T3CG: The Framework for ICO Due Diligence

The ICO 2.0 Framework

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Jeremy Epstein, CEO of NeverStopMarketing, has a really simple method for evaluating crypto projects. He looks at four aspects of the project: **Team**, **Technology**, **Token** and **Community**. He is spot on in assessing these factors for a token based crypto project. When that project becomes an ICO, we need **Governance**. Building on Jeremy's work, I present **T3CG: the Framework for ICO Due Diligence v1.0**. Let's look at each factor and the aspects you should investigate in your duedil.

TLDR; You must dig into the Team, the Tech, the Token model, the Community and the Governance of an ICO before you consider buying the token. Make sure each element is essential and has the capacity to support the promises of the project. Make sure that the interests of all stakeholders are aligned for success. Make sure that the project is "fit and proper" with adequate transparency and responsibility. And don't forget to ask, "What is the Forking Policy?"

Team

There are 3 elements to the team: the **executive team**, the **advisory team** and the **backing team**. The executive team are the people that will deliver the promises the project makes. The advisory team are recognized experts that will provide guidance and mentoring to the executive team as they move the project forward. The backing team are the equity and debt holders of the structure that will deliver the project.

Evaluate **the capacity of the executive team** to deliver the project promises. **Do they have the skills?** Make sure that there are no critical skills missing. If there's NO blockchain expertise already in the project team for some time, be very careful. If the team has only now added the chain and has been trying to raise funds traditionally without it before – this may be a "lifeboat" ICO for a flailing project. **Are they really a team?** As a team comes together they move through several phases: *forming, storming, norming,* and *performing*. At any one of these phases the team could fall apart. You want a team that's already working at the "performing" stage and that means that they have been working together for at least six months with key members knowing each other longer than that. **Do they have track records?** Evaluate the past accomplishments of the team members and of the team. Ideally there is at least one lasting company or project that still enjoys success. If there are failed ventures, look at how gracefully the team handled the failure and moved on. **How is the team paid?** Make sure that their payment is in alignment – the more tokens they want in lieu of fiat, the better.

Evaluate the **engagement and experience of the advisory team** to deliver their piece. **Do the advisors have the right experience?** Celebrities may bring attention to an ICO, but their skills are not needed for any other aspect of the project – perhaps their public relations master would be a better advisor. **Are the advisors actively engaged?** If the advisors are really big names that have lent themselves to dozens of other projects then take this as nothing more than a tech celebrity endorsement … a shout out "cool idea!" Advisors who take on too many projects will spread themselves too thin to be of use or put all their attention into a specific project and ignore this one, either situation is bad. **Relationship to team: did the advisors previously act as mentors or partners of members of the executive team?** These are the most valuable because they are already actually involved with the executives. Impressive advisors that do very little are worth very little. **How are the advisors paid?** They should be paid in tokens with a reasonable vesting/lockup – get their interests aligned with the long-term success of the ICO.

Evaluate the **commitment of the backers** of the project and their financial situation. Often the backers are not apparent on the website, so first: **Who are they?** You should find out who is behind the financing of the project. This includes any VCs, private equity and credit institutions. Third parties like these may not have same interests as the community **Do they see the ICO as an exit?** You don't want to be their exit. Some ICOs are the equity holders' socialization of a bad equity investment; this is not good for token purchasers. You want equity holders that are still fully committed to the project vision and interested in long-term success. **Are they buying the token too?** Find projects where the original backers are token holders and buyers, not sellers.

There are some **questions you should ask about all people** involved in the project. **Are they "fit and proper"?** Clean and transparent histories, appropriate for the project are obvious prerequisites for everyone involved. Avoid anyone who's been convicted of a serious crime. Pay attention to the media: accusations of fraud, money laundering, connections to organized crime, or any other potential financial crime issue. Certain places, like Nigeria and Florida, are hotbeds for fraudsters and certain jurisdictions, like Saudi Arabia and Mexico, have high rates of corruption – not everyone in these places is problematic but the riskier the place, the more cautious you should be. Use Google or a tool like KYC3 to do your homework.

