

## MCM Fintech Update<sup>1</sup>

### Friday, September 28, 2018

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*Crypto-asset prices were volatile but finished little changed over the month. Development continued of products and infrastructure favoring institutional crypto-asset investment, although hope for rapid U.S. regulatory approval of crypto-asset exchange-traded funds (ETFs) continued to wane. Blockchain-based innovations continued to be rolled out, with IBM bringing its Blockchain World Wire (BWW) international payment network closer to production.*

### Innovation

**New blockchain-based innovations continued to roll out.** Walmart [announced](#) that it will track vegetables through its supply chain, using [IBM Food Trust](#) blockchain, in order to rapidly identify batches that might be contaminated. IBM brought its [Blockchain World Wire](#) (BWW) international payment network out of beta. BWW uses the [Stellar](#) blockchain network for near real-time interbank cross-border settlements. The PBOC-backed “Guangdong, Hong Kong and Macao Dawan District Trade Finance Blockchain Platform” [started pilot operations](#) aimed at providing a blockchain-powered ecosystem for cross-border payments. Mastercard filed [patents](#) for a distributed ledger to record point-to-point transactions as they are processed, and Ireland’s Block Estates is creating a comprehensive [blockchain powered real estate platform](#). More than 75 banks are now part of the blockchain-based [Interbank Information Network](#), which is a mutually-accessible ledger for resolving payments that are flagged and held up for compliance reasons. However, the Australian Securities Exchange [pushed back](#) the launch of the blockchain-based replacement of its CHES clearing and settlement system to 2021. Respondents to the April consultative paper questioned the original end-2020 target “given the significance of the technology change.”

### Regulatory Developments

**New fintech-related legislation and regulations continue to be proposed.** A [new regulatory framework](#) aimed at providing greater clarity and certainty on ICO regulations was accepted by the French parliament. The l’Autorité des Marchés [will be empowered](#) to grant licenses to companies that want to raise funds via an ICO, with the [legislation](#) aiming to help protect investor interests. The Mexican government has [published](#) draft fintech industry [legislation](#), determining which digital currencies are legal and setting out the conditions fintech companies must meet to secure approval from the central bank to operate in the crypto-asset space. The Financial Action Task Force may be [close to reaching a consensus](#) on anti-money laundering (AML) regulations and that global standards could be agreed upon in October. New York’s Department of Financial Services (DFS) is [suing](#) the U.S. Comptroller of the Currency (OCC) the latter’s [decision](#) to allow fintech companies to apply for national banking charters. The DFS claims that the OCC over-stepped its mandate, and would allow the creation of more TBTF institutions and undermine the ability of local banks to compete.

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<sup>1</sup> Prepared by John Kiff and Hunter Monroe (MCM). This issue covers market data since end-August and industry developments since the previous edition on September 7, 2018. Information in this news summary have not been verified through official channels. To follow developments in real time, join the [Fintech Yammer Group](#). For an explanation of Fintech concepts, see [Fintech and Financial Services: Initial Considerations](#).

**Crypto-assets continued to come under close supervisory scrutiny.** The U.S. New York Attorney General [found](#) that crypto-asset exchanges are vulnerable to market manipulation and that in many cases, are not doing enough to stop unfair market practices. The North American Securities Administrators Association [reported](#) that more than 200 active investigations by state or provincial-level agencies into ICOs and other crypto-related investment products. Also, the Japanese Financial Services Agency has [reportedly](#) tightened registration screening for crypto-asset exchanges. During September, Japanese crypto-asset exchange Zaif was the victim of a \$60 million [hack attack](#).

## **Market Developments**

**Crypto-asset [market capitalization](#) finished down about six percent on the month at \$215 billion (Figures 1 to 3).** [Bitcoin](#)'s price faded from about \$7,000 to \$6,700 and [Ethereum](#) finished the month down by about 20 percent after plummeting about 30 percent at mid-month. Ethereum's early weakness has been attributed to [drawdowns](#) of Ethereum balances raised in past initial coin offerings (ICOs) and competition from other altcoins. One of those altcoins, [XRP](#), saw its price rise about 60 percent during the month, perhaps in reaction to PNC's [announcing](#) that it will begin using Ripple's XRP-based [XRapid](#) product for international client payments. Meanwhile, ICO [issuance](#) continued at roughly the \$1 billion per month of the last two months (Figure 4).

