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'The proposed rules on initial coin offering'

Initial coin offering (ICO) is a new form of funding. The main idea is crowdfunding, using cryptocurrency *(Wong, 2018)*. Recently, the Securities and Exchange Commission released the proposed rules on ICO. It covers start-ups or registered corporations organized in the Philippines and those conducting ICOs targeting Filipinos, through online platforms where convertible security tokens are issued.

Typically, in the ICO life cycle process, the announcement of the desire to conduct an ICO would be the starting point to draw attention of the community toward backing the project. Closer to the ICO, a whitepaper will be published, and the core team goes on a road show to meet with potential investors *(Momtaz, 2018)*. The whitepaper is similar to a business plan or prospectus in regular initial public offerings. In the proposed rules, however, the whitepaper has a technical meaning. It does not represent an offer to sell the tokens and is not interchangeable with a prospectus. Rather, it is simply a document that states the technology behind a blockchain project, including among others a detailed description of the system architecture with the users, and other technical details and the team and advisors behind the project.

In view of the number of risks associated with investing in virtual currency projects, the proposed rules provide two-pronged assessment. These are the initial assessment and registration proper. Under the IA phase, start-ups and corporations are required to submit an IA request with attached whitepaper to prove that the tokens are not security tokens. Once the commission finds that the tokens are indeed security tokens, start-ups and corporations may proceed to registration proper.

To ensure compliance with IA, the whitepaper must contain the qualification of the issuer. Under the proposed rules, only start-ups or existing corporations duly registered with the commission may file an application for registration. In case of foreign corporations, the issuer must establish a branch office within the Philippines. In addition, the members of the team and the advisors of the ICO project should also possess all the qualifications and none of the disqualifications.

Another interesting feature about the proposed rules is the power of the commission to conduct an ocular inspection of the Philippine office of the issuer and system walkthrough of the operating system. The order of registration and permit to sell can be issued only after these inspections.

Overall, the proposed rules underscore investor protection. They are mainly intended to guide venture capitalists evaluate ICOs in a more structured and thorough manner, leading to more informed investment decisions.

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