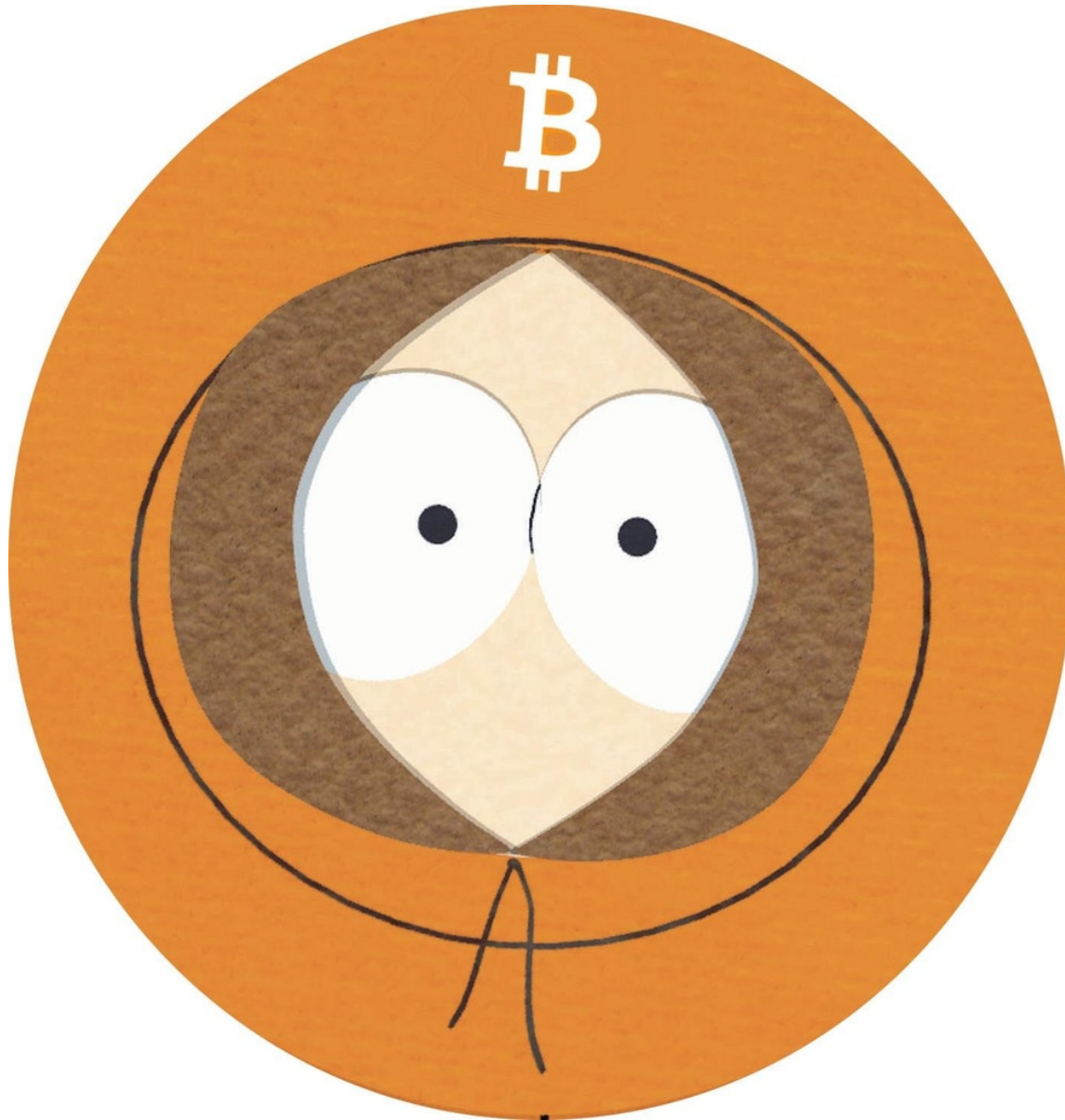


Governing Cryptocurrencies through Forward Guidance?

Grygoriy Pustovit

UNCTAD Summer School 2018
Geneva

Bitcoin dead? Again?



