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Welcome to a new episode of BFRR, our Bitcoin Fiat and Rock'n'Roll podcast that explores the intersection of traditional finance, digital assets and digital money and helps you understand how digital assets and digital money will evolve in the future. I'm your co-host Michael and today we're bringing you something truly special for our Milestone 350th episode.

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Today's episode is a complete replay of a panel discussion from the London Blockchain Finance Summit titled The Evolution of Digital Currencies, Navigating the Future of Finance. I'm glad we received the permission to share this conversation with you, our BFRR community. Thank you to the event host, the London Blockchain Conference. This

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Panel brought together a line-up of voices in institutional finance who are actively shaping the future of digital assets and money at their respective institutions. That is specifically Bilal Jafar, hedge fund and crypto correspondent at Dow Jones serving as our moderator during the panel. Then Joy Adams, chief operating officer digital assets at Deutsche Bank. Then

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Ray Dillet, head of financial institutions at Bitwise Asset Management. Francesco Roda, services digital asset risk director at Citibank. Then also Simon Saiter, managing director and CFO and CPO at O'Unity and former head of digital assets at Haug auf Häusern Lampen. Then there is Previn Singh.

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Executive Advisor to Global Digital Finance and former Head of Digital Assets at Credit Suisse. And myself, Michael Blaschke, IT Architect at SAP and member of SAP's Digital Currency Hub team. This panel tackles the big questions facing institutional finance today. We cover stable coins in traditional banking, real blockchain applications already working, and how major institutions handle

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digital asset risks. You also hear about regulatory changes across the US and Europe, tokenization opportunities and where AI meets blockchain technology. The institutional adoption of digital assets and digital money is accelerating fast. So grab your coffee, settle in and join us for this panel. Let's dive into episode 350 of Bitcoin Fiat and Rock'n'Roll.

02:56

Really, really warm welcome to each and every one of you. I hope you enjoyed your coffee and between coffee and plants, we have really, really important topic to discuss, which is the evolution of digital currency and the future of finance. I mean, before I dig deeper into the details of what this topic is all about, I would like to highlight what a beautiful journey it has been for the digital asset and blockchain ecosystem. If we talk about 2020, then just from a few millions, has grown to a multi-trillion dollar asset class. And now we're not seeing these headlines of if

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crypto or blockchain is here to stay. It's all about we have this multi-trillion dollar asset class, how we can build products on this asset class. So without further ado, I would like to proceed with our panel. First of all, we start with you, introductions. Yeah, sure. So Simon used to work in several roles in the digital asset space, used to be head of digital assets at Deutsche Börse, Hauke of Heuser Lampe, and now looking a bit more into stablecoins.

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Yeah, welcome, Michael Blaschke, my name. Today I represent SAP. Our mission is to bring blockchain and crypto to the rest of the world. mean, the crypto community understands it, the banking or the financial industry understands it, but the rest of the world doesn't. And

SAP, mean, 90 % of business runs on SAP and we explain it to the rest of the world and hope to bring finance, blockchain and the rest of business together.

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Hi everyone. My name is Joy Adams from Deutsche Bank and I'm really looking forward to this session today. I am the CEO for our Transformation team and we are focused on working with all of our business areas and many of our infrastructure units to implement blockchain and distributed ledger technology within our organization. And we're looking forward to releasing our first custody product next year. Thank you. Thank you. My name is Francesco Rada. I work for Citi. I'm a risk manager in the services.

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businesses focusing on digital assets and other innovation of that kind. worked in, prior to working at Citi, I worked in standard charter with a similar role covering digital assets and I worked for a crypto custodian as the CRO as well. that's pretty much me. Thank you. Hi everyone, Previn Singh here. I'm acting as board advisor to GDF at the moment. I'm here under my capacity as a practitioner in this space.

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for about the last eight years. I spent eight years as head of digital assets at Credit Suisse. In that time, I've worked with participants across the street, peer banks, regulators, and fintechs basically. Really excited to be here. My overall career has been around 30 years long, which sounds strange when I say out loud. Always worked for investment banks in that time. So Morgan Stanley, Goldman Sachs, Deutsche Bank, and Credit Suisse. So lovely to be here. Looking forward to sharing the views with you.

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Echoing the same thoughts, my name is Ray Dillet, Head of Financial Institutions in Europe for Bitwise. We are one of the leading pure play digital asset managers. So solely focused on actually giving investors regulated access to digital assets. Quite similar to the panel as well, I've spent a lot of my career in traditional finance. So the Deutsche, MUNDi, PGIM, and also within the government at GCHQ, where I first came across digital assets. Thank you so much for the introduction. Sri, I would like to start with you.

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Being one of the early movers in the digital asset and crypto ecosystem, what has changed in the last few years? We've talked a lot about institutional involvement and all that, but being crypto, what has changed in the last few years? Digital asset ecosystem overall, but more specifically digital asset management ecosystem. What we've seen is an absolute change in mood music. So I think from the issuance of the US ETFs back in January last year,

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to the Trump administration coming in the very proactive crypto positive sort of environment. We've really seen institutions looking at this and really just driving forward and yearning for regulatory clarity so that they can A adopt, but B get exposure to this asset class and everybody across the aisle from retail and this is a retail led sort of asset class initially to institutions adopting where it's either adopt or be disrupted.