Technology

Get a handle on the **technology risk inherent** in the project and the problem they are solving. **What technology mix is there: software or hardware or both?** Software systems are complicated to build, new hardware built for existing software is also challenging, but new hardware that demands new software is crazy hard to scale up commercially. Hardware development projects have significantly higher capital requirements and risk. Tokens are a software construct, so there usually is no direct hardware dependency for them. **Does the project exhibit KISS?** Technology projects are complicated and should show every effort to "Keep It Simple Stupid". **Are standards respected?** Every project should leverage any applicable ISO, RFC and other de-facto standards. **Is this a buzzword project?** If you don't understand the purpose of the project beyond "blockchain

inside" then you should ask more questions. **Is the project dependent on a buzzword project that isn't here yet?** Find projects that build on reasonably stable and mature infrastructure, such as existing mobile device networks, operating systems and storage solutions that are already in production. IPFS is really cool, but perhaps HBase will do. **Is the proposed architecture and solution correct?** Inexperienced teams put components together in the wrong way, ignore design patterns and develop components that already exist. **Is there a "roll our own" problem?** If a component already exists, you'd better have a very good reason for rolling your own. Usually the only acceptable reasons are licensing restrictions or costs. If a widely used component is ignored because "our component will be way better" then perhaps the "component" should be the project… or at least a separate project, that the team does first. **What is the state of the technology?** Find out what exist and at what development stage it is: a spec, a proof of concept, a viable product, or a commercial product.

Token

The 3rd T is the fun T! This is where most ICOs really FAIL! **Does the project really need a token?** If you can imagine a way to achieve the result of the project without any token, then the answer is probably not. If you can imagine the project working just fine with ETH or BTC instead of a token, then the answer is maybe not.

What is the token flow in the community? How and why the token changes hands should be obvious. The incentives should be clear to use the token. **What is the token economic model?** The token flow should also show a design that will increase velocity of the token as the community grows. A limited supply of tokens with increasing velocity will go up in value relative to other currencies. Break the token down into MV = PY components and assess the systemic directional tendency and volatility for each variable in the proposed token model. **Who issues and how many?** Unless it is algorithmically designed as such, there is never a hard limit to the number of tokens and even then, there is always "the fork". More important than the total number being issued is the post issue holding. Make sure that the project holds enough, but not too many, so that they have a vested interest in the value of the token too. If the project holds too many, they become the token "central bank", which is also not good. As a rule of thumb, between 30% and 70% of tokens should be sold.

What are the ICO parameters? The ICO conditions should be clear and concise. Make sure you understand the legal positioning of the token, i.e. a security, a currency, a voucher, a member chit, a utility, or something else entirely. Different legal status means different rights for you, the buyer. **Will the token be liquid post sale?** While most exchanges will not allow an ICO to announce the token listing agreement pre-ICO, the team should give some indication and assurance as to their strategy and intent to create a liquid market for the token.

Community

The community will give you an indication of the penitential success of the project and the appetite for the ICO. **First, what problem does the project solve?** Examine the problem space and gauge the potential community interest for the project. Make sure the project makes sense for a community and then figure out community size (market) and what the demand may be. **Does the project already have a community?** Look for discussion about the project online: Telegram, Github, LinkedIn, Facebook, Medium, Steem, Google News, announcement boards, and so on. **Is the community focused more on the project or the ICO?** The community should show enthusiasm for the project's long-term proposition and this should drive enthusiasm for the ICO, not the other way around.

Is the community engaged? Find the most relevant discussions and see what they are talking about. Make sure that the positive outweighs the negative. **Is the project engaged?** Check out how the team and advisors engage with the community. Their responsiveness to criticism and their tone will tell you a lot about their outlook. **How big?** Check out their Telegram, Slack or other chat channels and see how many people are engaged there. Look at how many followers are on Medium and Twitter and look for retweets, comments and shout-outs. **Growing?** Find out if the number of followers, articles and general activity are on a rising trend. **Going mainstream?** See if the discussion is moving to mainstream press and subject matter (not crypto) LinkedIn discussions. **Community roadmap?** Has the project articulated a roadmap for how the community will benefit and how the project will give back to the community.

Governance

Here is where the real contribution of this article begins. Governance is a key function when the interests of many less powerful stakeholders are being represented by a few powerful stakeholders. In this case, the token buyer's interests must be respected and protected by the project team. **The project should make explicit commitments in the matter of Governance.**

Organizational Governance

Is there an explicit commitment to transparency? The project should have an explicit commitment to provide transparency wherever and whenever feasible. **Does the project commit to an ICO specific charter or self-governance initiative?** A good start would be for the project to commit to recognized initiatives, such as the EU ICO Charter and Project Transparency. **What is the governance structure?** Make sure that the structure of the project is clear. It should be apparent who is in charge of what and how resources will be allocated and managed. **Clearly defined roles and responsibilities?** The organizational responsibility should be clear before the

funds are raised. You should explicitly see who are the individuals responsible for appointing others and setting policy and which individuals decide the strategy and commitment of resources in the project. **Regular governance reviews?** The board, or other supervisory group, should have a regular meeting and review schedule.

