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Security Token Offerings

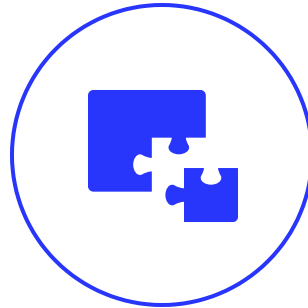
REPORT #1 , AUGUST 2018

Market Overview

This report contains the results of our research related to security token issue and description of main market trends in this area



Next step in development of ICO market is connected to issue of security tokens. Issuers and regulators are already looking for best ways to approach this trend



The difference in regulation regarding security offerings present difficulties to issuers and investors



Another complexity may arise when choosing a platform that would allow to issue and trade security tokens

Security Tokens Infrastructure Development

Overview of main streams based on various media articles

Nov. 17

FunderBeam raises \$5.8 million for early-stage startups through its blockchain

Feb. 18

Causum / BITE sells equity via Blockchain for a cleaner power grid

Apr. 18

Open Finance plans to launch a security token trading platform

Jun. 18

Coinbase Acquires SEC regulated entities; plans to enable security tokens trading

Mar. 18

Tzero plans to launch security token exchange platform

Jan. 18

Securitize launches an “ICO in a Box” platform

May. 18

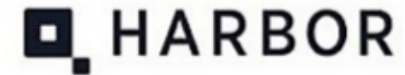
Templum raises \$10 million for a security token platform; Acquires broker/dealer

Security Token Issuers



Security Token Platforms

SECURITIZE

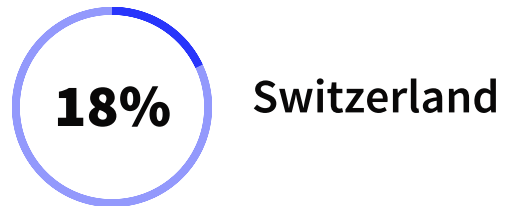


Statistics: Country of Issue

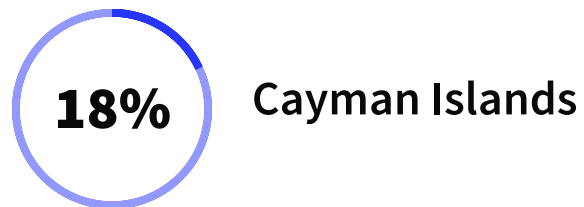
Numbers indicated below represent statistics on country of incorporation of security token issuers that were subject to our analysis