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And then from an investment perspective, how do we get regulated exposure to this asset class, understanding there are not a lot of nuanced risks. And Joy, you just mentioned custody. That's a prime, prime point of risk that's hopefully getting overcome. And really all these big names that have entered the digital asset space.

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specifically asset management in the recent year. Do you see them as more like competition or do you see that they're adding value to the ecosystem and growing the crypto asset

management ecosystem overall? 100 % added value. Added value in every way, shape or form. The more people that effectively start understanding, this isn't some nuanced technology that sits in the corner as a hobbyist sort of element. This is pervasive of every single sector and industry. And I think this is the blind spot at the moment that people are starting to wake up to.

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If you start looking at the mega trends out there and, uh, proving not all that chatting about this this morning, whether it is AI energy, great wealth transfer, digitization of cash and stable coins sitting at the nexus of all of this crypto blockchains that are securing. When you start understanding this, then you start realizing actually just how important this is and how transformative this is going to be. And Joy, I have a question for you, uh, sitting within a massive institutional framework.

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there are different key areas of growth for sure. People talk about real world asset organization, they talk about the stable coin market and the growth that it has seen. Help us guide through like what are the top three areas of growth that you have seen in this time? Yeah, so I think there are a lot of opportunities as you were pointing out. I think the focus is sort of shifted from the retail side to how we can support businesses and how we can support on the institutional side of things as well.

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But those you who are maybe coming from the retail side or maybe who are not working in an investment bank, think about a situation where you might be running a big multinational company. You have vendors around the world. You have maybe branches around the world, different languages, different regulations, different needs. And you're thinking about how can you make those transactions faster, better, and smoother. We have opportunities now when it comes to things like

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wholesale CBCs. So that's basically thinking about the tokenized fiat, stable coins. So basically, cryptocurrencies that are backed by a currency or some other asset or tokenized deposits. So basically, taking bank deposits and tokenizing them. And that's important because using smart contracts, we can think about how to program this money. How can we ensure that if there's a payment cutoff time that you're not impacted?

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by that in the way that you are now. How can we think about things like the regulatory space and being able to integrate that on top of it? And then once you add in the opportunities around AI, there are really big opportunities there because we can do checks, we can make things faster, and that's a benefit to all parties. And Francesco, risk management is something that has been under the spotlight when we talk about crypto.

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help us understand how secure is today's crypto ecosystem as compared to what it was about like a decade ago. It's a very difficult question to give a straight answer. The ecosystem depends on different parts, depends on the players that are involved. If I look back at say 10 years ago, as you said, the situation was completely different. There was a different perception by the public and by regulators. the, you know, the reputation of this was one of the

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key preoccupation that financial intermediaries had around these digital assets. The AML, financial crime generally component was also high on the agenda because this was digital assets were really confined to niche markets where potentially there was quite a lot of activity, financial crime activity going on. Now, if I basically look at things now,

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and how regulators have effectively looked at digital assets and continue to learn and understand the real risks and how the public has understood and adopted effectively digital assets in various shape or forms. The situation is very, very different. And it's a constantly evolving scenario. So even a couple of years back, there was still a lot of uncertainty. But I guess, as you would mention, the new administration in the US

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has brought some clarity and different, I would say, rules around digital assets. Meike in Europe has introduced some very important pieces of legislations around digital assets. The BCBS with the financial treatment of crypto assets, again, has provided very, very good robust guidance. And all of these regulations actually look at effectively mitigating

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or trying to effectively reduce the risk that these assets expose markets and the public to. So the understanding, I'd say, the evolution of the thinking around digital assets has been quite, quite significant. For risk managers, of course, this implies constant change and constant evolution of other framework in our way of approaching this.

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And how are these big institutions, Francesco, are adopting these risk management frameworks? Is it simple or is it quite difficult to integrate in the request frameworks? So having experienced different paradigms, I think you have effectively two ways of doing things in a very, very simple thinking. So you can either look at digital assets and digital assets activities as something new, effectively incremental.

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from a risk perspective to your day-to-day business, or you can look at them and effectively try to embed in your day-to-day activities. I would say that there is not a simple answer to the question, which one is the best way of going about this. If you effectively keep the risk management of digital assets separate from your own main enterprise risk management framework,

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the risk is effectively to crystallize some thinking in one area that doesn't effectively integrate well with the rest of the enterprise risk management framework of your company. Whereas if you embed this into your existing risk management practices, you effectively recognize many more benefits in terms of having a consistent approach to risk management.

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I would say that it's not as simple as saying it's more of the same. For example, yes, Bitcoin may have huge volatility, but so do certain frontier currencies or operational risk, cyber risk is not unknown to banks. the specificities and the idiosyncrasies of digital assets are such that they do deserve, I would say, dedicated thinking around them.

