A note on terminology

At present, the term “ICO” is just a metaphor to draw parallels to IPOs. However, “initial coin offering” is often inaccurate; teams have multiple offering rounds and they can sell tokens that aren’t coins in the sense of currency. Many teams have stopped calling their sale an ICO and instead opted for “token sale,” “donation event,” or “software sale.”

What is an ICO?

ICOs (Initial Coin Offerings) have become a popular way to fund blockchain projects. In an ICO, a project sells a portion of crypto-tokens in exchange for other cryptocurrencies. Sometimes the tokens being sold are part of a new blockchain, but increasingly, projects are launching ‘meta-tokens’ built on Ethereum, Bitcoin, NXT or others. The tokens can entitle holders to a portion of profits or fees, be an exclusive means of payment for a new app, or hold other functions.

ICO campaigns are conducted online, much like Kickstarter campaigns. There are no requirements for what teams must provide, but most have a website, a white paper, multiple social media accounts, and several active online forums. Each project has a different approach to pricing their token, and almost all have bonuses for early participants. Funds are usually collected into a multi-signature wallet or to a cryptocurrency exchange account. Third-party escrow providers are responsible for releasing funds.

Comparison to Other Fundraising

Token sales share elements of other fundraising methods, but they also differ in key ways. Broadly, a token sale has the fundraising campaign of a crowd sale, the product maturity of an early stage angel or VC investment, and the offering of something tradeable like an initial public offering (IPO).

<table>
<thead>
<tr>
<th>Crowdfunding</th>
<th>Venture Capital</th>
<th>IPO</th>
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<tbody>
<tr>
<td>Marketing campaigns online and via social media</td>
<td>Product stage can be similar (business plan or prototype)</td>
<td>‘Investors’ get a tradeable token</td>
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<tr>
<td>Product stage can be similar (just a plan)</td>
<td>No face-to-face relationship with team</td>
<td>No (existing) disclosure requirements</td>
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<tr>
<td>Get a tradeable token that has value on a secondary market</td>
<td>Tokens are immediately tradeable</td>
<td>Projects are much less mature and usually aren’t public companies</td>
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Note: only includes ICOs that raised the equivalent of $50,000 or more

ICOs / Crowdsales / Token Sales (2013 - 2016)

- Ethereum raised over $15 million and framed the fundraising as a donation.
- The DAO raised over $130 million in ETH
- MasterCoin raised over $600,000
- SuperNET is one of the first to promise tokenholders dividend payments
- ICO activity significantly increases as 2016 closes