

AGN Global Business Voice: Business Alert

Using Cryptocurrency in real life –
buy, store and spend: Part #3

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Welcome to the 3rd in our short series of Global Business Voice Alerts, aiming to demystify cryptocurrencies and put things in layman's terms. In this edition we continue to explore the real-life practicalities of cryptocurrency ownership – buying, storing and spending. But first, our usual brief update on current developments.

WHAT'S THE LATEST?

Last time we described how the unpredictable comments and actions of various actors create rollercoaster changes in cryptocurrency prices, which do not bear comparison to a regulated market. Whilst one can find daily comments about price crashes and price surges, at the time of writing Bitcoin remains at around the US\$34,000 mark (25 June 2021), about 45% below its April 2021 peak.

There are many predictions that crypto-prices have a long way to rise, and well past all historic peaks. Equally, some commentators argue that virtually all those promoting cryptocurrency have their own financial stakes in them, with a vested interest in talking the price up – “Enjoy being poor” is an established meme seemingly to promote fear of missing out. Are we entering a period where small retail investors are propping up demand and prices, giving a few original movers the chance to exit and get very rich, with others taking the pain if (when?) the bubble bursts?

Meanwhile, on 17 June the U.K.'s Financial Conduct Authority (FCA) said about 2.3 million UK adults now have cryptoassets, which is about 1 in 20 adults and up over 20% from the previous year. Worryingly, almost 1/3rd were not able to correctly describe cryptocurrencies from a list of statements, and around 2/5ths did not regard them as a gamble. The FCA's own warning that “investing in crypto-assets is high risk and ... investors should be prepared to lose all their money” does not seem to hit home with everyone





There are many ways to buy cryptocurrencies. *Most people will operate through an 'exchange', of which there are hundreds around the world. Setting up your account will normally give you access to a digital wallet with a private key.* You will either get your own wallet, or a share in one used by the exchange. And depending where you are in the world, it will also likely involve you in complying with various regulations regarding your identity etc, and providing conventional bank or credit card details, with obvious consequences for anonymity. See Appendix 1 for an adaptation of a recent Investopedia assessment of the best 4 cryptocurrency exchanges.

There are other more secure and expensive structures if you intend to trade in large quantities of cryptocurrency – either way they are based on blockchain technology and so are very secure. Or are they? Early in June 2021, the FBI recovered 63.7BTC, part of a ransom paid to professional cyber criminals by Colonial Pipeline to restore a hacked major fuel supply between Texas and the North East US. It is said to be impossible to trace or reverse a Bitcoin transaction, but clearly that is not always true. Apparently, the authorities were able to trace a wallet address and hack the private key of one of the criminals. And this even when dealing with professional criminals, who we might assume would go to above average lengths to cover their tracks.

A quick Google search will reveal lists of cryptocurrency hacks – for example, there were said to be over 120 attacks in 2020 involving loss of some US\$3.8bn¹. But around 80% of that total \$ sum was accounted for in 27 attacks on digital wallets, which is not the cryptocurrency itself but spotlights the present main weakness. Of course, any conventional bank is also subject to the risk of hacks and losses, but with cryptocurrencies you may be less likely to get redress.

Meanwhile, the area is rife with scams, often promoted on social media, usually taking investments into offshore and unregulated environments with funds never achieving their purported destination or purpose. A lengthy and fluctuating list of conventional banks have bans on certain crypto-related transactions or counterparties, and a great deal of caution is needed. Indeed, Binance, one of the entities listed in Appendix 1, has just been banned by the UK's FCA from conducting "regulated activity". This follows recent run-ins with authorities in the US, Canada, Germany and Japan. Cayman-based Binance say that this will have no direct impact on their services from Binance.com, but perhaps it is symptomatic of increasingly fractious relationships between established authorities and the cryptocurrency world, which may be pivotal to the future.

¹<https://aithority.com/technology/blockchain/blockchain-hackers-stole-3-8-billion-in-122-attacks-in-2020/>

Interestingly, about 3.7m Bitcoin (around 20% of total production, worth a staggering US\$120bn) are said to be “lost” – perhaps due to lost private keys, being “burned”, or other reasons. Once again, it is a familiar but uncomfortable feeling to know that a quantity of Bitcoin sufficient surely to have a significant influence on the market cannot be accounted for... Welcome to the realities of cryptocurrencies.



Assuming it's still there when the time comes, perhaps a good question is why would you want to spend it? If you are holding Bitcoin or one of its cousins, you have presumably come to terms with the volatility risk and are expecting the price to rise. When Laszlo Hanyecz agreed to pay 10,000BTC for two delivered Papa John's pizzas in May 2010, they were worth around US\$41. But at over US\$300m today, even inflation adjusted and allowing for the pizzas being large, it does with hindsight seem to have been an extravagance.

In fact, to spend cryptocurrency all you need is a recipient's wallet address, and via your exchange you can send what you want to who you want. Great Britain's maritime safety charity the RNLI does exactly this, and from their website you can see that their wallet address has received something over 20BTC in donations from 1,000 recipients – around US\$700,000. *There are plenty of businesses that will accept payments in Bitcoin, but so long as their costs are in conventional (“fiat”) currencies, perhaps this is more of a marketing novelty and any BTC received are likely quickly converted to reduce exposure to volatility.* And there are also intermediary services like BitPay, operating somewhat like PayPal, that will enable you to spend Bitcoin or even prepay a US\$ denominated credit card.

