CRYPTO A.M.

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

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CITY A.M.'S CRYPTO INSIDER

JAMES BOWATER

Greetings from Palma de Mallorca where the new conference De:Central Days got underway today. Given it is brand new, organiser Reinhold Lang in close collaboration with the Craft Coin Company has managed to attract a diverse and impressive lineup of speakers and workshops. Demonstrating the true functionality of digital currencies the conference tickets, beer, merchandise and side events could be bought with their native 'stable' CBC (Craft Beer Coin) can be used to pay for all - really impressive!

The major news in Crypto this week is that, after many months of delay and expectation, ICE (Intercontinental Exchange) owned Bakkt finally went live yesterday. The market has somewhat priced the launch in and as far the volumes are very low with at the time of writing 13BTC futures had been sold. My gut feel is that it will have a very positive impact in the long term a view my friend NYC based Thomas Lee, Co-Founder of Fundstrat seems to share tweeted "I am very positive on Bakkt and its ability to improve trust with institutions to crypto."

Looking at the cryptomarket at the time of writing Bitcoin (BTC) is down from last week at US$9,868.56; Ethereum (ETH) is at US$207.70; Ripple (XRP) is at US$0.2708; Binance (BNB) is at US$19.71 and Cardano (ADA) is at US$0.04901. Overall Market Cap is at US$261.37bn (data source: www.CryptoCompare.com)

Last week I bumped into my long standing friend, Sean O'Kelly, a UK film producer. Catching up on his news he revealed that he has launched a unique new venture, Skyrocket Entertainment (http://www.theskyrocket.co) cornering a gap in the market by migrating iconic Hollywood feature films and branded intellectual property rights into the worldwide gambling and social gaming sector. He and co-founder, Richard Clarke, have just struck a deal with BlockChain Innovations Corp's CTO and Director, Morris Mosseri, to acquire independent casino games studio, The Games Company, a popular provider of online casino games licensed in multiple jurisdictions.

Exciting times ahead because this means film-meets-games-meets-blockchains – and these games are also available to be played using cryptocurrencies. Skyrocket has the rights to some colossal action franchises such as Rambo 4, The Expendables and The Fallen franchise – all of which have a perfect format synergy for gaming. I'm particularly curious to see how this translates with some of Skyrocket's racier titles… Bring on 'Lovelace' the slot machine! Make sure you get your copy of Crypto AM on the 8th October when Skyrocket will appear in Spotlight.

Blockchain Live returns to London's Olympia this week with some very good industry leaders presenting. The standard registration doesn't allow access to all the stages and aspects of blockchain live, but with the promo code CITYAM, readers using the code when registering will benefit from free access to the full event! Visit https://blockchainlive.com/registration

THE FIVE PHASES TO CREATING A DECENTRALIZED FINANCIAL ECONOMY

The mobile phone revolution was ignited by Apple, but democratized by Google. The key enabler was the implementation of Android, an open source operating system, to power Google devices by the billions. As a result, the large majority of the world's phones run on open source software.

