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Questionnaire Response
Call for evidence

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Investment using virtual currency or distributed ledger technology

Q 1: Do you have any further information about any other VC investment product or platform distributing VC investment products, their location or size outstanding/volume?

Q 2: Do you have any information about the profile of investors investing in VC investment products?

According to my experience and discussions with those involved in the field, investors interested in VC investment products often involve either members of the VC community itself, or wealthy individuals outside the community but advised by a knowledgeable contact about the exceptionally high yield of VC investments through the high risk necessarily connected.

Q 3: Do you have anything to add or suggest a change to the description (paragraphs 15-18) of how virtual currency distributed ledgers work? Please clearly state to which virtual currency you are referring in your answer or whether your answer refers to virtual currencies in general.

Some 2nd generation VC platforms such as FIMK (whose core software code is based on NXT) differ from their competitors in that they contain a more sophisticated order matching mechanism than the standard blockchain based clearing where "mining" or "forging" of a new block is required for settlement of trades. The FIMK Private Assets trading system incorporates near instant preliminary matching of trades. This is achieved through scanning of the known network of peers for any new orders by the FIMK VC & trading wallet client before a new block comes in. This transparent pre-matching layer exists as a "soft" feature where the nodes participating in a trade must be using the same type of the [FIMK] client to be able to use this feature. In such a case the preliminary trade matching happens in a few seconds as opposed to the 30 - 45 seconds average block time when a trade / transaction is settled permanently in the blockchain.

Q 4: Do you agree with the general investment process in VC based financial assets as described above (paragraphs 19-24)? Please explain where this process could differ for different virtual currencies.

Both FIMK and NXT have successfully cut out the centralized intermediary trading exchange operator described in paragraph 22. In addition to the payment instrument itself (VC), the FIMK and NXT platforms supply a fully functional, native decentralized trading facility that enables direct peer-2-peer trading of financial assets within the blockchain. Thus trades can be completed between end users as soon as one party owns the asset in question and the counterparty owns sufficient amount of FIMK or NXT cryptocurrency.

Q 5: Which VC based financial assets exist other than the broad categories mentioned (paragraph 24)?

In the 2nd generation crypto platforms, because anyone having access to the blockchain is able to issue "financial assets" of any kind, the nature of the asset is not limited to any formal requirements. The asset may be purely speculatory, like a game, or it may involve other types of rights limited only by the imagination and coherence of the asset issuer.

Q 6: Do you agree with the analogies to traditional regulated entities as outlined (paragraph 25-32)? Please explain where you have a different opinion, including where the analogies are different for different VCs.

Again, 2nd gen crypto platforms like FIMK and NXT provide more extensive and open structure for the exchange of financial assets than the first generation crypto entities. Because all trades are permanently and publicly recorded in the blockchain, the problem / need for enforcing ownership artificially disappears. The one who controls the private key of a FIMK / NXT account controls the financial assets held by that account, in addition to the VC funds residing on that account of course.

If the VC user desires to exchange his FIMK / NXT to Bitcoins or EUR for instance, she still needs to use a VC exchange. This dependency on centralized businesses is being tackled by aspiring "multigateway" solutions where the exchange of VC to another is effectively decentralized out of the reach of any central human operator.

Q 7: Do you have more evidence on how widespread ownership of VC based financial assets/securities is? Please mention your sources.

Q 8: Do you agree with the assessment of benefits and risks of VC based financial assets/securities or are there other benefits/risks for investors, for other market participants, and for the financial system as a whole?

The benefits for the financial system as a whole, when decentralized ledgers become more mature, are those related to more fluent trading of value between holders of value without intermediaries. It's like bringing back the explicitly concrete model of transacting in the ancient times when barter trade was the only way of exchanging value. Just many orders of magnitude greater in a way that removes the need of trust but retains the flexibility of fiat money.

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Q 9: How is distributed ledger technology being used or likely to be used in relation to the issuance, distribution, trading, recording of transactions and ownership of 'traditional' securities or investment products and why?

FIMK is providing Financial Service Providers the means to customize access to the general FIMK blockchain for the purpose of facilitating trade of various financial instruments – either private or public. The Private Assets solution effectively enables quick access to decentralized asset issuance and administration without the large cost overhead of developing a proprietary trading platform from scratch.

All the traditional benefits of decentralized ledger are available, ie. speed, redundancy, fault mitigation, community tested open source software, and lack of any single point of failure.

Q 10: To what extent is the use of distributed ledger technology in relation to 'traditional' securities or investment products being separated from an associated virtual currency and, if so, how and why?

Through its Private Assets solution, FIMK offers FSPs the opportunity to customize and brand their own User Interface Clients so that the FIMK crypto technology underlying the trading platform doesn't need to be visible for end users. This is done to progress FIMK's network resiliency, usage, and image as a trustworthy general platform for many types of financial operations.

FIMK also aims to provide FSPs the possibility to employ separate clone blockchain systems governed and administered by the FSP's inhouse technology resources. The initial and retaining workload to establish a clone crypto (VC) platform is greatly more significant than just attaching to the existing FIMK master blockchain, but some companies may prefer to opt for such "centralized decentralization" while we go through the transition period towards the new frame of reference concerning trustworthy decentralized, direct peer-2-peer transacting.