

# CRYPTO A.M.

Our series on AI, Blockchain, Cryptoassets and Tokenisation

E: [CryptoInsider@cityam.com](mailto:CryptoInsider@cityam.com)

@CityAm\_Crypto

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PARTNER CONTENT

## CITY A.M.'S CRYPTO INSIDER

JAMES BOWATER



Another otherwise stable market erupted last Friday, 8th February with a substantial green candle day. Notably there was massive 32% uplift in the price of Litecoin (LTC) trading at \$44.35 and taking it to 4th position on the Market Cap list. Last week also saw Binance Coin (BNB) enter the top ten Market Cap list - US\$1.32bn - in tenth position trading at US\$9.64. Bitcoin (BTC) surged above the US\$3,700 level but came off a bit and, at the time of writing, BTC is trading at US\$3,624.62. Ethereum (ETH) regained its number two slot at US\$121.14 with now third position Ripple (XRP) at US\$0.3028 and overall Market Cap up 6.8% since the last Crypto AM at US\$121.4bn. (data source: [www.CryptoCompare.com](http://www.CryptoCompare.com))

So with London Blockchain Week now in full swing, the Binance juggernaut sent its Binance Labs division to host a very interesting last minute meet-up panel event to King's College London's Strand Campus at Bush House. The panel discussion focussed on 'Growing the Blockchain Ecosystem' and moderated by Teck Chia (Partner at Binance Labs) the panel was made up of academics, investors and innovators in the space. The general feeling was that despite the noise surrounding the 'Crypto Winter' that the stronger well managed projects were thriving with less distraction to focus on building out their projects. Transaction speeds, privacy and finality were high on the agenda too. Finality, as described by Josef Hazi, Co-Founder of Zeroline Capital, is the point at which a transaction can no longer be reversed which clearly is vital with settlements on exchanges.

Following in the footsteps of Malta and Bermuda, Mauritius has joined the list of island states organising their legislative frameworks. The Financial Services Commission of Mauritius has announced that it will start issuing Custodian Services for Digital Assets licences from 1st March 2019 which will be a boon for the evergrowing Loretta Joseph, who made me aware of this, is the Blockchain advisor to the OECD in Paris and has played a key role advising both Bermuda and Mauritius. She has very kindly agreed to write a Guest Main Feature in the coming weeks to shed light on this fast paced.

Archax, the forthcoming institutional-grade, digital securities exchange based in London, yesterday announced seed investment from SPICEVC, the world's first fully tokenised venture capital fund. Speaking to Archax CMO Simon Barnby earlier, he commented: "There is huge momentum building around the tokenisation of assets and security tokens in particular. We aim to be at the very centre of this emerging ecosystem and this partnership with SPICE show's their belief in our strategy, and will help us deliver it."

An area of crypto and blockchain that appeared to be niche only 9 months ago, is overtaking the mainstream. It seems that every crypto event worldwide has a security token or asset tokenization panel, as well as a prominent focus on regulation. These offerings have gained the most prominence in the U.S. and Switzerland, with Asian markets slowly catching up.

### SO, WHAT IS A SECURITY TOKEN?

A Security Token Offering (STO) may refer to the issuance of:  
**Smart, Digital or Programmable Securities**—traditional securities, such as equity, debt, revenue share, convertible note, or bond, that rely on distributed ledger technology to establish their terms, features and transferability. Some issuers have renamed this as a Digital Security Offering or 'DSO'.  
**Compliant Network Tokens**—a utility token or right to receive a utility token for use in a distributed network in the future that constitutes an investment contract under securities laws at the time of issuance. These were formerly known as ICO's and are functionally similar, but comply the securities regulation where they are sold.

The first type, the focus of this article, represents programmable ownership of tangible items in the real world, such as real estate, art or cashflow, is becoming particularly popular amongst more traditional issuers and investors, allured by the benefits of blockchain technology. This new innovation on digital assets can provide an array of financial rights to an investor such as equity ownership, dividend payouts, profit share rights, voting rights, buy-back rights, or a type of fractional ownership.

The are several advantages of tokenization, while the most frequently cited include fractionalization of traditionally illiquid assets, increased or advanced liquidity, decreased issuance fees, greater transparency and pricing efficiency. The greatest allure to issuers, however, is the ability to access a global pool of capital, thus making the fundraising process more efficient.

