# Bits at odds with rules

BY PAOLO SAVONA

Cryptocurrencies have excited the market and don't appear to be going away anytime soon. The rise of ICO's for unsecured financing and their acceptance at government level however is cause for concern, especially when the market itself seems to suggest it's an unfair game.

**The Longitude seismograph has been one of the most sensitive in recording the digital waves of the cryptocur**rencies, pre-emptively warning private investors against the lure of that kind of investment. It also urged authorities to protect the monetary sovereignty of the States or institutions like the Euro-system for the common good.

But those inklings were not considered a big deal against the increasing "manias", (as labelled by Charles Kindlelberger, a main scholar of financial crises) and "institutional myopia" (according to Hyman Minsky, a banking crisis expert).

While private investors apparently continued to credit bitcoins and other cryptocurrencies and boosting the bid as a consequence, the authorities promised to intervene and acted in ways that legitimized their existence. For example,with the signing off on futures certificates that, according to some economists, are one of the key factors that made their value skyrocket.

The announcement that cryptocurrencies would be discussed at the G 20 finance ministers meeting in Buenos Aires (often attended with their relative Central Banks Governors) and that at minimum decisions of a regulatory nature would be made, kept down the impetus and also made owners of digital currencies more cautious.

But in fact, nothing happened.

Cryptocurrencies' negative trend was considered "a marginal phenomenon" according to money and financial markets and values have begun to rise again.

There are two explanations for this: we are either faced with the same institutional shortsightedness by authorities that led to the diffusion of financial derivative instruments and to the 2008 world financial crisis or, there might be such deep-rooted and powerful interests behind the phenomenon that the authorities themselves do not know how to uproot it.

Despite this episode in a story yet being written, the big operators of the financial markets, sly as they are, have already sensed the possibility that the authorities will react with restrictions and prohibitions and that as such the instrument has exhausted its propulsive role. Bitcoin, the privateer of this new speculation based only on the trust of those who own it - that is, on nothing - after reaching $20,000 US dollars per unit has fallen to below $8,000 US and although is now rising again, holds no guarantee of further increases.

But the value of bitcoins is still high, especially for those who bought them for a few dollars and who are unconcerned by the heavy losses suffered by those lured in by easy earnings at the later stages of the game.

Apparently, a tangle of interests has formed around cryptocurrencies that manages to keep their price level up. Maybe it is not only an issue of profit making, but also a need to protect a financial instrument where large sums of dirty money can be parked. A possible reason why sly investors or dishonest adventurers, have moved onto ICO's (Initial Coin Offering), a simpler way to create fiduciary money for varied types of investment plans, including those of investors who seek to increase their wealth of computer bits, as an adjunct to paper bonds, by operating more extensively in cryptocurrencies and other forms of digital finance.

The fact that most of them have jumped to Ethereum, the digital currency alternative to Bitcoin, indicates that the market has understood the difference between the advantages of security and the limited supply of the original instrument conceived by the still unknown Satoshi Nakamoto. The bitcoins in use and other digital coins have operational advantages but are more vulnerable to hackers.

ICO's consist in offering savers a trust currency (token) in exchange for legal FIAT currency to be used in implementing investment plans. With an ICO the risk is transferred from the entrepreneur to the saver for what amounts to an unfair game: the bidder takes cash for a promise of a return in electronic money. It is the revival of

A pile of Bitcoins.


the well-known law of Gresham. There was quite a rush on coin placement due to inaccurate planning and today, according to media, a good 80% have gone to waste. Because of institutional myopia, the authorities, above all those in the United States, are very belatedly studying what needs to be done to avoid further mistakes and scams. We don't know if at the G20 talks in Buenos Aires they have also considered investigating ICO's, which can no longer be defined as a marginal phenomenon, and have actually been banned by the Chinese authorities.

The paradoxical fact that ICO's are also used by governments that do not need to rely on such process is also suspicious. The clearest example is that of Saudi Arabia, a country that in spite of considerable official reserves, launched an ICO to finance Aramco, the National oil company and to finance advanced mining prospecting over minor territories, shifting the risk to coins bought by subscribers as counterpart funds.

Other countries are also considering doing the same with regards to their sovereign funds and turning to ICO's instead of traditional debt financing.

This may become a rule rather than an exception for avoiding debt getting too high due to interest rate increases.

The same applies to private investors like SoftBank, the gigantic Japanese technology investor that has reached stratospheric levels of debt ($130 billion dollars). They intend launching a fund, meaningfully called Vision, meant to collect resources worth $755 billion dollars, in order to invest in robotics and informatics. The vision is of a social organization that replaces immigrants (humans) with robots, in order to assist the increasing number of the elderly.

In this scenario it makes sense to expect that SoftBank will use ICO's, which in turn makes it woefully clear that cryptocurrencies can no longer be considered simply a minor or sideline phenomenon that should be left alone to follow its own inherent market rules.

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