

Japan's Experience of the Introduction of Virtual Currencies

May 2018



National Federation of Trust Bank Employees' Unions



Bitcoin Market

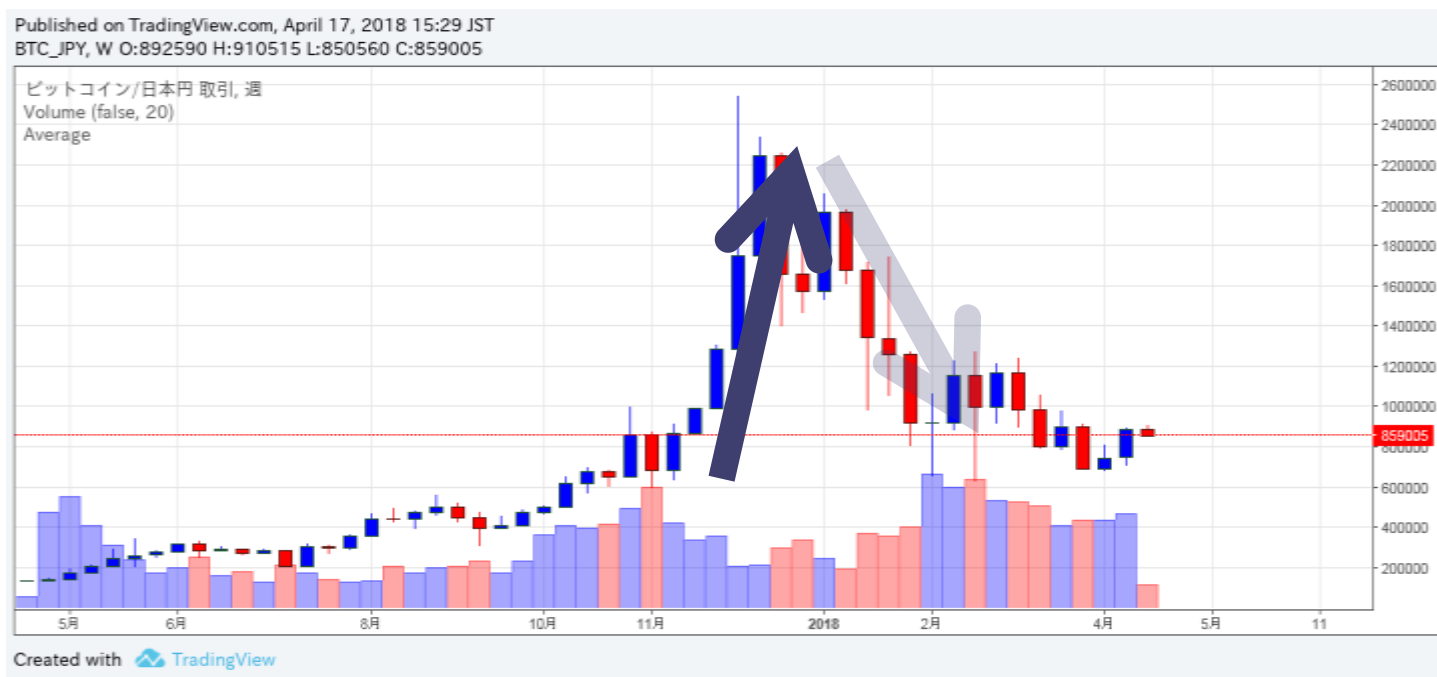
- Bitcoin is the world's largest virtual currency in circulation, said to account for 50% of the virtual currency market.
- 60% of all Bitcoin in circulation are held by Japanese people or traded in Japanese yen. This figure has been rising rapidly, from 10% in 2016, to 40% in June 2017 and 60% in October 2017.
- Several reasons for this rise include: an increased relative share following the introduction of strict regulation in China, inflows of FX traders (reaction to stabilization of the foreign currency markets), and development of virtual currency-related legislation in Japan.
- Special features on television, and advertising by celebrities and other well-known figures have also contributed to increases in the number of users of Bitcoin.

#	Currency	Share
1	JPY	58.0%
2	USD	26.5%
3	KRW	7.8%
4	EUR	3.1%
5	CNY	1.5%



Bitcoin Bubble

- The trading price for Bitcoin surged in the latter half of 2017.
- By November it had increased in price by approx. 50%, and by a further approx. 80% by December. At the beginning of 2018 it was trading at a price 18-times greater than earlier in 2017.
- This surge is characteristic of a bubble. The frenzy sparked further frenzy, in which individual investors purchased large amounts of Bitcoin.



Bitcoin Bubble Bursts



- Since the start of 2018 the trading price has equally swiftly fallen, showing signs of the bubble bursting.
- At the end of January a Japanese trading company (Coincheck) was the victim of a hacking incident in which more than 62.0 billion yen of virtual currency was exfiltrated.
- This incident exposed the vulnerabilities of the system, further cooling investor enthusiasm, which led to further price drops.