### WHY TOKENIZE?

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# 2019: THE YEAR OF THE SECURITY TOKEN

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more efficient.

The majority of Security Token deal flow is taking place across Real Estate, Finance, Consumer Technology and Energy sectors.

### WHAT YOU NEED TO ISSUE A SECURITY TOKEN IN 2019

- A fast and secure protocol: This is the technical layer into which your instrument is programmed. Some current finance-compatible choices include: Stellar, Cardano, Hashgraph, Tezos and Dusk.
- A robust issuance platform: This is the regulatory layer that sits on top of the protocol to insure compliance with local securities laws. These platforms are also responsible for checking investor accreditation, where applicable. Current players include: Securitize, Security, TokenSoft,

Sharespost and Polymath.

● A seasoned broker-dealer to help you fundraise! Some issuance platforms can also act as broker dealers. Typically these are boutique investment banks focusing on digital securities. The choice of firm is highly dependent on geography.

● A popular fundraising portal: These websites tend to have a built-in audience and network of investors. Some popular choices include CoinList, StartEngine and Indiegogo.

● Find an exchange to trade your security: Liquidity is one of the paramount value propositions of digitizing your offering. Secondary platform options are limited and currently include iZero, Temple and OpenFinance Network.

### MOST INTERESTING SECURITY

### TOKEN DEALS SO FAR

There are over 150 Security Token issuances on the market. Below are some of the more interesting ones that have touched mainstream investors.

### BLOCKCHAIN CAPITAL - \$10M

Blockchain Capital was the first to introduce an STO into the market. The offering created a blueprint for future tokenized securities, in particular tokenized fund structures which are traditional illiquid vehicles.

### ASPEN DIGITAL - ST. REGIS - \$18M

The Aspen Hotel deal is notable for being the first major commercial real estate transaction facilitated by blockchain. The digital security provided holders with eq-

uity shares in a portion of the 180-room Aspen St. Regis resort, world renowned for its skiing in the Rocky Mountains.

### MAECENAS - ANDY WARHOL - \$1.7M

Maecenas, a fine arts tokenization platform, pushes the blockchain industry forward with the successful execution of the first fractional ownership for fine art, with Andy's 14 Small Electric Chairs (14SEC).

### 436 & 442 EAST 14TH ST, MANHATTAN - \$30M

This luxury Manhattan condo was the first to be tokenized on the Ethereum blockchain, in partnership with Fluidity and Propellr, using AirSwap tokenization technology. Investors were given the option to receive either analog or digital in-

terests in the property.

### LOTTERY.COM - \$ UNCONFIRMED

The online digital gambling platform, was the first to create a digital revenue-share instrument based on blockchain.

### MARKET OUTLOOK

Although Blockchain is at the forefront of many discussions today, it is important to note that in five to ten years, blockchain will likely be a standard and boring method of wiring our financial markets and seldom discussed. Similar to how all modern businesses need to have a website, any business that engages in the transfer and storage of data, particularly if that data reflects ownership, will



Slow but steady, security tokens will continue to gain prominence

likely utilize blockchain with various degrees of centralization.

Today, issuers are mostly ignoring this fact, assuming that by placing their securities on a blockchain, their deal instantly becomes more 'fundable'. Although the technology does provide some obvious benefits of efficiency, transparency and liquidity, it does not increase the inherent quality of the deal. Thus, these issuances, are still dependent on traditional sources of capital such as family offices and asset managers. Issuers continue to brace the uphill battle of educating investors on potential benefits of programmable securities in addition to selling their deal. Slow but steady, security tokens will continue to gain prominence, with the goal of simply becoming the new 'normal'.

*Tatiana Koffman is a frequent contributor, speaker and advisor in the digital securities space, focusing on impact and consumer technologies.*

## THE WIREX WEEKLY MARKET VIEW

Last Friday Bitcoin woke up the bears and posted its highest daily volume performance (+7.85%) this year. Friday also saw the highest bitcoin volume traded on exchanges since January 10. Bitcoin is up 6.9% this week, outperforming Ripple (+2.94%), but lagging behind Ethereum (up 17.02% this week +14.41% on Friday). Litecoin stole the show however posting impressive gains of 40.47% (+30.6% on Friday).

