

# Why to conduct an STO: a mechanism that benefits issuers and investors

TOKYO, JAPAN, December 19, 2018 /EINPresswire.com/ -- Regulation of cryptocurrency is a hot topic today not only in the USA or China but globally. Most supervisory authorities, including SEC, have started investigating utility tokens to find out which of them are in fact securities. As a result, blockchain companies have to prove the nature of their tokens not only to the regulators but even to crypto exchanges. The market is fading without new solutions.

More sophisticated STO mechanism slowly but steadily replaces ICO's hegemony, that benefits both investors and issuers. It is considered a fresh impetus for the crypto market that brings security and transparency to a whole new level.

What is the difference between an ICO and STO? And what a venture should consider when conducting an STO?

## Utility tokens vs securities

An actual utility token represents future access rights to a company's products or services. Meanwhile, a security token refers to a financial active that confers rights to income, assets or even dividends of a business.

The purpose of security tokens is mainly to protect investors from scam projects. In the case of ICOs, participants almost have no possibility of taking legal actions against the fraudulent firm, because ICOs are unregulated fundraising events.

Note: ICOs do generally lack regulation, but not so long ago Malta and Bermuda, for example, have passed legislation, according to which ICOs will be treated as a restricted business activity which will require consent from the Minister of Finance.

An STO, in turn, is fully regulated. There is a list of limitations and restrictions that a company and potential investors shall meet. It varies depending on the location and jurisdiction. Companies have to comply with the laws not only of the country of issuance but also of the territory of the investors' location. Some countries ask companies to file an offering prospectus to the regulator to be able to invite investors to purchase securities.

Note: Before conducting an STO, it's necessary to carefully select the country where to issue securities and where to sell them.



## Types of security tokens

Security tokens can be divided into several types, such as equity, debt, derivative or a commodity.

Debt Tokens represent debt or cash-generating vehicle.

Equity Tokens represent an equity position in an underlying asset. They may give the holder the right to vote or not. Also, investors purchase them as a form of anticipating future returns. If the company's profits increase so will investors' gains. In case a company doesn't want to share any kind of partnership, then it should be stated in the smart contract.

Hybrid/Convertible Tokens can convert between debt and equity based on their behavior.

Derivative Tokens represent a digital asset backed up by a physical active, such as silver, gold, car, etc.

## STO pitfalls

However, neither companies nor investors should consider such strict regulations as a problem. Despite its severity, STOs offer a higher level of investors' interests protection and important risk mitigation for an issuer. STO focuses on professional and institutional investors meanwhile, ICO is more like a fundraising mechanism, whose characteristics don't allow them to participate.

In contrast to an ICO, STO gives the rights to own an equity share in a company that will be backed up by real assets. This, in turn, implies that if a company wants to issue security tokens, then local laws must be satisfied. For example, an enterprise should register the STO with the local securities regulator and give all the required information, disclosing almost every detail of the business, just like in case with IPOs, Initial Public Offerings.

Unlike ICOs with utility tokens, KYC/AML requirements for STOs are a bit stricter. For ICOs, KYC is a one-time thing, meanwhile for companies with securities it is a lifetime responsibility to know who the owner of the securities is and where they come from at each point of time. Thus, governments try to combat the money laundering, to sanction terrorists, criminals and people who accept illegally obtained funds.

Furthermore, STO companies can't advertise the asset publically, as it can be considered as a violation of certain laws.

Companies launching STOs should comply with an extensive list of rules. Projects need to introduce special conditions to the smart contracts to ensure their fulfillment. Thus, only those investors who fit the requirements will be able to purchase security tokens.

## In conclusion

STOs have just begun to conquer the market, but they have already attracted traditional stock exchanges, including NASDAQ or NYSE that are [looking](#) for a gateway to list security tokens.

STO is a complicated process to pass through, and several companies consult on the procedure. [Platinum](#) is an international full-cycle agency that leads an issuance of securities from the beginning till the end. Platinum team includes over 100 professionals with 3 years experience in the crypto industry and 7 years in financial markets. The company has already consulted over

700 projects and helped to collect \$200M+.

For more information on STOs, please visit Platinum [website](#) or leave enquiries on Facebook.

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