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And Robin, you want to add something? Well, yeah, I just wanted to add on because I think just on that risk point, I spent six years in cybersecurity before coming to the digital assets space. And I think that it's a good opportunity and a good reminder that, you know, as this, you know, as new technologies come in, it's always a really, that's always a really good time to say, hey, look, new things are coming in. But let's also think about, you know, the controls that we already have in place, because oftentimes I hear things like, oh, well,

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you know, this happened and it's because of the blockchain. And it's like, no, it's not because it has nothing to do with the blockchain. It's, you know, it's, you look at like FTX, for example, it's like the actual, it's like fraud, you know, and there were not controls in

place or there's a man in the middle attack. You know, these things are, are already happening. So I think that it's also really good opportunity, you know, at this stage to say, look, new things are happening, but let's also tighten up what we've got now. A hundred percent. just, on that point, actually, I'll just develop that further. My experience has always been that.

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Innovation in the digital asset space doesn't happen in isolation. It's building upon what happened before. So I found a lot of my conversations with control functions around decentralized ledgers, for example, were shaped and informed by what happened previously, just a few years before in cloud computing, for example. What that meant was all the good practice that we developed under the auspices of cloud compute was able to be used and re-leveraged in the distributed ledger technology space. So I think it's really, really helpful to have this snowball effect where you

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don't accidentally unlearn what other topic areas are picked up previously, and you just roll that forward. So I just wanted to make that point. Nothing ever happens in isolation. think Ray, you and I were talking about agentic AI. I'm absolutely certain at some stage when we talk about that a year or so from now, the work we've done in the digital asset space will shape and inform that as well. So I think there's always this roll forward and momentum that we should look to capture every step of the way. Ray, you Yeah, if I can just add on to that. I'm in agreement with pretty much everything said.

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But any business that looks at this, there's the risk and then there's a reward. And if you're looking at disruption and what's happening here, quite often you're looking at the reward first. Why would you integrate these technologies? Because hopefully there's a reward, there's a benefit. If you're stable coins and you're looking at what's actually happening now, Tether. Tether is disrupting everything. did what? 27.2 trillion in volume last year. They made over \$13 billion in profits. There's 150 people. That's more than BlackRock.

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That's just on the stablecoin and predominantly 60, 70 % on Tron, then on Ethereum, circled the regulator version. Similarly, majority on Ethereum, then Solana. Look at every other sector. If you are BHP, Carbon Credit Trading, you're doing that on Ethereum. If you are Merck Shipping, Merck Lens, you're basically shipping tracking and what's going on there. If you are LVMH, pressure stone provenance.

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I mean, I could keep going. There's Pfizer, clinical trials, Mercedes, supply chain management. All of these industries and sectors are looking at this technology and saying there are two ways that I basically remain profitable. I either increase my revenues year on year, which is incredibly difficult, or I cut my costs. This is an operational efficiency that is transparent as well. So should be in the right regulatory framework. And remember, this is borderless technology in a regulatory framework that has harmonization globally. And I think this is why...

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everybody is starting to pay attention. Michael, do you to Yeah, to add on this, I I agree. The reward is the reason we are here for on the retail side and the institutional side, but on the institutional side, the risk is the big question mark. And maybe I can give an example from a Swiss banking client of ours who is currently modernizing its global finance function. And when a bank modernizes its finance function, risk and risk management and risk controlling is

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like a key component. And we haven't found the answer yet, but there are two key decisions we ask in making these decisions about digital assets and used risk. that is, do we manage it ourselves or do we seek for external guidance in managing the risk of digital assets? And the second one is, do we develop our own software for doing so? Do we use our in-house software we already have? Do we develop new one or do we buy standard software?

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SAP is one of them. are other offers. There is additional software out there that helps to risk it. But these are the two design decisions, the institutions I help in introducing and then managing digital assets induced risk. Do I do it on my own entirely or do I look for external advice and which software do I actually use to manage it? So probably this brings it down to a more operational level of how to then ultimately deal with.

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the risk induced by digital assets. And Praveen, you interact with quite a lot of big financial firms, be it like banks or the financial services provider. Help us understand what sort of strategic initiatives they are taking considering then what has happened in the last few years in this space. Sure. Thank you, Bilal. Yeah. We look at it in two very simple ways. Something's either generating revenue or it's helping to reduce costs. Those are two simple high level ways to look at it. And when we talk about generating revenue,

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We're essentially talking about new product development and digital assets. So every time we talk about tokenization, for example, as fitting into that new product development revenue generation space, some of that might be real world assets, some of it might be digitally native assets. That's the first bucket basically. The second bucket is cost reduction. So what are we doing at the moment that's costing us too much? Now sometimes that's simple operational expenditure. It's FTE, it's heads, it's invoices, it's fees.

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Other times it's capital cost as well. And that becomes significant for large international investment banks. So the cost of capital is super important for us. Recently when we went live, lot of banks went live with unclear margin rules, for example, the additional funding costs were measured in the billions. So if you could shave a few basis points off of those, you're in a good space. So against that context, we then shape our strategic narrative. What do we want to be involved with externally? You know, Michael, going to your point. Or what do we want to keep?

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in-house as a core competency that we want to keep within our own four walls. Where we've cooperated externally has been initially around financial market infrastructure, so digital financial market infrastructure. So we've taken positions, Series A, Series B, investment positions in wholesale bank-to-bank payment systems, for example. We've used settlement systems for large value collateral transfers, which some of the speakers later on the software will talk about as well. large

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scale strategic undertakings that are cross-party and cross-multiparty in their approach. So DLT is a team sport. People call it network effect. And what I mean by that is the additional users joining a network aren't twice as useful or three times as useful. They're two squared or three squared. So the value of that network is really big, really quickly. So everything we've done in this space, Belal, has been around trying to capture network effect and get as many participants around the table as possible for commercial reasons.

