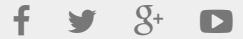


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What's the Difference Between a Regulated ICO and an STO?

What's the Difference Between a Regulated ICO and an STO?

Christina Comben May 14, 2018 Interviews



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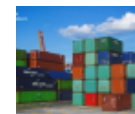
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Take a deep breath before you read this. Maybe go get a coffee. We're going to talk about everybody's favorite topic – regulation. Regulation is something that splits the crypto world down the middle. It sends many people into a blind fury over quashing innovation, or a heated discourse about the wealthy trying to seize back the power.

Then you have others who believe that regulation – to protect investors – is probably a good thing. But here's the kicker about regulation. It varies by jurisdiction. There's a reason Binance moved to Malta, after all.

So, until the world joins hands and comes up with a global solution to the problem, what you read here applies to blockchain companies registered in the United States.

WHY REGULATION IS NEEDED

Even if the weekly scams, hackings, and general bad behavior don't stop you from investing in ICOs, you'll probably grudgingly admit that things are a little [out of control](#).

TRENDING



1. XYO ★★★★★

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Blockchain's first crypto-location oracle network goes live. Don't miss this one.

"There's a small number of con artists and scammers ruining it for everyone else. No company ever can guarantee 100 percent return on investment. That's a red flag; that's the very definition of a scam," says Darren Marble, CEO of [CrowdfundX](#).

CrowdfundX is a fintech marketing firm that has spent the past three years marketing regulation A+ IPOs to the New York Stock Exchange and the Nasdaq.

And since he so kindly brought the [STO](#) acronym to our attention for



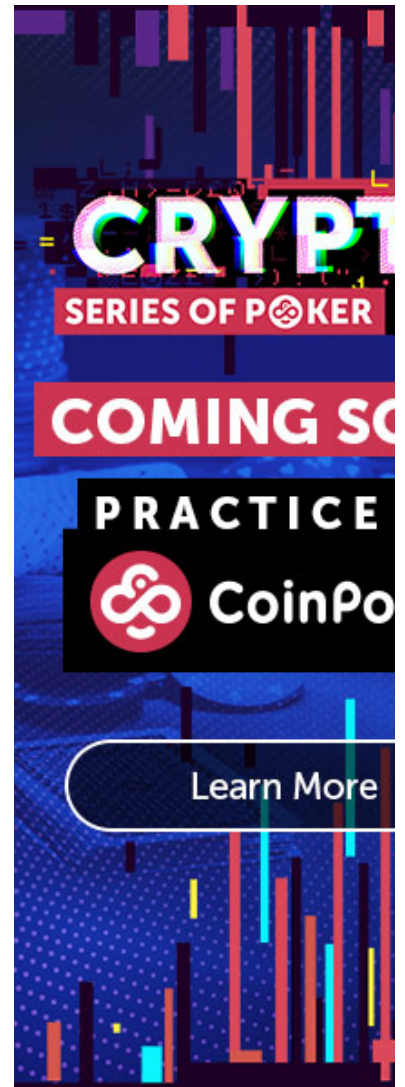
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the first time, it's only fitting to let him explain it in greater detail in his own words.



Darren Marble, CEO of CrowdfundX

What do you say to people who think that regulation will quash innovation?


People read my comments and they think I'm a naysayer and that I don't believe in crypto, but it's quite the opposite. We're partnering with some of the most innovative companies out there because I believe this is the future.


Can you give us a little background on CrowdfundX and what you do?


We were formed out of a need to help issuers market deals that arose out of the JOBS Act of 2012. That included some securities exemptions and critical changes to Regulation D 506(c) that allow issuers to generally issue or market their deal[s], but restricts them to verified accredited investors.

The JOBS Act was signed in 2012 to make some much-needed changes to security laws that were 80 years old in some cases. But it wasn't just Regulation D that changed.

The other big exemption was Regulation A+, which allows a private company to raise up to \$50 million, generally solicit or market their deal, and raise money from anyone over the age of 18.

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So investors anywhere without a high net worth could invest in projects?

Yes, as long as they were over 18.

(That cuts out a sizable chunk of the crypto community).

CROWDFUNDX AND KODAKCOIN

Can you tell us about KodakCoin and what you do for them?

For the last three years, we've marketed 50 percent of all the Reg A+ IPOs in the United States, making us a good candidate for marketing an STO. In January, we signed our first STO client, KodakCoin.

We were approached in 2017 by ICO issuers that wanted help marketing their ICOs. I've never felt comfortable with it because I had my own questions and doubts about security laws, whether or not these deals were legal, or if they would be investigated or prosecuted. It turns out my hunch was right.

I think that we're getting into the market at the right time. A time when ICOs are being investigated and the clamor for regulation is getting louder. And that's how we landed Kodak. They went out and said, "We're going to run a compliant ICO."

What's the difference between a regulated ICO and an STO then?

I would say an STO is a better term. ICOs have gotten a bad name. I would encourage any issuer in the US not to use the [term] ICO at all. I think ICO is a dirty word, a tainted word; it has negative connotations and is synonymous with scams. Six months ago, a "compliant ICO" sounded right, but now we need a new term moving away from ICO, which people associate with scams.

So, it's all in a name? An STO is basically a regulated ICO, rebranded?

An STO is a regulated offering that uses either Reg A +, Reg D 506(c), Reg CF, or registered. So it's not an STO or Reg A+; it's an STO using Reg A+ or an STO using Reg D. So, there's some confusion there... An STO is simply a regulated token offering that registers with the SEC or uses an available securities exemption like Reg A+ to do it.

