Research Group
Diginomics
Digitalization - Economy - Society

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Initial Coin Offerings, Information Disclosure, and Fraud

Conditionally accepted by *Small Business Economics*

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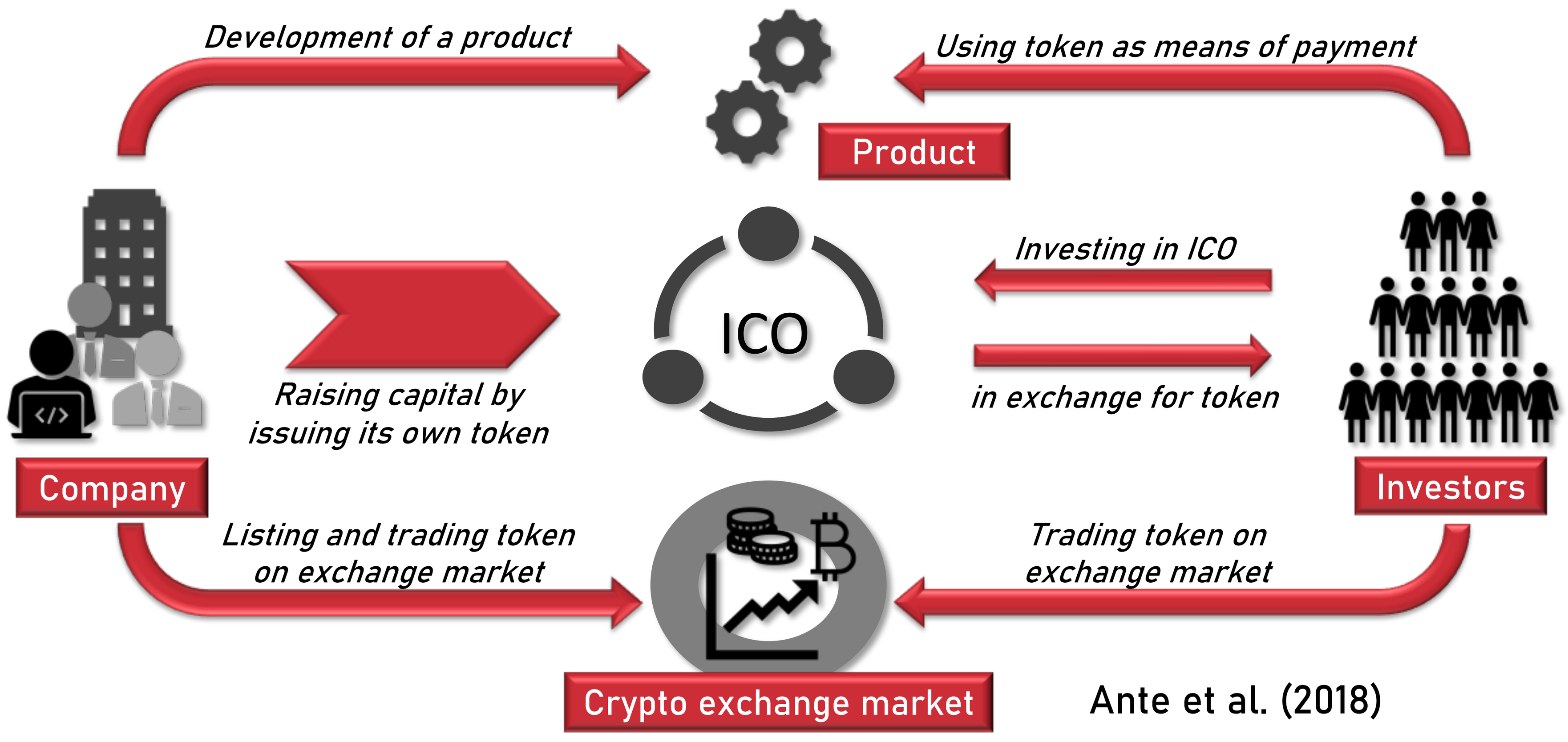
What is an ICO?



Ante et al. (2018)

Different types of fraud on ICO market

Exit fraud: disappearance of founders after raising capital

Security fraud: offering of unregistered security-like token

Ponzi scheme: paying promised profits to earlier investors with funds of more recent investors

Pump and Dump: artificially inflating token-price through false information, in order to sell the token that was initially cheaply bought at a higher price

Phishing / Hacking: phishing mails, fake social media accounts, hacking into company's IT systems, exploiting smart contract bugs

Data collection

- Sample of 1,393 ICOs, listed on Icobench.com and Icorating.com and ended fundraising before July 1st, 2018.
- Extensive search on Google to identify fraud cases with the following words for each ICO:

Name of ICO + „ICO" +
- „fraud"
- „scam"
- „phishing"
- „pump and dump"
- „ponzi"

The extent of fraud

TABLE 1: Distribution of Fraud Cases Identified (N = 1,393)

Multiple fraud types are possible for an ICO.

Fraud Type	No. Suspected Cases	No. Confirmed Cases
Exit Fraud	21	25
Security Fraud	13	3
Ponzi Scheme	27	0
Pump and Dump	31	1
Phishing / Hacking	28	128
Other Types	68	18
Total	188	175
Percentage of sample	13.5%	12.6%

Results

- Contrary to the ICO literature, which says that disclosing the ICOs smart contract on Github is a sign of transparency and trustworthiness (Howell et al., 2020), our results show that it increases the probability of fraud.
- ICOs with higher funds raised are associated with a greater likelihood of fraud.
- Fraudulent ICOs are 11.5% more likely to be listed on a crypto exchange market.

Conclusion & Policy Implications

- The extent of information disclosure offers little opportunity to identify fraudulent ICOs.
- An in-depth due diligence of the ICO and its whitepaper is necessary to ensure its legitimacy, e.g., by institutional investors (Momtaz, 2020) or specialized platforms to run background checks.

Mai 2017

References

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Ante, L., Sandner, P., Fiedler, I. (2018). Blockchain-Based ICOs: Pure Hype or the Dawn of a New Era of Startup Financing? *Journal of Risk and Financial Management*, 11(4): 80.

Howell, S., Niessner, M., and Yermack, D. (2020). Initial coin offerings: Financing growth with cryptocurrency token sales. *Review of Financial Studies*, 33(9): 3925–3974.

Momtaz, P.P. (2020). Entrepreneurial finance and moral hazard: Evidence from token offerings. *Journal of Business Venturing*, forthcoming.

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