CRYPTO A.M.

Our series on AI, Blockchain, Cryptoassets and Tokenisation

E: CryptoInsider@cityam.com @CityAm_Crypto

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PARTNER CONTENT

CITY A.M.'S CRYPTO INSIDER

JAMES BOWATER

Wow! What a week it has been since my last column, with Bitcoin (BTC) surging through the US$5,000 mark. The question is whether this is the start of Crypto Spring and if a sustained bull run is on the cards, signalling the end of the bear market. Or is it a temporary breakout?

Reportedly the touch-paper for BTC's run was lit by a single US$100m buyer, which in turn triggered US$500m of short positions to be liquidated on BitMEX. Another positive indicator supporting the idea of a sustained run is that BTC transactions reached an all-time high, indicating that more people are using BTC.

The domino effect has led to the altcoin market seeing large positive gains since last week's Crypto A.M. At time of writing BTC is trading up 25.5% at US$5,182.01; Ethereum (ETH) up 24.8% at US$177.59; Ripple (XRP) up 13.1% at US$0.3533; Binance (BNB) at US$18.38 and Cardano (ADA) up 21.6% at US$0.07. Overall Market Cap has risen more than 23% at US$179.1bn (data source: www.CryptoCompare.com)

Brussels last week saw the launch of the International Association for Trusted Blockchain Applications (INATBA – www.inatba.org) whose aim is to offer 'developers and users of Distributed Ledger Technology [DLT] a global forum to interact with regulators and policy makers and bring blockchain technology to the next stage'. Notable members from the industry include Cardano, ConsenSys, IBM, IOTA and Ripple. Also represented are Barclays, BBVA and SWIFT.

Staying in Europe, the World Economic Forum recently published a white paper, 'How are Central Banks Exploring Blockchain Today?', which reveals that at least 40 central banks are looking at the possibility of introducing a Central Bank Digital Currency ('CBDC'). It is yet another reinforcement of the notion that blockchain and DLT are here to stay and will ultimately lead to mainstream adoption. Echoed in today's main feature *(see article on right)*, it is clear that necessary regulation has to be finalised as the enabler.

Back in the City of London, I bumped into City stalwart and old friend Hugh Hughes last week. After a decade at the helm of SocGen Securities, Hugh co-founded Fixnetix, the high-speed trading infrastructure firm, which he later sold to CSC (now DX.C) for more than $100m. His latest venture, Koine (www.koine.com), has moved to larger premises, while they wait the fit-out of their new ultra-secure 160-seater office near Moorgate. "We are scaling up for our go-live" purred Hugh. "In contrast to those City firms moving resources out of London, we are investing heavily. We are in final stage testing with our blockchain-based platform for custody and settlement of digital assets. We will be a major institutional custodian – watch this space."

COMMONWEALTH: BLOCKCHAIN REGULATION MULTIPLIER?

Designed by Phill Snelling, Bowater Media

I first met Loretta Joseph at the CogX conference at Tobacco Dock in London's Wapping last June. I recently caught up with her via a WhatsApp call when she was in Istanbul en route from Mauritius to Serbia.

As a former banker, with 25 years of experience, she has advised international banks, hedge- and pension-funds on managing portfolio and exposure to derivatives and related products. She has worked for investment banks in Asia and Europe and consequently holds expertise in financial markets, multiple asset classes and emerging market environments.

In January 2018, she and a group of blockchain enthusiasts were asked by Bermuda's premier, David Burt, at the World Economic Forum in Davos to fly to the British island territory and advise on regulations. This was the start of a whirlwind 18 months, advising the governments of Malta, Mauritius, Nigeria, Antigua & Barbuda and Serbia.

COMMODITIES NOT CURRENCIES

"I have been involved with blockchain technology since 2013. And it is clear to me that blockchain is the Fourth Industrial Revolution. This underlying technology has the potential to solve real-world problems that we are facing today. It will have a tremendous impact and deeply change the public- and private-sector," says Joseph.

"Among other things, I helped facilitate regulations around bitcoin and crypto currencies in Australia. And as we start off, let's be honest, we are not talking of money. Let us be clear that cryptocurrencies are commodities, not currencies. They are a new asset class and it is called a digital-asset commodity. It is like a barter system. And cryptocurrencies are one of the many applications of the blockchain technology.

