

# Blockchain CheatSheet - Future of Fintech

🕒 Read Time: 7 m

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## § Law

**Premise:** Analogous entities are found worldwide, varying based on jurisdiction.

### SEC ( Securities and Exchange Commission )

Is the commission who regulates investments for the US by informing, guiding and enforcing civil penalties.

- **Applications**

When is a digital asset a "security"

1. When a token is representing a fraction of a security like shares or directly be linked to shares or an asset figuring bonds or stocks
2. An investment contract

- **Define security**

**Howey Test:** It is a scheme whereby a person invests money in a common enterprise and expects profits solely from the efforts of the enterprise, the promoter, or any third party.

**Clarification:** It is not universally clear that Bitcoin is a security but Bitcoin is generally not classified as a security by the SEC due to its decentralized nature..

- **US Security Laws**

The SEC focuses upon manner of sale promotional material or the use case like utility or speculation purpose.

- Goal to protect the "retail investors"
- Howey only matters if token is not obviously a security such as equity or debt

- **Registration and Exemption**

If the security is offered or sold to US persons the issuer must:

1. Register the security to the SEC undergoing expensive costs that most startups can't afford.
2. Find Registration Exemptions:
  - Regulation D - Target private and mature investment ecosystems.
  - Regulation S - Offer to non-US persons.

### The Forced Medal

At the end there are only two realities to deal with the law:

- The LOW Cost of engaging a lawyer to determine if it is a case of a security.
- The HIGH cost of not engaging a lawyer to determine if it is a case of a security.

## **CFTC ( Commodity Futures Trading Commission )**

Is the commission that aims to protect market participants, consumers, and the public from fraud, manipulation, and abusive practices.

- **Applications**

A commodity is a raw material or an agricultural product (Except onions...), service, right and interest that can be bought and sold, whose value is based on a standard market and which is interchangeable with other goods of the same type.

- **Securities are not Commodities**

Digital assets which do not fall under the category of Security are Commodities.

- **CFTC and Commodities Law**

Cryptocurrencies are practically under the scope of CFTC

- Action is taken against unregistered crypto-exchanges
- Guidance about what is spot or derivatives
- Volatilities warnings are issued
- Addressing ponzi schemes
- Cracking down market price manipulators

## **FinCEN ( Financial Crimes Enforcement Network )**

Its role is to enforce compliance with Money Service Business regulations such as:

- AML ( Anti Money Laundering ) Laws - Be able to trace money path from route.
- KYC ( Know Your Customer ) Laws - Verify and maintain the identities of costumers.

## **IRS ( Internal Revenue Service )**

The IRS considers cryptocurrency as property, which is taxed based on the period of holding.

- Short term (Held less than a year)
- Long term (Held longer than a year)

Crypto is taxed also when used as a medium of exchange for good and services which could be a complicated matter due to the volatility

## Issues

1. What happens if a cryptocurrency is acquired at different times and at different values?
2. Is a token associated to an ICO a security or a property?
3. How do we handle forks? As dividend or as a capital gain?
4. How do we handle airdrops giveaways? Is that income?

## Others US Regulators

- Department of Justice
- FBI
- CIA
- FTC
- State Laws

## Challenges

- This technology is novel and often challenges the boundaries of existing regulations.
  - Often, technology advances faster than regulatory frameworks can adapt.
  - It is difficult for regulators and their legal advisors to stay current with technological developments.
  - Nonetheless, it is advisable to consult with regulatory authorities before taking significant actions.
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## § Transmission of Money

### Money Transmitter License

- When do you need it?
- Who qualifies as a money transmitter?

### The Need of a License

Given some specific condition a business may need a license for every state in which it operates. It is designed to minimize the risk of illegal activities. This procedure is time consuming and expensive, no fraudster can undergo such costs.

### Qualification

Businesses that transmit value, such as banks or fintech businesses like PayPal or Revolut, require a license to operate.

- **Exclusion**

Every money transmit which is not considered to lucrative purposes is not liable of license request by the FinCEN.

- **The FinCEN guidance states:**

1. **Exchanges:** Fiat to Crypto to various other assets is an exchange of value as a business.
  2. **Administrators:** The ones who convert one particular value to redeem another as a business like *Tether* or certain *ICOs* which grants a buy back.
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## § Fintech

### Peer to Peer Finance

The ability to bypass the bank as a middleman, keeping things efficient by saving time and money typically spent in the middle phase, redistributing it between the two parties.

### Blockchain Based Finance

Properties of blockchain technology touch different aspects of finance, ranging from peer-to-peer finance to the secure and efficient exchange of assets.

### Growth of Algorithmic Tools

Advising with algorithmic tools grants a systematic approach to investing, which fosters a more robust experience.

### Growth of AI and Machine Learning System

These elements can provide the engine for systematic investment, allowing for the processing of immense amounts of data to oversee capital growth.

### Dramatic Growth

Quantitative tools are crucial for *Fintech*, a concept that, while not new, has evolved significantly due to advancements in technology - the "tech" part of *Fintech*.

**For perspective:** Years ago, a computer capable of performing 1.9 billion operations per second would have cost \$32 million in today's dollars. Now, consider your smartphone, which can handle over 5 billion operations per second.

It's clear that as technology advances, so too will Fintech, offering an ever-expanding array of tools that grow in direct proportion to technological enhancements.

## Implications for Business

The disruption is significant:

- **Financial Analysts:** Machine learning tools are clearly more efficient.
- **Peer to Peer Finance:** Direct deals between lender and borrower yield more efficient results.
- **Investment in Certificates of Deposits:** Blockchain contracting is revolutionary.
- **Times:** Significantly reduced operation times.
- **Wide Range of Applications:** Businesses now have numerous tools that aid in strategizing and creating various routes to raise capital.
- **Supply Chain:** Blockchain adds a solid component of trust to products and services.

## Implications for Society

Banks and current systems need to change; they have been operating on the same model for too long. This model has proven inefficient, as evidenced by events like the global financial crisis and the current state of decisional structures.

A massive amount of money is wasted in processes and security measures, or due to the lack of them in these kinds of systems.

Fintech and related technologies such as blockchain present alternatives that highlight these realities in place of historical inadequacies.

## Underserved

Fintech is the way to spread banking services to the ones that doesn't have access to traditional system. It lowers costs and the digitalization is the key of the wide spread of the systems. Giving the possibility of microlending efficiently for example, that would empower people to build things easily reducing financial constraints and increasing possibilities.

Having a bank or a shop in our own smartphone is easy for everybody thanks to Fintech. This will increase investments in the economy, this will generate employment and so growth

and equality for a better society.

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## **Suggested Follow-up**

[Blockchain Cheat Sheet - Overview](#)

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