

Crypto Market Review 2018



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SETTING THE SCENE

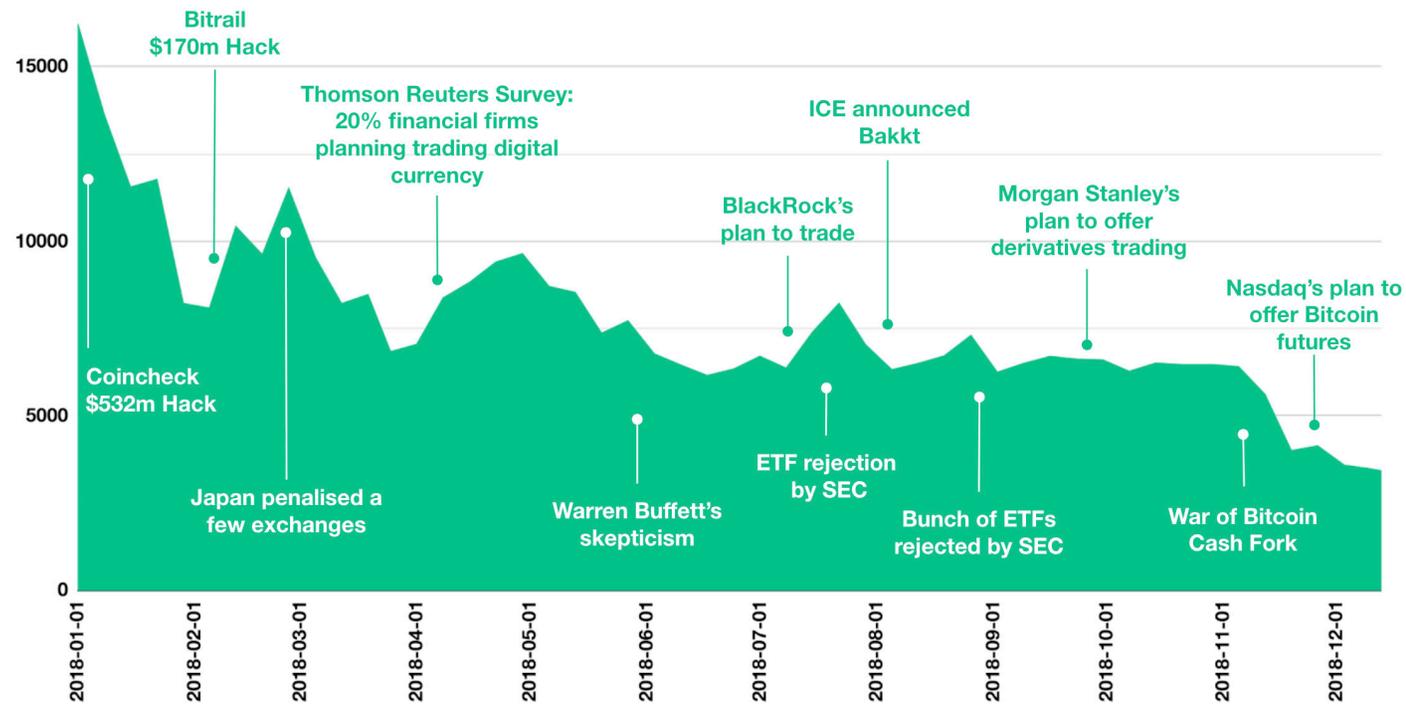
“History doesn't repeat itself,
but it often rhymes.”

If we asked Mark Twain his opinion regarding the crypto market, this might be his most likely the answer. After witnessing record performances in 2017, two thousand eighteen was a very volatile year for cryptos. Despite disappointing performances, there is a substantial community of blockchain believers and the interest in the industry has never been greater. This year the all-time record was broken in terms of financing raised for ICOs (telegram 1,7 bn). BitMEX, the world's largest crypto asset

futures exchange saw its volumes explode. It was also a great year in terms of, new crypto hedge funds, institutional money flowing in, new blockchain projects being launched by big companies, major stock exchanges adopting crypto and the list goes on. This year, also, saw some disappointments, waves of anger, underperformances, misleading information. Markets can crash, nevertheless, innovation and evolution are never reversed.



SETTING THE SCENE



On 7th of January 2018, the total market capitalisation of crypto-assets reached its all-time high with a total market value of over 800 billion dollars after rising tenfold in the last three months of 2017. Since then, the crypto market has fallen by 85% from the high - following the typical bubble burst pattern. However, the interest in the industry has never been so great and with an increasing number of institutions entering the market, the news flow is favourable.

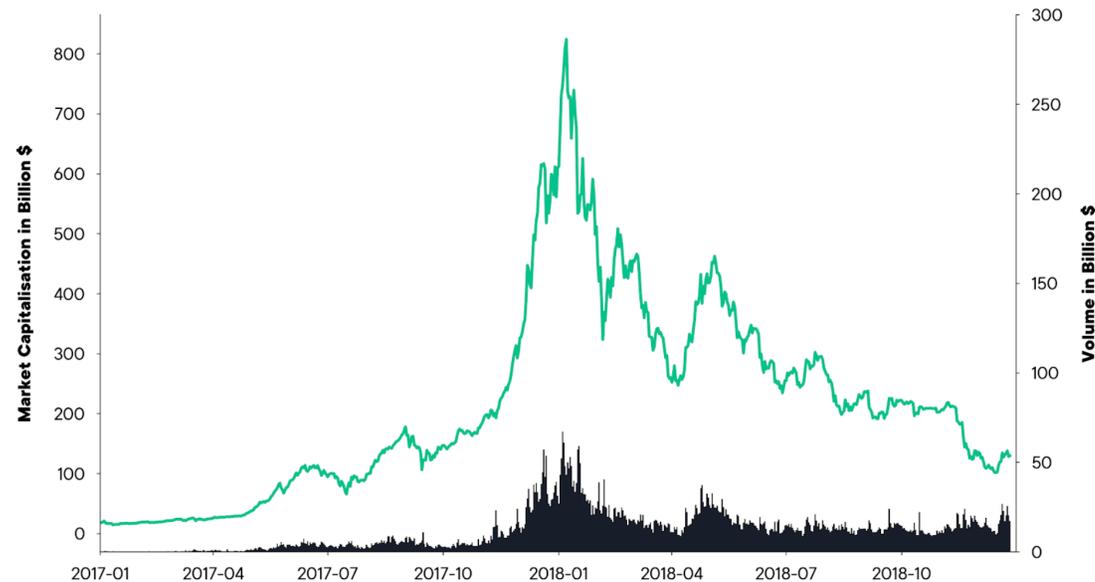
Sources: Google News, SwissBorg. During 2018, we saw many crypto-related headlines. As seen in the chart, the price had its ups and downs.



RETROSPECTIVE 2018

While 2017 was the year of exponential price increases, 2018 saw a massive bear market. The market, however, can not be reduced to just these two phases. Let us take a closer look at what happened in terms of market

capitalisation, volume, volatility, winners, losers, intrinsic network value and finally what happened to the promise of the ethereum price.



MARKET CAPITALISATION

The total market capitalisation chart, presented left, is a textbook case of a speculative bubble with a mania phase (at the end of the year 2017), a blow-off phase, finally, followed by a capitulation phase. At the time of writing this study, it is possible to claim that the capitulation phase has taken place and that the market will start to recover.

Since its peak on the 17th of December 2017, Bitcoin has lost more than 80% of its value. As in any bubble, a crowded market of overly optimistic investors turned

into a sudden crash in price due to a bearish ripple effect of early Bitcoin adopters taking profit (we must recall that, at the peak, the Bitcoin price was multiplied by more than 70 since 2013 and more than 17'000 since the beginning of 2011), and by institutional money reaching stop-loss according to their strict risk management processes, ICOs, in need of fiat currencies to pay their team and retail investors, burned with the leverage offered by brand new crypto exchange platforms.

Sources : CoinMarketCap, SwissBorg. Total market capitalisation and volumes.



