CRYPTO A.M.

Our series on AI, Blockchain, Cryptoassets, DLT and Tokenisation

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PARTNER CONTENT

CITY A.M.'S CRYPTO INSIDER

JAMES BOWATER

Today's edition marks the end of Crypto AM's first year as a weekly feature in City AM and to celebrate, I'm very pleased to confirm that the Second Edition of Crypto AM's Keynote, Panel & Networking Event will be taking place on Tuesday, 25th June at London's Smith & Wollensky restaurant with the theme Blockchain & Digital Assets in Action. I will be hosting with Keynote Speakers Naeem Aslam, Chief Market Analyst of ThinkMarkets and Daniel Doll-Steinberg, Co-Founder of the Atari Token. On the panel will be representatives of Nodal Labs, CDAX, Craft Coin Company and Wirex. It's free to attend but by application. Please email me your interest at CryptoInsider@cityam.com

Since last week's Crypto AM, Bitcoin (BTC) has seen somewhat of a price dip and, at the time of writing, is trading at US$7,995.40; Ethereum (ETH) is at US$244.77; Ripple (XRP) is at US$0.4003; Binance (BNB) is at US$31.62 and Cardano (ADA) is at US$0.08349. Overall Market Cap is at US$254.28bn (data source: www.CryptoCompare.com)

All eyes are on London as London Tech Week 2019 started yesterday with many business leaders, from around the world, descending on the Capital at a time when, despite the uncertainty of Brexit, London is fast becoming the fintech centre of the world. As reported in City AM by Emily Nicole, the UK is now home to over 70 tech unicorns and London has more fintech unicorns than the previous world leading city San Francisco.

My old friend Charlie Muirhead and his business partner Tabitha Goldstaub opened their CogX AI Conference in London's Kings Cross and I took advantage of the livestream to attend the first day yesterday virtually. Tabitha worked closely with the Mayor of London's Office leading the team that wrote a report analysing the AI ecosystem in London and was subsequently named Head of the UK Government's AI Council. Mayor Sadiq Khan opened the conference reassuring the community that London is open for business and for investment irrespective of the Brexit outcome underlining that there are over 750 AI companies in London.

Tomorrow I will be attending the CryptoCompare Digital Asset Summit - City AM readers can register to attend by scanning the QR code on the page opposite; 50 tickets will be discounted by 50% by entering CRYPTOAM in the discount code box. It's is a one day event being held at the historic Old Billingsgate in the City of London and has a great lineup of speakers including Andreas Antonopoulos, Thomas Lee (Fundstrat), Gabor Gubacs (Van Eck) and Ted Lin (Binance).

Finally Crypto AM contributors Wirex (www.wirexapp.com) have announced their Wirex Token (WXT) which will be launched on the 26th June through OKEx. Visit the website to download the Whitepaper and if you are verified Wirex user you will be able to access the pre-sale from the 13th June.

LONDON RINGS THE BELL FOR THE DIGITAL ASSET REVOLUTION

The recent crypto-winter has seen a flurry of different European countries rushing to triumphantly pronounce their regulatory approach to digital/tokenised assets. Some doing so in an attempt to bring basic order (or even good conduct) to the dangerous but creative maelstrom of the frothy ICO era, and some as a genuine attempt to give their country an early advantage in this emerging space.

Notable examples being Malta, Switzerland, Estonia, Slovenia, Gibraltar and France to name but a few.

But what about the UK I hear you ask? Well the good news is that great things are afoot, but not yet necessarily fuelled by any new regulatory measures. (Which on the bright side also means we haven't faced any negative knee-jerk-reaction regulations.)

