

**Minutes of the Advisory Board Meeting  
Incrementum Crypto Research Report**

**June 25, 2018**

# **“Crypto Q3 Blockchain Market Outlook”**

**Mark Valek:**

Welcome to our second advisory board meeting of the Crypto Research Report. Thank you so much for joining us again this quarter. Max Tertinegg co-founder & CEO of coinfinity, Oliver Völkel Partner at Stadler Völkel Attorneys and Stefan Wieler, who is Vice President & Corporate Sales at Goldmoney. In the line with me are our two new analysts, Andres and Friederich, who are also eager to learn more about your views.

I would like to open this advisory board meeting with some general thoughts on the markets: We have been seeing quite a prolonged bear market now in Bitcoin and generally in cryptocurrencies. On the one hand, this doesn't come as a huge surprise after quite a big exaggeration in the markets during the turn of the year. The media hype was accompanied by a lot of retail money flooding the market. In my view, things are slowly cooling down somewhat.

Moving on to the technical charts of Bitcoin/USD, the benchmark cryptocurrency. What we are seeing is that the RSI on a monthly and weekly basis, is cooling down substantially with levels of 44 and 40 respectively. In my view, there is a good probability that the bear market has not bottomed out yet.

Just to give us a brief overview on each of your views we will make the round, starting off perhaps with Max.

**Max Tertinegg:**

I'm very much in favor of this bear market and hope that it will continue in the upcoming months. Historically, these were the times when people interested in the technology enter the stage, while people hoping to make a quick buck are leaving it. From a long-term perspective that is a good phase to be in for an ecosystem. So, we see much development going on currently on the technological front like for example the Lightning network.

Nevertheless, I am not able to pinpoint a date when the market finally turns, nor am I a big fan of chart analysis. But there will be a turn-around, that's for sure.

**Mark Valek:**

Interesting thoughts from your side, I also listened to Julian Hosp. He just recently brought out a note, where he reminded people that during the last bear market, Ether came up, which was a technology breakthrough and, in the end, helped the market to turn around. So perhaps we are looking for something in that respect.

I'd like to talk a little bit more about the Lightning Network a little bit later though. Just to give the voice to the other board members, let's move to Oliver: Do you have any specific ideas regarding the markets?

**Oliver Völkel:**

I'm part of the legal profession, so I don't regularly make estimates about future developments. From my point of view, the only important aspect is the technology. Meaning, I don't really care about price fluctuations, since for me the central point is the technology as a facilitator of e.g. payments. If people can make money off of holding cryptos, that's fine with me, but I'm primarily concerned with the use case and actually I think, in this regard, I would concur with what Max said: If you look at how transaction fees have developed over the last few years and the fact that they were becoming more and more of a problem in late 2017, the current phase is definitely beneficial to the technology.

**Mark Valek:**

Thanks Oliver. Over to you Stefan.

**Stefan Wieler:**

Yeah, I mean I think last time we talked, we were already in a bear market and since then we sold off more but not that much. It's an exciting time, because there are really two things going on: On one side you have the whole infrastructure around cryptocurrencies that is progressing rapidly, you see a lot of new players getting in even though the price is declining. A lot of people that were trading in other fields like FX or Commodities are moving to the crypto space. And on the other side we have the price levels. I mean, it's really hard to pin down where it will bottom out and declining prices does not seem to have much to do with people losing interest in the technology itself. If anything, **maybe part of it is that the US dollar, which is the strongest competitor in the currency world has been getting stronger for the past couple of months quite dramatically**. So, if you look at the USD trade weighted chart, it has been in decline since the end of 2016, while interest in cryptocurrencies has gone up. Conversely since the end of 2017 the dollar has gotten stronger, while cryptocurrencies were in decline. Thus, we see some real implications to the narrative of bitcoin as an alternative store of value. That said, I'm in the same camp as everyone here in the call. I can't say exactly where it is going from here, but I'm also happy we had a consolidation and in the meantime the technology frontier is progressing. What we need in the whole space is a broader adoption and that is obviously easier with lower prices.

**Mark Valek:**

Perfect, thank you. Just another follow-up regarding the current topic market and price action. So perhaps back to Max and his idea of volumes: **What is happening on the volume side?** It is looking quite supportive in your business, but can you generally grasp how far volumes have come down or stabilized?

**Max Tertinegg:**

Yes, as I mentioned before it's all a matter of reference point. If you look at the heights in mid-December 2017, **then we are operating at 30% of the volume right now. But if you compare it with the same month year to date then we are slightly above last years' levels**. There is always a supportive basic volume, which won't go away. We might have another hype coming and volumes potentially becoming unsustainable again, but this base volume of users that have been into bitcoin for several years already is here to stay.