"The big win of blockchain is to make data secure. Bitcoin was the first security protocol that came out of this technology. What bitcoin solved, was the ability to move data securely for the first time. As for the internet, there are 27 protocols and it is not secure.

"Over time, every corporation and government's database has been centralised and compromised in some way. Bitcoin is the only database that has never been compromised. So, in the future, using blockchain, there will be a structure that will be so secure that it will be impenetrable. And it will just become normal infrastructure we won't even be talking about in ten years."

BERMUDA AHEAD OF THE PACK

In May 2018, with Joseph as a key team member, Bermuda became the first country to pass cryptocurrency regulations. Spurred by blockchain, countries around the world are taking note. But it may be parts of the Commonwealth, including small developing states, that are poised to benefit the most.

The Commonwealth is a political grouping of 53 independent and equal sovereign states, including advanced and developing economies, and home to a population of around 2.4 billion. Thirty-one of the members are small states, many of which are island nations such as Bermuda.

Although there are certain differences, Bermuda's laws – as is the case in most of the Commonwealth – are based on English laws. This means that the Commonwealth members that are small states (with a population usually under 1.5 million), and those that are small island developing states, can theoretically adopt the same legal regulations that Bermuda has just passed. One way of doing this is by creating treatises of technology, so that the laws only have to be created once and can then be shared.

"I've been in global financial services for more than 25 years, and I've never seen a start-up move this quickly – let alone a country," Joseph says. She asserts that what makes Bermuda different is strong political will and an openness to collaborate among banks, policymakers and the government.

RIPPLE EFFECT THROUGH THE COMMONWEALTH

Bermuda keeps on innovating, and is setting itself up to be a global leader in the financial technology space. It recently passed a digital assets act, which regulates cryptocurrency wallets, and is now looking into electronic-identification legislation – all of which could one day, with the right momentum, spread through the Commonwealth.

"Developing countries are where blockchain and regulations have the biggest potential to take off because in developing countries, especially the small ones, there's enough room to innovate, whereas it's very hard to change laws in developed countries," says Joseph.

"Maybe the starting point for this vision is getting the countries I've worked with in the same room and working together. Nobody has the answer but small countries such as Bermuda and Mauritius are nimble countries that can lead the way. When regulators and industries work together, they share knowledge and engage in capacity-building. And the standards that they build together are better adapted for everyone."

> Let us be clear that cryptocurrencies are commodities, not currencies

Dashing to catch her flight to Belgrade, Joseph's concluding comment is: "Legislators need to set aside their differences, and anachronistic views on centralisation, and instead show up and collaborate."

Loretta Joseph, fintech and regulatory government advisor, in conversation with James Bowater. Her LinkedIn profile is linkedin.com/in/loretta-joseph-853a5b142

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WIREX MARKET VIEW

Bitcoin Cash is star of show

Last week saw the Crypto bulls flex their muscles and push Bitcoin (BTC) through a critical resistance level to peak at $5,200 over the weekend. BTC powered through the 200-day moving average (MA) and total Market Cap stands at around $180bn at time of writing. This price surge represented a massive 25% gain.

Ethereum had a customary boost in tandem with Bitcoin, taking its price to $168. XRP also rallied but settled back to $0.36. Most of the major coins showed growth with Litecoin hitting $95 and Bitcoin Cash – the star of the show – growing nearly 100% to reach $323. The cryptocurrency moved into the top five digital coin rankings, reaching a market capitalization of well over $5bn.

PayPal was in the news last week after announcing that it has invested in blockchain investment company Cambridge Blockchain, with a Series A funding round. Cambridge Blockchain works in the data and digital identity security arena.

Separately, the World Economic Forum has indicated that central banks are leading proponents of blockchain and distributed ledger technology (DLT) integration. It stated that around 40 central banks are showing interest in various blockchain use cases, including issuing central bank-sanctioned digital currencies.

Meanwhile, global IT company Tata Consultancy Services (TCS) has confirmed ajoint venture with Ripple (XRP), with a goal to further consolidate and expand remittance services worldwide. TCS, headquartered in Mumbai, created Quartz, a cross-border payment company that can integrate with conventional payment infrastructure. The partnership could result in the increased usage of XRP as a base currency, helping the cause of mass adoption and potentially affecting the token's price significantly.