There have been two (barely publicised in my view) announcements which recently caught my eye. First there was the $20M investment in February led by the London Stock Exchange Group into Nivaura.com, alongside some serious financial and legal industry players such as Santander and Aegon's venture funds, the legal capital and firepower of legal firms Linklaters, Orrick, and Allen & Overy, and leading blockchain and crypto investor Digital Currency Group and Middlegame Ventures. Nivaura is a regulated financial technology company who have created an end to end, full financial product lifecycle solution. For the rest of us that means it enables their customers to issue and custody their own assets (bypassing traditional custodians), and Nivaura are initially focussing on debt, equity and structured notes. The second announcement was in April by 2030.io that their TokenFactory team had successfully completed a groundbreaking test as part of the UK Financial Conduct Authority's (FCA) Sandbox 4 cohort, where they tokenised and issued 2030's own equity, using Nivaura's technology to enable custodianship, and London Stock Exchange's Turquoise platform to issue settlement instructions. Ground breaking stuff from one of the most respected global financial regulators and stock exchanges, working with great Fintech industry innovators right here in London.

The FCA's CryptoAsset Taskforce are currently compiling the results of their consultations which ended early April, and are definitely not trivial as they also need to contemplate what a withdrawal from the EU might mean to any regulation. But the Sandbox work undoubtedly means a much better informed regulator, and also provides a great example of how the FCA has helped key players undertake pioneering work in the sector without changing existing regulations. Let's hope the results build on that and provide as encouraging a step forwards as the sandboxes.

But these are only a few examples. There are many more establishing regulated exchanges and platforms, and we should bear in mind the potential of the sheer volume of high calibre fintech talent in London and the U.K., combined with the record breaking 2018 levels of venture capital and private equity into Fintech. Recent figures show how resilient the Fintech sector has been so far despite Brexit concerns. The February report by Innovate Finance (the UK's leading Fintech association) shows record levels of Fintech investment, with the U.K attracting some $3.3Bn – almost five times more than it's nearest European rival Germany who came in at a mere $716M. And seeing major institutions leading venture rounds and investments into companies like Nivaura and 2030 tells you the tide is rising in the sector.

London also has some traditionally strong asset classes such as real estate, a thriving asset management industry, and is one of the leading European private equity and venture capital markets. The potential of tokenising less liquid assets combined with the institutional appeal of our major capital markets can unlock new opportunities for liquidity. Nikhil Rathi, CEO of LSEG said on the Nivaura announcement: "The investment strengthens our existing relationship with Nivaura and underlines the Group's partnership approach in innovating to support our clients in accessing global investment pools." According to Tomer Sofinzon, CEO of 2030, "There is a brilliant group of pioneers working with the major institutions and regulators to professionalise tokenisation in order to unlock value in a whole range of assets, from existing shares to new issuance, bonds, real estate, IP, fine art and many more. London is the place where the tokenisation industry gets serious on an international scale, and we are all doing our part to make sure that the message is heard loud and clear."

> UK attracts $3.3bn of fintech investment almost five times more than Germany

It is too early to tell who will be the winners in the sector and there is much to do, not least on buy-side education but early signs are that these game changing examples are chiming well with investors and will help ensure the U.K. is well placed to thrive in the sector.

Eric Van der Kleij, CEO of Frontier Network London in conversation with James Bowater. Web: https://frontiernetwork.com Twitter @Ericvanderkleij

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CRYPTOCOMPARE MARKET VIEW

SEC Takes Action Against $100 million Kik ICO

The Securities and Exchange Commission (SEC) has announced it is suing messaging app Kik for operating an illegal securities offering. Kik raised $100 million by issuing its KIN token in November 2017 through an ICO, of which $55 million came from US investors. The SEC lawsuit alleges that Kik's messaging app was failing and that one member of Kik's board of directors even described the plan to raise capital with an ICO as a "hail Mary pass".

Last week bitcoin and the majority of cryptoassets corrected between -5% and -15% after May was the best month for the crypto markets since the heady heights of 2017. Bitcoin fell from $8,500 and has thrice tested and held above the $7,500 support level. At the time of writing bitcoin is trading at $7,742 and ethereum at $237. The MVIS CryptoCompare Digital Assets 10 Index - which tracks the top 10 cryptoassets by market cap - has fallen -12.85% in the last 7 days.

