

Fintech Update¹

Monday, July 1, 2019

Facebook announced Libra, a digital currency to facilitate payments (see the June 25 Special Feature). The Bank of England will consult on opening its balance sheet to Fintech payment providers. The Financial Action Task Force published its final crypto-asset regulation recommendation, requiring crypto exchanges and other virtual asset service providers to share customer information with each other when transferring funds. The Bali Fintech Agenda stocktaking survey results were published. Crypto-assets continued to surge with total market capitalization up 23 percent over the month, and Bitcoin up 33 percent.

The Bank of England announced a consultation on opening access to its balance sheet to new payment providers. Governor Carney [said](#) that “allowing all payment providers to store funds overnight in interest-bearing accounts at the central bank would improve the transmission of monetary policy and increase competition... and support financial stability by... reducing reliance on major banks.” The speech also referred to supervision, saying that “we are committed to applying a strengthened supervisory regime for those who apply for a real time gross settlement account.”

Innovation (see also Table 1)

The ECB and Bank of Japan [published](#) the outcome of their Project Stella research on a distributed ledger technology (DLT) based cross-border payments system. It found that DLT could improve the safety of cross-border payments but further examination of legal and compliance issues, a careful examination of different technologies, and a cost-benefit analysis are required before possible implementation.

Several prominent Fintech players have decided to shift their business to focus on new activities. The Circle Pay mobile and web wallet, which has allowed person-to-person payments in non-tokenized fiat, will [shut down](#) on July 8, as Circle focuses on other activities, including its USD Coin (USDC) stablecoin, the Poloniex crypto exchange, and large-value crypto trading. Digital Asset Holdings (DAH), a key proponent of using blockchain for trade and settlement, is [shifting its focus](#) toward smart contracts. The Australian Stock Exchange is proceeding with its project to upgrade its domestic settlement system using DAH’s technology.

Regulation (see also Table 2)

The Financial Action Task Force (FATF) [clarified](#) the application of the risk-based approach to implementing the AML/CFT standard in the context of virtual assets. The standard notably provides that virtual asset service providers—including exchanges and

¹ Prepared by John Kiff and Hunter Monroe with contributions from the Monetary & Capital Markets Department’s (MCM) Financial Regulation division, and Nadine Schwarz (Legal Department), and reviewed by Tommaso Mancini Griffoli and Will Kerry (all MCM). This issue covers developments since the May 31, 2019 edition. The information herein has not been verified through official channels. For an explanation of fintech concepts, see [Fintech and Financial Services: Initial Considerations](#).

certain wallet providers—should identify their customers, monitor transactions and report suspicious transactions to the competent authorities. When transferring virtual assets, they should also share some of the identification information with the receiving entity. This “travel rule” is a longstanding requirement for banks conducting wire transfers. The FATF will review the progress made in the implementation of these new requirements in June 2020 with a view to discussing whether further amendments to the standard are necessary.

Commentary and Research (see also Table 3)

Countries are broadly embracing Fintech opportunities to boost economic growth and inclusion, while balancing risks to stability and integrity. That is the conclusion of the IMF - World Bank Bali Fintech Agenda stocktaking [survey](#) of national authorities, coupled with findings from other regional studies. It also identifies areas for international cooperation—including roles for the IMF and World Bank—in which further work is needed by governments, international organizations, and standard-setting bodies. These areas included cybersecurity, anti-money laundering and combating the financing of terrorism (AML/CFT), and cross-border payments.

The Financial Stability Board (FSB) published two Fintech-related reports, one on decentralized finance and the other on crypto-assets. The first [report](#) considers the financial stability, regulatory and governance implications of decentralized financial technologies, such as those involving DLT and online peer-to-peer platforms. It notes that this could benefit financial stability (e.g., reducing the systemic importance of some incumbents), new concentrations in the ownership and operation of key infrastructure and technology may emerge. These issues pose challenges for regulatory frameworks that focus on centralized financial institutions. The second FSB report [summarizes](#) international organizations’ work on crypto-assets, including regulatory approaches and gaps that need to be reviewed. It also implies that more coordination among national authorities is needed.

In its [Annual Economic Report](#), the Bank for International Settlements placed a focus on large technology firms entering into financial services. It concluded that this Bigtech trend “holds the promise of efficiency gains and can enhance financial inclusion... but presents new and complex trade-offs between financial stability, competition and data protection.”

