

Fintech Advisory Services

# A Deep Dive Into Security Token Offering (STO)

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# Introduction to STO

Before we dive in Security Tokens and Security Token Offerings or STOs for short. We first need to understand the difference between a coin and a token. When we take a specific blockchain's network such as bitcoin or ether, we talk about a coin. Among these networks, some allow to code messages inside blocks. These messages can take the form of an unalterable contract passed between one or several parties taking the blockchain as trustee. These smart contracts offer the possibility to create tokens which can be sold in the case of an Initial Token Offering (ITO) or Security token offering (STO).

**A good analogy for an ICO would be selling \$1 casino chips at 80 cents a chip in order to build the new casino. If the casino comes to life the investors made a wise investment.**



To summarise, a token is built on an existing blockchain network (such as Ethereum) by coding a smart contract inserted inside a block.. An Initial Coin Offering, or ICO for short, takes place when a company sells cryptographic assets known as tokens in order to raise funds for its operations. The tokens being sold play a role in the project and those who buy in early are getting them at a discount, assuming the project succeeds. The company usually opens the

sale of tokens for a limited time frame, until the fundraising goal is reached.

A good example of an actual ICO would be Ethereum, where Ether - the coin or the cryptocurrency used to power the Ethereum network - was sold to investors before the network launched, in order to fund the project. Tokens in general are divided into two categories:

## **utility tokens and security tokens.**

Utility tokens are tokens that promise the future use of a product or service. They aren't meant to be an investment; they have a utility. One example that might be considered a utility token of sorts would be a Starbucks gift card. If you buy it at a discount, you're not really expecting to make a profit by selling the gift card. Effectively, you've prepaid for, and expect at a later date, a cup of coffee. Security tokens on the other hand, are tokens that represent tradable financial assets, for example a share or a bond from a company.

Security tokens are meant as a form of investment, they pay dividends, share profits or pay interest in a way that promises future profit. Put simply, utility tokens promise a product or a service while security tokens promise profit, but the trade-off between both is often thin and the differentiation can sometimes be difficult to make.

While ICOs started out with good intentions, people quickly started seeing the opportunity for easy money and used this mechanism to fuel their greed. In 2017 the ICO frenzy reached its peak. **Billions of dollars** were invested in so called utility tokens that had as little as a piece of paper describing some obscure future ventures. Unfortunately, many of these projects never saw the light of day and a lot of investors lost their money. Back then the ICO field was completely unregulated and quite a number of **scams and manipulations** emerged.

Investors pumped up the price of specific tokens just to dump all of their holdings once everyone else bought in. Other cases included companies that just completely vanished, along with the money, once the ICO ended and the money was raised.

Instead of a creative way to raise capital, ICOs quickly became a workaround to avoid regulation. Nobody asks for permission to run an ICO, you just set up a website, some tokens and start selling them to the general public. Also, unlike an IPO, you're not giving away any control over your company or profits since you're supposedly selling tokens that only promise future use of your **currently non existing product**. As things got out of hand, public complaints increased, companies like Google and Facebook banned all ICO projects from advertising on their platforms and regulators stepped in. The regulators wanted to investigate whether these so called tokens should be in fact considered as securities. And if so, are the companies behind them meeting the requirements to allow them to sell securities.

In the US there's a simple test called the "**Howey Test**" that is used to decide if what someone is selling should be considered a security. It states that a transaction is considered a security sale, **"if a person invests his money in a common enterprise and is led to expect profits solely from the efforts of the promoter or a third party"**.

We can break this long and confusing sentence down to four main questions:



### **Was there an investment of money?**

In the case of ICOs the obvious answer is yes.



### **Was this investment done in a common enterprise?**

Since ICOs raise money for a company which is considered a common enterprise the answer is also yes.



### **Was there an expectation of profit?**

Since a company can always claim that its tokens were meant for utility only. However, when you look at the token market you can clearly see that people are buying tokens in the morning and then selling them in the afternoon. Meaning tokens are bought in order to sell them for a profit. So depending on the specific case this could be a yes or a no.



### **Are the profits connected directly to the efforts of a person or entity who are not the investor?**

This question is a bit confusing, so here are some other ways to look at it:  
 Is there a person, that isn't the investor, who is in charge of making this venture succeed?  
 You could also ask "Is this a passive process for the investor?" In most cases the answer to these would be a solid "Yes" as the investor's involvement in the project ends usually once he or she invested funds and got tokens in return. Bitcoin, for example, doesn't fall under this category since there's no person making the decisions. Many open source projects can have the benefit of the doubt since you can't say that there is one person calling the shots, it's more of a group effort and that disqualifies them from the fourth question.

So while most companies classified their token as utility tokens in order to avoid security regulations, when they were reviewed by the authorities, almost all of them were said to be selling securities. As a result, many ICO companies were subject to legal actions including hefty fines and even jail time. Today, most ICOs aren't open to the public because of the fear of regulators and are privately funded by small groups of investors. So there you have it, on the one hand we have ICO is a completely unregulated form of raising money from all around the world, that's fast and easy to execute and is filled with scams, frauds

and just plain negligence. And on the other hand IPOs - A long, expensive, exhausting road of raising money from investors by vetted, legit companies. But today, there's a new type of offering called a **Security Token Offering or STO. A kind of middle ground between an ICO and an IPO.**[1]

STO is the process of selling security tokens to the public on a more flexible basis than for an IPO. There are no utility tokens in STOs and everyone participating is considered an investor. **STOs are intended to be compliant with Anti Money Laundering (AML) requirements and securities laws.**

**You might be wondering how are STOs possible?**

**How can you sell securities without regulatory oversight?**

The answer is through exemption. In the US, for example, you're **exempt from registering with the SEC** if you fall into one of four regulations.

Regulation D      Regulation Crowdfunding      Regulation A+      Regulation S

**Regulation D** means that STOs are exempted from registering with the SEC if they raise money only from accredited investors, meaning anyone with a net worth of \$1 million or more or with an annual income of \$200,000 or more in the last two years. The company can raise an unlimited amount of money in this manner.

**Regulation Crowdfunding (CF)** states both accredited and non-accredited investors can participate in the offering, but there is an annual limit to how much an STO can raise - and that's \$1,070,000

Both regulation D and regulation Crowdfunding have a one-year lockup limit. This means that investors need to wait for one whole year before selling their security. This is done to prevent pump and dump schemes and protect other investors.

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**Regulation A+** means the offering must be qualified by the SEC, sort of a mini IPO. Once it is approved, everyone can participate in the STO, which is limited to \$50,000,000. There is no lock up period for a Regulation A+. You could buy and sell your tokens in the same day just like you currently can with cryptocurrencies.

