

## Press Release

### **CFS survey: German financial industry takes a critical view of ICOs, calls for stronger regulation**

FRANKFURT, 24 August 2018. ICOs (initial coin offerings) are especially popular with start-up companies as a means of corporate financing by issuing cryptocurrencies, also known as tokens. These may be acquired in exchange for fiat currencies or virtual currencies such as Bitcoin and Ether. In contrast to IPOs, tokens issued in ICOs are not subject to strict capital market regulations, even though they serve the purpose of corporate financing. The German financial regulator BaFin is currently biding its time before taking a clear stance on cryptocurrencies and ICOs, although it does rate ICOs as highly speculative financial assets.

In light of the enormous risks, the German financial industry is clearly in favour of stricter ICO regulation (70%) and would like BaFin to play a more active role in this sector (60%). This was revealed in a recent study by the Center for Financial Studies.

“We are seeing a veritable flood of ICOs on the market at the moment. This development is only in its initial stages in Germany, but soon we will also be hit with a wave of new tokens. The survey makes it clear that action is urgently required in the ICO sector. It is time for a clear regulatory framework with an appropriate mandate for the financial regulator,” Professor Volker Brühl, Managing Director of the Center for Financial Studies, interprets the survey results.

Mindful of the risks of fraud when ICOs are conducted on unregulated online exchanges, 50% of the survey respondents believe established exchanges should develop their own cryptocurrency trading platforms as a secure alternative.

“ICO platforms on reputable exchanges could help build trust among investors by establishing transparent and standardised processes, which could in turn benefit the issuing companies,” Brühl explains.

Just 12% of the respondents see opportunities for the Financial Centre Germany in this as yet largely unregulated sector.

As Hubertus Väth, Managing Director of Frankfurt Main Finance e.V., emphasises: “ICOs undoubtedly are an innovation bearing remarkable potential for the financial industry. The industry's request for stronger regulation is an understandable and welcomed approach to making use of the potential while managing the risks.”

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The results are based on a quarterly management survey in the German financial sector.

The Center for Financial Studies (CFS) conducts independent and internationally-oriented research in important areas of Financial and Monetary Economics, ranging from Monetary Policy and Financial Stability, Household Finance and Retail Banking to Corporate Finance and Financial Markets. CFS is also a contributor to policy debates and policy analyses, building upon relevant findings in its research areas. In providing a platform for research and policy advice, CFS relies on its international network among academics, the financial industry and central banks in Europe and beyond.

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