CRYPTO A.M.

Our series on AI, Blockchain, Cryptoassets and Tokenisation

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PARTNER CONTENT

CITY A.M.'S CRYPTO INSIDER

JAMES BOWATER

I write this column from Miami where I have been attending the IOHK Summit 2019. At time of writing (18 April: ahead of the Easter Weekend), Bitcoin (BTC) is trading at US$5,260.54; Ethereum (ETH) at US$172.67; Ripple (XRP) at US$0.3364; Binance (BNB) at US$21.81 and Cardano (ADA) at US$0.08231. Overall Market Cap slightly down at US$179.15bn (data source: www.CryptoCompare.com). Market prices may have changed considerably by the time I am back in London.

One of the best things about the Blockchain and Cryptoasset industry is how close-knit the global community is. After all, it really is still nascent and, compared to mature markets, relatively insignificant in size. The downside is that with the identity of Bitcoin's creator, Satoshi Nakamoto, unknown there is a vacuum for competing egos to be seen as 'top dog'. There is no more divisive a figure as Dr Craig Wright who famously claimed to be Nakamoto before withdrawing the claim. The trouble is that the matter has flared up again: Wright is accused by the family of deceased former business partner Dave Kleiman of stealing one million BTC from his estate, with a value exceeding $5bn.

Enter stage-right his 'partner' Calvin Ayre who with him created a forked version of Roger Ver's Bitcoin Cash (BCH) called Bitcoin Satoshi Vision (BSV). Ayre is a controversial figure himself and has taken to Twitter to ramp up the war of words. Of course he has reignited the 'Craig is Satoshi' claim, and is suing people left, right and centre. This has gone down extremely badly in the industry, and appears to have galvanised the great and the good into a counter-offensive. CZ, the eponymous founder of the world's largest Crypto exchange, Binance, laid down the gauntlet by delisting BSV, quickly followed by ShapeShift and Kraken.

In contract to all this turbulence, Charles Hoskinson, the founder of IOHK and Cardano, demonstrated his credentials as one of the great proponents of Crypto and Blockchain in a 45-minute keynote speech here in Miami.

Undeterred by market forces, Charles espoused an altruistic vision of the future. He focused on the potential of the continent of Africa, having just seen the completion of a training course in Addis Ababa for 22 women in programming language Haskell.

He said: "This is the opportunity for three billion people to come into 'our economy'; the Crypto economy – not the US economy, not the European economy and not the legacy system." He added: "It's going to be Crypto first and always!".

Charles's message is that "when you get three billion people into the kind of ethics [Crypto is about], you get rid of 'too big to fail' and you change the world - that's what I signed up for."

Charles Hoskinson writes about Africa's potential in 'Crypto A.M. Industry Voices' on the opposite page

INITIAL EXCHANGE OFFERINGS: WHO REALLY STANDS TO BENEFIT?

Designed by Phill Snelling, Bowater Media

Initial Exchange Offerings (IEOs) are rapidly gaining in popularity as the latest fundraising solution for blockchain-based start-ups seeking to raise seed capital fast – as in, under-30-seconds fast in some cases.

At a foundational level, an IEO is not too dissimilar from its predecessor, the infamous Initial Coin Offering (ICO).

They both allow investors to purchase tokens at wholesale prices, based entirely on speculation that their value will increase over time, and they both conflict with international securities laws as 'unregulated securities offerings'. Unlike its regulated cousin, the Security Token Offering (STO), tokens offered in IEOs are not backed by real-world assets, nor do they grant any ownership rights to the purchaser post-sale.

The only notable difference that separates an IEO from other crypto offerings is that instead of the underlying project hosting the token sale, a centralised cryptocurrency exchange brings the offering in-house and acts as an intermediary counterparty.

PROMOTION OUTSOURCED

So what are the benefits of doing it this way? For a start-up, advantages of using a crypto exchange to host a token offering include the access to high liquidity, an established infrastructure to process the sale and a guaranteed listing on the platform once the offering has ended.

The marketing and promotion of the token offering is also outsourced to the exchange, to leverage their trusted reputation and brand recognition.

