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A FRIENDLY GLANCE AT CRYPTO-"CURRENCIES"

The Financial Sector Conduct Authority (FSCA) recently said that it will soon publish the regulatory framework for cryptocurrencies in South Africa. Many in the industry, especially those who support the technology, have been anxiously awaiting this legislation for quite some time. Previously, the FSCA was vocal about declaring cryptocurrencies as financial products and this past week the Prudential Authority Division at the South African Reserve Bank (SARB) shared a similar sentiment. The Prudential Authority also asked banks to work with crypto exchanges instead of simply closing their accounts.

We maintain that more regulation is needed in the cryptocurrency space to protect consumers against all of the scams that we have read so much about during the last couple of years. Only with effective legislation can this superior technology be adopted by the masses. And it truly is superior. Even in its infancy, the cryptocurrency environment is allowing for faster and safer transactions worldwide, often at no cost. The environment also allows markets to be open 24/7, which means that consumers always have access to liquidity. With blockchain technology, the backbone of cryptocurrencies, you do not have to wait two or more days for money to reflect in your account – most of the time it happens instantly. But there are, of course, many other benefits of having a market that is always open. The cryptocurrency market also has fewer foreign exchange controls, which means that no one can tell you what you are allowed to do with your money; a key concern for regulators, of course. Another benefit of some cryptocurrencies is that they allow for decentralisation. This characteristic allows the collective to govern themselves without handing their sovereignty over to the government. But with these and other efficiencies, the technology can also be exploited for the wrong reasons, and it is for this exact reason that clever regulation is needed.

We are still unsure how local regulators will classify and treat this unique asset class. One of the main difficulties that regulators face is the fact that not all cryptocurrencies are the same, so regulation must be more fluid, a characteristic that regulators are not always known for. Precisely because cryptocurrencies are different, it is more appropriate to refer to them as tokens, coins, or even digital assets. Bitcoin, the most widely known and adopted token is, for all intents and purposes, not a currency. Like gold, it is considered to be a store of value because of its limited supply. That being said, its price volatility does not qualify it as a store of value in the traditional sense. Some tokens, like Litecoin, are used as currencies because transactions are fast and cheap. Others are backed by fixed assets: Many of the stable coins are backed by a combination of fiat currency and even bonds. Yet others, like Cardano or Solana, are backed by specific projects and fulfil another function entirely. In this case, they use blockchain technology to execute smart contracts that allow them to build the infrastructure that is needed for things like Web 3.0. And then there are tokens that act like normal shares. Binance, a digital asset exchange, for instance distributes some of their profits towards those who hold the Binance token.

Each of these characteristics, collectively referred to as 'tokenomics', makes the token unique and desirable. For this reason, if regulators want to effectively regulate these digital assets, they must differentiate between specific groups of tokens and apply rules appropriately. In the past, Africa has been a leader in terms of creating and adopting financial technologies, like cell phone banking, and our regulations have, in many ways, allowed for the successful adoption of these technologies. We are hoping that we will, once again, lead the way.