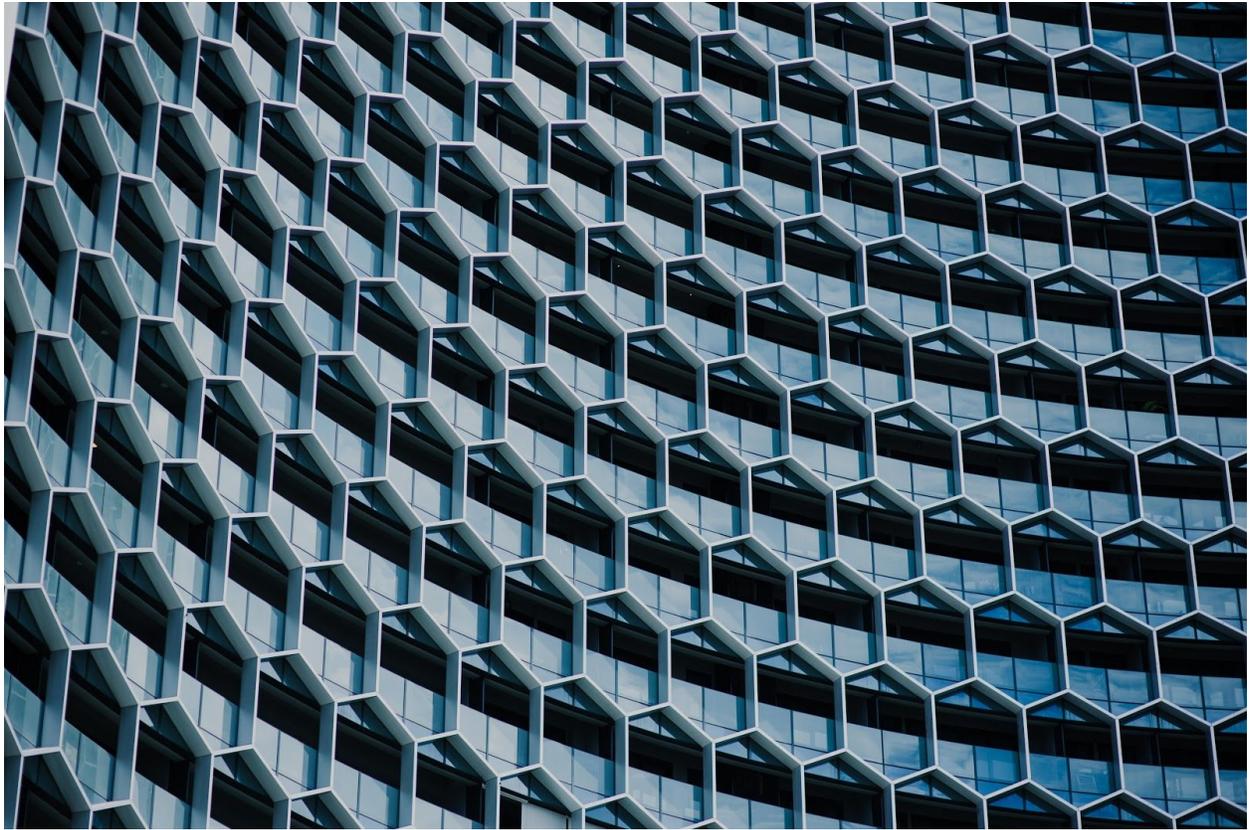


Title: Are STOs the Answer to ICOs Problems?

Subtitle: STOs offer a more regulated approach to ICOs.



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Initial Coin Offerings (ICOs) grabbed headlines throughout most of 2017 and 2018. The term itself became a buzzword for a fast cash infusion for blockchain-based businesses before degenerating into a synonym for shady, oversight-free business practices and scams.

According to a study by crypto-asset consulting firm Satis Group, [approximately 80 percent of ICOs conducted in 2017 were fraudulent](#) in some way. Even so, the majority of these ICOs received very little funding in the first place.

For established investors, ICOs represent a dangerous, unregulated environment where anything goes. Even if robust, trustworthy ICO platforms exist, the sheer number of fraudulent, incompetent, or simply unprofitable examples serve to steer professional investors away from the idea.

Security Token Offerings (STOs) now promise an alternative. STOs operate along similar lines to ICOs but have the distinct advantage of being subject to regulation. This may make the STO environment far more conducive to legitimate business than its predecessor while lowering many of the barriers to entry that startups face when considering traditional stock options.

STOs versus ICOs

ICOs can generally be described as a fundraising exercise designed to sell borderline securities to non-qualified investors without following the [licensing rules of the Securities and Exchange Commission](#) (SEC). In this environment, delivering on the promises of the ICO was a secondary concern – if it existed at all.

This system worked while the overall cryptocurrency market was making huge gains. An ICO based on Ethereum or Bitcoin is virtually guaranteed to post enormous gains . . . as long as Ethereum and Bitcoin continue to grow in value. The actual software or solution being marketed didn't have to do anything in order to generate value – which is a red flag.

STOs refine the ICO concept and bring it closer in alignment with the Initial Public Offering (IPO) upon which the entire speculative cryptocurrency market is nominally based. Unlike ICOs, STOs are subject to regulation and follow strict rules concerning ownership, value, and investment capability.

While ICOs are backed by *potential* assets that didn't necessarily have to exist at the time of the ICO, STOs are backed by *actual* assets that exist in the real world – like company stocks and properties. This critical difference between potentiality and actuality is what makes STO regulation possible.

STOs operate much in the same way traditional stock offerings do. The primary difference is that stocks represent ownership information in document form (which is subject to mishandling and forgery), while STOs record ownership information to a blockchain ledger and issue tokens, mitigating the risks of both ICOs and traditional stock offerings while remaining compliant with security exchange regulations.

What Issues Do STOs Resolve?

STOs represent a far lower risk to investors than ICOs. STOs must comply with regulations that require transparency and accountability while backing each security token's value with a real-world asset. These factors make it easier for investors and regulators to determine whether the token is priced fairly in relation to its true value.

At the same time, STOs require developers to implement blockchain-based infrastructure, allowing for more flexible long-term adoption of blockchain-based technologies. STOs permit fractional ownership and 24/7 trading of assets that would otherwise be considered illiquid – such as collectibles, paintings, and other unique properties.

Although STOs are more expensive than ICOs – maintaining compliance requires time, money, and energy – they are nonetheless far more accessible than traditional stock offerings. If a FinTech company wants to go public the traditional way, it must work through a complex labyrinth of banks, brokerages, and lawyers to do so. Security tokens streamline this process while maintaining regulatory compliance.



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STOs From the Investor's Standpoint

Institutional investors will not entertain the idea of investing in non-compliance, high-risk offerings that provide no underlying collateral. Without institutional investors, there is nothing to prevent market volatility, yet these investors play a critical role in stabilizing volatile markets.

By reducing risk and introducing underlying assets into the value equation, STOs offer a compelling middle ground between unreliable ICOs and high-cost, low-impact traditional stock offerings. These advantages can play into the strengths of entrepreneurs and startups, especially in the FinTech space, while minimizing investors' exposure to risk.

However, STOs don't enjoy global acceptance the way traditional stocks do. The alternative trading system that security tokens rely on is only barely gaining traction in the European Union (EU) and most

of Asia. It will take time for security tokens to evolve into a globally accepted hybrid market launch for institutional and individual investors the world over.

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