Governing Cryptocurrencies through Forward Guidance?

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Bitcoin dead? Again?
Outline

1. Challenges for regulation
2. Forward guidance
3. Sandbox approach to regulation
4. Sandbox for regulators
1. Cryptocurrencies

- **Benefits:**
  - financial inclusion
  - cross-border payment services

- **Concerns:**
International Financial Plumbing or 6-Stages of a Cross-border Payment

Cross-Border Inefficiencies

Multiple stages in correspondent banking...
1. Cryptocurrencies

- **Benefits:**
  - financial inclusion
  - cross-border payment services
  - competition in financial sector

- **Concerns:**
  - financial stability
  - consumer and investor protection
Millennials favour shares and bitcoin over home ownership

Young people regard buying a house as high risk, survey reveals

Bitcoin and other cryptocurrencies have recovered some of the losses that came after a Chinese ban on ICOs

Aime Williams JUNE 27, 2018

Three-quarters of British millennials would rather put their money in shares, bonds or bitcoin than property, according to research that shows young people turning away from a weakening property market.

Source: Financial Times
1. Cryptocurrencies

- **Benefits:**
  - financial inclusion
  - cross-border payment services
  - competition in financial sector

- **Concerns:**
  - financial stability
  - consumer and investor protection
  - market integrity and money laundering
  - tax evasion
  - terrorism financing
Shop by category:
- Drugs (688)
  - Cannabis (269)
  - Ecstasy (36)
  - Dissociatives (7)
  - Psychedelics (68)
  - Opioids (68)
  - Stimulants (52)
  - Other (100)
  - Benzos (46)
- Lab Supplies (3)
- Digital goods (84)
- Services (47)
- Money (46)
- Weaponry (7)
- Home & Garden (27)
- Electronics (8)
- Books (36)
- Drug paraphernalia (27)
- XXX (26)
- Medical (4)
- Computer equipment (8)
- Art (1)
- Musical instruments (4)
- Tickets (3)
- Forgeries (10)

- $50 Aussie Note! For BitCoin high...
  - $5.81
- 10mg 2C-E Powder
  - $0.34
- Codeine - 40 x 10MG
  - Codeine/APAP...
  - $2.09
- Red Joker Ecstasy Pills
  - Qty: ...
  - $4.00
- Syringes, Needles - 30 Guage 1cc/ml...
  - $2.21
- 0.5g Masterkush melt/bubble hashish...
  - $3.19
- 1-Oz (28g) Purple Kush
- Modafinil 100mg tablets in
- Alpha Pharma Testobolin
1. Cryptocurrencies - Challenges for regulation

- Blurred physical, digital and legal borders
- ‘Whether’, ‘what’, and ‘how’ to regulate
- Reasons for regulation:
  - China, India: capital controls and environmental impact
  - United States: use for illicit activities
  - Europe, Korea, and Japan: risks to financial stability
Unprecedented raise of the price/market capitalisation
2. Forward guidance

- Interventions of various supervisors and regulators

- Interventions drove asset prices down preventing destabilizing bubbles
  - the FSB: crypto-assets do not pose a material risk to global financial stability at this time

- Tools: mostly warnings, programmatic statements and declarations of intent
2. Forward guidance

- 11.01.2018: South Korea’s justice minister plans trading ban on cryptocurrencies.
- 18.01.2018: France, Germany to make joint bitcoin regulation proposal at G20 summit.
- 05.02.2018: President of the ECB announces probes into the riskiness of the cryptocurrencies; and U.S. SEC refuses to approve bitcoin ETFs.
- 02.02.2018: U.S. treasury secretary calls to discuss cryptocurrency regulation at G20 summit.
- 25.12.2017: Israel Securities Agency announcing on Monday they would bar companies trading in bitcoin from operating on the Tel Aviv stock exchange.
- 09.01.2018: South Korean Financial Supervisory Commission urges 23 countries, EU, and IMF for cooperation on regulating cryptocurrency.
- 15.01.2018: Korean financial officials announce measures to ban anonymous cryptocurrency trading.
- 01.02.2018: Indian finance minister promises cryptocurrency crackdown.
- 06.02.2018: Head of the BIS urges for regulating cryptocurrencies.
2. Forward guidance

- Factors determining the (potential) impact of a statement:
  - the importance of the actor for financial markets
  - the size of the respective national or regional market
  - the novelty of the announcement
  - the character of the announcement, e.g. warnings, regulation
2. Forward guidance

- Why have the statements and declarations been effective?
  - The technology has not changed
  - Indirect regulation through intermediaries
  - Connection to the real economy

- Forward guidance in a market fraught with regulatory uncertainty
2. Forward guidance - Insights

- Public statements are a highly effective tool in the short term

- The question of appropriate procedural safeguards that ensure legitimacy of the public statements

- The scope of judicial review of the public statements
Bitcoin Charts

Zoom 1d 7d 1m 3m 1y YTD ALL

From Sep 2, 2013 To Sep 1, 2014

Market Cap

Price (USD)

24h Vol

Market Cap  Price (USD)  Price (BTC)  24h Vol

coinmarketcap.com
3. Sandbox approach to regulation

- Incredible speed of FinTech innovations and reactive regulation

- ‘Sandbox’ approach as a solution:
  - It relies on experimentation and supervisory discretion, allowing startups to set up a business within a defined area for a certain time under relaxed regulatory requirements.
  - UK, Singapore, Australia, Bahrain, Luxembourg and Switzerland
  - EU Commission
3. Sandbox approach to regulation

- Sandbox approach as it is:
  - incentivizing regulatory arbitrage
  - potentially harmful for competition
  - suboptimal for enforcement in fragmented crypto-asset markets
4. Sandbox for regulators

- Need for Sandbox for regulators:
  - exchange of information among regulators and supervisors
  - coordinated communication and forward guidance
  - monitoring of the financial stability implications of crypto-assets markets (FSB)
  - coordinated regulatory trials and enforcement
4. Sandbox for regulators

- EU perspective:
  - the EU Commission recommends supervisory cooperation and the exchange of information on regulatory sandboxes
  - warns that the principles of proportionality and flexibility can be a source of the regulatory arbitrage
  - regulatory differences between the member states impede the functionality of the Single Market
  - Commission’s best practices for regulatory sandboxes
4. Sandbox for regulators

- Sustainable regulation through sandboxes for regulators:
  - G20 and international standard-setting bodies
  - Bottom-up initiatives, e.g. Global Financial Innovation Network (GFIN)