Financial accountability? Once funds are raised who can commit the funds will become a major issue. The project should clearly indicate the arrangements to safeguard project funds and ensure use for the purposes indicated in the plan, which should include regular reporting. **Communication policy?** The project should have a clear communication policy for addressing stakeholders, i.e. token holders, with well-defined channels that are easily accessible. **Audit policy?** The project should have a clearly articulated policy for how it manages to maintain neutral third-party audit of the use of resources within the project. **A formal code of conduct?** There should be a code of conduct and leaders of the project should be committed to exemplify this code.

Token Governance & Compliance

Does the project have a compliance policy? Has the board established arrangements for ensuring that laws and regulations are respected. **Does the project respect KYC/AML regulations?** Anti-money laundering applies to all finance, not just securities. The ICO should conduct KYC on the token purchasers and have an Anti-Money Laundering policy in place. **What investor protection measures are taken?** The project should be transparent and must explicitly describe the risks of the token. Depending on the nature of the token, the project should draw on investor protection or consumer protection best practices to formulate clear policies.

What is the token Issuance Policy? The project should clearly state when tokens will be delivered from the sale. This policy should also state if and when the project may issue more tokens in the future and the factors that will contribute to any such decision. **What is the forking Policy?** Forking is a form of hidden token issuance with many bad ramifications. The project should clearly state what the policy is with forking the token. **What is the token listing policy?** It should be clear where and when the token will be listed for exchange. **What is the project's exchange buy and sell Policy?** The project should express their policy with respect to buying and selling tokens on exchanges.

Putting It All Together

Here is an example checklist using the T3CG Framework. The Peer Mountain data illustrates how you would complete the due diligence table for an ICO evaluation. The Peer Mountain info is accurate as of 19 November 2017 and may be subject to change. While this is a real case-study, this study is not intended to replace doing your own due diligence on Peer Mountain.

Case Study: T3CG Checklist applied to Peer Mountain

Component	**Feature**	***Evaluation - Peer Mountain*** 
Project References		*Site: https://peermountain.com/* *T: @Peermountain https://twitter.com/PeerMountain/* *LI: https://www.linkedin.com/company/27008860/* *FB: https://www.facebook.com/peermountaindotcom/* *Medium: https://medium.com/peermountain* *Telegram: https://t.me/peermountain*
Executive **Team**	Skill Set: Management	*Senior execs have 20+ years of board and tech management experience and over 15 years entrepreneurship, all team members have significant experience in their domains*
	Skill Set: Technology	*Team has delivered successful big data, blockchain, mobile and web solutions over many years: KYC3, Maecenas, L'Oreal Eris, HireSkout, Eurotrace, NATO eBid*
	Skill Set: Business	*Team has developed successful companies: KYC3, Sandstone, Maecenas, & FuturistLabs.*
	Skill Set: Innovation	*Several of the team members have graduated from or ar active in respected programs: Fintech Fusion, Fintech Boost by BNP Paribas, BGL LuxFutureLab*
	Really a Team: Team Gel	*Team is in "Performing" phase, many members work together for 2+ years, nearly all team has > 1 year.*
	Track Records	*CEO has worked in large enterprises and has a track record as successful serial entrepreneur, CEO's KYC3 is founding member of the non-profit blockchain infrastructure Infrachain asbl, & CEO is a board member. Mobile lead is a successful entrepreneur. Architects have built successful enterprise, mobile and blockchain solutions (see above for companies).*
	Team Payment	*Core team is motivated by PMT token pool for team*

		remuneration. Team payouts will be tranched over time upon a schedule approved by the board and require continued dedication to the project to be earned. We anticipate that the token sale will provide a 3 year runwa of such remuneration.
Advisory **Team**	Experience	*Subject matter professors in cryptography/security, finance and regtech, industry leaders from crypto, VC, technology and financial sectors, blockchain experts*
	Active Engagement	*Advisors are active and provide continuous feedback to the CEO, CEO often presents at events where advisors a present - CEO & advisors are peer group*
	Connection	*All of the advisors were personally brought in by the CE some of them have advised the CEO in past projects*
	Remuneration structure	*Advisors are remunerated in PMT from the advisory poo which will require 1 year advisory term*
Backing **Team**	Who	*Peer Mountain is bootstrapped by the CEO and his closest team members. CEO is controlling stakeholder.*
	Exit	*The ICO is just the beginning of what the backers believ to be a long-term project of the PMT economy.*
	Token interest	*The growth and health of PMT economy is their future.*
Overall **Team**	"Fit and Proper"	*CEO is a thought leader in Financial Integrity, founder of "The Institute for Global Financial Integrity" and a compliance and due diligence expert, he is a former NATO officer who passed regular security clearance background checks. CEO chairs the Governance Action Group at Infrachain asbl. All team members have been vetted and are expected to follow his integrity example.*
Technology	Mix	*Peer Mountain is an enterprise grade software technology project.*
	KISS	*Peer Mountain is a complex project. The whitepaper conveys the overall project in as simple a manner as possible, without too much technical complexity.*
	Standards	*Peer Mountain builds on several standards, especially in data formats: RFC3161, RFC3930, RFC6350, XAdES, XForms, et al.*
	Buzzwords	*Peer Mountain is built on blockchain and has a cryptocurrency, but these are not the main features bein*

