



Cryptocurrency Mainstream Legitimacy: A Brief Survey of Institutional Acceptance (As Acceptance Risk Subsides, Does Opportunity Risk Rise?)

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Money is typically defined as something generally accepted as a medium of exchange. History shows that money, in legitimate use to purchase goods, pay obligations, or as a store of value, has included shells, stones, tobacco leaves, silver, gold, metals coins, paper and, recently, digital currency. The value of these forms of money did not rely on the physical worth of those substances, but on the value of ‘trust’ that others would also accept it as a medium of exchange. In this sense, cryptocurrency is money if people accept it as so.

Bitcoin is the cryptocurrency with the largest market capitalization, recently \$131 billion¹. It is neither endorsed nor issued by any government. It is the first currency in history that cannot be debased and is therefore the first to represent a fixed reference point for value or exchange rates, since it has a fixed number of units. That is its monetary policy. The Bitcoin blockchain network has never been down since its foundation in 2009, and it has never been hacked.

Nevertheless, in order for cryptocurrency to graduate beyond ‘early adopter’ status and become a mainstream, daily use money or store of value, its legitimacy must be accepted by proper institutions: the banks, investment firms, and regulators. They must have a reliable, large scale custody solution for safety, as well as transactional ease and liquidity, whether at the wholesale institutional level or for the retail user. Those infrastructural requirements must be met.

And those requirements are actually being addressed and solved. Indeed, they are occurring so rapidly and on so many fronts, that someone who last paid some attention to the topic only six months ago would be woefully out of date. The class and magnitude of financial institutions that are now solving those issues and competing to present commercial platforms to buy, hedge, price, custody and transact in bitcoin are, without exaggeration, the largest and highest quality in the U.S.

The following is a simple recitation of some of this progress. *To read it is to understand it.*

- In January 2020, Grayscale Bitcoin Trust (GBTC) became the first SEC registered cryptocurrency company. It has a \$2.3 billion market cap. Grayscale, originally founded as a private fund in 2013, was listed on the OTC market in 2015.
- Also in January 2020, CME Group (CME US), the largest U.S. securities exchange by market cap and 2nd largest by revenue, launched Bitcoin Options. This was preceded by bitcoin futures trading in December 2017, following support from the CFTC. CME has over 3,500 individual accounts trading and had a 32,500 bitcoin average daily volume during 2019. At the recent trading price², that would be \$238 million of daily volume. In response to clients’ growing interest,

¹ As of 4/7/20 on <https://coinmarketcap.com/currencies/bitcoin/>. *Bitcoin: A Peer-to-Peer Electronic Cash System* <https://bitcoin.org/bitcoin.pdf>

² \$7,340 intra-day on 4/7/20, on worldcoinindex.com



- Intercontinental Exchange (ICE US), the largest U.S. exchange and the owner of NYSE, founded a new entity called Bakkt, in 2018, to provide a comprehensive cryptocurrency financial service platform. In 2019, with approval from the CFTC, Bakkt launched physically delivered Bitcoin Futures, Bitcoin Monthly Options, and Bitcoin Cash Settled Futures. Bakkt also teamed up with BNY Mellon, which is the largest U.S. custodian bank, to launch Bakkt warehouse, a New York State Department of Financial Services (NYDFS) regulated qualified custodian, to provide Bitcoin custody services to Institutional clients.

The Bakkt consortium also includes Microsoft and Starbucks, with the goal of developing a mobile phone app, essentially a digital wallet, using “Bakkt Cash”. That app has been in beta testing and is expected launch a consumer app and merchant portal in the 1st half of 2020.

- In December 2019, Gemini, a NYDFS regulated crypto exchange and custody provider, announced a partnership with State Street (STT US), the 3rd largest U.S. custodian bank, to launch their pilot cryptocurrency program. This is intended to enable financial institutions to store their digital assets with Gemini Custody™ and receive reporting and holdings information for these assets through State Street. According to State Street’s 2019 annual Growth Readiness Study³ of more than 500 asset managers, owners, and insurers, 25% are invested in digital currencies or related products, up five-fold from just 5% a year ago, and an additional 25% intend to invest soon.
- In November 2019, Fidelity, which in 2018 founded its cryptocurrency business entity, called Fidelity Digital Asset, was granted a charter under New York Banking Law to operate as a limited liability trust by the NYDFS: “NYDFS has authorized the company to provide virtual currency custody and an execution platform, on which institutional investors and individuals can securely store, purchase, sell and transfer Bitcoin.”⁴
- In 2019, Visa Inc. (V US), the second largest card payment processing company in the world, partnered with Coinbase, the largest cryptocurrency exchange and custodian in the U.S., to offer its clients cryptocurrency payment options through a Visa-based Coinbase debit card in Europe. Coinbase’s debit card is currently available in 29 markets⁵. Visa also approved Coinbase as a Visa Principal member (authorization to act as “issuing bank”), in February 2020.

