Cryptocurrency Regulation in the Americas … *It's time to let banks make stable e-currency work for everyone*

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Authored by:

Eric Maloney, PhD

VP Operations, Vesto LLC

Roger Taylor, MD, MPA

SVP Healthcare Sector, Vesto LLC

Summary

Countries around the world are grappling with the challenge of how to regulate cryptocurrency, with widely varying approaches. To better understand these variations, we reviewed the regulatory policies of 20 Latin American countries. We found them surprisingly inconsistent. One has declared Bitcoins to be valid currency, seven are developing mature cryptocurrency policy, seven remain generally neutral, three are trending towards more restrictive regulation, and two ban cryptocurrencies outright. We found a general trend since the 2018 LLOC (Law Library of Congress) report "Regulation of Cryptocurrency Around the World" for these countries to move their positions from negative to neutral, and neutral to positive, as their policymakers better understood the potential for cryptocurrency and blockchain technology to improve international commerce, promote growth, and provide fast and affordable banking services to their constituents, many of whom are underserved by traditional banking systems. However, even policymakers favorably disposed to the cryptocurrency marketplace can be confused as to how to regulate the wide variety of cryptocurrencies trading on the Internet today. The US, which has traditionally provided regional leadership in financial regulation, has been slow to develop a consistent position on cryptocurrency regulation. The current US Administration has begun a process to develop a unified approach, making this an opportune

time to propose positive changes in the US, and for the US to collaborate with the countries in the Americas that are already developing mature cryptocurrency policies to develop a supportive and sustainable regional approach.

There is a clear need for a Pan-American regulatory framework to support the continuing development of a secure and responsible cryptocurrency commerce infrastructure in the Americas. With the total market cap of the more popular cryptocurrencies exceeding the market cap of each individual Latin American country, it's clear that cryptocurrencies are here to stay. Failed national attempts to suppress cryptocurrency trading, or replace it with CBDCs (Central Bank Digital Currencies) tend to force it underground, giving the dark web, unregulated traders and bad actors more power. The solution is to adopt a balanced approach, building on the regulatory framework for banks and financial institutions, and expanding it to support the positive benefits cryptocurrencies and the exchange of stable e-currencies and e-securities can deliver. In doing so, commerce throughout the Americas would be made more efficient and regional ties strengthened. Millions of unbanked and underserved citizens could more easily and safely access banking and DeFi (Decentralized Financial) services. This would reduce the drivers for dark money transactions, as well as the economic drivers for illegal immigration to more wealthy countries. The benefits could run wide and deep.

Fortunately, today's broad availability of Stablecoins, whose value is tied to the value of an international fiat currency such as the US dollar, or a fixed asset such as gold, offers regulators the opportunity to view this newer stable e-currency differently than they have viewed more volatile and speculative cryptocurrencies. New cryptocurrency banking systems such as Vesto's banking platform, which is designed to work within existing regulated banks and financial institutions and comply with all standard international banking regulations, offer regulators the opportunity to extend their traditional banking regulations to include cryptocurrency commerce. With such banking platforms, regulators can be confident that banks will know who the customers exchanging cryptocurrency are, track the value of assets and where they go, and assure accountability and regulatory compliance and reporting in a way that meets or exceeds what is now possible with cash, checks, and legacy banking systems. Deposits can be insured, and security and confidentiality controls are as strong or stronger than in traditional banking, and there is significantly less opportunity for fraud, theft, counterfeiting or money laundering than with checks or cash. Promoting the use of internationally accepted Stablecoins as legal stable e-currency will also have significant environmental benefits, since creating and verifying transactions in Stablecoins does not involve the huge electrical energy consumption of Bitcoin mining and Bitcoin transaction verification.

We recommend the development of model regulatory policies authorizing banks to let stable e-currencies, such as internationally accepted Stablecoins, work for everyone as legal currency when operating on a compliant cryptocurrency banking platform. We also recommend the development of model regulatory policies that authorize and regulate a wide range of other cryptocurrency transactions, including those involving Bitcoins, Altcoins and tokenized assets, when traded through a compliant cryptocurrency exchange platform. The time to act is now.

The State of Affairs for Cryptocurrency in Latin America

Introduction

Since 2018, when the LLOC published its report, “Regulation of Cryptocurrency Around the World”, both the state of regulations around the globe, as well as the scope and understanding of cryptocurrencies, have changed significantly. Of the 13 Latin American (LATAM) countries that the LLOC researched in the Americas, ten have had significant shifts in policy on the subject of cryptocurrency. Interestingly, they have not all trended in the same direction. One country recently declared Bitcoins to be legal tender. Several have begun to embrace cryptocurrency and are writing more comprehensive policy on how it might integrate into their economies, less than a third of the countries have not significantly modified their positions on regulating cryptocurrencies in the last two years, and two countries have moved from neutral stances to banning the use of cryptocurrencies.

