

MCM Fintech Update¹

Friday, September 7, 2018

The World Bank launched the first global blockchain bond. Infrastructures to support institutional investment in crypto-assets, such as custodial services, are being established, while the SEC has rejected additional proposals for Bitcoin exchange-traded funds (ETFs). The UK FCA initiated the creation of a Global Financial Innovation Network regulatory sandbox, with participation from 11 other regulators globally. Crypto-asset prices have fallen, reflecting in part the SEC rejections and drawdown of funds raised in Initial Coin Offerings (ICOs).

Innovation

The World Bank gave Commonwealth Bank of Australia the mandate to market a distributed ledger (DLT)-based [Blockchain Offered New Debt Instrument](#), which will be created, allocated, transferred and managed using [blockchain technology](#). According to the [bond manager](#), the Commonwealth Bank of Australia, it will collapse “traditional bond issuance from a manual bookbuild process and allocation process, an extended settlement then a registrar and a custodian, into something that could happen online instantaneously”.

Infrastructures needed for institutional investment in crypto-assets, such as custodial services, are being established. [Northern Trust](#) and [Goldman Sachs](#) are considering offering crypto-asset custody services, joining a growing number of custody providers, but established providers of custody services for traditional assets have [held back](#).

Intercontinental Exchange, the parent company of the New York Stock Exchange, [announced](#) plans to list physically-settled Bitcoin futures contracts and to facilitate crypto-asset transactions. The Swiss Infrastructure and Exchange Group is [introducing](#) a digital trading platform next year, and the Stuttgart Börse is [developing](#) a multilateral crypto trading venue.

More central banks are looking into the possibility of issuing digital currencies. The Centrale Bank van Curaçao en Sint Maarten (CBCS) [announced](#) that it will explore the feasibility of issuing a digital guilder based on DLT. The CBCS will partner with [Bitt](#), which is also working with [Eastern Caribbean Central Bank](#) on a similar project, with the aim of mitigating the cost of moving physical cash securely over long distances. The Reserve Bank of India has [reportedly](#) formed a research unit to track emerging technologies including cryptocurrency, blockchain, and artificial intelligence.

U.S. corporate interest in blockchain projects is [cooling](#), with actual production use of blockchain “very rare” according to the [Gartner Group](#). IBM and CLS, FX settlement hub, are [collaborating](#) on a proof of concept for LedgerConnect, a DLT-based platform for financial sector firms and software vendors to deploy, share and consume services on a shared network. The Agricultural Bank of China [completed](#) a \$300,000 loan using blockchain, and five major BRICS banks [signed](#) an MOU to study DLT applications. The American Association of Insurance Services [introduced](#) the blockchain-based Insurance Data Link database for regulatory reporting.

¹ Prepared by John Kiff and Hunter Monroe (MCM). This issue covers developments since the previous edition on July 27, 2018. Information in this news summary have not been verified through official channels. For an explanation of Fintech concepts, see [Fintech and Financial Services: Initial Considerations](#).

Crypto-assets pegged to traditional fiat currencies (“stablecoins”) continue to [attract](#) interest, driven by hopes that their [stability](#) will make them better suited for as a means of payment. For example, [Green World Fintech Services](#) is introducing a [New Taiwan Dollar-pegged stablecoin](#), and Australia-based [Havven](#) is launching a [USD-pegged one](#). USD-pegged [Tether](#), the largest stablecoin by market capitalization, has been [dogged by doubts](#) about its USD backing, and alleged involvement in [Bitcoin price manipulation](#). Some believe that Tether-related activity provided [Bitcoin price support](#) in mid-August.

Regulatory Developments

The UK FCA, along with eleven other regulators, [announced](#) the creation of the Global Financial Innovation Network (GFIN). This builds on the FCA’s [proposal](#) earlier this year. The GFIN will “act as a network of regulators to collaborate and share experience of innovation in respective markets, including emerging technologies and business models; provide a forum for joint policy work and discussions; and provide firms with an environment in which to trial cross-border solutions.”

The SEC has tentatively [rejected](#) ten additional [Bitcoin ETF proposals](#), including a second Winklevoss [proposal](#), pointing to inadequate [means](#) to prevent market manipulation. The U.S. Officer of the Comptroller of the Currency will [begin](#) accepting national bank charter applications from nondepository Fintech companies. China has [banned](#) the creation of new P2P online lending platforms and tightened oversight, following a [spate](#) of [shutdowns](#) in the second half. The UK FCA plans to [restrict](#) P2P lending by retail investors who do not meet an income or wealth threshold.

Market Developments

Crypto-assets valuations weakened in August. Crypto-asset market capitalization [fell](#) from about \$280 billion at end-July to \$230 billion at end-August, and [Bitcoin](#)’s price decreased from about \$7,600 to \$7,000 (Figures 1 and 2). Some of the weakness was attributed to waning expectations of a rapid U.S. regulatory approval of crypto-asset ETFs.