VOLATILITY



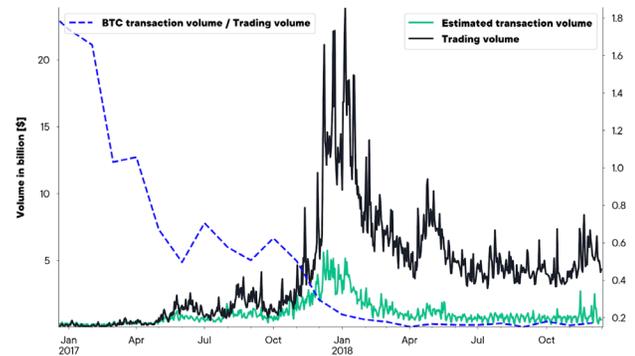
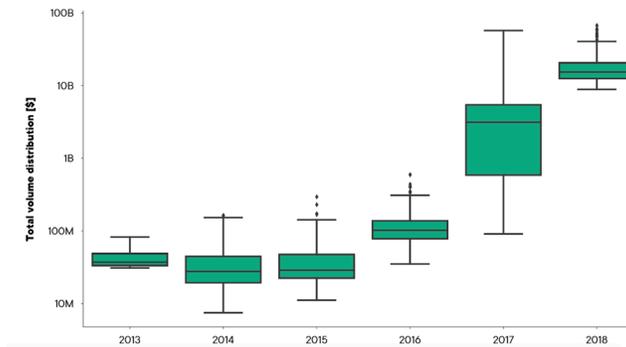
One of the interesting facets of Bitcoin this year was the low volatility observed during the period from September to November where no major price movements were observed.

The crypto market is known for its extreme volatility. Since 2017, Bitcoin's 30-day annualised volatility was, on average, around 80%. However, as seen in the graph above, its volatility dropped to the same level as Nasdaq Composite Index volatility in November. As the Bitcoin market matures, we expect its volatility to become more contained.

1 The volatility is defined by the standard deviation of the logarithmic returns. The standard deviation is calculated over a rolling period of 30 days and is annualised.

Sources: CoinMarketCap, Yahoo & SwissBorg. Annualised volatility ¹ (30 days rolling window)

VOLUME



Sources: CoinMarketCap, SwissBorg. Boxplot of the trading volumes : the box represents the first and the third quartile of the distribution and the middle line refers to the median.

While daily volumes reached their peak levels in December 2017, the average daily volume was higher in 2018 than it was in 2017. The left chart shows daily volumes grouped in quartiles. The distribution in 2018 was relatively homogeneous and three times higher than in 2017 on average.

Although often considered as a speculative asset, Bitcoin also serves as a payment method on the blockchain. Therefore, it is also interesting to study the evolution of the volumes transferred on-chain in comparison to the trading volumes.

As the blue line in the left figure indicates, the ratio between transaction volumes and trading volumes kept decreasing since the beginning of 2017. This was mainly due to the large trading volumes on exchanges rather than the actual uses of the network even when transaction volumes showed a 70% loss in early 2018.

Sources: Blockchain.com, SwissBorg. Estimated transaction volume on the Bitcoin blockchain and the trading volume on exchanges. In blue, the ratio between these two quantities.



CRYPTOS & THE DOTCOM BUBBLE

The bear market in 2018 was alarming for investors. It is important to place it in the right context. In particular, the observed bubble can be compared to the explosion of the dotcom bubble in the early 2000s.

For comparison, the right chart presents the crypto market and the Nasdaq Composite Index with their boom-and-bust periods matched. We note a similar behaviour with the difference that the time is about twice as fast for the cryptos market.

As for the internet-based companies, the underlying technologies in the blockchain ecosystem have a bright future that is likely to transform the world. Furthermore, the blockchain industry is booming. One of the indicators illustrating this explosion is that in one year, the number of tokens listed on CoinMarketCap has doubled. Crypto-assets will probably be increasingly adopted as a payment method or store of value.

NETWORK'S INTRINSIC VALUE



Bitcoin has gone through cyclical bubble phases and corrections this year and in 2014. We can, therefore, expect that, sooner or later, once the correction phase is over, periods of significant growth will be observed again.

It is also worth remembering that Bitcoin is not only an asset but a network with an intrinsic value. In fact, there is an

empirical relationship (Metcalfe's Law)² between the intrinsic value of a network and the number of active users (the green curve on the chart below). Without taking into account the speculative character of this asset, as the number of users and transactions is increasing, the intrinsic value of the Bitcoin network (shown here by market cap) is also increasing.

Sources: CoinMarketCap, Yahoo, SwissBorg.
Comparison between the Crypto Market and the Nasdaq Composite Index (The time axis of the Nasdaq Composite Index is displayed on the top of the chart and, for the Crypto Market, the time axis is indicated on the bottom: the timescale is twice as fast for the crypto market).

² Spencer Wheatley, Didier Sornette, Tobias Huber, Max Reppen, and Robert N. Gantner. Are Bitcoin Bubbles Predictable? Combining a Generalized Metcalfe's Law and the LPPLS Model. arXiv:1803.05663v1, 2018.



NETWORK'S INTRINSIC VALUE

In terms of correction period and price drop, the current crisis is slightly less severe than the one in 2014. In the table below, the major Bitcoin corrections are presented.



Sources : Blockchain.com, SwissBorg.
 Black : Market Capitalisation.
 Green : Prediction of the market capitalisation from active users.
 Red : Prediction of the number of active users

Start Date	End Date	Correction period [day]	High Price [\$]	Low Price [\$]	Decline [%]	Decline [\$]
12.01.2012	27.01.2012	16 days	\$7.30	\$3.80	-48	-\$3.5
17.08.2012	19.08.2012	3 days	\$16.41	\$7.10	-57	-\$9.3
06.03.2013	07.03.2013	2 days	\$49.17	\$33.00	-33	-\$16.2
21.03.2013	23.03.2013	3 days	\$76.91	\$50.09	-35	-\$26.8
10.04.2013	12.04.2013	3 days	\$259.34	\$45.00	-83	-\$214.3
19.11.2013	19.11.2013	1 day	\$755.00	\$378.00	-50	-\$377.0
30.11.2013	14.01.2015	411 days	\$1,163.00	\$152.40	-87	-\$1,010.6
10.03.2017	25.03.2017	16 days	\$1,350.00	\$891.33	-34	-\$458.7
25.05.2017	27.05.2017	3 days	\$2,760.00	\$1,850.00	-33	-\$910.0
12.06.2017	16.07.2017	35 days	\$2,980.00	\$1,830.00	-39	-\$1,150.0
02.09.2017	15.09.2017	14 days	\$4,979.00	\$2,972.00	-40	-\$2,007.0
08.11.2017	12.11.2017	5 days	\$7,888.00	\$5,555.00	-30	-\$2,333.0
17.12.2017	15.12.2018	363 days	\$19,666.00	\$3,183.00	-84	-\$16,483.0

Sources: Steemit, SwissBorg.
 Bitcoin historical corrections (+30% from all time high levels).



