

Cryptocurrencies

Economists' cryptocurrency aims to avoid pitfalls of bitcoin

Reserve-backed Saga designed to win approval of financial and political establishment

Martin Arnold, Banking Editor A DAY AGO



Some of the world's best-known economists on Thursday announced plans to create what could be described as the thinking person's cryptocurrency.

Saga aims to address many of the criticisms frequently thrown at [bitcoin](#), the world's biggest cryptocurrency, to position itself as an alternative digital currency that is more acceptable to the financial and political establishment.

It is being launched by a Swiss foundation with an advisory board featuring Jacob Frenkel, chairman of JPMorgan Chase International and former governor of the Bank of Israel; Myron Scholes, the Nobel Prize-winning economist; and Dan Galai, co-creator of the Vix volatility index.

The [Saga](#) token aims to avoid the wild price swings of many cryptocurrencies by tethering itself to reserves deposited in a basket of fiat currencies at commercial banks. Holders of Saga will be able to claim their money back by cashing in the cryptocurrency.

The currency also aims to avoid the anonymity afforded by bitcoin, which has raised financial crime concerns with regulators and bankers. Saga will require owners to pass anti-money laundering checks and allow national authorities to check the identity of a holder when required.

"While blockchain technologies have gained growing acceptance, encryptic currencies have raised public policy concerns, since they are anonymous, unbacked and are highly volatile," said Mr Frenkel. "I share these concerns and see great value in Saga's vision to address them properly."

Deposits will be made in the IMF's special drawing basket of currencies, which is heavily weighted in US dollars.

The Saga foundation has raised \$30m from investors, including Mangrove Capital Partners,

Lightspeed Venture Partners, The Singulariteam Technology Group and Initial Capital.

Instead of opting for a standard initial coin offering, the foundation is creating a different class of token that will to begin with be worth nothing but entitles its investors to a rising number of Saga as usage of the cryptocurrency grows.

“We didn’t want to do an ICO,” said Ido Sadeh Man, founder and president of Saga. “It didn’t look reasonable to start a low-speculation and low-volatility vehicle by launching a high-speculation and high-volatility process.”

Mr Sadeh Man said the Saga foundation had its development centre in Israel and expected to increase its staff from about 25 people to 70 by the end of this year.

“We are not aiming for Saga to replace any national fiat currencies but to be a complementary global currency,” he said. “We are targeting people who are holding digital currencies and looking for safe harbours from the raging volatility.”

Saga will be operated on a variable fractional reserve system. This means its price will be able to rise and the amount held on deposit will fall in proportion to the amount of usage achieved by Saga. Smart contracts will automatically increase the difference between the sale price and the reserve value on a sliding scale in response to demand. The Saga token will be available for purchase from the fourth quarter.

Some cryptocurrencies have been tied to cash deposits before, such as Tether, which is linked to US dollar deposits but has faced scepticism about the opaqueness of those reserves.

Several leading [financial regulators have warned](#) about the pitfalls of cryptocurrencies, including Mark Carney, governor of the Bank of England, and Mario Draghi, president of the European Central Bank. This week’s summit of G20 leaders is set to discuss a global regulatory framework for bitcoin and other crypto-assets.

[Copyright](#) The Financial Times Limited 2018. All rights reserved.