

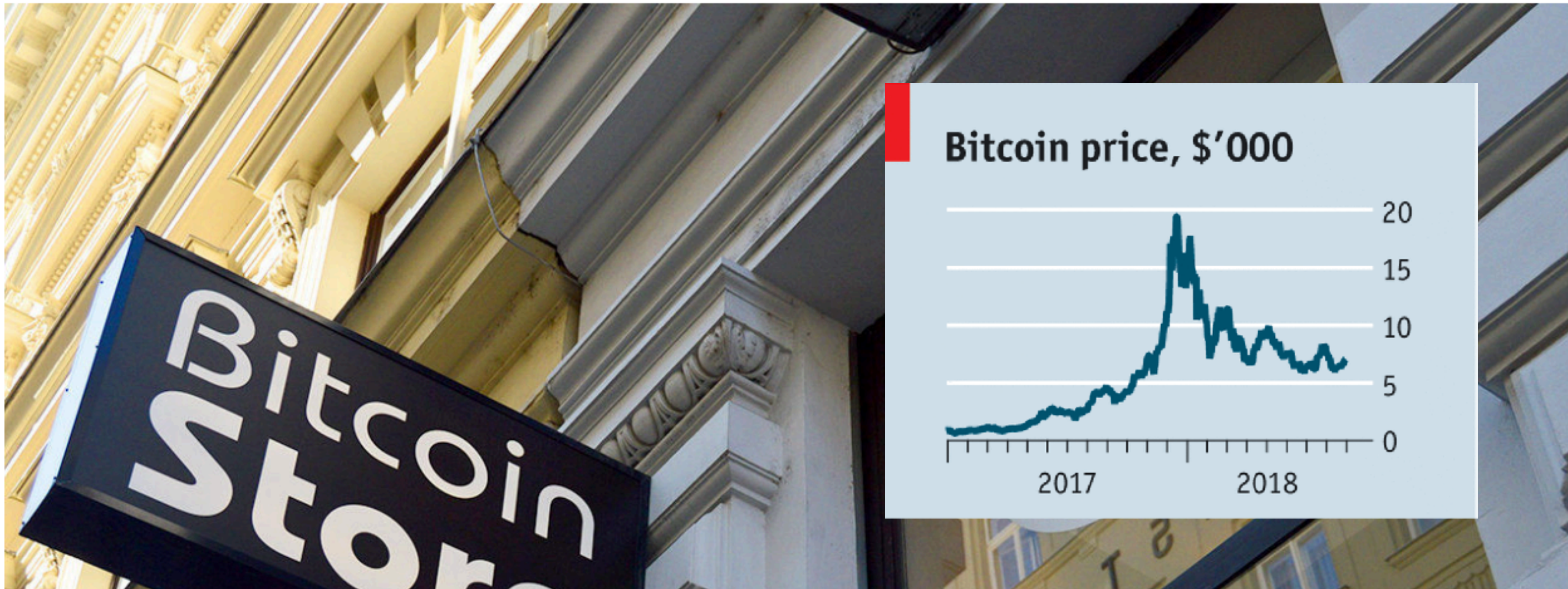
Bitcoin as a reserve asset

Tuur Demeester



Bitcoin and other cryptocurrencies are useless

For blockchains, the jury is still out



In 12 minutes:

- Why is Bitcoin a savings instrument?
- Financialization of Bitcoin
- Bitcoin as a reserve asset
- What does the (near) future bring?

Why is Bitcoin an asset?

“Imagine there was a base metal

- as scarce as gold (...),*
 - boring grey in colour,*
 - not a good conductor of electricity, (...)*
 - not useful for any practical or ornamental purpose,*
- and one special, magical property:*
- can be transported over a communications channel.*

If it somehow acquired any value at all for whatever reason, then anyone wanting to transfer wealth over a long distance could buy some, transmit it, and have the recipient sell it.”

