CRYPTO A.M.

Our series on AI, Blockchain, Cryptoassets and Tokenisation

E: CryptoInsider@cityam.com @CityAm_Crypto

In association with wirex

PARTNER CONTENT

CITY A.M.'S CRYPTO INSIDER

JAMES BOWATER

This past week has seen some interesting activity in the crypto market with many of the Cryptosphere's great and good attending either SXSW in Austin, Texas, or Token 2049 in Hong Kong.

Controversy reigns in the regulatory landscape of Texas as a bill has been introduced which, if passed, would require recipients of digital assets to verify the sender. This is quite bizarre as Charles Hoskinson, founder of Cardano, said in his keynote at Token 2049 that by sending everyone in Texas a token he would, by definition, makes all recipients 'criminals'. Clearly this Bill needs a rethink or all 130-plus blockchain/crypto businesses in Texas will move to the progressive state of Wyoming.

So, back to the market. Bitcoin (BTC) finally breached the $4,000 mark on Saturday and Sunday but pulled back and, at time of writing, BTC is trading at US$3,989.31; Ethereum (ETH) at US$138.60; Ripple (XRP) at US$0.3171; Binance (BNB) at US$15.51; and Cardano (ADA) at US$0.04956. Overall market cap has risen 4.5 per cent since the last *Crypto AM* at US$139.47bn (data source: www.CryptoCompare.com)

In a week when a letter, dated 7 March, from US Securities and Exchange Commission (SEC) chairman Jay Clayton to Congressman Ted Budd was made public that seemed to suggest cryptocurrencies such as Ethereum were not securities, I caught up with JP Thieriot, CEO of Uphold. On 8 March he launched a stablecoin known as the Universal Dollar (UPUSD) – the first stablecoin to be listed on his cloud-based platform. JP commented: "This is great news for the digital currency industry and for financial innovation in general. It shows the SEC is taking a pragmatic and sensible approach to digital assets and is prepared to recognise cryptocurrencies as a legitimate form of value."

Since then SEC 'Crypto Czar' Valerie Szczepanik has indicated certain stablecoins with pricing controlled centrally could fall into the bracket of a security. I think it fair to say that the sooner definitions are made clear the better it will be for the industry.

This coming Saturday, 23 March, I am excited to have been asked to attend the BIDE 2019 conference (*see bit.ly/lblbide*) by London Blockchain Labs. It is Europe largest university-led blockchain conference and promises to be very informative, with an impressive line-up of speakers. I have agreed with the organisers that *Crypto AM* readers can get a 35% discount code on all ticket types - just enter the code CITYAM35 when booking through Eventbrite.

Finally, I've heard a whisper that IBM is apparently looking at quietly launching a white label crypto custody service for regular banks to use, which – if true – could have a positive impact on institutional and mass adoption. Watch this space!

CRYPTO EXCHANGES: THE GOOD, THE BAD, & THE UGLY

Designed by Phill Snelling, Bowater Media

Let's start with the basics: a cryptocurrency exchange is a company / business that allows clients to trade digital currencies (cryptocurrencies) for other digital currencies or assets. Crypto exchanges have certain similarities with the stock exchange, but they are different in many ways.

Many problems exist with crypto exchanges and people need to be extremely wary, especially considering the lack of regulation, which allows crypto exchanges to get away with actions that are usually restricted.

News stories regarding fake trading volume, bad customer service, and problems caused by inexperienced team members are not unheard of in the crypto exchange industry, therefore, it is imperative that proper due diligence is carried out before you chose an exchange for your investments.

SELECTING YOUR CRYPTO EXCHANGE

Not all exchanges are built equally. Therefore it is important for you to be vigilant while performing your due diligence. Several crypto exchanges have suffered from hacks, glitches, and loopholes, which have resulted in the loss of millions of pounds-worth of traders' investments.

Before signing up to an exchange, read as many reviews as possible that were published about it. There are many non-legitimate sites publishing reviews when, in actuality, they are promoting the exchange on Google using SEO techniques in order to drive traffic to the exchange and not in order to educate the public.

It is important to check a few factors before you start trading on crypto exchanges, starting with accessibility and usability. Questions to ask would include: how long does it take to become a user of the platform and to convert fiat to crypto and vice versa? Does the exchange have a rich and informative 'FAQ' section? How long does it take for someone from the exchange to respond to an email sent to support?

The exchange's financial workings is another important area to look at. For example, does the exchange offer insurance for the entire amount of the user's crypto that is placed on their platform? How many different markets does the exchange support? How many different types of crypto does the exchange support? Is the exchange very well funded? Who is backing the exchange?

One red flag to look out for is missing information regarding the team members of the exchange, especially the founders. For example, HitBTC exchange has not published the identity of its team members even though my research team directly approached them regarding who the team behind the exchange is. We got the following response: 'There's plenty of ways to reach out to the company, whether it's via the ticket or on social media – most of the companies do not disclose the personal data of their employees'.