**Regulation S** consists of five rules and provides an exclusion from Section 5 registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), for offerings made outside the United States by both U.S. and foreign issuers.

So, once a company falls into any one of these regulations, it can sell security tokens as part of an STO, with no threat from the SEC coming down on it to shut it down and throw the proprietors into jail.

## This brings us to the question, are STOs a good thing?

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STOs have a lot of advantages.

First they reduce the threat of scams through the implementation of regulation and by the guarantee of being backed by an actual underlying asset. While ICOs were traded on shady and unregulated exchanges, **STOs are traded on verified exchanges**. Also, STOs open up bigger opportunities for investors since almost every asset class type can be tokenised. From the fundraiser's perspective, **a wider audience of investors** can be reached, as digital securities are easily marketed and transferred across borders.

Many STOs are still not available to the public, regulation D for example, states that investor should be accredited in order to participate in this STO. This seemingly excludes the Main Street investor while allowing only the rich to benefit. On top of that, the lockup period and cost of compliance may deter some investors and companies from participating in STOs.

In the end, STOs have various pros and cons. At this point in time, they are more suited for early adopters, who are looking to invest at earlier development stages with an exit door opened thanks to a higher liquidity. while still subject to some oversight, which offers a certain degree of investor protection. These are just the early days of STOs and as we move forward, more and more companies, not just crypto related, are thinking about how they can "tokenise" their assets in order to raise funds.

**Therefore, STOs are a way to tokenise tradable financial assets and offer them to the public in a responsible regulated process. It ultimately involves the use of third parties such as a governments, banks, lawyers or custody to guarantee the compliance and supervise the emission process.**





## How to launch Security Token

Here we will discuss how to launch security tokens, this section will cover pricing strategies and STO exchanges. **It's essential to take note of that in spite of the fact that it's not required, we recommend acquiring a blockchain advisory firm, backed with a legal team to offer advice and guide through the STO process. and coordination through the security token procedure.**

Together the blockchain firm and the legal team will have the appropriate knowledge to push the offering and walk you through the execution steps to support the offering by working closely with your firm to understand its needs and specification necessary to successfully emit a security token for your assets with the vital execution complicity (issuance stages, ATS, and so on.) These platforms can be contracted to advise during the whole STO process regarding legal and financial matters and guarantee that the security token and the resulting offerings are both regulatory compliant and accurately priced.

Your service providers will be in charge of administrative filings (Reg D, Reg A+, Reg S or CF), guarantee consistency and the best possible revelation of offering terms including yet not constrained to investment rights and warrants.

Seeing as most of security contributions target US speculators, a legal counselor can be the urgent distinction between a fruitful raise and a subpoena from the SEC.

## Step 1:

**Find a security token attorney and blockchain firms.** With the earliest stages of security tokens and their crossing point with crypto resources, an accomplished attorney is precious. Usually, the filings and retainer will be the costliest forthright expenses for a security token offering.

## Step 2:

**Identify a blockchain network.** Once the guarantee has been worked out and the structure of the security token is set up, you'll need to decide which blockchain system would best fit your firm and the security token's needs.

Besides, over the previous year we've seen the development of other blockchain platforms also allowing the use of smart contracts such as EOS or TRON whom is progressively taking apart Ethereum's monopoly on token creation.

It is also common to see a dual token structure with the security token. For example, it can give token holders the privilege to 40% of income share from

corporate clients paying exchange expenses.

Starting now, it is the most regular for security tokens to be built on Ethereum as it provides a high security and use a coder-friendly language (Solidity) to a savvy contracting stage. One main disadvantage of building tokens on Ethereum is that contracts have a maximum size of 24kb as per the block's specification on the ether network that may restrict the use of too complex contract's structures..

Coding a regulatory compliant smart contract can be troublesome and require an external audit before being written on the blockchain. Besides, there's an increasing use of other public blockchains relative to their specificities (Stellar has fastest transactions and lower fees than Ethereum for example) but also private chains (Decentralized Ledger technology) such as Corda or Hyperledger. Recently, the real estate company Elevated Returns reported to switch Aspencoin (token allowing to invest into the St. Regis Aspen Resort) from ether to Tezos.

### Step 3:

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Contact a Token Issuance Platform.

Depending on the blockchain you have selected at step 2 and that fit best your needs, this step is about **determination of the characteristics of your token and its underlying asset. It will result into hiring blockchain developers or specialised IT company that will build the smart contract as per the security token's specification** while a trusted third party will audit the code and guarantee its compliance.

In the future Ethereum might not be the more suitable blockchain or Harbor might not be the

trading platform offering the highest liquidity, thus it is crucial to evaluate which one will better fit your present and future needs. Note that it might still be possible to organize a migration to another blockchain and switch to another digital asset trading platform in the future but it might not be that convenient. Consequently, it is best to pick an appropriate blockchain network from the start.

As of now, the most outstanding token's emitters of security tokens are **Polymath, Securitize, and Harbor**. Some of them are offering open source modules allowing customisation and modifications of security tokens' structures.



## **Step 4:**

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In order to effectively raise capital through a security token offering, a company needs to be in touch with diverse third parties such as **brokers/dealers, banks, liquidity providers, money services, transfer agents, issuers and accountants.**

ACH, wire, check handling and thus is an essential steps necessary for accepting digital forms of money. It goes from the clearance and settlement of security tokens to changing over digital cash in fiat money.

One significant role of the exchange operator is to set up a trusted environment through KYC and AML checks allowing the recovery in case of burglary or loss of tokens by its holders. On the off chance that you will probably issue a completely compliant security token, asking for the services of an exchange's specialist is firmly encouraged.

Money Agents: If you are raising under a Regulation A, an exchange operator is important so as to be completely **agreeable as per SEC guidelines.** The exchange operator will direct the issuance of the tokens and guarantee every lawful necessity are met.

A reputable and experienced exchange specialist will spare you and your organisation a great deal of superfluous pressure. Money operators keep up records to follow the issuance, money and responsibility for protections.

Therefore, the specific contribution of the main operators is as follow: Broker Dealers: B/Ds will be responsible for finding the correct financial specialists for **your organisation's asset valuation.** Financial specialist will assist in the pricing strategy by evaluating tokens using a set of valuation methods and by determining the book value of the company. They may also conduct survey to investors in order to determine the market demand and therefore effectively price the security token for the STO. This step is crucial as it will determine the capital that can be raised from the sale, thus, finding an appropriate Financial Advisory Service is strongly recommended. **Selecting appropriate B/D is an absolute necessity to guarantee a successful offering.**

Money Services: Money administrations are essentials for raising capital. Transfer agents regularly work closely with KYC and AML verification services (often financial institutions).

