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Thoughts on Crypto and Digital Assets: A major blow but silver linings exist

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Cryptocurrency & Digital Assets
Global

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Key takeaways

- Thoughts on Crypto and Digital Assets is a short monthly discussion of this rapidly growing area and emerging developments.
- FTX's bankruptcy is a major blow to the digital asset industry's credibility, but silver linings exist.
- Alkesh explains how blockchain technology use cases are developing and driving corporate engagement.

FTX, Industry Development and Corporate Engagement

FTX's bankruptcy was a major blow to the digital asset industry's credibility, but development of distributed ledger and blockchain technology is accelerating and driving corporate engagement and adoption. This is a rapidly developing industry that needs time to mature, given much of the technology is less than 3 years old. Alkesh notes that FTX's collapse may lead to increased urgency for a comprehensive regulatory framework, which is critical for mainstream adoption. *BofA Global Research Podcasts can now be found on public podcast platforms including Spotify, Apple Podcasts, Google Podcasts and Amazon Music. These podcasts are first released to clients and then to the platforms.*

Full Podcast Transcript

T.J. Thornton, Head of Product Marketing and Predictive Analytics: Hello and welcome to Thoughts on Digital Assets. I'm T.J. Thornton, Head of Product Marketing and Predictive Analytics for BofA Global Research, and we're recording this episode on December 12, 2022. I'm joined today by Alkesh Shah, Head of Web3, Crypto and Digital Assets Research for BofA Global Research. Alkesh will be talking about the latest themes in digital assets markets. Alkesh, there's a lot going on, FTX's bankruptcy, more work on regulation and new applications of this technology, so let's dive in. First, let's start with the FTX bankruptcy. Do we know more now than we did just a few weeks ago?

Alkesh Shah, Head of Global Cryptocurrencies and Digital Assets Strategy: Thanks for having me on T.J. It's been a challenging year for risk assets generally, due to macro factors, but the digital asset sector has been hit by self-inflicted wounds as well. FTX's bankruptcy was a major credibility blow for the industry. We still don't know a lot of what was happening within FTX, and it may be months or years before the true story comes out.

T.J. Thornton: Alkesh, what does it mean for the industry?

Alkesh Shah: A silver lining is that governments around the world are paying more attention to this industry with the possibility of some global coordination. It's important for banks providing services, companies using this technology and consumers wanting to invest to have rules of the road that protect and provide guidelines for this new technology that produces digital assets. Our view is the comprehensive regulatory frameworks are critical for the technologies built on these networks to be used by everyone.

T.J. Thornton: And Alkesh, why is this technology so important in your view?

Alkesh Shah: The Internet lets users transfer data easily and simply. Blockchain and distributed ledger technology improves the way users transfer assets and make payments. Companies around the world are experimenting with this technology, while others are already building real businesses on top of and around these blockchain networks. Tokens such as NFTs [non-fungible tokens] that are enhancing and replacing tickets, loyalty cards, and airline miles, while fiat-backed stablecoins, that are tokens backed by dollars or euros, are making payments faster and cheaper, especially for when immigrants are sending money back to their families in other countries.

T.J. Thornton: Do you think that this industry or technology could just go away?

Alkesh Shah: We don't think so. There's over 20,000 tokens traded on exchanges around the world, but our research focuses on the 50-100 that act as Internet operating systems that companies are building real-world applications on top of. These internet operating system blockchains such as Ethereum, Avalanche, Solana, and others aren't likely to go away, while the builders are building applications that are seeing growing adoption and usage. The companies that are helping to leverage these technologies also continue to get funded, with over $25 billion of venture investment in the digital asset industry this year, which is on par with last year.

T.J. Thornton: And what do you expect on the regulatory front?

Alkesh Shah: Recent events are extremely challenging, but a silver lining is that regulators and legislators globally are more focused on getting a framework together that could open the door for traditional financial institutions to offer trading, products and services that institutional investors and individuals can trust. Our view is that a comprehensive regulatory framework, coordinated globally, is critical, so companies will not go to countries just to play regulatory arbitrage. Regulatory frameworks will likely have four key characteristics. One, a transparent legal framework for digital assets; two, foster technology innovation; three, provide consumer and investor protections; and four, mitigate financial stability risks.

T.J. Thornton: We know there are some big users of this technology, but are big companies using it?

Alkesh Shah: Despite FTX's collapse, corporate adoption and industry development have accelerated this year. Builders are still building, and we believe that the developer metrics will eventually determine the token blockchain winners. At the same time, companies are accelerating their use of this technology and working with many of the private companies we track and host on our virtual web sessions. We have a whole table of applications created by some of the biggest companies in the S&P 500, who are really using this technology. And despite the digital asset market correction, industry development has accelerated year to date for blockchains that are acting as Internet operating systems and applications with real world use.

T.J. Thornton: Okay, so what's your bottom line?

Alkesh Shah: Bottom line, it's important to take a step back and remember that FTX's bankruptcy is a major blow to the credibility of this industry. But the technology and companies leveraging the technology continue to build and grow. Legislators need to make clear the regulator or regulators for tokens and regulators need to coordinate globally to ensure that exchanges, liquidity providers, custodians globally are properly caring for client assets and managing risk appropriately. The technologies of distributed ledger, blockchain and tokenization are just beginning to find applications and adoption and that trend is going to continue.

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