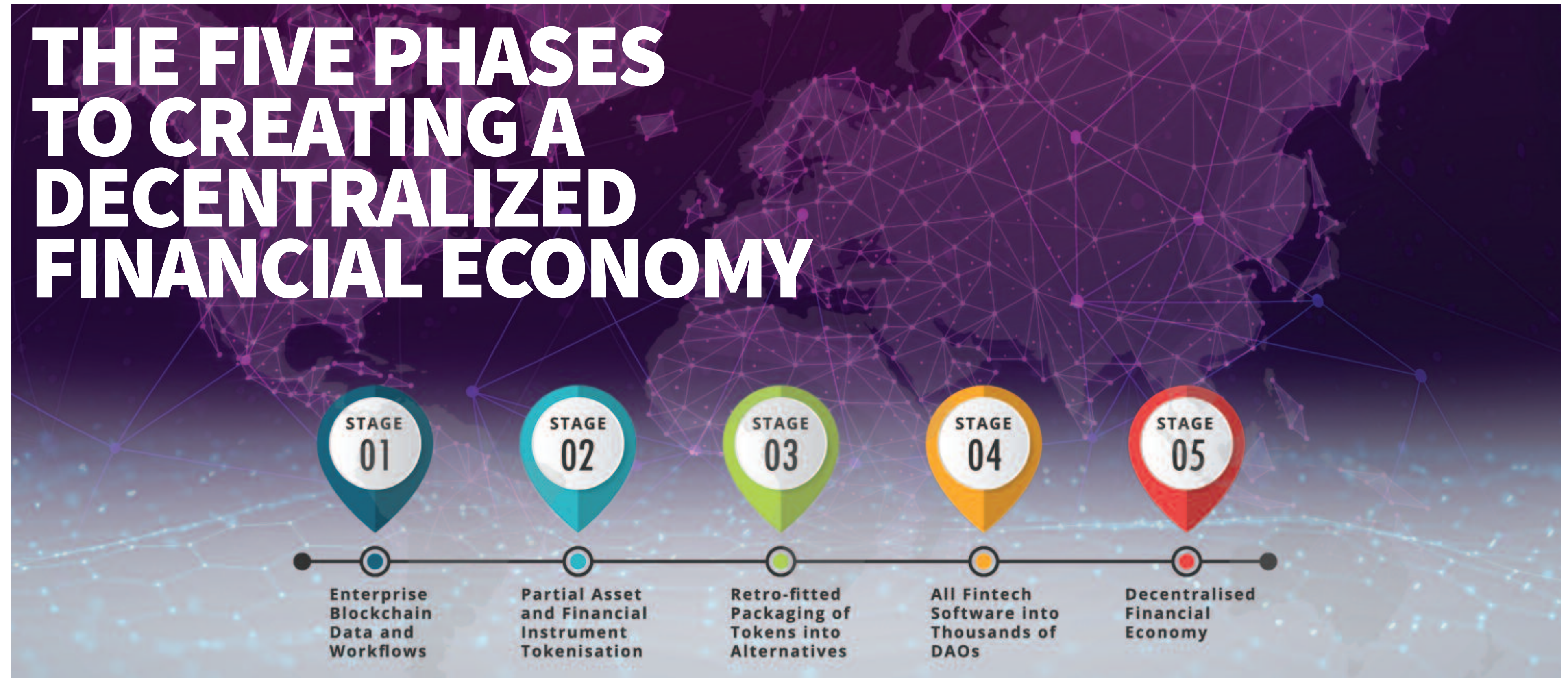
Millions of people use their phones to watch movies, shop for Spanish olives, and manage their bank accounts because an open source software infrastructure catalyzed the development of applications. And, while negative stories of tech companies increasingly dominate the headlines, examples like this highlight the power and reach of human collaboration. The best technology ends up being the one available to all.

Now, imagine the smartest programmers around the world developing software for financial markets infrastructure, digital identity, smart payment processing, or value exchange – all free of charge. Any business can pick up this software and implement it. Alternately, think of the world's largest consortia of banks, insurers and governments opening up global protocols that power trading and financial networks at greater speed and lower cost. This picture doesn't require much imagination, because it is happening today on public and private blockchains like Ethereum.

At ConsenSys, we work with the world's governments, large organizations, and entrepreneurs driving risky, pioneering start-ups. From this vantage point, we have learned that there is a blockchain maturity curve for developing a decentralized financial economy. Understanding these phases of adoption can help determine the best way to utilize distributed ledgers and implement the benefits of this revolutionary technology.

THE FIRST PHASE: ENTERPRISE BLOCKCHAIN DATA AND WORKFLOW

In the first phase, companies and operators must agree on shared data standards. For organizations that have spent centuries competing against each other, letting go of even back-office costs is difficult. Yet there is no competitive advantage in making industries less efficient by creating information friction – a tactic considered absurd in the land of data science and emerging artificial intelligence.



