

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

Friday, March 29, 2019

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*The Eastern Caribbean Central Bank and the Central Bank of the Bahamas moved ahead with plans to conduct central bank digital currency (CBDC) pilots. Six commercial banks disclosed plans to issue fiat-backed stablecoins, pegged to the U.S. dollar, on IBM's blockchain-based World Wire payment network. The Financial Action Task Force moved closer to publishing the final requirements for regulating and supervising virtual asset services providers.*

### Innovation (see also Table 1)

**Two central banks advanced plans to conduct blockchain-based central bank digital currency (CBDC) pilots.** The [Eastern Caribbean Central Bank](#) (ECCB) and Barbados-based [Bitt Inc.](#) signed a contract to conduct a pilot within the Eastern Caribbean Currency Union. The pilot will start with 12 months of development and testing, followed by a 6-month implementation period in three of the island countries. The [Central Bank of the Bahamas](#) selected [NZIA](#) to design and implement its Project Sand Dollar CBDC. The Bahamas pilot is scheduled to be introduced in the remote Exuma district in 2020.

**In the wake of February's JP Morgan's JPM Coin [announcement](#), six banks [signed letters of intent to issue fiat-backed stablecoins on IBM's \[World Wire\]\(#\)](#)** (a blockchain-based payment network). The network promises to move money across borders more quickly and cheaply than via the correspondent banking system. A U.S. SEC official [said](#) stablecoins not fully-backed by fiat currency may be considered securities. Issuers of such stablecoins might have to register their offerings and comply with all ensuing regulatory requirements, which would severely hamper their usefulness as currency.

### Regulation (see also Table 2)

**The Financial Action Task Force (FATF) [published](#) in February 2019 a statement calling for comments on draft clarification to the new requirements for regulating and supervising virtual asset services providers (VASPs) for AML/CFT purposes.** The FATF amended its standard (the FATF 40 Recommendations) in October 2018 to clarify how the Recommendations apply to activities or operations involving virtual assets. Under the new standard, VASPs should be regulated for AML/CFT purposes, licensed or registered and subject to effective systems for monitoring and ensuring compliance with relevant measures called for in the FATF Recommendations. VASPs, as defined by the FATF, include, amongst others, those who, as a business, exchange virtual assets (against fiat currencies or other virtual assets), transfer virtual assets or provide certain custodian services related to virtual assets. A draft Interpretive Note was prepared to set out more detailed implementation requirements for effective regulation and supervision/monitoring of VASPs. The FATF is

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<sup>1</sup> Prepared by John Kiff and Hunter Monroe, and cleared by Tommaso Mancini Griffoli and Fabiana Melo (all MCM). This issue covers developments since the March 1, 2019 edition. The information herein has not been verified through official channels. For more details behind the developments, click on the links. For an explanation of fintech concepts, see [Fintech and Financial Services: Initial Considerations](#).

expected to consult the Fintech industry in May 2019 on its proposal to apply wire transfer rules to virtual asset transfers, and to finalize and adopt the Interpretive Note in June 2019.