We believe there are multiple reasons for this divergence in regulation across Latin America. Cryptocurrency is no longer synonymous with, or simply analogous to, Bitcoin. Today there are thousands of cryptocurrencies, including a new class of Stablecoins which are pegged in value to fiat currencies, which were less available for consideration in 2017 when the LLOC began its research. Also, crypto-tokens today are not only used for methods of payment—they are now seeing adoption for copyrighting assets, both digital and physical, through Non-Fungible Tokens, or NFTs. Crypto tokens are also gaining popularity as Utility Tokens that enable holders to enter smart contracts built on top of blockchain transactions. These are commonly referred to as Decentralized Finance, or DeFi contracts. These rapid changes are disruptive to the status quo, and incorporating these changes into legacy financial regulatory frameworks has been challenging. Countries stepping up to this challenge with supportive regulations recognize the positive side of the disruption offered by cryptocurrencies and blockchain technology, and that cryptocurrency exchanges can be made to be more secure than legacy banking systems or cash.

The diverging regulations across Latin America follow the lack of clear regulatory policy by the United States, and the often-conflicting statements from its various agencies with nominal responsibility for such policy. This has left other countries in the Americas in an uneasy holding pattern or forced them to forge their own path in developing regulatory policy. But the scale of cryptocurrency market value has soared over the past few years to the point where its impact on national economies across the Americas cannot be ignored. Bitcoin, the largest and most well-known among cryptocurrencies, has risen in value from about $1,000 per unit in early 2017 to a current value of nearly $38,000, and the currency's market cap valuation ranks 16th of all currencies in the world. Bitcoin alone is equal to the market value of the Mexican peso and is 8 times larger than the Peruvian sol. With this growth, cryptocurrencies are increasingly becoming a more mainstream method for conducting payments.

Summary of policy direction in LATAM over the past three years

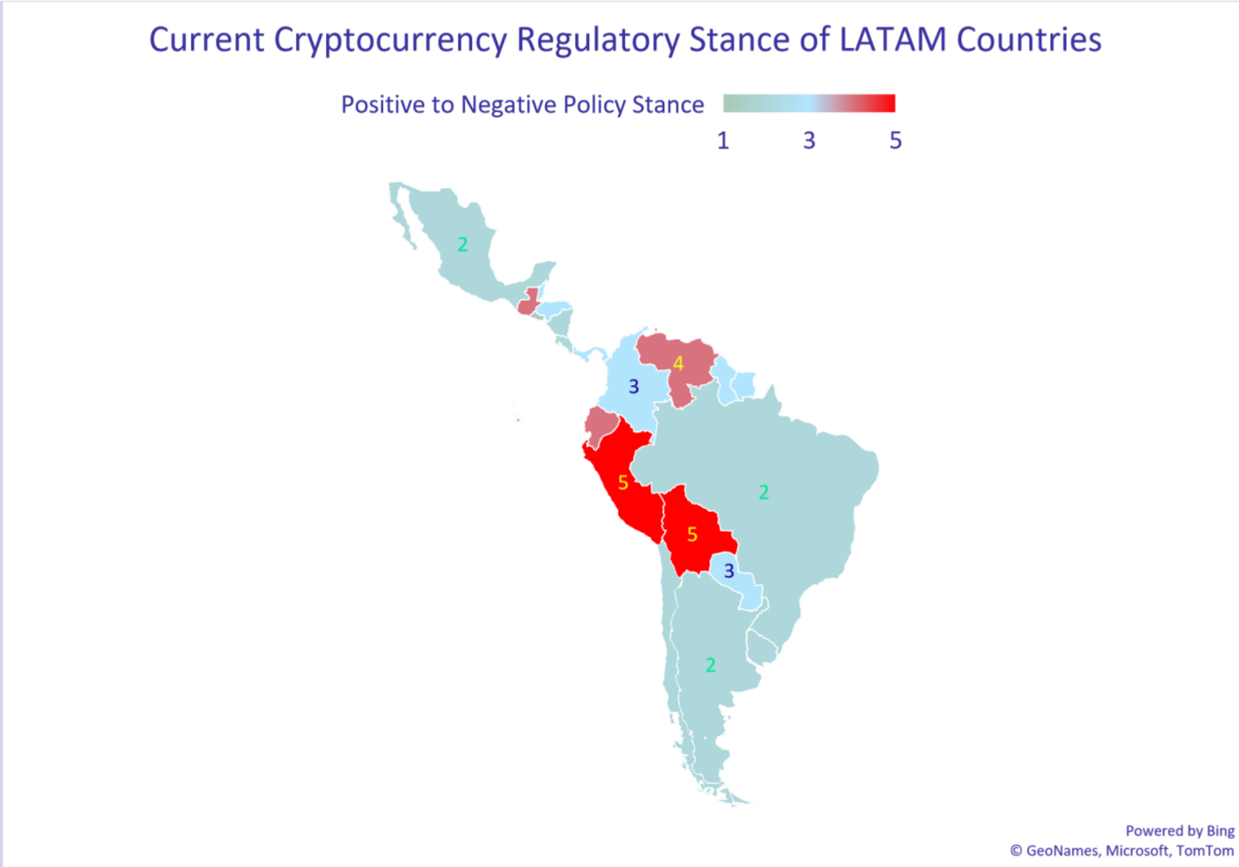
Beginning with the 2018 LLOC report, then updating and expanding on it with governance and taxation analysis, including seven additional countries that were not in the original report, we can see the level of uncertainty within governments and markets concerned about the near- and long-term prospects of cryptocurrency and other crypto token regulation. In total, we reviewed the regulatory stances of 20 countries across Latin America, categorized into four types: those developing mature cryptocurrency policies, those who are policy neutral, those trending toward restrictive regulation, and those that have banned the use of cryptocurrencies and crypto-token exchanges.