Costs can of course be high, especially for smaller transactions. At the larger end a further factor is that anonymity is compromised for assets requiring registrations such as cars, planes, yachts and real estate.

Overall, it's probably fair to say we are still at the stage where goods and services are almost invariably priced in conventional currencies, and if payment is taken in cryptocurrencies, it's a simple matter of conversion. We are arguably some way off genuinely regarding cryptocurrencies as a “currency” under the definition “a medium of exchange for valuable goods and services”. The big practical problem of course is the price volatility, where the costs of supply are in less volatile conventional currencies.

Conclusions – A practical proposition?

It's clear sophisticated and accessible infrastructures exist to enable buying, holding and selling of cryptocurrency. Opinions will vary on whether they are more or less secure than conventional financial systems, but many scams and frauds exist to catch the uninformed or unwary. And if something goes wrong, in comparison with conventional investments, you are more likely to be on your own with little prospect of redress. Add in the risk of price volatility, and it's obviously not a space for unsophisticated or risk averse actors.

As a practical and mainstream business tool or a functional currency in the everyday sense, it seems as if there is a way to go. Whilst it is theoretically feasible for some cryptocurrencies to be used on something approaching an everyday basis, at this point it probably remains more of a marketing novelty and expensive for small transactions. To enter the mainstream, it seems likely that something of a clean-up is needed, increasing information and awareness, and reducing scams. But the tougher problem remains price volatility, especially where matching with costs denominated in conventional currencies.

COMING UP IN THE SERIES 'MAKING SENSE OF CRYPTOCURRENCIES' ...

Next time we change pace, and we look at the issues behind valuation of cryptocurrencies; is it the new gold, or fool's gold? And finally, we will be sharing the views of some of AGN's leading experts in the space.

Part 4 - Why is it worth anything at all? A brief history of bubbles.

Part 5 - AGN Advisers' views - What do we tell the clients?

Sources

Money Week, The Financial Times, BBC, The Guardian, The Independent, Cointelegraph.com, Coinmarketcap.com, Investopedia.

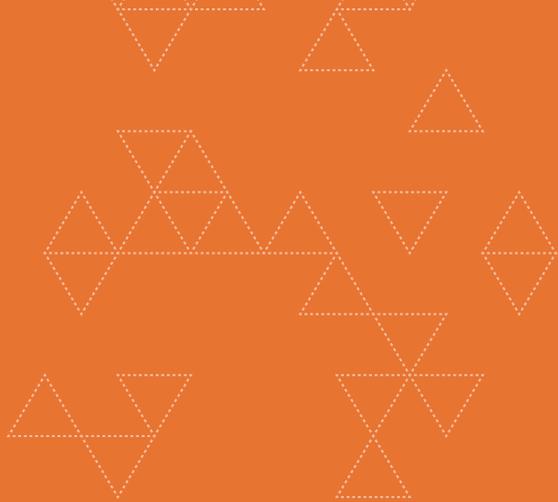
Appendix 1

Best Cryptocurrency Exchanges
According to Investopedia May 2021.

Exchange	Pros	Cons
<p>Coinbase Best Overall</p> <p>Fees: Between \$0.99 and \$2.99 depending on the dollar value of the purchase.</p>	<ul style="list-style-type: none"> • Solid variety of altcoin choices • Extremely simple user interface • Very high liquidity 	<ul style="list-style-type: none"> • High fees when not using Coinbase Pro • User does not control wallet keys
<p>CashApp Best for beginners</p> <p>Fees: Cash App charges a service fee for each transaction. It also charges a fee determined by price volatility. These fees change depending on the market's activity.</p>	<ul style="list-style-type: none"> • Peer-to-peer money transfer like Venmo or Zelle • Ability to withdraw Bitcoin • Extremely simple user interface 	<ul style="list-style-type: none"> • Only allows Bitcoin investment at this time and no other cryptocurrencies • 3% charge when sending money via a linked credit card • Withdrawal limit of \$2,000 worth of Bitcoin every 24 hours and \$5,000 every 7 days
<p>Binance Best for Altcoins</p> <p>Fees: 0.1% for the taker side and 0.1% for the maker side. This scales down with trade volume to 0.02% for both sides of the trade. Using Binance's native cryptocurrency, BNB, lowers fees by 25%.</p>	<ul style="list-style-type: none"> • Lower fees than other commonly used exchanges • Large variety of cryptocurrencies and trading pairs • More advanced charting 	<ul style="list-style-type: none"> • Geared for more advanced users • Binance US has fewer trading pairs than its international counterpart, though it still has over 100 trading pairs • 7 U.S. states, including New York and Texas, are not supported by Binance US
<p>Bisqu Best decentralized exchange</p> <p>Fees: Trading fees are payable in BTC or BSQ (the network's native cryptocurrency). When paying for the fees using Bitcoin, the cost to trade one Bitcoin is 0.10% on the maker side and 0.70% on the taker side. When paying the fees in BSQ, the fee to trade one Bitcoin is 0.05% on the maker side and 0.35% on the taker side.</p>	<ul style="list-style-type: none"> • Decentralized, non-KYC platform • More than 25 different payment options, including Zelle • Mobile app for both Android and iOS 	<ul style="list-style-type: none"> • Transaction speed can be slow, depending on payment method • Trading volumes can be low • Not designed for active trading

Adapted from: Best Crypto Exchanges- Best places to buy and sell cryptocurrency
By Luke Conway. Investopedia May 10, 2021.

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AGN International
Email: info@agn.org | Office: +44 (0)20 7971 7373 | Web: www.agn.org

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