Government Response



- In addition to the Coincheck incident, in March 2018 the Financial Services Agency (FSA) announced administrative penalties against seven virtual currency exchanges, which had experienced trouble relating to trading, including system faults, etc.
 - This was the second time that penalties had been imposed in Japan, following the Coincheck exfiltration incident.
 - The FSA also announced the establishment of a “Study Group on Virtual Currency Exchange Services.” This body will consider systematic responses to problems in the virtual currency exchange service provider business, bringing together academic experts, financial specialists and industry organizations, with relevant ministries and agencies also participating as observers.
- The virtual currency boom appears to have subsided....

Virtual Currency Exchanges in Japan

- The current situation is one in which consumers have been faced with endless bad news stories, about the crash of the virtual currency bubble, illegal exfiltration and system problems.
- However, the virtual currency business is still considered to have potential and is attracting new market entrants, both large and small.
- In addition, Japan's mega banks(*) have announced their intention to enter the market.

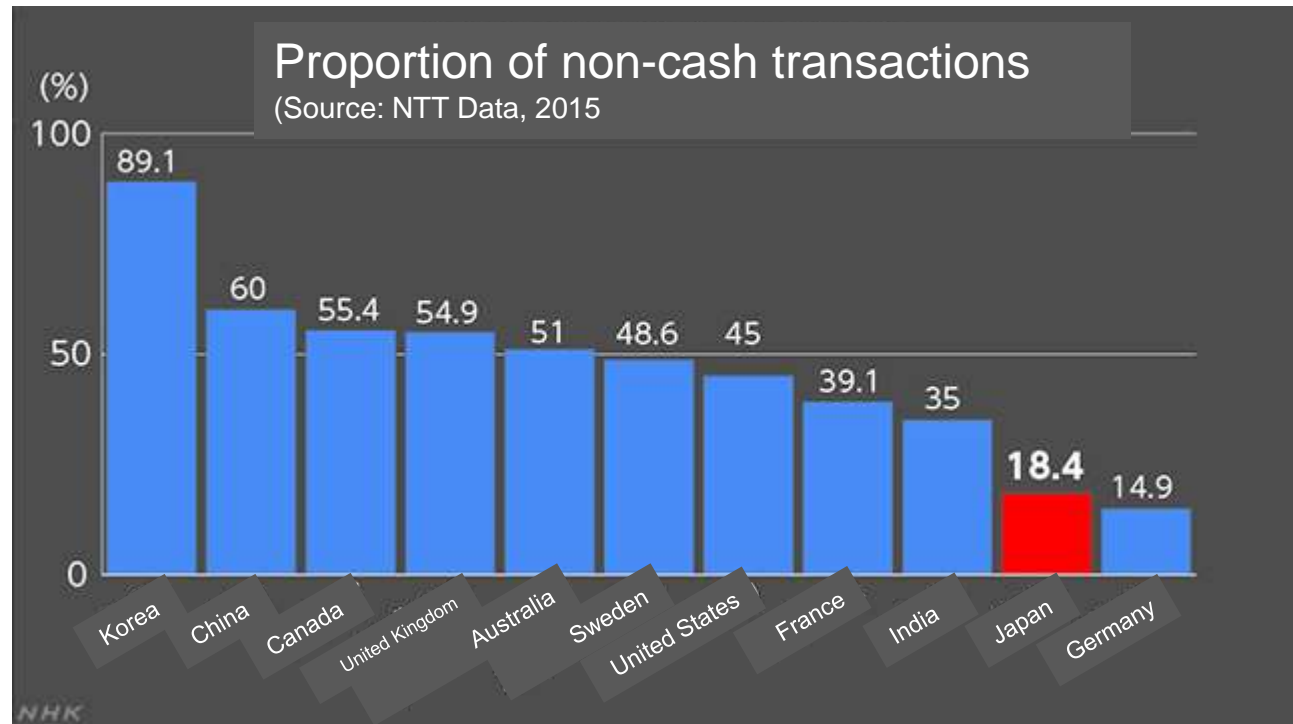
The entry of strong major players has the potential to significantly change the business map in this industry.

(*) MUFG is engaged in the development of “MUFG Coin” and Mizuho Financial Group is developing “J-Coin.”



Cashless

- Japan's cashless transactions are just below 20% of all transactions.
 - Cash transactions still account for more than 50% of the total.
- It is still the case that “cash is king” as a settlement method in Japan, and virtual currency is still only viewed as an investment, rather than a means of settlement or conducting transactions.



Future Outlook for Spread of Virtual Currency

- Virtual currency is something that does not possess fair value.
 - Although price is determined by supply and demand, without real user demand, it is likely that it will be used only for investment purposes and the same mistakes and failures will continue to be repeated.
- **To develop a robust market for virtual currency it is essential to improve convenience and promote its actual use in transactions.**

Thank you
for your time and attention