In April 2020, Visa teamed up with Fold, a Bitcoin payment app provider, to launch a co-branded debit card that earns rewards in Bitcoin.

³ State Street:

[https://www.statestreet.com/content/dam/statestreet/documents/Articles/1647%20Is%20Bitcoin%20Going%20Mainstream Final%202.pdf](https://www.statestreet.com/content/dam/statestreet/documents/Articles/1647%20Is%20Bitcoin%20Going%20Mainstream%20Final%202.pdf)

⁴ New York State Department of Financial Services:

https://www.dfs.ny.gov/reports_and_publications/press_releases/pr1911191

⁵ Coinbase: <https://blog.coinbase.com/coinbase-becomes-a-visa-principal-member-c5b73b883787>



- In 2019, the CFA Institute added blockchain and cryptocurrencies, as a new topic, to the CFA exam. As well, the CFA Digest, the Institute’s publication, included its first scholarly article introducing cryptocurrency as a new investment opportunity⁶.
- US Treasury Secretary Mnuchin established the Financial Stability Oversight Council’s Working Group on Digital Assets in late 2017. This group is working with U.S. financial regulators and other key stake holders to establish a regulatory framework on digital assets⁷.
- The IRS changed its tax form to include financial transactions in virtual currency (cryptocurrency) during 2019. <https://www.irs.gov/pub/irs-pdf/f1040s1.pdf>

SCHEDULE 1 (Form 1040 or 1040-SR) Department of the Treasury Internal Revenue Service	Additional Income and Adjustments to Income ▶ Attach to Form 1040 or 1040-SR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.	OMB No. 1545-0074 <div style="font-size: 2em; font-weight: bold;">2019</div> Attachment Sequence No. 01
Name(s) shown on Form 1040 or 1040-SR		Your social security number
At any time during 2019, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? <input type="checkbox"/> Yes <input type="checkbox"/> No		
Part I Additional Income		
1	Taxable refunds, credits, or offsets of state and local income taxes	1
2a	Alimony received	2a
b	Date of original divorce or separation agreement (see instructions) ▶	

Outside of the United States:

- In April 2020, the Toronto Stock Exchange, the largest exchange in Canada, listed “The Bitcoin Fund” after receiving approval from the Ontario Securities Commission in October 2019. The fund became the first regulated cryptocurrency fund listed on a major exchange. This enables investors, including registered and traditional asset managers, to have Bitcoin exposure as easily as any other asset class.
- Effective May 2020, Japan amended its Payment Services Act to upgrade the term ‘virtual currency’ to ‘crypto asset’. This now applies the existing financial regulation framework to crypto assets custody, margin trading, derivatives and also to financing through crypto assets such as ICOs. In 2017, the government had amended its Payment Service Act to legalize “virtual currency” as a means of payment in 2017, but it was not recognized as money within the regulatory framework.
- Boerse Stuttgart Group, Germany’s second largest exchange regulated under the German Banking Act, launched a crypto exchange called BSDEX in 2019. The exchange is currently providing Bitcoin to Euro trading, and also provides cryptocurrency custody service.

Central banks have long studied Digital money, and some are seriously considering rolling out their own Central Bank Digital Currency (CBDC), the digital form of fiat money designed to replace their paper money. There is perhaps no greater imprimatur of legitimacy and catalyst for cryptocurrency’s acceptance. If

⁶ CFA Institute: <https://www.cfainstitute.org/en/research/cfa-digest/2019/01/diq-v49-n1-4>

⁷ US Treasury: <https://home.treasury.gov/system/files/261/FSOC2019AnnualReport.pdf>



central banks introduce their own digital currencies, that means they will have solved the custody (cybersecurity) and transactability issues (and demonstrated as much to the populace), and that people will be able to use that modality via phone apps. Cybersecurity concerns are cited as a top barrier to institutional investors investing in digital currency². The mere existence of a national digital currency means that non-fiat cryptocurrencies such as bitcoin will no longer be novel or esoteric; they would just be another choice.

