DIGITAL ASSETS

From outlier to mainstream?

Cryptocurrency has recently been marked by extreme volatility. Could it ever make the leap from trading asset to serious investment?

Fiona Bond


Alistair Berg via Getty

Cryptocurrency has had something of a 'Marmite effect' on the financial world. While some investors have been enthralled by its revolutionary qualities, others have dubbed it a dangerous development.

At times in the past decade, investors flocked to cryptocurrency in the hope of making a handsome profit, with the price of bitcoin soaring to a record high of close to $69,000 (around £55,000) in November 2021, a far cry from its $2 price tag just 10 years earlier. But while some investors have enjoyed impressive gains, others have lost significant amounts and its volatility and unpredictability have attracted heavy criticism.

Last year was arguably the most turbulent for cryptocurrency investors. After soaring to record highs in 2021, bitcoin then lost 60% of its value in 2022. The announcement in December that cryptocurrency mining company Core Scientific was filing for bankruptcy and the very public demise of cryptocurrency trading platform FTX highlighted its vulnerabilities and spooked investor confidence.

For critics, the challenges of the past year have reinforced the argument that cryptocurrency is simply too risky in comparison with traditional forms of investment.

"Cryptocurrencies that are not backed by major national currencies are very volatile. They cannot be used to buy things from most service providers and they are not a reliable store of value as their prices fluctuate so much," says John Redwood, chief global strategist at Charles Stanley.

"Because they offer no store of value or the prospect of systematic return, buying them for any other reason than as a medium of exchange is pure speculation," he says. "Individuals who can afford to risk some of their money might make large profits by managing to buy a cryptocurrency when it is low and sell it when it is having one of its highs but it is also possible to lose very large sums as well," he warns.

Governments are equally sceptical. China has become the most vocal opponent, starting with a ban on local cryptocurrency exchanges before slowly progressing to a complete ban of cryptocurrency in 2021.

Chris Clothier, chief financial officer and co-manager at CG Asset Management, says: "Bitcoin, and most other cryptocurrencies, have a fundamental value of zero. They are only valuable because, collectively, people have decided they are valuable. Can we be certain investors will feel the same way 10 or 100 years hence? We cannot."

There is also the environmental, social and governance (ESG) question to consider. ESG investing has climbed the investment agenda and cryptocurrency stands out for all the wrong reasons.

"Bitcoin is an ESG disaster," says Clothier. "That alone is sufficient to ensure that we will never own it for our clients. Bitcoin has a carbon footprint of a small country and facilitates criminal payments of all kinds."

Despite this, cryptocurrencies and other digital assets have gained at least a small degree of acceptance among some institutional investors. A recent report by Fidelity showed that 58% of institutional investors already invest in digital assets globally, while 81% view them as having a role in investment portfolios.

Nigel Green, CEO and founder of financial consultancy deVere Group, reports an increased appetite from institutional investors and expects demand to grow exponentially.

"These investors, who bring enormous capital, expertise and influence, appreciate the inherent value of digital, borderless, global, tamper-proof, unconfiscatable currency in a tech-driven world," he says.

> **Cryptocurrencies are only valuable because people have decided they are valuable. Can we be certain investors will feel the same way in 10 or 100 years?**

A study by deVere Group found that 82% of high-net-worth clients, with between £1m and £5m of investable assets, sought advice on cryptocurrencies last year.

"Wealthy investors, a typically conservative cohort, understand that digital currencies are the future of money," he adds.

Haydn Jones is global lead of blockchain and crypto solutions at financial advisory and risk group Kroll. He agrees that the breadth of investors continues to grow.

"There has been a recent wave of institutions making high-profile investments in digital-asset infrastructure and partnering with cryptocurrency-focused organisations," he says. "The technology is being used to explore new forms of tradable assets and securities, which can take advantage of the efficiencies and reduced frictional costs that digital-asset technology allows."

Crypto evangelists say that despite the recent troubles, the shift to a digital payment system is inevitable. But there will need to be significant changes to its current form if cryptocurrency is to become a viable, globally accepted investment. Regulatory oversight will be key.

