

An analysis on the effect of regulatory interference by China on ICOs

The following report has been produced by [Picolo Research](#), the leading ICO and blockchain research house, in conjunction with [Astronaut Capital](#), an upcoming coin offering focused on investment management.

With over US\$1.3 billion having been raised through initial coin offerings (ICOs) in 2017, the market has caught the eyes of regulators, monetary authorities and central banks within three of the major global hubs of cryptocurrency investment.

Over the past two months, several authorities have expressed the need for financial regulation, and in recent times, prohibition.

An overview of recent events is as follows:

25 July 2017 - [SEC issues investigative report on DAO token \(USA\)](#)

The SEC issued an investigative report cautioning market participants that offer the sale of digital assets and the need to comply with federal securities laws.

01 August 2017 - [MAS clarifies regulatory position on digital tokens \(Singapore\)](#)

The Monetary Authority of Singapore (MAS) issued a statement advising that some tokens will be constituted as products under the Securities and Futures Cap (Cap.280).

04 September 2017 - [PBoC prohibits the sale and purchase of ICOs \(China\)](#)

The Peoples Bank of China (PBoC) issued a statement prohibiting the purchase and sale of initial coin offerings by Chinese investors, banks, and issuers.

The preceding events have led to short term volatility and uncertainty within global crypto markets as investors liquidate portfolios in the wake of regulatory intervention.

The statement issued by the PBoC has had the most profound effect on markets due to China's influence and recent participation of new token sales.

The affected

As a matter of illustration, we refer to the case study of Neo (NEO), a Chinese based blockchain firm which was to be dubbed as China's new Ethereum. NEO launched its ICO in July and at its peak, gained 300% from its opening on the exchange on August 6th, 2017 (although ICO holders received a deep discount).

Figure 1.0: NEO price 30 days (Coinmarketcap)



On September 4th, NEO dropped from a high of \$30 to a low of \$19.30, erasing more than US\$600m of market cap in a single day.

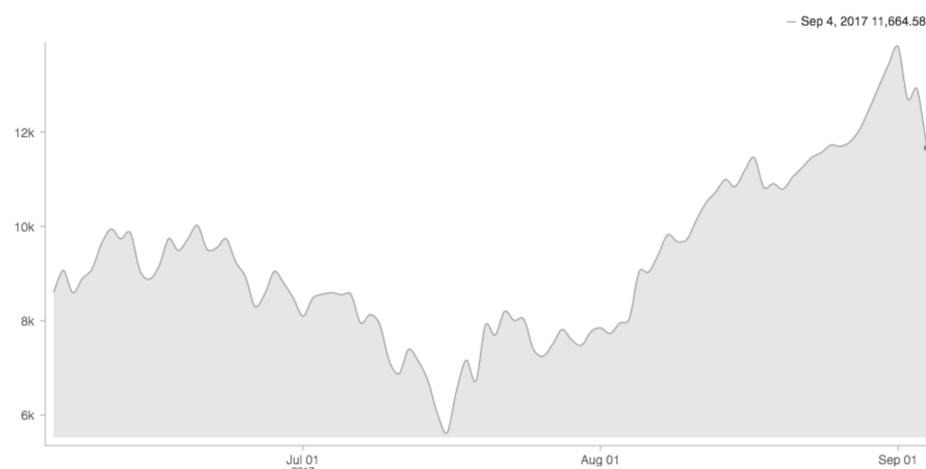
The fear

The statement released by the PBoC was not expected. Similar to other regulators in the USA and Singapore, the Chinese government had previously indicated that ICOs [would be regulated shortly](#), however, a complete ban which serves as a blanket cover was very much unanticipated.

As a result of the intervention by the PBoC, there has been a sell-down of all crypto currencies within the ecosystem.

The CRIX Crypto Index which combines the ten largest cryptocurrencies fell over 1300 points in a single day.

Figure 2.0: CRIX Index (<http://crix.hu-berlin.de>)

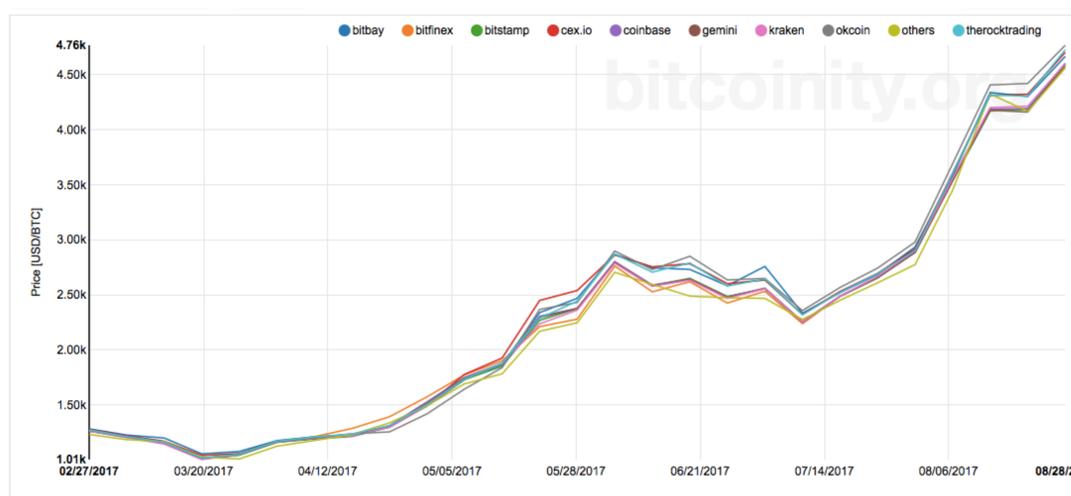


Is this the end for ICOs and the crypto market?