Bitcoin inventor Satoshi Nakamoto

Bitcoin by the numbers

- Supply capped at 21 million BTC
- 150,000 independent nodes in the network
- Uptime: 99.9925%
- +\$1B in transaction fees paid
- \$150B diluted market cap (LA market dominance: +60%)
- Lightning network capacity growing by 60% per month

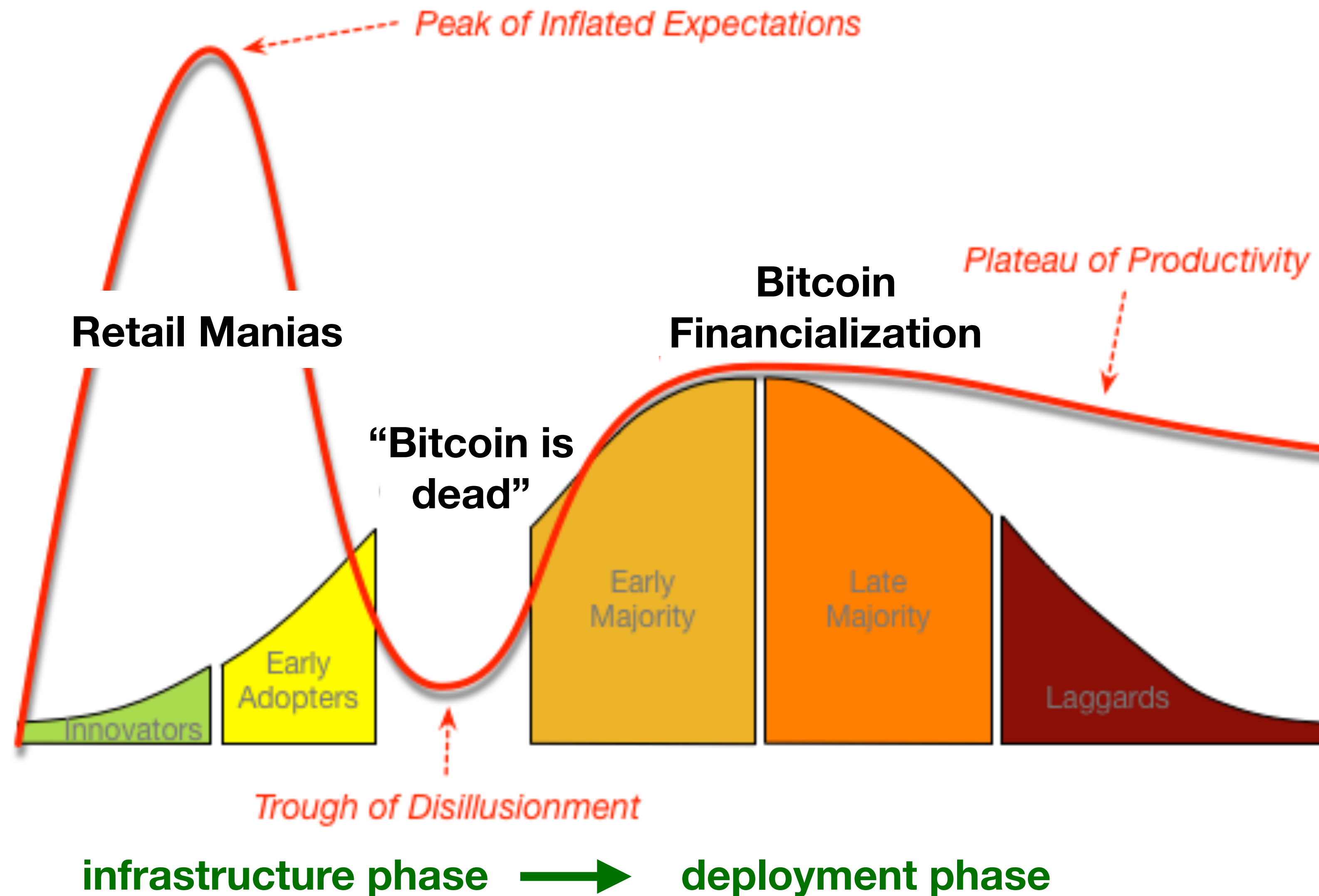
Why is Bitcoin a savings instrument?