Earlier this year, the UK government set out ambitious plans to regulate cryptocurrency activities.

Green says: "The UK's decision to regulate the sector will help crypto become a viable investment for mainstream investors. Digital currencies are set to play an ever-greater role in the domestic and international financial system and should be held to the same standards as the rest of the system."

One of the key advantages of many leading cryptocurrencies is that much of the data associated with them is publicly accessible.

For Jones, this accessibility means that the FCA, or any other regulator, should be able to test the regulatory compliance of transactions or holdings at any time.

"Many digital currencies are traceable, making use of the underlying blockchain ledger to examine the hygiene rating of the assets and undertake due diligence – criteria that any serious investor will be looking to meet. It is this traceability feature with the ability to link them to financial crime that makes them interesting from the regulatory perspective. In theory, with exceptions, cryptocurrency should be easier to regulate than many other traditional types of assets."

But Jones notes that resourcing is still a major issue for any regulator.

"The current war for talent is fierce and the reality is that the number of people who understand crypto is small relative to traditional finance. The number of people who truly understand crypto and also understand why and how the UK's regulatory regime works is even smaller.

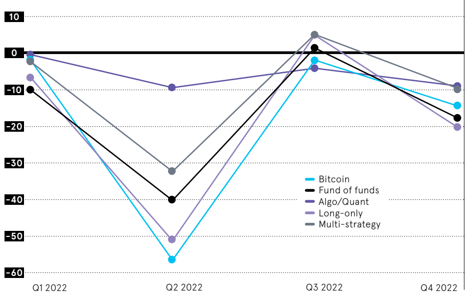
"Regulating cryptocurrency is a major challenge. But that doesn't mean it can't be done," he says.

For now, it would seem crypto's allure lay in its trading capabilities and the possibility of big wins when the market jumps. But with the digital evolution showing no signs of stopping and regulators turning their attention to the sector, there's a real possibility that cryptocurrency could become mainstream.

VOLATILITY IS THE WATCHWORD WITH CRYPTOCURRENCY

Quarter-on-quarter crypto fund performance by fund strategy, %

Crypto Fund Research, 2022



Commercial feature

How accountancy is making a more sustainable world

The broadening role of the CFO is driving sustainable change and opening up new career opportunities

The role of the chief financial officer is rapidly changing. The role, which was once focused solely on finance and accounting, has broadened to encompass more centrally strategic areas. But a sharpened focus on sustainability and the impact of businesses on society is widening the role of accountancy professionals still further, as businesses face more complex decisions and measure and report performance in new ways. This is shaking up current job descriptions and making the profession more appealing to new generations.

This fundamental shift has been brought about by a dual challenge faced by companies: creating a long-term, sustainable business for the future while managing to stay afloat in the near-term in the face of huge inflationary pressures, cost crises and supply chain problems. As a result, the CFO has to balance both sets of demands to ensure the organisation makes a profit and drives growth at the same time as delivering sustainable value.

That means delivering on the firm's environmental, social and economic goals. These can range from delivering on eco-friendly initiatives such as reducing carbon footprints to leading on diversity, equity and inclusion. This includes ensuring ethical supply chains that meet not only their own environmental, social and governance (ESG) targets, but also align with needs of shareholders, regulators, suppliers and consumers.

"CFOs are having to bridge the gap between surviving during these economically turbulent times and building for a sustainable future," says Clive Webb, senior insights manager at the Association of Chartered Certified Accountants (ACCA). "They also have to advise the CEO on the right steps and investments to make to achieve that long-term aim while maintaining the immediate viability of the business."

Tellingly, 82% of finance professionals surveyed by ACCA said that the concept of reporting needed to be expanded and considered from more than just the financial terms.

"Finance professionals play a vital role in guiding organisations towards their strategic goals through highly uncertain times," says Helen Brand OBE, chief executive of ACCA. "In a rapidly challenging economic environment, with increasing urgency to reach net-zero targets, finance teams need real-time, organisation-wide data to rapidly identify and respond to changing circumstances.