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So whether that's some FMI, financial market infrastructure, or new products, we've gone for those sorts of initiatives. So I mentioned payment systems as one way of doing it, wholesale bank to bank payment systems, not stable coins. I've mentioned collateral transfers. We've also experimented with peer-to-peer settlement of equities, disintermediating traditional financial market infrastructure. So there's some examples of FMI plays as it were. In terms of digital asset plays,

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We focused on the stuff that's hard to do at the moment in current state. So we've done a lot of work around tokenization of funds, which are very linear in their processing, very fragmented. So a lot of pain points. We've tried to address those fragmented pain points that are coming along when it comes to fund management and fund issuance. So that's one of the areas we're focusing on. And the other area is opaque, illiquid private market securities. So we focused in on those areas strategically.

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Perhaps instructively, we haven't gone after highly automated vanilla products as of yet. We don't believe that it's worth disrupting things within the bank that working reasonably well at the moment. So if you've got 99 % straight through processing rate in US cash equities, for example, you might want to leave that one alone. If you've got low latency effects happening, that's 300 milliseconds, you might want to leave that alone and not put it near public as they're in, which takes eight minutes to validate a block. So we've stayed away from that and gone for where the pain points are today.

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I would maybe catch up on this. I would like to demystify an urban myth of blockchain that we have discussed as well here in this round and in this room. When we started, and I did this myself as well, in like 2017 first projects, large institutions, Siemens, KfW, Continental, large, large, large corporates. We said everything will be cheaper and faster. So we made

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blockchain use cases a cost-efficiency case. Guess what? Blockchain will not be a cost-efficiency case for any existing industrial system next five years. Pretty sure. I can guarantee you that. I tried last seven, eight years. I'm pretty sure it won't be in the next five years. Does this mean that it doesn't make sense to do this kind of projects? For sure not. Because the case is a completely different one. We will not use blockchain technology

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to do an existing payment network 5 % faster. It's not the idea and also not the approach of any kind of blockchain or distributed ledger. We will not make trade finance, go or shipping like one hour faster or 10 euro cheaper. It's not the case of blockchain technology. And if you have a project running in your company right now that aims to replace an existing system exactly as it is with blockchain technology,

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To make it cheaper or faster, please leave it. We tried the last eight years, it doesn't work. So what do you do instead? The actual disruptive motive of decentralized technology is exactly that you don't run it as is in a centralized system. So you have to kind of change the structure. And we did capital market transaction last couple of years, fully regulated, including securities, funds, whatsoever. Everything completely on chain, even public after some years of

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trying to do it on private chains because you try to protect your business. The thing is, if you want to change something, the market structure has to change. So if you have the same system, same mechanism, same processes as is, and you put them on a blockchain, doesn't make it better. Guess what? It's no big surprise. But it enables completely new

businesses and models that you haven't had thought of before. And this is how, by the way, any kind of disruptive technology

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is disrupting existing industries and technologies. The digital photo was not the very same as the physical photo just in a file format. It completely changed the way how we treat photos and how we make photos, how often, how much, etc. It was not just make photos cheaper. Think about how today photos are being commercialized. At most that's media. What does this has to do with the printer of Kodak back 20 years ago? Nothing.

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So this is how we have to think of business models for the industry. And I can give like two or three examples how this can be done for the existing industry. And we did already some projects around this. If you have the payment side, we talked about it, stablecoins, relevance, practical use cases, and already disrupting existing business models. And you take a car and payment of cars, especially trucks. Trucks right now have in the payment side a fraud rate of 5%. When I heard this,

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I was really amazed. We did this project with Daimler, some Mercedes. And they said like, we have a 5 % fraud rate because we use cards for charging or fueling the trucks. The drivers get cards that you can use at the fueling station. And what do they do? They fuel their own car. That's the reason for 5 % fraud rate. Very simple, not complex. So what is changing if you let the car or the truck actually pay itself? So we put a wallet.

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on the operating unit of the truck and it received money and it could pay for its fuel or load. And now think one step ahead. Not only you cut the 5 % fraud rate, but what you can do is you can eliminate the POS. You can eliminate it completely. Why? Because you constantly pay with like every 10 seconds a payment via stable coins, for example, for the fuel that you receive.

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And within your calculation, you simply cut the last 10 seconds and you don't have a separate payment mechanism anymore. I know this is far future and the barriers of integration in existing businesses, and I think you can tell a lot about this, takes maybe five or 10 years till this stuff comes in. And there are other models right now that are already disrupting, but this is just an example from the industry perspective. But if you think about the new possibilities that it brings with and the integration,

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of this technology in other business processes. This is really a big case, not like cutting the existing cost or making it faster or cheaper. Any thoughts from other panelists? in the old. lot. Your pitch, Simon, I really love it. I mean, that's the pitch of the token economy. And that's the world we all want to live in. I mean, we are blockchain enthusiasts. What I observed though is in my client conversations is, but SAP, but Michael,

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We today run on a core banking system. We today run on SAP enterprise resource planning systems that is the backbone of our system. If we only tweak it a little bit, we are at risk of running out of business. So we need to be very careful. We need to be incremental. We cannot revolutionize. And this is why we at SAP decide to introduce a product like the Digital Currency Hub, which is then a bridge for this traditional economy to learn to use.

