



Capital Markets Board Issues an Official Announcement on Initial Coin Offerings and Crowdfunding

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The Capital Markets Board (“CMB”) issued an announcement on September 27, 2018, on its website and addressed the much-disputed status of digital tokens and Initial Coin Offerings (“ICO”). In this announcement, the Capital Markets Board stated that it does not regulate or supervise ICOs, and also noted that it does not regulate or supervise most practices in which blockchain technologies are being used, such as cryptocurrency offerings and token offerings.

By way of brief background on the matter: Simply put, ICO refers to the creation and sale of digital tokens. It is perceived and used as an alternative fundraising mechanism to traditional financial markets. In an ICO, a project creates a certain quantity of a particular cryptocurrency, which are then sold to investors in the form of “tokens” (“coins”), in exchange for real currency or other pre-existing cryptocurrencies, such as Bitcoin or Ethereum. The company holding the ICO uses these funds in order to launch its product(s) or its digital currency and, in exchange, the investors hope (and expect) that the tokens will provide them with a beneficent return on their investment. In its recent announcement, the CMB, which is the regulatory and supervisory authority in charge of the securities markets in Turkey, expressed its view that, although some ICOs may involve clear and concrete commitments (such as the financing of a company or a project), they usually include only vague promises. In this respect, the CMB emphasized that ICOs are risky and speculative investments, and warned investors to consider, recognize and acknowledge the risks listed below when investing in ICOs, and advised them to ensure that they perform a detailed analysis of their expected results:

- Most ICOs are not regulated or supervised by any regulatory bodies due to their structure;
- Token values may be subject to excessive fluctuations, as is the case with cryptocurrencies;



- The collected funds may not be used for the stated/communicated purposes by the ICO holders;
- Sales documentation for the ICO may contain incomplete or misleading information;
- The investment project may fail or the investment funds may be lost completely, as funded projects are usually at a premature stage.

In the same announcement, the CMB also provided an update on the legal framework for crowdfunding activities. Back in December 2017, the CMB had taken the first step toward introducing and regulating the concept of “crowdfunding” through an amendment to the Capital Markets Law. Now, with the recent announcement, the CMB has declared that the secondary legislation for crowdfunding is under way. It also indicated that the status of ICOs (which is similar to IPOs and crowdfunding) and whether or not they will fall under the supervision of the CMB will vary on a case-by-case basis. Finally, the CMB emphasized that unauthorized transactions under the name/pretext of “crowdfunding” that are carried out before the secondary legislation goes into effect will be subject to administrative and penal sanctions and warned investors to disregard and not participate in any potential sales of cryptocurrencies that occur under the guise of “crowdfunding”.

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(First published by Mondaq on October 3, 2018)