That's as far as my view goes.

**Mark Valek:**

Ok, thanks. To follow up on the Lightning Network from your side, Max. A lot of things are developing here. It has been discussed frequently, what implications this could have for the whole ecosystem and in particular to Bitcoin.

**Max Tertinegg:**

I'm convinced the Lightning Network will be adopted on a very broad basis. So, technically you can do Bitcoin transactions directly peer to peer without the need to put the transaction on the Bitcoin blockchain, which solves the scalability issue. In some regard it also solves the anonymity problem, because in a sense, Bitcoin transactions are not anonymous but as a matter of fact very transparent. And also, it solves the problem Bitcoin has with not being a sustainable platform for



microtransactions. If we look at the developments. **The number of lightning nodes that were in operation back in Q1 were in the one hundreds, right now we have around three thousand nodes.** The more nodes are active the better it is for every participant. And once we have a Lightning Network that is also consumable, meaning that the consumer facing side is also existent, then the whole aspect of Bitcoin as a payment network will become interesting again. We are still only at the stage where work on the protocol is done, but there are only very few practical Bitcoin wallets that can talk to the Lightning Network. Especially during the last bull run in December, Bitcoin was only used as a speculative investment tool and maybe even as a store of value, which is fine, but the payment application was completely disregarded. I would suspect that we will have a practical Lightning Network around the beginning of next year and then we'll have an enormous growth in applications on the payment network. **This will make Bitcoin more valuable and in turn drive its price upwards.**

**Mark Valek:**

Do you think the Lightning Network could be the topic that turns the market?

**Max Tertinegg:**

Sure, it could be, but currently we have a negative correlation between positive news and the market behavior because right now there is basically only good news on a technical level, a lot of problems were fixed, Bitcoin cash forked out, yet the prices are falling. So, of course the Lightning Network could be the spark igniting a new bull run, but given how many other things are going on, I can't make such a strong statement here.

**Mark Valek:**

Ok, great. Switching gears. On the regulation side. One of the topics for institutional investors, to which we also have been talking increasingly recently, is uncertainty regarding regulation. FINMA has categorized three types of tokens in February, being payment, asset & utility tokens. Oliver, what's your view regarding this classification generally and specifically the potential conflict of interest inherent to these types of tokens, thinking of problems with ICOs of utility tokens, camouflaged security tokens etc.?

**Oliver Völkel:**

Yes, sure. I would first like to add something to the discussion on the Lightning Network because it's an interesting topic from a regulatory perspective as well. The thing is, it's difficult to keep track of all the developments. It's not just the Bitcoin network, but other networks as well, but we have seen a couple of things: **In the US we have seen that the SEC has classified almost all new tokens that are issued and from which you could expect a likely increase in value as security tokens.** European Security law is quite different to the one in the US, but it's something to definitely keep in mind.

With regards to the Lightning Network, the point I wanted to make is the following. As far as I understand it, in a Lightning Network you only have two parties that open a channel between one another. That raises legal questions as to how to classify these networks. You can no longer discern a particular transaction at a given point in time on the Blockchain as you are effectively only updating balances of parties. This will pose really difficult regulatory questions, since we are beginning to move towards what could become an actual payment network which is, from a regulatory perspective, quite different from what the Blockchain is today.

And it's not just the emergence of the Lightning Network, but also for example the rise of the proof of stake consensus mechanism, where you have people staking funds and master nodes which serve different purposes than regular miners. This makes it difficult from a regulatory



perspective because you might fall into a regime where you don't want to end up. Of course, developers are not really considering this, but it could become problematic.

Regarding ICOs, what the Swiss authority did was use their current model and adapt it to different sorts of instruments that are being issued. We could do the same in Austria, I'm not sure, however, we really need to call different tokens the same way: asset, payment & security tokens. There are already laws in place that are quite similar. If you want to issue a token that can be adopted by a broad range of people that would accept these tokens as a medium of exchange there is EU legislation on payment instruments for example and then you could fall under this regulation.

The same is true if you have utility tokens that are being used for accessing a network or software that you are developing. It makes sense to structure tokens a certain way. I'm not sure we can simply say: Okay, there is a token, we call it an asset token and if it fulfills five requirements then we know you are on the safe side when issuing this token. It's a little bit more complicated than that, there are many laws that interplay with one another. Small differences in the design can have a big impact on the legal classification. In the end you have to look at every single token in detail to figure out what it actually does.

