



COEXISTENCE OF FIAT AND CRYPTOCURRENCIES

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Historical experience shows that many currencies can exist in harmony, so the mere existence of cryptocurrency does not invalidate fiat currency. In a successful cryptocurrency environment, fiat currency could remain the dominant system.

The answer is no, however, if the question is: Will both cryptocurrency and fiat currency be good investments? Fiat currency is designed to lose value. That is why governments make fiat currency. No central bank in the world does not say it is doing its best to engineer a certain quantity of inflation. The central bank and other government agencies get to calculate the prevailing rate of inflation, and there are those who do not agree with the calculation.

How much debasement does the fiat currency undergo? The answer really depends on which calculation one is using for inflation.

Every fiat currency in the history of fiat currencies, with no exceptions whatsoever, ultimately lost well in excess of 99% of their purchasing power. That is how they are designed—a fiat currency is basically a mechanism for governments to borrow money and repay its creditors in debased currency. Cryptocurrency is designed for that group of investors, however large or small, who find that situation intolerable. It is really that simple.

Ergo, it is unlikely that cryptocurrency will displace fiat currency. It will likely continue its existence and nothing can be done to stop it. As important, it is unlikely that, cryptocurrency enthusiasts would want to do anything to stop fiat currency other than not own as much of it.

EXCHANGES AND DIGITAL ASSETS

In a similar vein, as digital exchanges evolve, can both traditional and nontraditional currencies co-exist and can both be successful? Could banks—many of which have been critical of cryptocurrency—and crypto both potentially be very good investments five or ten years from now, or does one have to be better than the other?

The famous cryptocurrency frauds, such as Mt. Gox and FTX, led to agreement that trading supervision is needed. The aforementioned were only two notorious frauds among many. The operational problem in establishing supervision is that there are more than 22,000 cryptocurrencies that trade in over 190 nations on countless platforms.

It is beyond the resources of governments to supervise and control the evolution of crypto trading. One ordinarily thinks of government resources as virtually infinite, but it is difficult for governments to agree on a set of rules. Each government desires the tax revenue likely to be generated by cryptocurrency, so that there has been a certain regulatory laxity, as is evidenced by problems such as FTX.



Securities exchanges are already global multi-asset-class, self-regulatory bodies. They are usually trusted by the investment community, since the investors work in cooperation with the exchanges to establish the universally agreed upon rules.

Corruption in an exchange can mean the death of a profitable publicly traded enterprise. Corruption of government merely results in replacement of officials, and the organization continues. The exchanges licensed from the government have the resources as well as the incentives to establish fair, transparent supervisory systems. We can anticipate that the publicly traded exchanges, like CBOE, will take the lead in the next evolution of cryptocurrency trading.

CBOE's most recent expansion is the May 2022 acquisition of ErisX (the Eris Exchange LLC), which now provides the CBOE with digital asset spot and derivatives markets, as well as clearing and settlement capacity in digital assets. It is arguable that the CBOE has the most diversified asset class exposure of the publicly traded exchanges. By virtue of the ErisX acquisition, CBOE appears to be the leader in terms of digital assets among U.S. exchanges.

CBOE is just the first publicly traded exchange to have a digital asset division. More have followed suit since:

- In September 2022, Nasdaq launched its Digital Assets division, initially to develop a digital custody solution, and intends to expand to provide liquidity and execution services over time.
- Deutsche Boerse's Eurex is the first to offer a regulated exchange platform for bitcoin futures, which officially started trading on April 17, 2023.
- In April 2023, London Stock Exchange announced its partnership with Global Futures and Options to offer UK's first regulated bitcoin exchange, with a target launch date in the fourth quarter this year.

Eventually, every publicly traded securities exchange will have a digital assets division. Digital assets are far more varied than cryptocurrencies such as Bitcoin or Ethereum. Unused airline miles can be digital assets. Gift cards can be digital assets. Even a GDP forecast can be a digital asset, used to trade economic forecasts. Such assets can be created for advertising expenditures in different media and different types of data. The range of possible or conceivable digital products is limited only by the power of the human imagination. As digital assets trade on regulated exchanges, and the exchanges establish sufficient track records of their ability to function and carry out their regulatory responsibilities without mishap, it will eventually be possible to license actual cryptocurrency ETFs.



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