- According to a central bank survey conducted by the Bank for International Settlements (BIS)⁸ in late 2019, 80% of central banks are engaging in some sort of work on a CBDC; 40% of central banks have progressed from conceptual research to experiments; and another 10% have developed pilot projects.
- In January 2020, the BIS announced that it had formed a group to assess the potential cases for CBDC in their home jurisdictions⁹. The participants included the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, Sveriges Riksbank (Sweden’s central bank), and the Swiss National Bank.
- In February 2020, Sveriges Riksbank announced it is conducting a blockchain technology based pilot project on e-Krone, CBDC, with Accenture through February 2021¹⁰. The central bank started studying CBDC in 2017, and now in phase to test technology to create the first CBDC in the world.
- In March 2020, Bank of England issued a discussion paper, “Central Bank Digital Currency” and outlined a ‘platform’ model of CBDC designed to enable households and business to make payments and store value¹¹. The fact that debit card payment transaction volume surpassed that of cash for the first time in 2017 raised important question for the Bank: “As the issuer of the safest and most trusted form of money in the economy, should the Bank provide the public with electronic money – or a Central Bank Digital Currency – as a complement to physical banknotes?”
- In April 2020, the Bank of Korea announced it was accelerating a plan for the possible issuance of a central bank digital currency, establishing a test period March 2020 to year-end 2021 to determine whether a digital currency was stable enough to replace paper money.¹²
- Also in April 2020, at the People’s Bank of China national conference on currency, gold, silver and “security work”, the Bank stated that “Steady progress was made in reform and innovation in key

⁸ BIS: <https://www.bis.org/publ/bppdf/bispap107.pdf>

⁹ BIS: <https://www.bis.org/press/p200121.htm>

¹⁰ Sveriges Riksbank: <https://www.riksbank.se/en-gb/press-and-published/notices-and-press-releases/notices/2020/the-riksbank-to-test-technical-solution-for-the-e-krona/>

¹¹ Bank of England: <https://www.bankofengland.co.uk/paper/2020/central-bank-digital-currency-opportunities-challenges-and-design-discussion-paper>

¹² South Korea: https://www.koreatimes.co.kr/www/biz/2020/04/367_287431.html



areas, and statutory digital currency research and development.” A stated goal: “strengthen the top-level design, unswervingly advance the research and development of legal digital currency.”¹³

- In March 2020, amid the current COVID-19 pandemic crisis in the U.S, the “Banking For All Act”¹⁴ legislation was proposed: it would allow Americans to set up a free bank account that could be used to directly receive stimulus payments related to coronavirus relief. This bill outlines the structure of a “Digital Dollar” and “Digital Dollar Wallet”, which would require the Federal Reserve Bank, through its member banks, to make digital wallets available to all residents and citizens of the U.S. and to businesses domiciled in the U.S.

The wallets would not be subject to any account fees, minimum balances, or maximum balances, and would not be closed or restricted on the basis of profitability considerations. Irrespective of whether this bill passes, it is the fact of its even being introduced, and by a Ranking Member of the Senate Banking Committee, is significant.

According to a State Street Study², in a report titled “Is Bitcoin Going Mainstream”, the most significant barrier to institutional investors investing in digital currency, first among the top 5 concerns, is cybersecurity. The next are volatility, sufficient regulatory oversight, reliable pricing, and the availability of trusted and reliable asset servicing partners and solutions. If the observations above mean anything, it is that these barriers are, in a practical, applied sense, being removed, and fairly rapidly.

The State Street Study, though, pre-dates the COVID-19 pandemic and the response by the world’s central banks. Money supply is now being created on a scale never before imagined, to the extent of 10% and 20% of GDP even as of April 1st, 2020. There is probably no parallel historically. However, historically, there has never been an instance of large-scale money creation without inflation and currency debasement. It was, in fact, for this very eventuality, that cryptocurrency was invented. The day of broad acceptance might not be too distant.

¹³ China: http://www.gov.cn/xinwen/2020-04/04/content_5499014.htm

¹⁴ US Senate Committee on Banking, Housing, and Urban Affairs: <https://www.banking.senate.gov/imo/media/doc/SIL20449.pdf>



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