If you've been following [the news](#), you'll know that KodakCoin finally

announced [that] their ICO will take place later this month, after some


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They said they wanted to be compliant and they started speaking to the SEC, who wanted to see paperwork; they wanted to know about stuff and started a dialogue. They wanted to see the contract between CrowdfundX and KodakCoin. They slowed down the deal to prioritize investor protection, compliance, and transparency. Unfortunately, that was perceived by some in the media as a red flag, because they were going to launch at the end of January and then had to delay.

If you want to get the blessing of the SEC, it takes time. Regulation takes time.

The bleeding-edge pioneers are paying the price. At some time in the future, these deals will get turned out quickly and there will be precedents and benchmarks. We saw the same thing happen June 2015 when Reg A + went into effect. Companies could legally do a Reg A filing, but no one had ever done it and no one knew how to do it!

How do STOs or regulated ICOs work?

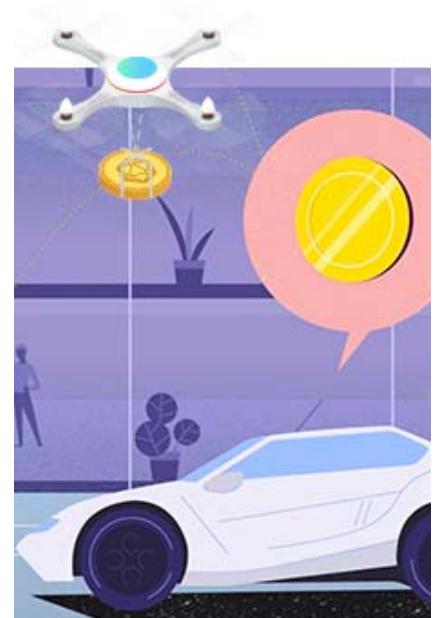
When I say STO, there are people all over the world reading The Merkle and people have different reactions because they're based in Malta, Singapore, or Australia. But when I'm talking about STOs, I'm specifically referring to a US-based blockchain company that desires to raise a regulated token offering.

The issuer has a few different paths they can follow. They can register with the SEC and do a full-on IPO, which hasn't happened yet but will happen at some point, or they can use one of several securities exemptions, Reg D 506(c), Reg A+, or Reg CF.

HERE'S THE BREAKDOWN

Reg D 506(c) is fast, easy and efficient. There is no cap on the raise; you file a form D. But you're limited to raising money for verified accredited investors.

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[With] Reg A+, you can raise up to \$50 million, you can solicit or market the deal, anyone over 18 globally can invest. But it's costly and time-consuming because you have to file with the SEC and have two years of audited financials.

Reg CF is short for Regulation Crowdfunding. You can raise up to \$1.07 million over a 12 month period and generally solicit or market the deal. Anyone over 18 can invest and it's the fastest and cheapest method available. But you're limited on the amount you can raise.

So those are four paths an STO issuer has. Register, Reg D 506(c), Reg A+, or Reg CF.

What does the difference look like to an investor?

With an ICO, you click through to a landing page and then you can basically send ether to a public wallet, and once your ether is received you get tokens from some deal. That's pretty seamless.

But in a regulated offering, you have to go through a process of KYC and AML, and that's to prevent bad actors from investing in a deal. There are more steps that the investor has to go through, and it's more complicated than sending ether to a public wallet in an ICO.

Regulated ICOs or STOs are more of a mind-bender (and expense) for the company as well. But they have the obvious advantage of complying with the SEC.

(And a few other perks besides.)

So, being regulated allows a company to get past issues like the ad ban? Can they advertise on Facebook, for example?

Any regulated offering allows the issuer to advertise legally, [on] social media and key sites where ICOs are currently not able. The ban has forced issuers to be more creative in terms of how they market and advertise their deals.

You couldn't market an IPO five years ago the way we're doing today; you would go to jail. It's very new. But the very basics are quite simple... don't lie, cheat, or steal... so if you start there, you're probably going to be on the right side of the law.

Then from there, there's a number of nuances, so, in a regulated offering, let's use a Reg A+, for example. If I'm advertising online, let's say I'm doing a post on Facebook, the ad has to have a clickable hyperlink to the issuer's offering circular that has a number of important disclosures that an investor can optionally read and peruse.

Obviously, not all investors will take the time to read a 200-page document... but at a minimum, they're there to protect investors, they are there to tell them what the risks of getting involved with any type of deal are...

About the ad ban, I don't think real teams should be concerned. The fact that you can't advertise on Twitter should not deter you. The rush of investors was last year. Now there are crypto hedge funds – the best deals are being funded by small groups of passionate crypto hedge funds.

Does more regulation mean more money for a select few?

No, not at all; those are misguided comments from people who are fantasizing and dreaming of Utopia. People forget that at the end of the day, investors have to win. Investors have to make money in this industry if we're going to continue to see the growth. If investors constantly lose and are constantly scammed, this whole industry disappears, all that innovation disappears and blockchain becomes a footnote in history. And that would be terrible.

Regulations are designed to protect investors, and that's a good thing for blockchain. Not to prevent innovation or stifle ingenuity. It's to protect investors, and investors have to win. We're seeing scams every single week, and if they keep losing money they're going to go away. Let's protect them so they can continue to have confidence backing genuine projects and funding deals founded by innovative blockchain entrepreneurs.

Excellent, thank you. Do you have anything else you would like to add?

I'm an optimist, and my general feeling is that the future is incredibly bright. I think there is a world where blockchain, cryptocurrency, and regulation all live happily ever after. And I think Wall Street, let's just say the capital markets, are catching up to this incredibly exciting

phenomenon that is cryptocurrency, and I'm very hopeful for a bright future.

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About The Author



Christina C

Christina is a B2B reporter, copywriter, and MBA, specializing in technology and finance. She has worked with many clients in the fintech, blockchain, and cybersecurity space, developing a passion for these dynamic and evolving areas.

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