Now we’ve discussed initial coin offerings, it’s important for us to touch upon security token offerings, and just how these differentiate from initial coin offerings. So we’re going to be discussing what utility tokens, and security tokens are as well as the differences between them. As the differences between them are very important!

1. Utility Tokens

These are tokens which promise use within the projects future product. Generally (if proven) utility tokens are free from financial legal restrictions, because they are not designed as investments. Rather as a digital product with a use case within a product.

A good example to showcase here is Filecoin which raised $257 Million via their ICO, for which the tokens will be able to be used within its decentralised cloud storage platform.

Many times throughout this course I’ve referred to ICOs, but to avoid any legal implications many projects do say crowd-sale instead. As they generally don’t want to come under any scrutiny as to be offering a security as such.

2. Security Tokens

When a token is defined as a security, it comes under scrutiny from the jurisdictions financial authorities. In the United States that would be the SEC. Failure to comply with such regulations would result in heavy penalties. On the other hand should a company comply with all securities laws, the use cases can have very positive effects. As an example, a company could tokenize their entire shareholding making trading their shares much more frictionless.

Key differences to be aware of when it comes to utility and security tokens are the following.

Let's start with utility tokens.

- Utility tokens provide a utility.

- Utility tokens promise no return i.e. profit.

- Utility tokens are unregulated in their sales.

Flipping that over to security tokens now.

- Security tokens represent ownership of an asset of some sort whether it’s shares.

- Security token investors expect a return on their investment.

- Security token offerings are regulated and comply with KYC (know your customer) regs.

So that’s everything for this lecture, on the differences between utility tokens and security tokens. I look forward to seeing you in the next lecture, which will be about how to track the cryptocurrency markets using the best tools which are out there now.