



CFA INSTITUTE

ETHICS IN PRACTICE:

Raising Capital with Digital Assets?

CASE STUDY

Munchee is a US-based business that created an iPhone application (App) for users to review restaurants. The company initiated an initial coin offering (ICO) to sell digital tokens to raise \$15 million in capital to invest in improving the App. The company advertised and promoted the offering on its website, in a white paper, and on social media channels and message boards, such as Twitter and Facebook, particularly in forums aimed at those interested in investing in Bitcoin and other digital assets. In the communications about the offering, Munchee said it would use the proceeds to create an "ecosystem" in which the company, its App users, restaurants, and others could use the tokens to buy and sell goods and services. Munchee explained that it expects the tokens to increase in value as a result of the company's efforts. In addition, increased participation in the ecosystem and the use, or "burning," of tokens would also help increase the value of the tokens. Finally, Munchee stated that it intended for the tokens to trade on a secondary market. Munchee's ICO was

- A. unacceptable because it promoted a virtual and highly speculative investment unsuitable for investors.
- B. unacceptable because it promoted the investment through social media, blog posts, and brief tweets that did not describe the significant limitations and risks associated with buying the tokens.
- C. unacceptable because the tokens were an unregistered security under US securities laws.
- D. acceptable.