Scarce	Neutral
Auditable	Liquid

Bitcoin financialization

Provider	Investment Product	Availability
CME	Bitcoin Futures	Available
CBOE	Bitcoin Futures	Available
Nasdaq	Bitcoin Futures	Approved
LedgerX	Bitcoin Options	Available
Cantor	Bitcoin Options	Approved
XBT Provider	ETN	Available
Tobam	Bitcoin Mutual Fund	Approved
Grayscale	Bitcoin Investment Trust	Available

Adoption: young, but maturing

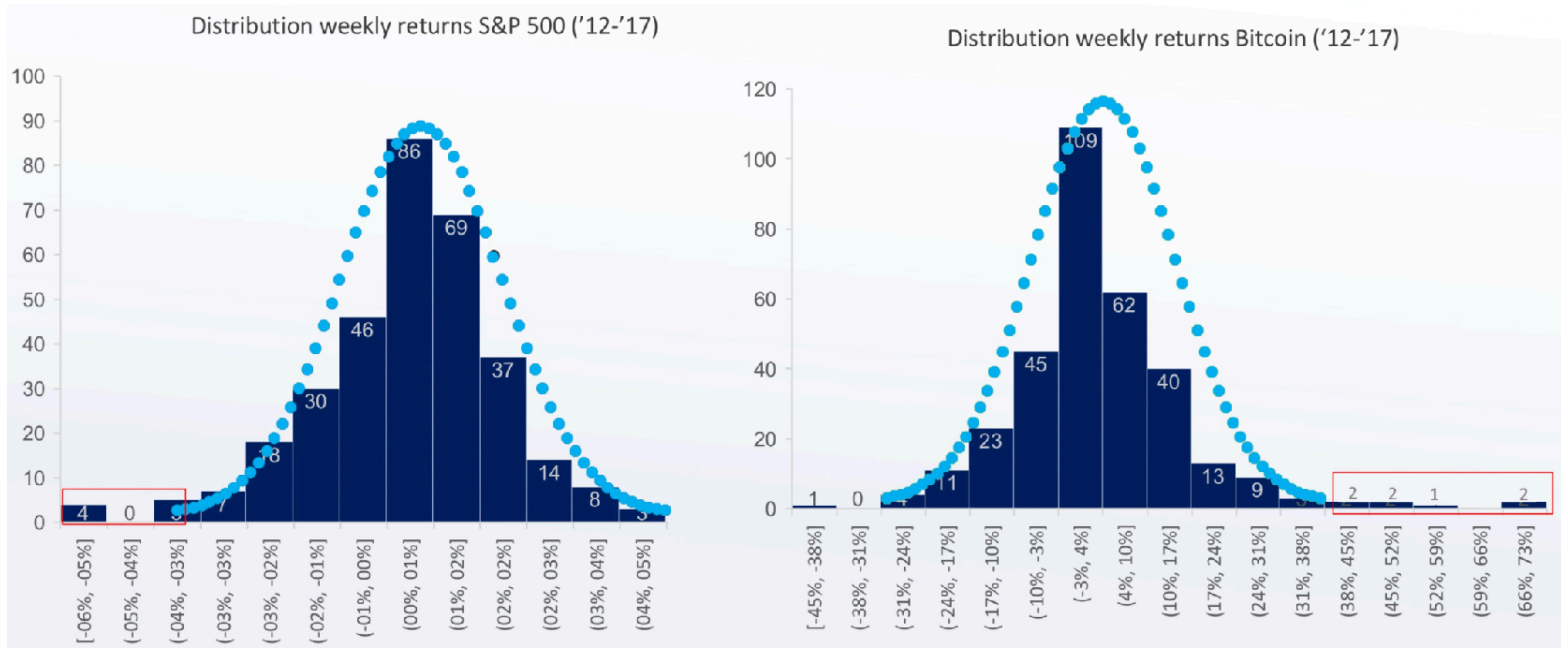


2018 adoption

“I own some cryptocurrency”

- China: 3%
- Germany: 6-7%
- EU: 9%
- US: 8-9%
- **Japan: 11%**
- **Turkey: 18%**

Bitcoin as reserve asset



Central bank asset?