**Expectations of a rapid U.S. regulatory approval of crypto-asset ETFs continue to wane.** The U.S. SEC [postponed its decision](#) on the approval of the CBOE's SolidX Van Eck Bitcoin ETF proposal. However, hopes were buoyed by rumors that Blackrock, one of the premier ETF providers, was exploring the launch of a [crypto-asset ETF](#). Also, Fidelity is working on a number of cryptocurrency and blockchain-related [products and offerings](#), and [Bank of America / Merrill Lynch](#) and [Morgan Stanley](#) are planning to offer Bitcoin-linked derivatives. Also, Citibank is pondering offering a "[Digital Asset Receipt](#)" crypto-asset custody solution for institutional investors.

**The market for crypto-assets pegged to fiat currencies ("[stablecoins](#)") continued to expand.** Crypto-asset exchange [Gemini](#) and blockchain start-up [Paxos](#) launched U.S. dollar-backed stablecoins that have been reviewed and approved by the New York Department of Financial Services, and crypto-asset startup [Carbon](#) launched CarbonUSD. Swiss start-up Eidoo will be offering a [gold-backed ekon](#) token. All will operate on the Ethereum network.

**More central banks are looking into the possibility of issuing digital currencies (table).** The National Bank of Ukraine is [considering](#) issuing a blockchain-based hryvnia-linked central bank digital currency (CBDC) as part of its "Cashless Economy" project. Also, the Reserve Bank of India [has convened](#) an inter-departmental group to analyse the potential issuance of a rupee-backed CBDC. However, ECB President Mario Draghi said the ECB has "[no plans](#)" to issue its own digital currency.

Jurisdictions Where Retail CBDCs Are Being Actively Explored <sup>2</sup>	
<a href="#">Australia</a> (on hold)	<a href="#">Curaçao en Sint Maarten</a>
<a href="#">Denmark</a> (rejected)	<a href="#">Eastern Caribbean</a> (via <a href="#">Bitt</a> )
<a href="#">Ecuador</a> (pilot complete)	<a href="#">India</a>
<a href="#">Norway</a> (ongoing)	<a href="#">Jamaica</a>
<a href="#">United Kingdom</a> (on hold)	<a href="#">Montserrat</a> (via <a href="#">Bitt</a> )
<a href="#">Canada</a>	<a href="#">Palestine</a>
<a href="#">China</a> (and <a href="#">here</a> )	<a href="#">Philippines</a>
<a href="#">Sweden</a>	<a href="#">Ukraine</a>
<a href="#">Bahamas</a>	<a href="#">Uruguay</a> (and <a href="#">here</a> )(pilot)
<a href="#">Brazil</a>	
<b>Sources:</b> Central banks or various news sources per hyperlinks above. Information has not been verified through official channels.	

## Research and Commentary

**Industry groups continued to extoll fintech’s benefits, while the [BIS presented](#) some more nuanced views.** World Economic Forum (WEF) [research](#) indicates that blockchain deployments could generate an incremental \$1 trillion in trade finance. The [report](#) also outlined more than 65 blockchain use cases for solving the most pressing environmental challenges. A BIS [cross-country study](#) found that fintech credit volumes were directly related to income, and banking sector concentration, and inversely to the stringency of banking regulation. The article highlights operational failures and conduct problems that pose challenges for regulators in ensuring adequate consumer and investor protection.

**The BIS [published](#) a report on the impact of different regulatory actions on crypto-asset prices.** The study found that crypto-asset bans and changes to their treatment under securities law have the greatest negative impact on prices, followed by AML/CFT-related news reports, and on restrictions on the interoperability of crypto-assets with regulated markets. News on the establishment of specific legal frameworks tailored to crypto-assets and ICOs had strong positive price impacts. This suggests that “regulation need not be bad news for the markets... notably signalling a clear preference for a defined legal status, albeit a light regulatory regime.”

**Barry Eichengreen wrote a [scathing critique](#) of current stablecoins.** He questioned the scalability and sustainability of fully fiat currency-backed stablecoins, the run risk of partially collateralized stablecoins, and the long-run viability of uncollateralized ones.

<sup>2</sup> By “active” is meant central banks which have convened projects to seriously explore CBDCs, or have undertaken pilots. Some central banks have publicly indicated that they are investigating CBDCs but have provided little to no detail. These include [Bahrain](#), [Barbados](#), [Egypt](#), [European Union](#) (and [rejected](#)), [Hong Kong](#), [Indonesia](#), [Israel](#), [Korea](#) (and [rejected](#)), [Lebanon](#), [New Zealand](#) (on hold), and [Switzerland](#).

