

WRAPPING UP A YEAR IN DIGITAL SECURITIES:  
SPECIAL 2019 ISSUE

# Digital Securities Essentials for Business

Your guide to digital securities  
and tokenized capital markets

■ ■ *Are security tokens the securities of tomorrow? The answer is yes!*

**Deloitte.**

**stobox**

2019 has been an extremely productive year for digital securities. We have seen HSBC bank moving \$20 billion worth of assets on blockchain, German government releasing its blockchain strategy embracing the technology, Japanese financial giants like Nomura and SBI Securities teaming up to facilitate adoption of tokenization as a fundraising method.

Tokenized securities are an innovative form of financial instruments, enabled by the Distributed Ledger Technology, designed to reduce overheads associated with traditional securities and allow businesses to attract capital from a much wider pool of investors.

Due to these features, tokenization is starting to get increased attention from SMEs, investment funds and traditional financial institutions all over the world.

Some promises like liquidity might not have been fulfilled yet, but we are already seeing real life proof for the technology benefits.

Stobox has been your guide to this rapidly evolving industry. Every month we deliver the latest news about the digital securities industry to your inbox, doing our best to let you know today what the capital markets will look like tomorrow.

For this edition, we selected the most important industry trends to sum up 2019, and teamed up with 20 leading experts to provide you with a comprehensive forecast for 2020.

Best regards,

**stobox**

# Digest highlights

- Corporate giants and financial institutions adopting blockchain
- New blockchain legislation and regulatory clarity
- Massive adoption of digital securities in Asia
- World's first: landmark tokenization deals approved by local regulators
- Real estate and tokenization: match made in heaven
- Secondary market for digital securities: stock exchanges stepping in
- 20 forecasts for 2020 from digital securities industry experts

# Corporate giants and financial institutions adopting blockchain

The world's biggest banks, financial institutions and software developers have been actively exploring applications for blockchain technology since 2017.

In 2019 many finally started to roll those out with real corporate use cases for asset management, international transfers, tracking supply chains and other areas, where the technology brings in the most value due to its transparency, immutability and operational efficiency.

As the benefits of the technology are becoming hard to ignore, by the end of 2019 almost every major financial institution has a "Head of Digital Assets" position, responsible for applying benefits of tokenization for the corporate needs.

This year we have seen a large number of use cases for digital securities, either pilot tests or massive implementations. Here are the most important ones that happened in 2019:



In November, HSBC Bank [announced](#) its plans to replace existing paper-based records with blockchain to track \$20 billion worth of assets – roughly 40% of its entire assets.

## TOKENIZED ASSETS NEWS



Caliber Home Loans, one of the biggest mortgage companies in the U.S. (over \$30 billion of loans originated every year) **began** lending on blockchain



In September, a Spanish banking giant Santander **issued** a \$20 million bond on Ethereum blockchain and **redeemed** it in December.



The first live transactions on the Deutsche Börse securities lending platform were successfully **executed** by Commerzbank, Credit Suisse and UBS



JP Morgan, Microsoft, IBM, Santander and other collaborated to **launch** the Token Taxonomy Initiative – business consortium aimed at establishing a set of terms and definitions for tokens.

## New blockchain legislation and regulatory clarity in Europe

As the use cases for distributed ledger technology keep appearing and prove to be successful, the need for regulatory clarity becomes more pressing.

In the countries with common law system like the United States the legislation is more flexible, often defined by court precedents, which allows digital assets to fit into the existing framework more easily. This is one of the primary reasons why the US is currently the leading jurisdiction for digital securities offerings. The continental law (in European countries), instead, requires separate legislation or guidance from competent authorities in order for digital securities and other innovative financial instruments to obtain a defined legal status. In 2019 we've seen European countries starting to introduce such legislation and guidelines to promote innovation and growth in the financial sector.

