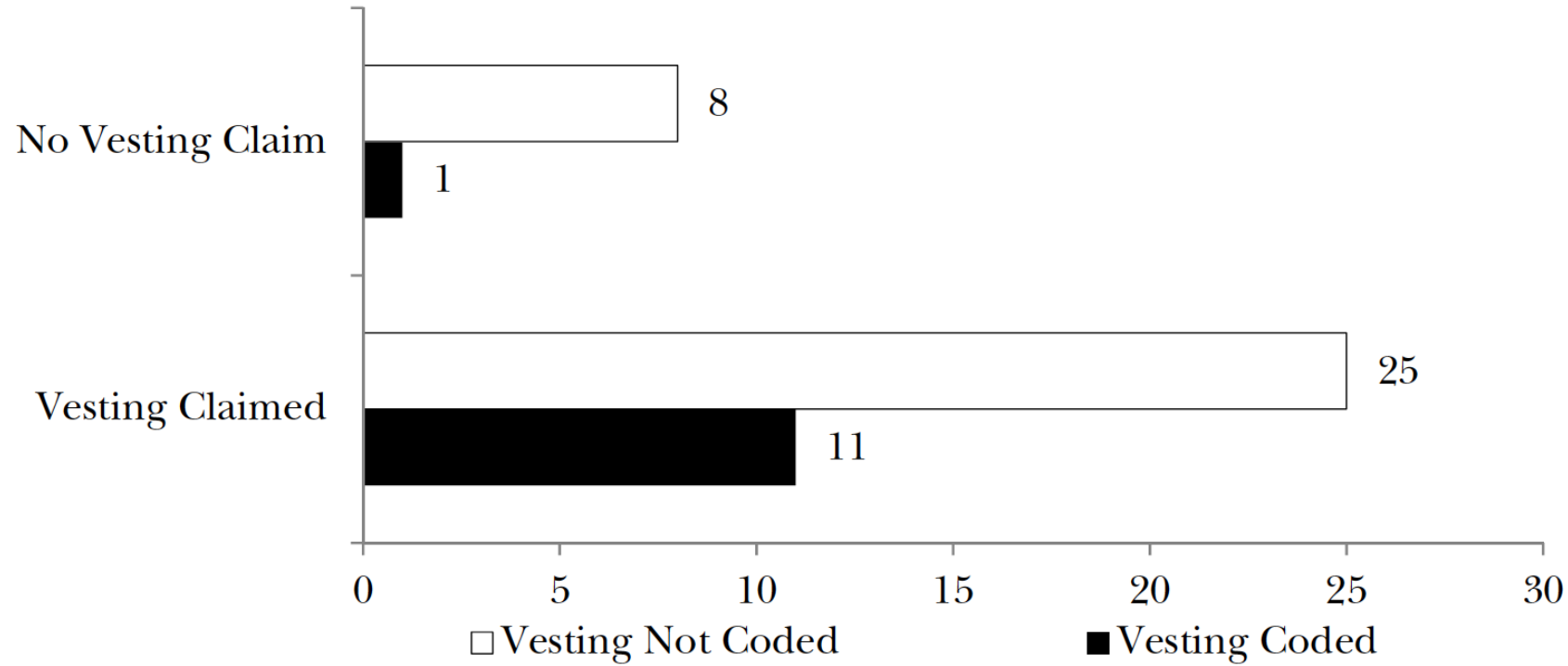


Figure 16 illustrates first that almost 20% of the sample did not promise to vest at all, which is a surprising result given the amounts raised. Second, of the 80% that promised to vest, the vast majority apparently did not use smart contracts to encode those rights.<sup>230</sup>