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stable coins or in a later stage on the roadmap crypto assets to learn it, to use it. But yeah, the ultimate question is how do we get to this perfect picture of a token economy that you just pitched? I kind of agree actually, Michael, with what you just said there. think I don't

disagree, Simon, with your end state vision there, by the way. I think end state is absolutely correct. Cars that pay for themselves and re-imagining new business models is exactly the right thing we should be thinking about. However,

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differently on Monday morning next week? And that's actually the question. The interim architecture is really important. When you're dealing with large, globally systemically important banks, you have to be really careful that the change doesn't kill the patient, basically. We have to make sure that any change that we make is measured and is risk reward managed, if you know what I mean. So really, we do have to reimagine new business models. I think it's worth mentioning actually that we are beginning to do that. So for example,

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A traditional way that banks fund themselves is on the overnight repo market. So if we have a bond that we have on our books at the end of today, we might lend it out to somebody and get some cash back overnight. Tomorrow morning, we reverse that back. We get our bond back and we give the cash back plus a spread. Okay, so that's the repo market, oldest time itself. And it's called the overnight repo market. That's how it usually works. However, with blockchain technology, DLT technology, because all the participants are on the same network at the same time,

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and the speed of transfer is almost instantaneous on a private blockchain especially, or maybe eight minutes on a public blockchain, still not that long. If you have that technology available to you, you can actually do intraday repos. So not end of day, not overnight, but this morning. So the business model suddenly flexes from, I have to lend this bond at the end of the day to, I can lend it out today at five past 12, and by four o'clock I could get it back. And I only use that bond and get a financing for the time that it's actually out there.

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So you can actually go to a new model, which isn't overnight predicated. It's based on how much you actually use it for, which can happen because of blockchain. So we're moving towards these new business models. And I think I have no doubt in my mind, by the way, that there's going to be new business models that we haven't even thought of yet. And those are going to come. But I think it's going to be entry market, just step A, B, C, and sequentially moving up to that end state. Yeah, I really liked the use case you presented. But I think you hit the nail on the head, right? It's like.

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you know, what are the things that clients are thinking about, the problems that they're facing? And I would say that for anyone, you know, who's engaged with clients to really think about their models and because I think that that's really where change happens, right? If you have all of your clients coming to you and saying, hey, I don't want to stick my hand out way for a taxi, like call me an Uber, then that's going to shift the needle, right? And so there are a lot of things that organizations can do.

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to help support that mindset shift, starting with the client engagement, thinking about new models. And then in-house, I think it's really important that employees go on the journey with the organization, because not everyone in the organization is dealing with clients face-to-face, which I think can make it very difficult. If you're going into certain parts of the organization and they're like, well, we've always done it this way and the rules say this, and we can't be flexible and we've got to keep up the status quo or it's going to cost too much money.

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Anyone who's worked in a large organization knows that there's, like you said, there's prioritization. They might be working on something else related to a current model that takes time to turn a big oil tanker around and get that going. We've done a number of things like hackathons, for example, where we've gotten people engaged, even just to help understand the basics of what's going on, bringing in vendors, individuals who can talk about this.

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can talk about some of the use cases because once people have an actual use case in front of them, you know, can talk about payments from a smart grid or, you know, using drones to fly over an area that's had a fire and then making payments to everyone using the blockchain, whether it's sending out a claims adjuster, like, you know, would have happened in the past. I think there are a lot of models and opportunities out there, but it really, in my view, starts with the client conversations on one side and completely and fundamentally re-imagining.

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how businesses work and simultaneously making sure that people within the organization understand that things are about to change. If I can just jump on there. So as you said, some institutions basically, it's too hard, too costly to change. You're basically stuck at innovator's dilemma, just these institutions aren't innovators, but they have a dilemma. You know, it's used to prevent this thing of, you don't want to kill what's already there. But ultimately, this is already happening. So to Simon's point, I actually

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do fundamentally disagree. Yes, DLT technology might be there, but ultimately this is opaque. It is not transparent by design. As we've already seen with Circle with Tether and stable coins, they have dominated the market already. The horse is gone. It's bolted. So trying to get stable coins that are within a regulatory framework is great, but you are almost too slow. For the repo market, might be better from stable bonds.

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Biddle fund, example, money market funds, you are saving 20 basis points yield on the carry. You are basically saving money, cost efficiencies for remittances, almost instantaneous settlement for almost nothing. Stablecoins don't make money from basically the transactions. The blockchains make a small amount. They make their money from effectively putting it into treasuries. Thank you for the 4.5% and Bitcoin. Thank you very much for the capital appreciation that comes in there.

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Ultimately, this is how you are disrupting and disintermediating. And right now, the regulators, quite rightly, are taking their time. Being thoughtful, but they need to put the guardrails in and a very progressive framework to work with institutions or the patients will die because they will be disrupted and disintermediated. And for example, as we're seeing in the US, but even more so in Europe, if you don't, let's say stable coins, pass on the yield to the customer.