Prices of the two next largest crypto-assets (“altcoins”), [Ethereum](#) and [XRP](#), fell by about 40 and 24 percent respectively in August. Some of Ethereum’s recent weakness has been attributed to the drawdown of Ethereum balances raised in past initial coin offerings (ICOs) by issuers [cashing in the funds](#) to [spend](#) as planned on developing projects.

Crypto-asset trading volumes have plunged this year (Figure 3). Volumes at the Coinbase exchange are [down](#) 83 percent in July from their January peak, and volumes at other exchanges are similarly [off](#). The use of Bitcoin to pay merchants, which represents only a fraction of total trading volume, has been falling since [peaking](#) at \$411 million in September 2017 despite a reduction in [transaction fees](#) and [processing time](#).

ICO issuance [slowed](#) to roughly \$1 billion per month in July and August, after a boom in the first half (Figure 4). The slowdown appears to reflect primarily falling crypto-asset prices: the [median return](#) on ICO tokens was -55.5 percent in Q2 versus +49.3 percent in Q1, due to failure of earlier ICOs. Concerns about market misconduct in ICO issuance continue, with a new review of [ICO documents](#) finding that many do not provide adequate background on management, applicable law, segregation of funds, and auditing.

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

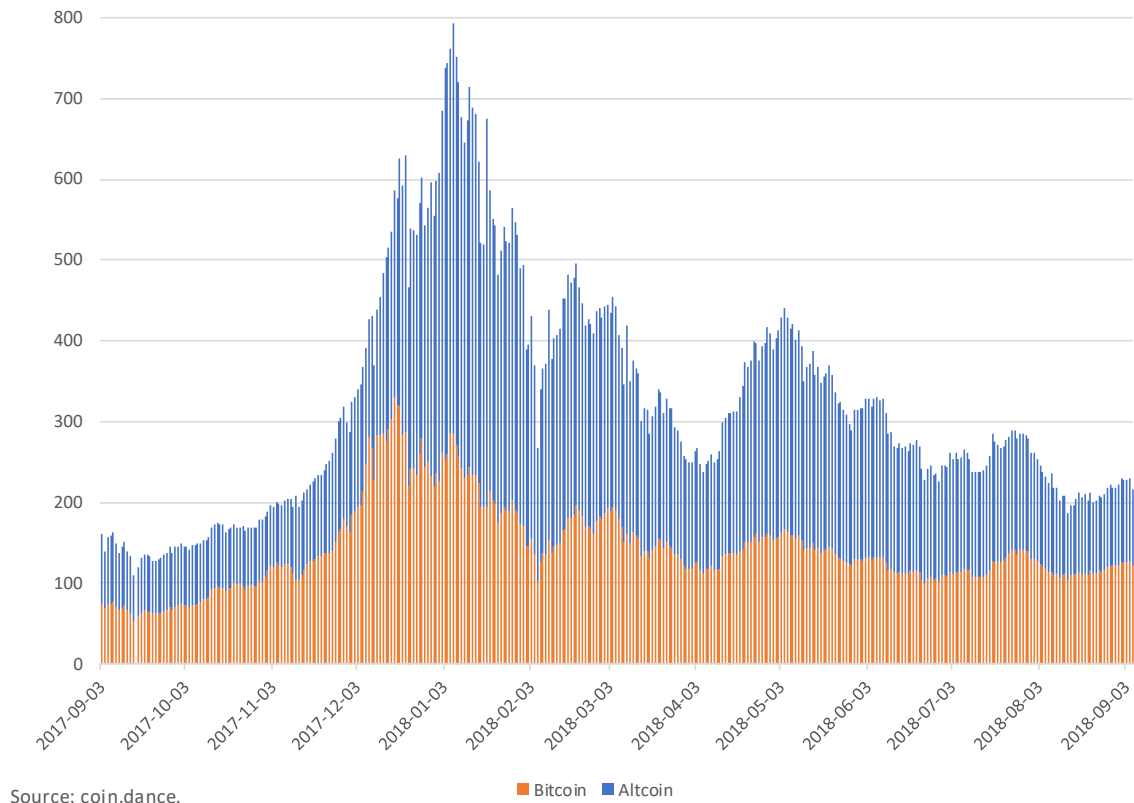
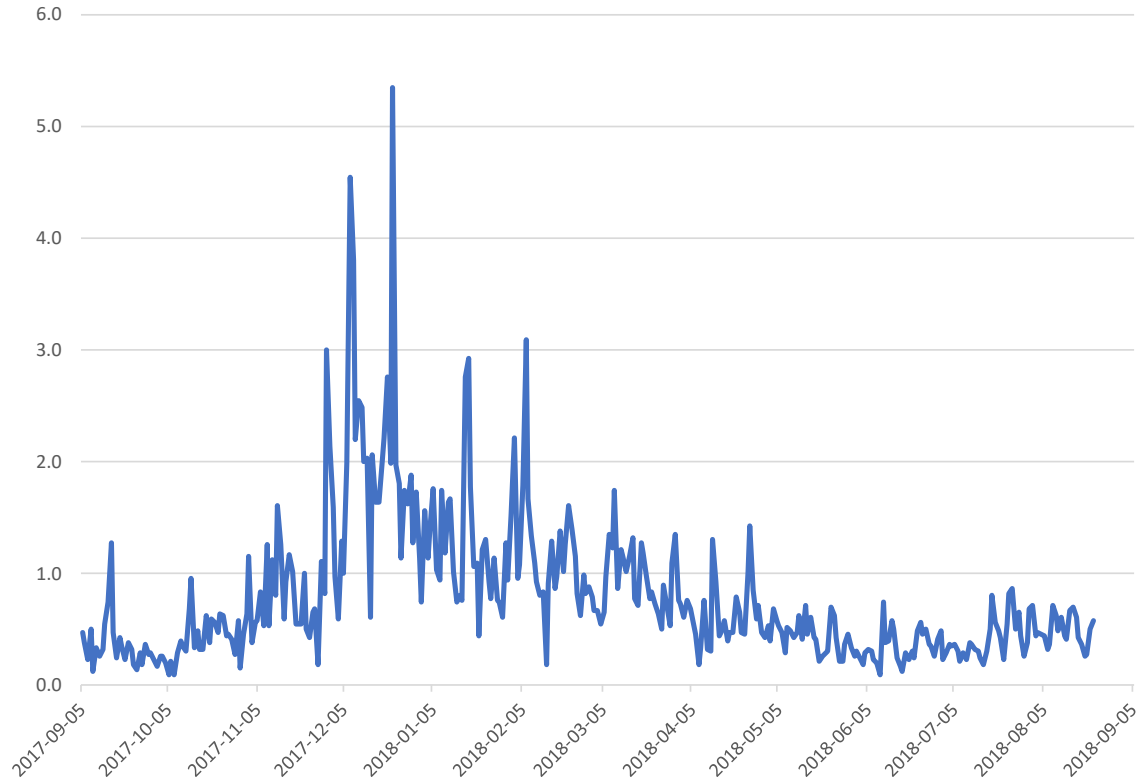


