



OCC Greenlights Bank Stablecoins: Opens TAM of ~200B Annual Public Blockchain Transactions = Good For Crypto

Digital Assets Strategy

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Yesterday afternoon, the U.S. Office of the Comptroller of the Currency (OCC) issued interpretive [guidance](#) clarifying that federally chartered banks may participate in independent node verification networks (INVN i.e., public blockchains/crypto networks) and use stablecoins for payment activities. Bitcoin and crypto prices have fallen modestly since the news. While some may be tempted to view the possibility of banks entering the blockchain space as a competitive threat for crypto valuations, we do not hold that view. We see the news as a long term positive for the crypto industry but think it could create other financial sector winners and losers.

- **OCC Issues Guidance Clarifying Banks May Use Stablecoins For Payments:** Stablecoins, which are digital blockchain tokens often pegged to ownership of a fiat currency like dollars held in a bank account, have been a fast-growing segment of the crypto industry, with a market cap today standing at ~\$30B compared to ~\$5B a year ago. To date, fiat backed stablecoins have mostly been issued by crypto exchanges, while banks awaiting greater regulatory certainty have stuck to accepting deposits on behalf of issuers. Following OCC guidance that banks may validate, store, and record payments transactions by serving as a node on a public blockchain crypto network, we believe that will start to change ([Slide 2](#)).
- **Intranet -> Internet = On Prem -> Cloud = Private Blockchain -> Public Blockchain:** As there was initial hesitance and then mass adoption during the transitions from intranet to internet and from on prem to cloud computing, we believe open public crypto networks will follow a similar path. Most leading banks have been testing blockchain initiatives for many years now but have opted for private permissioned blockchains instead of public permissionless blockchains like Bitcoin or Ethereum due to regulatory uncertainty. The OCC's guidance shows a keen understanding of how the technology works in our view, and while there will be a learning curve that will take time before it ultimately gets adopted with traditional financial institutions, we see this as a turning point and catalyst for the tech forward banks to start using public blockchain crypto networks.
- **Guidance Opens TAM ~200B Annual Public Blockchain Transactions:** Stablecoins offer several benefits to traditional payment systems, such as transaction speed and cost reduction by probably reducing errors and fraud. Using Federal Reserve Payments Study data, we estimate there to be a Total Addressable Market (TAM) of ~200B annual U.S. payment transactions that could be digitized and tracked on a public blockchain. While it will take time for adoption to take hold, capturing related fee revenue share from the use case would be a materially positive fundamental development for crypto ([Slide 3](#)).
- **Tech & Reg Shift Good For Crypto But May Create Possible Winners & Losers:** Bank issued stablecoin adoption would likely impact several areas of the payments sector. We believe such a move would eventually benefit global GDP, blockchain tech firms, blockchain analytics firms, public blockchain smart contract platforms (although it's too early to pick winners), and big banks. We currently see the impact as relatively neutral for cryptocurrencies like Bitcoin, offshore stablecoins, fintech and big tech. Those negatively impacted by such a shift may include corporate stable coins, smaller regional banks, money transfer services, and global payment networks ([Slide 4](#)).
- **What are the risks?** Banks may be slow to adopt public blockchain networks, the technology may prove not mature enough to handle the scale required by banks and other large financial institutions, the industry competitive landscape may change.

Bottom Line: We see greater regulatory clarity unfolding across the crypto space. OCC stablecoin guidance is a net neutral for assets like Bitcoin today and bodes well for crypto blockchain adoption and prices over the long term.

OCC Guidance: Banks May Use Stablecoins For Payments

Public Blockchains Could Become 5th Payment Evolution Form

- U.S. Office of the Comptroller of the Currency (OCC) issued interpretive guidance clarifying that federally chartered banks may participate in independent node verification networks (INVN or public blockchain or crypto networks) and use stablecoins for payment activities.
- The announcement may be a turning point in the adoption of blockchains as the next evolution of payment tech.