FIGURE 16: VESTING AUDIT RESULTS<sup>229</sup>

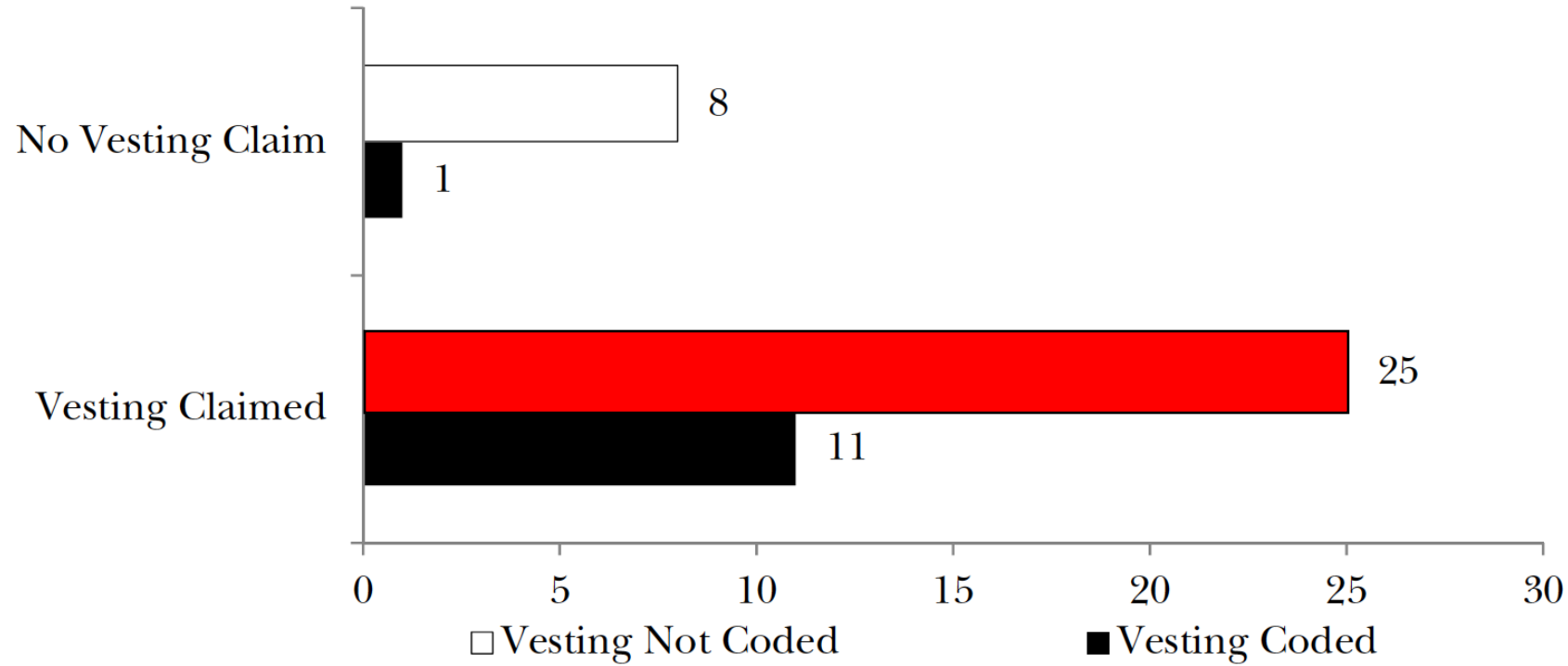
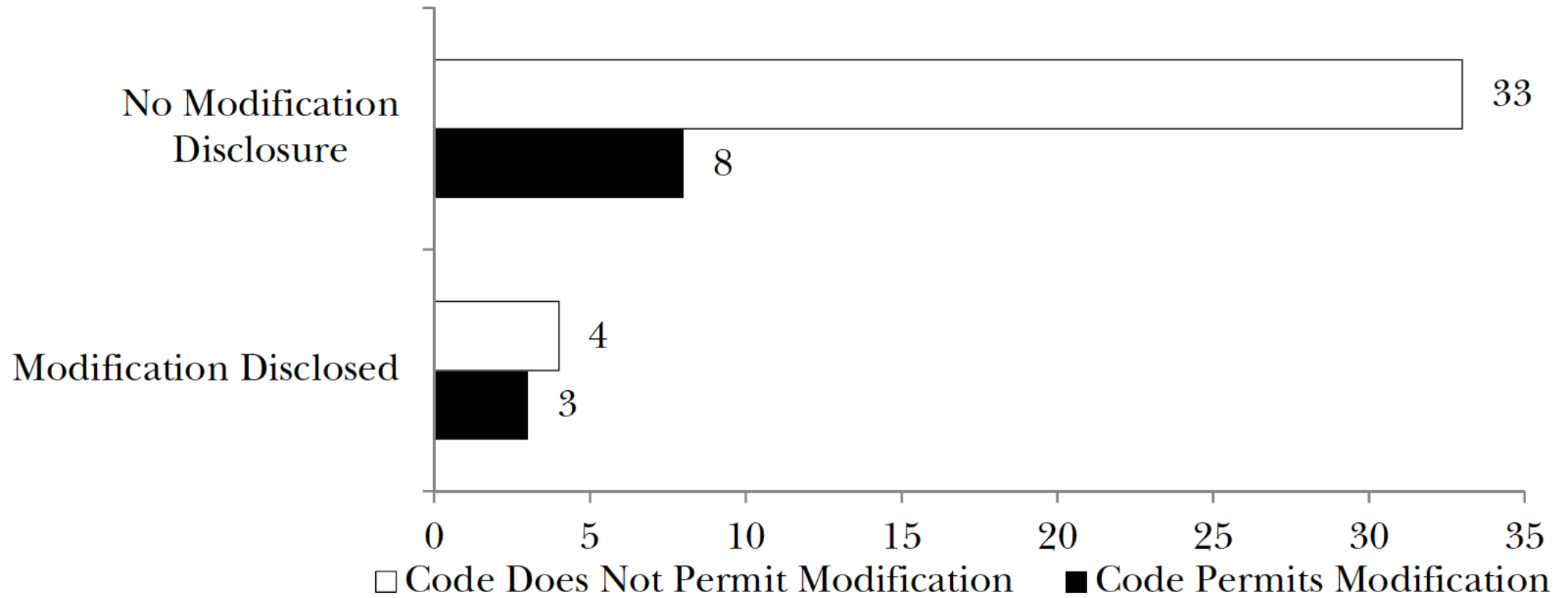