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All you are doing is effectively funding the corporates and not at the detriment for the customer. Surely that is against actually the premise of what regulators should be doing. You should be protecting the customer and giving them effectively the fair reward. So I think this is where this is a fast moving environment. Everything needs to work and regulators are doing a fantastic job, but they should be doing so in partnership with the large organizations, in partnership with the technologists behind this who are disrupting and just

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The public versus private sort of conundrum that sits here. If you're looking at public blockchains that are transparent, that are borderless, there's a reason why BlackRock is using Ethereum. Aberdeen for their money market fund, Ethereum, Hedera and Algorand, UBS for their tokenization, real world assets, Lazard. People are using these because do I want to bring on, I don't know, from BlackRock with, I'm making up numbers, but 20,000 employees. Do I want to add another 500 or 1000 to do?

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validation of transactions to stop hacking risks. Or do I just put this onto a public blockchain and it's transparent? Fantastic. This is a cost-saving, it's an efficiency-saving and I make money because I can generate yield. I may add, I think some of the business models are already upon us and what we were talking about, how effectively the new business models are disrupting traditional financial services.

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It's a reality, it's something which is undeniable. If we look at, for example, blockchains, I may try to introduce a slightly different lens to effectively look at these constructs. We talk about private or public, we talk about permission as a permission chain. But if I ask you what is a stable core, is it public or is it private? Well, it does...

37:05

sit on a public network but is issued by a very well identified central authority, is the stable coin issuer. I think it's important for institutions to understand the different angles of decentralization that exist in digital assets in blockchain and understand what are the characteristics and of course the risk that each of these different effectively decentralization angles imply.

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I think it's probably worth comparing, for example, a blockchain to an FMI, to a CSD if you wish, a system that actually records certain pieces of data around an asset. It's possibly different from a traditional FMI, of course it is, but the contract is not on a piece of paper that you need to sign, but it's in the cause of the software that you use to join that particular network.

38:03

but it's well understood, it's clear, it's something you can appreciate and you can evaluate and decide to join or not. Some other elements, the less clear-cut construct on the blockchain, for example, a stablecoin or a layer two protocol, which is sponsored by an institution, are slightly on the border because you need to understand the permissionless side of it and the permissioned side of it as well.

38:31

But wouldn't say that effectively these innovations, these new models, business models are there, are effectively already being used by the public and more and more will become popular. think CBDCs, we're not talking much about CBDCs. Of course, the US have not embraced CBDCs with the new administration, but Europe is effectively looking at CBDC. CBDC may be a catalyst for the

39:01

understanding, improving the understanding of digital assets in the public. if you look at what the European Union is doing, effectively they are publishing the test wallet for the CBDCs, which you can download and use. At some point, people will have to get used to a wallet to enact payments. And once that is a reality, I don't think it's going to take long for stablecoin to become the next item.

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on their fall. I think there are definitely endless opportunities within the space and we'll keep discussing these as well. But I want you to shed some light on the stablecoin market. I

mean, it has been an astonishing journey. If we look at the data, like in 2020, Tether was like a couple of billion dollars in market cap. was a few hundred million dollars. Now Circle is above 60 billion dollars. Tether is about 150. And the overall market cap has crossed 250 billion dollars.

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Simon, in the broader stablecoin growth story, where are we standing now and what's the future and other panelists get some light on it as well? Yeah, so what we see is that we have actually something that is being used already by people in the broad society. And you mentioned that some cases are not used yet. That's correct. But for our hemisphere only. And so this is something that we have to...

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take care of because we are looking at world trading and the usage of financial products worldwide overall. And we very often have a very narrow perspective of where are financial products being used by whom. If you go to Argentina and you want to receive physical US dollar today already most of them will accept USDT. Tether.

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So you just switch USDT against US dollar. We don't switch Argentinian peso anymore against US dollar. And we have a lot of countries that don't have the stability and welfare of the financial system that we enjoy here in Europe, in the US or in parts of Asia. And this means this is the small percentage worldwide of people who are already using stable coins as of today for their daily life. For them,

41:22

US dollar is a much more stable store of value, even though you have unregulated products, where the treasury is not completely transparent as with regulated products, all taken. But guys, we are talking about treasury products here for top-notch tier one financial institutions. Nice to have. Nice to have. The reason why still these institutions today make these kind of volumes is because you have to aggregate via secured

41:52

central parties. And that's exactly what I meant before. This structure will change. And this has an effect on every larger financial institution in this room. Because your business is at stake. Because ultimately, ultimately, where does the money come from that we use? And I used to work for very large financial institutions, like Commerzbank, Deutsche Börse. You can look it up like the comparison of existing models trying to replace the CSD. did that. You can look up the 7th project at Deutsche Börse. I kicked this off.