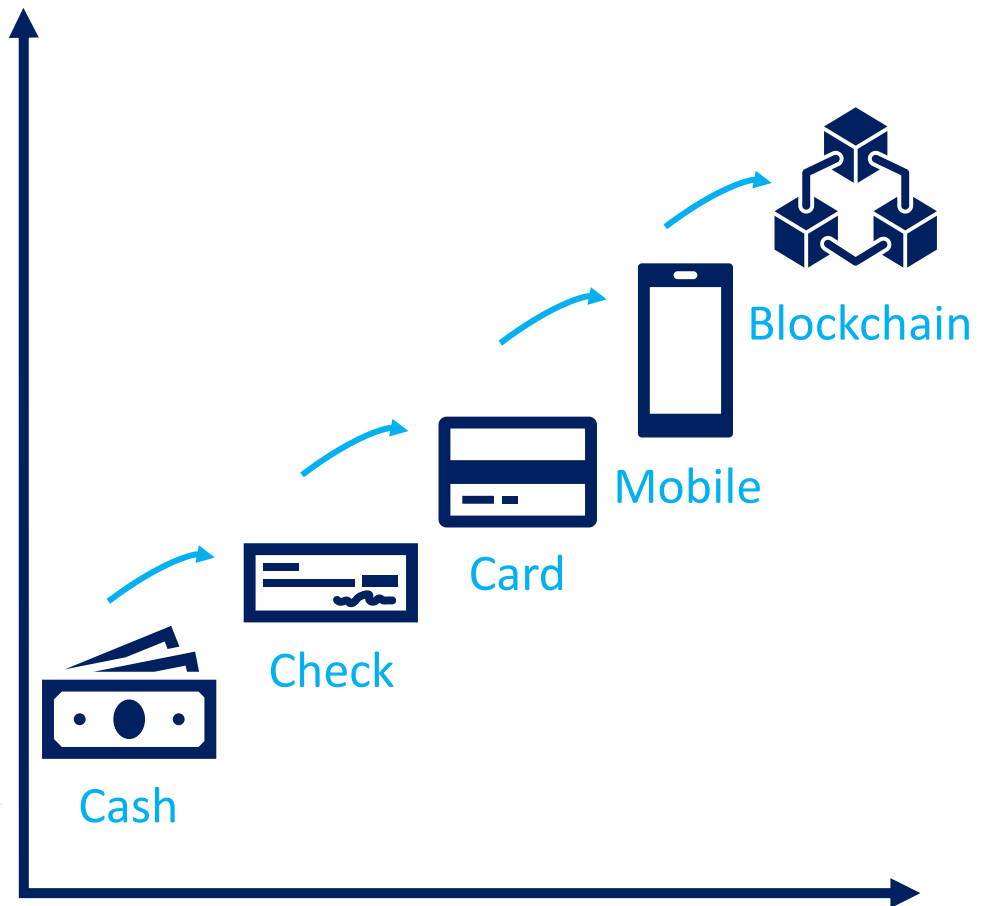
Figure: OCC Announcement & Historical Payment Evolution



Federally Chartered Banks and Thrifts May Participate in Independent Node Verification Networks and Use Stablecoins for Payment Activities dlvr.it/Rpw7SC