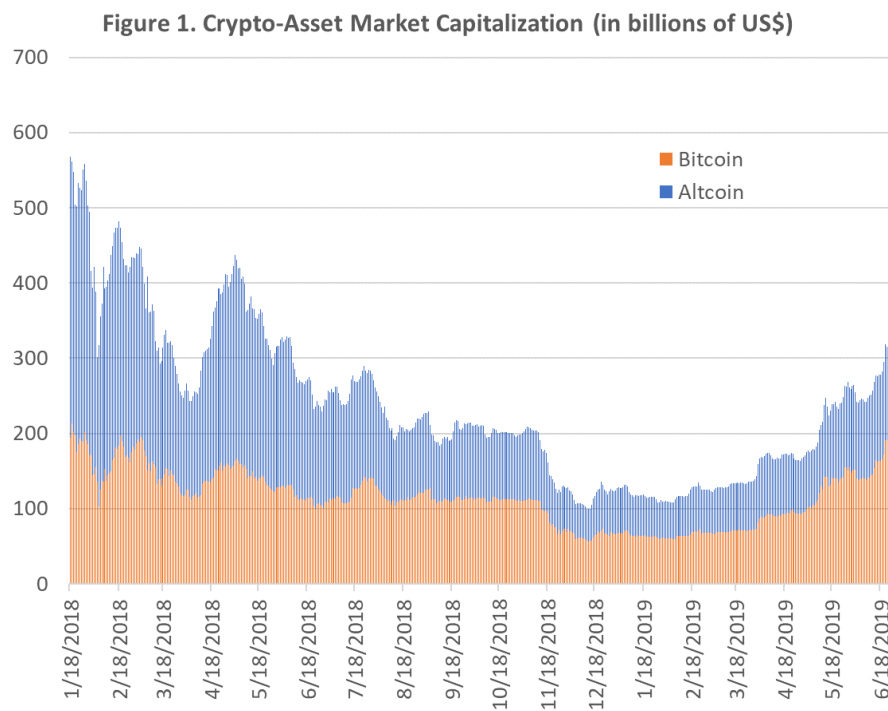
Market Developments (see also Table 4)

Crypto-asset [market capitalization](#) stood at \$320 billion, up 23 percent during June (Figure 1). [Bitcoin](#) led the way, finishing June at about \$11,000 (up 33 percent). Some attribute the continuing surge to the announcement of Facebook’s Libra, although causation is unclear. Other factors cited include growing interest from institutional investors, a record high Bitcoin [hash rate](#) (the network’s total computing power) which boosts security, and the planned May 2020 [halving](#) of Bitcoin mining rewards which will potentially increase Bitcoin scarcity. Activity in the market for initial coin offerings (ICOs) remains slow, with only about \$2.6 billion having been raised so far in 2019, versus \$22 billion in 2018 (<https://coinschedule.com>).

Although Facebook's Libra is getting attention there are more than **150** other **stablecoins already circulating**. The biggest by far is [Tether](#) (\$3.6 billion market capitalization), followed by [USD Coin](#) (\$365 million), [TrueUSD](#) (\$215 million) and [Paxos](#) (\$165 million). These are all pegged to the U.S. dollar but there is one main Euro-pegged stablecoin [STASIS EURS](#) (\$35 million) in the market. In addition, the [firm](#) behind the TrueUSD coin offers TrueAUD, TrueCAD, TrueEUR and TrueHKD coin, though the market capitalization of these coins is relatively small. U.K.-based Paysend [announced](#) the launch of the Pays XDR, backed by cash reserves and matched proportionally to the IMF Special Drawing Rights basket.

Central banks continued to express interest in issuing retail digital currency (CBDC). Haiti's central bank is [considering](#) a pilot to create a digital Gourde to improve the domestic payments system and promote financial inclusion. The National Bank of Ukraine [reported](#) the results of a digital e-hryvnia pilot that was completed in February with technical assistance from the World Bank. The results of the pilot were promising, and the National Bank will continue to study the possibility of issuing e-hryvnia. The Riksbank is [procuring](#) a supplier to support its 2020 e-krona pilot.

The Utility Settlement Coin (USC) project [created](#) a new firm (Finality) to advance its wholesale CBDC plans. The USC is a blockchain-based cryptocurrency that aims to make it easier for international banks to settle transactions with each other. USCs [will be](#) 100 percent backed by fiat currency held in respective central banks, and convertible into fiat currency at par on demand. The founding shareholders of Finality, which [closed](#) a £50 million financing round in June, comprise 14 of the world's largest commercial banks.