## Step 5: Open Token Offering

After your attorney has finished the filings and the security token has been created through a smart contract passed on a blockchain, and you have selected one or several Broker dealers, comes the actual **fundraising campaign**.

While organisations can be anxious when it comes to raising capital, it is a necessity to rely on a lead financial specialist to ensure the quality of your valuation and guarantee the success of your offering.

Likewise, it is common sense for STO to select efficient(s) brokers/dealers in order to reach out to more investors for the offering. This step can take from 2 to 6 months.

The offering is now ready to hit the exchange and to be sold to investors. It is always possible to pass by a preliminary private sale as per the advise of your financial advisors and at your discretion.

Raising capital through a STO involves compliance with regulatory frameworks. Based on the development stage you are at, your valuation and your need for capital, you will be able to fill a corresponding legal form (Reg CF, D, A+...if in the USA). Filling a Reg D, for instance, has the advantage for the emitting company to let it use an unlimited number of B/D. We suggest investigating Reg CF for the capacity to raise up to \$1.07M through a syndicate, for example, **Republic** or **WeFunder**.

Regardless of whether you choose to raise money from accredited investors or from the general public (for example on SeriesOne), a good marketing campaign is essential to efficiently promote your company and reach more investors. Similarly, as with conventional private markets, Here again, the importance of having a marketing specialist for your STO can't be underestimated.



## **Step 6: Market STO**

While on-boarding numerous BD's and and promoting the offering on a couple platforms, marketing and advertising are essential to guarantee a successful STO and that it reached a maximum of potential investors. **advertising will be a fundamental job in guaranteeing that your offering arrives at all sides of the globe.**

One particularity of STOs is the capacity for retail investors (whom have passed KYC/AML checks) to invest into privately owned businesses following a compulsory 1 year vesting period.

A financial specialist will also guarantee that your organisation has followed all the previous steps.

Moreover, it is relevant to let potential investors and interested parties know about your offering as soon

as possible so they can mature their decision and eventually discuss with third parties about the opportunity to buy a share of ownership in your company or proposed asset.

From analysing traditional fundraising methods and past STOs, we suggest to prepare a rundown of short articles to introduce your STO and explain your motivation as well as your valuation methodology to offer more transparency to investors and impact positively their investment decision..

**All things considered, the more understanding your fundraising team has about the whole process from the very begin, the more steady your offering will be when proposed on investment platforms.**



## **Step 7: Listing**

While it's somewhat preemptive to talk about the best possible trading platform for your security token, be aware that some security token trading platforms offer better liquidity and might be more successful at listing additional assets in the future which may have an indirect impact on your share's price.

Seeing as security tokens using a Reg D form (currently used by a large majority of STOs) are restricted to whitelisted and authorized accredited investors for the first year post-offering, we expect the overall sentiment around STOs to be strong in 2020. With this being stated, the 90-day required vest gives accredited investors a first mover advantage.

While sophisticated investors will not search for similar turnaround opportunities than individuals, the potential liquidity offered by digital shares is an opportunity for both.

## **Conclusion**

While we perceive that not all STOs will pursue a similar path we've depicted in this article, we believe it will offer a better understanding of the necessary steps for launching an STO.

# STO at Glance

## How is an STO different from an ICO?



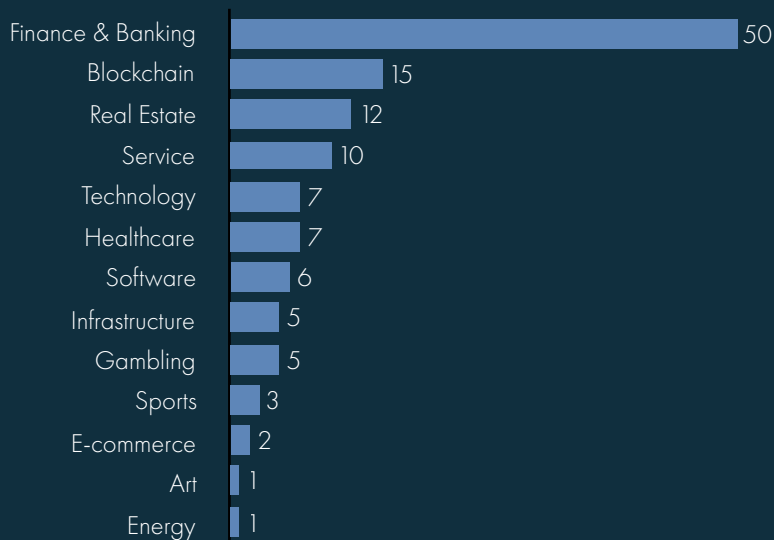
- Compliant with securities laws
- Lower risk
- Backed by the underlying asset
- Easy to assess true value



- No compliance requirements
- Deemed higher investor risk
- No underlying collateral
- Difficult to determine the true value



### Number of STO per industry\*



### Sales Facts\*\*

Sales Closed Successfully	<b>16</b>
Total funding raised	<b>US\$953,088,796</b>
Avg. Amount Invested	<b>US\$3,670,595.00</b>
Total number of STOs	<b>124 (51% finished)</b>
STO success rate	<b>53.333%</b>

\*BlockState, "Global STO Study"

