

On track towards the next crypto regulatory frontier

By Emir Hrnjic

A RECENT G-20 summit acknowledged the blockchain as an innovation that will likely improve the efficiency and inclusiveness of financial systems and economies. As the technology becomes more pervasive, so will crypto assets. Globally, blockchain applications may have reached an inflection point towards adoption and further expansion – and Asia may hold the key.

Asia has been the most exciting region for trade for decades and one of the hottest crypto environments in the last few years. As digital assets gained in popularity, a wide variety of crypto ecosystems has emerged across the region. In North Asia, China and Japan have dominated bitcoin mining and cryptocurrency trading, while smaller South-east Asian nations have punched far above their weight. Singapore is now one of the biggest markets for initial coin offerings (ICOs).

DIVERSE REGULATORY LANDSCAPE

With adoption of crypto growing, Asian countries are employing different regulations to manage these new financial instruments

across the region. Known as one of the most crypto-friendly countries in the world, Japan recognised bitcoin as legal tender in April 2017, paving the way for more than 10,000 companies to accept payment in bitcoin.

Regulators there have also approved 11 exchange operators in 2017 that led to Japanese dominance in cryptocurrency trading. The Japanese crypto environment grew despite having seen some of the most infamous scandals in the crypto world, including theft of almost US\$1 billion to hackers.

Singapore is emerging as one of the most active markets for ICOs in Asia thanks to its crypto-friendly regulations and pro-business environment. According to Deputy Prime Minister Tharman Shanmugaratnam, the city state will continue its support of experiments in the blockchain and cryptocurrency space “because some of these innovations could turn out to be economically or socially useful”. But equally, he added, “we will stay alert to new risks”.

In fact, the Monetary Authority of Singapore (MAS) has said ICOs will be regulated only if they resemble securities or if they rep-

resent “a debt owed by an issuer”. MAS, together with a consortium of banks, have also developed a digital Singapore dollar that replicated the existing financial payment system without a centralised clearing system.

In contrast to Japan and Singapore, China has taken a different approach.

Although it was one of the most active markets for bitcoin mining and Chinese investors once accounted for the majority of global transactions, regulators banned ICOs and restricted trading in cryptocurrencies last September, citing concerns about scams and money laundering.

This did not stop disgruntled crypto-traders, who soon drove crypto trading underground by using alternative methods. It also triggered an outflow of crypto business to other countries.

At the same time, the governor of People’s Bank of China said it was working on developing a state-backed digital currency – the digital renminbi. This initiative suggests that China’s crypto-related activities are moving from the private

to public sector. Other Asian countries have adopted regulatory practices that lie somewhere in between.

WHAT IS NEXT?

With all eyes on Asia, the natural question is – what’s next, given the risky reputation of crypto assets and ICOs.

To be truly effective, regulations will have to be coordinated globally, since crypto businesses tend to relocate to countries with a friendly regulatory environment.

As a case in point, crypto-friendly Malta and Switzerland recently poached Binance and Bitfinex, two major Asian cryptocurrency exchanges. In that spirit, at their meeting in Argentina in March, G20 finance ministers agreed to monitor the development of cryptocurrencies, while just stopping short of coordinated regulatory action.

Countries taking a liberal approach should be careful about possible reputation issues. While Singapore and Japan have been extremely ICO-friendly, possible future scandals and potential investors’ losses may change their attitude and approach to regula-

tion. In that light, reasonable regulations will likely evolve through meaningful consultation with industry participants.

More stringent prosecution of frauds and scams can also be expected. Just as the Securities and Exchange Commission in the United States started prosecuting fraudulent ICOs, we can expect similar action in Asia.

Finally, self-regulatory bodies will emerge to promote accountability, monitor members and enhance customer protection.

While risk of over-regulation remains a great concern, sensible regulators will most likely create better frameworks to protect investors, while not undermining or hindering the entrepreneurial spirit or innovation.

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