

THE REVIEW OF  
**SECURITIES & COMMODITIES  
REGULATION**

AN ANALYSIS OF CURRENT LAWS AND REGULATIONS  
AFFECTING THE SECURITIES AND FUTURES INDUSTRIES

Vol. 55 No. 15 September 14, 2022

## INVESTING IN CRYPTO ASSET STARTUPS: REGULATORY CONSIDERATIONS IN AN EVER-EVOLVING MARKET

*In this comprehensive article on the ever-evolving crypto asset startups market, the authors begin by describing trends in product and market developments, including emerging opportunities in DeFi platforms. They then turn to capital raising by initial coin offerings, initial exchange offerings, simple agreements for future tokens, and airdrops. Next, they turn to U.S. regulatory developments, recent SEC and CFTC enforcement actions, and U.K. regulatory developments. Finally, they close with unique due diligence considerations for fintech investors.*

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On November 10, 2021, Bitcoin reached a high of approximately \$68,789. Just months later, in June 2022, the price of Bitcoin sunk to below \$20,000. Despite the high degree of volatility in Bitcoin and other crypto asset markets, innovation and investor interest continue to support the growth of this new asset class. In this article, we first discuss trends in product development and the crypto asset markets, and how regulation is (or, in some cases, is not) keeping pace. We also discuss trends and considerations in capital raising for fintech start-ups through the use of crypto assets, such as tokens, as well as the U.S. and U.K. regulatory considerations and developments associated with the industry. Finally, we discuss the due diligence considerations that arise in such investment opportunities.

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### I. TRENDS IN PRODUCT AND MARKET DEVELOPMENTS

During the spring of 2022, crypto assets experienced a precipitous fall-off in value, driven by market volatility and the collapse of the major stablecoin project, Terra, and associated contagion effects in the market, as well as broader macroeconomic factors.<sup>1</sup> Although the collapse

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<sup>1</sup> Krisztian Sandor & Ekin Genç, *The Fall of Terra: A Timeline of the Meteoric Rise and Crash of UST and LUNA*, COINDESK (June 1, 2022), <https://www.coindesk.com/learn/the-fall-of-terra-a-timeline-of-the-meteoric-rise-and-crash-of-ust-and-luna/>. For Bitcoin and other digital asset prices during this period, see COINMARKETCAP, <https://coinmarketcap.com/>. For a discussion of Bitcoin's reaction to broader macroeconomic trends, see David Yaffe-Bellany, *Bitcoin Is Increasingly Acting Like Just*

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