

AGN Global Business Voice: Business Alert

Using Cryptocurrency in real life –
Regulation, choice and volatility: Part #2



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In this short series of Global Business Voice Alerts, we continue our exploration of cryptocurrencies, aiming to demystify the topic and put things in layman's terms. Last time we looked briefly at the latest developments, considered mining and the environmental concerns. This edition is all about practicalities; what's the likely impact of the authorities and regulation, and which cryptocurrency should you choose.

A QUICK UPDATE:

From late 2017 until the Fall of 2020, Bitcoin mostly hovered below the US\$10,000 level. Then the valuation surged, peaking in mid-April 2021 at almost US\$64,000, only to fall by over 40% to about US\$33,000 (7 June 2021), recovering to a little over US\$40,000 a week later.

Recent falls appear to relate to a tightening attitude of the authorities, especially in China and the US, but also the actions and comments of "whales". Whales are individuals that a perceived to own or control a sufficient proportion of a market for their actions to have an immediate effect on the price. In a regulated market the actions of individuals and authorities alike are strictly controlled to provide fairness and equality of information. Not so for cryptocurrencies, where they are a notable feature of markets whose very nature make verification of information difficult or impossible. Elon Musk springs to mind, but there are of course others.

So it seems likely that the rollercoaster will continue, and this is not an opportunity for the fainthearted. It is said that 45% of Bitcoin has not moved ownership in the last two years, which suggests owners likely have an acquisition cost of less than US\$10,000, and so can afford to hold on tight for a white-knuckle ride.



A big attraction of cryptocurrencies is that they provide anonymity and fast frictionless transactions. The former is not to the liking of authorities responsible for tax revenues, security and law enforcement. And authorities are indeed reacting to developments.

China especially has the bit between its teeth; cryptocurrency mining has been declared illegal, bans are in place on accepting cryptocurrencies as payment and the authorities are moving to block internet accounts associated with trading and mining activities. Meanwhile in the US, under new Biden administration proposals cryptocurrency transfers of more than US\$10,000 will have to be reported to US tax authorities. The US Treasury has said cryptocurrency posed a "significant

detection problem by facilitating illegal activity broadly including tax evasion”, echoing comments from the European Central Bank which said that cryptocurrencies’ “potential use for illicit purposes” were a cause for concern.

One agenda might be that nation states would prefer cryptocurrencies of their own. Having placed severe restrictions on cryptocurrencies in March, Nigeria is said to have such plans. The US Treasury, Bank of England and Swiss central bank are looking at the issue. Some regard cryptocurrency as having the potential to destabilise economies if mass movements of funds into crypto-alternatives cause “runs” on conventional banks. There is already a concept of “stablecoin” which are cryptocurrencies with the price pegged to traditional currencies or other physical assets. A state-backed cryptocurrency would be a step further, though it is unclear the extent to which regulation would be needed to make such a backing viable. Meanwhile, El Salvador has approved plans to adopt Bitcoin as legal tender in the country alongside the US dollar, which if implemented would mandate its acceptability for transactions within the El Salvador economy. When does a cryptocurrency become a regular currency?

It seems clear that authorities worldwide are set to intervene increasingly in cryptocurrency development. Watch this space - prices as well as perceived anonymity may well be impacted.



Bitcoin leads the market where reputation and profile are probably the most important factor in success. But there are plenty of alternatives – in fact, it’s difficult to pin down an accurate figure but bottom-end estimates suggest the number of different cryptocurrencies exceeds 4,000. Quite aside from the unpredictable activities of various authorities and whales, no limit to the number of market entrants is a consideration where usually nothing substantial underpins value.

To give a taster, the chart in Appendix 1 tabulates the largest half dozen cybercurrencies at the time of writing. *Bitcoin leads with a capitalisation of an astounding US\$600bn, and you would have to come down to the mid-70s in a ranked list of market capitalisation to get under US\$1bn.* Even from this brief comparison, widely differing characteristics are evident. Some might find it hard to move past the 6th largest cryptocurrency (Dogecoin) having been set up for a joke. But equally, huge sums are at stake and impressive price gains are evident over the last 12 months. Whatever the real or perceived nature of cryptocurrencies, these are substantial, well researched and liquid markets, with sophisticated investment products available, such as derivatives.