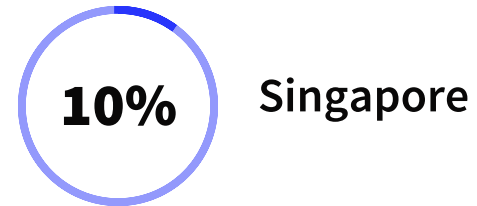
United States of America



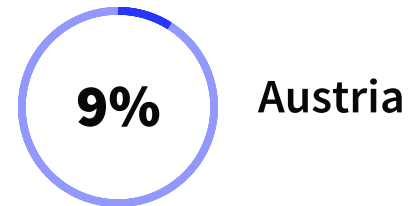
Switzerland



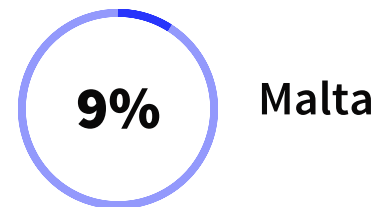
Cayman Islands



Singapore



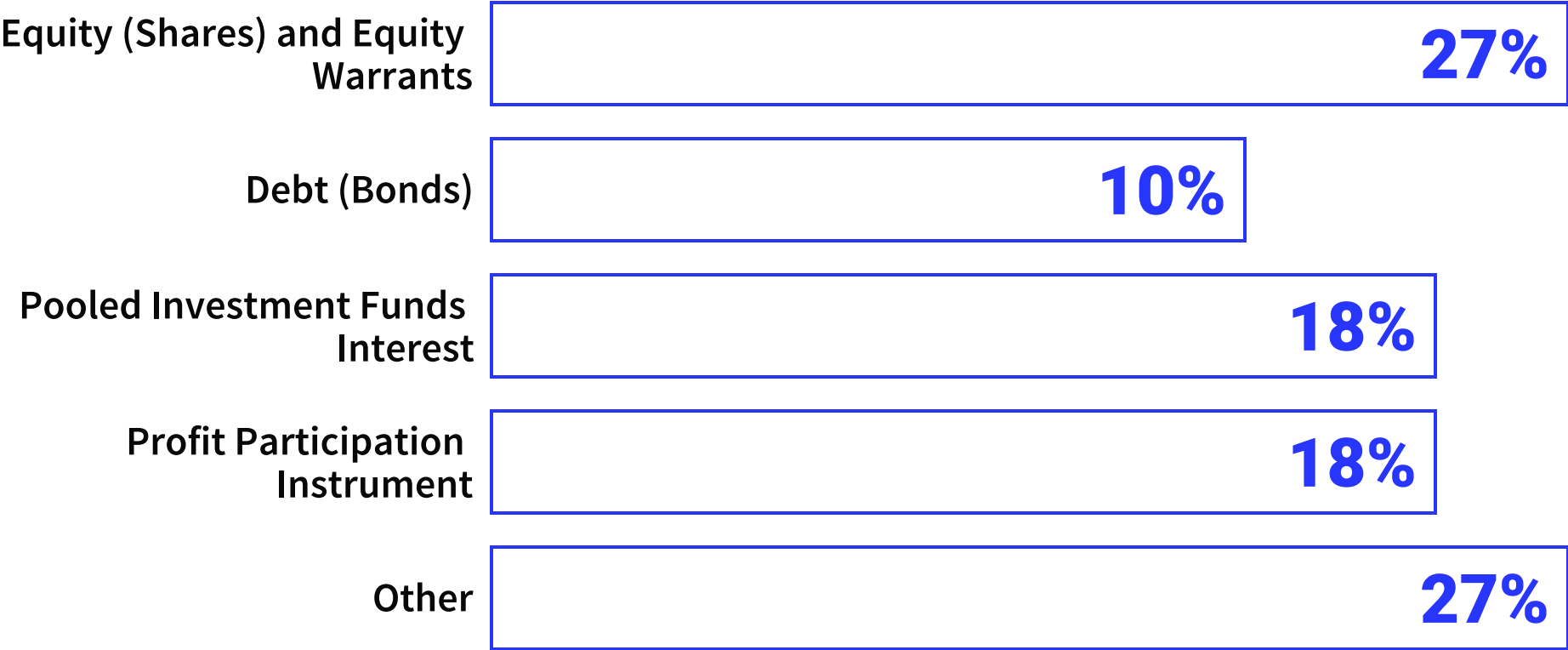
Austria



Malta

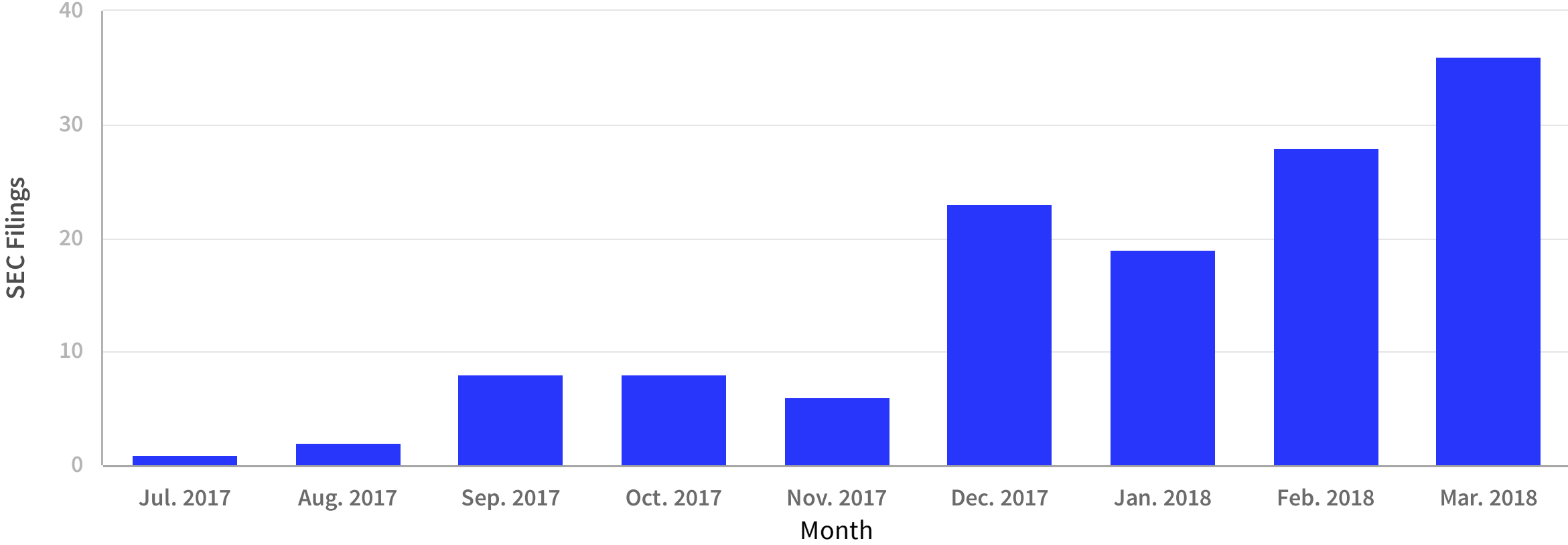
Type of Security Issued

Numbers indicated below represent statistics on type of issued security tokens by projects that were subject to our analysis



Crypto-Security Registrations

SEC Form D filings for tokens or token convertibles, Jul. 2017 - Mar. 2018



Country Overview



United States

- To be lawfully offered or sold, a security must be registered with the SEC, or qualify for an exemption from registration (under the Securities Act of 1933)
- Fees: 125 000 USD for Form D filing (most common case)
- Timing for filing approximately 8 weeks

Overview of Regulation D: Rule 506(c)

- No restrictions on advertising—general solicitation is permitted
- No prospectus required (although issuers generally release a private placement memorandum)
- Issuers can raise an unlimited amount of funds
- No financial reporting requirements for the issuer
- State securities laws are pre-empted (no need to seek registration or exemption on a state level)
- Only accredited investors may participate in the sale
- Purchasers cannot transfer their securities for one year (subject to certain exceptions)
- Form D must be filed with the SEC after the sale (but doesn't need SEC approval)
- Additionally issuer might be required to notify state regulator regarding the offering for sale

Overview of Regulation S

- Although not as well-known as Regulation D, security token issuers should structure a concurrent offering under Regulation S for non-U.S. investors
- Non-U.S. investors under Regulation S do not have to undergo the same accreditation process as U.S. investors under Regulation D. If you don't use Regulation S for foreigners, you must accredit all your investors under Regulation D - not just U.S. investors
- Rule 901 says that “offers and sales that occur outside the United States” don't have to be registered.
- Rule 903 provides a safe harbor - if an offer and sale satisfy the following requirements, they are deemed to occur outside the United States
