

MCM Fintech Update¹

Friday, April 26, 2019

Fintech figured prominently at the IMF-World Bank Spring Meetings, with sessions drawing big crowds and media coverage of the Learning Coin project. JP Morgan continued its push into the blockchain space, with plans to go live by the third quarter with a facility to speed up interbank payment compliance processes. Crypto-assets continued to recover from their slump, with total market capitalization up about 24 percent from end-March.

The Spring Meetings featured a number of well-received Fintech-related sessions. The Managing Director led a seminar on [Money and Payments in the Digital Age](#). On Friday April 12, there was an all-day series of [New Economy Talks](#) with sessions on the [economics of data](#), [cybersecurity](#), [artificial intelligence/machine learning](#), the [Learning Coin](#) project, and the [whys](#) and [hows](#) of central bank digital currency (CBDC).

Innovation (see also Table 1)

Over 220 banks have [signed up](#) to JP Morgan's blockchain-based [Interbank Information Network](#) (IIN) that is set to go live by the third quarter. The IIN speeds up compliance resolution in interbank payments, processes that currently can delay payments by weeks. Initially, the IIN was developed for use in sanctions screening, but new functionality will verify in real time that a payment is going into a valid account, making it less likely to be rejected days later.

Regulation (see also Table 2)

The Cambridge Centre for Alternative Finance [published](#) a comparative analysis of crypto-asset regulation across 23 jurisdictions. It found that a lack of standard crypto-asset terminology is hampering a coordinated global regulatory response. Regulators have focused their attention on initial coin offerings (ICOs) and exchange trading, functions that resemble well-understood activities in traditional financial markets. In that regard, about half of jurisdictions with high levels of crypto-asset activity have adopted a retrofitting approach by amending existing laws and regulations to bring some crypto-assets into scope.

Two-thirds of banks are deploying machine learning in their anti-money laundering efforts, or are close to doing so, according to [survey](#) by the Institute for International Finance. In December 2018, U.S. regulators [encouraged](#) banks to apply innovative technologies to strengthen the financial system against illicit financial activity. The Monetary Authority of Singapore is [using](#) an advanced data science tool (Apollo) to detect misconduct in financial markets. According to [Chainalysis](#), blockchain technology can make it harder to launder money using crypto-assets and would enable market participants to collaborate with law enforcement while complying with trends in privacy legislation. These developments are

¹ Prepared by John Kiff and Hunter Monroe with contributions from the MCM FR division and Alan Feng, reviewed by Jihad Alwazir, and cleared by Will Kerry (all MCM). This issue covers developments since the March 29, 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](#).

in line with the Managing Director’s [call](#) to “fight fire with fire” in addressing the “dark side” of the crypto world.

Commentary and Research

The IMF [published](#) a paper on the Latin American and Caribbean Fintech landscape. It finds that Fintech has been growing rapidly and is on the agenda of many policy makers. This provides opportunities to deepen financial development, competition, innovation, and inclusion in the region. However, these developments are creating new and only partially understood risks to consumers and the financial system.

The BIS published a [paper](#) on the impact of large technology firms, or BigTech, on financial intermediation. It found that BigTech firms have often focused initially on payments. Thereafter, some have expanded into the provision of credit, insurance, and savings, and investment products. As in the case of Fintech credit provision, BigTech firms lend more in countries with less competitive banking sectors and less stringent regulation.