From an investor standpoint, the sole benefit of participating in an IEO over an ICO is the assumption that the host exchange has performed rigorous due diligence on the underlying project prior to the token-sale. This is allegedly done to protect investors from fraudulent platforms, but it also prevents the exchange from receiving backlash if the project turns out to be a scam.

WHO REALLY BENEFITS?

IEOs are almost all about creating significant returns for the host exchange and helping the start-up reach its hard cap (the maximum amount of money that can be raised) as quickly as possible.

IEO participants merely act as the fuel that powers this new money-making machine. Once the tokens officially launch onto the market, they experience the same pump-and-dump cycles that we saw in the ICO market where investors fight it out to dump their coins as quickly as possible.

Meanwhile, exchanges bank enormous profits from transaction fees as well as benefit from restricting the use of non-native exchange currencies during the token sale. For example, Binance requires investors to hold at least 100 Binance Coins (BNB) – worth $2,400, at time of writing – on its platform for 20 days prior to the IEO. Investors who do not have the minimum amount in their exchange wallet during the snapshot cannot participate in the IEO.

Perhaps the biggest profits for exchanges come from the hefty fee that they charge each project for the privilege of featuring on their platforms in the first place. A vast majority of leading exchanges that currently support IEOs, namely Binance – the instigator of this crazed revolution – KuCoin, OkEx, Bittrex and Huobi have all chosen not to publicly disclose their IEO listing fees. Clearly they don't want to spread fears of the IEO market turning into yet another 'pay to play' system, where the values of a quality-driven market are overlooked in order to make fast, easy money.

TRUST IN AUTHORITIES

So how is this an improvement on the ICO market? Well the truth is, it isn't at all. Yes, the ICO era wreaked havoc on countless unsuspecting investors and heavily tarnished the reputation of the crypto space, but at least they had an air of decentralisation about them. IEOs are the complete opposite of decentralised. They are fundamentally centralised. They actively involve a middle-man as opposed to removing one, and encourage investors to place their trust in central, overriding authorities instead of fostering trustless ecosystems where wealth can be distributed equally.

It is almost as if someone from Binance thought: 'how can we revive the dead ICO market, convince investors that it's safe to invest in speculative tokens again, while creating a mechanism that diverts the flow of money on to our own platform?'. And thus, IEOs were born.

It's alarming that the crypto community's initial response to the BitTorrent (BTT) IEO – the first ever IEO – was not one of outrage, but excitement. The sale, which took place on Binance over two sessions on 28 January, came to a close in just 18 minutes and raised over $7.2m. Since then, however, BTT has unravelled by more than 40% from its peak two months ago and struggled to budge a pip during the recent bull market.

> IEOs actively involve a middle-man as opposed to removing one

Perhaps the most alarming point is that since the first IEO in January, more than 22 new IEOs have launched across several competing platforms; highlighting an exponentially-rising demand for more of these centralised, high-risk offerings. Not only does this showcase how immature the market still is, but it also reveals how little we learnt from the ICO era.

Ollie Leech (http://linkedin.com/in/ollie-leech-9582318a), Crypto A.M. contributor & financial journalist, in conversation with James Bowater

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CRYPTOCOMPARE MARKET VIEW

Exchanges delist controversial coin

The Crypto-sphere reacted strongly last week to drama surrounding the controversial Bitcoin fork, Bitcoin Satoshi's Vision (BSV). After legal threats from BSV backer Calvin Ayre, leading exchange Binance delisted BSV, resulting in several exchanges, including US-based Kraken and ShapeShift, following suit. The BSV price reacted immediately to the news, dropping more than 10% in under an hour.

The Cryptoasset markets experienced a calmer consolidation week after strong gains in the week prior. At time of writing (18 April: ahead of the Easter Weekend), Bitcoin (BTC) is trading at US$5,260.54 and Ethereum (ETH) at US$172.67, according to CryptoCompare data.

Social trading company eToro last week launched its new Cryptoasset exchange, eToroX. The new exchange will initially feature eight stablecoins – cryptocurrencies backed one-to-one by fiat currencies – and may prove to be a major rival to top exchanges.