10.09.18

2

Market Cap
\$127.02 B

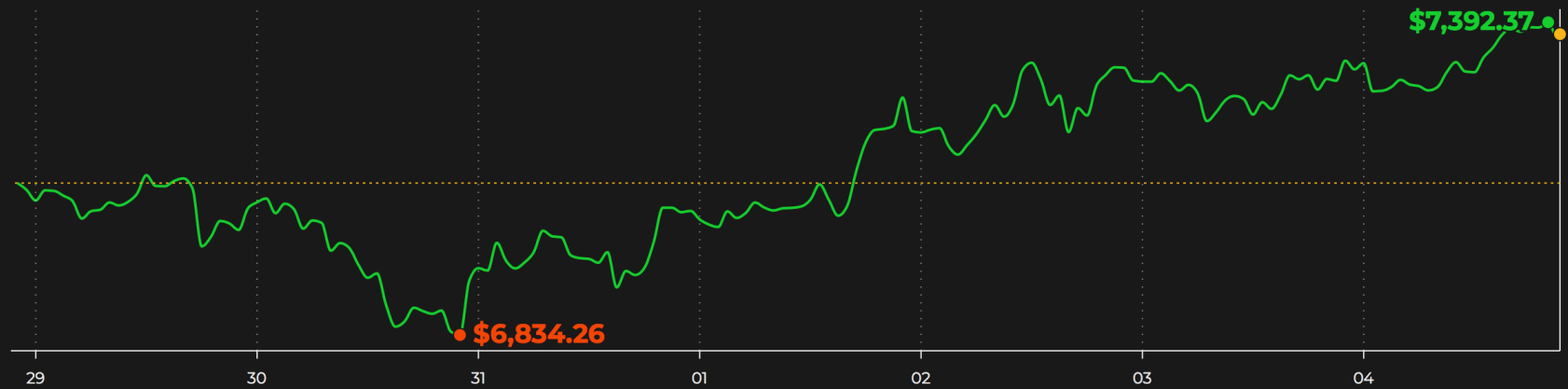
\$7,371.08
11.70718846 BCH

24h Volume
\$4.25 B

Market / Bitcoin Core [BTC]



Q Explorer



1D 7D 1M 6M 1Y 5Y

+3.74% **+\$265.66**

Bitcoin Charts

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

From Aug 30, 2018 To Sep 6, 2018



coinmarketcap.com



Outline

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

1. Cryptocurrencies

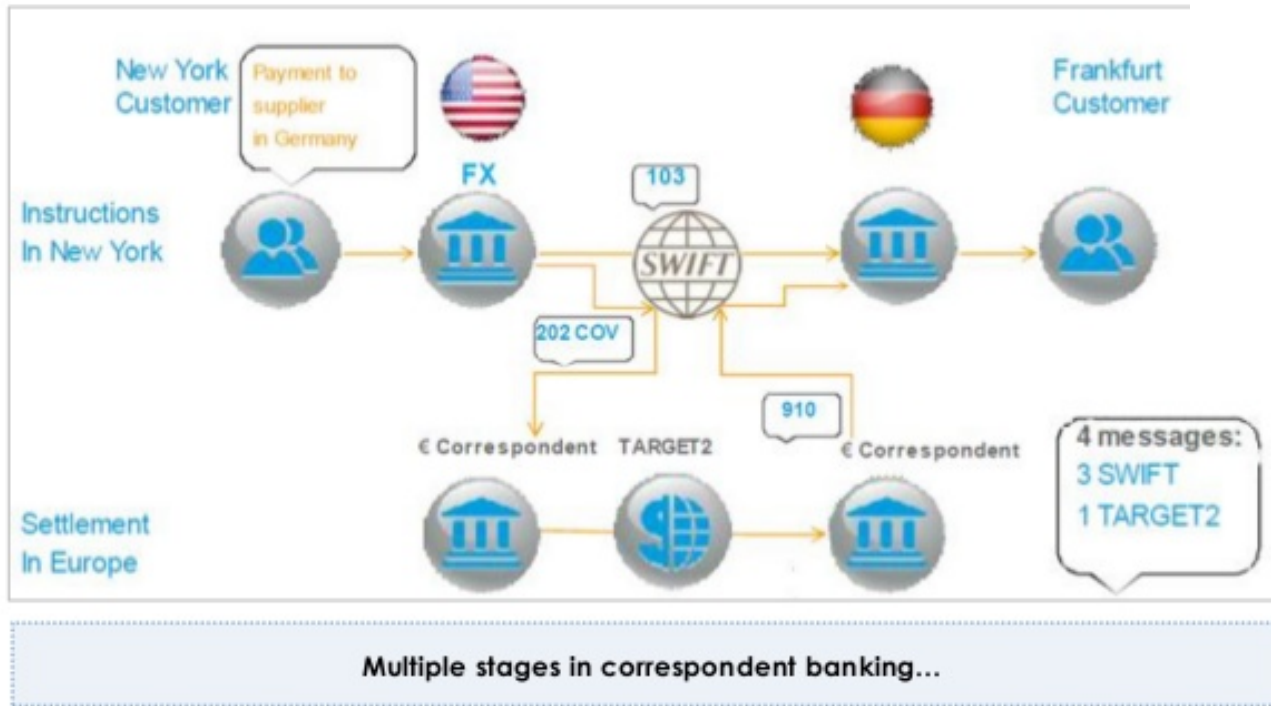
- Benefits:
 - financial inclusion
 - cross-border payment services

- Concerns:

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



Cross-Border Inefficiencies



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

26

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)



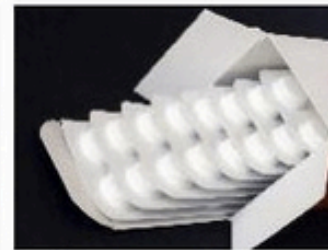
\$50 Aussie Note! For BitCoin high...