Market Developments

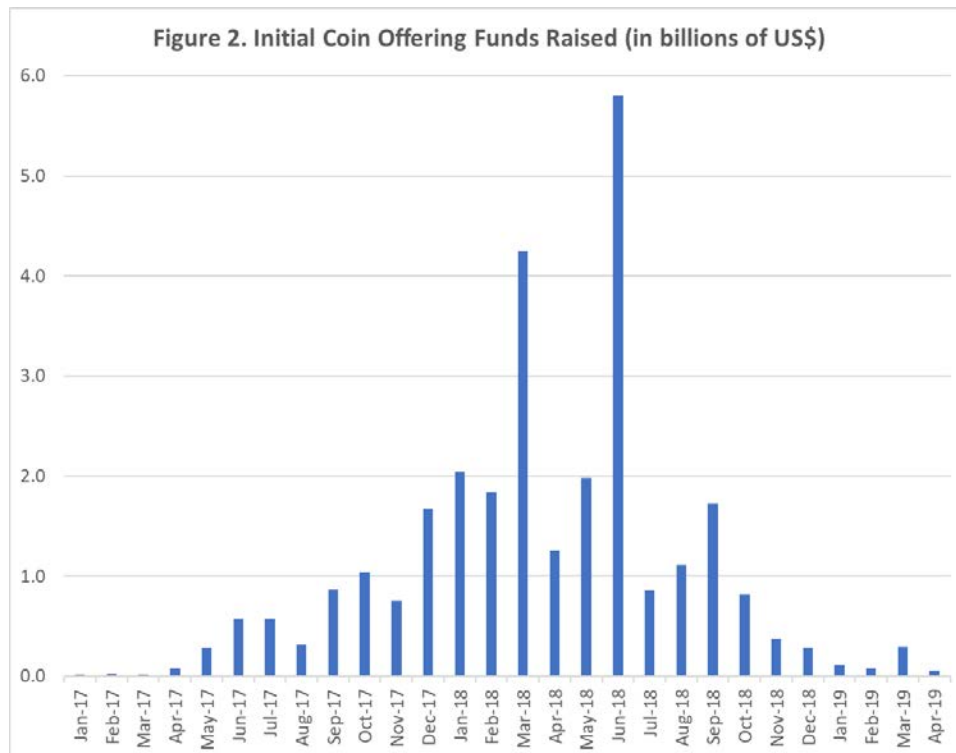
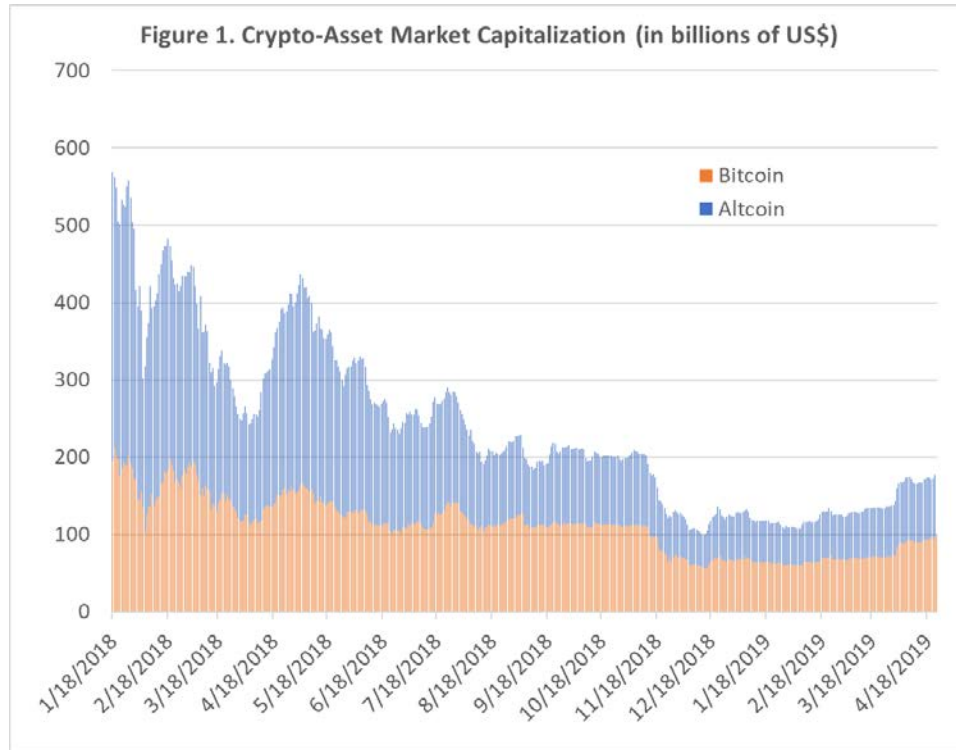
Crypto-asset [market capitalization](#) at \$172 billion was up 24 percent from end-March (Figure 1). [Bitcoin](#) led the way, finishing April at about \$5400 (up 32 percent over the month), starting with a 16 percent spike on April 1. Commentators suggest the increase was due to the combination of a [massive overnight order](#) by a large anonymous buyer, a [short squeeze](#) following a big CME bitcoin futures expiry the previous Friday, and [increased activity](#) across the board as the number of inactive wallets fell by 40 percent since mid-March. Trading of [crypto-asset-based institutional investment products](#) continues to grow, but U.S. regulators are still mulling over several crypto-asset exchange-traded fund applications as well as Bakkt’s [application](#) to trade physically-settled Bitcoin futures.

Activity in the market for initial coin offerings (ICOs) continues to dwindle. About \$575 million has been raised so far in 2019 versus \$22 billion in all of 2018 (Figure 2). The market for [security token offerings](#) (STOs), which represent investment assets and are fully regulated, is picking up. According to [Inwara.com](#), there have been 47 STOs in the first quarter of 2019, versus 85 in all of 2018.

More central banks are stepping up plans to launch retail digital currencies (CBDC). There are now at least 36 central banks that have explored or are exploring CBDC (Table 3). Cambodia’s [Project Bakong](#) payment system renewal project’s ultimate target is a CBDC-based instant payment mobile app. Pakistan is [considering](#) the launch of a CBDC by 2025, Tunisia is [exploring](#) a digital dinar, and the Russian central bank [published](#) a paper on the impact of, and use cases for, CBDC issuance. An Institute of International Finance [paper](#) outlined some challenging questions on CBDC regulatory treatment.