"Performance drivers are no longer just financial – sustainability and non-financial disclosures need to be integrated into planning and performance processes to create a multi-dimensional picture beyond the constraints of annual planning cycles. For many organisations, this will mean transformation of planning and performance-management processes and culture."

The push towards greater sustainability, which has been prompted by greater awareness of the climate change crisis, is being strengthened by two new standards set to be brought in by the International Sustainability Standards Board in 2024. As companies gear up for these major changes, CFOs will have to step up and take the lead to ensure their successful implementation.

Consequently, the CFO – and those aspiring for senior finance roles – are having to broaden their knowledge and skills. This has been enabled by the use of data and technology to explore the opportunities that are becoming increasingly available and advanced, all through an ethical lens.

44%

of accountancy employees expect to move to their next role within 12 months

ACCA Global Talent Trends Survey, 2023

New green skills

Among the key skills they will need are in green finance, which provides the funding required to enable companies to follow through on their environmental pledges by reducing their carbon emissions. These skills will be essential as banks and financial institutions come under increasing pressure from governments, regulators and other key stakeholders to move towards a more sustainable business model in the push towards net-zero carbon emissions by 2050.

ACCA is supporting this initiative through the green-finance skills guide, which helps to equip accountants with the insight and expertise they need to help bring about this change. By having the skills to consider both financial and non-financial business drivers, this will enable them to take the lead in training staff and developing the talent needed to effect the transition.

"Finance professionals need to understand not only sustainability, but also technology and data, advanced analytics, artificial intelligence and machine learning as an essential part of their toolkit," says Webb. "In addition to the technical side, they need to be able to communicate and tell a story, be a strategic thinker and deal with conflict, among other skills."

These skills comprise the seven core capabilities that all accountants need. They include: core expertise (in corporate and business reporting, taxation, risk management, advisory and consultancy, audit and assurance, and performance and financial management); ethics; insights (critical thinking, planning and project management, innovation, business acumen, and governance and control); sustainability; collaboration (engagement, communication, inclusion, influence and stakeholder focus); digital; and drive (lifelong learning, determination, change orientation, authenticity and leadership).

This broadening remit makes the accountancy profession much more attractive to potential candidates considering it as a career. It also presents them with an opportunity to drive positive and meaningful change.

"CFOs are becoming more like chief value officers by looking at how their organisations can deliver value across a range of metrics to a diverse set of stakeholders," says Webb. "Many of these metrics are non-financial, but provide a broader view of the company's performance."

Accountancy and finance has traditionally been the go-to career during tough times as people look for secure jobs. And because of the wide range of roles available across multiple industries and disciplines, there are now greater long-term prospects, with 44% of employees expecting to move to their next role within 12 months and 69% over the next two years, according to ACCA's Global Talent Trends Survey 2023.

Moving forward, finance professionals are shaping ACCA's Accounting for a Better World agenda, which is focused on building a more sustainable planet. ACCA research shows that the contribution that the profession makes to this sustainable future can be defined in seven domains. The programme's aim is to help build resilient economies, develop the talent of tomorrow, drive sustainable business and advance standards and regulation, as well as to transform the public sector by delivering the right sorts of policy and spending decisions, supporting entrepreneurial growth and strengthening ethics and trust.

"Sustainable business and finance professionals will be essential in helping organisations in all sectors create long-term value that benefits all stakeholders, playing their part in building a more prosperous future for wider society," says Brand. "From driving good business decision-making as business leaders, partners and analysts, and helping to execute better strategies and activities that deliver more sustainable value, through to championing the ESG agenda.

"From emerging practices in audit that help strengthen the integrity of business performance, through to evolving assurance practices that support organisations in grappling with the challenges of climate change."

By embracing sustainable change and green finance skills, CFOs can drive the agenda going forward. That way they can help tackle the climate crisis and create a more environmentally sustainable and equitable world.

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SEVEN WAYS ACCOUNTANTS ARE CREATING A BETTER WORLD