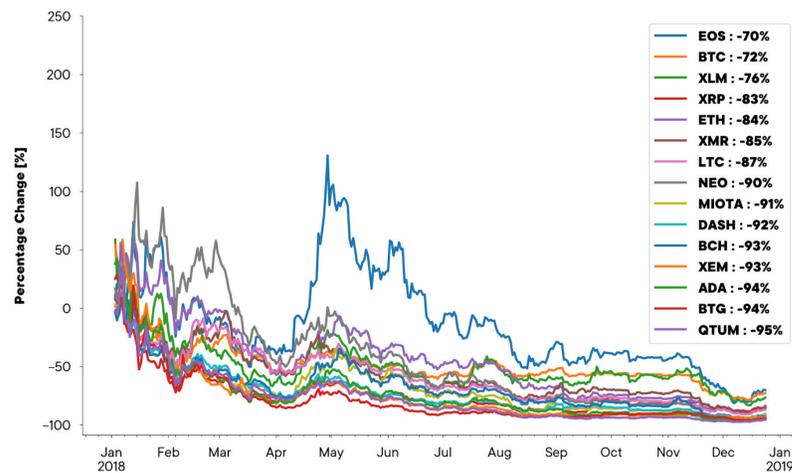
TOP WINNERS AND LOSERS

The performance of the top 15 tokens by market capitalisation in 2018 is presented below. Bitcoin has lost more than 70% of its value and the other tokens in the list lost even more except EOS. Others

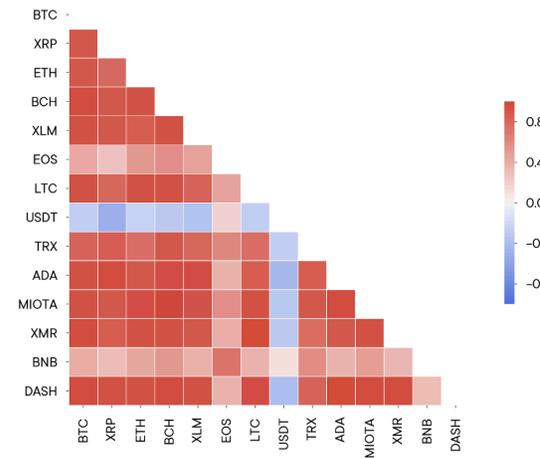
have witnessed performances close to -85% and below. In particular, Bitcoin Cash has suffered from its hard fork without consensus and the resulting hash war against Bitcoin Cash SV this November.

Crypto assets are highly correlated between themselves. This is highlighted on the price correlation matrix below. Stable coins such as USDT are used to offset market risk and therefore their prices tend to follow an opposite trend to the others.

For the others, except EOS (which has benefited from a significant increase in its capitalisation at the end of its ICO in June) and BNB (which has benefited from its utility and the growth of the Binance exchange), correlations with Bitcoin are strongly positive.



Sources : CoinMarketCap, SwissBorg.
Top 15 tokens (on January 1st 2018) performance since the beginning of the year.



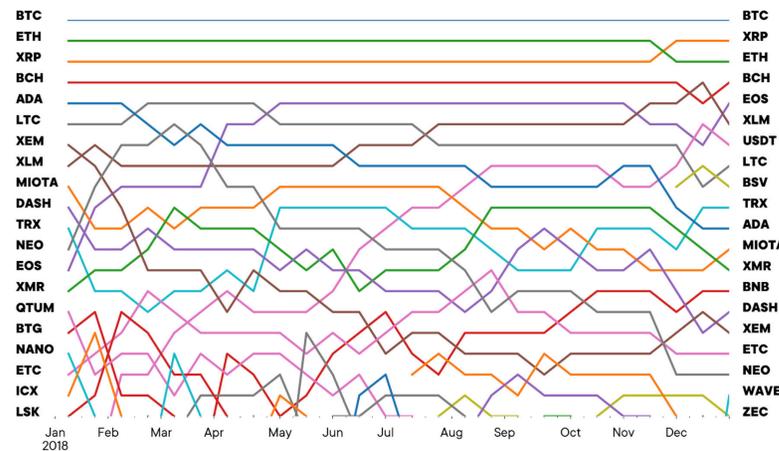
Sources : CoinMarketCap, SwissBorg.
Price correlation in 2018 between the top 15 tokens (on January 1st 2018).



The figures placed on the right illustrate the underperformance of altcoins compared to Bitcoin. At the beginning of the year, the Bitcoin market capitalisation represented only 35% of the total crypto market capitalisation. It was the lowest level since June 2017 where Ethereum was close to taking the first place. At the end of 2018, Bitcoin market capitalisation is above 50%.

The token race to the top was extremely challenging in 2018. The evolution of the top 20 in terms of market capitalisation is presented on the right.

Sources: (CoinMarketCap, SwissBorg) Evolution of the total Market capitalisation percentage since 2017 for Bitcoin, ethereum and the rest of the altcoins. As the whole market is highly correlated with the Bitcoin performance, the altcoins percentages are negatively correlated with Bitcoin.



Sources : CoinMarketCap, SwissBorg. The tokens race in 2018.

Principal findings:

- BTC is still king and its dominance is more than 50% of the total market capitalisation.
- At the end of the year, XRP passed ETH for the second place.
- The release of its new mobile wallet allowed WAVES to have a strong progression.
- EOS benefited from a significant increase in its capitalisation at the end of its ICO.
- A sign of the bear market, the stable coin USDT has gained 26 ranks.
- Zcash benefits from the announcement of its listing on Coinbase.
- The performance of the Binance exchange and the multiple utilities of its token allows the BNB to gain 16 ranks.
- The fork of Bitcoin cash (BCH), Bitcoin cash SV (BSV), took almost half of the capitalisation of Bitcoin cash to make its entry into the top 10.
- NEO, XEM, DASH and ADA regressed the most in this ranking.



If we look in more detail at the performance of the first 100 tokens in terms of market capitalisation, there are only a few projects that outperformed Bitcoin. The biggest winners and losers in relation to Bitcoin are listed in the table below (all stable coins are excluded). For the winners,

only eleven coins show a positive performance in 2018 compared to Bitcoin. BNB, mentioned above, is one of them along with ZRX and BAT, which benefited from their listing on Coinbase. A token's price fall does not necessarily reflect its decreasing intrinsic value. History shows investors are,

cyclically, overly optimistic before becoming overly pessimistic. However, innovation and evolution are irreversible. So, a good question would be: "can we take advantage of such circumstances?" Our 2019 Investment Outlook will explore these opportunities.

	BTC	XRP	ETH	BCH	EOS	XLM	USDT	LTC	BSV	TRX	ADA	MIOTA	XMR	BNB	DASH	XEM	ETC	NEO	WAVES	ZEC
Ranking (1.1.2018)	1	3	2	4	13	8	33	6	-	11	5	9	14	30	10	7	18	12	35	23
Ranking (28.12.2018)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Change	0	1	-1	0	8	2	26	-2	-	1	-6	-3	1	16	-5	-9	1	-6	16	3

Sources : CoinMarketCap, SwissBorg.

Top Winners in 2018

Name	Change [%]
BNB	151
MANA	84
LINK	77
MKR	62
ZRX	50
AE	19
MGO	16
DCN	11
EOS	8
DOGE	5
TRX	1
BAT	-2
WAVES	-5

Top Losers in 2018

Name	Change [%]
AION	-93
NANO	-89
BCD	-86
PPT	-86
ICX	-85
QTUM	-84
STEEM	-83
XZC	-83
VERI	-83
WAX	-82
ARK	-81
BTS	-81
XVG	-80

Sources: CoinMarketCap, SwissBorg.
Top Winners and Losers in the top 100 compared to Bitcoin.



SPECIAL FOCUS ON ETHEREUM

Ethereum (ETH) completed its ICO in August 2014 quickly raising 3,700 BTC, the mainnet went live in July 2015 but it did not receive too much attention until January 2017, when ETH was trading around \$10.

As the crypto bull market accelerated in January 2017, demand for crypto investments was growing, paving the way for the boom in the ICO market. Ethereum had the perfect solution, the ERC20 standard, which was used by most offerings to issue tokens. Thanks to it, Ethereum took over the spotlight as the blockchain with limitless possibilities on top of being a cryptocurrency.