Figure 1. Crypto-Asset Market Capitalization (in billions of US\$)

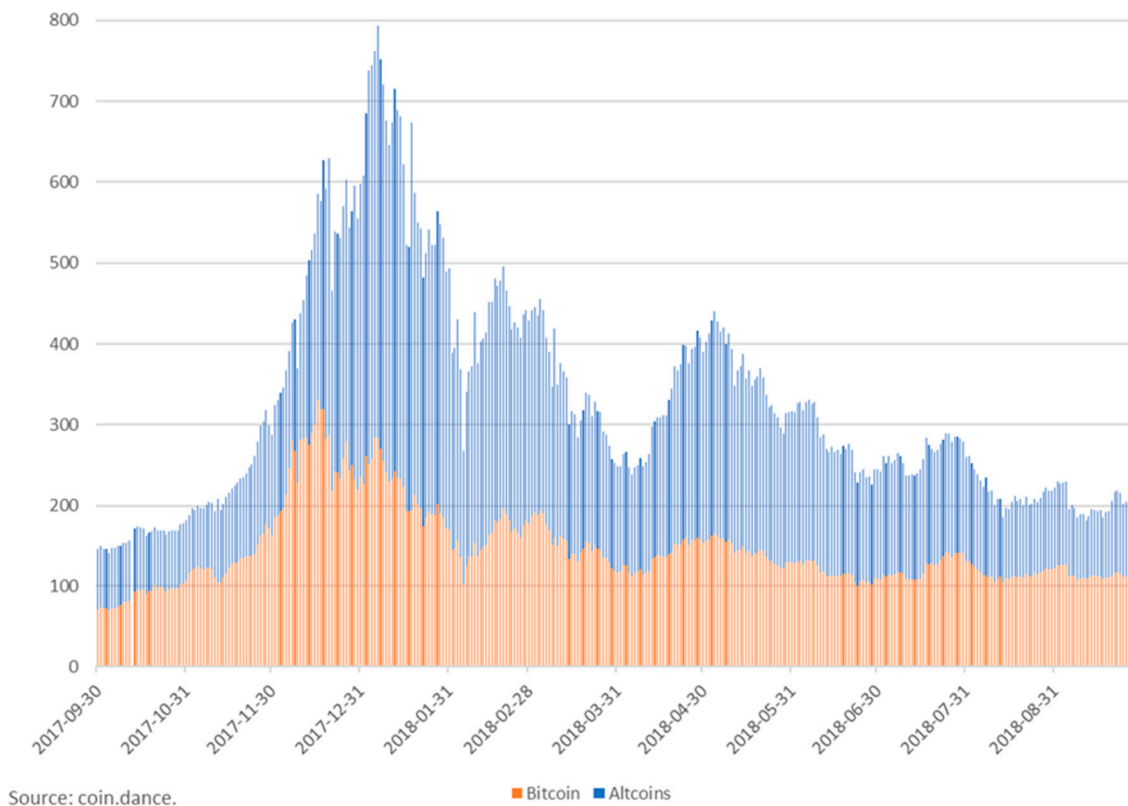
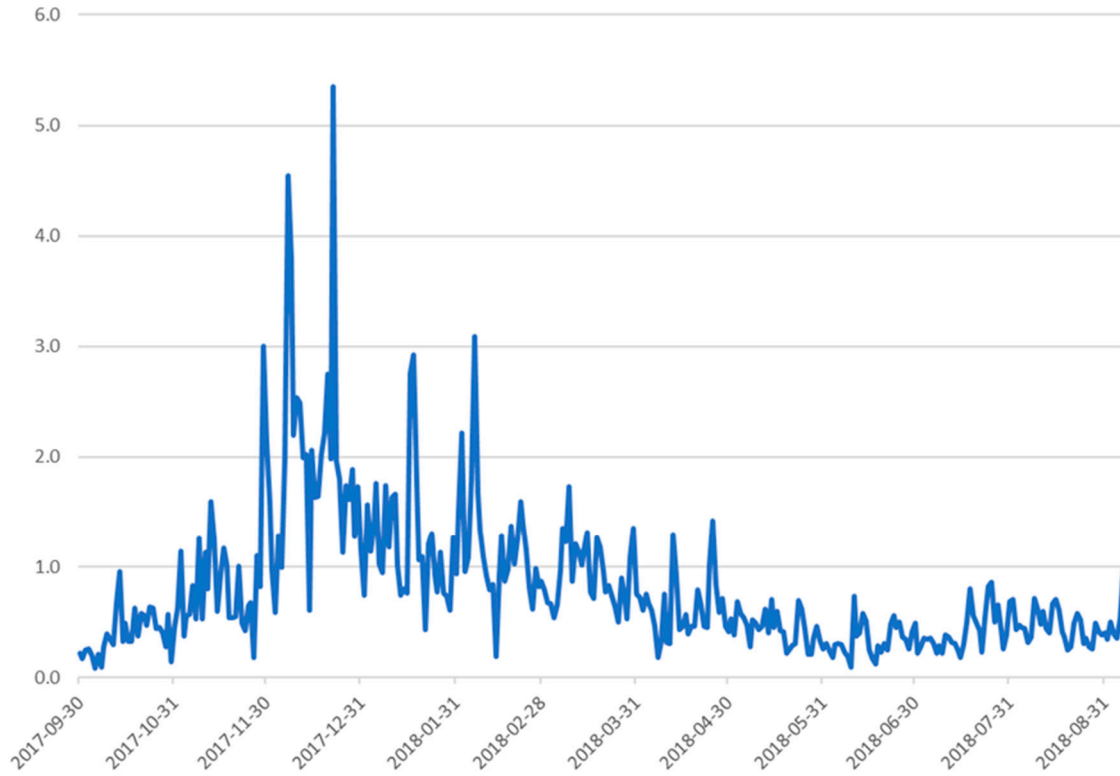


