



DIGITAL SECURITIES: DISRUPTING CAPITAL RAISING

JULY 2021

FOR IN-DEPTH DIGITAL SECURITIES RESEARCH VISIT

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FINANCE ON THE BLOCKCHAIN

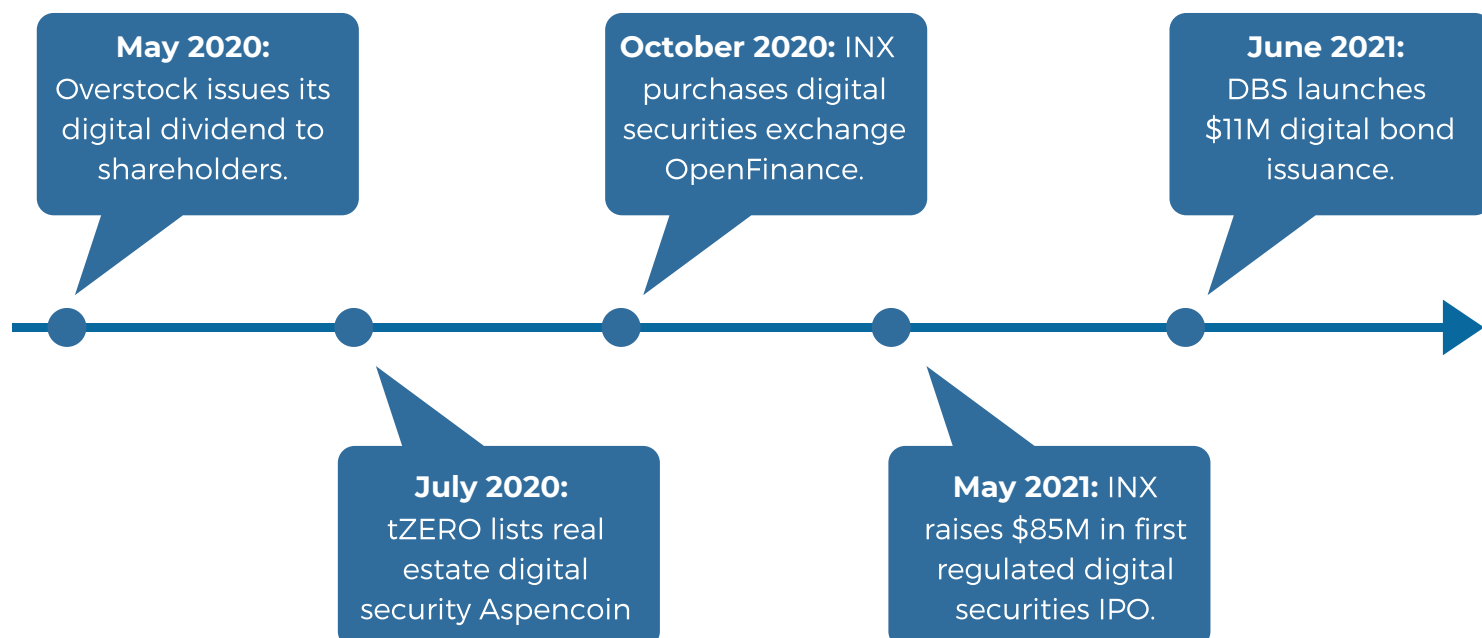
Traditional finance players have been making headlines by joining the digital assets space over the past few months.

During the first half of 2021, numerous renowned institutions decided to dip their toes in the blockchain world. Publicly traded firms such as Microstrategy, Tesla and Square decided to add Bitcoin to their corporate treasuries, announcing purchases and attracting investors.

This was an important step towards mainstream adoption of digital assets.

Financial institutions, however, are engaging in a different, regulatory compliant side of blockchain technology: **digital securities**.

Major Digital Securities Events in 2020-2021





After the surge of unregulated "initial coin offerings" in 2017, a compliant and transparent method of blockchain-powered capital raising approach emerged.

Digital securities are now becoming an important tool for private markets. They provide a clear avenue to liquidity, and facilitate capital management as well as dividend distributions.

But the digital securities market is still young, and mainstream adoption is only beginning. In May 2021, INX raised \$85M in the first digital securities IPO, on the Ethereum blockchain.

ERC-20 tokens have become the most common instrument for raising capital on the blockchain. After all, most of the decentralized liquidity infrastructure is built for this

type of tokens. Some issuers, however, choose to launch on private blockchains until liquidity avenues become available.

Once securities are issued on the mainnet, they can be traded on secondary venues between eligible investors.

In Europe, the digital securities market has also been growing. UK-based Archax, an emerging exchange, is looking to onboard numerous issuers.

Raison.ai, an Estonian digital investment platform, is tokenizing pre-IPO equity in some prominent technology firms. Some of their listings, have gone public in recent months.