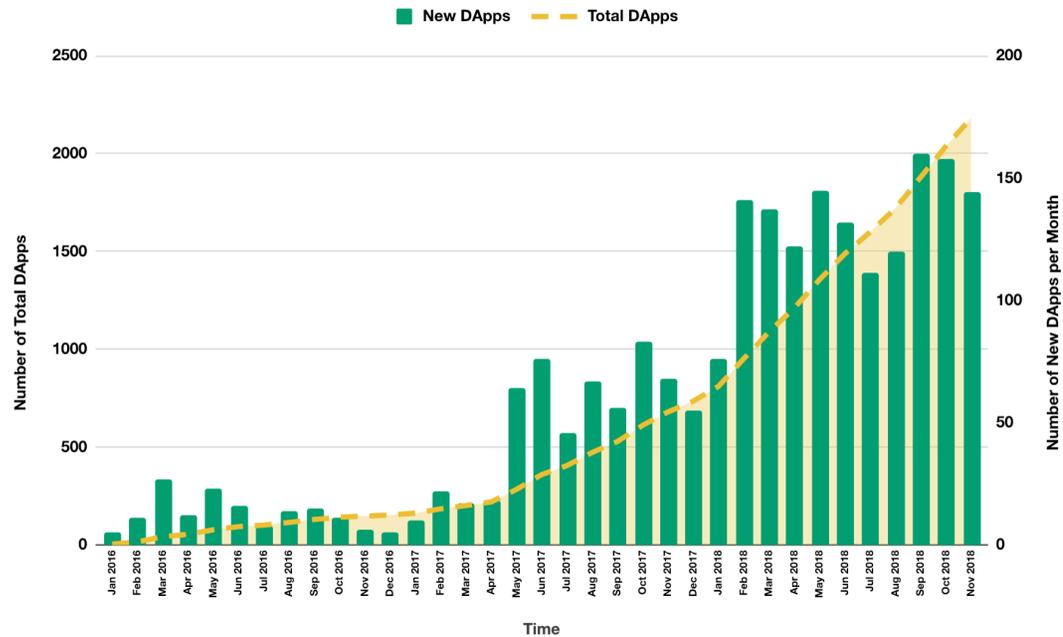
The majority of ICOs used ETH as their funding currency; this meant that demand for the currency kept growing as more ICOs were launched. As these initial ICOs had astonishing performances, demand for more ICOs kept growing and with it, demand for ETH to make participation in them possible. Meanwhile, many of these ICOs had raised more funds than they immediately needed and since the price of ETH kept

rising, these ETH were held in storage, not generating supply. As a result of this virtuous cycle, ETH went from a level of \$10 to a level of \$1,400 between January 2017 and January 2018, outperforming Bitcoin by almost 20x in the same period.

Once the crypto market started turning in mid-January 2018, demand for ICOs, the riskiest group of the crypto market, mostly vanished, and as a result, the ETH demand to participate in them did too. In addition, the ETH that had been raised by ICOs had to be sold to generate fiat to cover their costs, and as the price fell, more ETH needed to be sold to generate the same amount of fiat, and many ICOs started to panic and sold at any price reaching a low in December 2018 around the level of \$80.



SPECIAL FOCUS ON ETHEREUM



Sources: State of the DApps, SwissBorg.

The chart shows monthly number of new DApps since 2016 in green bars and a cumulative trend of total DApps in the yellow trendline. Among all DApps, ones based on ETH network takes up around 94%.

It is important to note that the collapse in prices, does not mean the project will fail, in fact, a high price over a long period of time would undermine the network's use as it would make transactions too expensive to execute. It is also worth noting that as a result of the astronomical price gains, Ethereum generated a lot of attention worldwide, and this resulted in many projects building use cases for it as well as a vast ecosystem of developers joining it. This is a tremendously positive outcome because the success or failure of Ethereum will not depend on its price as much as on its ability to build applications that use the network.

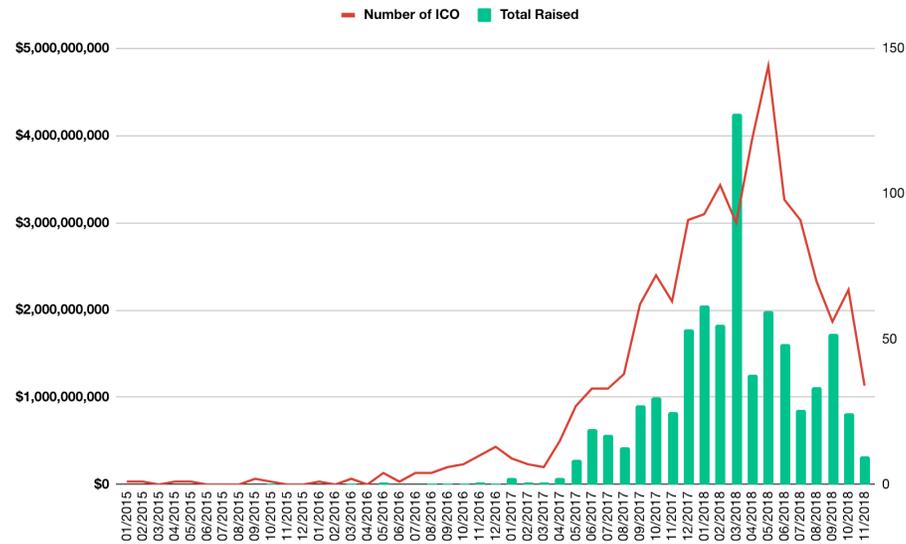
If we observe the number of new DApps over the past few months, the statistics show no evidence that DApps are dying. Moreover, the total number of DApps kept

increasing over the past few months even while the market was declining. We believe that the Ethereum ecosystem will not disappear as a result of the fall in prices, to the contrary, we believe its future is bright and that prices will recover in the medium term. This is also reminiscent of the dot-com bubble burst, while tech stocks fell notoriously between 2000 and 2003, the internet and its uses kept growing every single year.

What is more, in January 2019, the long-awaited system update, the Constantinople, is going to pave the way for transitioning from Proof-of-Work to Proof-of-Stake which will improve the system's scalability and efficiency. Altogether, with the increasing trend of DApps, we expect the ETH network to become more valuable in 2019.



THE ICO MARKET



‘ICO’ in the crypto market is no longer a new concept. It represents capital interests towards a project and indicates market expectations for the project’s value. We, therefore, believe it is imperative to discuss it in our annual report. The section above presents ICO statistics in 2018 and some of our analysis of the relationship between the primary and the secondary crypto markets.

Source: Coinschedule, Swissborg Calculation.

Trends in funds collected and number of ICOs since the beginning of 2015. The totals raised are grouped by the ICO closing date and are valued using BTC exchange rate at that time. Data last updated on 18th December 2018.

2018 \$25.72M No. of ICOs: 1011	2017 \$15.98M No of ICOs: 454	2016 \$5.96M No of ICOs: 52
	2014 \$4.35M No. of ICOs: 6	2015 \$1.23M No. of ICOs: 7

The market showed spectacular growth in terms of the number of ICOs and funds raised between December 2017 and March 2018. In the spring, the ICO boom started to decline except for a slight recovery in June 2018. The ICO is the most speculative feature of the crypto market. As the market turns, the demand for speculative instruments disappears. The rapid decline of the number of ICOs at the end of 2018, is, therefore, no surprise.

