Stablecoins

When viewed through the prism of relative cryptocurrency price volatility, the appeal of stablecoins is easy to understand. This past year has seen a rise in their popularity and increased discussion around their usefulness, especially since the announcement of the Facebook-backed Libra project in July. Some of Europe's top institutions have weighed in on the topic of stablecoins,[5] with the European Central Bank issuing a report on the subject and the Swiss regulator FINMA releasing guidelines on their treatment.[6]

In general, stablecoins do not generally seem to offer a compelling investment case since their value is, by nature, pegged to some other currency or asset. They can, however, play a role in decentralized finance systems, with one of the more popular stablecoins, DAI, being the result of one of the most advanced DeFi setups developed to date. Stablecoins also have the potential to facilitate blockchain-based applications where a common, stable digital currency is needed for interactions with the app's smart contract layer.[7] This provides reason to believe that the market for stablecoins will continue to increase.

In addition, macroeconomic forces point to greater interest in a stable crypto-like currency. China recently made known its interest in developing a nation-wide digital currency,[8] a fact which some believe will spur acceptance of the Libra project by US and European regulators. The Swiss National Bank (SNB), in cooperation with the Bank of International Settlement (BIS), has indicated that it will explore the same idea, with a mind to integrate it into DLT infrastructure.[9] If these two initiatives, among others, were to move forward significantly over the coming year, it could have a strong influence over other crypto trends, in particular tokenization and decentralized finance.

Tokenization

As one of the most popular buzzwords associated with blockchain technology, the concept of tokenization is often misunderstood.

Simply defined, tokenization is the process of assigning the rights to and attributes of an asset to a digital token which lives on the blockchain. The explosion of Ethereum-based tokens issued in initial coin offerings in 2017 drew widespread attention to the concept of tokenization in various form; it also inspired regulatory efforts to classify tokens and make legal sense of them. In Switzerland, FINMA has outlined three main token types: utility, payment and asset.[10]

Over the last year, the excitement over utility tokens – those used to confer access or usage rights to an application or protocol - has generally subsided. However, a second generation of utility tokens may become more relevant in the future: Corporate utility tokens issued by companies for such use cases as loyalty and referral programs. One such token will be issued by Emaar, the Middle East's largest real estate and property development company.[11] Tokenizing such loyalty and referral programs has the potential to reduce friction costs and improve accessibility.

Today, interest in tokenization is also focused in large part on the possibilities of so-called asset tokens, which may represent the partial ownership in a real estate property, revenue-sharing rights in a collective investment scheme or any other of a myriad of possibilities. Tokenized equity for the shares of small- and medium-sized businesses and tokenized corporate debt is also a hot topic.

Problems, however, arise because there is no universally accepted standard for the legal treatment of the many and varied asset token propositions being explored in different countries. There is also limited market infrastructure for trading and storing them, not to mention service providers who may legally deal in such tokenized securities.

It is also questionable whether the more exotic use cases for asset-backed tokens, such as tokenized collectibles, wine and art, offer a sufficiently strong value proposition for them to be widely accepted.

Nevertheless, the market infrastructure which may eventually open up the possibility of tokenized equity and debt continues to develop - albeit slowly and sometimes by fits and starts. Despite having launched a prototype of its digital exchange, SDX Chairman Thomas Zeeb recently admitted that the development may be somewhat too early for the banks which are financing the project.[12] Meanwhile, a proof-of-concept for the settling of tokenized shares coordinated in cooperation between Swisscom, Deutsche Börse and three Swiss banks was successfully completed.[13]

These advancements provide reason to believe that if tokenization is to truly take off, it may well get its first boost from Switzerland. The only doubt is whether there will be enough demand from investors and those tokenizing assets to sustain the innovation in the long-term.

[5] https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op230~d57946be3b.en.pdf
[6] https://finma.ch/en/news/2019/09/20190911-mm-stable-coins/
[7] https://www.bitcoinsuisse.com/research/decrypt/stablecoins-navigating-crypto-volatility
[8] https://fortune.com/2019/11/01/china-digital-currency-libra-wakeup-call-us/
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