But is it realistic that the capitalisation of Bitcoin is presently around 3½ times that of the world’s biggest car manufacturer, Volkswagen? Some seem to believe so, and even predict a Bitcoin value exceeding US\$300,000 this year¹.

¹Robert Breedlove interviewed by Kitco News, 21 May 2021, and Bobby Lee interviewed by CNBC 21 March 2021

It seems likely that the market will undergo further periods of development, rationalisation and shakedown. One has to conclude there will inevitably be winners and losers, and probably at scale, but who they will be is likely unpredictable



It remains early in the development of cryptocurrencies; uncertainty and volatility will inevitably be watchwords of the environment for some time. That said, there are sophisticated markets and infrastructures available. For those with the correct risk appetite and availability of high-risk funds, there could be money to be made (or lost) from the speculative investment opportunity - caveat emptor.

It is clear that the cryptocurrency phenomenon is being taken seriously by the authorities in many countries, not only in terms of protection of tax revenues and law enforcement, but also as an important economic force for the future. It seems initially that this will likely involve restrictions, reporting requirements and dilution of anonymity. But perhaps sooner rather than later we could see the emergence of state-backed cryptocurrencies. And if so, it remains to be seen what perceived advantages of the present cryptocurrency breed might be retained.

COMING UP IN THE SERIES 'MAKING SENSE OF CRYPTOCURRENCIES' ...

Next time we continue on the practical side, looking at how to use cryptocurrency. We then turn to more philosophical considerations around long-term value, and finally we discuss the question of advice to clients with some of our leading advisors.

Part 3 - Using Cryptocurrency in real life – buy, store and spend

Part 4 - Why is it worth anything at all? A brief history of bubbles.

Part 5 - AGN Advisers' views - What do we tell the clients?

Sources

Money Week, The Financial Times, BBC, The Guardian, The Independent, Wikipedia , Cointelegraph.com, Coinmarketcap.com, Investopedia.