In the month we were preparing this article to go to press, we had to expand our regulatory categories to five, adding: those who have made a cryptocurrency legal tender. That was because, as an example of how quickly policy can change, in early June, 2021, the President of El Salvador, Nayib Bukele, proposed, and the national legislature approved, the adoption of Bitcoins as legal tender. His reasoning was: "…in order to promote the economic growth of the country, it is necessary to authorize the circulation of a digital currency whose value obeys exclusively free market criteria, in order to increase national wealth for the benefit of the greatest number of inhabitants." The resulting law treats Bitcoins as legal e-currency, including mandating that it be accepted as a form of payment, and that transactions with Bitcoins not face capital gains taxation. A proposed trust created at the Development Bank of El Salvador will enable conversion of Bitcoins into dollars. El Salvador's hope is that this will strengthen their country's frail financial system, bring in new money, and build a pathway for greater public participation in the economy. With 70% of the population currently lacking access to financial services, access to low-cost, fast cryptocurrency-based financial services is seen as a major potential benefit for El Salvadorians. It's too early to tell what this change means for how supportive future policies in El Salvador will be in regard to other cryptocurrencies and cryptocurrency exchanges.

Mexico was the only Latin American country by 2018 where the LLOC report found a commitment to plan and adopt a mature set of policies regarding cryptocurrencies and exchanges. Since then, six other countries have also begun to undertake this task: Argentina, Brazil, Chile, Costa Rica, Nicaragua, and Uruguay. These economies vary widely in size, core industries, and GDP; however, with the exception of Nicaragua, there are several characteristics they seem to have in common. They are mostly defined as developing economies, yet they have among the most stable governments in Latin America, with higher-than-average GDP per capita. Their populations are generally more literate and enjoy increasing levels of social spending, meaning that they tend to be more globally connected than other countries in the region. All these factors might help explain why their governments are more inclined to see value in developing policies to integrate cryptocurrencies into their economies. Nicaragua does not fit this profile, but the government there, following years of conflict and economic isolation, is looking for ways to grow their economy and integrate with the global economy.

Seven Latin American countries currently have a neutral policy toward crypto assets. They have made public statements warning their citizens that cryptocurrencies are not sanctioned by the government and can be high risk due to the speculative activity surrounding them; however, they have not crafted any policies to restrict their use. In this group are Belize, Colombia, Guyana, Honduras, Panama, Paraguay and Surinam. Of the countries that were included in the LLOC report which had a neutral policy in 2018— only Belize has maintained this stance, while Argentina, Chile and Costa Rica have actively worked from a neutral position to develop a maturing sustainable cryptocurrency policy over the past two years.

Venezuela was trending toward positive regulation in Latin American countries in the LLOC report, by acknowledging the use of cryptocurrencies and considering the establishment of cryptocurrency exchanges. However, Venezuela has reversed its position since 2018 and is now developing regulation to curtail the use of cryptocurrency and prohibiting the establishment of cryptocurrency exchanges when, after an abortive attempt at creating a CBDC (Central Bank Digital Currency) called the “petro,” the government came to perceive all digital currencies as a threat undermining the viability of the bolivar. The government is concerned about maintaining centralized control of the economy, which has been in tatters for several years due to deflated oil prices and unsound economic policies. The two other Latin American countries which currently share Venezuela’s negative view about cryptocurrency are Ecuador and Guatemala. That number is down from the original six on that trajectory in 2018. Like Venezuela, these countries have economies that are experiencing low economic growth with frail financial systems where the governments are focused on projecting increasing control in increasingly volatile situations.