Last week leading cryptocurrency exchange Coinbase added REP to its Coinbase Pro platform, designed for traders. The cryptocurrency, created to be used in the Augur prediction markets, saw its price surge 14% over the addition, seemingly bringing back what's known as the 'Coinbase effect'. In other news about the San Francisco-based exchange, Reuters last week estimated that Coinbase's revenue for 2018 stood around $520mn, down more than 40% from 2017.

Crypto derivatives provider LedgerX announced plans to become the first US firm to offer physically settled bitcoin futures. Existing bitcoin futures in the US offered by CME Group, in contrast, are cash-settled. If successful, the company may beat to the punch the highly-anticipated Bakkt exchange from NYSE parent company ICE, set to launch later in the year.

A report published by global cryptoasset data provider CryptoCompare has revealed that unregulated exchanges listing cryptocurrency derivatives have been growing faster than regulated alternatives, with OKEx taking the lead with a $1.5bn trading volume from derivatives in March. The biggest regulated alternative, CME, traded $70.5m.

CryptoCompare also announced the addition of a regulatory panel to their Digital Asset Summit in London on 12 June, featuring speakers from the Bank of England, Financial Conduct Authority (FCA) and HM Treasury.

CRYPTO A.M. INDUSTRY VOICES

Africa is a continent of opportunity

Fast cars, cash and market volatility are common preoccupations in our industry – but the real promise of blockchain lies elsewhere. This movement is not about 'When Lambo?': this movement is about changing the way everything works. And where better to start than Africa?

In recent weeks, IOHK – the company I founded after quitting as CEO of Ethereum – completed training its first batch of Ethiopian and Ugandan developers. At the Ethiopian government's request, the entire intake was women. We sifted hundreds of very qualified applicants down to 22, and held a class over two months in Addis Ababa. The students' enthusiasm for blockchain technology was overwhelming, as evidenced by their commitment to learning complex programming language, Haskell.

Of the graduates from that free course, we've hired 10 so far – six directly with IOHK and four with Ugandan partner organisation, CryptoSavannah. The rest will go on to contribute their new skills to their local economies.

Here lies blockchain's true potential: to bring the technology to the three billion people worldwide who are shut out of the banking system. With blockchain, people can gain access to loans, microfinance and other financial services that banks will never provide because that market is too costly for them to enter.

Blockchain also opens the door to property registration, allowing people to dispense with fraudulent or missing paper records and prove their ownership. People will be able to demonstrate their identities using the technology, creating accurate and reliable public records. All this will cut fraud, waste and abuse, and increase transparency, not to mention kickstart a revolution in local economies.

This is why we decided to go to Ethiopia, Africa's second most populous nation, and work with the government to train local people with skills that will transform communities.

We don't claim to have the solutions to local problems, but we do know how to build a solid blockchain, and we can teach others to employ that technology. A strong partnership is key to the success of this – and Ethiopia's ministry of science and technology has been a solid partner, keen to explore the benefits that blockchain could bring. Last year, we signed a memorandum of understanding (MoU) with the ministry to look at using blockchain in the supply-chain for coffee, Ethiopia's biggest export product. This would allow farmers to track the movement of produce as it passes to wholesale buyers, and will see their earnings increase as abuse is cut from the system.

In Miami last week we announced a second MoU with Ethiopia. This is to create a digital currency, to be used for transport and utilities payments in the capital. Ethiopians will be able to pay for transport and utility bills with this new currency, pegged to Ethiopia's currency, the birr. The token will be part of the ecosystem of Cardano, a leading global cryptocurrency we released in 2017. We expect the digital birr to be used by millions.

And it's not just Ethiopia. Wherever we have travelled in Africa, we have found officials, leaders and entrepreneurs excited about this emerging technology. Africa is why we choose not to focus on short-term swings in the market, but instead to concentrate on fundamental computer science research and development.

IOHK is built on the brightest minds from around the world in fields such as distributed systems and programming language design. We are inspired by software engineering practices from industries such as aerospace to ensure the systems we build are secure enough to carry billions of dollars-worth of value, and will be fit for generations to come.