While regulatory intervention has had a significant short term effect on the market, there is little evidence to suggest that Initial Coin Offerings will slow down, let alone, cease to exist.

Despite market sell-downs and money flowing out of select new tokens, exchange volume has continued to increase substantially even after every statement by regulators over the past three months.

Figure 3.0: Exchange volume since March 2017 (<http://data.bitcoinity.org/markets/price/6m/USD?c=e&t=l>)



To elaborate further, should we analyze that of NEO which has suffered the largest declines in the past week, we can see a significant disparity between market volumes during its 'bull run' and the decline which occurred on the 4th of September.

Data suggests that volume during the sell-down was less than 60% of its daily volume throughout the first month of August. This suggests that some investors are 'heading for the door,' and significantly lowering the price, however, participation in the sell-down is extremely low.

Figure 4.0: Incremental volume of NEO during bull run



Figure 5.0: Incremental volume of NEO during bull run



What happens to Chinese investors and China domiciled ICOs?

Regulators are going to have an extremely hard time in identifying, monitoring and prohibiting transactions by Chinese investors. In a forever increasing decentralized world where anonymity is slowly becoming the norm, the actions by the PBoC reflect one of panic and rather an attack on companies domiciled within China rather than the investors themselves.

While all concern is communicated by regulators such as scams, anti-money laundering, terrorist funding and more, the ban in which they are seeking to formalize will affect only small segments of the ecosystem.

1) Chinese innovation and ICOs will move offshore

The participation by Chinese investors will likely not decline, nor will the innovation by that of its citizens. As a result, and as many prospective ICOs have recently done, Chinese companies seeking to raise money via initial coin offerings will move operations and management to a friendly jurisdiction away from the regulators.

Given that the vast majority of ICOs are in fact unregistered company's, this will prove to be an easy transition.

2) Ongoing Chinese related ICOs are already following strict AML and KYC compliance

The initial coin offering of Red Pulse (RPX) (which is currently ongoing) has already begun compliance checks with Chinese residents to ensure that they abide by all standard coin offering rules that other regulators such as the SEC had put in place. This is significant progress and an act of 'self-regulation.'

3) Bitcoin will increase in the short term

Amidst a brief moment of market panic, investors have (and will in the short term) convert their NEO (and other volatile tokens) to BTC. As a significant portion of investors are avoiding a sell-down to fiat currency, BTC remains the haven for crypto and will likely benefit from a short term decrease in other tokens.

When will the market return to normal?

It is very likely that the PBoC will relax the rules and regulations of ICOs, moving from a straight prohibition to a regulated offering which is governed by a form of securities compliance.

We see risk in the short term for China based ICOs, not because of the merit behind the offerings, but simply because of the uncertainty associated with the government's actions.

Should the likes of NEO and Red Pulse (RPX) need to work with the government to form a heavily compliant offering and ongoing operation, there is a risk that it will put a hold on innovation, hence leading to a subdued community of token holders who are seeking a more rapid response and action in the market.

With regards to tokens and ICOs outside of the Chinese jurisdiction, we anticipate that volume, interest, and participation will return to normal within a matter of weeks. In the 24 hours post the announcement by the PBoC, a large number of tokens have already begun rising as some investors are considering the current market as 'a deep discount.'

Does this change the recommendations by Piccolo Research and Astronaut Capital?

To date, Piccolo has not recommended any China based ICOs, however moving forward, we will more than likely be staying clear of those offerings which are domiciled in China. Until such a time that there is more clarity on proposed legislation, we anticipate that participation may drop for NEO backed offerings and any other such blockchain venture within the grasps of China.

Initial Coin Offerings outside of China will likely be funded and traded to a greater extent due to a strategic and forced shift of speculation by Chinese investors. In essence, we anticipate that a slow-down in ICOs within China will lead to those same investors increasing volume and participation in offshore tokens.

Disclaimer

Piccolo Research is an independent provider of research on cryptocurrency ICO's. We have not been paid, nor mandated for this research report. The views expressed within this report are Picolos in its entirety.

The contents of this report and its attached documents have been prepared without taking account of your objectives, financial situation or needs. Because of that you should, before taking any action to acquire or deal in, or follow a recommendation (if any) in respect of any of the financial products or information mentioned in or downloaded from or through this website, consult your own investment advisor to consider whether it is appropriate having regard to your own objectives, financial situation and needs.

Whilst Picolo believes the information contained in this report is based on information which is considered to be reliable, its accuracy and completeness are not guaranteed and no warranty of accuracy or reliability is given or implied and no responsibility for any loss or damage arising in any way for any representation, act or omission is accepted by Picolo or by any officer, agent or employee of Picolo or its related entities. blockchaini.co at all times reserves the right to at any time vary, without notice, the range of services offered by Picolo and its subsidiaries, and the terms under which such services are offered.

Contact us

w: <http://www.picoloresearch.com>

e: admin@picoloresearch.com

a: #08-03 Claymore Hill, Singapore