Design a Framework of Security Token Offer (STO) Tokenize Platform Under Local Legislation

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Security token offering (STO) is a type of fundraising that is performed with a company offering investment product/service via blockchain technology and tokenized securities.

STOs would be a process to traditional assets to blockchain. When ICOs are conducted with cryptocurrencies and IPOs with securities, STO is a combination of both.

A tool of combining block-chain and crypto currency technology
Security Token Offer (STO)

ICO : Initial coin offering
IPO : Initial public offering

Howey Test :
1. An investment of money
2. With the expectation of profits
3. In a so-called “common enterprise”
4. Any profits come from the efforts of a promoter or third party
Funding

- **ICO**
  - Crypto pay
  - Share product/token
  - No regulation
  - Short process
  - Low cost

- **IPO**
  - Money pay
  - Ownership
  - Share profit
  - Strict regulation
  - Long process
  - High cost

- **STO**
  - Money & Crypto pay
  - Ownership
  - Token/product promotion
  - Share profit
  - Regulation?
  - Short process
  - Low cost

- **Crowd Fund**
  - Money pay
  - Regulation
  - Share product
  - Low cost
ERC 1400: Security Token Standard

- Managing of ownership
- Transfer restrictions
- Providing transparency to token holders on how different subsets of their token balance
- Transfer restrictions, rights and obligations.
Other Related Standards of STO

• ERC-1594: Core Security Token Standard
• ERC-1410: Partially Fungible Tokens
• ERC-1643: Document Management Standard
• ERC-1644: Controller Token Operation Standard
Major Reasons to Make Business Case for STO to exist

- Elimination to 3rd party services
- Cost reduction
- Liquidity
- 24/7 markets
- Programmable
- Fractional ownership
- Stability
- Larger investor base
- Global assets
- Transparency
- Compliance automation
- Preferential treatment
- Compliant with securities and KYC/AML regulations
USA Regulations

- U.S. Securities and Exchange Commission (SEC) issued a report on ICOs and "token sales" used to raise capital for investments in projects and stated the conditions for when tokens offered in these ICOs were securities and therefore subject to the federal securities laws.
- The SEC noted that not all tokens are securities and applied its three-part Howey Test to define an investment contract.
- Reg S, Reg D (Rule 506(B), Rule 506(C), Rule 504)

EU Regulations

- According to European Securities and Markets Authority (ESMA) token is considered to be a security token if it is classified as a “transferable security” according to Markets in Financial Instruments Directive (MiFID II) Article 4 (1)
- New Prospectus Regulation (Regulation 2017/1129) stipulates that each Member State has a right to apply national law for public offerings where raised amount is in range of EUR 1M and EUR 8M during period of 12 months.

TR Regulations

- Crowd funding:
STO Tokenize Process

Project Definition
- Firm profile
- Risk
- Min investment size
- Rights
- Limits
- Supported documents
- Legal disclaimer

Marketing
- Milestones
- Return on investment ratio
- Net profit
- Market analysis
- Government grant
- Bank credit
- Promotions

Securities
- KYC/AML
- Accredited investors
- Qualified investors
- Howey Test

Token Issuance
- Fund rising
- Smart contract
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BC Network
- Token Issuance
  - Fund rising
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Improved STO Tokenize Process

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- SPK Regulation

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**Monitoring and Controlling**
- Financial report
- Risk report
- Product verification report
- Milestone confirmation

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**Initial Funding**

**Voting**

**Milestone Based**

**Fund Release**

**BC Network**

**How to fund**

**Attribute**

**Digital ID**

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**Rights**

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- SPK based reporting
- A new approach

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- Cyber security test
- ERC-1400 Certification

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- Stock market
- Fund management
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Bank pay?

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- 3rd part Certification
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BC Network Integration Diagram
BC Network Entregation

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Conclusion

• Definition of real time internal audit process for block chain applications
• SPK regulations for STO
  • Investment size
  • Investor qualification
  • Investment duration
• Digital ID management system implementation
• Applicable crypto currencies
• Platform certification authority
• Stakeholders
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