Bolivia was the only Latin American country listed in the LLOC report to have banned cryptocurrencies by 2018. They have since been joined by Peru, which has also banned cryptocurrencies, but still has at least one active crypto exchange operating domestically. Both nations have nominal GDP per capita compared to their neighbors, austere economic systems, and economies that are primarily tied to mining and other resources extraction.

Many of the above countries do not fit squarely in one category. For example, Venezuela and Ecuador have relatively restrictive policies regarding cryptocurrencies, yet both have attempted to develop their own eMoney. Further, a country's policies may change rather quickly. For example, since El Salvador declared Bitcoins legal tender, legislative proposals have been introduced in a number of Latin American countries, including Paraguay, to follow suit. So, how any country's policies are categorized will have to be reviewed and updated regularly.

Cryptocurrencies Vary Widely, as Should their Regulatory Treatment

As noted in the introduction to this report, the LLOC was only focused on regulation specific to cryptocurrency, often citing it synonymously with Bitcoin. In 2017, Bitcoin reached a market cap valuation of nearly 20 billion dollars. Today, Bitcoin's market cap is over 450 billion dollars (with highs reaching well over $1 trillion dollars), and it still retains over 50 percent of the valuation for all cryptocurrencies. But Bitcoin has been witnessing an increase in cryptocurrency market competition and market dilution. To date, there are over 8,000 cryptocurrencies offered around the world with a total valuation of around $1 trillion as of April 2021. In short, there has been a hundred-fold increase in the market cap valuation of cryptocurrency in less than three years. In just the past two years, the number of cryptocurrency exchanges has also soared, from a few dozen platforms to over 500, with the top five seeing tens of millions of visits daily. Therefore, cryptocurrencies are beginning to dwarf the market cap valuation of most Latin American economies, being nearly four times larger than the Colombian peso and almost 7 times the valuation of the Argentinian peso. There is little wonder why so many developing countries are seriously trying to create a strategy for regulating and integrating cryptocurrency into their economies.

At the time of the LLOC report in 2018, Bitcoin was commonly associated as the preferred currency of the "Dark Web." With crypto exchanges like mtgox.com neglecting to exercise appropriate due diligence in conducting KYC (Know-Your-Customer) and AML (Anti-Money Laundering) practices or providing robust transactional reporting and audits, it is understandable that much of the initial regulatory focus was on limiting the abuse of cryptocurrency exchanges and ICOs (Initial Crypto Offerings) and their manipulators, rather than considering the positive applications for this emerging set of technologies. Today, more exchanges and DeFi platforms have adopted robust KYC and AML capabilities, and are providing significantly stronger accountability and transparency in their operations. We are also seeing regional consortiums of cryptocurrency exchanges developing in which their members have agreed to adhere to a common set of self-regulation standards. And there are a growing number of examples of national and state regulations which seek to strike a balance between over-regulating a new and developing industry that promises a wide range of benefits, and providing a regulatory framework that addresses legitimate governmental concerns and adequately informs the public of the potential dangers and benefits of trading in cryptocurrencies.

It's completely understandable, however, that the explosion in the number and type of cryptocurrencies, tokens and DeFi platforms using blockchain technology can be confusing to regulators, policymakers and the general public. Various approaches have been taken to better define the types of cryptocurrencies. One simple classification divides cryptocurrency into four categories: Bitcoins, Altcoins (alternative coins to Bitcoin), Tokens and Stablecoins. Bitcoins and Altcoins have their own blockchains and can be used in commerce and as an investment to be bought and sold. But not all Altcoins operate like Bitcoins, and some have very different goals and purposes. For example, some Altcoins use a POS (Proof of Stake) processing mechanism involving stackers and a smaller number of nodes to verify transactions than the POW (Proof of Work) processing mechanism used by Bitcoin with thousands of miners verifying the same block. This POS process is more scalable and doesn't require the time and energy drain of the POW process. Some Altcoins, such as Ethereum and NEO, are not designed to be used as digital currency (although they have their own coins, Ether and NEO), but instead are designed as huge platforms for building apps on a blockchain. Now the most common way new cryptocurrencies are created is by making them on blockchains that allow app building like Ethereum and NEO.

