

Security Tokens - The Future of Cryptocurrency

Any series of articles about Blockchain would go blatantly incomplete if one were to exclude cryptocurrencies from the picture. Hence, in this second article about Blockchain, we've decided to share our views on security tokens and why we believe that they could be the future of cryptocurrency.



But before we delve into the actual details that constitute the promise of security tokens, let's take some time to set the right context for this blog post by looking at one of the hottest crypto topics of 2017 - ICOs.

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The problems with ICOs

Everyone has heard about them at some point, and rightfully so - ICOs became the #1 method of funding blockchain companies in 2017.

But what exactly is an ICO? And what could explain the boom that we have come to see in 2017?

An ICO (Initial Coin Offering) is a means of crowdfunding that allows startups to raise capital from multiple sources by selling investors (or users) digital tokens or "coins," instead of ownership shares.

Despite the fact that a fair number of ICOs have been genuinely good opportunities, a few of them have proven to be extremely problematic.

The major problem with ICOs isn't just that most of them are scams - it's also that many of the utility tokens offered are actually securities. In July 2017, the U.S. Securities and Exchange Commission (SEC) released a report stating that certain tokens were eligible to be classed as securities, and would, therefore, be subject to regulation.



Following this clampdown, it has becoming increasingly likely that security tokens will soon become the next big cryptocurrency trend.

Despite the fact that security tokens represent a much lesser share of the market than utility tokens, multiple leading experts believe that this will no longer be the case as 2018 progresses.

In fact, a ton of capital is expected to flow into the security token ecosystem from wall Street. And the reasons for this drastic shift are primarily centered around regulations and compliance.

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Security Tokens vs. Utility Tokens

Before we move forward and discuss the benefits of security tokens, let's set things straight and take a quick look at the major differences between security tokens and utility tokens.

A **security token** is subject to federal securities regulations. It is one that has been backed by external, tradable assets. One of the main applications of security tokens is that they grant companies with the ability to issue tokens that represent shares of company stock.



A **utility token** represents future access to a company's product or service. It is not designed to be an investment.

The key difference between security and utility tokens is that security token holders are entitled to ownership rights, whereas utility tokens function as coupons and give holders no rights or stake in a company's platform or assets.

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Benefits of Security Tokens

The main upside of security tokens is that they equally benefit both the traditional finance sector and Blockchain. This is because assets shared via tokens already exist in the traditional market - even the biggest markets like public or private equity and real estate.

But that's not all, issuing security tokens that abide by regulatory frameworks is proving to be both cheaper and more efficient than conducting an ICO using utility tokens. The enforcement initiatives put in place by the SEC not only reduce the legal risk but they also provide protection for both the company and the contributors.

This being said, the biggest problem from an investor's perspective at the moment is the fact that once the SEC released their guidance in July 2012, every major cryptocurrency exchange made it clear that they would not list any token deemed to be a security token. And this is because listing a security token would mean that the exchange could possibly find itself in violation of the SEC regulations, and that is a risk no exchange has been willing to take.

As a result, investors have nowhere to go get liquidity. But this is gradually changing as we speak. Several platforms are launching during the first half of 2018 to provide end-to-end solutions for security tokens to launch with full regulatory compliance, hence paving the way for a more regulated and efficient crypto market.

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Our [Scrum as a Service model](#) has helped our clients harness the power of Blockchain and rapidly turn their ideas and concepts into working, demonstrable software. And we'd love to help you do the same.