Also, you should read fee structures very carefully. There are major differences between exchanges and some charge much more than others. Also, some exchanges use all kinds of tricks with their fee structure, so you must be prudent when reviewing it.

Some exchanges are regulated and some are not. In general, all non-regulated exchanges could have a problem and they could be shut down at any time. If you are considering using a non-regulated exchange, make sure to withdraw your funds at end of each day and to not deposit large amounts that you cannot afford to lose. Some exchanges are regulated in countries such as the US or the UK, which is considered much better than an exchange regulated in eastern Europe.

THE FUTURE FOR CRYPTO EXCHANGES

We are starting to see a new process called IEOs (Initial Exchange Offerings), which are being used in order to bypass the ICO (Initial Coin Offering) process. In order to raise money from the public, exchanges are establishing launch pads. For example, Binance started offering IEOs via their launch pad, which means that they are offering a token sale to the public through their platform. An example of a successful IEO is that of Fetch.AI, which raised US$6m in just 22 seconds!

Some - myself included - say that 2019 is the year of Security Token Offerings (STOs), and if not 2019 then 2020. STOs are very different ICOs. In order for them to succeed, we need liquidity to be an option – this is where crypto exchanges come in. We are starting to see exchanges supporting STOs, which will enable another type of fundraising for crypto projects and will provide liquidity for these projects.

Crypto AM reported here last week on DEXes (decentralised exchanges) - crypto exchanges that operate in a decentralised way and without a central authority. Many people in the crypto community are very much against centralised exchanges, as Ethereum co-founder Vitalik Buterin said: "All centralised crypto exchanges must burn in hell". I am not sure I agree with this, but I should mention that I believe that centralised exchanges are another important step in the evolution of cryptocurrencies.

> Not all exchanges are built equally, so be vigilant during due diligence

In conclusion, there is no doubt that crypto exchanges are an important part of the crypto industry. But, in my opinion, many of them are not acting as professional companies should and we have to ensure that they improve themselves and become suitable for their clients.

On Yavin, founder & CEO of Cointelligence, in conversation with James Bowater. For more information visit www.cointelligence.com

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Crypto A.M. shines its Spotlight on Chainstarter Ventures

Chainstarter Ventures Ltd, part of the Chainstarter Group, has built Crypto Capital Markets to support new commerce that is happening on decentralised ledger technologies called the blockchain. Part of a journey that not only democratises capital flows, is intrinsically more efficient and reduces friction, time and cost.

The group comprises a primary issuance platform (Chainstarter) that designs, mints and engineers new digital assets (financial instruments) handling the accreditation, Know Your Customer (KYC) and Anti-Money Laundering (AML) to 160 countries in minutes.

The group has built two regulated exchanges: Crix.io, which trades crypto pairs to fiat currencies; and TW Exchange, which provides a secondary trading market for private companies to make markets for their security tokens (again to fiat currency).

Back in 2017, the founders, who have a background in computer science and have several fintech technology start-ups behind them, decided to create a venture network to help investors come to terms with new and emerging technologies. The message was that blockchain enables the creation of new asset classes centred on a programmable store of value, often manifesting in a perceived cryptocurrency as software code that represents digitised financial instruments, linked to shares, bonds and physical assets.

Chainstarter Ventures Ltd ('CVL') was created to forge links with the investor community and educate this community of the benefits of new digital asset classes, which represent opportunities to diversify their investment strategies.

> The group has built two regulated exchanges: Crix.io and TW Exchange

Nick Ayton, Founder & CEO, Chainstarter Ventures

CVL now works directly with more than 100 family offices, bringing to them great projects, helping to assess other projects they have and help them tokenise investments (assets) they have in their portfolio, many of which are illiquid and inefficiently diversified as the next global recession approaches.

We have already seen many family offices and high-net-worth individuals pivoting more towards placing more capital into technology funds where there is an increasingly larger portion being deployed into blockchain companies, AI and projects. Specifically, projects that are seen to be laying down new infrastructure: payments, 'Smart Cities', HealthTech, EdTech, renewables and multi-mode mobility and transportation.

It takes time and investment to build trusted relationships with the investment community and this is why Chainstarter sponsors the world's largest investor events and has teamed up with private offices of sovereign funds and families to represent them in different parts of the world in the search for investment opportunities.

"We have seen a recent shift in investment strategies towards new asset classes that offer not only solid returns but more flexibility for the investor to get in and get out," says founder and CEO Nick Ayton.

"Many investors no longer want to be locked into an LP funds model for five to ten years, and, with the arrival of new secondary market crypto exchanges, they have new options to leave their positions when they like."

For more information see www.www.chainstarter.org

WIREX MARKET VIEW

Basel Committee's crypto concerns

The Basel Committee on Banking Supervision has again raised concerns that cryptocurrencies may present a risk for banking institutions.