Figure 2. Crypto-Asset Prices (in US\$)

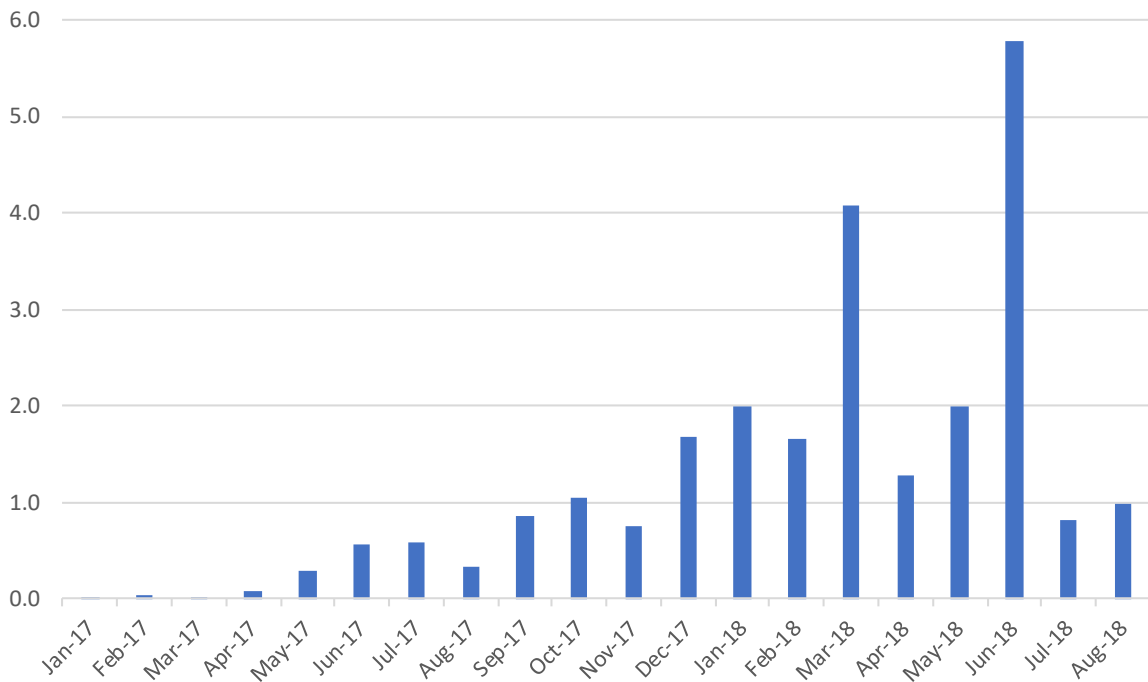


Figure 3. Bitcoin Exchange-Traded Volumes (in billions of US\$)



Source: Blockchain.com.

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



Source: CoinSchedule.com.