

Top 10 Disruptions (Predictions) in Blockchain, DLT and Digital Assets for 2019

Mark Li, Audit Partner, BPM LLP

Soma Sinha, Senior Manager, Plante Moran

January 25, 2019

Disclaimer

LEGAL NOTICE:

Copyright © 2018 Accounting Blockchain Coalition, Inc. ALL RIGHTS RESERVED.

This ABC Monthly Call document is proprietary to Accounting Blockchain Coalition, Inc. (also referred to as “ABC”) and/or its successors and assigns.

NOTICE TO USERS WHO ARE ABC MEMBERS: Members of ABC have the right to use and implement this ABC DOCUMENT NAME, however, to the Member’s continued compliance with the ABC Intellectual Property Policy, Bylaws and Participation Agreement.

NOTICE TO NON-MEMBERS OF ABC: If you are not a Member of ABC and you have obtained a copy of this document, you only have a right to review this document or make reference to or cite this document with permission from ABC. Any such references or citations to this document must acknowledge ABC copyright ownership as follows: “© 2018 Accounting Blockchain Coalition, Inc. ALL RIGHTS RESERVED.” When making any such citations or references to this document you are not permitted to revise, alter, modify, make any derivatives of, or otherwise amend the referenced portion of this document in any way without the prior express written permission of ABC. Nothing contained in this document shall be deemed as granting you any kind of license to implement or use this document or the specification described therein, or any of its contents, either expressly or impliedly, or to any intellectual property owned or controlled by ABC, including, without limitation, any trademarks of ABC.

LEGAL DISCLAIMER:

THIS DOCUMENT AND THE INFORMATION CONTAINED HEREIN IS PROVIDED ON AN “**AS IS**” BASIS. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NVM EXPRESS, INC. (ALONG WITH THE CONTRIBUTORS TO THIS DOCUMENT) HEREBY DISCLAIM ALL REPRESENTATIONS, WARRANTIES AND/OR COVENANTS, EITHER EXPRESS OR IMPLIED, STATUTORY OR AT COMMON LAW, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE, VALIDITY, AND/OR NON-INFRINGEMENT.

Disclaimer

This presentation contains general information only and Accounting Blockchain Coalition, BPM LLP and its affiliates (“BPM), and Plante and Moran are not, by means of this presentation, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services.

This presentation is not substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

The views and opinions expressed herein are the views and opinions of the ABC members and do not necessarily reflect those of BPM LLP or Plante Moran.

Speakers



Mark Li

ABC Board Member, Auditing & Accounting Working Group Chair, and Audit Partner, BPM LLP



Soma Sinha

ABC Associate Member, Audit & Accounting Working Group Co-Chair, and Senior Manager, Plante Moran

Moderator



Kim Turner

Sr. Director, Standards and Policy, Virtual, Inc.

1. Challenges and Adoption of Blockchain Technology

- Blockchain technology is being hailed as one of the most revolutionary and disruptive technological advances of today.
- Blockchain technology is set to enter a new era in 2019, with the technology to be more widely adopted by mainstream companies.
- Challenges Blockchain Technology Must Overcome Before Mainstream Adoption:
 - Initial Costs
 - Integration With Legacy Systems
 - Energy Consumption
 - Public Perception
 - Privacy and Security

2. Increased Regulation and Scrutiny

- Rulemaking for accounting, auditing, legal and privacy related compliance
- Rulemaking with regards to technology development
- Impact of rulemaking

3. Demands for Alternative Trading Systems (ATS)

- The SEC had made it clear that a platform that functions as an exchange and desires to list tokens that have been classified as securities will need to either register as a national securities exchange or operate under an exemption.
- Given that SEC Chairman Jay Clayton has made his stance on the security vs. utility token debate rather clear (hint: he says security) it would be wise for exchanges to start figuring out how to comply with regulations. One option many exchanges seem to be interested in pursuing is the alternative trading system.
- At its core, an ATS is a platform for matching buy and sell orders of its users. An ATS does not set rules for its users, outside of rules of conduct, and usually registers as a broker-dealer.

3. Demands for Alternative Trading Systems (ATS)

- An alternative trading system serves a very important role in providing investors alternative means to access liquidity.
- Equity positions in early stage startups have little or no liquidity, preventing investors from realizing a return on their investment for several years. Bringing together security tokens with an ATS may help solve this issue. Once registered ATS platforms are available investors will be able to buy and sell security tokens that have been created by issuers who used an existing exemption.
- Investors may still be subject to holding periods per Rule 144, but a one year mandatory holding period is better than a 3-5 year period due to lack of liquidity.
- For cryptocurrency exchanges that would like to list tokens that are classified as securities, registering as an ATS will help keep them on the path of compliance. This includes registering with the SEC as a broker-dealer and becoming a member of a self-regulatory organization (SRO), such as FINRA.

