

WEALTHTECH

Technology and regulation beckon rising crypto tide

WRITTEN BY YURI BENDER

CRYPTOCURRENCIES

Anders Kvamme Jensen, founder and chairman of the AKJ crypto fund platform, discusses the latest crypto developments

One of the early trends of 2022 is a fast-growing interest from private clients in both cryptocurrencies and blockchain-enabled tokenised investments. This digitally-enhanced shift is enabling launches of a raft of exchange traded products and alternative strategies, with many investors increasingly keen to dip their toes in the water.

PWM Do investors see crypto as just a new asset or a transformational development for managing portfolios?

AKJ Very early participants may have seen crypto as just another asset class, but as the market has developed clients have begun to appreciate its transformative nature. This stems from the new business models that

crypto can enable, as well as the improved utility it affords certain users, including fund managers.

Many forward-looking managers would like their funds to function in a better way, utilising technology-enabled oversight of risk, compliance and reporting, all done through smart contracts that dramatically improve timing and accuracy.

These steps, however, are difficult to undertake in advance of the necessary regulatory changes. As a result, what we have seen so far is more proof of concept than full-scale transformation, with the latter on its way.

PWM What will be the effect of China's clampdown on Binance for the crypto market?

AKJ We do not believe this to be a major issue. Rather, we see it as a relief to the market that the dark 'China cloud' has largely dissipated.

In the past, every time China imposed a new policy against crypto, the market would take a turn for the worse. Prices would eventually rebound, usually to a higher level and with a reduction of systemic risk, but the cloud of uncertainty would remain.

With China having taken a definitive stance, that cloud is now gone, making it easier for the US and other jurisdictions to embrace crypto with China no longer having a hold on the market as it once did. This may have a short-term dampening effect on demand, although it may be less of an issue with more demand moving to DEXs [decentralised exchanges] anyway.

This move definitely seems to be related to China's desire to launch its own digital currency, issued by the central bank. However, it is important to remember that crypto is inherently anti-authoritarian in nature. At its core, digital assets give power and freedom back to the individual, so it will be interesting to see how a centralised effort to revoke many of these rights will sit with those affected.

PWM Another major developing economy, India, is also banning crypto transactions. Is it of concern that the fastest growing countries are the ones with the strictest attitude to crypto?

AKJ It is indeed concerning. Ironically, these are the economies that likely have the most to gain from new types of banking and other financial services, since there are large, unbanked populations with internet connectivity but without access to traditional financial services infrastructure.

PWM Do you prefer the US approach of congressional hearings plus taxing crypto transactions to legitimise them?

AKJ Yes, we do. Crypto will go nowhere without institutional adoption, and it will become increasingly harder for institutions



It is important to remember that crypto is inherently anti-authoritarian in nature

ANDERS KVAMME JENSEN AKJ



to participate without political and regulatory support.

We periodically hear about efforts in countries such as India and China, which you asked about earlier, to 'shut down' crypto. However, this quickly becomes an untenable slippery slope when considering what should be shut down: are we talking about bitcoin specifically? Or any open, blockchain-based asset? Should a ban include other cryptographic assets such as non-fungible tokens too? And what about computer game assets? Should we ultimately ban all businesses that solve real world problems using tokens?

It becomes easy to see that there would be unwanted, negative consequences from a ban on crypto. Banning new technology rarely works in the long run, as the innovation will merely move to more accommodating jurisdictions and eventually result in the original ban being lifted.

PWM We have recently seen launches of several exchange

traded crypto products. What sort of demand have you seen for this asset class from wealth managers?

AKJ Exchange traded products (ETPs) are a convenient way for institutional investors to tiptoe into the crypto market without having to establish their own crypto infrastructure. First-time investors will thus tend to utilise these products when entering the market. With experience, many will add to these initial positions by establishing a wallet structure and investing directly to receive additional benefits from related sources of crypto value.

For many institutions, these newer aspects – such as staking, yield farming, liquidity provisions and governance voting – are steadily becoming more of an integral part of their portfolios.

The incremental returns from these opportunities, however, are not shared with investors in ETPs and exchange traded notes (ETNs). These will likely remain

“It becomes easy to see that there would be unwanted, negative consequences from a ban on crypto

ANDERS KVAMME JENSEN **AKJ**

an appealing option for first-time investors getting their feet wet in crypto, acting as a launch pad of sorts until these participants start to gain more knowledge and seek incremental opportunities.

Since most institutions are indeed first-time investors at this stage, ETPs will continue to represent a sizeable and growing market. We expect demand to continue to grow in concert with institutional interest and the generally rising crypto tide. **PWM**