### Commentary and Research

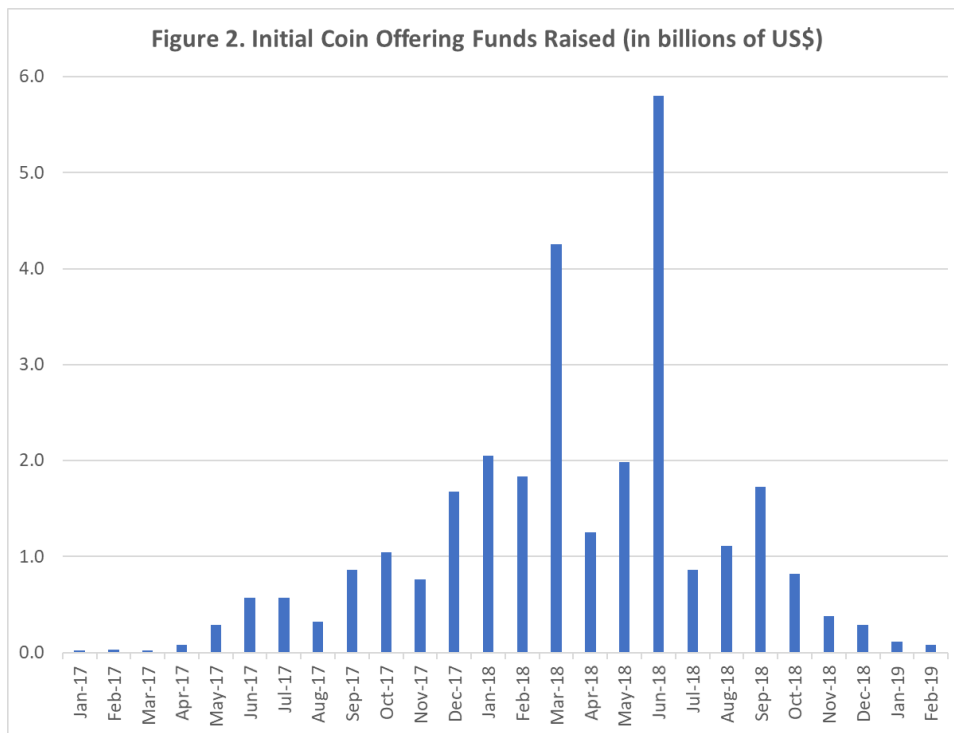
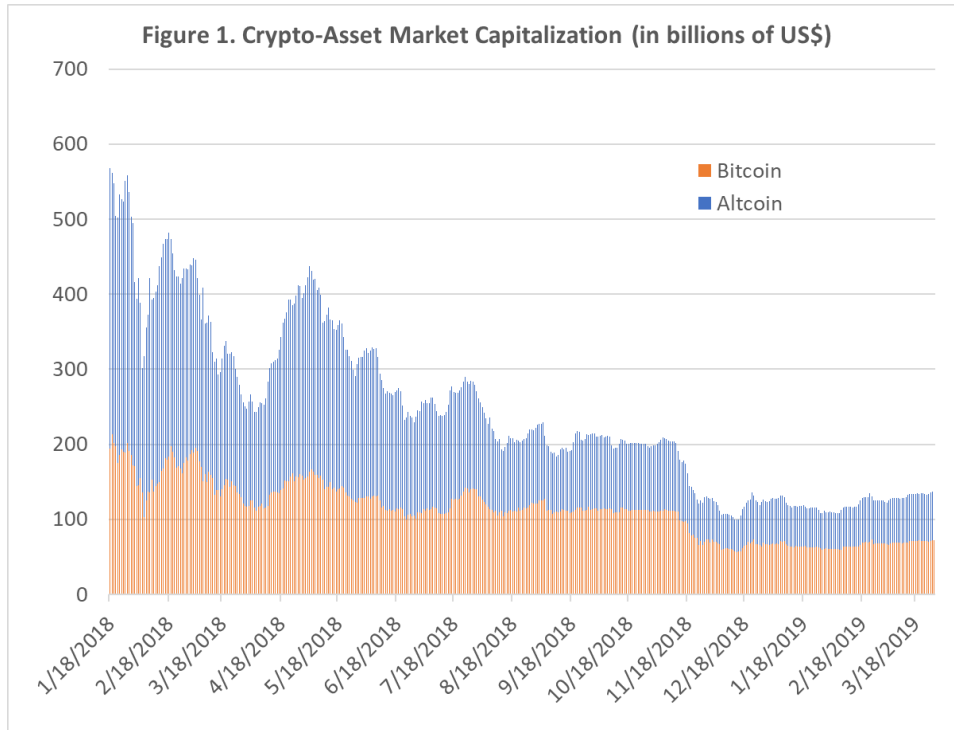
**The BIS continues to [sound](#) warnings about CBDC.** Aside from the potential run risk, they warn that CBDC could impact monetary policy implementation by changing the demand for base money and its composition in unpredictable ways, and possibly modifying the sensitivity of the demand for money to changes in interest rates. Also, they say that CBDC could lead to a larger central bank balance sheet, which could interfere with key market functioning or liquidity.

**The Groupe Spéciale Mobile Association (GSMA) [published](#) its Mobile Money Regulatory Index**, an interactive tool that measures the effectiveness of mobile money regulatory frameworks. It highlighted the broad range of approaches that countries have taken to regulate mobile money, finding that no one size fits all i.e. approaches successful in one country often do not suit another country. It finds that countries with thriving or fast-growing mobile money markets generally adopt regulatory frameworks that enable providers to invest and roll-out a wide range of services, and encourage consumers to use mobile money, especially among underserved and unbanked populations.

