

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

### Thursday, December 20, 2018

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*The European Central Bank launched TARGET Instant Payment Settlement offering near real-time retail payments at very low cost via various electronic devices and in-store payment points across the eurozone. Crypto-asset markets were little changed since end-November, but total market capitalization remains off about 85 percent from the January 2018 peak. The market for initial coin offerings continues to wither from the torrid pace of issuance in the first half of 2018.*

## Innovation

**New payment offerings may call into question some of the hype around recent blockchain-based innovations.** The European Central Bank [launched](#) TARGET Instant Payment Settlement (TIPS) that will offer near real-time payments at very low cost via smartphones, personal computers, and in-store payment points across the eurozone. And SWIFT [announced](#) it is piloting enhancements to its Global Payments Innovation cross-border interbank funds transfer system to speed up transfers and reduce errors. Neither of these initiatives will use distributed ledger technology (DLT). Independently, users of Kenya's M-Pesa [can now transfer](#) funds to users of China's WeChat Pay payment system.

**However, the DLT community continues to push ahead with new blockchain payment and settlement initiatives.** The United Arab Emirates and Saudi Arabia [have started](#) proof of concept work on a DLT-based system to facilitate cross-border settlements using digital currency backed by fiat currencies of the two countries. Commerzbank, ING, Natixis, and Rabobank [completed](#) a commercial paper transaction on R3's Euro Debt Solution [Corda](#)-based platform. Standard Chartered and Brazil's Itau Unibanco [issued](#) a \$100 million [club loan](#) on R3's Corda Connect platform. Russia's Sberbank and Interros Group [carried out](#) an over-the-counter FX repo transaction using smart contracts on a blockchain. R3 [launched](#) Corda Settler, to settle payments initiated on the Corda blockchain platform to be made through both traditional and blockchain-based settlement systems.

## Regulation

**Fintech regulations continued to evolve.** [The Swiss Financial Market Supervisory Authority introduced](#) a new fintech license with "relaxed" requirements applicable to blockchain and crypto-asset-based firms. The new license allows approved "innovative financial companies" to accept public deposits of up to CHF100 million, provided the funds are not invested and no interest is paid on them. U.K. peer-to-peer (P2P) lender Zopa [became](#) the first U.K. company to be both a P2P lender and digital bank, after the Financial Conduct Authority granted it a restricted banking license.

**Jurisdictions continue to refine and strengthen crypto-asset regulations.** Bahrain's central bank has [issued](#) draft rules to regulate crypto-asset operators. Dutch crypto-asset

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<sup>1</sup> Prepared by John Kiff and Hunter Monroe, reviewed by Tommaso Mancini Griffoli and cleared by Will Kerry (all MCM). This issue covers developments since the November 30 edition. The information herein has not been verified through official channels. For an explanation of fintech concepts, see [Fintech and Financial Services: Initial Considerations](#).

service providers [will be required](#) to obtain a license from the central bank, and Estonia [will amend](#) its recently passed financial bill to "harden" crypto-asset regulation.

The Financial Action Task Force [said](#) that the United Kingdom needs to step up its efforts to prevent anti-money laundering and combat terrorist financing in the crypto-asset sector.

### Cyber Risk

The U.K. Financial Conduct Authority [warned](#) that U.K. asset management firms suffer from a lack of cybersecurity expertise and preparedness, risking "serious harm to its clients" and the wider market.

The Basel Committee on Banking Supervision (BCBS) published a [report](#) on bank cyber-resilience. It identified, described and compared measures adopted by banks, and prescribed by regulatory and supervisory across jurisdictions to bolster cyber-resilience.

### Commentary

By end-2018 more than half of the world's population will be using the internet, according to the [International Telecommunication Union](#) (ITU). 90 percent of those will have access to 3G or higher speed networks, while 96 percent of the global population will live within mobile network range. However, the ITU [said](#) the transformation to a digital world faces challenges from a slowing pace of internet adoption and waning trust in the digital economy.

According to ex-IMF Chief Economist [Kenneth Rogoff](#), crypto-assets are not entirely worthless... and should be viewed as "lottery tickets that pay off in a dystopian future where they are used in rogue and failed states, or perhaps in countries where citizens have already lost all semblance of privacy."