Its newsletter stated that, while the cryptoasset market remains small, 'the continued growth of cryptoasset trading platforms and new products related to cryptoassets has the potential to raise financial stability concerns and increase risks faced by banks'.

The committee has said that it will continue to monitor movements in the cryptocurrency industry with a view to protecting banking systems.

Meanwhile, the crypto market showed some volatility in the early part of last week, with Bitcoin (BTC) reaching a high of $3,955.

But the past few days have been another non-event for most currencies. With six of the top ten currencies posting marginal losses, BTC hovered around the $3,850 level.

Stellar (XLM) and Lisk (LSK) showed some upward momentum, but this was not enough to inspire the broader crypto market. 12 March saw ETH making gains before its momentum faded, and it settled at $134. XRP continued to falter on 11 March, trading between $0.311 and $0.316 until 12 March when it touched $0.332. This improvement was partly due to TrustWallet announcing that it had added XRP to the list of 16 cryptocurrencies it supports.

In other news, a Sanctions Committee report by the United Nations Security Council accused North Korea of stealing virtual currency through cyber-attacks, in order to navigate economic sanctions. This did not help market fundamentals. On a more positive note, Invesco, an S&P 500 independent management company based in Atlanta, launched its blockchain ETF on the LSE – but this news did nothing to engage the bulls.

Paxos is in the news again with plans to tokenise multiple real-world assets. Its current stablecoin is regulated by New York Department of Financial Services (NYDFS) and approved by the US Securities and Exchange Commission (SEC) to hold client funds. It plans to release new digital assets backed by precious metals and publicly-traded stocks, according to CEO Chad Cascarilla. They are aiming to launch in 2019, pending approval from the SEC.

In a development on the Mt. Gox debacle, in which $460m was stolen by hackers, Japanese courts found former CEO Mark Karpeles not guilty of embezzlement and violating corporate law. He was, however, found guilty of manipulating electronic data and received a suspended sentence for this.

TOKEN INTELLIGENCE
TokenIntelligence.io

On FaceCoin and stablecoins

When will crypto and blockchain become mainstream?' is an often-asked question these days. This simple answer is that they already have, but like the proverbial iceberg, mostly beneath the surface. It's unlikely to stay that way for very much longer – as becomes apparent glancing through our latest '*Frontier News & Insights*'. Highlights from the past week:

FACECOIN COMING TO A PHONE NEAR YOU

What if Facebook, with three billion users worldwide, started providing payment services? What impact might that have not just on the fintech landscape but on SMEs and the world. Well FaceCoin is coming – shortly to be launched – initially in India. Barclays have estimated that this will generate $19bn per year for Facebook. With instant payments, locally and globally, at low costs and friction, courtesy of crypto technology, how might this 'break things and move fast'?

ICOs: ALIVE AND WELL?

Just as many thought otherwise, it turns out that initial coin offerings (ICOs) are alive and well - and living in Asia and with 'high-net-worths' and other 'sophisticated investors'. They have raised more than half a billion dollars so far this year. South Korean messaging app operator Kakao, just raised more than $90m in a private coin offering (and is looking to raise a further $300m). In the 'Crypto Winter' Kakao targeted existing users, larger investors and funds to launch a blockchain platform for games and travel apps. So far 2019 has seen 65 ICOs raise more than $554m, showing that ICOs are alive and well as a funding mechanism in the right circumstances.

THE STABLECOINS ARE COMING!

The UK's Royal Mint was by far first out of the blocks in the modern digital era with RMG (Royal Mint Gold) – until it was 'paused' at the last moment. To be followed by a raft of others including, in May 2017, Dubai firm OneGram offering 12 million coins worth over $550m. Now Paxos – who say they're the first trust company created in America since the 2008 financial crisis, which raised $65m in May 2017 and now run the fourth-largest stablecoin (by market capitalisation) worth $113m – are to launch a stablecoin later this year backed by gold, allowing the ability to trade gold 24/7.

SUPPLY-CHAINS AND TRACEABILITY

Bumble Bee, one of America's largest food supply companies, have announced that they are partnering SAP and using its cloud-based blockchain platform. Customers will be able to scan QR codes on packaging with their smartphone to see, for example, the journey of yellow-fin tuna from ocean to the shelf. Seattle-based Transparent Path and Penta Network, from Los Angeles, have also joined forces to offer greater traceability to shoppers and food producers. Such services are becoming more common.

TOKENISATION OF REAL ESTATE

$800bn fund-managment company Invesco has launched an exchange-traded fund (ETF) on the London Stock Exchange. Meanwhile the German government is to set up a register aiming to expand blockchain-based businesses, issuing a paper laying out how it wishes to encourage the spread of such businesses and 'electronic instruments' (i.e. digital assets).

In other developments, the *New York Times* is following Forbes in hiring people with blockchain skills, and Deloitte has detailed how technology could address the challenges faced by publishers.

You can access further insights at bbfta.org/insights

By Barry E James, chair of bbfta.org and founder, Token Intelligence