Following the interest of big corporations and financial institutions, in 2019 the majority of regulators have realized the necessity – not only to control and restrict – but to cooperate and to provide clear comprehensive framework for the establishment of infrastructure for digital securities, which can bring a significant increase in efficiency for capital markets.

## TOKENIZED ASSETS NEWS

Established frameworks and definitions in all jurisdictions is what the industry needs to move forward – and 2020 will undoubtedly bring in more clarity.



Luxembourg **became** one of the first European jurisdictions to pass a bill facilitating the use of blockchain technology in financial services. The new legislation granted digital securities the same status as traditional securities, taking a huge step forward.



German government **released** the national blockchain strategy, focused on digital securities, corporate finance and digital identity as the priorities in the DLT space.



The Crypto Valley Association **released** the tokenization paper: a document on digital securities and tokenized assets defining the process of tokenization for companies in Switzerland.



The European Securities and Markets Authority (ESMA) **published** its recommendations to the European Union institutions on crypto assets and initial coin offerings, clarifying the existing rules, as well as issues and gaps in the existing regulatory framework.



Financial Conduct Authority (FCA), the UK's financial regulator, **released** its feedback and final guidance on crypto assets.

# Massive adoption of digital securities in Asia

For a long time digital securities industry in the APAC region lagged far behind the United States and Europe. However, in few last months of 2019 the major players started to openly recognize the potential of the distributed ledger technology in the financial industry, resulting in a significant research and development activity on the market – especially in Japan. A distinctive feature of Asian digital securities market is that it is facilitated by large established financial institutions, while in the US and EU it is rather startup-driven.

Associations around digital securities are already a massive trend: in 2019, corporations and financial institutions have been teaming up to research and establish frameworks for the application of tokenization for fundraising and asset management that would be beneficial for the capital markets.

## Collaboration of key industry players



In October six biggest Japanese brokerage companies **established** Japan Security Token Offering (STO) Association with a goal to promote security token offerings as a fundraising model in Japan.



## TOKENIZED ASSETS NEWS



The Security Token Research Consortium, led by Japan Mitsubishi UFJ Financial Group (MUFG) was **established** with an aim to research and develop guidelines around tokenized securities. Other members of the consortium include NTT, Accenture, KPMG and Securitize.



Asia Securities Industry and Financial Markets Association, representing Asia's largest financial services providers and asset managers, **published** a roadmap for market participants and regulators about tokenized securities, highlighting the advantages of tokenization for financial industry.

## New projects and use cases



A major Japanese financial holding company Nomura Holdings and Nomura Research Institute (NRI) **announced** plans to develop a platform to exchange securities (starting with corporate bonds and other instruments to follow) on the blockchain.



Lead-Real Estate Co. LTD, a big Japanese real estate development company partnered up with a security token issuance platform Securitize to **fund** the development of hotels and condos via STOs ahead of the Tokyo Olympics in 2020.

## Regulation



Hong Kong's Securities and Futures Commission (SFC) **unveiled** its new regulations for fund managers investing in virtual assets, formalizing a framework that was put out in November 2018.



Representative of the Bank of China **stated** that China is preparing to allow security token offerings within a strict regulatory framework in 2020.

## World's first: landmark tokenization deals approved by local regulators

In 2019 we've finally seen regulators approving ever-larger tokenized public offerings, while previously companies had no other chance as to go with various private placement exemptions if they wanted to sell tokenized securities to investors.

As a general rule, regulators adopt a risk-based approach towards any new types of assets and technologies. The fact that comparatively large offerings are approved in countries with strict regulators means that digital securities are recognized as legitimate financial instruments that may be offered to the public. This is necessary so that bigger corporations consider issuing digital securities themselves, and financial markets create infrastructure for such issuances.



Decentralized computing startup Blockstack [raised](#) \$23 million in the first Reg A+ security token offering approved by the U.S. Securities and Exchange Commission (SEC). The project became the first one to be approved for a security token sale under Reg A+ ("mini IPO") by a local regulator.