The driver behind the rally appears to have been the new three-month high reached by the Bitcoin hash rate. Last week we explained the significance of the hash rate as a measure for the volume of bitcoin transactions. The rate measure for Thursday exceeded 50 TH per second, achieving levels that were last seen in early November 2018, confirming the rate's recent positive trend. Could this rate signal the end of the bear's grip on the markets?

The hash rate's evolution is at least one less concern for the health of bitcoin, and more specifically for the integrity of the blockchain. However, if we're looking for positive signs of bitcoin adoption in the economy, payments per transaction and payments per day are two additional indicators that are essential.

The number of Bitcoin payments per day has been increasing at a steady pace since mid-2018 (from 360k to 476k per day +32%), but at a much slower pace than the number of transactions per day (from 200k to 330k per day +65%). Apart from the November drop, there has been no clear short or medium-term positive correlation between the Bitcoin payments per day and the bitcoin price. The most likely reason for the price jump is the low market liquidity. As a consequence, even the most mundane event relayed by the press acts as a strong positive catalyst. Litecoin's stellar performance was due to a blog post by Beam on Thursday, revealing discussions with Litecoin for the implementation of the Mimblewimble protocol for transactional confidentiality. One could assume that regulators would not be enthused about this new protocol, however according to MimbleWimble, while transactions have strong anonymity guarantees, it maintains the properties required for a valid blockchain - the transaction does not create money, and proof of ownership is established through private keys.

It would seem that buyers are now on high alert, and ready to challenge the bears.



## Frontier Tech Remaking City Jobs

Having lived through the internet boom and bust - the Dot-Com era - it's now obvious, that jobs are now at risk in the City.

It is far clearer now than at the same point in that revolution that what we are facing is exactly that: In the rearview mirror of history we'll look back on a revolution more disruptive than anything we've seen before.

Tens of thousands of jobs, more likely millions, wiped away - many of them in the City. Some of them replaced. If we believe some pundits then nearly. Others are less sanguine - not without good reason.

Pretty much everyone has now heard of DLT and/or Blockchain Technology. The fact that far fewer people understand this and most can't imagine how it will change the way the City works is irrelevant to the fact that it will.

Likewise Frontier Technologies including DLT, AI, Augmented Reality and IoT: Only really used today by specialists and experts. This will soon change. So will your career, and the opportunities open to you in the future.

Despite all the false rhetoric not just banks but treasuries and finance ministers around the world are already on this journey. It's simply a matter of time before most currencies have, or are, cryptocurrencies.

Fintech has established a foothold - but that's all. Fired up with Frontier Technologies footholds are becoming base-camps from which to scale the giddy heights. Will this transform the behemoths for which most City workers toil today as Fintech newcomers are snapped up? Or will they grow large, disrupt and displace them?

Probably a mixture - but it really doesn't matter! The landscape will change - and none more than the City skills and employment landscape. A near future very

different not just from the past but from today. New and existing employers demanding new skills and scarce experience. Along with the challenges this will provide a raft of new opportunities - for those who have made it their business to understand the capabilities of these technologies.

It will be those who start this journey early who benefit. Whether they start as sceptic or convert. The path trodden by Walmart's vice president of food safety, Frank Yiannas, for example. Initially a sceptic after studying it Walmart are now rolling out blockchain technology to tackle problems that have become increasingly intractable with scale - together with nine other food retailer giants including Nestle and Unilever, who've teamed up with IBM.

How long before IBM hyperledger technology, or a rival, begins to bring Frontier Technologies to bear on your organisation? Will you be at the forefront helping inform the organisation, lead the change and shape the future? Or will you be looking for a glimmer of light?

This week at London Blockchain Week we turn on a new network, open to the world, that will help shed a new light. This, together with the new model association which is [bbfta.org](http://bbfta.org), will provide clear paths for executives and others to get a better understanding of the implications of these 'Frontier Technologies' which are already beginning to transform the workplace.

This is not just for geeks. It's also for those who need to know because they want to be the ones helping inform their organisations - and shaping the future. Including and especially their own.

