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FINANCE AND BANKING ALERT

IN THIS ISSUE

BITCOIN AND BLOCKCHAIN - THE NEXT MAJOR DISRUPTORS IN THE BANKING SECTOR

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However, a plethora of financial markets legislation must be overcome to bring this type of 'decentralised currency' to any market. With the worldwide regulatory hurdles and costs surrounding the transfer of money and traditional payment systems, blockchain and Bitcoin are poised to become the next major disruptor in the banking sector.

Circle was granted an e-money licence under the Electronic Money Regulations by the U.K. Financial Conduct Authority (similar to South Africa's FSB) in what Britain's Treasury calls a 'major milestone'. The licence allows Circle, through its software 'app', to hold its users' money (currency) and facilitate domestic and international payments between users of the software app. Circle is now a fully-fledged Electronic Money Institution or EMI and under the auspices of this licence, Circle may issue e-money.

If a user is sending money (currency) to a user in a country where Circle has not yet launched their app, the local currency is simply converted into Bitcoin, then transferred, settled and validated via the blockchain network. On the receiver's end, the Bitcoin is then converted back into money in the particular receiving users' local currency. Barclays Bank PLC, in terms of this partnership, will provide

the bank account that Circle will use to hold money (pound sterling) for users of the app. Barclays will also provide the banking infrastructure to facilitate transfer of money from any UK bank account in and out of Circle (Business Insider, Jemima Kelly, Reuters, 06 April 2016). This is the first time that a large international bank has partnered with a Bitcoin company.

The system is based on revolutionary peer-to-peer blockchain technology which is a vast, distributed ledger of account. It keeps track of all transactions (payments) made in the blockchain network. Banks and accounting systems already use ledgers to track and 'timestamp' transactions, however, the difference is that the blockchain technology is completely decentralised and 'open source'. Open source refers to software for which the original source code is made freely available and may be redistributed and modified.

This means that users of the Circle app do not have to rely on the central bank to keep track of the transactions. The peer-to-peer blockchain technology can keep track of all the transactions, and no transactions can be erased or lost. Furthermore, with blockchain, because of its open source nature, it is more

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The peer-to-peer blockchain technology can keep track of all the transactions, and no transactions can be erased or lost. Furthermore, blockchain, is more versatile and programmable than central banking ledgers.



versatile and programmable than central banking ledgers. If programmers need new functionality on the blockchain technology, they can simply innovate on top of already existing software through consensus.

Bitcoin in South Africa?

Whether or not similar blockchain technology or software would pass the legal and regulatory hurdles which exists in the South African banking sector is yet to be determined.

A thorough legal investigation needs to be undertaken by any FinTech organisation wishing to issue e-money in South Africa in order to understand whether this technology and virtual currency system falls within the scope of the Banks Act, 1998, its regulations, the South African Reserve Bank Act, 1990, the National Payment System Act, 1998, and of course for offshore transactions, the Exchange Control Regulations.

Bridget King and Michael Dippenaar

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