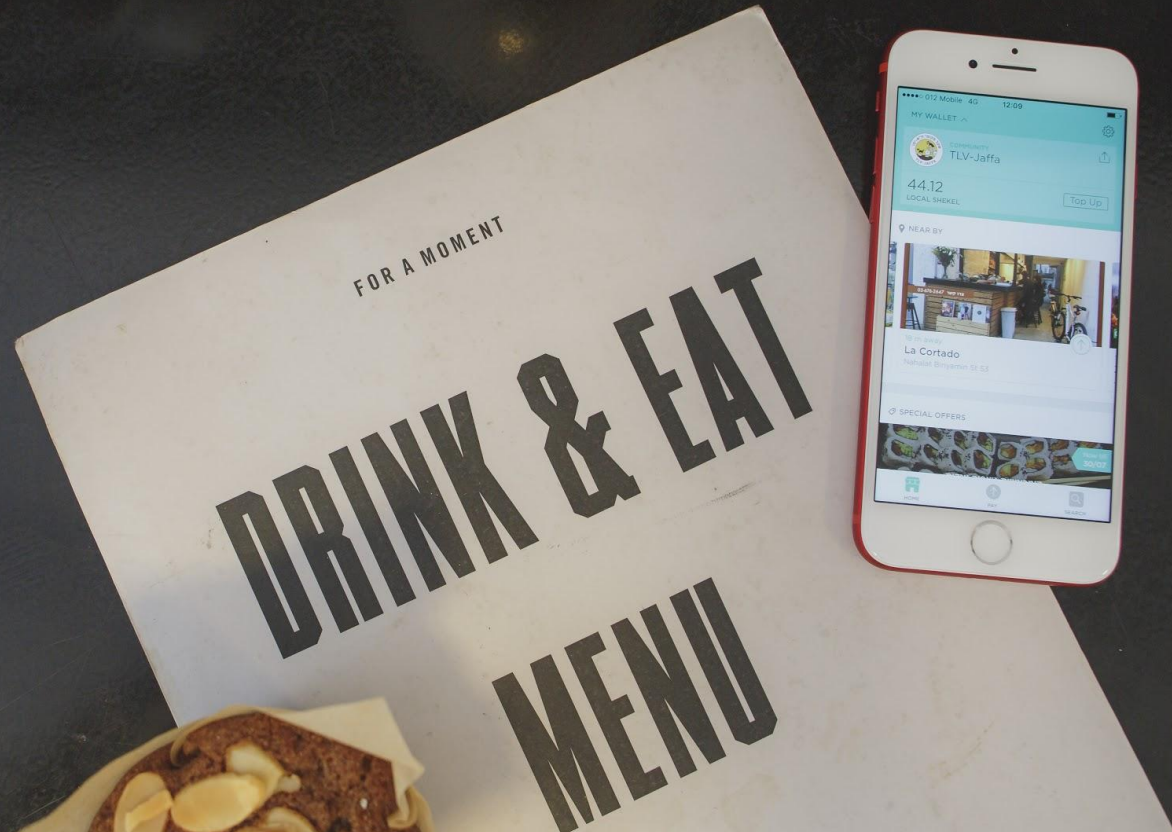




Regulating the unbundled and decentralized

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First there were banks...

One-stop-shop for financial services

1. Transaction cost - search, information, execution
2. Informational advantage
3. Cost of funds

Unified regulatory framework - Banking regulation (international standards)

Unbundling of financial services

1. Technology enabled reduction of transaction and informational costs
2. Unbundling of services - credit, payments and investments
3. Adjustment of regulatory framework -
 - a. PSD (payment institutions) & E-money (issuers)
 - b. PSD2 (payment initiation service providers)
 - c. P2P loan platforms

What is wrong with the current financial system?