Let us help ensure you have the skills and insights needed to prosper in this new era. Join us at... [bbfta.org](http://bbfta.org), or hear more at [ICOrad.io](mailto:ICOrad.io)

## Crypto A.M. shines its Spotlight on The 'Craft Beer Coin' backed by the price of a pint

You won't have any problem finding visionaries and ideas in the blockchain and crypto worlds, but viable real world examples of these technologies in action and serving useful purposes are relatively rare.

There's a hive of energy and momentum behind German Kraft Beer's (GKB) efforts to help launch the 'Craft Beer Coin' alongside a rapidly burgeoning blockchain event culture that congregates around their Elephant & Castle Mercato Metropolitan fresh local beer tanks and bars.

GKB is a unique story in itself. Brewing fresh beers onsite while simultaneously capturing energy to distill water to brew with and create 'Acquiva' bottled water, their authentic quality German beers were hugely popular at the recent Hyde Park 'Winter Wonderland' Christmas event. By using the same ingredients as local German beer brews

plus their distilled water, GKB is able to serve pints in London you could previously only find if you went to a local bar in Bavaria.

Since the invention of beer around 25,000 years ago societal perceptions of the consistent value of a pint of beer over time are well understood everywhere.

In mankind's history beer is arguably the commodity with the most stable value - much more stable than gold, oil or all the paper currencies that



'Asset backed' tokens are arguably the future



have come and gone.

Now, after a lot of hard work, GKB and DLT.Partners are at the late alpha stage of testing a transactional 'Craft Beer Coin' that enables fresh local beer purchase via the coin holders' smart phone, creating a 'coin' always

underwritten by at least one fresh pint of craft beer. Everyone understands the value and therefore the price of a pint, and the craft beer coin currency is pegged to that psychological reality. This real world, practical application that leverages modern cryptocurrency

opportunities is great for beer drinkers, with plans rapidly being accomplished to create a digital community around fresh local beers. The realities of actually doing this and not just talking about it has attracted a vibrant community of like-minded digital entrepreneurs to Mercato Metropolitan in S1. GKB has become a hub for crypto and blockchain aficionados helping to test the GKB smartphone app, buy beers at the bar, interact around presentations, network with peers and discuss their projects over pints and food. The next big, public event, will be the Beer&Blockchain Club on the 27th of this month. Interesting speakers will make themselves available for a chat over a beer.

'Craft Beer Coin' will hit beta testing later this month and launch to the public as soon as the real world legal and regulatory details are completed. 'Asset backed' tokens are arguably the future in a world that has until now been dominated by speculation on 'store of value' crypto tokens such as Bitcoin, and the community around this launch is also well worth watching and attending if you can get there.

For more information visit <https://craftbeercoin.info>



## DEATH IN CRYPTO

Jon Walsh, Associate Partner at Blockchain Rookies.

With the recent news that Gerald Cotton of QuadrigaCX, the Canadian crypto exchange, passed away at the age of 30 being the only person there who knew the private keys to the cold storage wallet for the exchange, it brings up some challenging questions. Starting with: How could this happen?

When you consider that approximately 250 million Canadian dollars' worth of crypto, belonging to over 115,000 customers, may now be locked in the network and inaccessible forever. (Crypto doesn't ever go away - it is simply inaccessible without the private key). Why would QuadrigaCX have a

business where there existed a single point of failure? It's one thing for an exchange to be centralised, and wholly another for a single individual to be the sole person who has full control over all customer funds. This appears to be very poor treasury planning and disaster management on behalf of the exchange. I am uncomfortable giving a dead guy a hard time, it does still leave questions for the business.

Custody in crypto is a huge issue that has not been solved as yet. So what good custody solutions are available for wallets and exchanges?

There are multi-signature wallet solutions, where a combination of

private keys - such as any 3 of 5 keys - are necessary to access the funds. This is not unlike a multi-signature bank account. There are other some providers who provide custodian services to hold keys securely in a manner that is disaster proof and secure. And there are solutions involving smart contracts where not only private keys are required, but certain real-world situations can trigger access or deny access to funds.

The industry has a challenge on it's hands, and there can be no mainstream adoption for crypto until we get better at handling crypto access and custody of private keys.



Changing the City: DLT and Frontier Tech Don't Get Left Behind, GET IN THE LOOP!

[bbfta.org](http://bbfta.org)