This will put everybody in charge, not just a small group. The opportunity is for three billion people to leave the inadequacies of the legacy financial system and enter the Crypto economy. That is how you change the world.

By Charles Hoskinson, co-founder and CEO, IOHK; www.iohk.io

Crypto AM shines its Spotlight on Smarter Contracts

Smarter Contracts, a blockchain-focused software and services consultancy, was launched earlier this month by company founder and CEO, Wayne Lloyd.

Located near to London's Cannon Street station, Smarter Contracts has been working with the C-Suite of the UK's most recognisable brands, helping them understand the digitally transformative impact that blockchain technology, and its convergence with other emerging technologies, can have.

"We start by helping our clients understand the technology and we love taking them on that journey of discovery," says Lloyd.

"The reason for that is, once clients begin to understand it, they themselves start to recognise the potential the technology can offer. It's extremely rewarding being able to witness clients think differently about their business before our eyes, knowing you have inspired and been a significant contributory factor for that new way of thinking."

Smarter Contracts has been approached by brands covering financial services, commodities, retail, technology and sport.

But Lloyd is conscious about remaining focused on a manageable number of sectors with the aim of becoming the market-leading blockchain technology partner in each.

In addition to consultancy services, Smarter Contracts is also building its own blockchain-based tools aimed at driving transparency and security across digital supply-chains. Meanwhile the firm also has plans to launch data services using blockchain oracles.

It has been a great start for Smarter Contracts but given the quality of his team, it is nothing less than Lloyd expected: "The team is made up of exceptionally talented people who are working tremendously hard to deliver our collective vision – to enable brands to build brand new, immersive experiences through the power of blockchain technology. Our vision resonates with our clients and the wider blockchain community and, in the coming weeks, we will be announcing some further key hires and partnerships that I believe will make the company even stronger."

Members of the Smarter Contracts team have worked for some of the world's top consultancies, delivering complex digital transformation and technology projects. It gives the company a structured and methodical approach to delivering change – this is key given its belief that transformation through blockchain will at first be incremental.

Wayne Lloyd, founder and CEO, Smarter Contracts

> Our vision resonates with our clients and the wider blockchain community

While building up its client-list, Smarter Contracts is also focused on harnessing the blockchain industry's collaborative spirit. The company has recently partnered the London Derivatives Exchange (LDX), while it has also been working on building strong relationships with some top global blockchain providers.

If you want to learn about how blockchain could transform your business and enhance the experiences of your customers, Smarter Contracts hosts drop-in sessions at its WeWork office, 33 Queen Street.

For more information and to book your drop-in session see www.smartercontracts.co.uk

RECONCILING DIFFERENCES: WHY A BLOCKCHAIN IS THE BEST SOLUTION

Troy Norcross, Co-Founder, Blockchain Rookies

How many millions are spent and lost in the process of reconciliation? Whether it is reconciling accounts between vendor and customer when counting bales of cotton or reconciling international remittances between Brazilian Reals and British Pounds Sterling, the cost of reconciliation is significant.

Costs attributed to reconciliation include not only the process of reconciliation, data-entry errors and of course the losses resulting from theft and fraud. There are costs when there are inaccurate or incomplete translations between one set of measurements and another, like when we convert from metric to English. And of course, there is the time involved in identifying, disputing, agreeing and correcting any discrepancies.

But what if you could do away with reconciliation and have a single source of data that all parties agreed to use? With a single source of data, there would be no need for reconciling between records. All transactions would use a standard format for entering the data and for any conversions. Data would be readily available for audits by independent third parties or by internal audit teams. Without the need for a reconciliation process, the time associated with reconciliation would be eliminated as well.

For businesses that have a digital transformation process underway, automated procurement and accounts payable systems have moved enterprises a long way from legacy systems that were (or are) often paper-based. These systems are internally focused and require vendors and partners to conform or they require integrations that are expensive to develop and maintain. If everyone in an industry or ecosystem used the same system – even across competitive lines – the cost and efficiency savings to all participants would be substantial.

And yes — that system works best on a Blockchain. Where multiple distrusting parties can agree to a single source of truth.

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