

ІННОВАЦІЇ ТА ІНВЕСТИЦІЙНА ДІЯЛЬНІСТЬ

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ETHICAL PRINCIPLES FOR INITIAL COIN OFFERING AS A CORE NECESSITY FOR MARKET INTEGRITY

Currently, the number of companies raising funds through initial coin offering (ICO) is explicitly increasing. This innovative way of financing allows firms to collect investments for a project in a short period of time, and it is not important whether this firm is a start-up with just an idea of future product (service) or an existing company which is well-known on the market. As a rule, the prices of tokens are really small and potential investors are attracted by the possibility to sell them at a higher price in future and by using company's products or services promised with its whitepaper.

Undoubtedly, ICO may well bring benefits to both the issuer and the investor. But still there are cases where token offerings are fraudulent and created only for the purpose of raising money and disappearing without any further punishment due to low or, more frequently, absent legal regulation of ICO. Also, there are different practices of manipulation with prices by the very issuers or "crypto whales" for making the prices higher. This situation conditions the topicality of the paper. Undoubtedly, such an unethical behavior undermines market integrity.

In the given paper we will focus on ICO issuers misleading their investors and founding start-ups only in order to raise funds and not create any product. The aim of this paper is to identify the ethical principles for the ICO issuers, which may assist to maintain and strengthen the market integrity.

Establishing the context of the topic, it is vital to mention that the procedure of ICO was implemented for the first time in August 2013. It was the project Mastercoin (now it is called Omni), which, according to his inventor J.R. Willett, "today hosts assets worth half a billion dollars" [2]. Since then, there have been many start-ups collecting resources using ICO. At present, the top-five projects, in terms of the accumulated amount of money, are Tezos (USA, \$232m), Filecoin (USA, \$205m), Bancor (CHE, \$153m), The DAO (no headquarter, \$153m) and Status.io (USA, \$100m) [3].

ICO has become a salvation for young companies with an eager desire to launch a new product. To raise funds through ICO, a start-up does need to comply with strict requirements and government regulations as in case of IPO. Even crowdfunding seems less attractive comparing to ICO because the latter allows collecting funds much faster. Nonetheless, as it was stated in the introduction, there

are companies which launch ICO for simply collecting money, not in order to develop any products. The recent example of such type of unethical behaviour is cryptocurrency start-up Confido. This project has raised circa \$375 ths with the help of ICO and nothing happened after but its founders passed from sight. Also, online assets of the start-up as well as these assets related to its founders were deleted. Moreover, Confido's website and pages on Facebook and Twitter also disappeared [1]. It is vital to mention that this case is not the only one. In addition, one of the recent scandals occurred with already mentioned cryptocurrency tech project Tezos, which raised the biggest sum of money ever in the history of ICO. This company is currently fighting lawsuits, since Tezos is accused of selling unregistered securities ("tezzies" tokens) and has not launched the product it promised, namely new decentralized blockchain [4]. Therefore, this is the first reason why ICO must have a list of ethical principles to be observed.

Investing in ICO may be even dangerous in some way. When a start-up fails to secure the minimum amount of money, which the team needs for developing and launching their product, all the money collected from investors should be returned back unless it is clearly written in a whitepaper that the cost of tokens is not refundable. It is more than important thing to comprehend – how, in conditions of unregulated ICO, there still would be trustworthy companies which will return money back without hesitation. Not all the projects may be described as being ethical and not all founders respect the people who buy the tokens of their company. Thus, the second cause for ethical principles is set.

Such countries as China and South Korea already banned ICO. Their governments did so because of high possibility of fraudulent schemes and the lack of moral values of many present ICO.

Having considered just the two reasons for correcting ICO issuers' behaviour, several ICO ethical principles may be set for improving current market situation and maintaining market integrity (Fig. 1).

First of all, objectivity should be considered. Objectivity is the core principle of any ICO. Its initiators should be objective regarding their own capacities and potential. They need to understand all the responsibility they are going to have upon the token holders. Also, the issuers should not influence investors' feelings and mislead them. Therefore, investors' objectivity may not be eliminated.

Autonomy principle lies partly in the previous one. According to it, each issuer has an idea and comprehensible purpose of ICO. The companies autonomously and objectively can value the tokens as well as assess potential consequences of successful or unsuccessful ICO.

Honesty-and-Integrity principle constitutes in the full disclosure of all information regarding the company and its tokens without any omission or addition made on purpose. Based on this principle, the ICO brings with its transparency benefits to market integrity. Also, insider news leak by no means should occur within the overall market.

No-harm-to-society principle, or principle of nonmaleficence is what may be considered not only by those who launch ICO but also by government. The companies should be aware of the success of their token sale or, if the worst case happens and the offering fails, they need to have a plan how to mitigate negative

consequences. The governments should enhance this principle with appropriate law regulation.