42:20

This will be the new backbone of Clearstream, the largest CST in Europe. All good now, but they moved to a central system, so you won't have to structure change. The thing is, financial products, as we know it, are there because we need aggregation on large counterparties as a risk mitigator because we don't have other mechanisms. The money itself is still coming from individual resources. And if these individual resources start to shift the products they use,

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The financial institution will notice it, but far too late because their business is gone. I'm going to make another example that makes it very feasible how you will lose debt business. Debt business right now is working on aggregation. BMW is issuing a 1.3 billion debt instrument. And it uses this debt instrument for rene financing production of let's say 100,000 BMW Model 3. So if you issue

43:17

like a single security that is refinancing the individual car, you take out risk because you know the production core values of this car. You know where is it produced? How much

does it cost? Which parts are being involved? What are the parts costs? You can build a financial product of that on top with a financing curve and you can refinance it via single issuance. And then you have 100,000 single issuances and you can much more specifically invest bundle it and also, for example, sell it more directly to the retailer.

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And then your large-dept instrument is gone. And your market making is gone. And your CSD is gone. All of that is gone. Some years later, I agree. But the thing is, if we want to look at where it's being used, it's being used already, just not in front of our eyes. There are tons of possibilities to use it in front of our eyes if it's being regulated. And there will be new products, not existing ones replacing existing ones. There will be new products.

44:15

replacing existing ones. And you have the large ton of systems where you're sitting on a bunch of legacy and telling, I can't change the legacy because it's the legacy. Yeah, okay. But you don't have the volume anymore on the legacy. To exemplify your point, what Simon just outlined is exactly the reason that we at SAP opted for stablecoins in our digital currency hub. If you look at its roadmap, it's a set of stablecoins that we implement first. It's not cryptocurrencies. It's not CVDCs.

44:45

where they are available in the first place at all. It's not meme coins. No, it's stable coins because they are being used as outlined by Simon by consumers and emerging economies for very good and understandable reasons. But it's also businesses being primarily convinced by stable coins. So just to underscore or to increase the stress you actually put on all of us, it's stable coins being used. And that's the reason why we at SAP focus on

45:14

bringing as many stablecoins as possible in our digital currency hub in the first place and only then move on to digital currencies and CBDCs. Yeah, before we run out of time, I want all of you to highlight the top three areas within your space that you feel the growth is in the next few years. And we'll start with you, Ring. Top three. I think the stablecoin element is critical as we've seen, just because you're banking the unbanked. Exactly as Simon said, you've got effectively

45:42

The retail who were earning \$100 a month suddenly are able, if they have a phone, to be banked, to pay remittances, to be part of the financial system. They weren't before. This will continue. And those in basically the developed world, they will have to catch up and institutions will need to have the framework to converge. Tokenization of real world assets. Everybody's been hearing the buzzwords that are around this. This will take time, but ultimately it is happening and it will happen because again, it's a massive efficiency play.

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If you, let's say, wanted to tokenize a hotel, historically you would go to 10 LPs, let's say 10 million each for simplicity. It's very opaque. It's very illiquid. Well, let's say, what's the price discovery? What's the transparency? You can look at occupancy rates on a public or on a blockchain as soon as they are updated. Much better price discovery. Let's say you wanted to get out. You wanted a secondary market. If you tokenize this, tokenization, fractionalization, securitization, it's kind of the same.

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You effectively could tokenize to give it to a thousand people. If you're on a secondary market, you're a large asset manager, you could offer it to your entire client base and you could sit in the middle and actually market make to some point. There is an opportunity there and it is vast. And then the last one, I think it's the AI element. And I think here people are starting to see AI cannot step into the real world. It is on chain. So people are looking at

agentic AI. They're looking at trading models, things around this, but they need to stay on chain. They need wallets.

47:08

And effectively, DINs need to be built on blockchains. They need to be secured with cryptography on crypto blockchains. And ultimately, this is going to be an exponential growth as people start seeing, well, I don't want one, I don't want 10. Maybe I want 100 or 1000 of these models running at far faster sort of rates and giving far better price discovery and transparency. know, Grellin, you were talking about this this morning. don't know if you want to... Yeah, yeah, no, thank you. Yeah, I will actually. I'll just develop that point. I agree with your points around stable coins, by the way.

47:38

I think digital assets need digital money. Okay, that's a no brainer. What flavor that digital money takes remains to be seen. I don't think it's crypto for the use cases we're talking about for wholesale banking. CBDCs aren't there yet. So stable coins are in that space at the moment. So I think there will be an increase in the use of stable coins over the next year or so. Going back to your point, your question. However, I think it will hit a ceiling. I think it will hit a ceiling. When you're talking about institutional users like banks,

48:07

A single repo trade might be 500 million euros and you might be five or six of those in any given evening. So the size of the balance sheet of the issuer becomes quite important. You your stablecoin issuer, whilst it might be fine for retail, might be right for small medium sized enterprises, it's going to hit a ceiling when it comes to investment banks, basically. So stablecoins will take off, but it will hit a ceiling. That's my first point. Go to your point, Ray, around what happens next. I think

48:35

Going back to my first point, digital assets need digital money. Agentic AI also needs digital money. Okay. It's as simple as that. So I think that'd be another growth area. People haven't quite cottoned onto that yet, but it's going to start becoming a factor in this space. I think the third point I'd like to make in terms of where things might grow. People are talking about the death of the CBDC. I don't think it's dead anytime soon. I think it's just resting in certain jurisdictions. think other jurisdictions are going for it properly and doubling down in like in Europe.