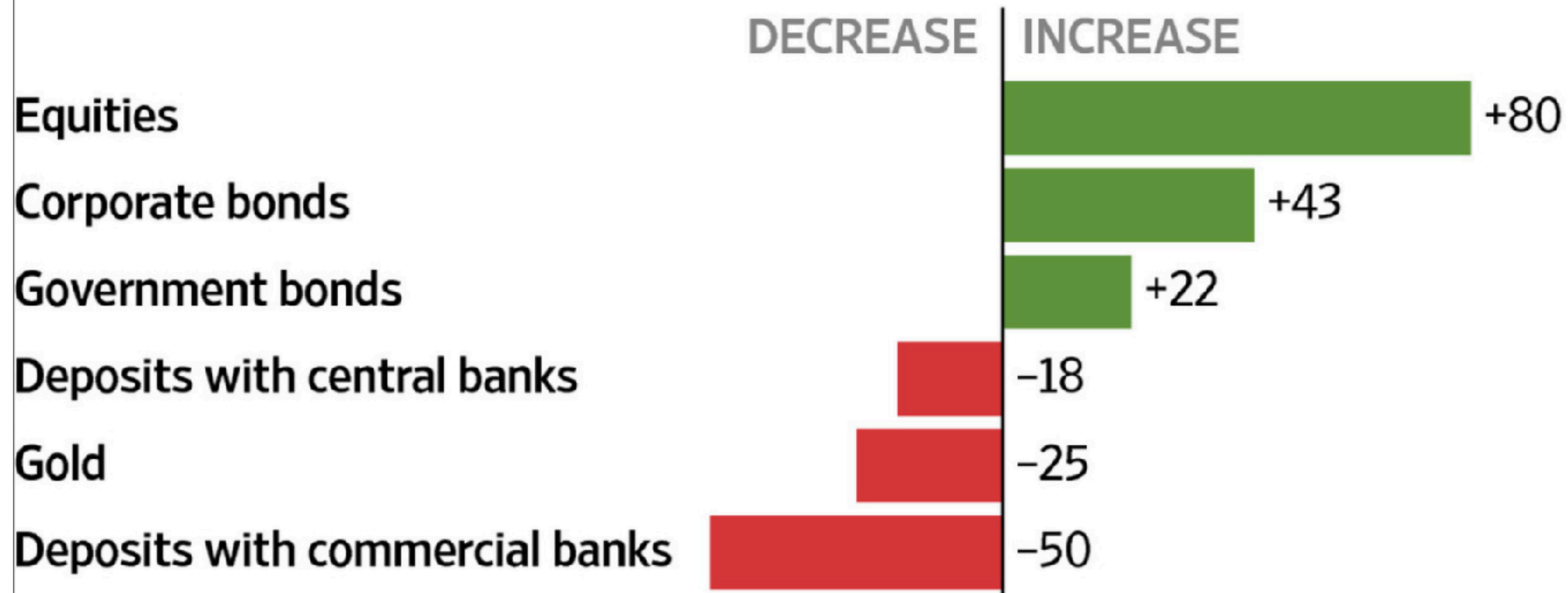
“I have for many years been in favor of replacing the Fed with a computer. Each year, it would print out a specified number of paper dollars. Same number, month after month, year after year.”

Milton Friedman

Possible resolution of Triffin Dilemma:
Bitcoin inherently resists regulatory capture.

Central bank asset?

Net percentage points of central banks saying whether they will increase or decrease future allocations in each asset class*



*Figures reflect difference in percentage points of a sample of 14 central banks, surveyed in the first quarter of 2016, that expect to increase or decrease future allocations to each asset class.

Central bank asset?

- **“Gold reserves”**
gold bullion held by banks or central banks
- **“International reserves”**
Robert Heller (1966):
 1. “acceptable at all times to foreign economic units for payment of financial obligations” (legally accepted)
 2. “their value, expressed in units of account, should be known with certainty” (deep liquidity, mature markets)
- Traditionally: gold, forex, SDRs

Central bank asset?

- IMF's definition of "**Reserve Asset**"
 - readily available (=accessible, liquid)
 - value shouldn't depend on country's residents
 - instrument of monetary authorities
 - as basis for foreign borrowing
 - for maintaining confidence in currency
 - for bailing out "systemically important" entities

“Should cryptocurrencies be included in the international reserves held by the central bank of Barbados?”