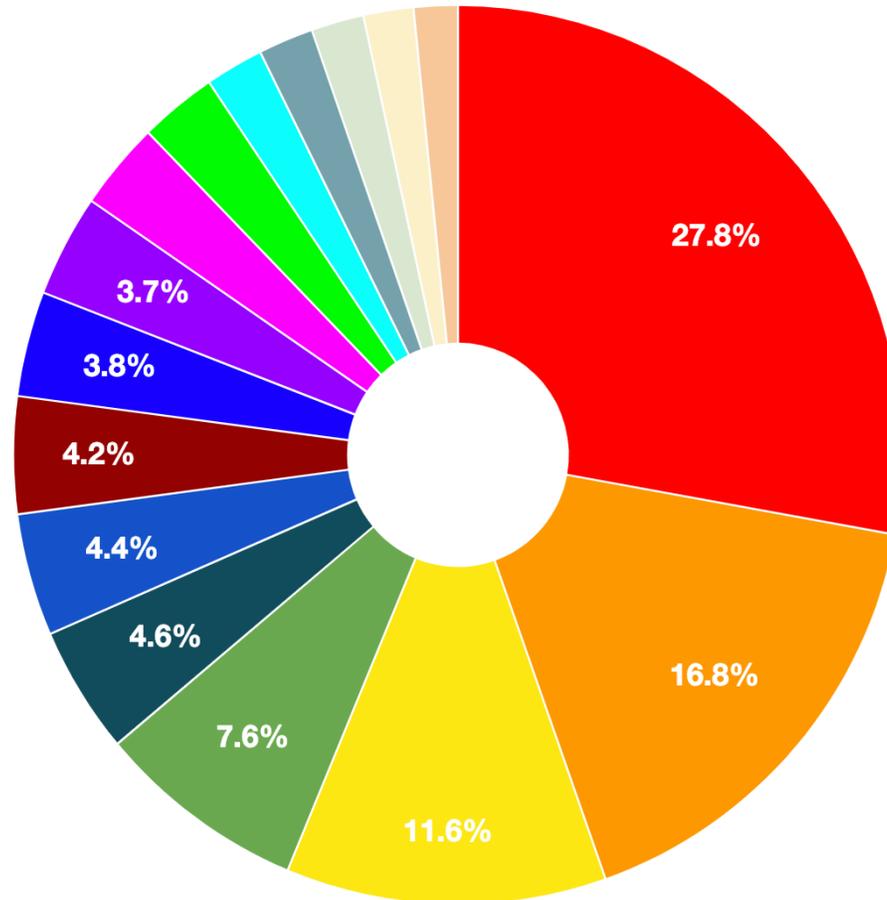
Source: Coindesk.

Average ICO Size by Year



ICOs BY CATEGORY IN 2018

- Infrastructure
- Finance
- Communications
- Trading/Investing
- Payments
- Gaming
- Governance
- Events
- Advertising
- Security
- Logistics
- Social Network
- Machine Learning
- Healthcare
- Energy
- Data



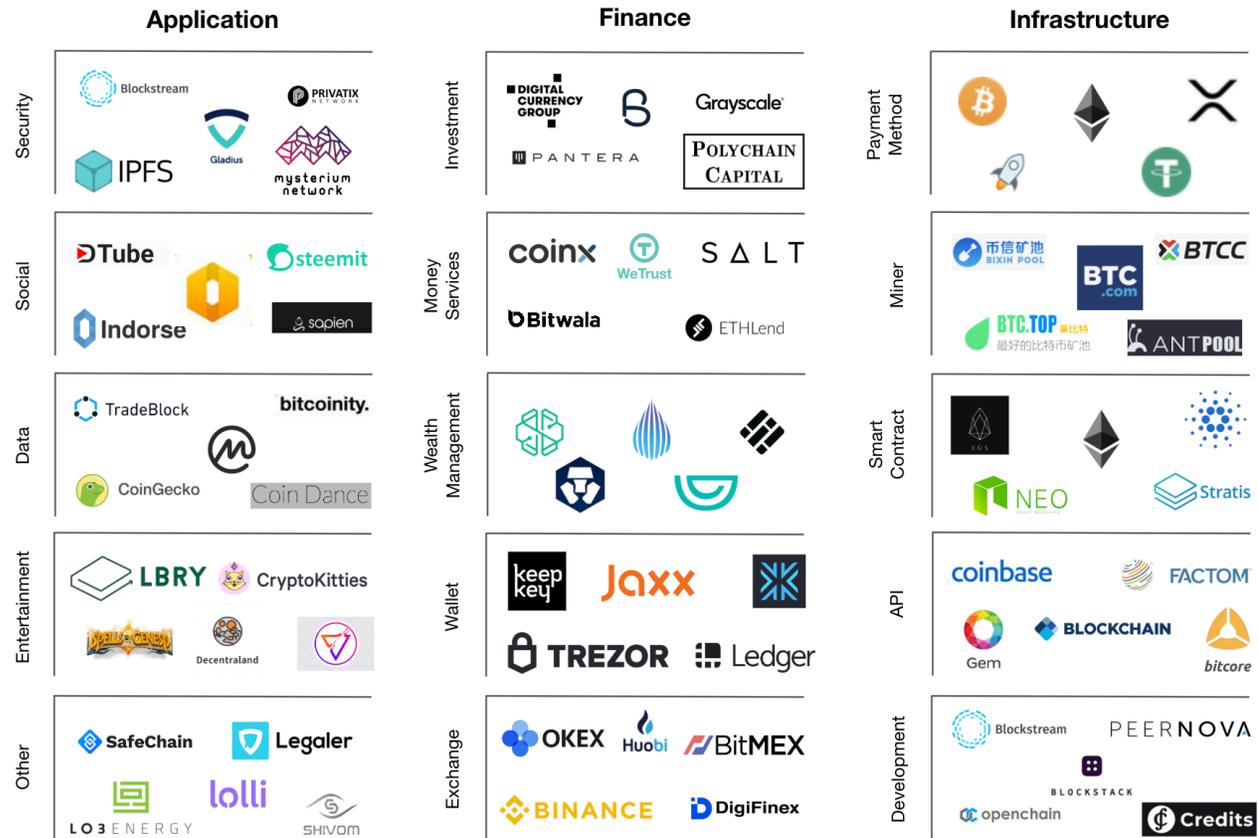
Sources: CoinSchedule, SwissBorg.
Here, only top 16 categories from
CoinSchedule are shown.