\*\*Statcheck, 2019, Security Token Market Report

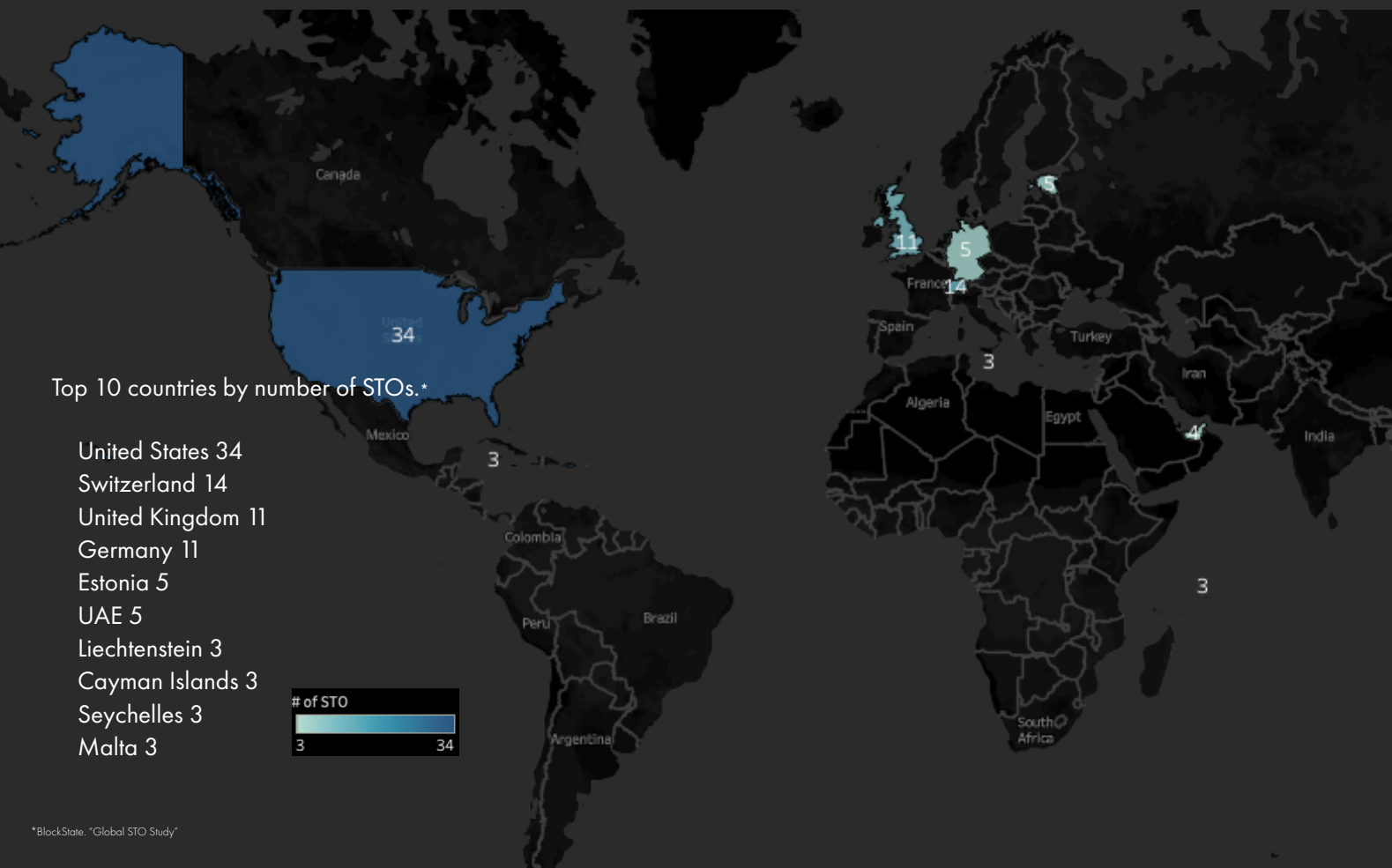
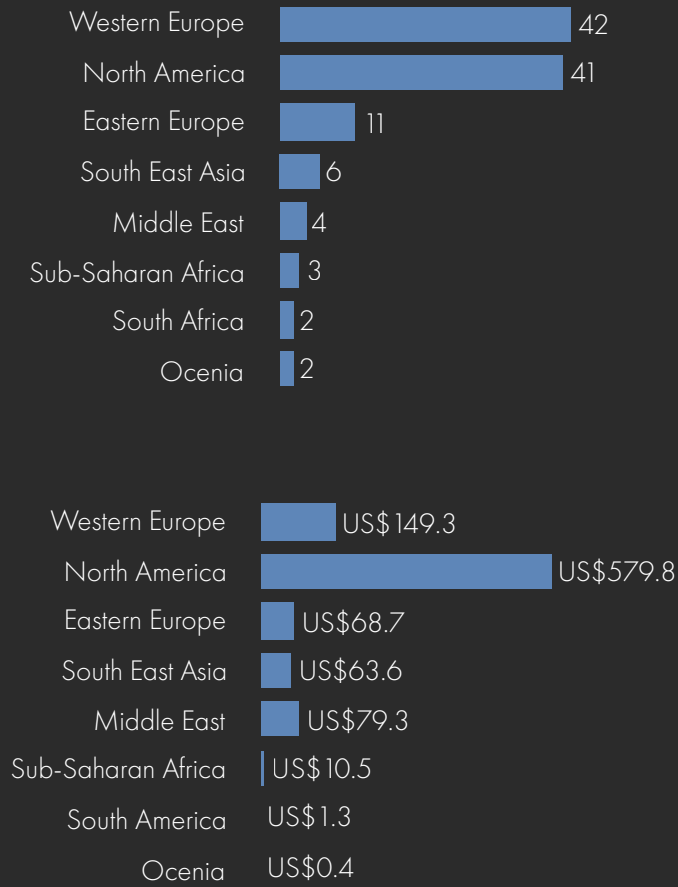


# Geography of STO

Number of STOs per country and amount raised in USD:\*

Country	# of STO	Amount Raised	Country	# of STO	Amount Raised
Switzerland	11	\$98,9m	Estonia	5	\$7,3m
United Kingdom	11	\$39,5m	Belarus	2	\$54,5m
Germany	5	\$9,1m	Bulgaria	2	\$4,3m
Malta	3		Lithuania	2	\$0,7m
Liechtenstein	3	\$1m	Singapore	2	
Netherlands	2	\$0,9m	Hong Kong	2	\$52,5m
France	2		South Korea	2	
Finland	2		UAE	4	\$79,3m
<b>United States</b>	<b>34</b>	<b>\$559,4m</b>	Seychelles	3	\$10,5m
Cayman Islands	3	\$4m	Venezuela	2	\$0,1m
British Virgin Is.	2	\$6,1m	Australia	2	\$0,1m
Belize	2	\$8,3m			

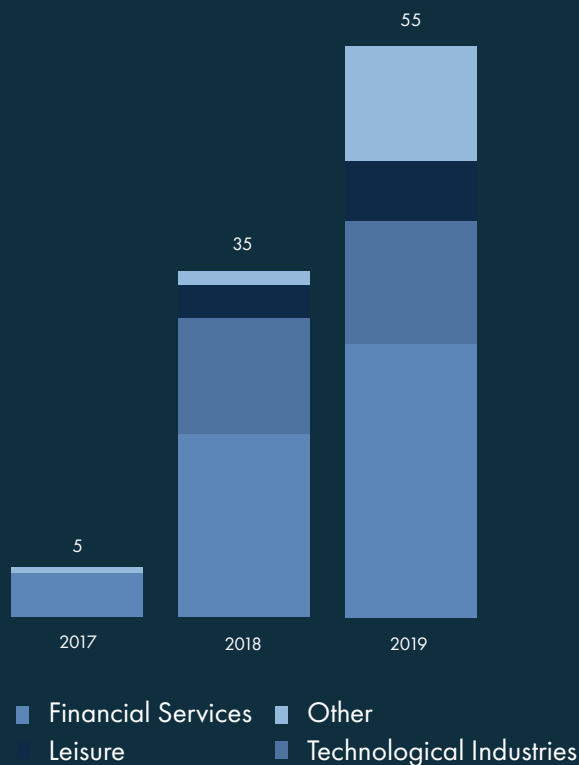
Summary\*



\*BlockState, "Global STO Study"

