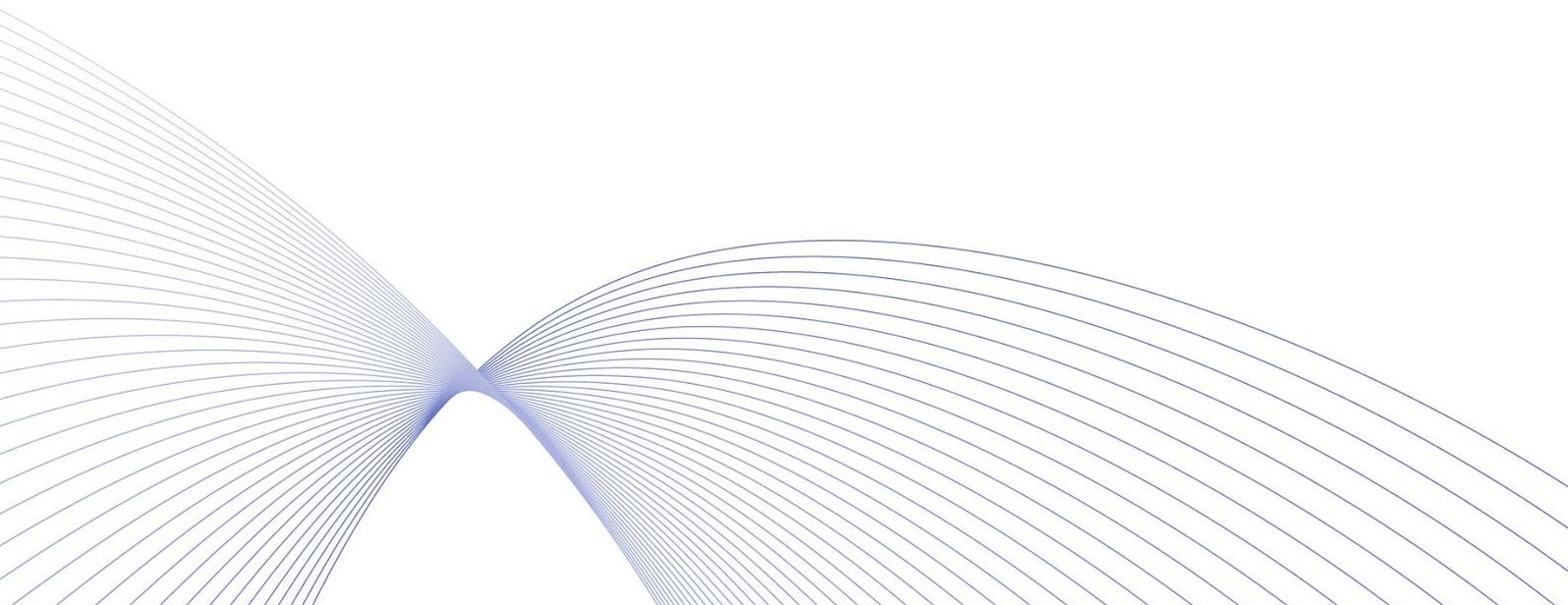


November 1, 2018

# Security Token Future



# Conference Highlights

- 1. Panel: Recent Development in STO Exchange**
- 2. Keynote: US Regulation on Digital Assets.**
- 3. Keynote. Decentralized Regulation System for STO**

## Panel: Recent Development in STO Exchange.

- STO means digital representation and refers to the capital market. At the same time, the ICO market could be treated as a product market, where technically there is no investment, as participants purchase a service or a product.
- Within the capital market the regulation is required, as investors have an expectation of the return of the investment, and this expectation could be affected by an asymmetry of information. It is critical to rely on the experience of the investor, his/her awareness of the risks and access to the information about the project. This awareness and confidence could be confirmed by a smart contract audit.
- There is no generally accepted regulation in terms of security token offering, initial token offering and digital assets.
- Some regulators are already made some steps towards changes of current legislation of digital assets, Malta is an example here.
- In the current terms market participants have to deal with existing regulation for crowdfunding platforms, private issuances and credit investors.
- If the project would like to conduct a STO, it should follow private placement rules. In case the project would like to conduct a public offering of security token, it should conduct this offering via authorized exchange.
- Due to the global nature of STO, participants, in particular exchanges, have to meet the requirements of several jurisdictions.
- This compliance should be meet both on token level and on exchange level. Investors should comply with the regulation of the country that is used for the token issuance, as well as be treated as qualified investors according to the local jurisdiction.
- As regulation is under active development, rules of security token offering need to take into account these changes within the token lifecycle.
- To broad the adoption of the security token, as an instrument, exchanges have to deal with broker-dealers and other licensed entities.
- The main focus of STO exchanges is to add liquidity to the traditional capital market, applying best practices to the blockchain market.

- It is assumed that there is enough space to deal with and enough technology to implement in the industry. So the goal of STO market participants is to find the niche, where the blockchain technology could be more useful and add more value.
- It is expected that more institutions will deal with security tokens within one year. The expansion probably depends on the acceptance of this asset placement method by regulators in terms of its benefits.

## Keynote: US Regulation on Digital Assets.

- Complex regulatory gaps and overlaps between Federal level regulation in regard to AML/KYC.
- A lack of a unified approach to aspects like money transmitter license (MTL).
- Nearly all states require MTL, but state regulation is highly uneven and New York is the only state requiring the license specifically for virtual currency.
- The main targets are to promote a safe, efficient, stable and transparent market, as well as ensure enough oversight at an early stage to help space grow responsibly.
- This actions should take into consideration the protection of investors and consumers and the prohibition of fraud and money laundering.
- If the token is treated as a security, the token exchange and promoters are required to comply with broker-dealer registration requirements.
- Broker-dealer has to be registered with the Financial Industry Regulatory Authority (FINRA).
- Alternative Trading System (ATS) as NYSE is a subject to extensive disclosure obligations regarding their ownership, operation and rules.
- In certain circumstances, an ICO issuer could become an “investment company” under the Investment Company Act, and be a subject to regulation as a mutual fund, if the issuer is deemed to hold investment securities with the value exceeding 40% of its total asset.
- Exemptions of Registration Requirements include Regulation A, Regulation A+, Regulation D and Regulation S.
- Regulation A: a public offering of securities that do not exceed \$5 million in any one-year period.
- Regulation A+: raise up to \$50 million in a 12-month period using a “public solicitation” of its shares and have the offering be exempt from SEC and the state securities registration.
- Regulation D: private placement that engages either Safe Harbor (no advertisement) or Accredited Investors.
- Regulation S: offer and sale are made outside of the US, to non-US persons.

## Keynote. Decentralized Regulation System for STO.

- The regulation in a traditional financial market is expensive. Regulatory rules vary depending on the asset type, investor type, buyer jurisdiction, and require a separate set of records to verify ownership and compliance of the transaction.
- The quality of information disclosure within the centralized regulation system is not high, while the possibility of corruption is high, as review power is overly concentrated.
- Preparation for the IPO could take several years and require review from the regulatory body and support from various agencies.
- STO projects interested in decreasing regulatory costs. New software products are appearing to make the process easier. An example here is TokenSoft.
- STO projects face difficulties to comply with all national regulations and lack of opportunity to achieve global mobility.
- The possible solution to deduct costs and democratize the process is to establish a new form of the investment bank, that used blockchain technology and based on the decentralized regulation system, decentralized underwriting system and decentralized liquidity support.
- Asset Token Offering refers to the tokenization of real assets, where the business should be highly digitalized and strongly realize social cooperation path.