Designed by Phill Snelling, Bowater Media

Once industries, whether in supply chain, finance or capital markets agree on shared data standards, the next step is to mutualize workflows that derive from the data itself. Examples include standard software procedures for reconciliation and settlement of securities trading or negotiating legal documents and the terms of financial instruments. There are meaningful benefits from these efforts, including lowering operating costs, speeding up arcane human processes, and improving the customer experience. For this digitization, look to enterprise blockchains, like private deployments of Ethereum with built-in privacy, permissioning, and scalability.

And yet, embedded industry rule-sets and shared software functions are still at the early stages of what blockchain can accomplish. Once companies share data and perform common workflows, they can deploy software-based assets in the form of tokens.

FROM PARTIAL ASSET TOKENIZATION TO COMPOSABLE TOKENIZED ALTERNATIVES

Greater asset tokenization is the next step in the path to creating a decentralized financial economy. These initial tokens capture and represent a small percentage of information about the outside world, such as a link to external legal documents, business logic, or governance. Any of this data can be incorporated into token abstractions, secured by world-class cryptography and global mining. Thereafter, digital assets can encapsulate any number of real-world financial and commercial instruments, from currencies to securities, bonds, commodities, real estate, or physical goods.

Tokenized assets can also be extended to more speculative units of value, like human attention, medical data, or corporate identity. As blockchain software increases in composability, the financial economy will witness deeper functionality being embedded into these digital assets, and into the networks on which they travel.

When looking at financial services, for example, smart programmable financial instruments begin to emerge. Bonds will have software covenants that are triggered automatically by data events. Equities will issue their own dividends and split automatically into investment accounts. The growth from packaging tokens into alternatives will create new financial products and mechanisms that were previously impossible.

THE ARRIVAL OF A DECENTRALIZED FINANCIAL ECONOMY

Just as Android and iOS operating systems powered the mobile revolution, blockchain-based networks democratize access to financial markets through peer to peer trading and exchange, protocol-based margin lending, and the development of Decentralized Autonomous Organizations (DAOs). In the long run, DAOs have the potential to build community-governed software systems that run complex markets or functions of traditional financial companies.

One day, all such software may live in distributed networks, hosted and powered by the companies or DAOs within particular sectors and industries. Their products will be rigorously permissioned and tracked, flowing through digital versions of today's value chains. New types of markets and networks will emerge to enable an interconnected and globally accessible commercial web.

"The same underlying software rails could be used across commerce, payments, banking, lending, and insurance."

> Companies and operators must agree on shared data standards

While this sounds like science fiction today, it is easy to underestimate the long term impact of any technology. Steve Ballmer of Microsoft famously mocked the iPhone on its release as an impractical toy. Similar to the way we use the Internet today to access our bank account, web apps, trade stocks, or e-sign legal agreements, we will use blockchain-based Web 3.0 to transact, maintain, and engage with digital commerce and finance. The best technology ends up being the one available to all.

Lex Sokolin, Global Fintech Co-Head for ConsenSys in conversation with James Bowater. For more information visit codefi.consensys.net and https://www.linkedin.com/in/alexeysokolin/

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CRYPTOCOMPARE MARKET VIEW

Blockchain Rival Hashgraph Gets Underwhelming Reception

Last week saw the launch of the enterprise focused Hedera Hashgraph ledger. Using a new kind of structure known as directed acyclic graph (DAG) architecture, rather than the blockchain structure employed in Bitcoin and Ethereum, the project promises vastly enhanced transaction throughput. Its current 10,000 transactions per second (TPS) is anticipated to ultimately reach more than 250,000.

The prospect of solving crypto's scalability problem has attracted the support of well-known VC firms, as well as a governing council of major organisations including IBM, Boeing and Deutsche Telekom. Its introduction on several crypto markets including OKEx, UpBit and Bittrex, however, proved underwhelming. Those who purchased tokens in Hedera's $124 million ICO raise in 2018 – which gave the project a valuation of more than $5 billion – had little time to recoup their funds as price dropped to under 4c by the week's close.