### Market Developments

**Crypto-asset [market capitalization](#) at \$140 billion was unchanged from end-February** (Figure 1). [Bitcoin](#) finished March at about \$4,050 (up 4 percent over the month), while [Ethereum](#) was up about 2 percent and [XRP](#) was down about 3 percent. Also, less than \$200 million was raised via initial coin offerings (ICOs) during the year's first two months (Figure 2). The market for [security token offerings](#) (STOs), which represent investment assets and are fully regulated, continued to trundle along. According to [Inwara.com](#) there have been 19 STOs in the first two months of 2019, versus 93 in all of 2018.

**There were mixed developments on the institutional investor front.** On the positive side, Fidelity Investments' new crypto-asset division has quietly [began operations](#), offering trade execution and crypto custody services to institutional investors. Also, Deutsche Boerse [outlined](#) plans to build a fully integrated digital asset ecosystem including issuance, custody, access to liquidity, and banking services. However, the launch of the Bakkt bitcoin trading and custody platform has been repeatedly [delayed](#), and the CBOE Futures Exchange is [putting](#) its bitcoin futures market on hold. Meanwhile, the CME is [reporting](#) a record-breaking start to 2019 for its bitcoin futures, as institutional interest picks up.



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

<b>Table 1. Other Fintech Innovation News</b>
The Bank for International Settlements is <a href="#">launching</a> an innovation hub.
The NY Fed <a href="#">launched</a> a high-level Fintech Advisory Group comprised of Fintech industry senior representatives and thought leaders, and consumer organizations.
Sveriges Riksbank <a href="#">published</a> positive feedback from 20 Swedish institutions and organizations on its <a href="#">2nd e-krona report</a> , although most called for a government inquiry.
Swiss stock exchange operator SIX Group <a href="#">picked</a> R3's Corda Enterprise blockchain platform for the digital asset trading, settlement, and custody service it is building.
Blockimmo, Elea Labs and Swiss Crypto Tokens have <a href="#">conducted</a> a blockchain-based real estate transaction, consisting of 18 apartments and a restaurant, worth 3 million Swiss francs.
The Australian Securities Exchange will <a href="#">incentivize</a> trade settlement on its new blockchain-based platform by offering the service free as an initial inducement to banks.
Mizuho and about 60 other banks have <a href="#">launched</a> the J-Coin Pay digital wallet. Mizuho's new service uses QR codes to process smartphone payments, resembling Alipay and WeChat Pay.
According to Reuters, Mexico's central bank is in <a href="#">talks</a> with Amazon.com to launch a new government-backed mobile payment system that would allow consumers to pay for online purchases using QR codes.
Ant Financial recently <a href="#">announced</a> several initiatives to accelerate Alipay's global merchant acceptance network expansion, as well as the launch of its own services. For example, Barclaycard will <a href="#">allow</a> retailers to accept Alipay transactions in stores across the United Kingdom.
Deutsche Bundesbank and Deutsche Boerse successfully <a href="#">completed</a> the performance tests of their jointly specified prototypes for securities settlement based on blockchain technology.
Western Union <a href="#">is partnering</a> with cross-border payments network Thunes (formerly TransferTo) to enable clients to transfer funds directly to mobile wallets globally using blockchain technology.

<b>Table 2. Other FinTech Regulatory Developments</b>
China's central bank <a href="#">said</a> it will "gradually set up a system of rules for the regulation of Fintech... and create a favorable policy environment for Fintech development."
The Japanese cabinet <a href="#">approved</a> draft amendments to financial instruments and payment services laws, which would cap leverage in virtual currency margin trading at two to four times.
The Swiss Federal Assembly has <a href="#">approved</a> a motion to instruct the Federal Council to adapt existing regulations, so that they can also be applied to cryptocurrencies.
The Swiss Federal Council has <a href="#">initiated</a> a consultation on the adaptation of federal law to DLT developments. The consultation will last until the end of June 2019.
Payments NZ, which governs New Zealand's payment systems, has <a href="#">released</a> guidelines for banks and firms which want to implement new ways to make payments and share account information.
The Mexican central bank, acting under authority from a recently enacted fintech law, <a href="#">proposed</a> new regulations last week that would effectively ban cryptocurrency exchanges in the country.
Hong Kong <a href="#">has issued</a> its first batch of digital banking licenses. The virtual banks <a href="#">will be</a> subject to the same supervisory requirements as conventional banks.