More details of Facebook's 'GlobalCoin' have emerged and the whitepaper is expected on June 18th. A senior executive let slip that 'GlobalCoin' will involve the creation of an independent foundation to govern the network. It's reported that nodes will pay a whopping $10 million licensing fee to participate. The cryptocurrency itself will be pegged to a basket of currencies rather than a single one like the U.S. dollar.

Bitcoin from the infamous and unsolved 2016 Bitfinex hack, where the exchange lost $60 million, has begun moving. 170 BTC ($1.37 million) was sent to an unknown wallet after lying dormant for three years. Bitfinex recently offered the hackers the ability to anonymously return the stolen bitcoin, however, a Bitfinex spokesperson said the exchange is unconnected with this latest development.

The CryptoCompare Digital Asset Summit will take place tomorrow at Old Billingsgate, London. With keynote speaker Andreas M. Antonopoulos, the summit will feature panels from some of the key companies in the industry including Coinbase, Binance, Nasdaq and VanEck.

Crypto A.M. shines its Spotlight on BTCNYEX.COM

Early on in the digital currency space no one had any idea just how far Bitcoin and digital payments would evolve, but the need for crypto exchanges has always existed. Thomas William Pillsworth V, as English as it sounds, was an early American mover in the Bitcoin space, who launched a mining operation in upstate New York.

Thomas knew there was a need for fully regulated exchanges in the space in order for institutions to take Bitcoin seriously, but due to the arrival of the Bitlicense from the NYSDFS in 2014, he had to sit on the sidelines with his exchange idea.

BTCNYEX's focus then shifted across to Bitcoin mining instead of a running an exchange, and moved its operation into an industrial park in Plattsburgh NY. The city was perfect for mining with exceptionally cheap electricity, however it was soon to become the first city in the US to ban Bitcoin mining activity.

Circling back in 2018, the time felt right to launch BTCNYEX LLC, a Delaware Corp, and work began to launch a crypto dark pool for institutional traders, with planned offices in New York and London. Dark pools are essentially private exchanges reserved exclusively for block trading securities among institutional investors. 60% of all trades now take place on the OTC market, but the emergence of dark pool trading is also a growing sector; going from non existent levels in 2014, to 5% in 2017, to nearly 8% volume in 2019. According to research from Tabb Group, dark pool stock trading has seen a marked increase of 38.6% in April, higher than any levels seen in over a year. We anticipate that crypto dark pool trading will also continue to rise in popularity, and project BTCNYEX to handle $10 Billion worth of cryptocurrency dark pool trades on a monthly basis.

> We anticipate that crypto dark pool trading will also continue to rise in popularity

Thomas William Pillsworth V, President of BTCNYEX.com

BTCNYEX Exchange offers market access, smart order routing (SOR), and algorithmic trade execution, within its institutional grade dark pool. The platform also allows solution providers to differentiate themselves in value-added areas, such as transaction cost analysis (TCA) capabilities, risk management, compliance and reporting, and integration with post-trade service providers.

BTCNYEX currently has a live STO offering – ST20 token (BNYX) - created in partnership with Polymath. BNYX ST-20 token is an extension of Ethereum's ERC-20 token, and introduces the ability to restrict the transfer of blockchain tokens. ERC-20 tokens do not have any transfer restrictions and therefore can be freely traded by anyone. This is fine for so-called utility tokens, but when dealing with securities, however, all securities holders must be KYC/AML verified. There are also many additional restrictions on the distribution and trading of securities, particularly in the US. Polymath's ST-20 token is the solution to this problem. It allows security token issuers to maintain regulatory compliance through transfer restrictions, and prevents these tokens from ending up in the wrong hands.

CRYPTO-ANCHORS AND THEIR ROLE FOR BLOCKCHAIN

Jon Walsh, Associate Partner Blockchain Rookies

When Blockchain is being used in supply chains globally, we can trust that the product the consumer is receiving is genuine and authentic right? Well not really. Blockchain is simply the database that is tracking the supply chain from manufacturer to retailer or dispenser. Physical products being on the Blockchain alone, don't make them any more authentic than if they are not recorded on a decentralised, distributed and immutable ledger. We need an additional tool to ensure that the actual product at the start of the supply chain journey is the same one at the end. So how do we do that? One solution is called crypto anchors.

