

# [The context of rules on the ico according to the standards of sec](https://assignbuster.com/the-context-of-rules-on-the-ico-according-to-the-standards-of-sec/)

On 2nd August, the Market and Securities Regulation Department framed rules on the ICO according to the standards of SEC and international practice and standards. These rules have now been termed as “ Rules and Regulations Governing Initial Coin Offering (ICOs)”. The primary function of these rules is to control the conduct of ICOs where convertible security tokens can only be given by start-ups and/or registered companies located at the Philippines. ICOs not done through online platform but through any other platforms or any other way is considered outside the boundary of these rules. Certain crypto-terms were redefined for the basis of these rules like blockchain, tokens, Coin, Fiat currencies, Hard cap, Soft cap, Prospectus, Wallet, investor, etc.

According to the Commission, Start-ups: “ Must submit an initial assessment request including the attachments required under these rules to the commission in the form and manner directed under these rules not later than ninety days before the start of the pre-sale period.” The rules state that any description of the ICO project must contain a full business plan, a feasibility study and a brief description of business of issuer, ICO tokens, target market, cryptocurrency that will be received as payment for tokens, soft and hard cap of each token, price per token, timeline of the project, proceeds from the sale of token and the problem the ICO project is trying to solve. The commission takes an average 20-40 days to determine whether the token is a security once they receive the initial assessment application. Once decided, it is communicated in writing to the issuer who must then register the ICO project according to the rules. The white paper must be submitted after the registration and must contain all relevant information about the ICO project like, names, addresses, contact of all members, the problem the project is trying to solve, hard cap and soft cap of the project, target market, timeline of project, description of the tokens, price per token, etc.

Article 3 explains about the qualification and disqualification of issuers and advisors. According to Section 13 of this article, the qualification of the issuer: “ Any start-up or existing corporation duly registered with the commission who has an innovative project for a security token ICO for which there is no hindering law may file an application for registration with the commission.” According to Section 17 of the article, the qualification of the advisor: “ Any natural persons with a reasonable knowledge about a specific security token ICO project mat file an application for registration with commission.”

Article 4, Section 19 talks about the registration of security tokens, It says that unless the ICO is conducted exclusively through crowdfunding intermediary falling under the ‘ Rules of Crowdfunding’, the issuer must also register the ICO according to the rules in not more than 45 days before the pre-launch of the project. The registration statement must include a long list of information about the ICO like a cover page, prospectus, operations manual, notarized undertaking, exhibit table, certificate of incorporation, whitepaper, Notarized Affidavit, material contracts, legal opinion, power of attorney, code audit report, manual on corporate governance, BoD accepting the ICO, a complete accounting statement of cash flow, change in equity, balance sheet, etc. The security token can be an exemption from registration only if given permission from a judicial body, bank, commission or “ sale of securities by an issuer to fewer than twenty persons in the Philippines during any twelve-month period.

In reference to Section 29, advertising of security token can be done other than white paper, if it’s on a common platform or media that is considered legal and moral by the government such as Billboards, television, social media, brochures, mail, or any other reasonable means available to the issuer. Any form of advertisement that involves false promotion of information, contradicting photographs or acts of questionable legality is prohibited by the commission. The last article, Article seven talks about the Miscellaneous provisions where the return of funds to the investor, if the soft cap is not reached: “ If an ICO does not reach the soft cap as set in the registration statement, the independant escrow agent must within 5 days: Report the refund made, the cancellation of the ICO and the failure to reach the soft cap. Give or send each security token investor a notification of the same and refund th amount that the investor paid for the tokens.”