Lack of competition on data and finance

1. Data Monopolies and centralized marketplaces

- a. Technology allowed reaching end-users, matching efficiently, creating real value but ->
- b. winner-takes-it-all ->
- c. low competition and high margins

2. Financial Market Power

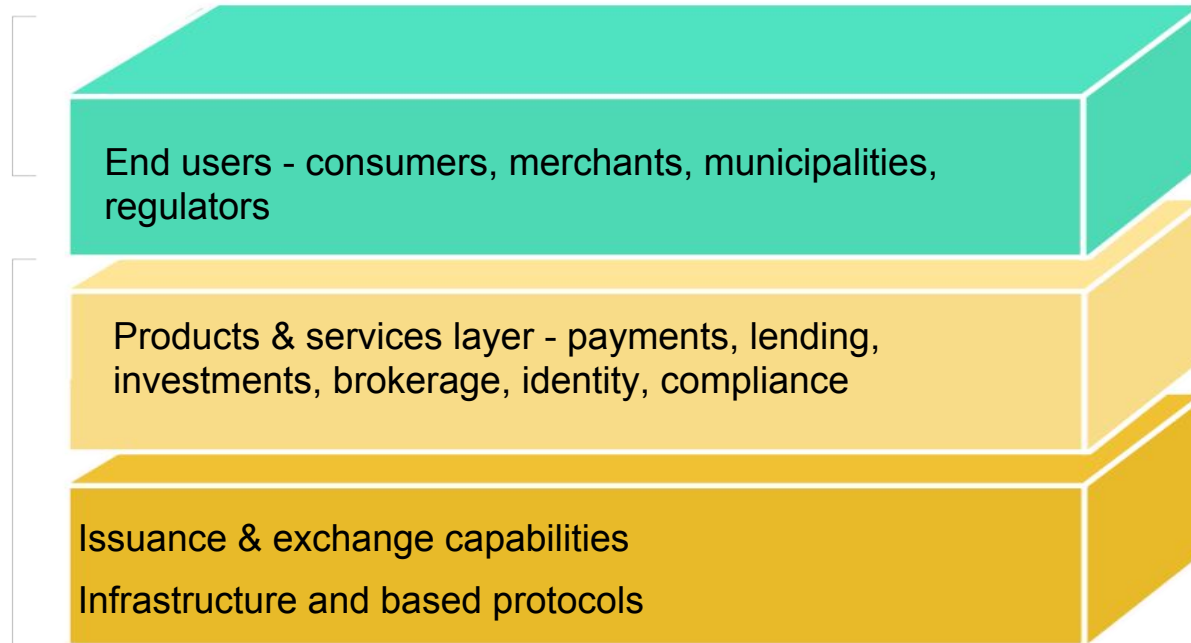
- a. Dependency on traditional financial institutions (trust, regulation) when it comes to money
- b. Lack of inter-operable and open infrastructure -> limits competition and innovation