 - Offer and sale made in an offshore transaction;
 - No directed selling efforts are made in the United States; and
 - Certain other requirements described in 903(b) are satisfied.
- Telegram's Pre-Sale was conducted as concurrent offerings under Regulations D and S.

Country Overview



European Union

- Depending on jurisdiction and type of security the fees may vary from €45,000 to €140,000
- Full set up and drafting / discussion of Prospectus with may require several months

Applicable EU Regulations

- **Publication of an approved prospectus is required when securities are offered to the public, unless an exemption is applicable, including the following:**
 - Offering is solely to qualified investors;
 - Offering is to less than 150 non-qualified investors per European Economic Area (EEA) member state;
 - High-denomination securities (denominations of at least €100,000);
 - A floor on minimum investment (of at least €100,000 per investor);
 - A ceiling on the total size of the volume offered to investors (aggregate consideration payable for all securities that are subject to the offer in the EEA amounting to less than €100,000).
- **In some cases other EU Regulations may apply, such as MIFID and MIFID II, AIFMD, MLD4. For example, the issuance of tokens that are redeemable may be qualified as deposit-taking business, which requires a banking licence and application of MLD4.**
- **Token issuers also should consider whether the activities of firms involved in ICOs could fall under the scope of PSD2 (Payment services Directive) or the E-money Directive.**

Country Overview



Switzerland

- Fees: approximately 100 000 CHF
- Process may take up to several months

Overview of Swiss Regulations

- **Security tokens might require following approvals (depending on legal nature of token) from FINMA**

- Swiss license for direct primary market issuance (if token is classified as derivative);
- Regulatory prospectus required to be approved by FINMA if token qualifies as structured product or asset token without voting right (e.g. token as an instrument of participation in investment fund);
- For some types of asset tokens (e.g. tokenized shares) Civil law prospectus is required (without regulatory approval).

