

Celebrity Endorsements Leave ICOs Counting Much More than Coins

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The Securities and Exchange Commission (SEC) recently issued a public statement cautioning celebrities like Paris Hilton, DJ Khaled, and Floyd Mayweather from endorsing “initial coin offerings,” commonly referred to as [ICOs](#).

These celebrities were primarily using their various social media platforms to advertise for ICOs. A recent example is Mayweather’s attention-grabbing Instagram post from [July](#), where he is photographed next to a briefcase filled with \$100 bills. In the post, Mayweather indicated he would make an exuberant amount of money “on the Stox.com ICO.” Similarly, Hilton tweeted that she was “looking forward to participating in the new @LydianCoinLtdTowken.” However, the tweet has since been deleted.

But why has the SEC taken such an interest in celebrities advertising for ICOs when their social media accounts are often littered with other promotional messages for the latest detox tea or waist trainer? The answer is simple and yet complex. ICOs may technically be selling securities. If this is the case, according to the anti-touting rule, celebrities would then need to make it known if and when they are being paid to promote these ICOs. With nearly [\\$3.3 billion](#) invested in some 200 ICOs within the last year, it is clear why the SEC has taken such an interest in these Twitter and Instagram posts.

However, the SEC’s authority to regulate ICOs is certainly up for debate. Unlike an Initial Public Offering (IPO), ICOs allow companies to get money without obtaining debt or giving its investors [equity](#). Instead, those who invest are given a digital currency called a “token.” It is still not entirely clear which of these tokens qualify as securities that would be subject to the SEC’s many regulations.

Whether or not a token qualifies as a security turns on what it actually represents. We now enter the world of cryptocurrencies. Most tokens are recorded into a “blockchain” known as Ethereum. Ethereum is similar to a ledger, and it also accounts for a type of currency known as “ether.” Ethereum also maintains “smart contract” programs. Individuals can invest ether into an ICO’s smart contract. As a result, tokens that may be traded are produced, and the ICO issuer of the tokens can choose to keep the ether or use it to finance its company.

The SEC holds that irrespective of the technology behind tokens, they are considered securities when companies use them to raise money. Alternatively, ICO advocates argue that tokens have a utility function beyond financing and should not be subject to SEC regulations.

Although the SEC has not enforced any violations against specific individuals, the Hiltons and Mayweathers of the world should probably add in a protective #ad hashtag when they get paid, to avoid liability for securities regulations that are often harsh.