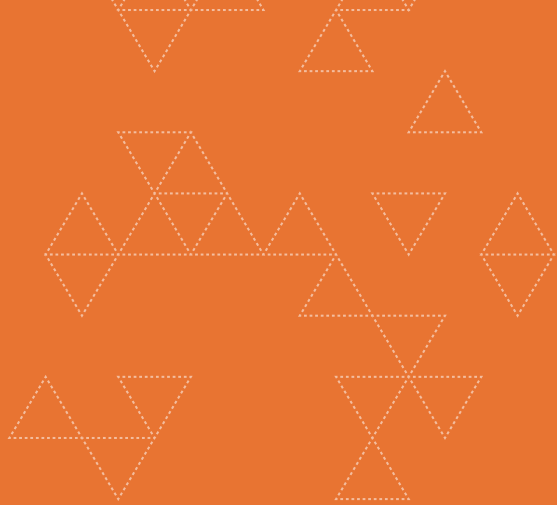
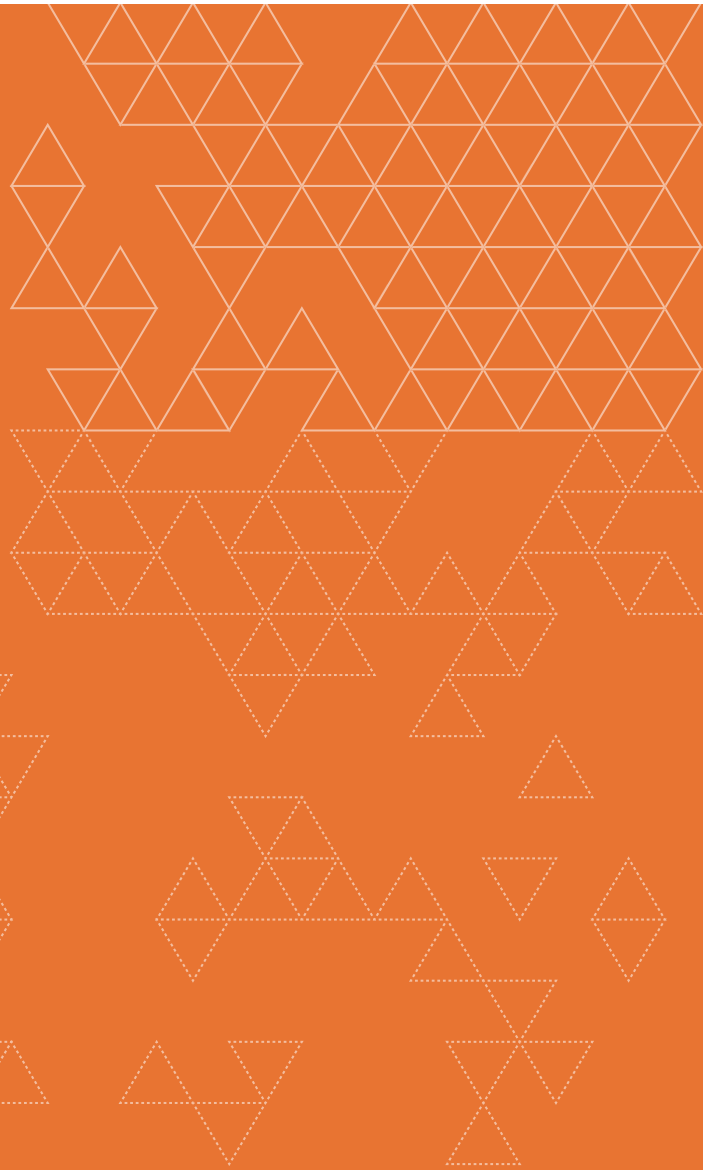
Appendix 1 ²						
Rank by market cap	Name	History & comments	Present & maximum number in issue	Estimated Market capitalisation	Price at June 2021	Price 12 months ago
1	Bitcoin (BTC)	Market leader. Invented in 2008 by an unknown person or group of people using the name Satoshi Nakamoto.	18.7m, 21.0m cap	\$611bn	\$32,628	\$9,795
2	Ethereum (ETH)	Ethereum was proposed in 2013 by programmer Vitalik Buterin. In 2014, development was crowdfunded, and the network went live with an initial supply of 72 million coins on 30 July 2015. An uncapped supply of Ether coins raises the question of long-term value	116.7m, uncapped	\$286bn	\$2,458	\$245
3	Tether (USDT)	The precursor to Tether, originally named "Realcoin", was announced in July 2014 by co-founders Brock Pierce, Reeve Collins, and Craig Sellars as a Santa Monica based start-up. Tether is called a stablecoin because it was originally designed to always be worth \$1.00, maintaining \$1.00 in reserves for each tether issued. In May 2021, Tether published a report showing that 2.9% of Tether was backed by cash, with over 65% backed by commercial paper.	62.3bn, supply limit not known	\$62.3bn	\$1.00	\$1.00
4	Binance Coin (BNB)	Launched in July 2017, a cryptocurrency that can be used to trade and pay fees on the Cayman-based Binance crypto- currency exchange, the world's largest.	153.4m, 200m cap	\$52.3bn	\$340.70	\$17.40

² Market and price data from Coinmarketcap.com on 7 June 2021. General information adapted from Wikipedia, June 2021.

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5	Cardano ADA	Launched in 2017 by Charles Hoskinson, a co-founder of Ethereum. Cardano is the largest cryptocurrency employing a proof-of-stake protocol (in contrast to Bitcoin and Ethereum which use proof-of-work protocols) using significantly less energy than proof-of-work chains.	31.9bn, "planned" to be capped at 45bn	\$47.8bn	\$1.50	\$0.08
6	Dogecoin DOGE	Created by software engineers Billy Markus and Jackson Palmer in 2013, who decided to create a payment system as a joke, making fun of the wild speculation in cryptocurrencies at the time.	129.9bn, uncapped but issues limited to 5bn annually	\$41.2bn	\$0.32	\$0.003

² Market and price data from Coinmarketcap.com on 7 June 2021. General information adapted from Wikipedia, June 2021.

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