฿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

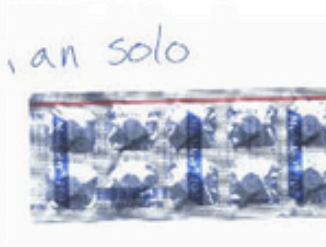


0.5g Masterkush melt/bubble hashish...

฿3.19



1-Oz (28g) Purple Kush



Modafinil 100mg tablets in



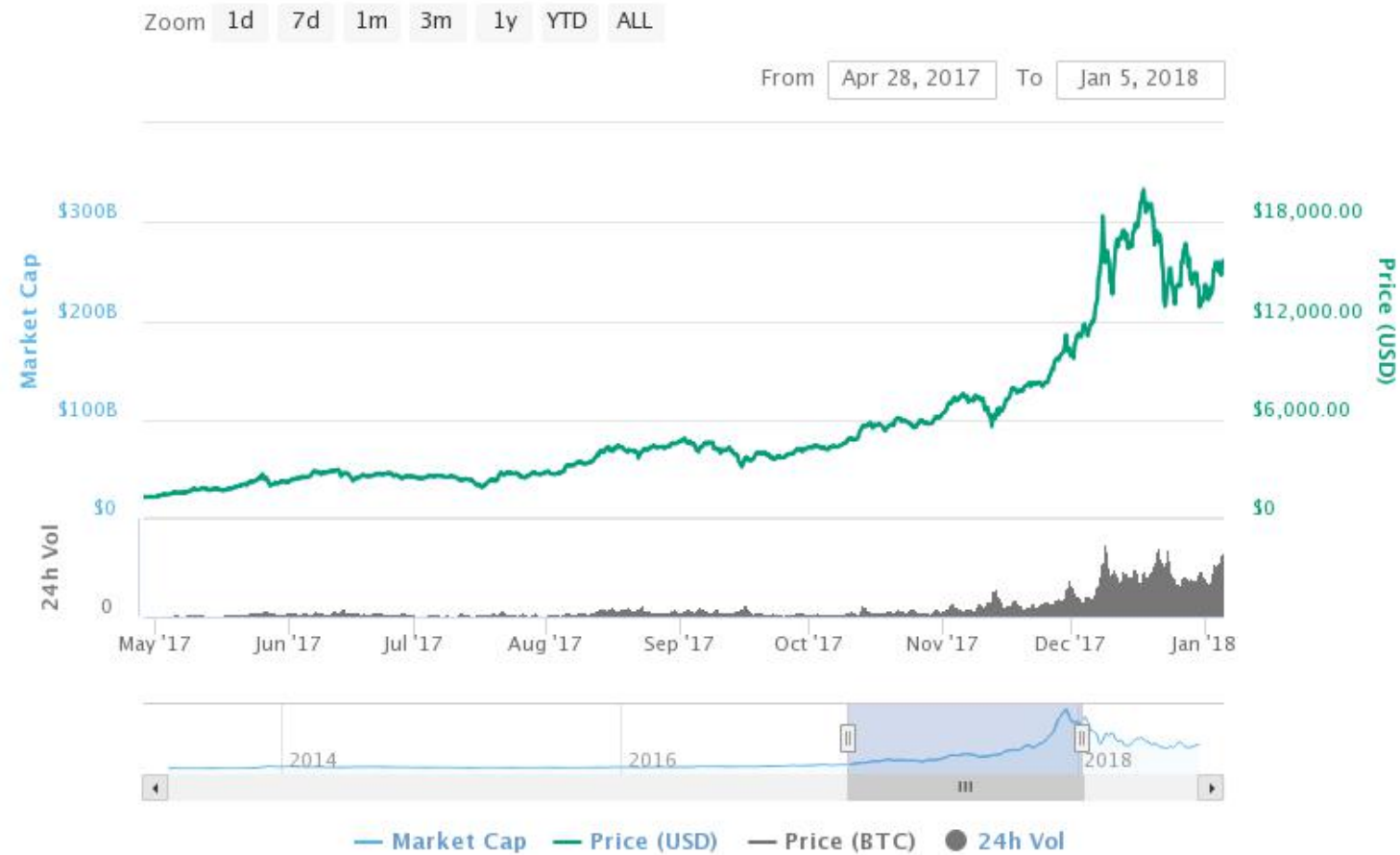
Alpha Pharma Testobolin

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

Bitcoin Charts

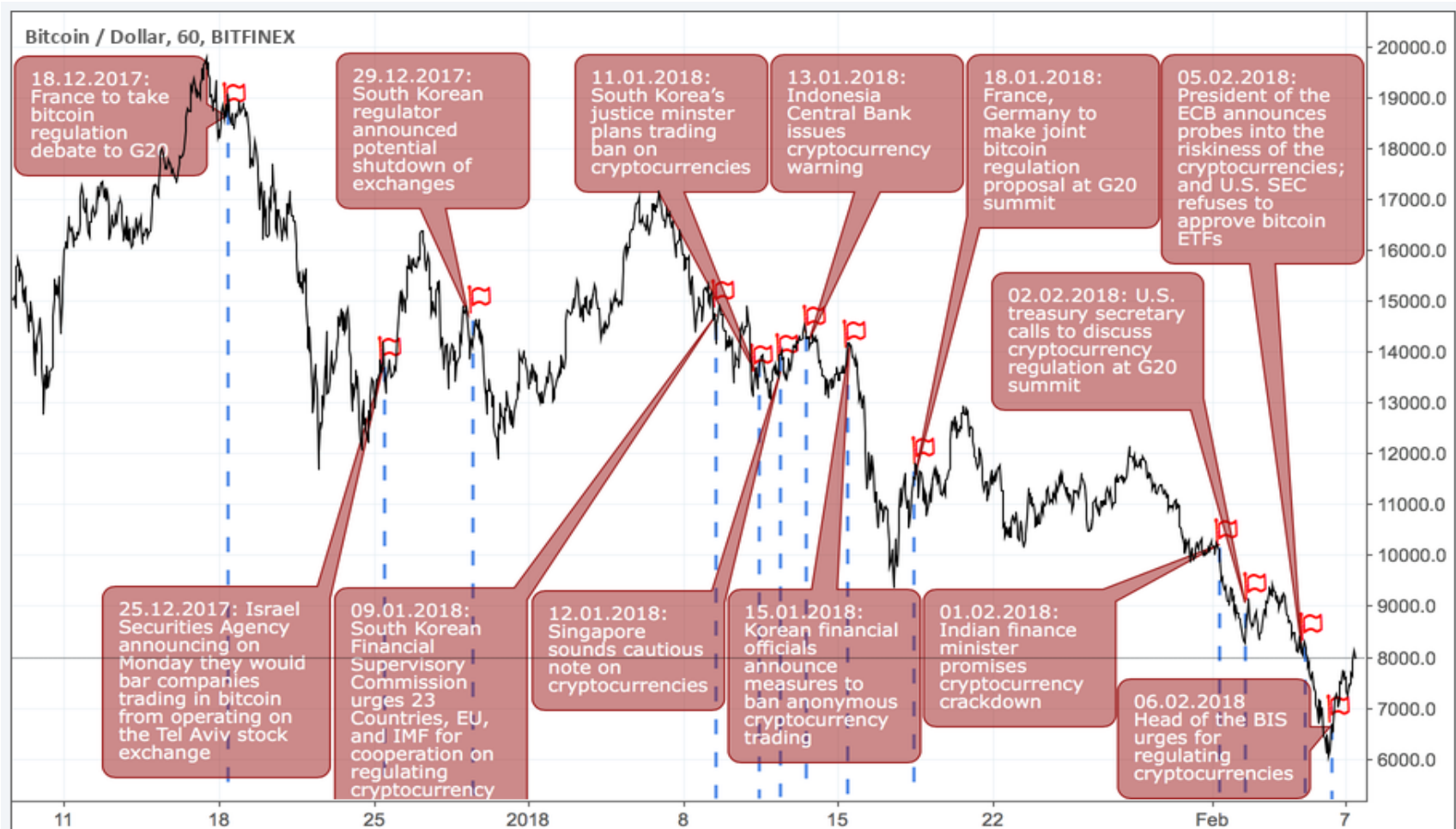


coinmarketcap.com

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



Created with TradingView

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, 2017 To Sep 1, 2018



coinmarketcap.com



Bitcoin Charts

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

From Sep 2, 2013 To Sep 1, 2014



coinmarketcap.com

Bitcoin Charts



Bitcoin Charts



10.09.18



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)

Thank you!

Goldmann, M. & Pustovit, G. (2018). *Governing cryptocurrencies through forward guidance?* (Policy Letter No. 68). Goethe University Frankfurt, Research Center SAFE – Sustainable Architecture for Finance in Europe



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