Chartered Kingsgrove Accountant Thomas Mousa Says Cryptocurrency Is Changing Australian Capital Raising

What you need to know about cryptocurrency changing capital raising

What you need to know about cryptocurrency changing capital raising What we value and how we value it can change a lot over time. As American stock investor Phillip Fisher said, “The stock market is filled with individuals who know the price of everything, but the value of nothing.”

At a time when a lot of interest and money is flowing into the cryptocurrency sector, it is important to consider where you should invest your time, resources and money.

Thomas Mousa, is an Australian chartered accountant, and well-known local financial expert, from Sydney-based TLK Partners, his take on the topic is interesting.

"The internet changed the way we transfer information. Blockchain technology could well change how we transfer value (and raise capital). Don Tapscott, in his book Blockchain Revolution, says that matching investors with entrepreneurs is one of the areas of financial services most likely to be disrupted by the blockchain," Mousa said.

"The process of raising working capital, until recently, hadn’t changed a great deal in more than 50 years. Crowdfunding started to change this trend, but initially, it didn’t provide for buying equity. We now see equity crowdfunding in many jurisdictions around the world, but these typically require an intermediary (such as Equitise in Australia) and a conventional payment method (such as a bank transfer) to participate," Mousa confirmed.

The blockchain takes the concept further, allowing companies to raise funds on the blockchain by issuing tokens, or crypto securities, of some value in the company or that provide utility. Anyone in the world can now become an investor, with minimum subscription amounts. The average amount invested per person in Australia’s first completed equity crowdfunding campaign was ~$1,800.

In his opening remarks on the state of blockchain at Consensus 2018, Nolan Bauerle, Director of Research at CoinDesk said that ~89% of investors in ICOs were “unaccredited” or retail investors. If a revolution is defined as a fundamental change in power and organisation that occurs relatively quickly, the blockchain revolution for capital raising might well be upon us!

CoinDesk’s Q1 2018 State of Blockchain report, released at the Conference, noted that ICO funding in Q1 hit $6.3 billion (from 202 ICOs). This means that ICOs in Q1 raised more than the whole of 2017. Over the same quarter, VCs invested $885 million, representing only 12% of this total funding. Anyone close to the market will appreciate the feeling being described as optimistic but tempered given the volatility (and general bear market) of the last few months.

There is a lot of debate about ICOs at the moment, from issues of governance to whether they are securities (or as some argue utility tokens). Without getting into those debates in this article, ICOs are changing the investment dynamic. ICOs are used by founders who want to pre-fund the building of a technology that could be useful to others, while ideally at the same time obtaining a support base of early users.

In this way, a key problem ICOs solve is that it is relatively hard to raise early stage capital, and existing venture capital approaches are geographically concentrated. Another problem is that many people who want to support and invest in new blockchain projects are not considered “qualified investors” under existing regimes and are therefore unable to participate. In this regard, ICOs offer a more direct route to accessing and deploying funds, and for matching founders and investors of all types.

While ICOs solve some real problems, they have also created a real issue. Every investment boom in history has seen its share of bad ideas, scams and weak governance. The full effects of ICOs and coins/tokens more generally are hard to predict. This makes them difficult to handle and it will take time for regulations to catch up. Some fundamental issues such as privacy will need to be addressed, along with other areas such as meaningful disclosures and reporting. While these issues are real, they are addressable and a move towards self-regulation is already underway.

"Even though there has been a lot of speculation in the market and we have already seen a boom and bust cycle, I believe the blockchain revolution will change the way capital is raised and that regulations will catch up," Mousa concludes.

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