These exchanges offer a glimpse into the trading infrastructure of the future.



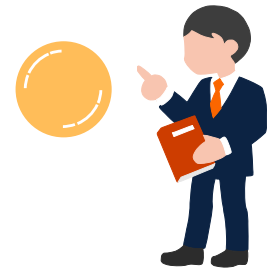
DIGITAL SECURITIES ISSUANCE

Digital securities are providing an infrastructural upgrade to capital raising in private markets.



Issuer decides to raise capital, and presents its investment opportunity to the private market. They want better cap-table management and seamless access to secondary markets.

Regulated Broker-Dealer creates digital securities that represent the issuer's offering. These can be issued on a private chain until secondary trading becomes available.



Investors can buy, and subsequently trade private securities on secondary markets. These markets are more interconnected, since the securities sit on a distributed ledger.

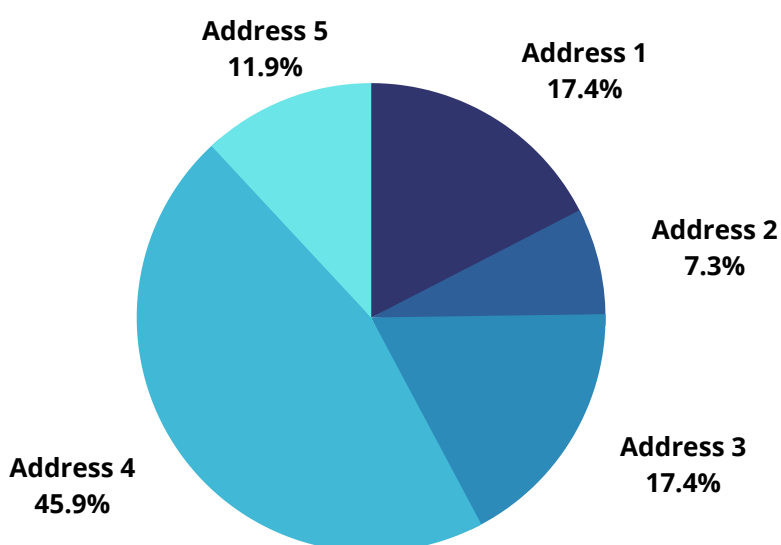


Distributed ledgers also give markets more transparency. They record every transfer and issuance publicly, allowing investors to see how ownership in the security is distributed.

They also record trades (or "swaps") performed on decentralized exchanges, providing greater access to market data and facilitating liquidity.

For example, this is what the ownership distribution of a digital security can look like. This type of data is publicly searchable on any blockchain data provider:

Tokenholders Distribution Chart

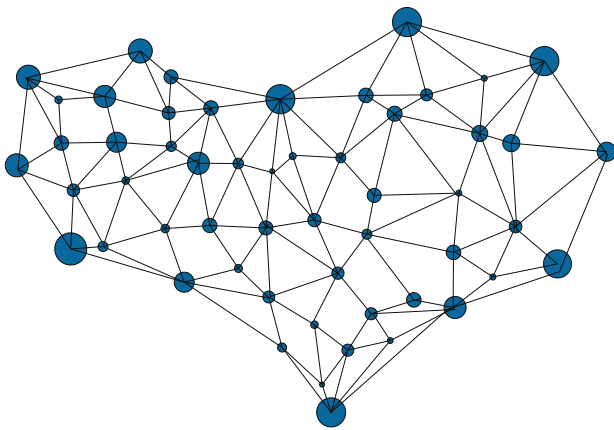


This level of transparency is unprecedented in private markets, and it is fully automated. Universal access of accurate and up to date market data is likely to bring more liquidity to private markets, which in turn can allow for the creation of versatile, interconnected trading infrastructure.



TRADING DIGITAL SECURITIES

Digital securities allow market participants to create greater connections and trading infrastructure.



Tokenization has given birth to both centralized and decentralized exchanges. A challenge with digital securities, however, is regulatory compliance from the KYC and jurisdictional perspectives.

