

## ***Custody Options For Security Tokens***

*Everything changes when it comes to how we custody assets and investments that are represented digitally*

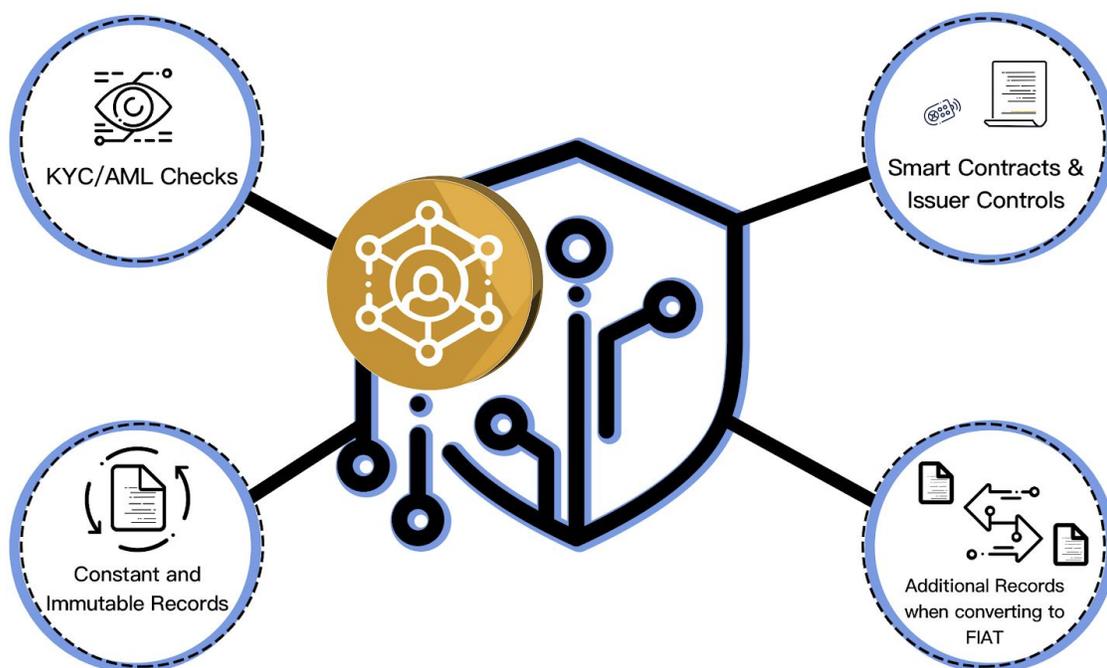


### **An Improved Investment Experience**

For the first time ever, investing in private securities can be a completely digital experience with Security Tokens. Previously, if you were making an investment in a private company then chances were highly likely that your ownership interest was represented by a few legal documents and a capitalization table that was managed by the company.

Attempting to sell or transfer your ownership would be a governance procedure that involved lawyers and management. The analog task typically costs time and money. Tools like [Carta](#) can help address this pain point, but the available options do not offer a comprehensive solution for the entire process, especially outside of the venture asset class. Secondary markets for any of these asset classes have been exceptionally rare, so the need for custodians was never apparent. Now that we are developing new and innovative solutions for asset-holders in these industries, it is clear that a more complete solution is needed.

Now enter the era of security tokens, where investors receive a legally-binding, digital representation of the ownership in the asset they just purchased. The technology enables easy transfer of ownership with minimal impact on the management as records are automatically updated by smart contracts. From a technical perspective, the digital wallet that holds your Security Tokens is your custody solution. An argument could even be made that whoever owns the wallet is responsible for its custody in cases where you transfer your Security Tokens to an exchange or asset manager.