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FIGURE 17: MODIFICATION AUDIT RESULTS<sup>231</sup>



Source: Shaanan Cohney, David Hoffman, Jeremy Sklaroff & David Wishnick, "Coin Operated Capitalism," Columbia Law Review (2019)



FIGURE 18: VESTING DISCLOSURES AND ROLLING AVERAGE CUMULATIVE RETURNS<sup>241</sup>

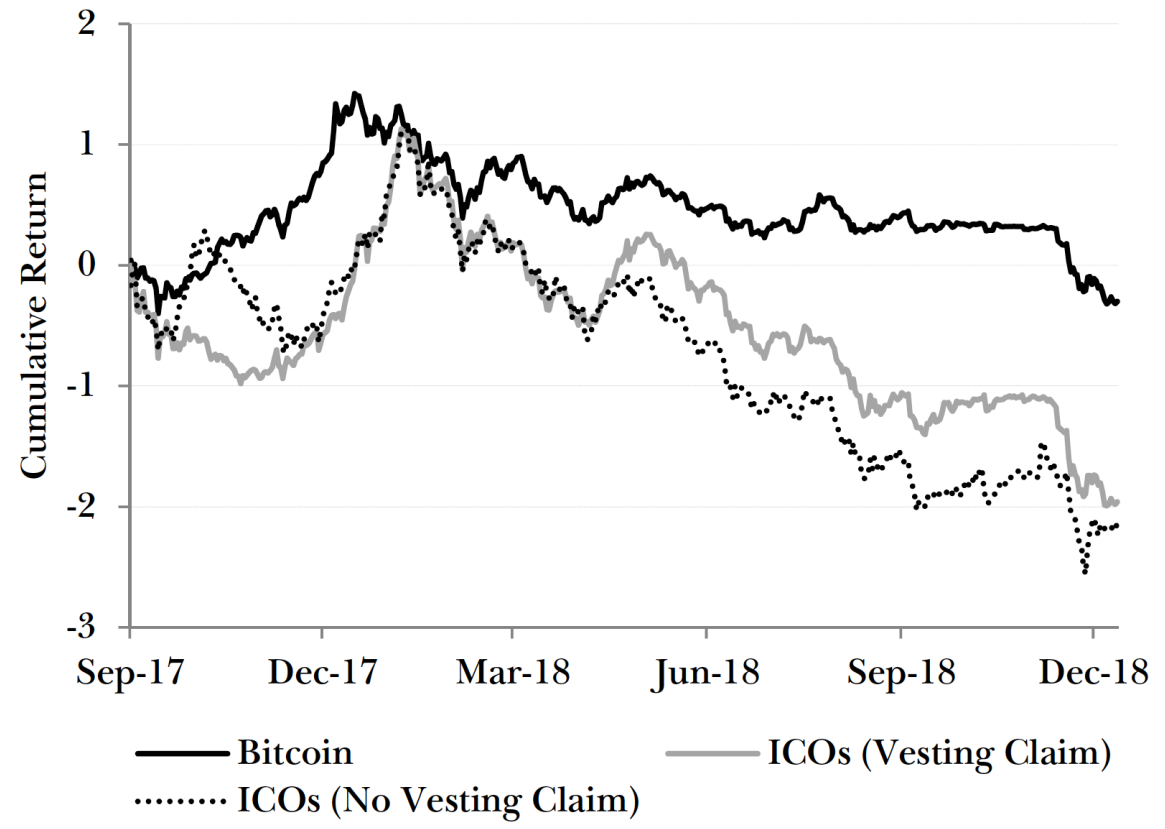
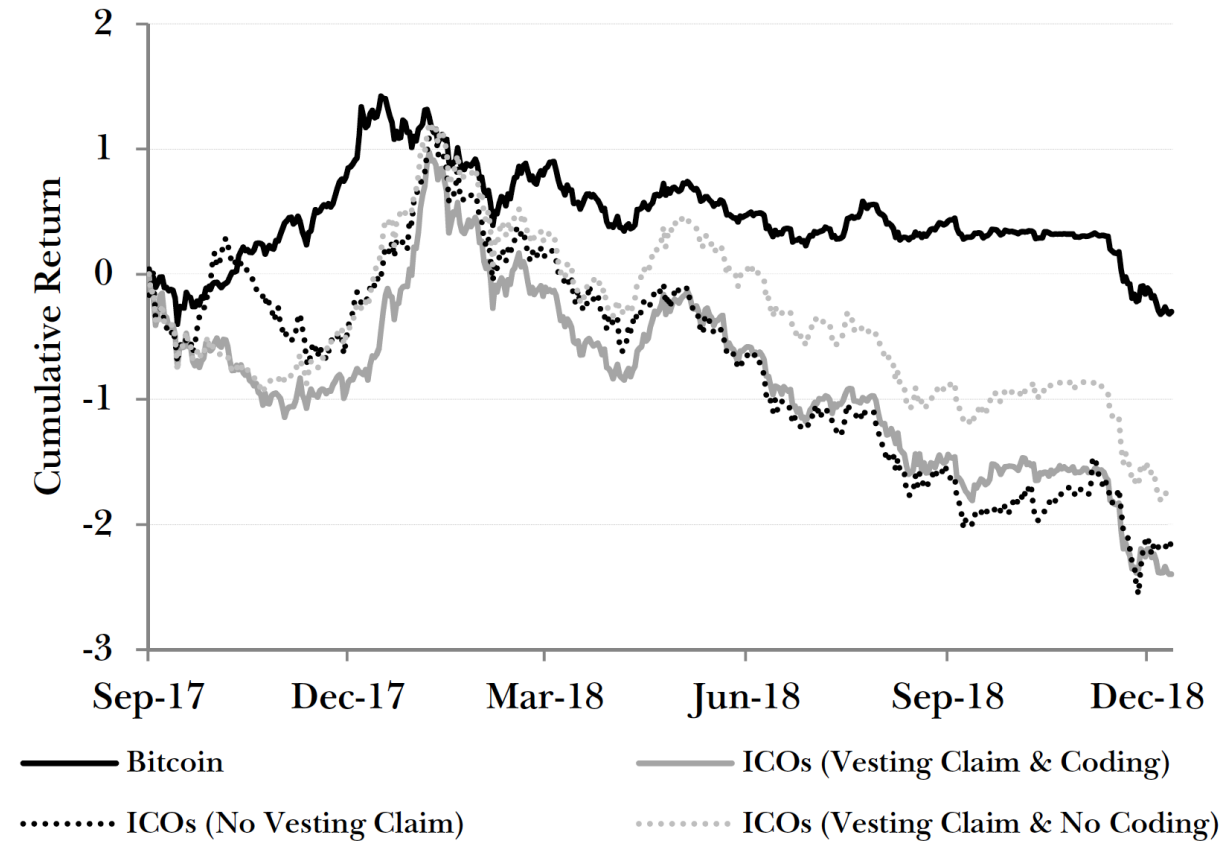


FIGURE 19: VESTING (CODED VS. DISCLOSED) AND CUMULATIVE RETURNS<sup>242</sup>



Source: Shaanan Cohny, David Hoffman, Jeremy Sklaroff & David Wishnick, "Coin Operated Capitalism," Columbia Law Review (2019)