3. Demands for Alternative Trading Systems (ATS)

- So, what does all of this imply for the cryptocurrency world? It means that exchanges, issuers, and investors will all be impacted in some way.
- Exchanges: Those that are running exchanges will need to start researching how to comply with regulators. That may include becoming a registered ATS or finding some other exemption.
- Issuers: The idea of launching an ICO, raise a boat load of money, and be on an exchange the next day is over. Since exchanges will be making an effort to comply with regulators and the rules of operating an ATS, they may become more selective in which tokens they list. It is reasonable to predict that the exchanges will only want to list tokens that were issued under a securities exemption, such as Regulation D, along with proper KYC/AML procedures.
- Investors: Beneficiaries of SEC demands. One of the benefits of exchanges becoming registered is that they will be required to meet minimum standards regarding operating procedures and checks and balances. Fraudulent and dishonest practices in the industry would be reduced.

4. Incorporation of AI/IoT in blockchain

- Seamless and invisible conjunction of AI/IoT with blockchain
- Increased use of the technology will lead to new business models

5. The Year of Stablecoins

- Despite revolutionary breakthrough of the cryptocurrency market place, cryptocurrencies are still struggling to be widely adopted. For one, cryptocurrencies are extremely volatile with prices fluctuating rapidly and unpredictably.
- Given the infancy of the technology, some reckon that there is still a long way to go before cryptocurrencies can become a viable and practical medium of exchange. Currently, a major attribute giving rise to this extreme volatility is speculation; demand for cryptocurrencies are fueled by trading and speculation rather than real-world adoption.
- We can see the effect of this, when the general market capitalization of cryptocurrencies hit an all-time high of over \$800 billion at the start of 2018 but is currently at its lowest level of a mere \$200 billion or less a year later.
- Here come Stablecoin – as the name suggests – is a cryptocurrency which is pegged to an asset with a stable value, such as gold or fiat money (USD specifically). A stablecoin usually has a fixed valuation in relation to its underlying asset. As such, stable coin is attractive in a crazy volatility cryptocurrency market.

5. The Year of Stablecoins, Continued

- Stablecoins are the only form of cryptocurrencies where you don't have to worry about instability and volatility of cryptocurrency prices. Stablecoins have an important role.
- Rise in demands for Stablecoins
- Stablecoins:
 - Fiat-collateralized stablecoins
 - Crypto-collateralized stablecoins
 - Algorithmic supply stablecoins
 - Hybrid stablecoins
 - Metal-backed stablecoins
 - Alternative Stablecoin Models

6. Crowdfunding - ICO or STO?

- ICOs actually had a pretty good year in 2018.
- CoinTelegraph, a blockchain news and analysis outlet, reports that ICOs raised a combined \$11.7 billion last year, which is 13 percent more than they did in 2017.
- Cryptocurrency market very rapidly collapsed in early 2018, ICOs appear to be quickly losing their momentum, with November 2018 seeing the lowest ICO investment since May 2017.
- ICOs are utility tokens - allow owners to exchange them for future products or services - no equity interest or any other kind of asset.
- ICOs: (1) lacks actual utility and value other than speculation and possible increase in token value due to greed, hype etc., (2) no practical sense and built on the theory that there will always be someone less sophisticated, (3) lack of transparency (information about the project) (usually it's just a whitepaper full of fancy words and unreasonable aspirations) and not necessarily registered.
- STOs: (1) are asset-backed tokens, (2) consider legally binding investment contracts that effectively give investors access to a share of the company, a monthly dividend or a voice in the business decision-making process, and (3) are regulated, and must be registered with the SEC (U.S. Securities and Exchange Commission) or other respective regulators.

7. Blockchain as a Service (“BaaS”)

- Evolution of enterprise Blockchain
- Blockchain as service

8. Transparency and Cybersecurity Controls over Blockchain Systems

- Recognition of vulnerabilities in Blockchain systems
- Security where Blockchain interacts with the outside world

9. Emerging Use Cases of Blockchain For Data Privacy

- Multiple data breaches raising concern
- Emergence of privacy regulations like GDPR
- Blockchain as a solution for data privacy concerns

10. Mergers and Acquisition Activities in Blockchains and Digital Assets

- Merger and acquisition is inevitable?
- Synergy, Business Focus, Growth, Competition, Market Share, Talent...
- Prolonged cryptocurrency bear market has seen a substantial number of organizations finding new opportunities for reasons above via consolidations and acquisitions. According to a CNBC report, investors are seeking more and more deals within the blockchain space, even in the face of declining or stagnant crypto prices.
- Land grab for talent as the new entity benefits from having employees with business and technical backgrounds because blockchain engineers are not easy to come by. For example, Coinbase's acquisition of Earn.com, which saw Earn's founder and CEO becoming Coinbase's first-ever CTO.
- Furthermore, in May 2018, Coinbase acquired the decentralized Ethereum exchange platform Paradex, which will allow the company—that so far has only supported five digital assets—to also cater to users who want to invest in a wider range ERC20 tokens, which have been made popular by the recent boom in initial coin offerings (ICOs).