		marketed.
	Dependencies	*Peer Mountain depends on existing blockchain projects: Ethereum, Stellar, and eventually others. The evolution o these technologies is the riskiest part of the Peer Mountain architecture.*
	Proposed Architecture	*Peer Mountain is an inter-chain mediation architecture ecosystem that is emerging as "Fat protocols 2.0"*
	Rolling their own	*Peer Mountain builds on existing tech and writes only th code that is required to orchestrate and deliver the core innovation. As an ecosystem, it is not in Peer Mountain' interest to develop proprietary components for specific functions.*
	State	*Peer Mountain is in alpha running on Android and Ethereum/Hbase. Expressed intent is pilot in 1Q18 and first production release at end 2Q18.*
Token	Need for a token	*PMT is a cryptocurrency that values "trustworthyness" b design. PMT is necessary to incentivize the community of Peer Mountain stakeholders.*
	Token Flow	*Consumers don't pay. Service providers pay for service leads. Attestation providers get paid when they are trusted. Token flow is optimized to align interests and capture value of "trustworthyness".*
	Token Economy	***M** is fixed based on Smartcap™ final distribution amount being 40% of M.* ***V is** driven by number of consumers. Peer Mountain has up to 12 million in the funnel with 2 corporate partners.* ***P** opens at initial float from Smartcap™ discovered price* ***Y** is the value of "trustworthyness" captured by the assertions (identity facts), attestations (identity proofs) and service dossiers (commercial transactions)* *Both **V and Y are expected to grow** and **M is a constant,** it follows that **P will increase** over time.* *Peer Mountain expects the ecosystem to show deflationary tendencies in PMT for Attestation Provider fees over time as most of their cost structure is in fiat. For this reason PMT is fungible and divisible.*
	Issuance	*Peer Mountain issues PMT and is planning to use a new Smartcap™ algorithm to do so. Their expressed intent is to issue a fixed supply of PMT, once, with 40% floated, 10% team reserve, 2% advisory reserve, 8% legal reserve*

		and 50% Peer Mountain reserve.
	ICO Parameters	*PMT is a cryptocurrency/utility token. Smartcap™ detail are in the solidity of the token sale contract and will be public when the contract is published.*
	Liquidity	*Peer Mountain has expressed the need to trade PMT on **regulated** exchanges and to operate a token brokerage for corporate buyers. CEO confirms contact with 3 exchanges, one of which has expressed in-principal inte to list.*
Community	Problems Solved	***Enterprise community (consumer facing regulated institutions - banks to bars)**: Continuous Real-Time KYC lower risk (GDPR, KYC, Compliance), lower costs (Audit, Digital Onboarding), new Customer Experiences **individual community (applies to everyone interacting with Enterprise for service)**: Own yourself - lower risk (GDPR, Personal Privacy Trust), higher convenience **Trust provider**: self filling channel of low friction sales*
	Project community	*Peer Mountain has 2 major corporates in co-build, with 9-12mm consumers, and is in advanced discussion with 2 more. Crypto-grass roots community is nascent and needs to be developed. Stealth mode from 2015 until October 2017 means there is development to do.*
	Focus	*The corporate community is focused only on getting deployable production ready Peer Mountain. Crypto-community is focused on the PMT and on the individual benefits of Peer Mountain.*
	Community Engagement	*Corporate community is engaged with the development of Peer Mountain but has remained discrete regarding the token sale.* *Crypto community is too small to tell at this point.*
	Project Engagement	*Project is active. CEO engages in Telegram and is accessible through events where he speaks often. Customer facing team members are accessible on soci medias. Most of the team is in the Telegram.*
	Size	*4 corporates, only a few hundred individuals. Needs to show community growth between Nov 17 and Jan 18.*
	Growing	*News and buzz around Peer Mountain has been increasing. CEO confirms that website traffic is growing and is now at >300 uniques per day.*