# STOs development throughout the years (2017; 2018; 2019)

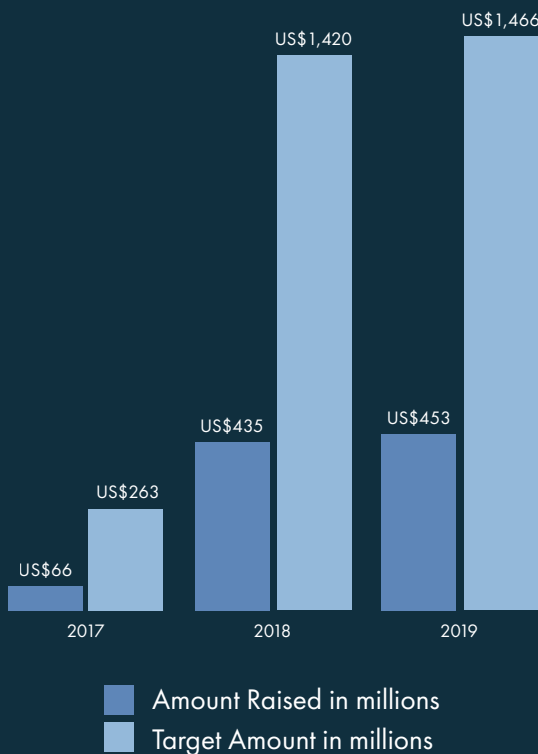
Number of STOs per year and industry\*



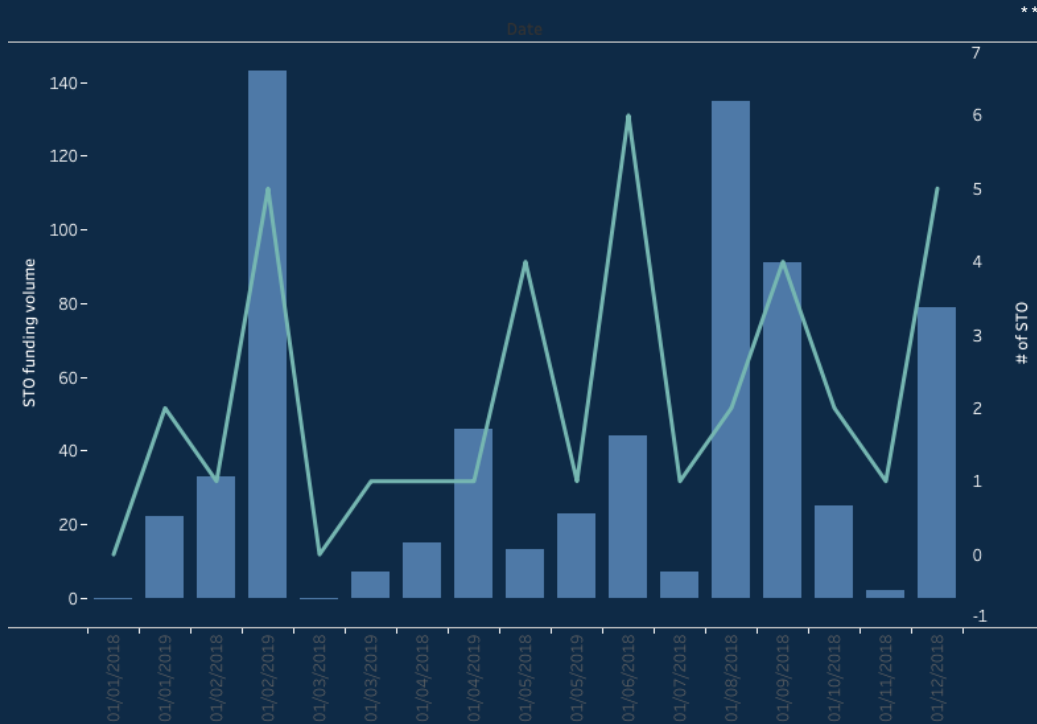
In 2017 most of the STOs were conducted by companies from the financial industry. In 2018 there was a significant increase in STOs from the technological sector. Leisure-related STOs also appeared in 2018 and started growing further in 2019. Financial industry STOs still have the largest share in the overall number of STOs, however their share is slightly decreasing as there are more other STOs appearing.

Target funding vs actual amount raised over time\*

The actual amount raised in 2017 was only 25% of the target amount. In 2018 this percentage increased to 30% and remained at the same level in 2019. It means that companies on average are raising 30% of what they are expecting to.



## STOs development throughout the years (2017; 2018; 2019)



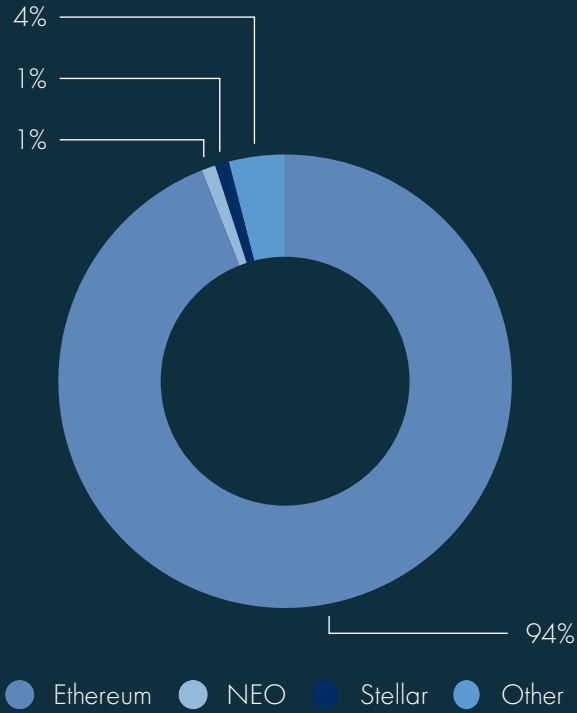
After launch of **first STOs in 2017** figures **grew strongly** to approximately **USD 442mn** in **total funding volume** by the end of 2018.

From Jan until May 2019, **positive development of STOs continued** and is expected to **carry on through 2019 and 2020**- assuming regulation of STOs strengthens and up to it, regulated exchanges support STOs

In 2019, **biggest launched STO** was **BoltonCoin**, raising approximately **USD 68mn**.

