

# Digital Assets and Cryptocurrencies

Cybersecurity – challenges for political Switzerland



## State of the art

A **digital asset** is a digital representation of assets, securities, uncertificated securities, rights or units of accounts booked on a distributed ledger such as a blockchain. This includes payment tokens, including cryptocurrencies, utility tokens, and Investment/security tokens as defined by the Swiss regulator, the Swiss Financial Market Supervisory Authority (FINMA), in its guidelines for enquiries regarding the regulatory framework for initial coin offering (ICO).

A **cryptocurrency** is a specific type of digital asset designed to work as a medium of exchange that uses strong cryptography to secure financial transactions, control the creation of additional units, and verify the transfer of assets. **Bitcoin** is a well-known example of cryptocurrencies.

Bitcoin is the first cryptocurrency and probably the most common one. Bitcoin is not backed by any asset and therefore is highly volatile. **Stablecoins** are cryptocurrencies designed to minimize the volatility of the price of the stablecoin, relative to some "stable" asset or basket of assets. A stablecoin can be pegged to a cryptocurrency, fiat money, or to exchange-traded commodities (such as precious metals or industrial metals).

An example of a stablecoin is the **Libra**. Libra is a cryptocurrency proposed by Facebook and located in Geneva. The Libra Association's mission is to enable a simple global payment system and financial infrastructure that empowers billions of people. The Libra shall be a digital composite of some of the single-currency stablecoins available on the Libra network. Each single-currency stablecoin will be fully backed by the Reserve, which will consist of cash or cash equivalents and very short-term government securities denominated in that currency.

## Recommendations

1. Organize an exchange / presentation / round table with cryptocurrency and digital assets specialists to understand the current status, opportunities and challenges; the focus should be on the strategic positioning of these technologies and services and on the required activities to further increase its spread in Switzerland.
2. Identify how the advisory board can support.

The Libra can be used as an efficient cross-border settlement coin as well as a neutral, low-volatility option for people and businesses in countries that do not have a single-currency stablecoin on the network yet. The Libra Association has applied in Switzerland (FINMA) for a payment system license.

Despite the publicity around cryptocurrencies, it is expected that a **new wave of blockchain-based financial services** will be driven by securities such as private debt, private equity, funds, or asset-backed products (e.g. real-estate). The blockchain technology will lower barriers of entry for new players, improve efficiency and lower costs. Numerous banks in Switzerland are already offering services such as custody, trading and brokerage, and investment products. In August 2019, **FINMA** has given crypto bank licenses to two institutes: Seba Bank and Sygnum.

## Challenges

Crypto tokens are used as part of **initial coin offering (ICO)**. ICO is a controversial means of raising funds for a new cryptocurrency venture. It may be used by start-ups with the intention of avoiding regulations. FINMA stated that it would take a «balanced approach» to ICO projects and would allow «legitimate innovators to navigate the regulatory landscape and so launch their projects in a way consistent with national laws protecting investors and the integrity of the financial system». According to PwC, four of the 10 biggest proposed ICO have used Switzerland as a base.

**Tax treatment:** countries such as the US treat cryptocurrencies as a property for tax purposes. This means that they will be subject to capital gain tax.

**Unregulated economy:** there are concerns that cryptocurrencies may become a threat to society. There are concerns that they may become tools for anonymous web criminals, especially tax evasion and money laundering. Cryptocurrencies are used in Darknet markets to enable payments of illicit goods such as drugs or weapons.

**Loss, theft, and fraud:** there are several documented cases, where cryptocurrencies were lost or stolen through hacking. Furthermore, pyramid schemes were created based on crypto currencies

## Need for action

The following areas should be considered to further promote digital currencies in Switzerland:

1. Increase knowledge of crypto assets and underlying technologies in companies and society in order to build trust in the financial services supported by digital assets.

and several websites are soliciting investments in cryptocurrencies without being authorized to do so.

The initial version of **Libra** has faced criticism and opposition from central banks. In April 2020, the Libra Association made changes to the initial approach to address regulatory concerns. As mentioned earlier, the Libra Association has applied in April 2020 for a payment system license in Switzerland.

In order to become viable financial products, the cryptocurrency will need to **comply with existing regulations**. In Switzerland, FINMA requires that crypto banks confirm their customers' and beneficial owner identities, analyse business relationships and notify the Money Laundering Report Office Switzerland in case they suspect money laundering. This eliminates anonymous transactions.

Generally, laws and regulations over crypto assets in Switzerland are considered as being clear and do not hinder the creation and use of digital assets.

One of the challenges related to digital asset is the limited demand for these products. Many companies are not ready to take advantage of them as they do not have enough knowledge to be fully comfortable with the technologies.

2. Ensure that robust cybersecurity is in place to protect digital assets by enforcing solid security standards and controls.

## References

- Crypto-news.net: <https://cryptonews.net/en/>
- FINMA: <https://www.finma.ch/en/news/2018/02/20180216-mm-ico-wegleitung/>
- Wikipedia

## Contact

Nicole Wettstein  
Head of priority programme Cybersecurity  
+41 44 226 50 13



<https://www.satw.ch/cybersecurity-challenges>

## Impressum

Swiss Academy of Engineering Sciences SATW

### Expert contributions

Karl Aberer, EPFL | Umberto Annino, InfoGuard | Alain Beuchat, Banque Lombard Odier & Cie SA | Matthias Bossardt, KPMG | Adolf Doerig, Doerig & Partner | Stefan Frei, ETH Zürich | Roger Halbheer, Microsoft | Pascal Lamia, MELANI | Martin Leuthold, Switch | Hannes Lubich, Board of Directors and Advisor | Adrian Perrig, ETH Zürich | Raphael Reischuk, Zühlke Engineering AG | Riccardo Sibilìa, VBS | Bernhard Tellenbach, ZHAW | Daniel Walther, Swatch Group Services | Andreas Wespi, IBM Research Lab

### Editing and graphics

Beatrice Huber, Claude Naville, Adrian Sulzer, Nicole Wettstein

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