

CRYPTO

A new series on AI, Blockchain, Cryptocurrency and Tokenisation

PARTNER CONTENT

CITY AM'S CRYPTO INSIDER

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The more people and businesses I meet in the fascinating world of Blockchain and Crypto, the more I realise how absolutely convinced they are of being able to deliver world changing solutions by unleashing the power of Blockchain. What is also very clear to me is how blighted the industry became in 2017 as a consequence of so many 'Snake Oil' merchants spoiling the broth for genuine and sensible projects. The only solution, clearly, is legislation and for the relevant financial authorities to make sure that new rules are not only effective but also flexible enough not to stifle innovation – this is happening.

Focusing on Malta, the day after my column was published on 25th June they passed three comprehensive pieces of legislation for the industry and as of 3rd July 2018 the legislative framework came into force. I am hoping that in the coming weeks that I will be visiting Malta and interviewing the relevant authorities including the MFSA and the MDIA to see how their vision for becoming the most Blockchain friendly 'open for business' island in the world is progressing by encouraging exchanges, companies and developers to locate there receiving them with a 'can do' attitude from the Maltese banking and legal services.

Returning to the problems of 2017, when my mother suggested I join her at the intelligence2 Debate Blockchain: Quantum Leap Forward or Digital Snake Oil I jumped at the chance. I highly recommend that you listen to the intelligence2 podcast of the session which should be released this coming Friday. You can take it from me that the audience was more sceptical about Blockchain after the debate than it was prior. This was largely down to the fact that the arguments against were eloquently put with sensible factual examples. As a consequence, I invited the most sceptical of the panel, David Gerard, to write this weeks main feature article entitled 'Approach Blockchain with Caution' – hopefully you will enjoy reading it too!

For the record, I remain completely convinced that it is through the combination of established tried and tested technologies with new ones – Blockchain as a component is no exception. So it was refreshing to meet Agne Kazakauskaitė and Emile Delam, Co-Founders of Crypto Rally, in the air-conditioned cool of Balthazar, Covent Garden. They explained that "the Crypto Rally is a movement and a platform to showcase the innovations of the 4th Industrial Revolution, such as Blockchain, AI, smart cities and enhanced living in a fun and engaging way, giving companies involved global exposure as well as access to an exclusive network of innovators, thought leaders, investors and entrepreneurs".

There's tremendous excitement around "blockchain." But what's the substance?

"Blockchain" is a hugely popular buzzword. There's all manner of promises being made – how good would it be if your business could get some or all of those! Beware the realities, though – there are good and useful parts of blockchain, but there's a lot of hype.

THE PROMISES

Blockchain originated in Bitcoin, the first cryptocurrency, in 2009. Bitcoin made a series of promises – decentralised, secured against bad actors, immutable and incorruptible, fast and free. By about 2015, most of these had failed – mining (Bitcoin creation) is centralised, the blockchain is secure but the ecosystem is prey to the ill-intentioned, transactions are clogged. But that list of promises will look familiar – because the consultants selling "blockchain" took that list of promises, and claimed their new thing would do all of them ... whether it could or not. Remember: if it sounds too good to be true – it is.

THE GOOD BIT: THE LEDGER

The useful part is the append-only ledger. This is just like a paper account book that you can only add new lines to – you can't cross out old ones. This is a "Merkle tree," invented in 1979. It's a ledger you can only add to, and if you try to alter the past it's immediately evident.

The Merkle tree has been widely used since – but it's got a new lease of life being promoted under the name "blockchain."

The new part of Bitcoin was a consensus mechanism – to decide who was allowed to add new lines to the ledger. Bitcoin's inventor, Satoshi



Silhouette Artist: Alli Kirkham Background Design: Phillip Snelling, Bowater Media

Nakamoto, wanted a completely automatic mechanism, with no central controller. So mining works by a lottery – computers guess numbers trillions of times a second, and one winning number comes up every ten minutes. The more computers you run, the more lottery tickets you can print. So bitcoin mining uses more and more electricity all the time, to stay in the same place.

For business use, this would be ridiculously wasteful. You would also usually not want to put your back-office onto the Internet. So business blockchains are set up with known

participants, and the consensus mechanism is some variant on just taking turns.

So practical business blockchains are a variety of distributed database. It's often slower, but highly robust and redundant.

SMART CONTRACTS

A "smart contract" is not a contract – it's a jargon term for "computer program" – one designed to trigger when certain conditions are met on its blockchain.

Blockchain pitches often include a diagram of the system, where the

hard bit is done by a box marked "smart contract." They're just saying "we do it with computers," but more impressively.

Smart contracts are hard to program and hard to debug – the idea is that they are immutable, which means that bugs are much more difficult to fix.

This is very trepidatious when you're dealing with money. Some people have lost hundreds of millions of dollars on Ethereum to smart contract bugs – including Dr. Gavin Wood, who wrote the Ethereum protocol design, when his startup Parity

had a minor bug in their Ethereum wallet software last November. Even he couldn't do smart contracts well enough not to lose millions.

