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Initial Coin Offering

“Risk capital funding through initial coin offerings compared with venture capital, business angels, initial public offering and crowd funding”

Field of study: Banking & Finance

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Abstract

This paper discusses Initial Coin Offerings (ICOs), a recently developed financing alternative for companies. A systematic comparison of the ICOs with existing external financing sources reveals their similarities and differences and examines how suitable the new financing alternative is for financing companies.

For this comparison, selected financing sources were first characterized with the help of a literature search. The selected sources of financing include: Business Angels, Venture Capital, Initial Public Offering and Crowdfunding. Based on the existing literature on ICOs and an additional Internet search, the concept of financing through ICOs was then presented and compared with the other financing sources.

The comparison of the ICOs, showed that ICOs can be best compared with crowdfunding, as both reach a large number of potential investors via the Internet and both aim to build a community.

Similar to initial public offerings, tokens are issued instead of shares, which can be traded on the secondary market. In contrast to stocks, however, tokens represent digital values, which can be created on the basis of blockchain technology and can be structured with arbitrary rights. The research showed that ICOs are already accessible in the early stage. With regard to the suitability of the new financing alternative, it was found that financing through ICOs preserves the independence of the entrepreneurs, allows high financing volumes to be achieved, capital is available indefinitely and low capital costs arise - in contrast to financing through business angels and venture capitalists, the know-how needs of the entrepreneurs are not covered and the preparation of financing is associated with high costs and time expenditure.