

#UkrFinForum17

Day 2. Panel 7

Cryptocurrencies and the cryptosecurities markets: Opportunities and threats

Among the panelists were the two main regulators of Ukraine's financial markets: **Oleg Churiy, Deputy Governor on the National Bank of Ukraine**, and **Timur Khromayev, Chairman of the National Commission on Securities and Stock Market**.

The panel began with a survey of how many in the audience owned a cryptocurrency. Fifty-seven percent of attendees did not own a cryptocurrency, 19% did, while 24% did not understand what cryptocurrency was. Half of the respondents believe that cryptocurrencies are a financial bubble.

The panelists began by trying to define what a cryptocurrency is. **Michael Chobanian, founder of the KUNA Agency**, pointed out that the main international cryptocurrency, bitcoin, appeared immediately after the global financial crisis of 2007–08 as an attempt to balance the global financial system. He stressed that nobody understands what bitcoin is. Even the IMF cannot classify bitcoin as a currency, intangible asset, or security. The main difference between bitcoin and other financial instruments is its decentralization; that is, there is no central bank or central agent. All operations are carried out on the internet and displayed publicly.

Panelist discussed ICOs (initial coin offerings), which are similar to IPOs (initial public offerings). They play an important role in the cryptocurrency market. As **Andriy Velykyy, Managing Partner iGuards.net, CEO Cryptocurrency Consulting Ukraine**, explains, market participants invest in certain projects and receive tokens, which are similar to shares of a company. The money raised is used to implement a particular project. In order to avoid regulations from the SEC, new ICOs offer alternative frameworks. As an example, investors are afforded a heavy discount for the future services of the project they de-facto are investing in. According to **Dmytro Budorin, Co-Founder at Hacken**, an ICO combines aspects of both an IPO and Kickstarter. He explains, "Companies that issue an ICO essentially sell a promise that they will realize a project in the future. If the project is successful, the price of the tokens increases, and if not, it falls. In fact, ICOs provide an opportunity for just about anyone to quickly raise funds with minimal costs.

Oleg Churiy, Deputy Governor of the National Bank of Ukraine, stressed that the first question that all world regulators have regarding bitcoin and other cryptocurrencies is, "What is it?" The second question is, "What should I do?" Since most regulators are not able to answer the first question, they don't address the second one. In Churiy's opinion, bitcoin is a type of payment instrument. Commenting on the status of bitcoin in Ukraine, Oleg Churiy emphasized that the central bank of Ukraine does not recognize bitcoin as a currency because it does not have a central issuer. In this regard, the NBU cannot accept bitcoin as a means

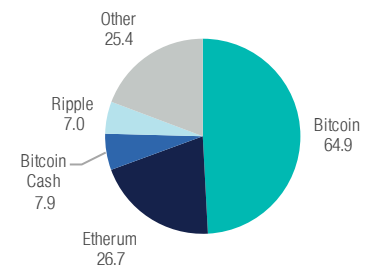
TUESDAY, 26 SEPTEMBER 2017

Bitcoin price



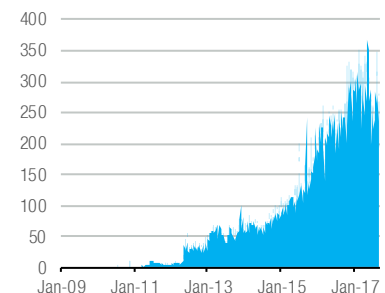
Source: Bloomberg.

Cryptocurrencies market capitalization



Source: coinmarketcap.

Number of bitcoin transactions (thousands)



Source: blockchain.info.

NBU does not recognize bitcoin as a currency

NSSMC does not consider cryptocurrencies as financial instruments due to lack of laws

Blockchain technology is revolutionary and can be applied in many areas

of payment in Ukraine. He also added that today, the NBU does not prohibit cryptocurrencies. Their position regarding cryptocurrencies is quite simple—wait and see.

Timur Khromayev, Chairman of the National Commission on Securities and the Stock Market, explained the position of the NSSMC as a regulator regarding cryptocurrencies. He stressed that the commission, in its role of regulator, considers three main points: 1) the lack of a clear pricing mechanism, 2) low liquidity, resulting in large capitalization, and 3) the complete lack of investor protection, that is, no disclosure of any information and no financial statements. At the same time, Khromayev emphasized the importance of blockchain technology itself, which underlies all cryptocurrencies. It has the potential to change the technological processes of the financial services market, such as the digitization of commodity trading or smart contracts. Moderator **Tymofiy Mylovanov, Honorary President of Kyiv School of Economics, VOX Ukraine**, described the blockchain technology as "disruptive" and the majority of the audience agreed. Khromayev stressed that the NSSMC would need amendments to current legislation to be able to regulate cryptocurrencies as a special type of financial instrument that would allow the commission to impose sanctions on unscrupulous players, protect investors, and clean up fraud in the cryptocurrency market.

Conclusions. Panelists agreed that blockchain technology, which underlies all cryptocurrencies, has many advantages and presents opportunities. The key advantage of the technology is decentralization—there is no single point where information is collected and decisions made. Another advantage is the lack of intermediaries between transaction participants, as the system verifies automatically, and transaction results cannot be altered or tampered with. The possibilities of using the technology are enormous—from smart contracts to the electoral system. At the same time, **Timur Khromayev** stressed that the practical application of blockchain technology today is quite expensive and needs investment, while **Oleg Churiy, Deputy Governor on the National Bank of Ukraine**, is generally skeptical about the future of blockchain technology. All the experts agreed that there is much to do in this area given that the cryptocurrency market both in Ukraine and globally is completely unregulated.



11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kiev, 01030 Ukraine
Phone/Fax +38 044 2200120

WEB www.icu.ua



@ICU_UA

CORPORATE FINANCE

Makar Paseniuk, CFA, Managing Director
makar.paseniuk@icu.ua

Ivan Shvydanenko, Director
ivan.shvydanenko@icu.ua

Roman Nikitov, ACCA, Director
roman.nikitov@icu.ua

Yuriy Kamarytskyi, Vice President
yuriy.kamarytskyi@icu.ua


Ruslan Kilmukhametov, Director
ruslan.kilmukhametov@icu.ua

Ruslan Patlavsky, Director
ruslan.patlavsky@icu.ua

STRATEGY AND CORPORATE DEVELOPMENT

Vlad Sinani, Director
vlad.sinani@icu.ua

SALES AND TRADING


Konstantin Stetsenko 
Managing Director
konstantin.stetsenko@icu.ua

Liliya Kubytyvych 
Asset Management Product Sales
liliya.kubytyvych@icu.ua


Sergiy Byelyayev
Fixed-Income Trading
sergiy.byelyayev@icu.ua


Yevgeniya Gryshchenko
Fixed-Income Sales
yevgeniya.gryshchenko@icu.ua

Vitaliy Sivach 
Fixed-Income & FX Trading
vitaliy.sivach@icu.ua


Bogdan Vorotilin 
bogdan.vorotilin@icu.ua

RESEARCH

Alexander Valchyshen 
Head of Research
alexander.valchyshen@icu.ua

Alexander Martynenko 
Head of corporate research
alexander.martynenko@icu.ua

Taras Kotovych 
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Mykhaylo Demkiv 
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Lee Daniels, Rolfe Haas
Editors

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