## TOKENIZED ASSETS NEWS



INX Limited, a crypto and security token exchange, [plans to raise](#) \$130 million in the first IPO – tokenized securities sale registered with the United States US. The project announced the roadshow and scheduled the token sale for 2020.



Blockchain-based lending platform BitBond [raised](#) \$2.3 million in the first security token offering approved by the German regulator BaFin.



Following BitBond's steps, Fundament Group, a company focused on tokenizing real estate properties in the EU, also [received an approval](#) from BaFin – to conduct the offering of a digital security backed by a real estate portfolio worth EUR 250 million.

## Real estate and tokenization: match made in heaven

So far, real estate has been the most popular asset class to be tokenized. The reason for that is two-fold: 1) real estate is well-understood and attractive for investors, and 2) tokenization offers very clear benefits for real estate as an asset class.

Although the concept of real estate securitization is not new per se, DLT-based infrastructure creates opportunities for new securitization models. Previously it was mostly used for the debt financing of the real estate, because it is impossible to sell a non-securitized debt. Real estate tokenization is also used by developers in order to sell the existing real estate. It doesn't make much sense with common securities, because selling shares to a single or a few large buyers is not much simpler than selling a piece of real estate itself.

However, tokenized real estate may be sold to a large number of investors, which is impossible without securitization and which creates a strong use case for it. This is especially important on markets such as UAE, that experienced the boom of real estate construction, and are now suffering from declining profit margins and limited ability to sell the property.

## TOKENIZED ASSETS NEWS

Another use case in real estate is the tokenization of real estate funds, which allows them to reduce operational expenses and onboard smaller clients.



Seattle-based real estate investment firm iCap Equity **tokenized** \$100 million of shares in four real estate funds, allowing over 1000 of iCap's investors and 17 placement agents to compliantly trade iCap securities among each other – bringing in significant value compared to the usual 3-5 year lock up period for the investment opportunities iCap provides.



A major German real estate developer Bauwens (founded in 1873) **made a strategic investment** in a Berlin-based startup Fundament, that has received an approval for the blockchain-based bond backed by \$280 million worth of real estate assets earlier this year.



Real estate investment firm AssetBlock **announced** its plans to tokenize \$60 million worth of luxury hotel properties.



A consortium of Gulf families **will tokenize** over \$1 billion worth of real estate assets in UK, including a landmark Mayfair hotel in London valued at \$600 million.

## TOKENIZED ASSETS NEWS



Alliance Investments – a UK-based real estate investment company – **announced** tokenization of River Plaza, a luxury residential property in Manchester, UK, as a pilot project in company's plans to tokenize over \$600 million real estate projects.



Tokenized shares of a £12 million student accommodation block in Nottingham, UK were **sold out** to private investors.



Caribbean real estate company La Estancia Holdings **announced** the plans to hold the first security token offering in the region, tokenizing \$75 million worth of stakes in its investment portfolio. The goal is to ensure transparency and enable fractional ownership.



A fully integrated real estate investment firm Rhodium Capital Advisors **plans** to create a \$100 million tokenized real estate investment fund to better service global investors and provide the growing number of cryptocurrency investors with an alternative asset class for investment into the U.S. real estate market.

## Secondary market for digital securities: stock exchanges stepping in

Taking over the trend and to a large extent confirming it, major national stock exchanges are actively exploring digital securities: some trying out pilot projects and others going “all in” launching separate exchanges designed on the basis of distributed ledger technology.

They are interested, on one hand, in having a new asset class represented, and on the other – in enabling real-time settlement to reduce risk and operational expenses.

### New exchanges



Swiss Stock Exchange (SIX) – one of the leading European exchanges – announced and then [released](#) a pilot version of its digital assets subsidiary SIX Digital Exchange (SDX), to be fully launched in Q4 2020. Anticipating the launch, SDX is meanwhile offering its tokenized shares to a global consortium of investors to proof-run the concept and the technology.



