

Joint Newsletter

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1. What is an STO?
2. What are the advantages of an STO over traditional issuance programs?

Many of our customers are currently asking us what the benefits of a Security Token Offering (STO) are. They see more and more market participants getting involved in STO deals. But what is a STO? What are the benefits for me and my customers?

Answers to the 5 most frequently asked questions.

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3. What are currently the biggest challenges for issuers and investors in the STO market?
4. Will financial institutions become obsolete when block-chain technology takes over?
5. What financial instruments to choose from legally / for tax purposes? (Note/Share/Fund Unit/Derivative/influence of taxes)

1. What is an STO?

STO stands for Security Token Offering and describes the process of issuing digitized securities via the primary market to finance projects or assets. Another term for Security Token is therefore Asset Token.

The term is a reference to the term IPO (initial public offering), which is more familiar to traditional investors and is used in connection with the initial offering of shares to the public.

In contrast to an IPO, the term STO includes other types of securities in addition to shares. Such as bonds, fund units or derivatives.

In summary, it is a fund-raising activity using blockchain technology. All "securities" are created and mapped on the blockchain in the form of a token.

2. What are the advantages of an STO over traditional issuance programs?

The Blockchain is in most cases a decentralized operated system, which is forgery-proof and does not depend on the opening hours of an operator. As a result, investors and issuers are free to initiate and settle their transactions 24/7.

Smart Contracts can also be used to embed intelligent functions that automatically and independently take over important regulatory obligations or sales restrictions. This reduces the susceptibility to errors and increases efficiency, which ultimately has a positive effect on transaction costs.

One of the most important advantages is the immediate settlement, which can even be guaranteed in the absence of a classical intermediary/trustee.

3. What are currently the biggest challenges for issuers and investors in the STO market?

Although in large parts of the world there is a great movement in the area of regulation and legislation for crypto assets / security tokens, there are still reservations about the technology, especially in the institutional sector. Thus, one of the major drivers for a successful capital procurement is still missing.

In order to attract institutional investors to block-chain based securities issuances, the financial market infrastructure must continue to develop. This includes, above all, regulated markets exhibiting deep liquidity as well as selection of reputable custodians.

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It is particularly important to have a professional partner at hand for compliance with regulatory requirements and for investor protection purposes. Moreover, these token transactions are still securities transactions in the true sense of the word. Before the information in digital form is put on the block chain, professional advice is certainly recommended.

However, block-chain technology will certainly have an impact on the service offerings of financial institutions.

The most important part is strict compliance with due diligence obligations and measures to prevent money laundering and terrorism financing. Financial institutions as well as regulated crypto-asset service providers will have to develop into trusted "gatekeepers", as already in the traditional world, to ultimately protect the integrity of the new financial markets.

5. What financial instruments to choose from legally / for tax purposes?

In principle, a security token is merely a "container" for a security – e.g. bond, share, fund unit or Derivative - or shared ownership in an asset. In terms of the rights and obligations of the issuer and investor, there are no differences to the classic "world" - which can still be a major challenge for the purpose of structuring and implementation at times. Depending on the Jurisdiction and financial instruments Legal and tax advice remains key.

However, in contrast to previous processes, there is great potential to improve the efficiency and transparency of transactions.

You would like to issue your own Security Token Offering? Please contact us!

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