

Information Technology

10 things to keep in mind about STOs

Whilst some naysayers believe that ICOs are nothing more than a bubble, the truth is they have a wealth of technological information at their heart. Considering that more than 300 new projects enter the market every month and some of them will not achieve their minimum goals, while others will seriously lose in price after being placed on the exchange, the market newcomer can be seriously misled.

Despite the fact that the growth rates in recent months aren't the same as they have been at the beginning of the year, ICOs still collect large amounts of investment, taking a prominent place in the global economy. According to SSRN report, average ICO ROI (return on investment) is 82%. These conclusions were made on the basis of an analysis of 4000 projects, where the successful ones got the result of 172% ROI.

By now you have probably become aware of technology buzzwords such as tokens, utility and security, but the list is much longer. In this article we highlight 10 of the most important things that you need to be aware of.

What are tokens?

Tokens are a digital representation of assets that are found on blockchain-based platforms. These tokens can represent any type of asset that is fungible or tradable such as loyalty points, commodities or other cryptocurrencies.

What are utility tokens and security tokens?

A utility token is a token that allows the holder future access to services or products provided by a company. A security token gives the holder entitlement to ownership rights, similar to holding a share in a company. They are usually bought by investors with the expectation that they will return dividends in the future.

In Malta the Financial Instrument Test is required to reach a determination as to how the token should be classified.

What is the current state of tokens?

Recently, most blockchain tokens have been considered as utility tokens and therefore can avoid regulation pertaining to securities. They have been able to raise billions of dollars through ICOs offering. The US SEC (Securities and Exchange Commission) has recently stated however that some so-called utility tokens are actually security tokens by their nature, and that issuers are using the 'utility token' label to circumnavigate the law. Considering this, future ICOs may have to consider structuring their tokens as security tokens right from the very beginning instead.

Security token regulation

Tokens are generally required to abide by the laws of the jurisdiction where they are issued, as well as the jurisdictions where they are marketed, although different countries take a different view of the matter.

The process of launching an STO (security token offering) in Malta requires the issuer to submit an application with

What are the benefits of a security token?

Tokenised securities come with many benefits that traditional ones do not enjoy, such as:

Low barrier to entry

Security tokens permit smaller companies to raise significant amounts of funding from private capital markets at significantly lower costs.

High speed

The use of smart contracts means there is no need for intermediaries which reduces the costs and time of delivery. Moreover, AML (anti money laundering) and KYC (know your customer) checks are quicker because they are automated, resulting in time efficiencies.

Global Spread

Tokens can be traded globally (subject to any applicable laws) meaning that as long as the investor has a wallet, he can buy and sell it where he chooses.

Round-the-clock trading

Cryptocurrency trading has many advantages over traditional trading because there are no time restrictions placed on it, meaning the investor can trade 24/7.

Security token issuance platforms

There are several popular platforms for the issuing of security tokens. Here are just a few:

Polymath

A blockchain-based platform, Polymath is used to simplify the creation and use of security tokens. It is a fully SEC-compliant platform and it enables the buying and selling of tokens that have been classified by the SEC.

Harbor

An Ethereum ERC20-based platform, Harbor aims to make security assets legally tradable on crypto-exchanges.

Open Finance

With a focus on creating a security exchange, Open Finance have teamed up with Harbor as their protocol of choice.

Existing tokenised securities

Security tokens are still quite rare in the market, but here are some examples.



Blockchain Capital

Blockchain Capital are a VC firm that invests in blockchain-enabled tech firms. It was the first platform to create a public offering for securitised tokens and it created a blueprint for subsequent tokenised securities.

Science Blockchain

A fund and incubator, Science Blockchain has gained significant interest for blockchain investments and raised its funds through an ICO.

Lottery.com

The tokenised securities that Lottery.com returns depend entirely on the gross raffle sales.

SPICE VC

SPICE aims to invest in utility tokens in the future, but right now their main priority is focussed on security tokens, including Securitize, being its first portfolio company.

The future of security tokens

What is the future of security tokens, and are they here to stay? It seems likely that the future is looking bright and there are some reasons why: STO is a very efficient way of fractionalising high value assets such as real estate or shares of a business.

The emergence of exchanges that cater for security tokens means that the number of such tokens available is likely to increase, as well as the concept becoming more popular.

Security tokens are in demand from investors as they offer a wide range of advantages when compared to the purchase of utility tokens.

the Malta Financial Services Authority (MFSA). The documentation submitted should describe (among others) the project's primary line of business, its current/forecasted finances, and ownership and token structure as well as the token mechanism and a description of any rights, obligations, claims to profit etc. that arise from ownership thereof.

The application should be submitted by the issuer through an MFSA-registered VFA Agent.

E&S Group

Many believe that the demand for security tokens will continue to increase as time goes by, due to benefits such as equity, voting rights, dividends, buy-back rights, and more. These are rights that utility tokens cannot offer, and therefore we are likely to see a huge increase in the popularity and adoption of security tokens, as well as more defined legal frameworks across multiple jurisdictions.

E&S Group can guide your enterprise through the process of the DLT asset type determination and obtainment of the relevant regulatory approvals.

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