

3 December 2021

Thomas Murray Digital Views

Digital Assets Emerge from the Shadows

Unprecedented low interest rates – together with soaring equity prices and increasing levels of inflation – are forcing investors to identify new sources of alpha. As a result, more institutional investors are building up their exposures to digital assets to enhance returns and achieve better risk diversification. As indicated by a number of recent studies, this trend is set to continue, with institutional investors looking to allocate increasing amounts of capital to cryptocurrencies, blockchain related equities and even the Metaverse, an increasingly popular theme.

Weekly Summary



The European Council is one step closer to [ratifying its Markets in Crypto-assets \(MiCA\) regulation](#). Once agreed, the framework will establish a standard for digital assets that will ensure consistency across the block, making it simpler for firms to expand across the EU and benefit from the all-important ability to passport licenses. As part of the [405 page proposal](#), certain activities are set to receive even greater regulatory scrutiny, including asset-referenced tokens (aka stablecoins), centralised exchanges and custodians. Meanwhile, some digital asset components are still yet to be considered as part of the regulation, including non-fungible tokens (NFTs), utility tokens, fully decentralised exchanges and decentralised finance (DeFi) applications, among others.



Last week the EU established a sandbox to support its [pilot regime for market infrastructures based on distributed ledger technology](#). The three-year pilot is set to enable financial firms to circumvent some existing legal requirements so they are able to take part in the tokenisation of financial assets including equities, bonds, and ETFs, with some limits. Unlike MiCA, the [proposal](#) is focused on the application of DLT technology within the context of conventional securities, and will apply to three types of FMIs including DLT-based trading venues, settlement services, and those supporting both activities. Approval is dependent on a parliamentary vote slated for March 2022, and if passed, the regulation would take effect nine months after publication in the Official Journal.



Following mounting pressure for regulatory certainty, Morgan Stanley believes that US regulators are on the brink of [implementing crypto-banking regulations](#) sooner than expected. This sentiment follows on from the recent joint statement by the Federal Reserve, Federal Deposit Insurance Corp. (FDIC) and the Office of the Comptroller of the Currency (OCC) which indicated a [policy sprint](#) is in effect. Most participants including Morgan Stanley believe this to be positive as it will provide much needed clarity, which is perhaps why it has increased its indirect bitcoin exposure to USD 300 million this month.



Transaction values on the Bitcoin blockchain have for the third quarter running [surpassed that of the payments platform PayPal](#) by 62% or approximately USD 187 billion per quarter since the beginning of 2021. Bitcoin is now averaging 27% of Mastercard's value processed of approximately USD 1.8 trillion per quarter, although to reach those levels the network will have to deliver on improvements to its scaling capabilities.

Digital Asset Developments



[India to Regulate, Not Ban, Crypto: Cabinet Documents](#) (CoinTelegraph)



[South Korean Legislators Agree to Delay Taxation of Cryptocurrency Capital Gains](#) (AMB Crypto)



[Yellen Says Mind Not Made Up on U.S. Central Bank Digital Currency](#) (Reuters)



[ASX Starts Tests of Blockchain Post Trade Solution, but Regulator is Watching](#) (Ledger Insights)



[Standard Bank and Shinhan Bank to Test Cross-Border Payments](#) (Finextra)



[Japanese Stock Exchange JPX Creates Digital Subsidiary, Including for Blockchain](#) (Ledger Insights)



[SEBA Bank Launches Cross Asset Platform to Simplify Access to Digital Assets](#) (Finextra)



[UK has No Plans for a Retail CBDC, Envisages Banks Enabling Synthetic](#) (Ledger Insights)



[CBDC is a Tool to Combat Bitcoin, says Bank of Indonesia Exec](#) (CoinTelegraph)



[Fidelity Investments Canada ULC Launches Fidelity Advantage Bitcoin ETF and Fidelity Advantage Bitcoin ETF Fund](#) (Cision)



[Invesco Enters Crypto ETP Space with Bitcoin Launch](#) (ETF Stream)



[Bitcoin Capital AG Launches Two Crypto ETP's on SIX Swiss Exchange](#) (CoinTelegraph)



[Ex-Citi Trading Exec Launches USD 1.5 Billion Crypto Fund](#) (Finextra)

Key:

Regulation 

Technology 

Ecosystem 

Markets 