

The ICO boom of 2017

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In 2017, the market for crypto-assets experienced a speculative boom. The price of Bitcoin rose from about 1,000 dollars at the beginning of the year to nearly 20,000 dollars in December.¹ Hundreds of projects raised money through initial coin offerings, in which they sold newly created tokens to the public in exchange for Bitcoin or ether, often on the basis of a white paper describing a project that did not yet exist. Many of these projects chose Zug as their seat, following the model of the Ethereum Foundation, which made the canton one of the principal locations of the ICO market worldwide.

The largest ICO of the year with a Zug connection was that of Tezos, a blockchain project founded by the American couple Arthur and Kathleen Breitman. In July 2017, the Tezos Foundation, established in Zug, raised 232 million dollars, a sum that the rise in the value of the crypto-assets it had received increased to more than 400 million dollars by October.²

The Tezos case exposed the weaknesses of the foundation model when, in October 2017, a public dispute broke out between the founders and the president of the foundation's board, Johann Gevers. The founders accused him of attempting to award himself a bonus from the proceeds of the ICO and of misleading the other board members. Gevers replied that the founders opposed the independent operation of the foundation under Swiss law. The price of the Tezos tokens on the futures markets fell by as much as 60 per cent while the launch of the network was delayed.³ The Swiss supervisory authority for foundations intervened and coordinated with FINMA.⁴ Investors in the United States brought class actions against the project and its founders.⁵ After Gevers left the board, the network was launched in 2018.⁶

The dispute damaged the reputation of Crypto Valley. It showed that a foundation holding hundreds of millions of dollars in crypto-assets could be paralysed by a conflict between its founders and its board, that the

supervisory authority had limited means to resolve such conflicts quickly, and that the investors who had bought the tokens had no rights in the foundation that they could enforce. Commentators described the valley as having almost died in its cradle.⁷ The cantonal authorities, which had promoted the cluster, had to defend it against the impression that Zug had become a refuge for speculative and poorly governed projects.

1 Notes

1. CoinDesk, "From \$900 to \$20,000: Bitcoin's Historic 2017 Price Run Revisited", 29 December 2017, coindesk.com: bitcoin traded between USD 930 and 978 at the start of 2017 and crossed USD 1,000 on New Year's Day; CoinDesk Bitcoin Price Index all-time high of USD 19,783.21 on 17 December 2017. ↩
2. finews.com, "Tezos Fights Over ICO Millions": Tezos raised \$232 million in its July 2017 ICO; by October 2017, as Bitcoin's value increased, the foundation's assets had grown to over \$400 million; the Breitmans were entitled to approximately \$20 million if Tezos operated on a blockchain for three months. ↩
3. finews.com, "Tezos Fights Over ICO Millions": in October 2017 internal turmoil over a bonus payment; the founders sought to remove Gevers; allegations that Gevers attempted to "help himself to a bonus" and misrepresented the amount to board members Diego Pons and Guido Schmitz-Krummacher; Gevers countered that the Breitmans opposed the foundation's independent operation under Swiss law; Tezos token futures fell as much as 60 per cent; development stalled. ↩
4. finews.com, "Tezos Fights Over ICO Millions": Switzerland's foundation supervisor began regulating Tezos and coordinated with FINMA, though both agencies initially took limited action. ↩
5. CoinDesk, "Tezos Investors Win \$25M Settlement in Court Case Over \$230M ICO", 1 September 2020, coindesk.com: class action claims brought in late 2017 against the Tezos Foundation, Arthur Breitman and Kathleen Breitman for an unregistered securities offering; settlement of USD 25 million paid by the Tezos Foundation. Block & Leviton, press release "\$25 Million Tezos ICO Litigation Settlement Achieves Final Approval", 15 October 2020, globenewswire.com: US District Court for the Northern District of California; final approval on 27 August 2020. ↩
6. swissinfo.ch, "Johann Gevers steps down from Tezos Foundation board", 22 February 2018: Gevers relinquished his position as founding

president after months of conflict with Arthur and Kathleen Breitman. Cointelegraph, "Tezos Foundation Announces Launch of Its Long-Awaited Mainnet", 15 September 2018, cointelegraph.com: mainnet launch on Monday, 17 September 2018. ↩

7. Werner Grundlehner, "Als das Crypto-Valley fast im Kindsbett starb – die unglaubliche Tezos-Story neu erzählt", Tippingpoint, 20 September 2024, tippingpoint.ch: retrospective of the Tezos dispute of 2017–2018 between Johann Gevers and the Breitmans, which caused an aversion to Switzerland among crypto enthusiasts in the English-speaking world. ↩

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