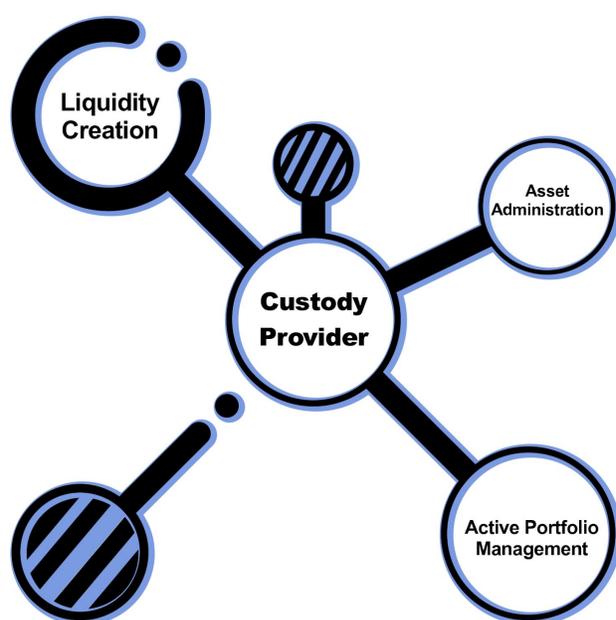
## Can My Security Tokens Be Stolen?

The short answer is no. By design, Security Tokens are traceable and feature a number of controls to enable issuers to prevent fraud and stealing. Unlike with cryptocurrencies, Security Tokens are part of a regulated ecosystem. Participating in that ecosystem requires your wallet to have performed identity checks on you for the purpose of complying with Know-Your-Customer (KYC) and Anti-Money Laundering (AML) regulations. If someone transferred your tokens and even attempted to sell them on an exchange, the record of who, when, where, and what is constant and infallible.

For larger asset-holders, transparency of information isn't enough to feel totally secure. Hackers are smart and for many, they'd like more protection from potential threats. After all, you could have stolen access to a real person's wallet to fake transactions through and cash out via a stablecoin. Still then, that stablecoin would require a currency conversion to FIAT and there would be an additional record with whichever institution

performed the transaction. Finally, Security Tokens can be frozen, made moot, burned, and even reversed thanks to smart contracts and issuer controls. Thanks to these additional security controls, there are a number of measures available to ensure a secure environment in the cases of wallet theft.

This new digital environment is far more efficient, safer, and transparent than the traditional analog methods used today. Furthermore, the benefits of Security Tokens like liquidity, improved asset management, and governance efficiencies far outweigh the new cybersecurity element to custodianship.



## The New Role of Custody Providers

Beyond technology companies providing wallets that support Security Tokens like [Knox Wallet by TokenSoft](#) or [Coinbase Custody supporting BCAP tokens](#), the value of custodians will become meaningful through the value-added services they can provide. Exchanges may prefer that you custody tokens with them in order to make it easier for you to sell quickly. Brokers may want to do the same in order to find you buyers for your portfolio. Asset managers may streamline harvesting a large and diverse portfolio of security tokens for a fee.

## **Creating Liquidity**

Are you constantly checking all global markets ([we count over 45 STO exchanges](#))? Do you have a vast network of institutional buyers and investors looking to name their own price over-the-counter? The business of finding buyers is a professional service provided by regulated firms whose very business is to create liquidity for you. In order to take advantage of these services, you will probably need to relinquish custody of your tokens.

## **Administrating Assets**

Not all Security Tokens are created equally. You may have a portfolio of various real estate investments with some tokens still paying coupons/ distributions via a wire while other tokens pay using a stablecoin, and even still, other tokens that pay using some other way such as giving you more of the security token or paying with a cryptocurrency. Things get even more complicated when you expand that portfolio to debt products, fund vehicles, stablecoins, and other Security Tokens all of which need to be managed and harvested. Professional asset managers will come in and help you do this but will again require that you custody the tokens with them.

## **Active Portfolio Management**

Security Tokens enable a whole new set of applications for assets. Private markets can become more efficient, transparent, and liquid and as a result, there will be more price movement and potential to create alpha. Fund managers will seek to stake or custody your portfolio of tokens knowing that they can create real returns on managing that portfolio on your behalf.

The future of private securities is getting an upgrade and traditional custodian issues are largely removed through technology and new processes that will eventually become best practices for the industry to adopt. How Security Tokens get leveraged and managed in the future will vary depending on the type of investor but ultimately the investing experience will be digital, and as a result, will be more easily accessible, will have more capabilities, and will be more investor-friendly.