**Disguising a security token as a utility token for example is an issue we haven't quite solved yet. The legal consequences around security tokens are severe when you are not complying with the legislation.**

**Mark Valek:**

Ok, very interesting. Thanks for that. Perhaps, while we are on the topic you want to give us an idea of the experience you've had regarding a recent case, which, if I'm informed correctly, was the first case of a regulated security token within the EU. Is this correct? Who did you advise?

**Oliver Völkel:**

The case goes as follows: Europe wanted legislation in place that controls capital market offerings, and if you are selling instruments with a ticket size of over 100.000 Euros, this makes it a little easier, because this means you don't have to get a capital market prospectus approved by one of the member states regulators. I'm sure people have used some sort of blockchain technology before to issue securities and most likely they have simply used one of the exemptions.

**One of our clients is trying to have a capital market prospectus approved by the Austrian regulator for issuing a security token.** The idea is to issue profit participation rights on the Blockchain. So, basically what this means is that you collect money or in this case Ethereum or other cryptocurrencies, use it for your business and the return that you make in your company is then distributed proportionally to the token holders. **What they are doing is cutting out the banking system because they don't need a payment agent or anybody who would distribute the funds back to the investors.** This would all be done in the Ethereum blockchain and they would issue a token, which would represent the actual security they are offering. As far as I know, if we get an approval by the Austrian regulator, **then this would be the first European capital markets prospectus that has been approved by a regulator for a capital market's issuing of security tokens on the Blockchain.**

It was quite challenging because we had to draft completely new concepts for everything. In a prospectus, you have to describe to investors how the blockchain technology works, how profit distribution works, how the subscription process works. In its basic form, it is quite the same as if you were to issue paper bonds, for example. It's an interesting field of law currently.

**Stefan Wieler:**



May I ask something here? How do you handle that with international investors if they exclude certain markets and then it says in the prospectus that they cannot invest?

**Oliver Völkel:**

For the European markets we can passport the prospectus to other jurisdictions, the only thing that you need to do is have a summary in your prospectus in a language that is accepted by the country you are passporting to and show the taxation issues that investors from these countries have to know. If you do that for every member state of the EU you can pass port your prospectus into every member state of the EU. This is not done in this case, by the way, it's only 7 or 8 major markets where investors ought to be addressed. With regards to other markets outside the EU, this client has also done an offer in the US, which was checked by US legal counsel. With respect to other markets outside of the EU or US, we would advise to not make an offer in these markets unless you have checked the local laws.

**Stefan Wieler:**

So, you cannot accept a Swedish person that comes to you with a prospectus that is not translated into Swedish and the Swedish person finds out that you cannot take it. Or is this just for outside the EU markets?

**Oliver Völkel:**

No, it's more complicated than that. At least for the EU, as a rule of thumb, you always must comply with the national regulation that you are trying to make business in. With respect to the EU, it's not that you are not allowed to sell security tokens to a Swedish person, but rather that you are not allowed to make a public offering of securities in Sweden unless you are relying on one of the exemptions or if you have a capital market prospectus that has been approved. The devil is in the details. But generally speaking, this is the rule of thumb.

**Stefan Wieler:**

Once the ICO is through, you are no longer in control of who is selling to whom. I assume that the company is no longer liable for anything when an imposter sells to a Swedish person, for example?

**Oliver Völkel:**

Yeah, this not only relates to European law. If you are preparing a secondary market transaction and you could regard this as a public offering, then the person who would sell in the secondary market would also be under the requirements of having a capital market prospectus published. The idea behind this is to avoid issuing securities to one person, who then puts it on an exchange and then the actual selling process is done over the exchange. This leads to a whole bunch of really difficult questions such as: What constitutes a public offering and what does not? **The other problem is that, for an exchange to list a security token it needs to be a security exchange, they need to have a license for that and I have heard that there are actually exchanges in process of obtaining these licenses, but if an exchange doesn't have such a license then they would usually refuse to list your token.** We have seen this in the past regarding other tokens that have been issued. Exchanges effectively requested a legal opinion that this token was not a security, because they would, of course, then have to get a license. It's not easy to get such a license.

The more closely you look at it, the more legal problems you see. But it's a matter of time until these problems are sorted out. **The first ones, who will get a license for a securities exchange on the crypto-market will dominate the future.** I always try to make people aware of these legal obstacles but at the same time tell them what possibilities there are at the moment,



because if you start now, you are the one most likely to dominate the market in the future. It's just as simple as that.