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And I think it's in muddies of water to talk about CBDCs as one monolithic thing. Let me just get out of there. There's wholesale CBDCs and retail CBDCs. And when people get worried about privacy, for example, and controlling usage, that's probably more applicable to retail. However, on the wholesale side, bank to bank, we are used to being observed. We are used to being known in the marketplace. So we really don't mind if a wholesale CBDC is observed. In fact, it's probably one less thing for us to worry about in terms of reporting. So I still think that CBDCs are on the table.

49:34

Maybe not in the US, but certainly in rest of world. Frances? If I may add, of course, tokenization of assets in the real world, but I would add also the tokenized deposits, which is effectively something that many institutions are working on. And sub-ramp national regulators are also looking at with interest. I'm referring to the project Agora from the BIS that effectively is aimed at creating

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almost like a hub, almost like a common marketplace for this type of dealings. I would also add as a third point of interest, the sheer interaction between the new players and the traditional financial markets. think in a way the understanding of the different roles is still

something that is ongoing. So it needs to be understood what each of the two players have to do, what are the proper functions that each one

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should play. And that's true also with CBDC. So what is the role of the state vis-a-vis the role of commercial banks? They have to partner to be able to enact and enable a CBDC. Yeah. So agentic AI, think is one and being able to give digital agents a wallet of their own to be able to make decisions, so to speak. I also just wanted to go back to that wholesale CBDC piece because the US hasn't said that they're not interested in wholesale CBDC. And in fact, the Federal Reserve is

51:02

of Project Agora. are seven major central banks that are part of that. The US has basically said no to the retail CDBC, but not the wholesale. I also think stable coins, that's going to be a really big topic as well. When we're on PayPal, they have their own stable coin on the retail side. And I think a lot of organizations are looking into that and how they build their strategy. Yeah. So to add my two predictions, number one is the real economy. So with software vendors worldwide,

51:31

adopting their business model, adding their product portfolios for the digital asset space, will observe continued emergence of digital assets and currencies products into the real economy. A typical use case is payments by retailers where we already see this. SAP heavily bets on the real economy adoption beyond the financial industry of in particular stablecoins. And number two,

52:00

It's a total win of stablecoins over CBDCs worldwide. That is because of a US bank now teaming up to start joint stablecoin ventures and number two, the 180 pivot by the US governance and the SEC in regulating stablecoins and inviting stablecoins over CBDCs. So my three picks are distributed digital identities. Second.

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financially autonomous agents and machines. And third and foremost, I share the few of course stable coins. Now, before we leave, just briefly, which regions do you guys think are taking a lead in providing that environment to digital asset companies, be it like startups or established ones to help them grow? Which regions are taking a lead? We'll start with you, San. South America. The US with a policy pivot. I'd probably say the US as well.

52:59

I was going to say, think every region, have their own interests. I think some of the differentiation you see is based on what's actually of interest to that location. I concur with Joanne entirely. different regions have different interests. So in Europe, you have Micah. The Middle East is very active on attracting digital businesses, also is the Asian. So our many Asian regions, mean, think about Singapore, but also Hong Kong, they have

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quite good regulatory regimes for digital assets. And of course, the US now is one of the most receptive countries within the administration. Roy? Yeah, just very quickly. think looking at the broad swathes of digital assets, I'd say that the EU with MECA has put a good case forward for regulation in a good way. I think if you come to a single topic of payments and digital currencies, think the US is probably about to come storming ahead with the Stable Act and the Genius Act.

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That is very much a single topic. It's not all digital assets, it's just currencies. I'd say you asked to agree with my can box, but also Switzerland. think they've been certainly in Europe and the EEA, a big driver there. And if I was going to do just one fourth prediction,

it's to throw it in as a bonus one. think it's a global strategic reserve asset becoming Bitcoin across the Gambit. think everybody is going to start looking and adopting as a lowly correlated diversifying asset. And I think that's, it's happening and I think we're going to see that run away.

54:26

Very, very stable. Anyone want to shed some light on strategic reserves? We're seeing it certainly from bitwise at nation state. You've got the US saying strategic reserve asset. We're seeing it in different other sovereigns, sovereign wealth funds, pension funds, asset managers. think the volatility is something to be managed. I don't think you can ever say never, but I think as long as people are going into this, managers of the reserve in particular are going into this knowing there might be 300%, 400 % volatility. It may be what they want to do.

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But I think going to your point, Ray, some institutions, some managers may think that's okay. So it might well happen. Yeah, sizing. It's got a correlation of about 0.04 to Treasuries currently. It's in the de-dollarization, the Bitcoin bond sort of thing. It's a nice additive diversifier. 60-40 portfolio, think a 1 % allocation gives you just north of 200 basis points outperformance. If you're a multi-asset portfolio manager, 200 basis points is a very hard task to do.

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supposed remember what is the strategic reserve. It's not the entire balance sheet of the central bank. It's a very specific thing. We're not talking about the bank core of Keynes here or Bitcoin becoming the bar core that Keynes proposed. So it's a completely different story. Joy, you want to add something? No, I was just going to make a similar point about the volatility piece. On that note, thank you so much for your time. was a great discussion and thanks everyone for staying with us.