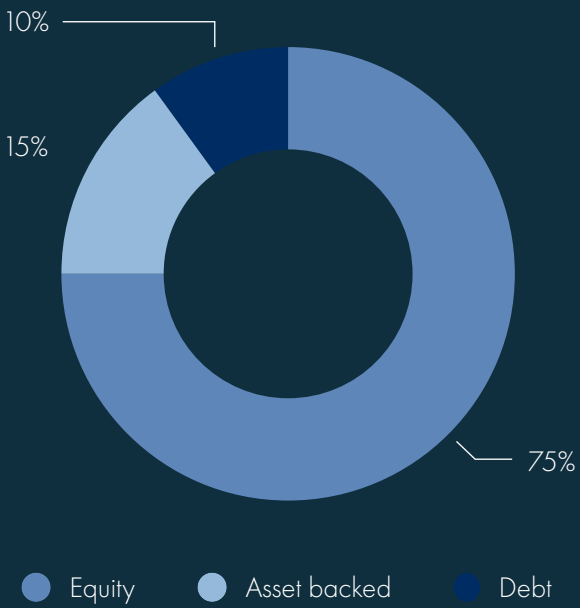
# Infrastructure & Asset Types

Distribution of protocols used for STOs\*



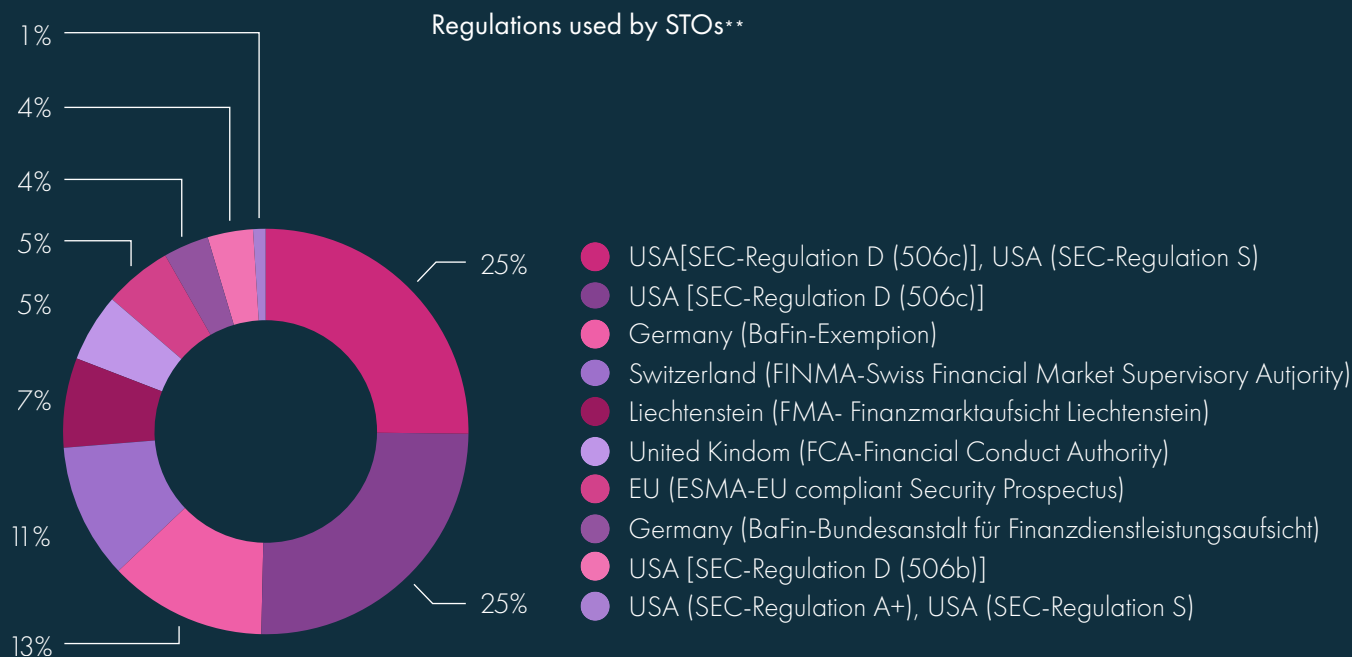
Ethereum is the most popular protocol for STO projects and thus it dominates the market with 94% share.

Distribution of asset classes tokenised\*



As of now equity is the most common asset class for tokenisation with 75% share. Asset backed STOs have 15% share in overall asset class distribution. Asset backed STOs also include real estates STOs that started growing recently.

\* BlockState. "Global STO Study"  
 \*\* Stocheck. "Security Token Market Report 2019"



**US Regulation D** that implies selling to only accredited investors is being chosen by most of the projects. 25% of projects have chosen regulation D and **regulation S** that allows them to sell to accredited investors outside the US. Other 25% have chosen pure regulation D to sell security tokens to accredited investors in the US.

Another popular filling is **BaFin-Exemption**- in Germany regulators have defined cryptocurrencies and other blockchain-backed tokens as units of account, so they have to be treated as financial instruments. This means any kind of service offered to third parties in relation to cryptocurrencies or crypto tokens must be authorised by BaFin.

However, according to section 2 (4) of the Banking Act, BaFin can, on the grounds of certain atypical banking activities, exempt individual companies from the authorisation requirement and from individual provisions of ongoing supervision under the Banking Act. Companies can be considered for this exemption if the activity is carried out with the principal activity that is not subject to authorisation and therefore only represents a comparatively low-level secondary activity. Foreign credit institutions that want to provide cross-border services in Germany can, in principle, also be exempted.

However, this can only be done if, according to BaFin's assessment, the providers are subject to equivalent supervision in their respective home country.

Switzerland follows Germany with **FINMA** which has released guidelines for STO compliance in 2018. According to FINMA, security tokens are subject to the same regulations as other securities such as stocks, bonds, and derivatives, as well as the subject to KYC (Know Your Customer) laws and "Big Five" Swiss Banking Regulations.

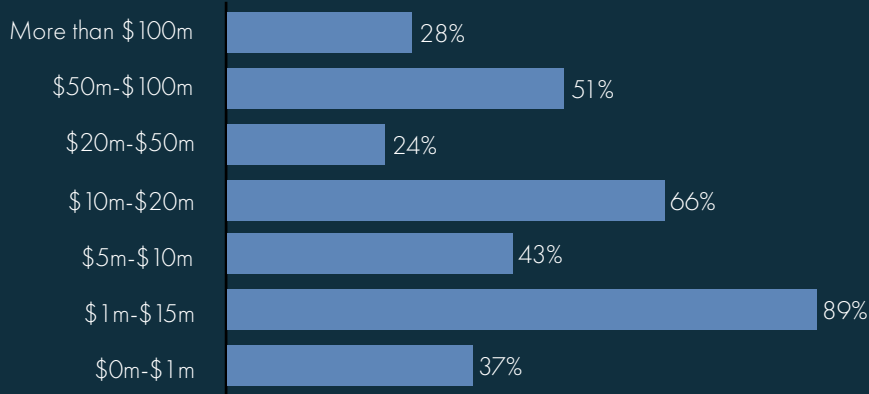
**FMA-Finanzmarktaufsicht**- companies that plan to issue security tokens in Liechtenstein need to adhere to Prospectus Directive regulation and also to the rules outlined in Liechtenstein's Wertpapier-Prospektgesetz (Securities Prospectus Act). There are exceptions: if the total volume of tokens issued does not exceed CHF 5m, there will be no need to issue a prospectus.

