

# Prospects and Risks of the Development of Japanese Cryptocurrency (monacoin)

Shabinem Jabir kyzy Asadova

Master's student,  
International Finance Faculty,  
Financial University, Moscow, Russia  
shabinaa95@mail.ru

## Abstract

In this article, the prospects and risks of the development of the Japanese cryptocurrencies are discussed. Japan has the most progressive regulating climate in the world for cryptocurrencies. The land of the rising sun is the homeland of a large base of investors of cryptocurrency and users. In 2018 Japan was the second or third largest economy in the world for bitcoin. Averages of the Japanese yen of 11 per cent of the global trading volume for BTC, keeping it a nostril in a nostril with South Korean won for global trade domination after the USA dollar. For the country only 127 million people of 11 per cent of the global trading volume – influence is more than usual size per capita on the crypto industry.

*Keywords:* prospects; risks of development; investors; economy; cryptocurrency

JEL classification G19, G29

From very early on, Japan has been a crypto hub. Japanese citizens were among the first to start mining and using Bitcoin, even at the beginning when it had very little real-world value. MtGox, the world's biggest crypto exchange at the time, was a Japanese company. Millions of Bitcoin transactions flowed through Japan.

Some of the world's biggest crypto celebrities lived in Japan. Roger Ver proselytised Bitcoin heavily in Tokyo and around the country during the first few years of Bitcoin's existence, even giving away free Bitcoins so people could play with them and learn how to use them. Ver was the one who convinced Mark Karpeles to purchase MtGox from programmer Jed McCaleb in 2011 and operate it as a Japanese corporation.

MtGox is the worst hack of a cryptocurrency exchange ever. It was a huge setback for the cryptocurrency community who had staked so much of its reputation on the security and immutability of blockchain-backed cash. The problem, however, was MtGox's security was not up to the task of keeping attackers out.

As a result, the attackers gained access to the private keys of millions of hot wallets on the exchange. They also gained access to many of MtGox's funds.

The MtGox team tried to recover the funds but was unsuccessful. After the loss of so many company funds, the exchange became insolvent. Within a few weeks, the largest crypto exchange in the world had become insolvent. MtGox filed for bankruptcy, Karpeles went to jail for falsifying records during the ordeal, and trust in cryptocurrency fell to an all-time low.

Japanese investors were stunned, especially those who used MtGox as their primary exchange. It would have been reasonable to expect the Japanese government to shut down other exchanges and tighten regulations to protect consumers. However, that's not what they did. A lot of credit should go to Japanese regulators during this period. They didn't let MtGox's mistakes cripple the overall cryptocurrency community in Japan. Instead, they imposed reasonable measures to formalise and monitor cryptocurrency investments to protect consumers.



Fig. 1. Schedules of the rate of MtGox exchange.

Source: bitcoinwiki.com.

Table 1

Rating of the Japanese cryptocurrency exchanges

Name of the platform	Date of opening	Interface language	Trading volume (24 hours)	Trading volume (30 days)
Bitbank	23.06.2015	Japanese	\$ 33,492,137	\$ 917,217,670
Zaif Exchange	28.05.2014	Japanese, English	\$ 9,187,000	
CoinCheck	17.07.2014	Japanese, English	\$ 12,168,240	
Quoine	13.01.2014	Japanese, English, Indonesian	\$ 170,612,690	
Fisco Cryptocurrency	29.06.2016	Japanese	\$ 3,689	
Btc Box	13.02.2014	Japanese, Chinese, English	\$ 9,706,680	\$ 272,946,008
GMO-Z.com Coin	October 2016	Japanese, Russian		
Campfire Corporation	n.d.	Japanese		

Source: Author's compilation.

After the recent Coincheck hack, for instance, the Association was quick to implement its own new rules and regulations in response. The new rules set a maximum cap on the percentage of user funds that can stay in hot exchange wallets. Anything over the threshold of 20 per cent would need to automatically and autonomously move to cold storage for security purposes. Via this self-regulating body, exchanges can make rules that work for them while still keeping government regulators satisfied.

For a long time, the FSA has been concerned over organised crime and other criminals us-

ing digital currencies to launder money, especially privacy coins. That's one of the primary reasons the Payment Services Act requires all cryptocurrency exchanges in Japan to now be duly licensed with the FSA before they can do business. The FSA wants to track know your customer data and impose anti-money laundering measures.

Several organised crime groups used Monero, ZCash, and Dash to launder money earlier this year, even with AML policies in place at Japanese exchanges. As a result, the FSA announced on June 18 that there would be an

outright ban on privacy coin trading in the country moving forward. In the wake of this new ruling, Japanese exchanges have pulled Monero, Dask, Reputation, and ZCash from their trading platforms. Even though Dash and ZCash offer optional privacy that only a minority of users utilise, Japanese regulators have still insisted on removing the coins.

Let's consider in more detail the most popular exchanges, their merits and demerits. The Coincheck theft prompted heavier oversight.

The FSA began conducting on-the-spot inspections for all quasi-operators to look for security gaps, and in March 2018, the FSA sent out punishment notices to seven exchanges, even requiring two to halt operations for 30 days.

According to Asia News Network, the FSA is grappling with how to handle its quasi-operators. Shutting unqualified operators down too quickly could cause customer backlash, but, at the same time, the FSA needs to make sure the proper security checks are in place.

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### Перспективы и риски развития японской криптовалюты (монакоин)

Шабинем Джабир кызы Асадова

студентка магистратуры,  
Международный финансовый факультет,  
Финансовый университет, Москва, Россия

*Аннотация.* В статье анализируются перспективы и риски развития криптовалюты в Японии, где сформирован самый прогрессивный регулирующий климат в этой области и где существует крупная база инвесторов в криптовалюты и пользователей. Однако ряд скандалов, сопровождающих деятельность обменных платформ, прежде всего банкротство самой большой площадки MtGox, подорвало доверие инвесторов и пользователей. В результате, потеряв почти монопольную позицию, рынок криптовалют в Японии в 2018 г. занимал попеременно 2 и 3-е места по объему транзакций, уступая китайскому и южнокорейскому.

*Ключевые слова:* перспективы; риски развития; инвесторы; экономика; криптовалюта