

What is an ICO?

An initial coin offering (or ICO for short) is a crowdfunding technique that blockchain projects use to raise capital and create a new cryptocurrency.

At first glance, ICOs are not too different from an initial public offering, where companies start selling shares to the public on the stock exchange. But although IPOs are regulated by the SEC, as a rule, ICOs are unregulated, and thus many ICO tokens have ended up in hot water because they didn't comply with federal securities laws. Another big difference is that buying crypto tokens doesn't mean you'll have an ownership stake in the company.

For legitimate ICOs, the first step is devising a business model and exploring how blockchain technology will be used. Startups may seek early feedback from ICO investors or venture capitalists. From here, the new project will develop a white paper that explains what their digital currency is for — and the document may include forward-looking information about the return on investment a contributor can expect.

Many crowdsales struggle to gain momentum at this stage because they lack legitimacy — in 2020, we are a long way from the ICO craze of 2017. The new token could be regarded as a solution looking for a problem. A lack of hype on social media could also make raising money impossible.

ICO projects that are successful will need to get their digital assets listed on cryptocurrency exchanges.