	Going Mainstream	*Peer Mountain has attracted mainstream coverage: IBT, Venturebeat, Crowdfundinsder, Bitcoin Exchange Guide , BlockchainNews, Finextra, Banking Technology, VentureCanvas, Chronicle.lu*
	Roadmap	*Peer Mountain intends to open source SDKs, to submit the Peerchain™ protocol to RFC and to establish researc in cooperation with universities on Tokenomics and on Governance of Decentralized Organizations.*
Governance	Org: Transparency	*Peer Mountain has committed to the EU ICO Charter which includes transparency and will participate in Project Transparency .*
	Org: Self-Governance	*Peer Mountain commits to respect the Luxembourg Stock Exchange Corporate Governance Principles and wi formalize these in its statutory documents.*
	Org: Governance Structure	*Token sale will be conducted by an SPV, once complete operating companies will be formally incorporated by the SPV in Luxembourg, Switzerland, and/or Singapore. After careful analysis and negotiations with the local authorities, one of these jurisdictions will be the HQ and will also constitute a supervisory board. The headquarters and each subsidiary will have a board of at least 3 members who will adopt best practices identified in The IFC Guide to Corporate Governance in the EU. Senior executive team and advisory members w fill these boards respectively.*
	Org: Roles	*The Peer Mountain board of directors will be responsible for the commercial well being of each entity and will appoint the executives charged with carrying out the delivery of the products and services.*
	Org: Review	*The Peer Mountain supervisory board will be responsible for ensuring that the policies and delegations adopted by the board are consistent and relevant with the interests all stakeholders.*
	Org: Accountability	*The board shall define and approve strategic budgets an expenditures. Executives will be given latitude within these limits.*
	Org: Communication	*Peer Mountain will maintain its LinkedIn, Twitter and Telegram channels as official means of bi-directional communication with Peer Mountain stakeholders. Post deployment Peer Mountain will become the preferred*

		official communication channel.
	Org: Audit	*Each Peer Mountain entity will be audited by an external auditor and will publish accounts in accordance with the laws of its jurisdiction.*
	Org: Code of Conduct	*Peer Mountain adopts the Code of Conduct of the Luxembourg Banker's Association and will develop a Pee Mountain specific code of conduct based on this for Board approval post incorporation.*
	Token: Compliance Policy	*Peer Mountain treats PMT as currency and applies stron KYC/AML/CFT and stakeholder (consumer/investor) protection compliance to the token.*
	Token: KYC/AML and CFT	*The PMT sale will leverage KYC3 for an end-to-end KYC/AML/CFT process for the token sale.*
	Token: Investor Protection	*Although unregulated, Peer Mountain is committed to respecting the spirit of MiFID II/MiFIR:* - *Peer Mountain treats its stakeholders fairly and transparently* - *Peer Mountain makes every effort to publish relevant information in a timely manner* - *Peer Mountain will offer products and services appropriate to the needs of its stakeholders*
	Token: Issuance Policy	*Peer Mountain intends to issue a fixed supply of PMT that will be used to fuel the Peer Mountain ecosystem.*
	Token: Forking Policy	*Peer Mountain does not intend to fork PMT. In the unlikely event that a PMT fork is determined to be necessary by the board and agreed by the supervisory board, PMT will fork in a manner that treats all PMT holders eqitably.*
	Token: Listing Policy	*Peer Mountain intends to list the PMT as widely as possible with a preference for listings on regulated exchanges that operate under the jurisdiction of their national financial regulatory authority.*
	Token: Exchange Buy and Sell Policy	*Peer Mountain intends to operate a token brokerage that will BUY tokens on behalf of corporate Peer Mountain clients that do not wish to self-procure. Peer Mountain may SELL some of its reserve tokens over time to satisf enterprises that deploy Peer Mountain instances and/or in order to meet expense and investment requirements that are denominated in other currencies.*

About the Author

Jed Grant, MBA, is the founder and CEO of KYC3, one of the original regtech companies in Luxembourg, and the founder of Peer Mountain, a decentralized P2P ecosystem of trust. He is also a founder and partner of Sandstone, a boutique business intelligence consultancy, an adjunct professor at the University of Luxembourg where he lectures on KYC & AML/CFT compliance. His non-profit activities include being a founding member of The Institute for Global Financial Integrity, a founding member of Infrachain and a board member of the American Chamber of Commerce in Luxembourg. Prior to these activities Jed held senior positions in technology, finance and security related organizations including Artemis, the International Civil Servants Credit Union (AMFIE), Computacenter, and NATO.