Tokens differ from Bitcoins and Altcoins in that they don't have their own blockchain; but instead, they use DApps (Decentralized Finance Applications) on platforms like Ethereum and NEO. Tokens built on the Ethereum platform are known as ERC-20 tokens, NEO uses tokens known as NEP-5 tokens. Tokens are not intended to be used for general currency, and while they represent assets of value, that value may only be useful for single purpose applications or to specific users. Nevertheless, some may have marketable value, such as tokens for ownership of real property, digital art or a certain amount of electrical energy; and they can be bought and sold on the same cryptocurrency exchanges that trade in Bitcoins and Altcoins. In some countries, such as Switzerland, efforts have been made to define different categories of Tokens, such as Security Tokens, Asset Tokens, Utility Tokens or Payment Tokens, with potentially different regulatory approaches to each. And some governments require ICOs of Security Tokens to register as securities. Stablecoins represent the fourth category of cryptocurrencies in this simplified approach. They are created to facilitate more predictable digital transactions, such as the purchase of goods and services and the reliable remittance of funds.

In the last few years, Stablecoins have really come into their own. These stable ecurrencies do not lend themselves to speculation or volatility in pricing like Bitcoins or Altcoins. Stablecoins' value can be pegged to the price of a stable commodity such as gold, to a widely accepted fiat currency, or their value can be maintained algorithmically. Open market yen and the euro-based Stablecoins are already on the market, however the most popular are pegged to the U.S. dollar, such as Tether, USDC, Binance USD, and Dai. Tether is the fifth largest cryptocurrency in market cap valuation at around 60 billion dollars. Its unit of value is designed to always remain nearly the same as one U.S. dollar. Stablecoins are also more environmentally friendly than Bitcoins or some Altcoins, since they typically use the POS transaction processing mechanism and don't require the large electrical energy drain of POW transactions. The emergence of CBDCs could potentially fill a role in providing another stable e-currency source; however, that path may be fraught with issues that will not be easily resolved. Russia's Sberbank is working to create a state sponsored ruble-based token while China is looking to launch a regional yuan-based Stablecoin. Questions of trust in the currency, it's potential manipulation by governments, and the chance of CBDCs becoming liabilities for national banking systems may ultimately undermine their ability to take on the role of stable e-currencies. The US Federal Reserve's Vice Chairman, Randal Quarels, recently expressed similar concerns about a possible US issued digital dollar, saying the new product would pose considerable risks to the financial system; adding that the Fed replacing commercial banks as the dominant provider of money to the general public could result in a host of unanticipated, and undesirable consequences. He clarified, however, that he was not opposed to the creation of Stablecoins based on the dollar.

The recognition of internationally accepted Stablecoins as legal e-currencies could deliver a number of important benefits to the economies of Latin America and all the Americas. But as discussed above, Stablecoins are only one of the many non-Bitcoin and non-Altcoin blockchain-based technologies that are transforming the financial services industry. Newer types of Tokens, NFTs are also rapidly gaining in popularity as a way of creating and managing digital assets. They can be generated to be associated with physical assets to signify copyright ownership and use rights. They are made available and are syndicated on the same blockchain platforms as cryptocurrencies, and managed in the same electronic wallets. In the nearly 125 pages of the 2018 LLOC report, NFTs are not referenced even a single time; yet today the market cap valuation of NFTs are around $1 billion dollars. NFTs can be thought of as a key to access digital assets through DApps which rely on blockchain technology to prove authenticity through a ledger. These digital assets can be marketable investments, such as one-of-a-kind digital art or real property, that can be bought and sold in the same exchanges as other cryptocurrencies. Or they could be documents, data and personal records which, while valuable assets to their owners, are not meant to be marketed or generate profit. For example, in healthcare, NFTs are used to securely store and authenticate a wide variety of nonmarketable assets, including providers' credentials, intellectual properties, patients' medical records, cohorts for medical research, supply chain and pharmacy delivery records, and more.

In addition to supporting the various types of cryptocurrency, Dapps using blockchain technology provide digital platforms for creating and executing smart contracts which can be used to offer DeFi services. The DeFi market cap today is around 140 billion dollars, which is just above the market cap of the Argentinian peso. Except for a single minor reference to smart contracts, DeFi, like NFTs, is not discussed in the LLOC report. There are few limits to what can be designed and executed with DeFi synthetic financial instruments, from funding and liquidity creation to market access, scaling, and integrating financial services into the realm of physical assets and fiat currencies. In time, the market cap valuation of DeFi may well dwarf cryptocurrency and NFTs as their applications are better understood and adopted.

Where Will Regulatory Policy Go From Here?