Boerse Stuttgart, Stuttgart’s trading venue, and Axel Springer, Europe’s leading digital publisher, [partnered up](#) to launch a digital securities exchange.



## Investments and partnerships



The leading pan-European exchange Euronext acquired a 23.5% stake in tokenization technology services provider Tokeny Solutions for 5 million EUR.



Barbados Stock Exchange partnered up with Toronto-based startup Blockstation. The latter will provide the exchange with the necessary infrastructure to support digital securities.

## Test projects



Deutsche Boerse, Swisscom and three banking partners **successfully completed** a post-trade transaction settlement on blockchain of tokenized shares and tokenized cash. The partners further partnered up to build a trusted digital assets ecosystem.



London Stock exchange – one of the largest regulated exchange in the world – **allowed** tech company 20|30 to issue and sell its shares worth about \$4 million in a tokenized form in a pilot case.



Seychelles Security Exchanges (MERJ) national stock exchange **launched** the first tokenized IPO in the world, listing its own tokenized security.

## 2020 forecasts

**We asked 20 industry specialists what they are expecting from digital securities space in 2020.**



**Henri Arslanian**

Chairman of the FinTech Association of Hong Kong

- *Many believed that 2019 was going to be the year of security tokens. However, whilst there were a lot of positive developments, that did not happen at the speed or scale that many expected. In 2020, will be interesting to see if we see not only more projects move forward but if investor interest follows and the benefits of security tokens become more understood.*
- *The crypto industry has seen the rapid entry of institutional players in 2019. With increased regulatory clarity and client demand, I expect more financial institutions to follow in 2020.*



**Joshua Ellul**

Director at Centre for Distributed Ledger Technologies

Senior Lecturer at Department of Computer Science,  
Faculty of ICT University of Malta

- *Jurisdictions will begin to work towards regulatory harmonisation.*
- *Large players will implement services built on blockchain which will result in many end users and consumers using blockchain based services without the end users even knowing that they are using blockchain based services. End users will start to trust and use known services backed by tech giants.*
- *We will start to question to what extent decentralisation is needed, and will work towards hybrid models making use of necessary and ideal points of centralisation that interact with decentralised platforms.*



**Gene Deyev**

CEO at Stobox

- *Previously, digital securities were rather used for fundraising by startups that lacked access to venture funding, which did not contribute well to the image of the industry. However, in 2019, this way of financing started being recognized by other sectors, namely, SMEs expanding their operations, that can deliver significant returns without excessive risk. The lack of good projects is one of the limitations of the industry, as most investors don't have a high enough risk tolerance to invest in startups. The desire to overcome this limitation will lead providers of digital securities to pay attention to the SME sector. Furthermore, there are large opportunities in capital intensive industries, which may start being recognized.*

## FORECASTS FOR 2020



**Luc Falempin**

CEO at Tokeny Solutions

- *Cash will be tokenized this year. This is very important if we want to reach this liquidity, because on the blockchain you need two tokens: one to represent the security and one to represent the cash. If the cash is not tokenized in the proper way, it does not work*



**Yael Tamar**

CMO at SolidBlock

- *Because the market is still heating up, building rapport with institutional and larger investors, the most interesting tokenization trend of 2020 will be the convergence of the world of trophy properties with the world of alternative financing, including crypto networks. Tokenization will allow the use of real world assets as a collateral for lending, expanding possibilities for financing of asset acquisition and development. It's going to be an exciting year which will determine how far this industry is going to go.*

## FORECASTS FOR 2020



**Ilia Obratsov**

CEO at Smartlands

- *One trend that we expect to stand out in 2020 is the emergence of the secondary market for trading digital securities. The preconditions for that are already in place, especially in Europe where regulators and business are continuously finding common ground and creating solid conditions for the secondary market for tokenized shares. Due to that, institutional-level interest for the space is heating up lately; in 2020 we'll be seeing a lot more private offerings of digitised securities augmented with additional options for retail investors. In other words, in 2020 the space is to become a lot more inclusive.*



