

September 20, 2017

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Survey Structure

- ▶ 12 Bitcoin exchanges and brokers
- ▶ Interviews conducted by phone
September 15

Objectives

- ▶ To understand whether cryptocurrency exchanges are being shut down, whether the shutdown is permanent, and what the regulatory goal is.

Bitcoin Survey

Waiting for Formal Action

- ▶ The ban issued this month on virtual-currency “initial coin offerings” has now been extended to crypto currency exchanges. But the exchanges have not received formal notice. Operators are expecting to be told to close.
- ▶ Mining operations are not affected. China mines about 60% of the world’s cryptocurrencies, and miners are usually compensated in crypto coins, so it is not clear now how they will invest or cash those in.
- ▶ Exchange operators do not know if they will be permitted to reopen after the 19th Party Congress starting October 18. The chief concern seems to be around avoiding new pyramid schemes that embarrassingly crash around the Party Congress.

In addition to the ban on ICOs, there is a ban on online peer-to-peer fundraising. The P2P companies are also not permitted to engage in market activities or expand their user bases. They expect that ban to be lifted after the Party Congress, but they have not received formal notice.

ICOs, although growing rapidly, are a very small part of China’s financial system. A government study said that Chinese ICOs raised USD 398 mln in the first half of 2017. However, ICOs, like P2P sites, attract broad participation, often from unsophisticated investors. Caixin [reported](#) that more than 14,000 people participated in the ICO of PresOne, a content-delivery system.

Several trading sites have posted notices for their users saying that the users should cash out before September 30. Bitcoin 86, an information site about cryptocurrencies, posted a notice to users saying that “The basic spirit of the policy is to eliminate EOS [a new smart contract platform for building decentralized applications] investment agents and close ICO applications.” The notice makes it clear that the principal concern here is national control of cyber networks.

Companies we spoke with were almost without exception very anxious about talking and repeatedly asked not to be named or otherwise identified.

Notable Quotes

“Government leaders definitely don’t understand Blockchain, so they are closing everything first, then slowly opening up again. Now all of our activities are moving offshore. Actually, we won’t really close. The users have to wait until we get started offshore, but they won’t be able to use Renminbi, which will be a little troublesome.”

“Our ICOs are mostly really good. They are a way to lower the bar to financing through an IPO. But because there’s no oversight, a lot of bad projects get mixed in. . . . Still, whatever can’t be done in China can be done elsewhere, like in Singapore and the United States.”

“Virtual currencies are all anonymous. All you need is a wallet. You don’t need an ID card of any type. No matter how much money you have, you can put it in a wallet and no one knows whose it is. . . . The government can’t control it.”

“What the government can close is a currency exchange, but if you don’t register a company or an entity, what can they close? . . . Look at [Metamask](#): you can install it with Chrome and add a few parameters and engage in distributed exchange. If you want to buy coin, the system will automatically arrange a seller and a smart contract. You have no idea who the counterparty is—the whole thing is anonymous.”

“The fact is, all these government restrictions are just promoting the development of distributed exchange. Distributed exchanges don’t follow any national law. They simply follow the rules of computer code. The value of virtual currencies altogether is now USD 107 bln. That is independent of national origin.”

“It seems like the government is restricting virtual currency exchange, but personally, I think that the government can’t restrict it. Everyone in the industry thinks that the government will reopen and support the industry in the future. Whether that will be after the 19th, I don’t know.”

“It’s not related to capital flight. The ICOs are basically all private equity . . . and they pretty much all reliably make money. The government is convinced that they are all pyramid schemes.”

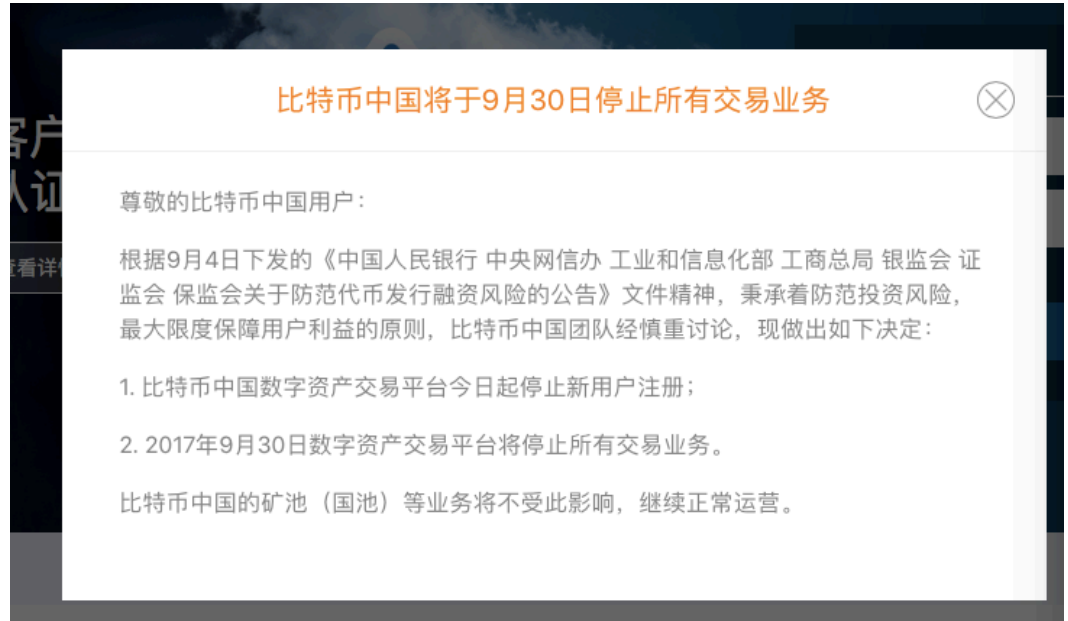
“We think that we’ll eventually have to close, but we haven’t received notice. The connection with capital flight is very small. By far the biggest portion of users change their virtual currency for Renminbi.”

“What you’ve seen is probably some website announcing its closure. We certainly haven’t received any notices about closing. Our activities are all continuing as normal.”

“At the moment, all exchanges are proceeding as normal. We saw the news about online exchanges being halted but we haven’t received any notices.”

“At the moment, there is still trading going on. From September 30, there will be a temporary halt on trading, refilling wallets, taking out cash, and changing virtual currency for Renminbi. We are recommending that you complete transactions before September 30. After that, mining will still be fine, but as to whether the exchanges will be reopened, we don’t know.”

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[Notice](#) posted by Bitcoin China. The notice says that Bitcoin China is no longer accepting new registrations and will halt trading on September 30 and that the company's mining operations are unaffected.

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