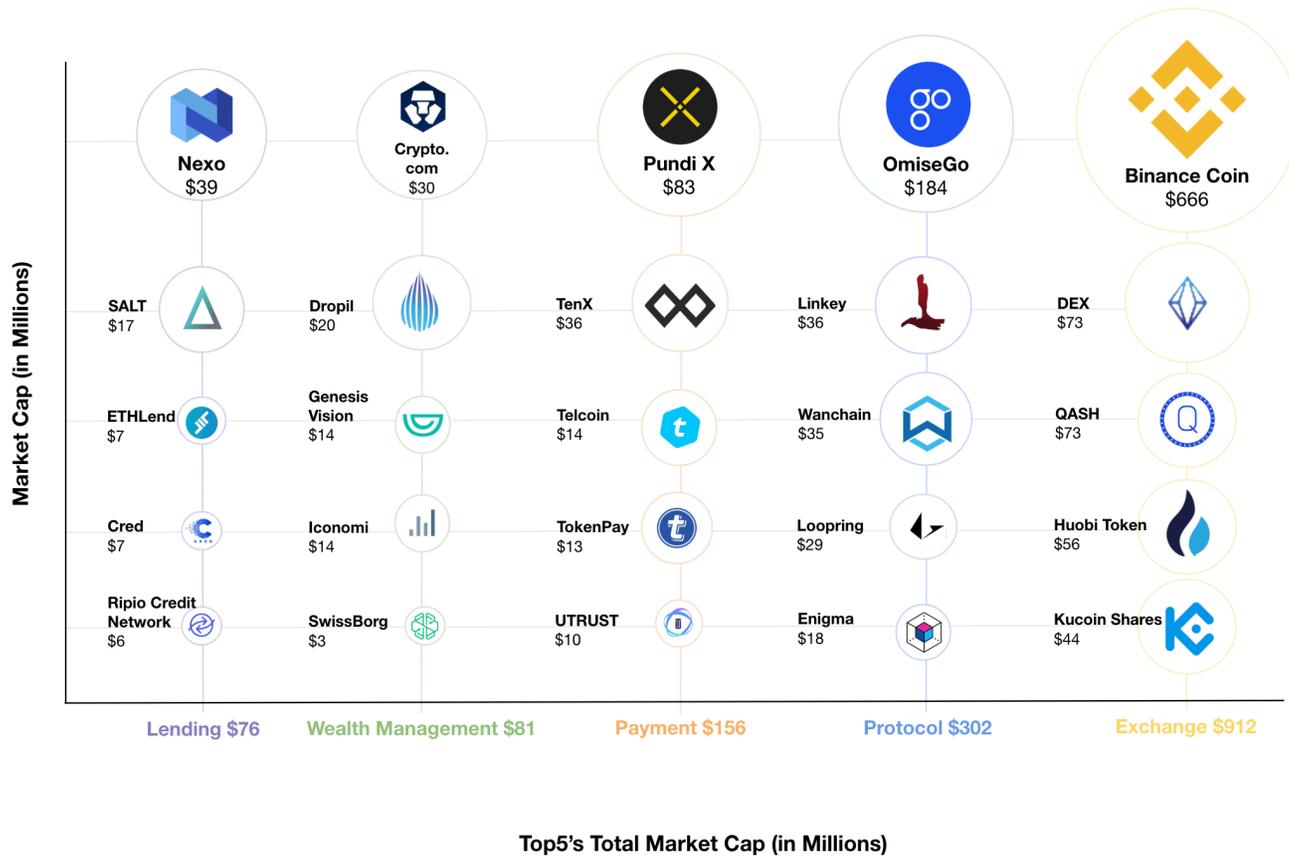


STATE OF THE INDUSTRY IN 2018

As we are entering the second decade of Bitcoin and the crypto market and ecosystem matures, we begin to see the entrance of institutional investors in 2018 which is likely to accelerate in 2019 and 2020. This group will bring more capital and professional experience, which in itself is very positive and needed. It is, however, likely to dilute the innovative and disruptive ethos of the crypto space which is part of the appeal that attracted many of the early believers.

Sources: CoinMarketCap, SwissBorg.
All blockchain-related projects are partitioned into three main functions, including infrastructure, finance and application, for each of which, five sub-functions are further chosen to present the landscape. For every single sub-function, the top five or the most popular five projects are selected and shown.





In the following section, we present the current landscape of crypto startup projects before delving deeper into crypto fintech and exchanges. We, also, take a look at the state of institutional blockchain projects. Last but not least, we analyse the involvement of each country in the blockchain industry.

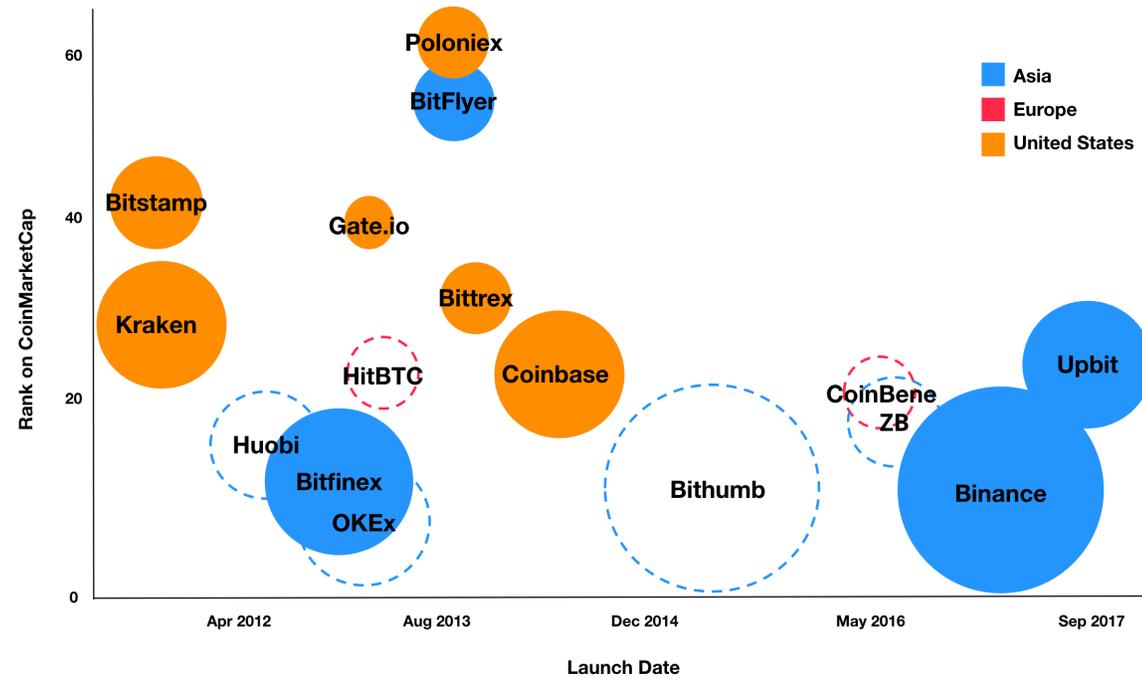
Sources: CoinMarketCap, SwissBorg. The chart has its y-axis representing each project's market cap and x-axis representing the top five projects' total market cap for each function. Bubble size represents individual project's market size as well. We show here five major categories within all fintech tokens. For each category, we selected five top projects with largest market caps. The categories and candidates are classified by SwissBorg. Market capitalisations are as of mid-December 2018.



TOP EXCHANGES LANDSCAPE

This March, Sylvain Ribes⁴, claimed, in an article, that more than \$3 billion volume reported by crypto exchanges was fake. Since then, the ranking methodologies for exchanges used by CoinMarketCap (CMC) have been put into question by most of the crypto industry. As Blockchain Transparency Institute (BTI) argued this August, at least 7 out of the top 10 exchanges reported fabricated volume with 10x to 100x of the real volume⁵.

In the adjacent chart we present the top 10 trustworthy exchanges (defined by BTI) in solid circles and the top ones that are treated as questionable in empty circles, with the size being proportional to the real 24-hour volume on BTI and reported 24-hour volume on CMC respectively.



⁴ <https://medium.com/@sylvainartplayribes/chasing-fake-volume-a-crypto-plague-ea1a3c1e0b5e>

⁵ Real volume being the one calculated according to BTI's methodology.

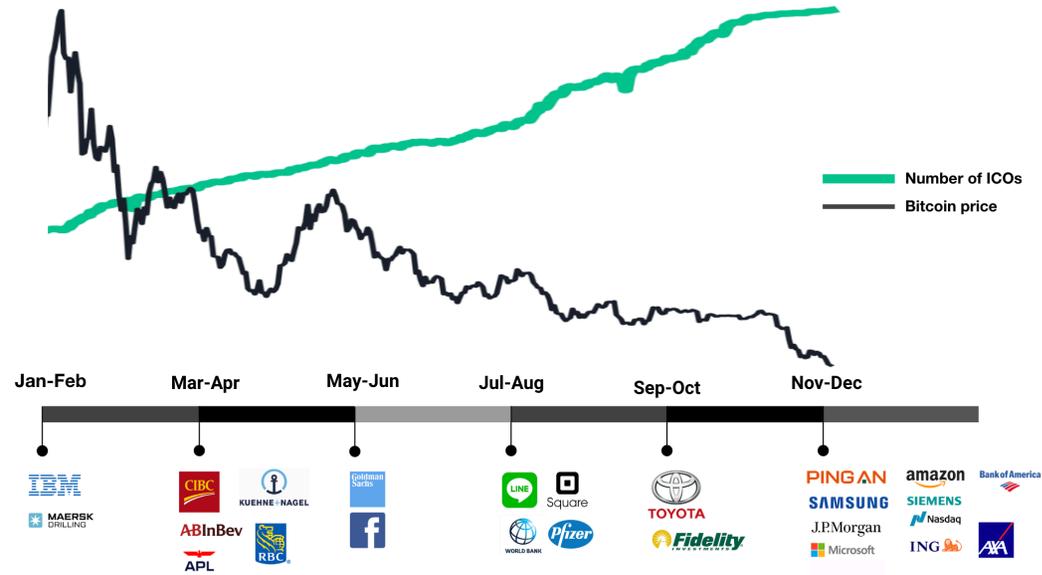
Sources: Blockchain Transparency Institute, CoinMarketCap, SwissBorg.
 ** The plot has its x-axis representing launched date of an exchange and y-axis representing the rank of an exchange on CoinMarketCap. The circle circumference is proportional average 24 hours' adjusted trading volume (as of the writing time). Circles are positioned arbitrarily to fit the chart.