**Mark Valek:**

Great so that seems very exciting. Thanks Oliver for these insights. Perhaps we should go to our next block of topics "Custody and institutions". We were talking about the potential influx of institutional investors during our last call and the same topic is often named as a potentially source for the next bull market for cryptocurrencies. Obviously, custody is one thing which is important for cryptocurrencies and even more for institutions. Stefan, you told us last time that the company you are associated with, Block Vault, is working on custodian solutions for institutional investors. What are the newest developments in custody or related to institutional investors in your view and specifically with Block Vault as far as you can tell us?

**Stefan Wieler:**

To summarize what we do with Block Vault: It's currently 100% owned by Goldmoney. We will offer a third party audited, fully insured product custody product for cryptocurrencies. We already have had a soft launch and we already acquired a client that is using our service. The company is called Malbex Resources, it's a Canadian company with the ticker COIN CN on Bloomberg and they are a cryptocurrency merchant bank. The company owns a portfolio of cryptocurrencies and they have chosen us as their exclusive custodian.

Similar to what we offer in the precious metals space, **Block Vault will offer third party audit and third-party insurance**. We should have a full launch in the next couple of weeks. We just had our investor call for the year end results where our CEO gave the timeline for that, which is 4 to 6 weeks, when we go live with this. There is a lot of pent up demand for this as I said during the last call. The reason why we are launching this is because we have been asked by some of our clients in the precious metals business. Josh Crumb, our Chief Strategy Officer, is leading this part of the company. He has done a lot of marketing and demand is coming mainly from Wall Street and there's a lot of interest for the product and we are quite excited about that.

The way we are doing this right now is, there will be two different products. First, everybody that holds cryptocurrencies with Goldmoney will, once it's live, be moved on to Block Vault. So, we give all our clients that stored cryptocurrencies with us third party audit and insurance. Second, we will offer a custody solution for any third-party company. The way we use the vaults of Brinks to store precious metals of our customers, other entities can use Block Vault as the vaulting solution for cryptocurrencies for their underlying business. For example, a future exchange can use Block Vault to store customer margins. Such entities will likely require a storage solution that satisfies regulatory requirement, and Block Vault can offer that. We firmly believe that our offering will be an important building block to broaden adoption of cryptocurrencies. I can't say whether this should be the trigger for the next boom, I guess no one knows what is going to be the trigger for the next boom but we should hear soon about that.

**Mark Valek:**

You mentioned Hedge Funds using you as a custody. What about regulated funds, could you also act as an outsourced custody solution for custodian banks, for instance?

**Stefan Wieler:**

Yes, we are open to everybody. The custody business is meant for institutional investors in any form. Pension funds could use our custodian solutions as well as insurance companies. If cryptocurrencies are ever adopted for global trade, we could be there and serve as the custodian for exchanges. Or for example, you are already on a platform and you hold your cryptocurrency there but then we could have an agreement with this platform to be their custody solution, to offer their clients **auditing and insurance**. For now, if you just want to use this product, then open a



Goldmoney account and you can use it. It's very simple, the same way you used it so far, in the future everything is going to be within Block Vault.

**Mark Valek:**

Very good, in terms of currencies I would be curious what kind of currencies are you able to store or take custody of?

**Stefan Wieler:**

Well, generally we can do anything that is a token. When we launch, we are going to have Bitcoin and Ethereum, but we are working on bringing other currencies as long as we have demand for it.

**Mark Valek:**

Perfect.

**Max Tertinegg:**

May I ask you a question here, out of interest? I think I already asked this last time but I'm not sure. You said this Vault solution will be full third-party insured, so I was just wondering how this would be possible from a technical perspective, because how can it be determined, who had access to a private key or if there isn't a copy of the private key so in case of theft.

**Stefan Wieler:**

Yes, we have a solution for this. Yours is a very good question and it took us a lot of time to figure it out, but that was the problem our customers came to us with. For example: A hedge fund came to us saying, "**I want to invest [in cryptocurrencies], but I need the same kind of insurance as I have for precious metals**". First, to give you full disclosure, I don't have a technical background, but simply speaking, the way this works is that **we fill wallets with a fixed amount of, let's say Bitcoin, and then store part of the private key in a physical form (on a bar) in one of our vaults**. So, we store those physical bars the same way we store precious metals, so it can be handled by the vault operators the same way they handle a silver bar or a gold bar. The important part is, **we needed to have our auditor and our insurance company to be comfortable with the process**.

**Max Tertinegg:**

Are they comfortable with the process?