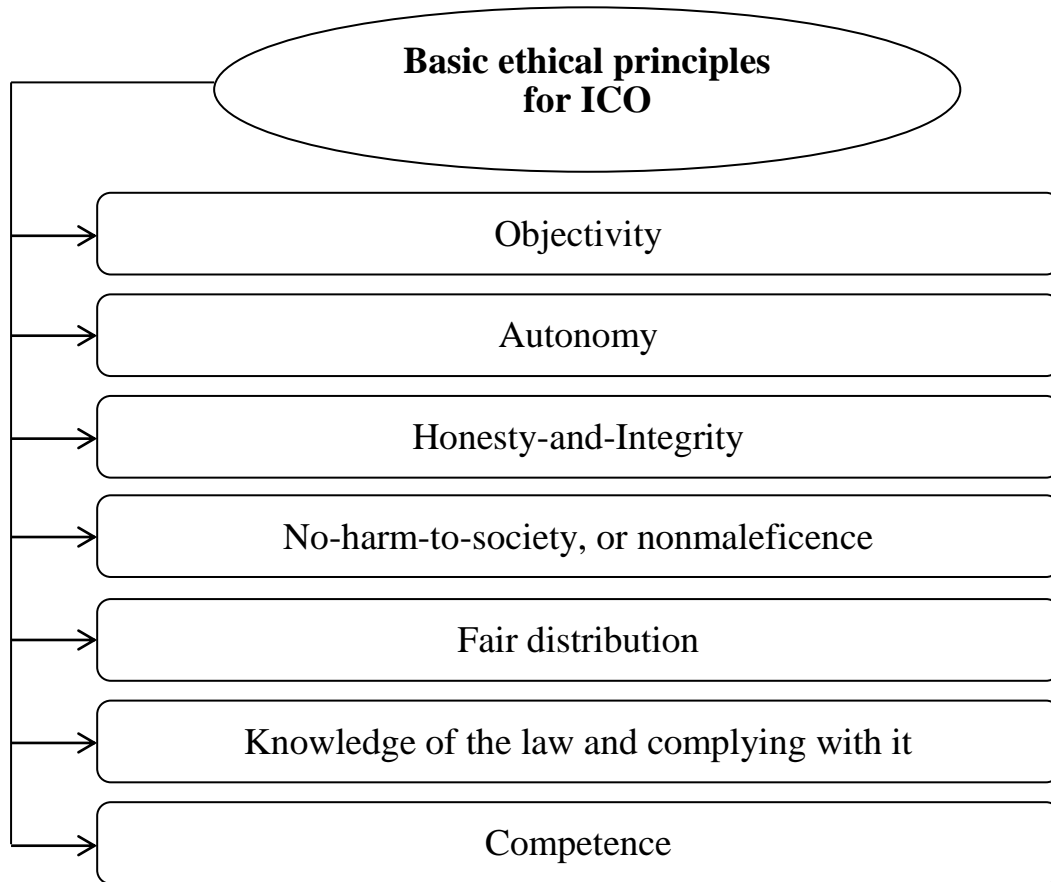


Fig. 1. Basic ethical principles for ICO

Principle of fair distribution of tokens lies in existing of no special and privileged group of investors who, for example, have a possibility to buy tokens earlier than others or with any discounts. Also, here “crypto whales” are to be set with some restrictions as a main threat to market integrity since they may set games buying and selling big portions of tokens and hence changing prices artificially. Therefore, the Honesty-and-Integrity principle is in connection with the principle of fair distribution.

Knowledge of the law and complying with it is the next ethical principle for ICO. The absence of the legal document, which regulates cryptocurrencies and ICOs, does not mean that ICOs can break all other laws. But still the legal issue attracts attention of many lawyers and it is a very controversial topic for discussion today.

The last but not least principle is competence. ICO should not be organized by people who understand very little or even nothing in what they are doing. In case of the lack of competent staff, the company is obliged to consult with professionals.

The study proves that there may be enough ethical principles which companies raising funds via ICOs should definitely observe. In conditions of no clear law regulation, market integrity may not be achieved without moral values and ethical principles.

The proposed principles may be used as a basis for creating a general Code of Ethics for ICO.

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ПРОБЛЕМИ ЗАБЕЗПЕЧЕННЯ ІННОВАЦІЙНОГО РОЗВИТКУ ПІДПРИЄМСТВА

Розвиток ринкових відносин спонукає вітчизняні підприємства до застосування сучасних засобів підвищення ефективності господарювання. Загальновизнаною є провідна роль інновацій у забезпеченні стійкого економічного розвитку окремих суб'єктів господарювання та національної економіки в цілому. Проте статистичні дані Держкомстату України свідчать про скорочення в останні роки кількості інноваційно-активних підприємств, нерівномірність їх розподілу за регіонами, галузями та видами економічної діяльності, відтік найбільш кваліфікованих кадрів за кордон та ін. [1; 4]. Це створює передумови до подальшого погіршення економічних показників діяльності підприємств, зниження їх конкурентоспроможності, призводить до посилення технологічного відставання України від розвинених країн світу та ослаблення її позицій на світовій економічній арені. Тому необхідно вивчити проблеми, що стримують інноваційний розвиток підприємств, і намітити шляхи їх подолання.

Важливим стримуючим чинником щодо активізації інноваційного розвитку вітчизняних підприємств є недостатня державна підтримка інноваційної діяльності. Недостатня дієвість більшості нормативно-правових актів у цій галузі зумовлює неможливість скористатися передбаченими в них пільгами та державним фінансуванням для здійснення інновацій. В останні роки в нашій країні видатки на науку становили 0,3–0,5% ВВП, хоча світова практика свідчить, що для забезпечення інноваційного розвитку необхідний рівень цього показника становить не менш 0,9% [3], а чинним законодавством передбачене його значення не менш 1,7% з перспективою подальшого збільшення до 3% [2].