TOP EXCHANGES LANDSCAPE

Nonetheless, we noticed Binance, as a front-runner launched in less than 2 years, ranked amongst the top even excluding its wash tradings. There are several reasons behind this. First, Binance's ICO was a successful one providing it with a good start. Besides that, its powerful system architecture allows processing of 1.4 million orders per second according to Forbes. Binance is, also, known for its lightening-speed onboarding new coin pairs. As of this writing, the platform supports more than 400 tradable pairs which is an amount that less than five exchanges are capable of possessing. Lastly, BNB coins, introduced as a utility token on Binance, offer discounts for users to trade. All of the above conditions provided the platform substantial liquidity to compete with other exchanges and finally carried Binance to the top.

INSTITUTIONAL PLAYERS IN 2018



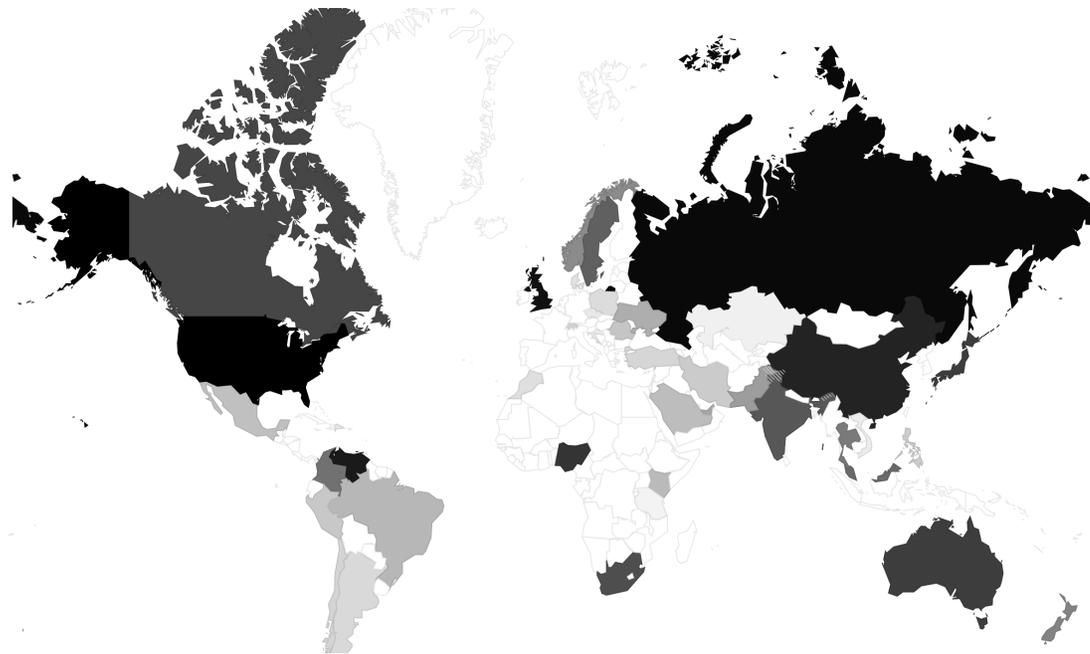
Sources: CoinSchedule, CoinMarketCap, Google News, SwissBorg. The chart shows part of the public firms that announced to 'enter' the crypto or blockchain fields with their announcing times in the news. Background grey line is the BTC price index in 2018 and the light-green line represents the total number of ICOs during 2018.

Back in 2017 when Bitcoin rocketed to the top, some public companies announced that they were planning to enter the blockchain or crypto-asset space. Since the CBOE and CME launched Bitcoin futures in December 2017, crypto-asset management became more feasible for institutions, which could gain exposure to this new asset class and manage the risks. According to TABB group, over-the-counter (OTC) volume in 2018 was estimated to be 2-3x more significant than what we saw as the trading volume on exchanges. We expect this trend to keep growing.

Interestingly, as the crypto market was falling, more public firms announced plans to invest in blockchain projects, partner with blockchain startups or participate in the crypto market. Also, the total number of ICOs in 2018 kept increasing.



LOCAL BITCOINS TRADING ACROSS THE GLOBE



■ High ■ Low

Asia Pacific	37%
🇷🇺 Russia	45%
🇨🇳 China	27%
North America	25%
🇺🇸 United States	92%
🇨🇦 Canada	6%
Europe	19%
🇬🇧 UK	79%
🇳🇴 Norway	4%
South America	13%
🇻🇪 Venezuela	84%
🇨🇴 Colombia	8%
South Africa	6%
🇳🇮 Nigeria	66%
🇿🇦 South Africa	25%

Country	Volume Ratio to Total Global Volume (%)
🇺🇸 United States	23
🇷🇺 Russia	17
🇬🇧 United Kingdom	15
🇻🇪 Venezuela	11
🇨🇳 China	10
🇳🇮 Nigeria	4
🇺🇸 Australia	3
🇨🇦 Canada	2
🇿🇦 South Africa	2
🇮🇳 India	1

Sources: LocalBitcoins, SwissBorg.

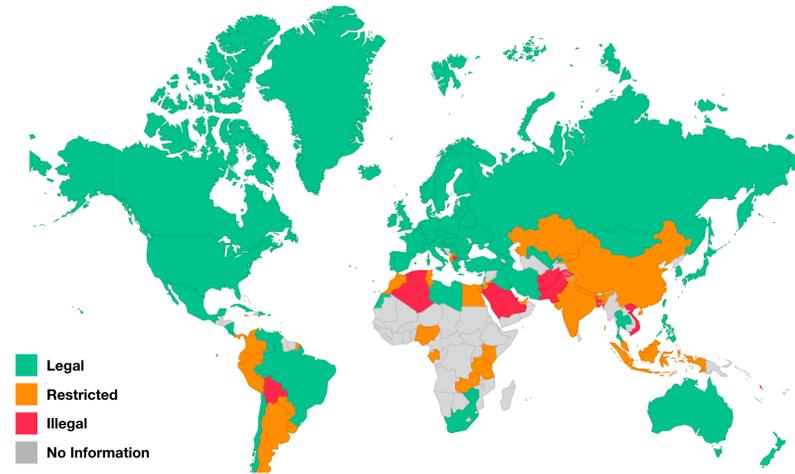
The darker it is, the more trading volume this country has at all times until Q3 2018 (a country's trading volume is proxied to be the volume on Local Bitcoins using that country's fiat currency and converting to USD).

Each continent's percentage across the globe is shown on top of each box. The highest two countries on each continent with their percentages are shown in the box as well.

** Top 10 Ranking in terms of Trading Volume



THE SO-CALLED LACK OF REGULATION



Sources: Coin Dance, SwissBorg

No doubt that the 2017 crypto noise has awakened regulators worldwide, especially financial markets' supervisory authorities. But is Bitcoin a financial product to be placed under the supervision of such authorities? Are altcoins financial products? While some jurisdictions have developed their own test (i.e. the Howey Test in the US), and apply determined criteria for such an analysis, others have, at times in a rather arbitrary way, placed everything under the same

umbrella. For the purposes of this section, let us use more nuance and say that a means of payment such as Bitcoin and Ether do not, *stricto sensu*, fall under the generally accepted definition of a financial product and that only security tokens should be defined as such. Therefore, Bitcoin and altcoins are, certainly, products, but not financial products, just products subject to consumer laws and protection. With the

exception of a few jurisdictions (mainly in the African continent and the Pacific), governments have been keen on taking a position both on DLT and cryptos. It must be noted that taking a stand does not mean regulating (yet), and there is still an enduring sense of lack of regulation, mostly among Blockchain entrepreneurs who are craving it because more regulation will bring more institutional players to the game, which in turn will make the market grow and mature.

Jurisdictions that have not prohibited cryptos altogether can be divided into 3 categories:

1. Those who made existing legal and regulatory frameworks applicable to the new technology (technology-neutral approach);
2. Those who created a specific regulatory regime applicable to DTL and/or cryptos (all-embracing approach);
3. Those who restricted certain aspects of cryptos until further clarification (wait-and-see approach).