- **Investigations carried out by FINMA to date (July 26, 2018) indicate that, in the context of its ICO, Envion AG accepted funds amounting to approximately one hundred million CHF from more than 30,000 investors in return for issuing EVN tokens in a bond-like form. FINMA will make no further comment on the proceedings until they are concluded.**

Examples of Structuring

The Praetorian Group (PAX)

PAX Token holders, as a result of their investment, hold the right to the net profit of the real property rent accumulation based on their overall percentage of holdings relative to the overall total flow of PAX token. Holding PAX token does not provide and should not be interpreted as holding equity in the Praetorian Group.

Offering is registered under SEC Form S-1.

VRBex

Token holders are provided with rights to receive quarterly dividends in the amount of 15% of the operating revenue, as well as rights to receive Preferred Equity Ownership in VRBex.

Offering has combined registration under Regulation D, 506 (c) and Regulation S.

SwissRealCoin (SRC)

A SRC represents a Swiss Law governed bond structured to fund the activities of the issuer and the acquisition of the real estate. Most importantly, every SRC is directly linked to the SRC real estate portfolio via the exit mechanism.

As the full “green light” from FINMA was not received on time, the Issuer now takes action also in respect to the Collective Investment Scheme Act to ensure 100% compliance.

Kairos

The security token will convert into a class of Kairos shares. That class of shares will have an ownership stake in Kairos, those shareholders will be listed in the Kairos capitalization table and those shares will include certain quarterly information rights.

Offering is registered under Regulation D, 506 (c).

Examples of Structuring

Tokenestate.io (TEM)

TEM token is a Participation Certificate (bons de participation / Partizipationsscheine) as defined in the Article 656a of the Swiss Code des Obligations.

RETO token is a regulated financial instrument or security, such as a share, a participation certificate, or a credit note. The rights granted to tokenholders will be matching the underlying legal security issued by a project SPV.

NEXO

Dividend-paying & Asset-backed Token: In return for their initial backing and ongoing support, NEXO Token holders will receive 30% dividends from Nexo's profits.

Offering is registered under Regulation D, 506 (c)

22X

22X is a private fund that is being offered pursuant to Section 506(c) and is reliant on available exemptions under the Investment Company Act.

Investors receive tokens in 22X which will own between 2.5% to 10% of the equity in each 22X portfolio company.

SPiCE

Issuer is registered as Pooled Investment Fund (Private Equity Fund) in Singapore.

Offering is registered under Regulation D, 506 (c).

Examples of Structuring

HydroMiner (H3O)

H3O token will be subject to the Austrian Capital Markets Act, which is why HydroMiner will release a full prospectus during ICO, which has to be approved by the Austrian Financial Market Authority (FMA).

In the Subscription Form every investor is provided with a detailed description of the rights the H3O token grants them. The security token will be based on profit participation right (Genussrecht) according to Austrian law.

Monetizr (MTZ)

Gamers use MTZ to make purchases within games in the Monetizr portfolio. Additionally, gamers holding MTZ tokens will be able to vote on the first games on the waitlist that will receive MTZ tokens from the game developer allocation and will be on-boarded.

Offering is registered under Regulation D, 506 (c)

Palladium

Offering is planned to be conducted under the EU's Prospectus Directive and tokens will be equity warrants convertible into shares of the Issuer. The issuance of a tokenized convertible warrant is regulated by a prospectus approved by the Malta Financial Services Authority (MFSA) and subject to stringent EU rules.

What is Required To Issue Security Tokens

- 1 Select the type of security depending on the rights provided to the investors
- 2 Select appropriate jurisdiction for the issue
- 3 Select legal advisor to support the issue process
- 4 Select the structure for the issue
- 5 Issue security tokens in compliance with applicable requirements

Limitations

BetterTokens ●

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