In the wider market, sentiment has been mixed as Bitcoin continues to offer little clue as to its next major move. All eyes are now focused on the new physically settled Bitcoin futures platform Bakkt, from NYSE parent company ICE - which launched on Monday. At the time of writing, Bitcoin is trading at $9,948.

Ethereum enjoyed a bullish week, rising from $188 to a high of $223 (an18% increase). ETH has since pulled back to $207, where it is likely to consolidate while Bitcoin's direction is defined. The most notable news in the market, however, was the sudden rally in altcoin prices. Suffering a torrid bear spell over the summer months, several alts broke out to recover previous losses in BTC terms. Winners from the week included XLM (up 57% on Binance), ZRX (up 66%) and – most surprisingly, given its questionable fundamentals – SONM (up 278%).

CRYPTO A.M. INDUSTRY VOICES

Are STO's The future? – Is the Regulator enemy or Friend?

Over the last 12-18 months there has been a growing crescendo of noise surrounding Security Token Offerings, also often referred to as Digital Assets. However, there doesn't seem to be a clear understanding of exactly what the term means in some quarters and how the use of an STO will impact its issuer, exchange, investors, traders and a great number of others in the chain.

`One of the most common errors I'm hearing is firms and individuals referring to an STO license or authorisation. Some countries have developed this concept, however in the major financial centres and for their regulators, no such asset class or product exists or is recognised as such, and that is because there is a fundamental misunderstanding of what a Security Token is.

A Security Token is quite simply the use of a new technology for the transfer and registration, as well as the legal framework of a Security. The Token aspect is nothing more than the technology underpinning the Security it supports. Therefore, the key aspect here is what is the security and what regulatory framework does it fall under.

The use of an STO is to issue a currently regulated security using the new technology provided by Blockchain and Smart Contracts, Tokenisation. The FCA has taken this approach in the issuance of two circulars called the Crypto Assets Guidance Notes. Essentially stating that they are technology agnostic and that current regulations must be applied to any activity that falls under the existing regulatory framework. Therefore, any party taking part in an STO must pay close attention to the current regulations when looking at the activities and products they are playing with.

That's the simple explanation, and it covers the current set of circumstances for the moment. However, as LDX has investigated the use of Tokenisation we have discovered the agility of the use of blockchain and smart contracts allows the development of new products that can solve a number of challenges in the financial markets. This will create a challenge for regulators very shortly. The current regulations pigeonhole a wide variety of products and activities, Tokens, we have learnt can cross a number of regulatory borders causing difficulty in applying the appropriate regulations. This does not mean that the new products will fall outside regulation, merely that the creators must be aware of the need for constant engagement with the regulator and interaction in helping them understand where the product is headed.

The irony is that the headaches the new innovative products are creating for regulators, stem from the fact that the original technology and products they are based on (Cryptocurrencies), were created to challenge the financial markets post the financial crisis, which itself stemmed from deregulation. We have come full circle.

So what is the future of STO's. LDX and a number of people believe they are the future of the markets. However, we also believe that it is key to behave in a sensible and responsible manner to allow this market to flourish. The agility of smart contracts and the cost saving potential of blockchain pose a huge opportunity and challenge to the current markets. So it is important to ensure the STO market does not leave itself open to attack form incumbents or regulators in the traditional world.

We believe the regulators are right to keep a very careful eye on the development of this new market and the products developing in it. The ICO market has proven there must be proper oversight. However we also believe the regulators see the potential of the new world and are happy to facilitate its growth and development. So it is our belief that the regulator is a key partner in the future of the STO market, not an enemy to be avoided or challenged.