5% of projects complied with the **FCA (UK)** regulations which after being released in July, 2019 are similar to the SEC's Howie Test.

Projects find it difficult to fill in applications for US regulation A+ due to the complicated procedure and stricter due diligence and screening from SEC.

# STO Funding

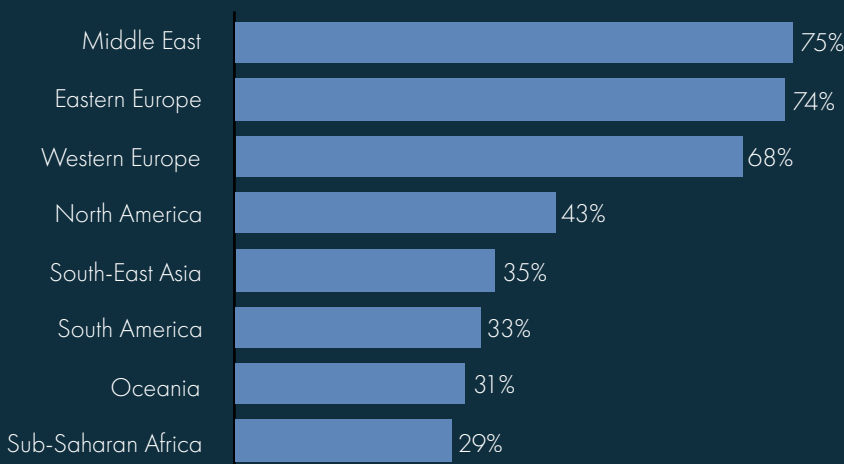
Average percentage of target funding raised by size of target funding\*



Projects targeted \$1m - \$15m funding raised 89% of this amount on average and showed the best performance among other funding categories. The worst outcome has been for projects that wanted to raise between \$20m and \$50m. Seed projects that usually target less than \$1m goal also had poor performance with 37% success. It can indicate that seed and pre-seed stage projects are not yet ready

to conduct an STO. Also these projects are considered to be riskier and in most of the cases there is not enough traction to correctly price a security token. Usually there are specialised VC funds that exclusively invest in seed and pre-seed stages. STO case is different and average investors will be relatively more risk averse, thus they will look for later stages.

Average percentage of target funding raised by region\*



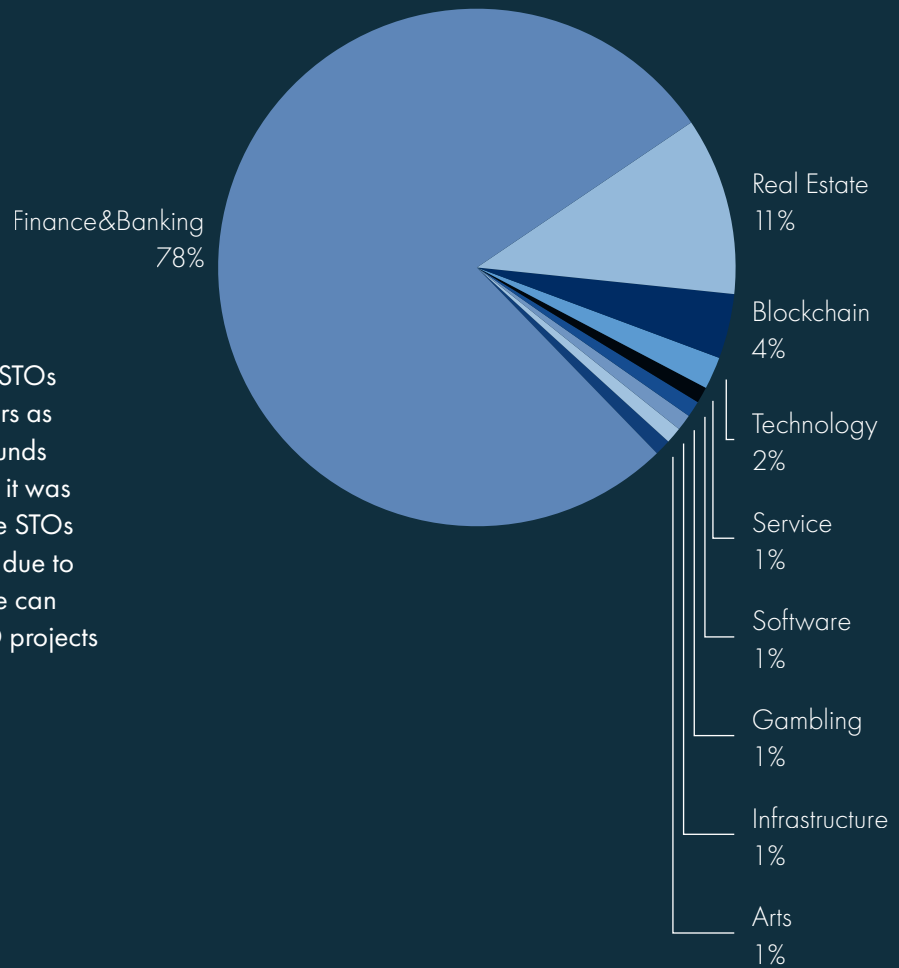
Middle East and Europe have the largest percentage of target funding raised. These regions have many traditional businesses that are looking for alternative ways to do a fundraising. Real estate STOs are also getting more attention in the Middle East, thus we can expect a further increase in investments from this region.

\* BlockState. "Global STO Study"

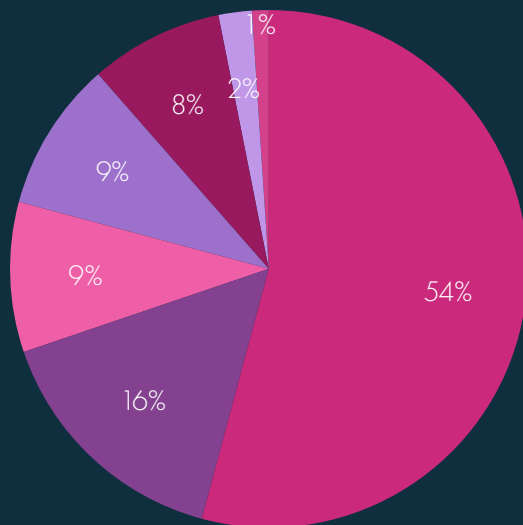
\*\* Stocheck. "Security Token Market Report 2019"

Distribution of funds raised by each industry\*

Finance and banking sector STOs dominate among other sectors as there were many tokenised funds appearing on the market. As it was mentioned earlier, real estate STOs are becoming more popular due to cost- and time-efficiency. We can expect further growth of STO projects in this sector.