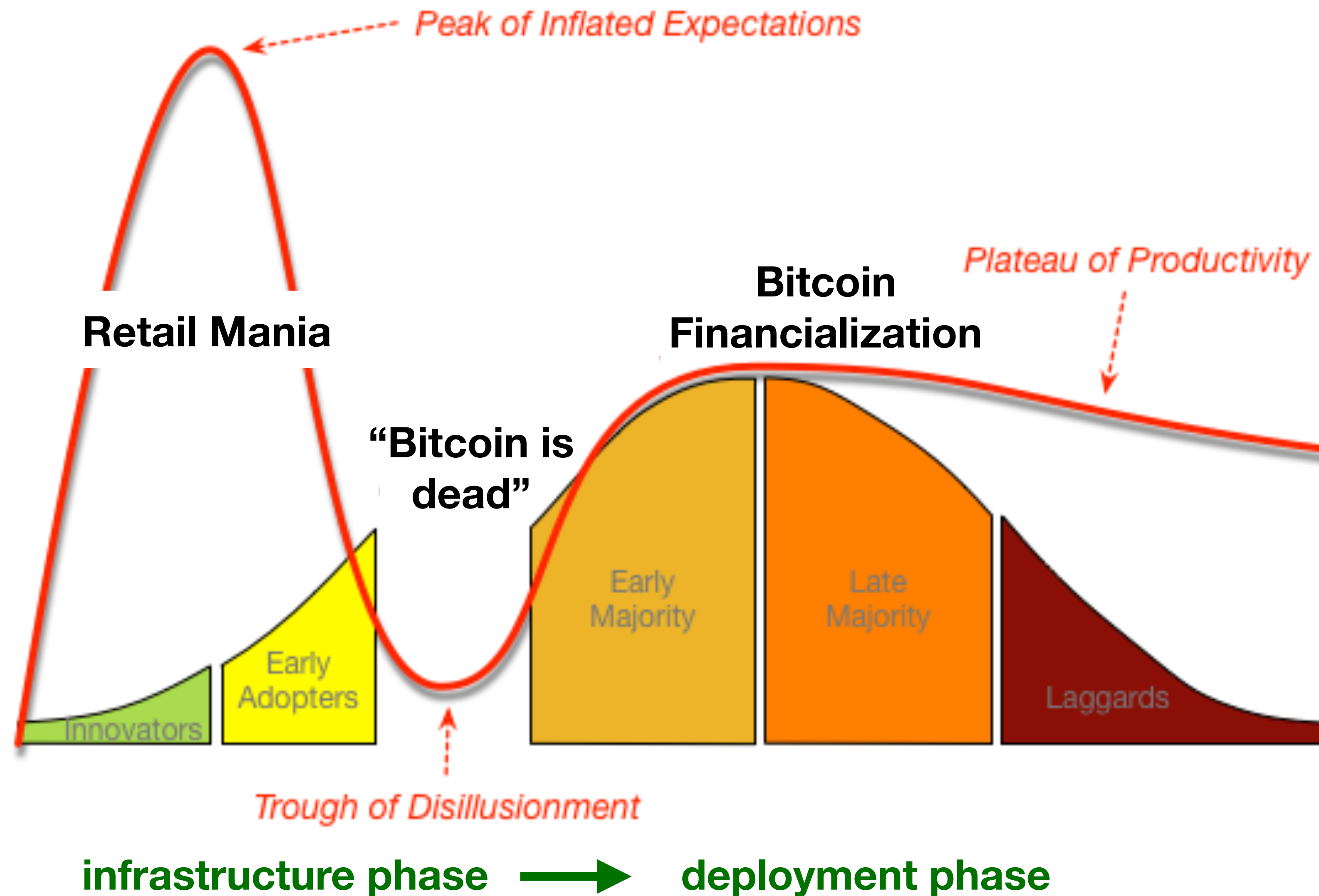
“Counterfactual simulations done over the period 2009 to present suggest that adding Bitcoin to the reserve portfolio of the central bank would not significantly increase volatility but could provide opportunities to offset exchange rate depreciations against major currencies such as the Pound and the Euro.”

*Winston Moore & Jeremy Stephen,
Central Bank of Barbados, 2015*

What's next for Bitcoin?

- **Custody:** more stress tests, Fortune 500 involvement, regulation
- **Legal:** currency status? - issue of the decade
- **Insurance:** DTCC / Reinsurance / Central Bank?
- **Financialization:** Hedge & Mutual funds, ETF, Loans & Bonds, Insurance

Summary: Bitcoin will enter global mainstream through *financialization*.



Thank you.



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