According to a report by Japanese news agency Kyodo, G20 member countries will meet in Japan in early June to debate global cryptocurrency Anti-Money Laundering (AML) regulation. Central bank governors and finance ministers will discuss the possibility of an international framework to end crypto-related money laundering and terrorism funding.

The report stated that the G20 members are expected to finalise an agreement at the Japan meeting. Talks are likely to focus on mitigating anonymity by establishing stricter identification of individuals transacting in crypto and maintaining transparency for asset transactions.

Crypto A.M. shines its Spotlight on Sumner Group Holdings

David Sumner, CEO, Sumner Group Holdings

David Sumner is CEO and chairman of Sumner Group Holdings (SGH), a Jersey-based investment company, with offices in Dubai, which acquires, builds and manages businesses across the globe. SGH announced last month its plan to raise a further $80m in addition to the $20m already under intention by Abu Dhabi investors through a security token offering (STO) via its Singapore affiliate. This is ahead of a planned listing on the London Stock Exchange next year.

Crypto A.M. asked David why he decided to opt for an STO as his company's fundraising route and his plans for growth.

WHY HAVE YOU CHOSEN A SECURITY TOKEN OFFERING FOR FUNDRAISING?

There are a few good reasons. Firstly, it is a more cost-effective way of raising money. Second, it allows SGH to access new pools of capital. Finally, the entire process is much quicker and less cumbersome than raising money directly through a more traditional initial public offering (IPO). Furthermore, to reiterate the main benefit of an STO – security tokens are backed by an underlying asset. An ICO, for example, is not. You get total security backing an STO. In launching this STO, we are offering potential investors access to a digital asset backed by a privately held diversified portfolio of natural resources, building materials, digital media and healthcare recruitment companies. Security backed by real assets.

YOU'RE BASED IN JERSEY AND THE UAE, YET YOU'VE CHOSEN TO ISSUE TOKENS FROM SINGAPORE ON AN EXCHANGE REGULATED BY THE FINANCIAL CONDUCT AUTHORITY IN LONDON. WHY IS THAT?

The regulatory frameworks that regulate STOs and other digital assets are still in their infancy. Working with experienced advisors, we have sought out the some of the most advanced STO regulators to ensure maximum governance for our STO. The Monetary Authority of Singapore launched its regulations in 2016 and continues to be proactive with leading industry players. It was very important when deciding to work with an FCA-regulated exchange in London that our tokens are attractive to and appropriate for institutional investors around the world.

HOW WILL INVESTORS BENEFIT FROM YOUR STO?

Investors benefit from, first, digitally secure corporate governance throughout the transaction; and, second, a revenue-yielding product ahead of the planned debut of SGH Global on the main market of the London Stock Exchange where STO investors will be invited to participate. This strategy enables investors to benefit from ongoing liquidity opportunities. We are also integrating blockchain technology throughout our group, which will multiply the upside for existing shareholders and incoming investors.

AFTER YOU CLOSE FUNDRAISING, WHAT'S NEXT?

We plan to use the proceeds to continue supporting the growth of our portfolio companies, including working capital requirements. The proceeds will also help facilitate the integration of blockchain technology throughout the group to increase efficiency and allow us to execute on additional opportunities for investment. All this will position SGH well for our planned London Stock Exchange debut next year.

For more information see www.sghglobal.com

LET'S BE CLEAR – BLOCKCHAIN IS NOT THE SAME AS BITCOIN

Jon Walsh, Associate Partner, Blockchain Rookies

Confusion that blockchain is the same thing as bitcoin – often found in boardrooms around the country – is a real problem.

Blockchain education is sorely needed at a corporate level in order for large enterprise to understand the business model transformation coming from blockchain – possibly without them even knowing.

Let's get clear on this now: cryptocurrencies are *not* the same thing as blockchain. Cryptocurrencies are built on a blockchain, and the cryptocurrency bitcoin was simply the first application of blockchain technology. Just as all email is built on the internet, but the internet runs far more than just email, all cryptocurrencies run on a blockchain, yet blockchain can have many more use cases and applications than just cryptocurrencies.