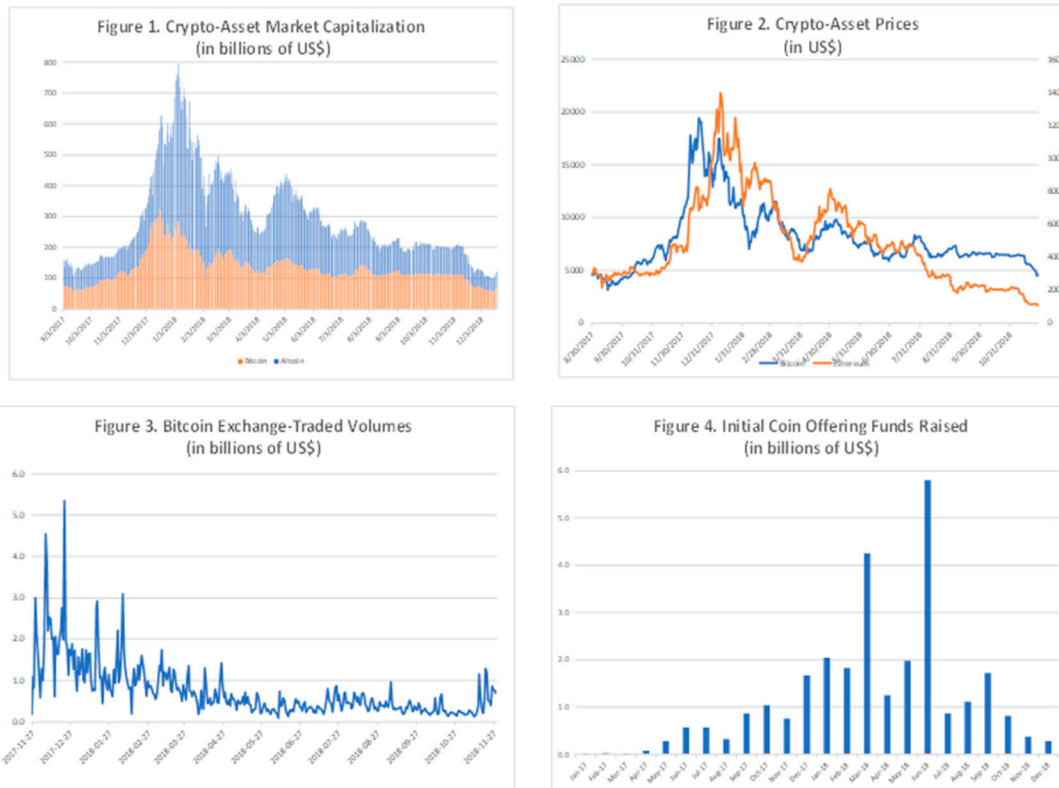
Two studies offered some hope for crypto-asset investors. The University of Cambridge Centre for Alternative Finance's [Global Crypto-asset Benchmarking Study](#) found that the number of crypto-asset holders climbed from 18 million to 35 million this year, although the majority are individuals and not business clients. Also, Nasdaq [confirmed](#) plans to launch Bitcoin futures in 2019. However, CipherTrace [reported](#) that crypto-asset thefts in 2018 reached almost \$1 billion by Q3, mostly from trading platform and exchanges.

### Market Developments

Crypto-asset [market capitalization](#) was little changed over the month (Figures 1 to 3). At \$130 billion, it is roughly unchanged since end-November although down 85 percent from the January peak. [Bitcoin](#) finished at \$4,100 (up about 2 percent since end-November), [Ethereum](#) was off about 2 percent, and [XRP](#) up 5 percent. Hopes for U.S. regulatory approval of crypto-asset exchange-traded funds continue to wane, as the SEC [extended](#) its review period to February 27. However, the major [stablecoins](#) remained [pegged](#) to their fiat currencies. [Basis](#), an "algorithmic" stablecoin, shut down [citing](#) regulatory constraints.

The market for Initial Coin Offerings continues to wither (Figure 4). Total [issuance](#) has fallen precipitously over the year (\$4 billion in H2 versus \$17 billion in H1) even though total 2018 issuance far exceeded that of 2017 (\$7 billion). The collapse reflected continuing poor performance, and [regulatory crackdowns](#) amid concerns about market misconduct. The Monetary Authority of Singapore [updated](#) its ICO guide, including on how intermediaries

should comply with its AML-CFT policies. Securities Commission (SC) Malaysia and Bank Negara Malaysia [announced](#) that the SC will regulate ICOs and digital asset trading in Malaysia.



**Sources:** Figure 1: <https://coin.dance>; Figure 2: <https://coinmetrics.io>; Figure 3: <https://blockchain.com>; Figure 4: <https://coinschedule.com>

Table 1. Other Fintech-Related Developments
In the near future, the Lebanese central bank <a href="#">will be issuing</a> a digital currency pegged to the Lebanese Lira for domestic use only.
State Farm is <a href="#">trialing</a> a blockchain solution to streamline the process of subrogation, by which companies pursue damages from a third-party responsible for causing a loss to the insured party.
The Abu Dhabi Global Market international financial free zone successfully <a href="#">concluded</a> the first phase of its blockchain-based know your customer (KYC) utility project.
Coinone Transfer <a href="#">introduced</a> Cross, South Korea's first blockchain-based remittance app and web service, giving Thais and Filipinos access to faster and cheaper payment services.
U.S. credit union service organization and blockchain consortium, CULedger, has <a href="#">joined</a> R3's global blockchain ecosystem.
The Swiss government <a href="#">announced</a> a wide-ranging blockchain strategy aimed at creating a legal foundation to enhance Switzerland's status as a blockchain-friendly country.
The central bank of Egypt <a href="#">confirmed</a> that it is conducting central bank digital currency (CBDC) "feasibility studies" with an eye towards cost savings compared to coins and banknotes.
United Arab Emirates-based UAE Exchange <a href="#">plans</a> to launch a blockchain-based cross-border remittance platform for payments to Asia by the first quarter of 2019.