**Patrick O'Meara**

CEO at Inveniam Capital

- *We need to see value delivered in the form of ROI in 2020 for the digitization of private assets. This will come in the form of improved speed, greater efficiency, broader reach, and better data. Better data is where the greatest advantage lies and it is the shortest line to an ROI on the distributed ledger.*



**Xenia and Masha Vyazemskaya**

Co-hosts at ValueTokenized

- *In 2019 year we have seen more companies in digital securities space joining the efforts in educating traditional financial institutions and wider audience — by means of creating high quality content and launching new organizations. We believe that in 2020 the industry will understand its clients better, find new narratives and master the skill of explaining and educating. That, together with clarified regulation and launched secondary markets are the main drivers of adoption on a wider scale that we hope – and expect – to see this year.*



**David Benizri**

CEO at Rivver Inc

- *In 2020, I believe that the Digital Securities market will see at least 2-3 tokenizations of flagship assets worth \$100B and above, which will set the tone and create validation for smaller issuers moving forward. I also believe that we are seeing a shift from using “STO” as a fundraising gimmick, to tokenizing cap tables of existing issuances, specially in the private fund sector. We also believe that 2020 we will see a tremendous rise in the tokenization of Private Equity funds, given their increasingly long terms and high returns.*



**Bilal El Alamy**

CEO at Equisafe

- *I would love for 2020 to be the year when Europe creates a new uniform framework on “Digital Custodians” and creates a “EuroToken” which the European Institutions will launch a request for proposal that we’ll answer. This would encourage institutional investors and organizations to invest in and/or launch STOs. Digital securities are a new investment paradigm! In terms of infrastructure both technical and regulatory. They will be used for more granular securitisation than doing the same old funds that have a long list of intermediaries that capture 90% of the value creation, it’s called “un-bundling”. I do believe that there are industries where innovations and new companies can be funded faster using the Digital Securities offering mechanism. Since the mésopotamien era, the shares ledger evolved for rock to paper. Now, with the better resilience, audibility, programmatic features of blockchain will definitely set a new era of investment. I do believe in choice; I do believe in financial inclusion that will come with it.*





**Alexander Tkachenko**

CEO at VNX

- *Last year we witnessed a growth of interest to tokenization of traditional assets. In 2020 this trend will accelerate. I expect the number of deals will increase as well as the interest of institutional investors in this space. At the same time, I foresee clarification of regulatory landscape and more attention from the regulators to the crypto and security token operations, which is positive for the creation of the healthier market. For serious players investor protection, including compliance (KYC/AML), security and personal data protection are key priorities. I assume this will trigger development of new players with strong core competencies and specialization, which will complement the ecosystem.*



**Stefan Perlebach**

CEO at STOCheck

- *As of today we have 100 STOs listed on STOcheck. I believe this number will more than double in 2020 but it still will not blow up completely. We will see a few exchanges creating a secondary market for Security Tokens in Europe (such as Stuttgarter Börse and Blocktrade amongst others). This will give some greater attention to the space and while creating more liquidity. However, in order to see a greater interest overall, I am hoping for a few larger companies to tokenize equity or other lucrative ways of investing into them.*



**Claus Skaaning**

CEO at DigiShares

- *The STO market still lacks liquidity in the form of operational exchanges and large successful public STOs. However, technology is developing fast and many deals and partnerships are made behind the scenes. In the second half of 2020 we will start to see significant market adoption and traction outside the blockchain industry, with real estate being the main driver of the market.*



**Max Dilendorf**

Managing Partner at Dilendorf Khurdayan, PLLC

- *We have optimistic expectations about the STO market in the beginning of the new decade. On the one hand, fraudulent and weak projects have been fading out and strong projects have retained regulatory and investor certainty about issuing digital securities. On the other hand, blockchain projects developing decentralized network tokens, which may or may not be considered securities due to remaining regulatory uncertainty, still structure sales of their tokens in US as STOs as a precautionary measure. In both cases, STO market is picking up.*