**Stefan Wieler:**

We have been working with them very closely from the beginning and so far, it looks very good. The insurance company needs to have the thing audited otherwise they cannot insure it. What the insurance company relies on is that the auditor is doing a good job and the insurance company has to be happy with the process. So, auditor must be able to go into the vault, the same way that they come and make regular and unannounced visits and the same way they do for precious metals and then they count the bars. The person doing the audit can see that the bars are there physically. We had to put this all together and it seems that everybody is on board and the vault operators need to be on board as well because this is completely new for them, too. Nobody has ever seen something like this. We launched the beta and it works.

**Max Tertinegg:**

I just registered for the beta launch. I really can't emphasize this enough so if you found the solution to be profitable and if the insurance companies are happy with the process, then it is a breakthrough because this opens up the door.

**Stefan Wieler:**

We haven't launched yet but so far from our side it looks pretty good. From what we know there will be a lot of demand for this from day 1 because it's something nobody has been able to offer so far and it's really important for certain type of asset managers that can actually invest right now.

**Max Tertinegg:**

Can I add one last question to this? What actually is insured? Let's say I put 100 Bitcoin into your vault, so the insurance goes for the 100 Bitcoin or for the euro equivalent at the time I put it in the vault or at the time of a potential theft?

**Stefan Wieler:**

I give you the information I can give, some I might not be allowed to tell you. That's a very good question. You have to understand: The insurance companies we are talking about are the same insurance companies that insure our precious metals. The way this works in the precious metals sector is that the company that owns the vault, they insure everything that is in the vault through an insurance company, they just pass on the costs. For gold bars it's easy, and, what is insured is the weight of metal, so it changes every day right? So, let's say I have a ton of gold in there and it's currently worth, I don't know, 40 million US dollars and then the gold price doubles and then you need to have an insurance for 80 million dollars. The idea is that we have the exact same thing for cryptocurrencies. Now you are using Block Vault through your Goldmoney account and you come to us and say, "I want to buy 100 Bitcoins through Goldmoney". What we do is: there will be different types of bars, there will be, let's say a 10-coin bar, a 50-coin bar and a 100-coin bar, so if you buy exactly 100 coins, then you can own the entire 100-coin bar. We can also break down bars, the same way we break down gold bars, and assign the title of each fraction to a different customer. **But basically, there will be a fixed amount of Bitcoin per wallet / bar and that will be insured as Bitcoin and not as dollars.** The insurance companies have been doing this, for the valuables that are already insured in those vaults, and there's surely much more complicated stuff in there than something that has a market price, because there's all kinds of valuable stored in those vaults.

**Max Tertinegg:**

Thanks a lot, very fascinating.

**Stefan Wieler:**

I'll keep you guys posted, once we go live, I can send out an email to everybody. The launch should be very soon.

**Mark Valek:**

Lovely! Congratulations in advance and good luck for the official launch. Well, I think we covered quite a bit, I don't want to make this too long, but I would still give everybody the opportunity to add some final thoughts, if you have some, I'm sure you have some, but if you have some relevant thoughts, please let us know now, anything related to crypto, did we leave out something crucial in your view Max?

**Max Tertinegg:**

No, I think I'm fine, but I want to add, what I told you in the beginning, so, I would recommend having a look at **the Bitcoin Standard, the book from Saifedean Ammous**, which is very interesting regarding Bitcoin being potentially a long term digital store value for the whole world. There is also a video because Saifedean Ammous was in Vienna at the Bitcoin Austria meetup and there is also a Youtube video, which I think is 50 minutes where he basically covers the essential points. Just have a look at this. That is my recommendation.

**Mark Valek:**

Thank you, great, we will post the link in the transcript. Oliver anything to add from your side perhaps?

**Oliver Völkel:**

Just perhaps as a general remark, the cryptocurrency industry is still very young and faces a lot of challenges also in legal terms, I see this on a daily basis, I just would encourage people not to give up, I mean this is here to stay, and also perhaps if some of the regulators hear this or read the transcript, keep up the good work, I mean it is important that also the regulators get involved in this and figure out how this stuff works and from what I've seen in the past this has been done very well. I think if we work together, then in the next meet up we will have again substantial new developments to talk about.

**Mark Valek:**

Perfect, thank you. Stefan any final thoughts from your side?

**Stefan Wieler:**

No, I think sums it up quite nicely. I think the more I see interest in the space from people that don't necessarily have a technical background, the stronger this becomes and the less likely this ever disappears.

**Mark Valek:**

Perfect, then with this I want to thank you very much again for attending. I think we have some interesting thoughts, which we want to keep and spread. Thank you for that, have a great day and a great week.