

April 2022

Security Token Offering (STO) 101

Introduction

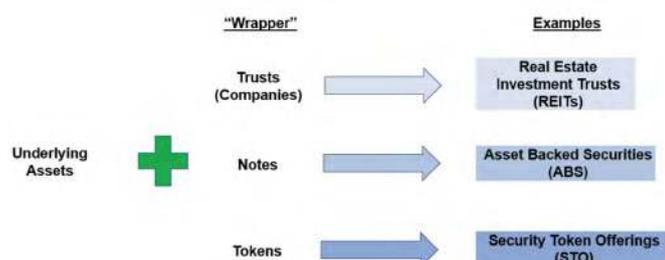
With the advent of blockchain technology since 2009, the market has seen the increasing adoption of the tokenised economy, including the creation of various forms of tokenised assets.

One of these categories is what is known as Security Token Offering, or STO, in short.

Security Token Offering (STO): Evolution

What is a Security Token Offering (STO)?

An STO may be viewed as tokens issued using blockchain technology, that are digital representation of rights to underlying assets. As a simplified analogy, the token may be viewed as “wrapper” on the underlying assets, as we witness its evolution similar to other “wrapper” forms previously.



Real Estate Investment Trusts (REITs)

For example, in the 1960s, the U.S. established the Real Estate Investment Trusts (REITs) to allow retail investors access to the various real estate investments, which were previously available only to large financial intermediaries and wealthy individuals, due to their very high investment amounts. Trusts (companies) were set up as “wrapper” around real estate properties. These REITs could then be listed and traded on stock exchanges.

Asset Backed Securities (ABS)

Subsequently in the 1980s, the market issued Asset Backed Securities (ABS), whereby Notes were issued as “wrapper”, that were backed by underlying assets such as home loans, student loans, auto loans, credit card receivables, etc. These Notes could then be traded on the secondary market.

Security Token Offering (STO)

Fast forward to the recent period, tokens (from STO) are issued as “wrapper” on underlying assets, and these tokenised assets can be listed and traded on Digital Asset Exchanges.

Note: This article is only intended for general reading. Under no circumstances is it to be relied upon in substitution for specific advice on any issue(s) that may arise relating to its subject matter.

STO: Underlying Assets

One of the advantages of STO is the flexibility in tokenising a wide spectrum of underlying assets:

- (a) **Companies shares and debts:** Mortgages, project financing;
- (b) **Investments funds:** Traditional mutual funds, hedge funds, crypto-strategy funds;
- (c) **Physical assets:** Real estate, certain floors/space within properties;
- (d) **Luxury assets:** Watches, art, precious stones;
- (e) **Cashflows:** From properties such as rentals, projects.

STO: Advantages

In addition to the advantage mentioned in the section above, some of the other advantages of STO include (not exhaustive):

- (a) **Fractionality:** High investment amount assets can be fractionalised and owned by a wider pool of investors;
- (b) **Speed:** Origination, issuance and listing of STO may be done at a shorter time period than other traditional investments;
- (c) **Costs:** Origination, issuance and listing of STO may be done at much lower costs than other traditional investments.

STO: Generic Process for Tokenised Assets

A summary of a simple, generic process for STO, from deal origination to its eventual listing on a Digital Asset Exchange may be represented as follows:

PARTY	STEPS	PARTY
Deal Originator (DO)	1) Asset Owner provides underlying details to DO	Owner
	2) DO conducts Initial Assessment of asset	
	3) If accepted, DO gathers initial Investor interest.	Investor(s)
	4) DO conducts Due Diligence on asset	
	5) DO negotiates and finalises asset price between Owner and potential Investor(s)	Owner/Investor(s)
	6) DO sets up sub-fund to acquire asset	
	7) DO decides which Digital Asset Exchange to list Security Token Offering (STO)	
	8) DO works with Digital Asset Exchange to issue STO	Digital Asset Exchange
	9) STO listed on Digital Asset Exchange	

As shown by the above diagram, the STO steps are similar to Initial Public Offering (IPO) in shares, except for two main differences: the issuance of tokens (instead of shares), and the trading platform on Digital Asset Exchange (instead of stock exchange).

Note: This article is only intended for general reading. Under no circumstances is it to be relied upon in substitution for specific advice on any issue(s) that may arise relating to its subject matter.

Conclusion

With the continuing development in blockchain technology and Web3 (World Wide Web based on blockchain technology), which incorporates concepts such as decentralisation and token-based economics, there is no doubt that STO as an asset class will advance further, including but not limited to, other ancillary products linked to it, e.g. lending, staking of these tokens, etc.

Stay tuned to this exciting space!

About the Author



Ben Tai, CFA, CPA (Aust)

Head of Product and Business Development
RHT DigiCapital
ben.tai@rhtgoc.com
+65 6381 6349

Ben Tai is the Head of Product and Business Development of RHT DigiCapital. He has extensive experience in Asset Management, Wealth Management and Investment Bank, with business development experience across Southeast Asia, China, Hong Kong and Taiwan. Ben has previously worked in financial institutions such as UBS, Citibank, Merrill Lynch, Lehman Brothers, and Allianz Global Investors.

About AIDigi Holdings

The AIDigi Group combines proven expertise and deep experience across capital markets, blockchain technology and intellectual property to deliver next-gen digital finance solutions through the following subsidiaries/ proposed subsidiaries:

- RHT Capital
- RHT DigiCapital
- RHT i-Assets Advisory

The AIDigi Group leverages its proven proprietary institutional grade technology to deliver digital asset solutions across multiple asset classes and sought-after alternative investment products. As part of the ONERHT Universe of multidisciplinary professional services, the AIDigi Group has access to a wide range of expertise including sustainability to add value to its digital asset solutions.

Disclaimer: The ONERHT Universe offers multidisciplinary professional services represented by a synergistic platform of brands, which include RHT Consulting Asia, associated companies, and networks. Collaborating as ONE, we seek to be a beacon of growth for our clients, stakeholders and communities, empowering them to achieve purposeful growth in Asia and beyond.

Third Party Links: This publication may contain links to articles on external websites. Please note that the Privacy Policies on our websites do not apply to such external websites and the operations you perform on those websites.