The United States has a unique opportunity to learn from what the more forward-thinking countries are doing to facilitate positive change, and to enact model financial policies and regulations that open up the power of blockchain-based services and cryptocurrency for all the Americas. Their collaboration and leadership would greatly reduce uncertainty for Latin American regulators who are now integrating digital currency, assets and transactions into their local economies and into the global economy. However, with the rapid progress of these regulatory endeavors in Latin America, the time for the United States to take action is now. To instead either defer or attempt to supplant cryptocurrency with CBDCs or seek other methods to stifle these new financial platforms, as recent history in Venezuela has shown, could produce an outcome that will likely lead to less trust and investment in the US dollar and other fiat currencies and traditional financial instruments, and increase the use of unregulated digital exchanges.

In Mexico and Central America, policy on cross-border remittance could significantly and positively impact GDP, reduce corruption, provide an economically and socially stabilizing effect, and potentially reduce some economic stressors that contribute to the flow of economic refugees across the Americas. Integrating blockchain technologies can reduce fraud and enable governments to provide more robust and resilient financial services, as well as a range of non-financial services, to their populations.

For several Latin American countries like Uruguay and Chile that are already progressively constructing cryptocurrency regulations, or for El Salvador which has embraced Bitcoins, having a larger holistic framework encompassing other crypto assets would align policies across the region and internationally, while accelerating their regulatory efforts. Without a unified strategy, differences in policy will become more apparent and problematic over time. Argentina's recognition of cryptocurrency includes taxing it as taxable income. Most of its neighbors view cryptocurrency as an asset subject to capital gains tax, whereas El Salvador now considers Bitcoins to be legal currency not subject to capital gains tax. This variation in regulatory approach and tax treatment creates its own set of perverse economic incentives. In Bolivia, Venezuela and Peru, where cryptocurrency has been banned, if there were a consensus of positive cryptocurrency policies they could align to, it would likely provide impetus for these countries to consider an overhaul of their economic policies to better serve their population and normalize with their neighbors.

With positive policies and regulation, cryptocurrency, cryptocurrency exchanges and DeFi could provide the foundation for robust economic growth, where sound financial practices are protected by regulated entities and governments. The economic benefits could effectively reach major portions of those governments' populations, including those currently unbanked and underserved. Defining clear standards for KYC and AML in a blockchain-based digital economy can enable a greater and more reliable level of due diligence in financial transactions, at internet speeds that could never be achieved with existing centralized technologies and practices. We are already seeing some blockchain digital platforms embrace and enforce operational rigor to a point where their users can attain insurance coverage in their use of the platform, much as users have learned to expect from insured bank deposits. Secure transactions on these platforms promise much better protection against fraud, abuse, theft, or use by bad actors than cash or checks. The combination of the rapid development of more regulatorily compliant cryptocurrency exchanges, and the more widespread availability and use of Stablecoins, offers regulators the opportunity to facilitate the growth of these newer platforms and stable e-currencies, while suppressing the growth of industry trends that could weaken national and regional financial systems.

In the US, cryptocurrencies and blockchain-related financial services companies are nominally regulated by a number of federal and state agencies, including the SEC (Securities and Exchange Commission), the Commodity Futures Trading Commission, the U.S. Treasury Department and Federal Reserve, among others. This complicated structure, and the fact that the leadership of these various agencies have been inconsistent in their statements about the direction regulation should take, has made it difficult for the industry to understand the rules of the road. SEC Commissioner Hester Peirce agreed, saying: "I think we're certainly falling behind the curve…We've seen other countries take a more productive approach to regulating crypto…Our approach has been to say no and tell people wait…we need to build a framework that is appropriate for this industry." The new chair of the SEC, Gary Gensler, has said "…he would promote the new technology while ensuring investor protections," adding "The SEC has not adopted rules specifically tailored to cryptocurrencies and how they should be treated by people and companies, which some argue has created an unclear rulebook…It's important for the SEC to provide guidance and clarity." Both Gensler and Peirce have said Congress needs to act, because current laws don't really put any regulator directly in charge of this area.

The Biden Administration has asked the various federal agencies involved with cryptocurrency and cryptocurrency transaction rules and regulations to re-examine the country's policy approaches in these areas. The Administration's proposed American Families Plan, if enacted, would require businesses and crypto exchanges to report any cryptocurrency transactions with a fair market value of $10,000 or more to the IRS (Internal Revenue Service), which taxes crypto as property, meaning sales and trades are subject to taxes on the capital gains or losses incurred. This proposed change, plus the existing Federal Reserve's and FinCEN's (Financial Crimes Enforcement Network's) Record Keeping Rule and Travel Rule, along with the KYC, AML and reporting requirements already in place in other countries in the Americas developing mature cryptocurrency regulations, make one thing very clear:

Cryptocurrency exchanges, banks and financial institutions who hope to provide crypto services in the US and the Americas, need to incorporate KYC, AML, and other typical banking regulatory controls into their crypto transaction systems, and must be able to provide their customers and the their country's regulatory agencies, the same kind of historically accurate and up-to-date records regarding any crypto holdings, transactions and transfers typically required of banks' and financial institutions' fiat currency transactions.