Source: <https://coin.dance>

Table 1. Other Fintech Innovation News

The IMF Swiss FSAP finds that "risks in Switzerland's rapidly growing fintech space may not be well understood due to data gaps, resource constraints, and the authorities' liberal approach."
The BIS is establishing an Innovation Hub to foster international collaboration on innovative financial technology within the central banking community.
The Riksbank is planning to join the ECB TARGET Instant Payment Settlement (TIPS) platform, so that Swedish bank customers will be able to make instant 24/7 payments to another bank.
Ripple is buying a stake in money transfer firm MoneyGram that will see MoneyGram using the XRP token as part of its day-to-day operations by way of Ripple's xRapid transaction product.
Securities depository Euroclear is pushing forward with building a pilot blockchain-based platform for the issuance and settlement of European commercial paper.
Visa's newly launched DLT-based B2B Connect, covering 30 trade corridors, will purportedly facilitate direct bank connections and speed up transaction settlements.
A consortium of major companies, including Visa, is rolling out the b.yond platform, designed to facilitate and speed up access to Visa's payment platform.
Six prominent mobile wallets across Europe, together with Alipay, are collaborating to promote QR code-based digital payment interoperability for travelers both in Europe and from China.
According to EY's third biennial Fintech adoption trends survey , 75% of the 27,000 consumers surveyed (across 27 global markets) said they had used a FinTech transfer or payments service.
Brazilian banks are implementing a standardized blockchain-based identity solution co-developed by IBM and the central bank. It will reportedly be integrated into the Brazilian Payment System.
Amazon has partnered with Legal & General to create a blockchain system for managing corporate pension deals, using the Amazon Managed Blockchain for its bulk annuity transactions.
Italy's banks will integrate DLT into internal processes to boost settlements, improve transparency of transactions between banks, and boost efficiency of communication between counterparties.
HSBC has implemented tokenization technology into its receivables infrastructure for corporate clients in India.
In May, the Malta Financial Services Authority registered the first batch of virtual financial asset agents entrusted to ensure that only persons who are fit and proper can enter the financial system.

Table 2. Other FinTech Regulatory Developments

Japan's amended Payment Services Act and Financial Instruments and Exchange Act was formally enacted and will take effect in April 2020. The Act will limit crypto-asset margin trading.
The Australian Securities and Investment Commission (ASIC) published new initial coin offering (ICO) and cryptocurrency guidelines.
Malaysia's securities commission has begun registering crypto-asset platforms. The first three were conditionally approved and given nine months to comply with registration requirements.
U.K. retail investors will face limits on how much money they can put into P2P platforms under new Financial Conduct Authority rules that could trigger the closure of some lenders.
Brazil's central bank, finance ministry, and the country's financial sector regulators have teamed up to develop a Fintech regulatory sandbox.
ChainThat, a provider of blockchain solutions for (re)insurers, has been approved as the first company to join The Bermuda Monetary Authority's Innovation Hub.
The Hong Kong Privacy Commissioner for Personal Data and Singaporean Personal Data Protection Commission have signed an MOU to cooperate on protecting personal data.

An International Organization of Securities Commissions [report](#) urged authorities to use existing standards for dealing with cyberthreats to avoid "overlap, duplication, and conflict between cyber frameworks." IOSCO says work is needed to address gaps in the way standards are applied.

Table 3. Other Commentary and Research

The U.S. Congressional Research Service [examined](#) the decline in U.S. cash usage and the potential rise of alternative payment systems.

Research has [found](#) that nearly half of UK adults used mobile banking in 2018 and one in 10 now lives a near-cashless life, as people rapidly take up new payments technology.

Table 4. Other Market Developments

The Marshall Islands [established](#) the SOV Development Fund to support the government in the establishment, maintenance and implementation of the SOV digital legal tender.

The U.S. CFTC has [cleared](#) LedgerX to offer physically settled bitcoin futures. Unlike cash-settled futures, when the contract expires the buyer receives bitcoin rather than the fiat equivalent.

On June 26, the CME [saw](#) a record volume of \$1.6 billion and open interest for Bitcoin contracts of \$373 million.

The United Arab Emirates-based Arabian Bourse (ABX), set up under Abu Dhabi Global Market (ADGM) [aims](#) to be a fully regulated crypto asset exchange and custodian.

The Coinbase Visa debit card is now [available](#) in Spain, Germany, France, Italy, Ireland and the Netherlands. It allows Coinbase users to spend cryptocurrencies wherever Visa is accepted.

There are now three main cryptos that [comply](#) with Sharia law; Stellar's Lumen (XLM), OneGramCoin (OCG) and X8Currency (X8C).

PwC has [added](#) a new tool to its Halo auditing suite to provide assurance services for entities engaging in cryptocurrency transactions.