



Cryptoassets : towards a financial revolution

After the advent of the internet, which has had a huge impact on almost all sectors of activity (industry as well as services) over the last 30 years or so, a second digital revolution is taking shape with the emergence of the internet of value. This new wave completely changes the paradigm around the transfer and management of online value by proposing a native digital, decentralised and broadly accessible system, thus putting the sovereignty of individuals back at the centre. The new revolution draws on blockchain technologies and cryptoassets. This report reviews the main areas of innovation of this new industry and analyses their impact for the years to come.

Bitcoin

The pioneer of cryptocurrencies, Bitcoin allows value to be transferred without a trusted third party and offers different uses according to the needs of its users. For companies such as Tesla, Microstrategy or Square, it is used as a digital store of value more efficient than gold (scarcity, divisibility, accessibility, transferability, productivity). For Venezuelan or Turkish citizens, for example, it is a tool that can protect against inflation.

More than 700 million people saw their national currency depreciate by 20% or more against the dollar in 2020. For others, Bitcoin is a means of avoiding government censorship, or simply of accessing a financial system. As its adoption grows, regulations are emerging to better frame the uses of this new asset, which will eventually enable the construction of new applications.

Stablecoins

Stablecoins are stable cryptoassets and, in most cases, are collateralised by fiat currencies (e.g. USDC with the US dollar). In this way, they serve as a gateway to the world of cryptocurrencies. Users can capitalise on the advantages of cryptoassets (programmability, interoperability, reduction of costs, intermediaries and delays, etc.), while preserving the stability of a traditional fiat currency. Stablecoins are useful for companies and institutions looking to take a first step in cryptoassets.

Facebook's **Diem** project (**formerly Libra**) offers a similar product, based on the dollar, but it remains relatively centralised and limits interoperability with other solutions. In addition, issues of sovereignty (for example, the extraterritoriality of US law with the dollar) and regulation remain important.

CBDC (Central Bank Digital Currencies) projects, which are increasingly numerous, are a way for central banks to get accustomed to the subject and to propose important innovation in the management and issuance of fiat currencies. To ensure the success of these CBDC, it will be necessary to evaluate the relevance of the chosen infrastructures, and to ensure respect for citizens' privacy. But central banks should beware of turning a blind eye to the level of innovation that stablecoins represent, and should start working, especially in Europe, to compete directly with cryptocurrencies on their terrain.

DeFi

Drawing on blockchain technologies and cryptoassets, **DeFi** (decentralized finance) offers a new financial infrastructure, and consequently an alternative to the traditional banking and financial system. It is characterised by its decentralisation, composability, accessibility and programmability. So, in the same way that an internet user is both a creator and consumer

of content, DeFi users can be a «supplier» or a «user» of capital according to their needs. This new infrastructure is still in its infancy with the total value locked into DeFi contracts at \$78 billion, but all existing financial verticals are impacted, with new products emerging every day. Furthermore, the increasing hybridisation of DeFi projects with

traditional finance is driving the adoption of these new services and the arrival of new players on the market.

\$78 billion

currently circulating on this new infrastructure

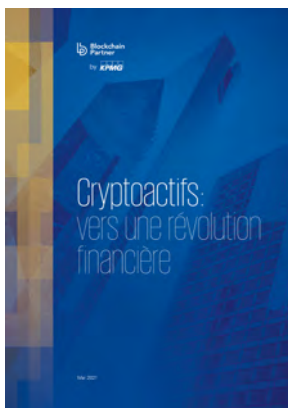


Web 3

Beyond the financial sector, **Web 3**, the next level up from Web 2, is being structured and will radically change the way we perceive and value the internet. It will be more decentralised and beneficial to users, offering an alternative to the centralised functioning of GAFAM. It is based on three underlying ideas: **a reliable and secure infrastructure, disintermediation in data management** and **sovereignty of individuals over their data, identities**

and **digital creation**. IPFS & Filecoin, for example, in addition to blockchain technologies, could offer this new infrastructure solutions for managing data and value in a decentralised way. NFTs can provide solutions in managing digital creation and recognising the uniqueness and rarity of certain assets. Additionally, encryption technologies, such as Zero-Knowledge-Proof, could enhance data privacy and offer new prospects for managing digital identity.

All of this innovation, currently being developed and deployed, implies profound change for existing sectors. Some, such as the financial sector, are already impacted: Coinbase, listed on the NASDAQ stock exchange in April 2021, is worth more and already serves more customers than any European bank. Ultimately, beyond the financial sphere, many sectors will have to adapt to these new ways of working or take advantage of them by offering new services for new markets.



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