Policy Recommendations to Facilitate Positive Change

There is a strong case to be made for the US, and all the countries in the Americas, to take a more nuanced approach to cryptocurrency and cryptocurrency exchange regulation. All cryptocurrency is clearly not the same, some are not even marketable assets, and not all marketable assets need to be regulated as a security. Day-to-day business transactions involving buying and selling with stable e-currency are very different from speculative buying and selling, or investments in, volatile Bitcoins, Altcoins or digital art NFTs. In this article we hoped to make the case that more permissive regulation in the Americas for cryptocurrency exchange platforms that include the controls, identity verification, tracking and reporting needed to avoid money laundering and use by bad actors, would be quite beneficial for the economies and citizens of the Americas as a whole. Further, promoting the broad use of regulatorily compliant cryptocurrency exchanges will allow regulatory oversight of a wide range of cryptocurrency assets, regardless of which cryptocurrencies are ultimately decided to be legal e-currency, versus assets for investment, versus marketable or unmarketable utility coins or tokens. And it will provide a strong incentive for the adoption of beneficial industry-wide standards and operating guidelines, as well as influence future constructive cryptocurrency developments more in tune with regulators' public policy goals.

There is also a strong case to be made for the designation of internationally accepted Stablecoins as legal e-currency subject to the same laws and tax treatment as fiat currencies. This would provide major benefits to commerce and industry, and serve to open-up the financial system to everyone, including those currently underserved and unbanked.

We believe a reasonable first step approach to regulating cryptocurrency would be to allow existing banks, who already function within a well-established regulatory framework, to deliver basic cryptocurrency banking and DeFi services to their clients, using regulatorily compliant cryptocurrency banking platforms. When a transaction involves internationally accepted Stablecoins, local regulatory requirements and tax policy should treat the bank, the involved customers, and the transaction the same as they would be treated for transactions involving that jurisdiction's fiat currency. Taking this first step will likely be easier and faster than trying to enact comprehensive cryptocurrency regulation in one integrated package covering every possible direction this rapidly changing industry might take. The responses of the banking and financial services industries and their customers, and the cryptocurrency industries' responses and the technologic innovations resulting from this first step approach, could help pave the way for modified or broader guidance and regulations, as needed, for the rapidly evolving cryptocurrency marketplace.

What is Vesto's Role in the Future of Crypto Financial Services?

Vesto's banking platform was designed from the bottom up as an integrated full-service cryptocurrency banking platform to operate within existing regulated banks and financial institutions. Our goal is to build bridges between financial institutions and the regulators they interface with in jurisdictions across the Americas and the world. Vesto provides crypto banking expertise and its banking platform includes a feature-rich DeFi financial platform built to allow customized flexibility for financial institutions to integrate with their own digital banking systems. Integrated into Vesto's DeFi platform are KYC identification compliance; AML compliance, including suspicious activity, sanctions, and PEP (Politically Exposed Persons) transaction monitoring; along with Ethereum, utilizing the Polygon L-2 Side-Chain to increase transaction speed, lower cost, and with governance and proof-of-stake services. All can be managed through Vesto's Multisig Wallet, which also offers an onramp for fiat currencies to fund the Vesto vWallet. Additional services include deposit insurance and DeFi integration of high-yield savings. Vesto supports the use of multiple Stablecoins, including USDC and Dai.

Vesto's banking platform enables financial institutions to significantly reduce their time to market with crypto banking offerings by leveraging different value propositions through Vesto's robust and scalable core-API (Application Protocol Interface) to leverage the Vesto Server and Vesto's White Label Container for crypto banking services. This includes customizable web and mobileapps, plug-ins, payroll services, including currency hedging; personal finance advisor; accounts payments, global remittance; as well as general crypto banking services.

Vesto's banking platform is designed to facilitate and support financial institutions offerings, not as a replacement of them. Reputable, regulated financial institutions always stand between Vesto's banking platform and the end user, data subject, or unbanked individual. From a backend perspective, the Vesto platform offers a layered architecture. Base level 0 is called the "Custodian of Trust™" layer which includes foundational architecture components and integrates with partners for key capabilities, including the Vesto vWallet, fiat currency on/off ramp banking partners, KYC, AML,DeFi high yield interest products, and insurance and protective services. The Vesto Level 1 layer is called the "Crypto Banking" services level, which includes direct merchant integration, P2P transfers; DeFi loans, domestic and international remittance; and EMV (Europay, Mastercard, and Visa) smartcard payment services. The remaining higher levels of the Vesto architecture comprise the Client Facing Front-End, also referred to as Vesto white-label template solutions, opening the door for a broad array of crypto services, including NFTs.