Blockchain will transform almost every single industry you can think of. New business models are made possible through blockchain's core characteristics: decentralised, distributed and immutable. This, in turn, allows improved data recording, auditing and reconciliation between multiple distrusting parties. The efficiency gains this can bring allows for money to be deployed far more effectively, resulting in increased profit margins and reduced cost to consumers.

The tremendous interest in cryptocurrency as reported by mainstream media contributed to the conflation of bitcoin and blockchain. When the crypto bull-run of late 2017 occurred it was widely covered, and when the price action collapsed, blockchain interest took the hit along with cryptocurrencies.

Boardrooms and C-suites will benefit the most when they can mentally decouple blockchain from bitcoin and begin to look in earnest at where blockchain can offer them opportunities – or threats of business-model disruption.

Anthony Pompliano says: 'Long bitcoin. Short the bankers.' Blockchain Rookies says: 'Long blockchain. Short bitcoin.'

Bitcoin has been part of the changes to finance and will continue to have a positive impact. Real impact for the long term will be blockchain.

Get in touch with us: info@blockchainrookies.com / Twitter @igetblockchain

CRYPTO A.M. INDUSTRY VOICES

STOs must avoid ICO path

Isn't it about time our Blockchain Crypto community policed itself? It is all too easy for pretenders to enter the arena unchallenged and start to advise naive founders, claiming that they have been in the game for many years. But when you dig deeper their CVs doesn't support the rhetoric. A danger to themselves and founders.

We must avoid a repeat of the initial coin offering (ICO) frenzy driven by greed, the result of altcoin profits that encouraged the unscrupulous to get rich quick, to raise capital on the strength of a poorly conceived ideas that should have never seen the light of day.

What next: security token offerings (STOs) in no way should be confused as the next evolution of an ICO market.

Whilst STOs in many ways move against the democratisation of capital, making access more difficult, STOs are already written into Securities Law and we all agree investors should have protection. Although in 2008 the regulators were asleep at the wheel, often turning a blind eye, it seems, favouring bankers not investors. An convenient argument for the system to hide behind inadequate regulation.

We cannot deny ICOs hurt retail investors, but we should remember most of these investors were 'betting' with casino money; profits made from the rise of alts, where most shrewd investors got in and got out early. An STO is a digital manifestation of financial instruments that already exist today, so why all the fuss?

It's legitimate to ask: is there really an STO market? Is an STO simply a more efficient, more transparent and faster way of raising capital? The answer has to be 'yes'.

I often come across 'tokenisation as a service' advisory firms that claim to be able to engineer the new security tokens encapsulated in smart contract code that binds the 'new instrument' to a legal framework (jurisdiction). But when you look closer, the people involved don't come from a capital markets and/or have a computer science background, with insufficient blockchain provenance. Oblivious to the complexities of engineering financial instruments as code that can be secondary market traded.

I hear horror stories where these tokenisation experts have recommended ERC20 protocols to create an equity token. Seemingly oblivious that ERC20 protocols have no limitations for movement of digital assets between wallets, have no 'track and trace' because they are ledger based and not OTXU. Allowing securities to be traded off-exchange without the ability for know your customer (KYC) information to follow the token.

I can see the FCA rubbing their hands on this one. The essence of a security token is to digitally connect the private key of the owner of the underlying asset with the formal KYC data, a core function of primary issuance, where the token has to be engineered at the outset to enable secondary market trading on exchanges, where the yield follows the token holder and the holder of the asset is known at all times.

There is no protocol standard for security tokens. This means some exchanges won't be able to list your token. Tokenomics is, of course, a function of design and engineering of the instrument in a smart contract, enabling it to be exchange-tradable, to be handled by a custodian and payment providers - a whole new ballgame. This is why I bang on about token experts requiring knowledge of both capital markets and how blockchain protocols work.

But here is the thing: any protocol has to deliver the right to recall an asset if sent to the wrong address, the right to re-set access if private keys are lost, as no assets can be stranded on an exchange hurting liquidity and reputation. The need for tracking and tracing assets are de facto requirements in any capital market, as regulators will not tolerate less, and, yes, you may forget that multisig opens up ransom opportunities.

So you think you understand STOs, and you think you are able to advise clients?

Be careful what you wish for. STOs are complex and sit in the world of financial engineering. They have legal wrappers and are not for the faint-hearted.

Ignorance cannot be tolerated.

By Nick Ayton, CEO, Chainstarter Ventures