A crypto anchor is a unique tamper-proof physical element which be embedded into products, or parts of products, and recorded to the blockchain. This could take the form of a tiny computer or ink dot or an edible shade of magnetic ink which can be used to dye a pill from the pharma industry. The anchor can be easily detected or verified during an audit.

Crypto-anchors can be considered as extremely secure as they are embedded in the product and cannot be removed or modified once added to the product.

Any bad actors in a supply chain will be immediately caught out for any dilution or switching of authentic products for less than genuine products.

Whether this be for high end whiskies, organic cotton, olive oil, wagyu beef or the pharma industry, Crypto-anchors are coming and will be able to give both the actors in the supply chain trust in the product they are handling, and the end consumer faith that they are getting what they paid for.

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CRYPTO A.M. INDUSTRY VOICES

Security tokens will change the world – we just don't know how

When ARPAnet – an early version of the internet – transmitted its first message in 1969, the two computers involved were the size of a small house. At around the same time, Richard Santulli of NetJets was pioneering a way for businesses to purchase shares in an aircraft, and thus fractional ownership was born.

Today, internet communications are transmitted between devices the size of your thumbnail and security tokens are increasing the divisibility of fractional ownership, which is no longer the preserve of millionaires. Now, investors with as little as £5k can play.

With jet planes and ski chalets, assets are fractionalised into 4-16 parts. With digital securities, art, movies, music royalties and countless other assets are ripe for fractionalising to hundreds or even thousands of investors.

Not only does this lower the minimum cheque size, opening up markets to a vast new pool of investors, but it brings liquidity to traditionally illiquid assets. A museum would struggle to find a wealthy benefactor to acquire a £30m Picasso that's just gone on the market. Split the cost between 1,000 investors, however, and now you can sell shares of a masterpiece for £30k. It's an attractive proposition.

This all sounds very exciting, but if digital securities are this panacea, why is there currently no liquidity on secondary markets for tokenised assets, and why are the only assets we're seeing fractionalised being real estate?

To answer that, we have to return to 1969 again and ARPAnet. If you could have squeezed computers the size of a small home into every home back then, the world would have been distinctly unimpressed with the rudimentary web, because there were no web pages to browse. Websites, together with HTTP, URLs, and HTML wouldn't come along for another 20 years when Tim-Berners Lee created the modern internet as we know it.

In keeping with ever-shortening tech cycles, the security token revolution shouldn't take nearly as long to foment. Right now, we might be stuck in the ARPAnet era, when the web's only use case was as a cold war alert system, but as the infrastructure is built out, and digital securities gain their TCP/IP, HTML and all the rest, we'll witness innovations we could never have imagined.

In the future, we may see digital securities enabling fractional ownership in sports stars, moon bases, or even entire asteroids packed with precious metals. But in there here and now, there's value to be derived from the tangible benefits that security tokens provide including automated compliance, tracking and transferring ownership, and increasing clearing and settlement speeds.

The real innovation at present is in the liquidity digitised securities can bring, which will swiftly lead to smaller units and more investors participating. Right now, liquidity is binary: public markets are liquid but it's expensive to raise capital, while private markets offer cheaper capital but no liquidity. Private stocks and securities will be tokenised first. Everything else will follow, with tokenised bonds dwarfing equities. There's £90T held globally in debt and financial instruments, and yet only 26% of all bonds are traded electronically. Information asymmetry, inefficient pricing and expensive transactional costs are rampant. Tokenisation can remedy much of that.

At AmaZix, we're focused on helping the security token industry reach its Netscape browser point, while lowering the costs of capital so that a global pool of investors can experience fractional ownership. Tomorrow, we can only guess at what innovations will emerge from the realm of digital securities to shape the future of finance. But we look forward to finding out.

Luke Saunders, Founding Partner of AmaZix www.amazix.com