STOs by Investment Type\*\*



- Company Equity
- Participation Certificate
- Equity Funds
- Real Estate Investment
- Bond/Fixed Income
- No Economic Rights
- Masternode Fund

\* BlockState. "Global STO Study"

\*\* Stocheck. "Security Token Market Report 2019"

# STO Issuance Cases 2018

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Top Issuance Platforms by # of STOs	Top Blockchain Platform by # of STOs	Top Token Standards by # of STOs	Top Projects by Amount Raised	Top Projects by # of Employees	Top Projects by Amount of Twitter Followers
Securitize	Ethereum	ERC-20	iZero	ReitBZ	Siafunds
Cashlink	Stellar	Other	\$134,800,000.00	2,502	109,641
4	5	5	Blockstack	FR L'Osteria Digitale	Blockchain Capital
InPortal	Other	DS Protocol	\$23,000,00.00	Schuldverschreibung	28,386
3	3	5	22X Fund	Legend Siam Theme	Libra Investment
DESICO	Iroha Hyperledger	ST-20	\$22,000,000.00	Park STO	Token
3	2	4	Enercom AG	218	26,900
Polymath			\$20,000,000.00	Greyp	TokenMarket STO
3			Aspencoin	71	23,375
			\$18,000,000.00	NETZ	MinedBlock
				52	17,731

\*\*

## Aspen Digital — St. Regis



Industry	Real Estate & Hospitality
Structure	Digital common shares in a single real asset
Amount raised	\$18M
Platform	Securitize

Distributed to investors via a Reg D 506 (c) offering

## 436 & 442 East 14th St, Manhattan



Industry	Real Estate
Structure	Digital common shares in a single real asset
Amount raised	\$ 30M
Platform	Ethereum
Purchased with	Bitcoin, Ethereum, the ART token

In partnership with Fluidity and Propellr, using AirSwap tokenization technology

## Maecenas — Andy Warhol



Industry	Fine Art
Structure	Asset-Backed Fractional Ownership
Amount raised	\$1.7M
Platform	Ethereum
Purchased with	Bitcoin, Ethereum, the ART token

## Lottery.com



Industry	Gaming
Structure	Revenue Share
Amount raised	\$ 300M
Standard	ERC20



# 5 Best Countries to Launch STO and their Regulations\*

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## Lithuania

Lithuania is on its way to becoming a global STO hub. The Crowdfunding Law of the Republic of Lithuania has already become the first ever law to provide a legal basis to sell, purchase and trade security tokens.

The Lithuanian Ministry of Finance has already issued crystal clear regulations covering crucial aspects of STO and ICO such as taxation, accounting, issuance, and compliance. In Lithuania, you need to send your STO details to the supervisor of financial markets. They will get back to you with a firm reply on whether or not your STO fits into their legal framework.



## Malta

The island nation of Malta has started to attract companies providing security token offering services. The positive approach of this small country towards blockchain is grounded in three bills by Malta Digital Innovation Authority Act (MDIA).

The MDIA lead to the creation of separate government authority to regulate the Distributed Ledger Technology (DLT) platforms and software. It provides a legal framework for defining technical and economic aspects of DLTs.

### Innovative Technological Arrangement and Services Act (ITAS Act)

The ITAS Act provides an explicit legal framework for defining Innovative Technology Arrangements (ITA), Innovative Technology Services (ITS), and individuals or companies providing ITS services. It provides guidelines for creating, auditing, and certifying all software technologies concerning blockchain, smart contracts, and security token exchanges.

### Virtual Financial Asset Act (VFA Act)

This Act provides a legal framework for regulating any activity related to virtual financial assets such as ICOs, crypto wallet providers, investment advisors, and security token exchanges, among others. It requires an STO development company to appoint a Malta Financial Services Authority (MFSA) approved VFA agent who will regulate their STO. You need to report to this agent on a regular basis.



## Canada

Canada is also one of the leading supporters of the crypto revolution. Any organization launching an STO in Canada has to comply with the Canadian securities laws. Canadian crypto laws are quite similar to US laws. Also, the STO compliance costs in Canada are almost as high as those in the US.

The Canadian Securities Administrators (CSA) use a test similar to the Howey test to define what constitutes as a security in Canada. In 2018, the [Canadian Securities Administrators \(CSA\)](#) published a further Staff Notice casting light on Securities Law Implications for both, security and utility token offerings.



## The United States of America

The United States of America is renowned for its strict securities regulations. The Security and Exchange Commission (SEC) uses the [Howey Test](#) to define if an investment contract is a security or not. The following are the most prominent regulations governing STOs on US soil and its territories.

### Regulation D

- There is no need to register your STO with the SEC.
- As per Section 506C, only accredited and verified investors can participate in your STO.
- You have to file Form D after selling the security tokens.

### Regulation A+

- It was amended in 2015 from Reg A to Reg A+.
- You can sell SEC-approved security tokens to non-accredited investors as well.
- You can solicit up to \$20 million in 12-months in Tier 1 or up to \$50 million in Tier 2 in 12 months.
- It involves intensive SEC reporting.
- It is also the most expensive STO option.

### Regulation S

- Your STO gets an exemption from the registration requirements of Section 5 of the Securities Act of 1933.
- You must launch the STO outside of the US and its territories.
- It must comply with the securities regulations



## Switzerland

Switzerland has been a financial and banking haven for decades. Also recognized for its low taxes and business-friendly governance, the country is fast becoming one of the most popular crypto destinations in the world. The Swiss Financial Market Supervisory Authority (FINMA) regulates all the security and utility token-related companies and transactions in Switzerland. It offers guidelines on the classification of tokens into payment, utility, and asset tokens.

An asset token represents assets including businesses, income streams, dividends or interest payments. As the existing law defines securities according to their form and not their function, these tokens are considered similar to equities and bonds.

FAS is established in Hong Kong and provides business development services to startups and companies willing to evolve in the exciting blockchain ecosystem. FAS offers include strategic development and tokenisation best practices, risk management and stress testing, strategic planning and IEO/STO preparation.

FAS can rely on a strong network of professionals from different areas and expertise and connect with investors and accelerators worldwide. Believing in decentralisation, we apply this ideal to our business strategy by having consultants available at any time all over the world. Thinking out of the blocks is our motto.

[www.fintech-advisory.com](http://www.fintech-advisory.com)