TECHNOLOGY-NEUTRAL APPROACH: A SWISS FINISH

Switzerland is the perfect example of a technology-neutral approach.

The now-famous FINMA ICO Guidelines are one of the few official documents issued by a regulatory body. They are just guidelines, not laws or an implemented regulation, nor a circular. They are, however, much-appreciated guidelines for those wishing to navigate this new space safely.

Switzerland's approach means that Swiss authorities are confident that the existing legal and regulatory framework is well-suited for technology as innovative as

Blockchain. They claim that, if it looks like a security, then it will be treated as a security. Does it look like a voucher? Then consumers' rights shall be respected. Cryptos do not evolve in a vacuum, on the contrary: every existing regulation applies to them the same way it applies to other (financial) products. There is no lack of regulation in Switzerland, just some adjustments need to be made.

The challenge now is to apply those existing rules to a completely new way

of exchanging value. The challenge is the synchronisation of the laws of Switzerland with the laws of a Blockchain Code.

Switzerland being a well-governed country, issued, on December 14, 2018, a full report acknowledging the importance of Blockchain technology. The report, also, underlined the need, despite the technology-neutral approach, to adapt certain provisions of specific laws that can constitute an obstacle for crypto entrepreneurs- or how to truly become a Crypto Nation.



ALL-EMBRACING APPROACH: NO BLOCKCHAIN IS AN ISLAND

Malta earned its title as the Blockchain Island when the MFSA issued three new laws dealing specifically with DLT and cryptos: the Virtual Financial Assets Act (VFA Act), the Innovative Technology Arrangements and Services Act and the Malta Digital Innovation Authority Act.

There's no doubt that such a regulatory framework will attract to Malta any crypto undertakings willing to abide by the rules: where there is a law (or three), there is legal certainty, and legal certainty should assuage the fears of banks and investors alike and provide enough protection for them to feel safer, be it for opening accounts or for investing in cryptos. However, laws by themselves are not enough and the

Maltese authorities understand this perfectly. There must be guidelines and rulebooks for the implementation of these laws, for Blockchain startups to know what is in store for them.

Another good, but more prudent, example, is another island: Japan. The caution of Japanese authorities most certainly comes from Mt. Gox, Coincheck and other subsequent heists. Behind every core regulation is (almost) always a story of wrongdoing or abuse: Mt. Gox and Coincheck's stories most definitely shaped FSA's more specific and stricter rules regarding Virtual Currencies Regulation. The goal is to raise the standards for operating an exchange and only allow serious players to operate, to not look like a fool of a government ever again.

WAIT AND SEE APPROACH: SLOW AND STEADY WINS THE RACE

Some countries seem to have yet another unusual approach: do nothing. Or alternatively, freak out! Among those jurisdictions still waiting, the UK is an excusable example. Brexit being what it is, it has kept most of the authorities' attention, and cryptos have not been a priority.

However, a report issued by a Blockchain taskforce gathering, the Bank of England, the Treasury and the FCA exposed an approach quite similar to Switzerland (let's be candid: copy-pasted) and promised a much clearer stance by the end of the year.

THE RISE OF SELF-REGULATION: DECENTRALISED AUTONOMOUS REGULATION (DAR)

Regulation can be a slow process: regulatory agents and officers first need to understand the technology before taking any intelligent steps towards regulating a phenomenon as complex as Blockchain and cryptos. It can take years to reach consensus between all parties involved in the regulatory or legislative process.

The crypto market won't wait that long. There are already some initiatives gathering players who know the space, dealing with the matter at hand every day, and accumulating sufficient knowledge to produce their regulation: these are the first

iterations of what we call self-regulation. The Capital Market and Technology Association (CMTA) issued its "Blueprint for the Tokenisation of Assets" and the "AML Standards for Digital Assets", setting the first "private" standards regarding those two aspects of crypto. Even though they do not carry the force of law, are these kinds of standards precisely the type of regulation that Blockchain needs? The space left by public authorities is being filled by a new type of authority: a decentralised, distributed one.



CONCLUSION & FUTURE OUTLOOK

The question remains as always when dealing with new and volatile markets, “can we take advantage of these circumstances?”

In 2018, the Crypto Market fell more than 85% from its all-time high, following the typical bubble burst pattern that we have already observed in the dotcom. The current crisis is slightly less severe than 2014. Yet, the interest in the crypto industry has never been greater with an increasing number of institutions entering the market. Institutional investors are key players injecting a potentially larger trading volume and bringing more liquidity to the market. The crypto market is showing signs of

maturity with an average daily volume that was higher in 2018 than in the previous year. Even during the bear market in 2018, total funds raised by ICOs was 3.6x the amount raised in 2017. In the specific case of Ether that suffered a significant loss last year, we expect the ETH network to become more valuable in 2019, because of the ever increasing number of DApps and the long-awaited system update that is scheduled to come.

Despite the significant losses, it is worth recalling that a token's fall in price does not necessarily reflect a decreasing intrinsic value. Technological innovation and societal evolution are irreversible. The question remains as always when dealing with new and volatile markets, “can we take advantage of these circumstances?” Stay tuned for our 2019 Investment Outlook that will explore opportunities in this market.



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GLOSSARY

Altcoin

Generally any crypto-currency other than Bitcoin or Ethereum.

Bearish

An expectation that price is going to decrease.

Bullish

An expectation that price is going to increase.

DApp

Decentralised applications run on top of cryptographic systems such as the Ethereum network.

ERC20

A technical standard used for smart contracts on the Ethereum blockchain for implementing tokens.

Exchange

Websites where you can buy and sell cryptocurrencies.

Fiat currency

Government-issued currency, such as the US dollar.

Fork

A situation where a blockchain splits into two separate chains. Forks generally happen in the crypto-world when new 'governance rules' are built into the blockchain's code.

General Cryptocurrency Terms

Blockchains are distributed ledgers, secured by cryptography. They are essentially public databases that everyone can access and read, but the data can only be updated by the data owners. Instead of the data residing on a single centralized server, the data is copied across thousands and thousands of computers worldwide.

Hash war

A war between forked tokens for the biggest portion of the network's hashing power (the computing power available for the network). In other words, a fight for the supremacy between two protocols.

ICO

Initial Coin Offering, somewhat similar to an IPO in the non-crypto world. Startups issue their own token in exchange for ether. This is essentially crowdfunding on the ethereum platform.

Quartile

Quartiles are the values that divide a list of numbers into four equal parts.

Mainnet

The original and main network.



Market Capitalisation

The total value held in a crypto-currency. It is calculated by multiplying the supply of coins by the current price of an individual unit.

Over-the-counter (OTC)

Trade done directly between two parties, without the counterpart of an exchange.

Proof-of-Stake

The proposed future consensus algorithm to be used by Ethereum. Instead of mining in its current form, people that own ETH will be able to 'lock up' their ether for a short amount of time in order to 'vote' and generate network consensus.

Proof-of-Work

The original type of algorithm used to confirm transactions and produce new blocks to the chain. With PoW, miners compete against each other to complete transactions on the network and get rewarded.

Smart contract

Code that is deployed onto the Ethereum blockchain, often directly interacting with how money flows. "A normal transaction allows you to send money from A to B. Smart contracts allow you to send money from A to B, on the condition that C happens."

Software wallet

Storage for crypto-currency that exists purely as software files on a computer. Software wallets can be generated for free from a variety of sources.

Stable coin

A crypto-currency with extremely low volatility that can be used to trade against the overall market. The value of a stablecoin can be pegged to a fiat currency.

Stop-loss

A Stop-loss is an automatic sell order used by traders to cut their losses.

Volatility

Volatility is a statistical measure of the dispersion of returns changes of a financial asset.

Wash Trade

A form of market manipulation in which an investor simultaneously sells and buys the same financial instruments to create misleading, artificial activity in the marketplace.



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