VJ Angelo, CEO of London Derivatives Exchange
For further information www.londondx.com

Crypto A.M. shines its Spotlight on FXCM

Modern technology has made retail trading accessible to all – it is literally at the tip of our fingertips. But it wasn't always this easy; it's fair to say that the technology underpinning online trading has come a long way since the days of pagers and dial-up modems (look it up, kids…).

The pace of change has been so rapid that there are, understandably, not many brokers that remain from those early days. It would take decades of extraordinary investment and dedication for these first-generation online brokers to equip themselves with the tools necessary to meet the customer demands of today.

Yet Forex Capital Markets (FXCM) is no ordinary broker. Established in 1999, it has gone from being an early pioneer in the online retail brokerage world to a global leader in multi-asset trading.

Its focus on providing institutional level pricing to individual traders has been a key pillar of its success over the past two decades, paving the way for billions of dollars to be traded through its desktop, tablet and mobile trading applications every day.

"The beauty of trading with a regulated broker like FXCM, aside from the regulatory security we offer, is the ease of trading and range of investment products available to suit differing customer requirements," says Brendan Callan, CEO of FXCM.

"Whether it is foreign exchange, cryptos, commodities, metals, energy products or stock indices, you can trade with ease from one account," he adds. "It's a big part of why FXCM has been in business for the past twenty years."

> Ten or twenty years from now, the market structure will not be the same as it is today

Brendan Callan, CEO of FXCM

However, like many twenty year olds, FXCM has big ambitions, and is laying the foundations for its future success.

"Ten or twenty years from now, the market structure will not be the same as it is today. DLT, artificial intelligence and other emerging technologies will transform the way clients trade and how brokers and market infrastructure providers operate."

It is wise to heed his words. As a fifteen-year veteran of FXCM, Callan has spent the past nine years in London, where he initially established and grew FXCM's European presence before taking on the global reigns in early 2017.

"I've witnessed amazing change during my time here," he says. "Trading technology is evolving rapidly and this has spurred demand for faster, more efficient trading tools".

"Today, many traders rely on real-time analytics to stay on top of market changes and assess risks. There has been a steep rise in the level of sophistication and the tools they require. We have adapted enormously during our twenty years of business. Walk around our office and you will not see a modem in sight!"

"Artificial intelligence and real-time analytics underpin our business strategy – it is the future. Just as the internet heralded an entirely new era for trading, I believe artificial intelligence will have a similar impact over the next few years."

Note:- CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage.
70.96% of retail investor accounts lose money when trading CFDs with this provider.
You should consider whether you understand how CFDs work and whether you can afford to take the high risk of losing your money.
For further information visit https://www.fxcm.com

WHY MINERS MINE

Troy Norcross, Co-Founder Blockchain Rookies

Most people assume that the only reason for cryptocurrency mining is to get rich. And while the financial reward from mining is a significant motivator, it is not the only reason.

In a classic definition, a miner is someone who works at the rock face; cutting, blasting, or otherwise working and removing the rock. They apply time, energy, tools and resources to mine for things like gold. The cost of pulling the gold out of the ground as well as the limited supply of extracted gold is part of what gives gold its value. And being able to sell that gold for more than it cost the miner to pull it out of the ground is what makes mining a profitable business.

The same is true for bitcoin miners. They apply time, energy, tools and resources to mine bitcoin which they can later sell on an exchange.The price of bitcoin has a direct impact on the number of people who will use their computers for mining.

Rather than breaking up stone at a rock face, cryptocurrency miners verify and validate transactions and then solve complex maths problems in order to add blocks to the blockchain in a safe and secure way. They do not use picks and shovels, but use computers meaning their costs are hardware and electricity.

Awarding new cryptocurrency to miners is part of the incentive structure which allows for a public permissionless blockchain to function. If there was no reward, there wouldn't be any incentive for people to verify and validate transactions and add them to the network. These rewards allow public blockchains to be self-sustaining.

Miners mine in order to ensure that transactions get processed and that the network remains secure. And in the hopes they can sell their bitcoin for more than it cost them to mine it.

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