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CRYPTO-CURRENCY: IMPLICATION FOR REGULATORY GOVERNANCE

Abstract:

Crypto-currency trading and Fintech innovations unlocked by blockchain have caught global regulators' attention for the past few years. Crypto-currency or digital asset management and value exchange are growing fast in the virtual market spaces. Officials in charge of oversight for the marketplace are now at a crossroads where regulators need to decide whether to isolate, to regulate, or to integrate crypto-currency into the new financial ecosystem. This study looks at the implication of the development in crypto-currency for regulators.

The term 'crypto-currency' refers to digital currencies which based on cryptographic technologies or encryption algorithms to monitor the generation of units and transmission verification. For some crypto-currencies, there are upper limit on the number of units can be issued. However, crypto-currencies can also be generated without such limit now. Therefore, it can mimic the money supply dynamic in fiat monetary systems. However, in order to be a new form of money, crypto-currencies have to demonstrate the three basic functions of money. In general, crypto-currencies can function as a store of value. However, in view of limited acceptance in daily transaction, their role serves as medium of exchange is also limited for the time being. Regarding unit of account, owing to their high degree of volatility, this prevents them to be a good unit of account at the moment too.

According to a study in April 2018 by the International Monetary Fund (IMF), total current global crypto-assets represent a small share of the global financial system. Meanwhile, crypto-currencies may not impose a great challenge to fiat currencies or influence the implementation of national monetary policy. However, in view of the exponential growth on crypto-asset/currency which in term may affect the overall financial stability, the growth in blockchain based currencies starts catching the eye sight of global regulators. IMF reminded that with the growth in the sector, crypto-asset may pose risks to financial stability in the future, so it requires the close monitoring by regulators. In addition, the advancement of digital currency, symbolized by the invention of Bitcoin, makes central banks now go beyond the question of how to regulate crypto-asset.

All the above leads to the increasing importance in crypto-currency governance since in the context of crypto-currency, the governance is borderless and decentralized. Anyone can join, maintain and update distributed ledger, which regulators should be vigilant to this blockchain based governance.

Keywords:

Crypto-currency; Distributed Ledger Technology; Blockchain Governance

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