Smart contracts are also slow – the price of being highly distributed. Vitalik Buterin, the inventor of Ethereum compares a smart contract's computing power to "a smartphone from 1999." It won't replace your back-office systems.

GDPR

The GDPR is anathema to blockchains. Never put Personal Data into a blockchain! You'll have a very

painful time performing redaction. Any blockchain use case that involves Personal Data on the blockchain is asking for trouble – avoid.

BUT WHERE'S THE MAGIC?

You might think – but where are the magical promises in that? What will automatically give me trustless perfection? What will process my data for free?

The answer is, of course – magic doesn't happen. But business reality can. Many claimed blockchain use cases have no working examples – there's furious confusion of "could" and "is." There's no smoke without fire – but there's a lot of fog machines.

Remember: if it sounds too good to be true – it is

Ask your blockchain salesman to produce working examples of every single promise. Not a pilot programme he heard of – but checkable examples, that do in fact check out.

Do they sound pie-in-the-sky? Or does this sound like an ordinary, mundane IT project? That second one's what you want – someone reality-based, and matter-of-fact.

If they say "but imagine predicting Facebook in 1993!" then show them the door.

But a system based on the append-only ledger can do good work. If it's marketed as "blockchain," that's an outcome we can work with.

David Gerard is the author of the book *Attack of the 50 Foot Blockchain* – Bitcoin, Blockchain, Ethereum and Smart Contracts, and the news blog of the same name. <https://davidgerard.co.uk/blockchain/>

IMPORTANT INFORMATION: THE VIEWS AND OPINIONS PROVIDED BY CITY A.M.'S CRYPTO INSIDER ARE OF THOSE NAMED IN THE ARTICLE AND SHOULD NOT BE TAKEN AS INVESTMENT ADVICE. THIS COMMUNICATION IS MARKETING MATERIAL.

City A.M.'s Crypto Insider interviewed Phillip Nunn, CEO of The Blackmore Group, a bespoke Investment House

Phillip Nunn is becoming one of the UK's if not Europe's most influential online Blockchain and cryptocurrency experts, and has a social media following of more than 400,000 people organically grown due to the fascination surrounding this new exciting and profound movement. Nunn has a background in financial markets and Fintech and has blended the two to become a figurehead for the next wave of Blockchain and cryptocurrency - the institutional entry point.

This month Phillip was appointed the Managing Director of the Stockholm IT Ventures ("SITV") a Swedish technology company listed on the main Frankfurt Stock Exchange. This will mean SITV is set to become one of, if not the first, fully listed entity with a full focus on Blockchain and cryptocurrency.

Roger Tamraz, Chairman of SITV, said "The board and I are delighted that Phillip has agreed to join our company to

develop and expand our business into a wider decentralised crypto focused financial services business. This heralds the beginning of our journey to become a major global player in the Blockchain world by building a vibrant new community driven financial services ecosystem."

Speaking with Phillip, he enthused: "I'm excited to be joining Stockholm IT Ventures. This business previously had a market cap of €1bn and the board has made the conscious decision to

Larger institutions need to adopt Blockchain strategies to avoid being left behind

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transform from a tech company, to solely a Blockchain and cryptocurrency solution. Our strategy is to become a private bank for Blockchain and to become a powerhouse in this new and exciting industry. This is a market leading

venture and I've been given full backing to build a strong team, to deploy all of the ideas and solutions I have been formulating and developing with my team over several years.

At its peak in 2017 we saw the crypto

market cap rise over \$750bn and this was all crowd based. People are becoming intrigued and excited about this move away from the Internet of information to an Internet of value, whereby we can safely exchange value with one another. This can be anything from money and data records through to personal information. It is incredibly profound.

As I see it, the fundamental difference between the cryptocurrency movement and the dotcom boom is that the crowd have entered first, an ecosystem already exists whereas the dotcom boom was extremely speculative and driven by institutional money.

I predict that 2019 will be the year of Hedge Funds, Family Offices and Pension Funds more actively entering the space. What's more profound is all of these larger institutions need to pivot to this new way of working and will be forced to adopt Blockchain strategies to avoid being left behind by competitors who want to satisfy the appetite of their younger customers who want safety and security online and exposure to cryptocurrency.

It's an exciting time to be alive! With the right wind behind us we could easily see the record market cap exceeded before 2018 is out and potentially we will hit the \$1tn dollars for the first time. I am also absolutely convinced that we will see the world's first trillionaires spawned from this new and fascinating industry."



BUILDING TRUE COMMUNITY

Rick O'Neill, Founder of Look, Touch & Feel - a Specialist Digital Marketing Agency, pulls back the curtains on ICOs, and their Marketing campaigns, to reveal the real indicators of potential success and failure.

Last week we looked at the competitive landscape of ICOs, and this week I want to talk about Community, and what TRUE community building takes when running an ICO (and how to tell the fakes when participating).