Figure 2. Crypto-Asset Prices (in US\$)

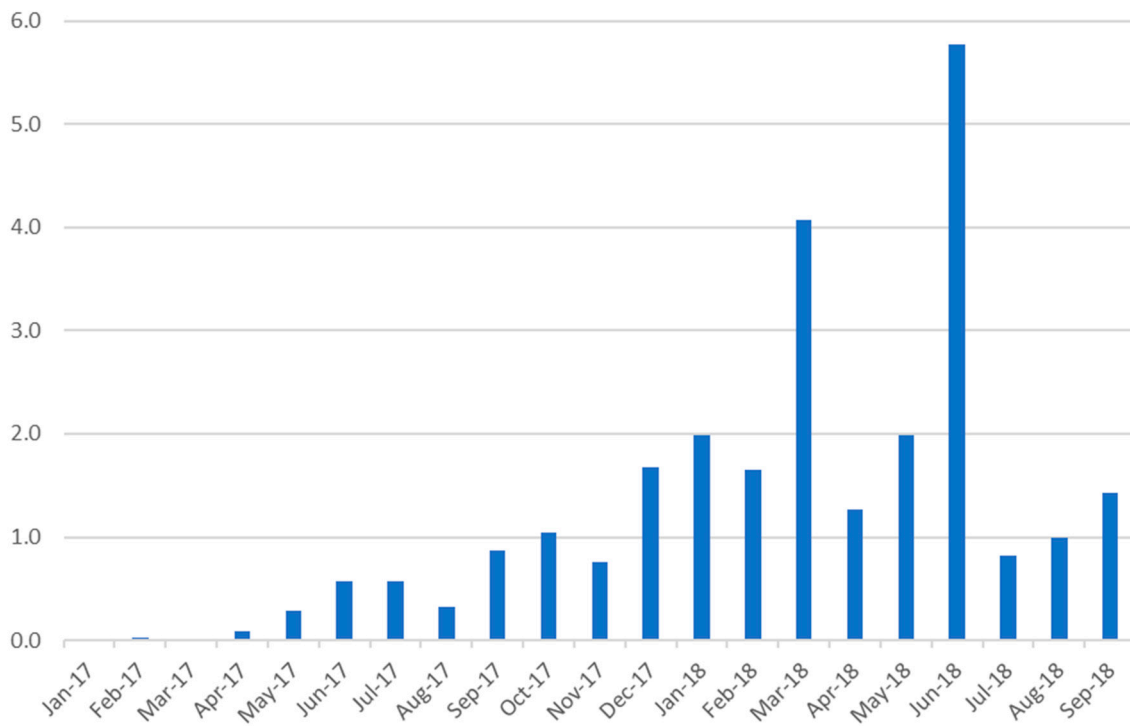


Figure 3. Bitcoin Exchange-Traded Volumes (in billions of US\$)



Source: Blockchain.com.

Figure 4. Initial Coin Offering Funds Raised (in billions of US\$)



Source: CoinSchedule.com.