10. Mergers and Acquisition Activities in Blockchains and Digital Assets

- In June, the relatively new blockchain startup Tron acquired the decentralized data sharing platform BitTorrent which runs the world's largest decentralized peer-to-peer file sharing application with over 170 million users and protocols that move as much as 40 percent of all internet traffic on a daily basis.
- The acquisition of BitTorrent is part of Tron's "All-In Decentralization" strategy and makes Tron the "largest decentralized Internet ecosystem in the world."
- The first step for Tron is allocate BitTorrent users with TRX tokens as financial incentives when users provide digital content for other members of the peer-to-peer network.
- Acquisition would likely achieve two key objectives for Tron — helping to grow the Tron user base, and massively boosting adoption of the TRX token.

10. Mergers and Acquisition Activities in Blockchains and Digital Assets

- In July, leading crypto asset exchange Binance completed its first acquisitions with the purchase of mobile Ethereum tokens wallet provider Trust Wallet.
- Acquisition would allow Binance users a way to withdraw funds into a wallet.

10. Mergers and Acquisition Activities in Blockchains and Digital Assets

- More M&A to come in 2019? Possibly, Yes...
- Will see more acquisitions by leading blockchain companies with deep pockets.
- Well-funded startups - whether through venture capital or ICOs - are in an excellent position to buy up smaller competitors to increase their market share and to make strategic acquisitions to expand their business.
- Large exchanges, for example, are in an excellent position to acquire smaller international exchanges to expand into new markets like Tron and BitTorrent.
- Merger of blockchain technology companies with fund administrators.
- Exchanges acquiring broker dealers or other qualified custodians.
- Foreign exchanges buying U.S. blockchain companies with MSB, MTL and custodian services as ways to enter new markets.

SAVE THE DATE

Blockchain, Accounting, Audit and Tax Conference II

Wednesday, June 5

Microsoft Conference Center, Times Square NYC

ABC Member Meeting

Thursday, June 6

Location TBA

BECOME A MEMBER TODAY!

Complete the online application
on the ABC website today:
<https://accountingblockchain.net>



Charter Member



Promoter Member



Associate Member

NOTE: All Charter level membership applications will be reviewed and approved by the Board of Directors.



BENEFITS		CHARTER \$10,000	PROMOTER \$5,000	ACADEMIA \$1,000
LEADERSHIP	Eligible to nominate one company representative to be elected to sit on the Board of Directors	✓		
	Eligible to be elected as an ABC officer	✓		
	Eligible to chair/co-chair Working Group(s)	Primary	Secondary	✓
	May serve on special committees assigned by the Board	✓	✓	✓
WORKING GROUPS	Guaranteed participation in all Working Groups	✓	✓	Subject to Criteria
	Voting rights in Working Groups (1 vote per company)	✓	✓	✓
	Propose establishment of a Working Group	✓	✓	✓
MEETINGS AND EVENTS	Able to present at monthly calls and meet ups	✓	Board approved	Board approved
	Able to attend monthly conference calls	✓	✓	✓
	Opportunity to speak/present at ABC events and meetings	✓	✓	Board approved
PROMOTIONAL OPPORTUNITIES	Company listed prominently on all ABC promotional materials, including press releases	✓		
	Use of ABC logo on company website to indicate membership	✓	✓	
	Member company listed on ABC website	Logo, link, bio	Logo, link	Logo, link
EXCLUSIVE CONTENT	Regular updates/newsletters from ABC	✓	✓	✓
	Early access to Working Group deliverables	✓	✓	✓
	Access to member-only online community	✓	✓	✓
	Speakers Bureau	✓	✓	✓
	Participation in Ambassador Program	✓	✓	✓
	May represent ABC in initiating liaisons and partnerships	✓	✓	✓
	Marketing/Promotional Package: • Author a blog (working with ABC's team) • Sponsor/promoted tweets – ABC will tweet and/or share relevant press releases or blog posts that support the ABC mission	✓	✓	✓

QUESTIONS?

Today's Presentation:

Mark Li - mli@bpmcpa.com

Soma Sinha - soma.sinha@plantemoran.com

Membership Inquiries:

Email membership@accountingblockchain.net

or visit <http://accountingblockchain.net>

Thank you!