Decentralization of services

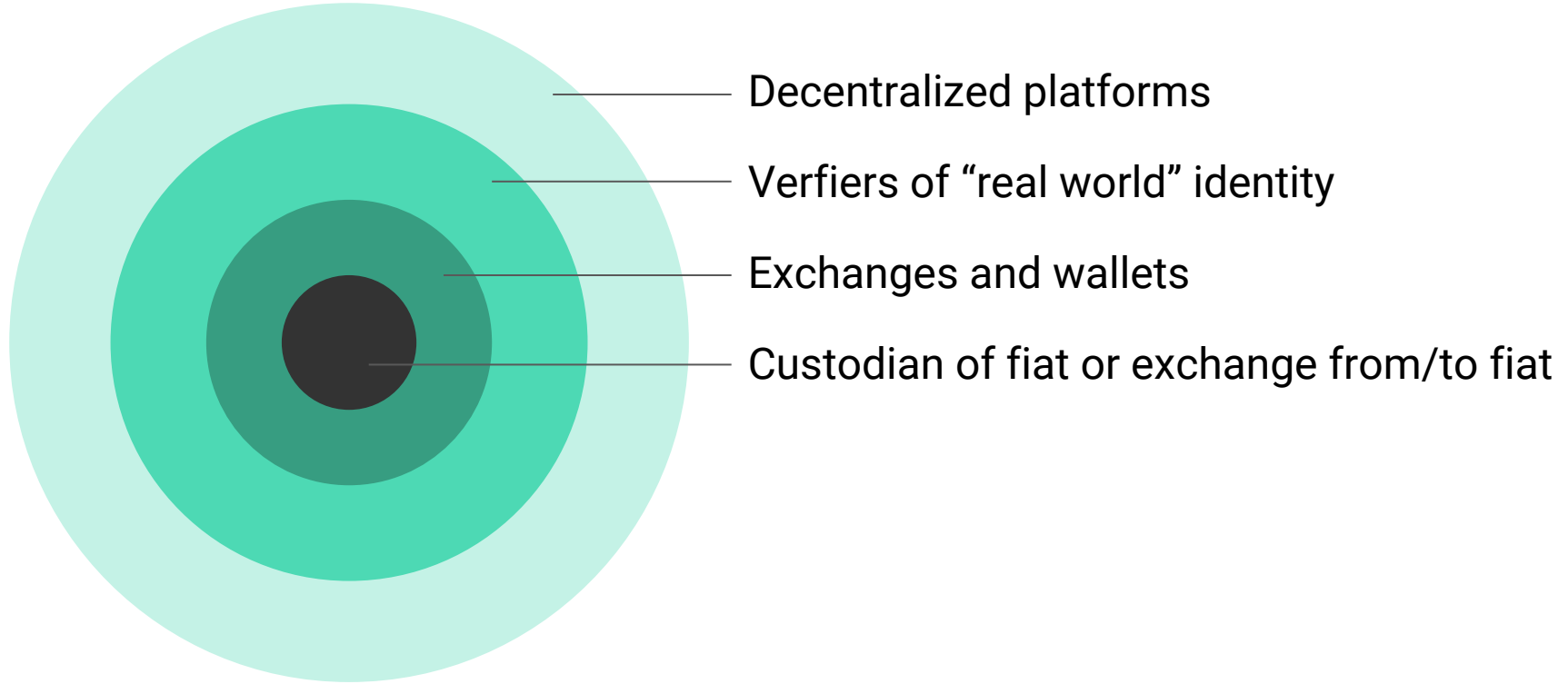
1. **Governor Carney** - *“Yet the financial system continues to be arranged around a series of hubs and spokes like banks and payments, clearing and settlement systems. Crypto-assets are an attempt to create the financial architecture for peer-to-peer transactions.”*
2. **Public blockchain** -
 - a. open-source, interoperable, decentralized, global ->
 - b. unbundling of services, competitive pressure, shared ownership ->
 - c. new business models and consumer behavior
3. **Rise of the “Ecosystems”**

An ecosystem - the maximalist view

unbundled, autonomous, permissionless and anonymous



Who are the gatekeepers?



What would the regulatory regime look like?

1. Probably not only on gateways from/to the “real world”
2. Risk-based - address tax evasion, money laundering and terror financing, investor protection, global stability
3. Less focused on bitcoin
4. International standard-setting bodies (understanding the effect of regulatory arbitrage)
5. Principle vs. rule based regulation

Principle vs. rule based regulation - The G20 dilemma

<u>Principle-based</u>	<u>Rules-based</u>
General & declarative - Clarity about objectives, reverse-engineering to compliance is hard	Concrete & procedural - Clarity about compliance
Large discretionary power - firms bear the cost of ambiguity	Little discretionary power - society bears the cost of ambiguity
Regulatory competition leads to race-to-the-bottom effect to avoid loss of business, less robust (since regulators will make drastic changes), Is preferable by firms if cost of ambiguity is low;	More robust under regulatory competition in terms of protecting society against failure
Regulator balances incentives for regulatory arbitrage with welfare concerns What portion of the value of the crypto market is pricing the regulatory arbitrage?	