In the past, it was enough to have a loyal community around your project and to expect the funds to come from that same group. Now, that's increasingly less the case. Today, if you are running an ICO, the community is (generally speaking) there to "do your marketing for you", by which I mean if you are properly engaged and incentivised, then they can and will have a huge impact on your social following, and the profile of your project in the market. Investors will look at the size of an ICO's community and following when reviewing a

project: if it's very low or non-existent, they will worry about the future prospects of success. The community gives an ICO credibility. If nothing else, it demonstrates to the investors that you have the skills and commitment to build market awareness – a key skill in building what will eventually be your business.

ICO Rating sites work on "Hype Scores", and your community size, social following, website traffic, and YouTube views all form part of that calculation. One popular ICO Rating website has their Hype Score based on the following criteria:

HOW HYPE SCORES ARE CALCULATED

- The number of users on the main social media pages of the project.
- The number of mentions in the press.

- Mentions in mainstream technology media and in prominent finance publications.
 - The number of search engine results.
 - Traffic on the main website.
- If you are joining an ICO community as a potential participant, then there are certain red flags you should be looking out for.

COMMUNITY RED FLAGS

- Big numbers but no genuine engagement or conversation
- No team founders in the telegram chat group
- Suspiciously attractive profile photos
- ETH addresses published into the chat group
- Traffic on the main website.



ICO NEWS



The Blockchain Summit

Whatever the controversy around ICOs blockchain technology is riding a wave that's sweeping through the mainstream. Just about every bank and financial institution has a blockchain lab of their own or is quietly experimenting with blockchain technology.

Reflected in record-breaking registrations for last week's Blockchain Summit with over 3,200 senior professionals and decision makers from the world's most influential organisations attending to start riding that wave. Everyone it seems has their own blockchain or is building one. From Accenture to Zerobank.

We saw the coming together of the 'Coinistas' and the corporate and, at times, the clash of this new, decentralised, world views with the old. Exemplified in one of the panels I chaired on regulation where both the panel and a packed room were divided between those who see ICOs as a temporary phenomenon - whose main or only benefit is freedom from regulation, and which they expect will be regulated out of existence in due course - and those who see it as the beginning of a new internet age that will bring decentralisation across the board and across the world.

Passions ran yet higher in the session I moderated asking the question "Will ICOs Revolutionise Startup Funding?". While ICOs have already made a major impact, rivaling VCs, if not replacing them, whether they will ultimately make them

redundant was hotly debated.

What emerged though, through the lens of crowdfunding, was that VCs, Angels, Seed Crowdfunding (via Kickstarter, Indiegogo etc) and the different kinds of ICO (or more broadly "Token Offerings") each have different strengths and weaknesses. There is no 'one size fits all' here and they are useful at different stages in the life of a venture and play very different roles.

Where seed crowdfunding works well at a very early stage a typical raise is around £20K- 30K and up to £200K, and in equity crowdfunding up to around £250K, up to £2m. Data from our TokenIntelligence platform reveals that with ICOs the average is well over £10m with raises of \$200m or more not uncommon. Some, such as Telegram, over \$1B (\$1.7B).

Perhaps the most hotly debated topic though is that although these latter are more like seed crowdfunding than its equity counterpart (offering usage tokens rather than shares/equity) they can raise such large amounts without sacrificing equity. Yet they keep on coming with more than 350 ICOs now in the pipeline - at least two or three \$100m ones in that room.

Tweet/Telegram questions to @BarryEJames or listen at ICOrad.io.

Analysis from ICOradio's Barry E James, CEO of TokenIntelligence



Supporting City Giving Day



Why are you supporting CGD?

Our fabulous transcriptionists and proof readers are hoping to raise as much money as we can for Starlight Children's Foundation. "The whole team is bonding over a common cause and collaborating on ways to raise donations for City Giving Day – some very whacky ideas being discussed!" Kirstie White, VoiceNotes.

Which charities do you support?

VoiceNotes is supporting the Starlight

Children's Foundation this year. Starlight brightens the lives of seriously and terminally ill children by granting wishes-of-a-lifetime and providing fun, laughter and entertainment to children in hospitals and hospices across the UK.

How will you celebrate CGD?

We will celebrate by having a good old-fashioned quiz night and a speed typing challenge. We are also promoting City Giving Day within our clients among the London investment community, pledging donations from new revenue generated through the City Giving Day campaign.

CHARITY IN ACTION

This year we are supporting the Starlight Children's Foundation who grant wishes-of-a-lifetime to children in hospitals and hospices across the UK.



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It's a pleasure to be helping The Starlight Children's Foundation. We hope our modest donation will help a wish or two come true.

Kirstie White, Founder, VoiceNotesShelter

This year, as part of City Giving Day, we'd like to pledge funds raised to Starlight Children's Foundation.

JOIN US AND REGISTER NOW AT WWW.THELORDMAYORSAPPEAL.ORG/CGD