As a business-to-business company Vesto does not make direct contact with end users, but provides onboarding, deposit insurance and ongoing KYC services. Due to the ease of Vesto onboarding, unbanked individuals, including migrant workers, can establish a fiat currency bank account with a valid ID from their country of origin via Vesto's banking platform. Vesto utilizes chainalysis for ongoing transaction monitoring and to understand and comply with KYC regulatory guidance. Due to the security and auditability of its platform, Vesto provides insurance and wallet protection through Coincover's DPG (Deposit Protection Guarantee) with standard coverage up to $500,000 USD, with higher coverage options available per vWallet user upon request and approval by Coincover and the underwriter, Lloyds of London Insurers. Finally, Coincover provides all users with general fund recovery due to misplaced private keys which includes offline "cold" key storage with zero network exposure and secure offline Multi-sig (Multiple Signature) key verification and signing with no dependency on third parties for triple-signature transactions. This is generally recognized as having more robust accountability than MPC (MultiParty Computation). Multi-Sig also supports Hardware Security Module (HSM) technology.

The Vesto vWallet is a non-custodial, "unhosted," multi-signature wallet since the user retains at least some portion of the private keys for their wallet, therefore Vesto's role in transactions is limited to validating and completing transactions only, so should not require separate registration with FinCEN as an MSB (Money Service Business) for the Vesto wallet. This allows for easier adoption and integration within Vesto's licensed regulated partner banks and financial institutions who are already registered as fiat MSBs.

While the Vesto deposit saving algorithm does rebalance periodically to optimize returns, Vesto is not actively choosing which assets are in the protocol, but instead defers to third parties to manage and rebalance the assets that are available through the DeFi protocol. As a result, there are no individualized recommendations being made by Vesto, therefore it does not act as a financial advisor, so is not subject to regulations for those types of services.

In short, Vesto's banking platform is designed to help make it easy for banks and financial institutions, and those that regulate these entities, to transition into the world of fast, efficient and secure cryptocurrency and blockchain-enabled financial services. Vesto stands ready to work with financial institutions to help define and build a path forward to better serve their customers, and their community's underserved and unbanked, and to provide a model for how cryptocurrency banking and exchange platforms can work with, rather than against regulators' goals of assuring their citizens' have access to secure, efficient cryptocurrency banking services, while assuring that their financial services sector remains stable, safe and well managed.

About Vesto (www.vesto.io): Vesto has developed the most advanced crypto banking-as-a-service platform on the planet through the integration of several distinct but powerful components including smart contracts, blockchain (i.e., Ethereum 1.0 and Polygon L-2 Side-chain) , Stablecoins, fiat on / off ramp bridges, a secure multi-signature wallet, DeFi technology and powerful KYC and AML solutions. Peace of mind is a vital focus for Vesto with security a cornerstone of the solution architecture combined with both rigorous independent security assessment and consumer deposit protection insurance. Vesto's banking platform is available to banks and financial institutions as a white label solution. It provides a simple user experience (UX) and unlocks access to a new generation of financial products, while simultaneously managing reporting for regulatory, risk and compliance purposes.

Remittance Vertical Focus: Vesto's crypto banking-as-a-service platform, with digital assets USDC, BTC, and Dai, out performs any other monetary transfer platform / rails on the planet. Vesto's transactions are executed in seconds 24/7, with the lowest transaction fees in the industry. Vesto offers insurance on all crypto deposits and provides the ability to gain high interest yield on Stablecoin DeFi deposits, as compared to little or no interest dealing in cash. Vesto's on-ramping of supported fiat currencies to Stablecoins protects users from the wide fluctuations in value of many local fiat currencies, while providing the ability to off-ramp back to that fiat currency when needed.

Coincover: Vesto is partnered with UK-based Coincover to provide cold storage protection services as the ultimate safety net to protect crypto assets on deposit with Vesto's Multi-Sig vWallet. Via Coincover, all crypto assets on deposit are insured and underwritten by Lloyd's of London Insurers.

For more information visit: vesto.io and/or email to info@vesto.io.

For regulatory research enquiries contact:

Eric Maloney, PhD
VP, Operations, Vesto LLC
eric@vesto.io

For sales enquiries contact:

Travis McGregor
CBO, Vesto LLC
travis@vesto.io
+1 (415) 988-5420

*Note: Corrections were made to this article after publication to standardize the use of the term "Vesto's banking platform."