**Marc Boiron**

Attorney, Partner at FisherBroyles LLC

- *We will not yet see a significant boom in the growth of digital securities in 2020. Instead, I expect 2020 will be another year of infrastructure building (both technically and legally). We will also see the first few more recognized private companies tokenize securities. We will have to wait at least for 2021 to really see things take off.*



**Roel Wolfert**

Chairman of Cryptodelta Foundation

- *As 2019 has been a year where we have seen most MVP coming to life with some serious businesses and assets being listed and money being raised. Several MTF license have been requested/granted and the regulator is recognizing that Digital assets an important category to embrace. For 2020 I expect that this market will grow bigger and that certain categories like tokenized real estate, green energy, VC funds will be more attractive than others and will lead the growth of the initial Digital Asset storm that is coming. Personally I am a big fan of asset backed tokens and see this as important category now gold price has been going up with 20+% in 2019 and people will seek other reliable more affordable assets to invest in. Also Asset backed tokens are easier to understand and generally more transparent financial products for the general public.*



**Samuel Katz**

Partner at Nellis & Katz LLP and  
VP/General Counsel of Rivver Inc.

- *The current challenge of digital securities is adoption, with a very small number of investors interested in participating in the market. In 2020, we will see high quality transactions, particularly in real estate, in which investment in digital securities adds value to an already attractive investment. This, together with initiation of trading in issued digital securities, will create more interest in digital securities and bring in traditional investors.*



**Gabriel Zanko**

Blockchain Investor - Advisor, MobileyourLife

- *A technology of such magnitude and revolutionary nature is bound to make important people raise their eyebrows, and governments are not invulnerable to this effect. With regulatory agencies all around the world trying to adapt themselves to the fast spread of blockchain, governments are pondering the benefits of implementing blockchain into the functioning of federal bodies and organizations. A big example is China, who are currently looking into the possibility of releasing their own digital currency that would work in parallel with the Yuan.*



## Yanina Petrovskaya

Of Counsel, Crypto Lawyer, RLP Lawyers, Liechtenstein

- *2019 has shown major trends for more regulation and more legal certainty for all types of blockchain projects. Switzerland & Liechtenstein did their best to keep regulation pace on par with the market.*

### **Switzerland**

*After publication of the detailed instructions for blockchain project by the Federal Council in December 2018 it introduced new regulation for DLT-securities as well as DLT trading venues (with latest amendments from November 2019), to be enforced supposedly in 2020. This would open new opportunities for transfer of DLT securities as well as secondary market platforms.*

### **Liechtenstein**

*has finalised its tough work on Blockchain Act in 2019 and in force from the beginning of 2020. The Act provides civil law basis for transfer of tokens as well as requirements for various token services providers. 2020 will show the application of the act in practice giving more confidence to the market.*



**Jonah Schulman**

Head of Marketing at Security Token Market

■ ■ *In 2019, we saw companies all over the world work on developing the proper infrastructure for security tokens. I believe this will still be vital in the coming years; however, in 2020, we will begin to witness all of the backend work come to life. Reason being, many of the successful Reg D/Reg S raises lock-up periods will expire, exchanges will go live, jurisdictions around the globe will continue to define and regulate the sale and trading of security tokens, and more assets will tokenize. When all of these milestones occur, it will create a healthy regulatory environment for interested parties from around the globe to access these once illiquid assets.*

# About Stobox

Stobox provides a full range of services to help companies issue digital securities and attract capital from a large pool of non-institutional investors, including legal structuring, technical setup and marketing campaign. We build a platform for issuance and secondary OTC trading of digital security. The platform is to be fully compliant with EU securities and financial markets regulations.

**Subscribe** to receive monthly news and updates from digital asset space directly in your inbox.

For any questions regarding this digest and tokenization in general, feel free to reach out to us at [info@stoboxplatform.com](mailto:info@stoboxplatform.com)



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