9:05 PM · 1/4/21 · dlvr.it

622 Retweets 154 Quote Tweets 1,817 Likes



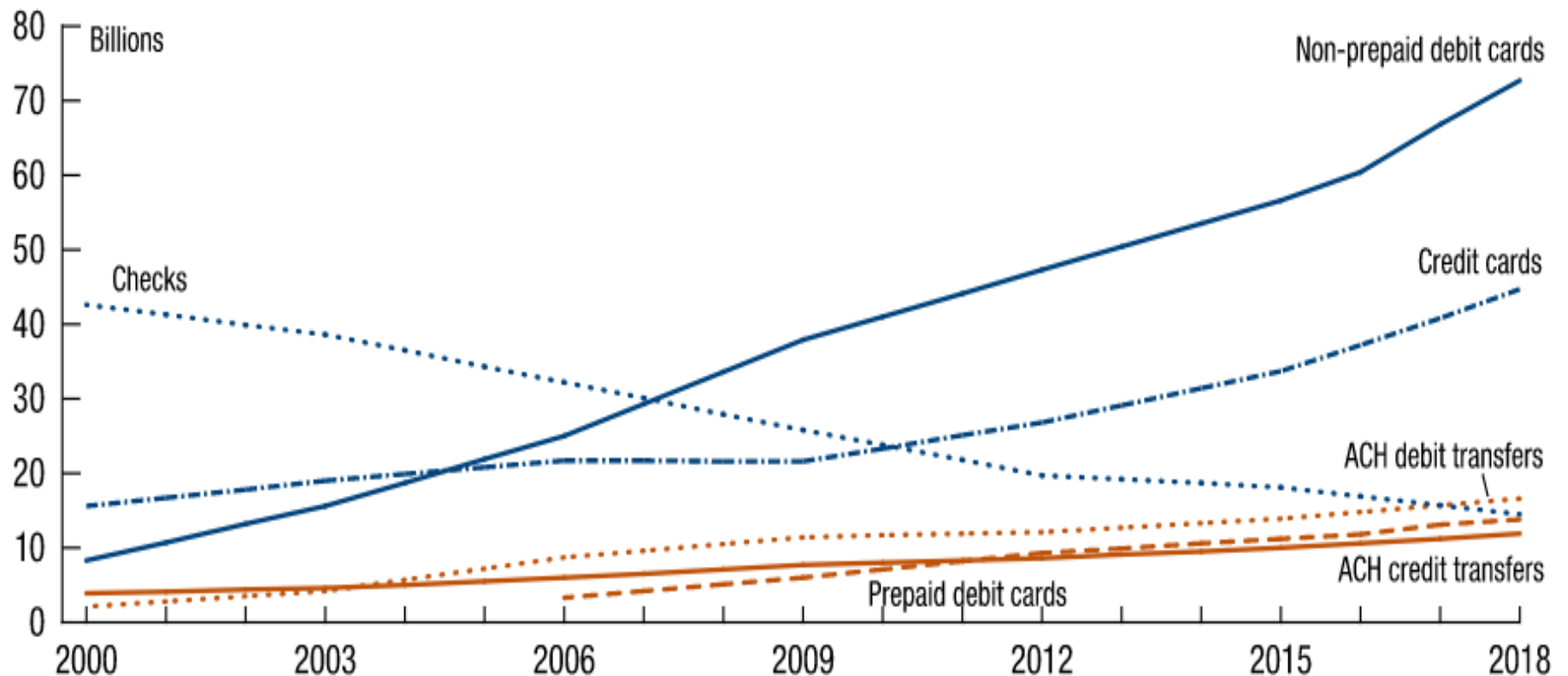
Source: FSInsight, Twitter, OCC

Opens TAM of ~200B Public Blockchain Transactions

Capturing Related Fee Revenue Share Would Improve Fundamentals

- There was ~175B U.S. Payment transactions during 2018, which we estimate has grown to ~200B today based on historical growth rates.
- We believe regulatory clarity from the OCC will allow public blockchains to begin gaining share from this large and growing total addressable market.

Figure: Trends in noncash payments, by number



Source: FSInsight, The 2019 Federal Reserve Payments Study

Tech & Regulatory Shift Creates Potential Winners & Losers

Crypto Impact Neutral to Net Positive Over The Long Term

- Bank issued stablecoin adoption would likely impact several areas of the payments sector.
- We outline the potential impact on key segments and the rationale for such an industry shift, but note, that there will likely be a big learning curve for many banks, and it will be some time before mass implementation plays out.

Figure: Bank Stablecoin Impact

<u>Impact</u>	<u>Example</u>	<u>Rational</u>
Winners		
Global GDP Boost	Consumers & Merchants	Better, Cheaper, Faster Payments
Blockchain Tech Firms	Consensys, R3, IBM, Owlting	More Technology Implementation Consulting Fees
Blockchain Analytics Firms	Chain Analysis, CipherTrace, Elliptic	New Transaction Tracing KYC/AML Compliance Tools
Smart Contract Platforms	Ethereum, Algorand, Bitcoin SV? Too soon to tell	Opens TAM of ~200B Annual Blockchain Transactions
Big Banks	JP Morgan, Bank of America	Bigger Banks = Bigger Tech Budgets, More Payment & Deposit Consolidation, Less Errors, Fraud & Costs
Neutral		
Cryptocurrencies	Bitcoin, Bitcoin Cash, Litecoin	Self-Sovereign Store of Value Demand Remains
Offshore Stablecoins	Tether, DAI, Empty Set Dollar	Less-Regulated, Semi-Self-Sovereign Ex U.S. Usage
Fintech & BigTech	PayPal, Square, Apple Pay	Tech Firms Keep Customer Relationships Via Other Services & Banks Manage Transaction Backend
Losers		
Corporate Stablecoins	USDC, Circle, Libra	Banks Crowd Out & Dominate
Small Regional Banks	Silergate, Signature	Big Banks Take Deposit & Volume Share
Money Transfer Services	Western Union, MoneyGram, Ripple	Less Cash, More Competition, Lower Fees
Global Payments Networks	Visa, Mastercard, SWIFT	Bank Digital Wallets Replace Physical Cards & Blockchains Replace Messaging Networks

Source: FSInsight

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