The growth rate in the issuance of new stablecoins, which are pegged to the U.S. dollar or other fiat currencies, has stabilized from the hot pace of 2018. There were 19 new projects [announced](#) during 2019Q1 versus 147 in 2018. For example, [Coinsquare](#) is [launching](#) an eCAD Canadian dollar-backed digital currency, and the [Universal Protocol Alliance](#) has [launched](#) UPUSD and UPEUR stablecoins. The most important stablecoins by amounts in circulation are 100 percent backed by fiat currency and held in a bank or trust account (e.g., [Tether](#), [USD Coin](#) and [Gemini Coin](#)). However, some stablecoins use

algorithmic trading mechanisms to maintain their fiat peg, including the [Neutral](#) NUSD [announced](#) in April. In late breaking news, the New York State Attorney General [sued](#) the Tether stablecoin and Bitfinex cryptocurrency exchange, indicating that they have engaged in a cover-up to hide the apparent loss of \$850 million dollars of co-mingled client and corporate funds.



Sources: Figure 1: <https://coin.dance>; Figure 2: <https://coinschedule.com>

Table 1. Other Fintech Innovation News

According to Pitchbook , venture capital (VC) firms continue to invest large sums in blockchain companies, with around \$334 million in the Q1 this year.
Singapore-based food trader Olam International signed a \$350 million “D-Loan” revolving credit facility with an interest rate that will decline if Olam hits a set of 32 digital business milestones.
Customers of U.S. crypto-asset exchange Coinbase can now transfer funds to any user with a Coinbase account around the world using Ripple’s XRP and Coinbase’s USD Coin with no fee.
Coinbase launched a Visa debit card allowing customers in the U.K. and EU to spend their crypto-assets directly from their Coinbase accounts.
Western Union teamed up with blockchain startup Coins.ph to enable residents of the Philippines to receive cash remittances to their Coins.ph wallet.
Accenture and Generali launched a blockchain solution aimed at streamlining the insurers Employee Benefits Network offerings.
Barclays, the Royal Bank of Scotland, enterprise blockchain firm R3 and other participants completed a blockchain trial that they say resulted in faster property transactions.
Japanese online retailer Rakuten began accepting registrations for its Rakuten Wallet crypto-asset exchange.
Bitcoin can be used to shop at e-commerce sites like Amazon, using crypto payment processing startup Moon’s lightning-enabled wallet browser extension.
Binance launched its decentralized trading platform (DEX), which enables users to trade P2P, using smart contracts to automate deal matching and asset liquidation.
The International Swaps and Derivatives Association is working with Digital Asset to develop a new tool that can support the use of smart contracts for derivatives trading.

Table 2. Other FinTech Regulatory Developments

The FSB published a directory of FSB jurisdiction and international crypto-asset regulatory bodies, and the aspects covered by them.
The U.S. Securities and Exchange Commission published fresh regulatory guidance for token issuers, outlining how and when crypto-assets may be classified as securities.
The Swiss Federal Council initiated a public consultation on the adaptation of federal laws to distributed ledger and blockchain developments.
The French government adopted the PACTE draft Bill (Action Plan for Business Growth and Transformation) to establish a regulatory framework for ICOs and digital assets service providers.
Hong Kong’s Securities and Futures Commission issued official guidance on STOs.
The Mauritius Financial Services Commission clarified the rules applying to STOs.
A Chinese National Development and Reform Commission report lists crypto-asset mining as an industry that should be eliminated with immediate effect.
The Reserve Bank of India published a draft framework for its regulatory sandbox that may include blockchain startups and tools, but explicitly excludes crypto-related projects.
The Chilean government introduced a new crypto-asset and fintech regulation bill to Congress.
The National Internet Finance Association of China told qualified P2P platforms to get ready to submit information to an information disclosure database and real-time transaction database.
The Malta Financial Services Authority approved its first 14 crypto assets agents, five months after the Virtual Financial Assets Act came into power.

Table 3. Countries Where Retail CBDCs Are Being Explored	
<u>Australia</u> (on hold)	<u>Jamaica</u> (rejected)
<u>Bahamas</u>	<u>Korea</u> (and <u>rejected</u>)
<u>Bahrain</u>	<u>Lebanon</u>
<u>Cambodia</u>	<u>Lithuania</u>
<u>Canada</u>	<u>New Zealand</u> (on hold)
<u>China</u> (and <u>here</u>)	<u>Norway</u> (ongoing)
<u>Curaçao en Sint Maarten</u>	<u>Pakistan</u>
<u>Denmark</u> (rejected)	<u>Palestine</u>
<u>Eastern Caribbean</u>	<u>Philippines</u>
<u>Ecuador</u> (pilot complete)	<u>Russia</u>
<u>Egypt</u>	<u>Sweden</u>
<u>European Area</u> (and <u>rejected</u>)	<u>Switzerland</u>
<u>Hong Kong</u>	<u>Trinidad and Tobago</u> (rejected)
<u>Iceland</u> (rejected)	<u>Tunisia</u>
<u>India</u>	<u>Ukraine</u>
<u>Indonesia</u>	<u>United Arab Emirates</u>
<u>Iran</u>	<u>United Kingdom</u>
<u>Israel</u> (rejected)	<u>Uruguay</u> (and <u>here</u>) (pilot)
Sources: Central banks or various news sources per hyperlinks above. Additionally there are nine central banks not included in the table that self identified as CBDC explorers in the Bali Agenda stocktaking survey currently underway.	