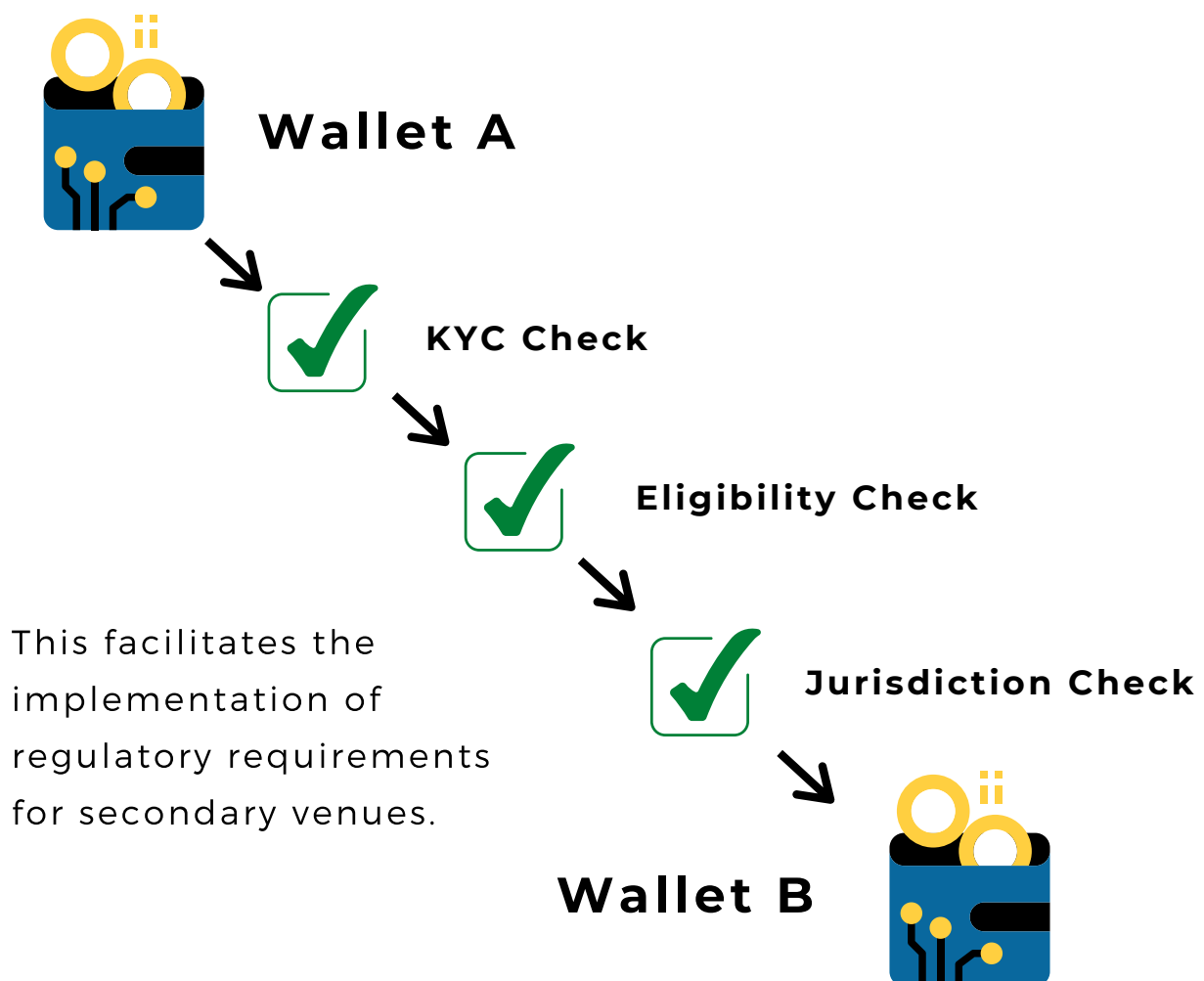
In order to connect broker-dealers from around the world in a compliant fashion, a network called FinP2P is being created. Through a variety of APIs, investment firms will be able to connect with each other and execute trades that will ultimately be settled on the blockchain.

But FinP2P is only the beginning of a worldwide network of broker-dealers offering liquidity to their clients. If securities are transferable through the blockchain, investors can access a wider array of private investments.



Certain protocols allow for "wallet whitelisting", meaning only eligible wallets can transact tokens with each other. This was the case for the INX offering; anyone can check if an Ethereum wallet is whitelisted on the INX security's contract page.

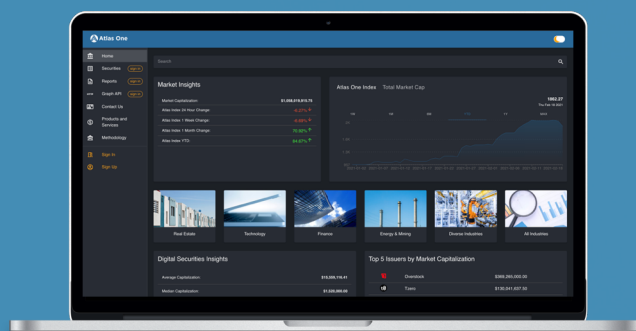
This capability is crucial for generating a universal whitelist of wallets that can freely send tokens and invest in new offerings. This secured verification system can lower friction in private markets, while ensuring that only eligible investors hold tokens.





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Our U\$30 monthly Pro Plan offers issuer financials and specific reports. We also offer institutional research services tailored to your industry's specific needs.

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