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“Towards a New Financial System”

Existing banking and payment systems, while still working, are obsolete and not perfectly aligned with the constantly changing requirements of the modern world. Moreover, persistent negative or very low interest rates destroy their very foundations. While open access Internet protocols have unleashed a wave of creativity and growth in numerous fields, banking is not one of them. The reason stems mostly from the fact that successful open access protocols for money and identity, while sorely needed, are conspicuously absent at present. We argue that a regulatory compliant, fiat-backed tokenized medium of exchange, can help to fill this gap. The corresponding tokens can be viewed as an electronic analogue of cash, with all its pluses and minuses. While such tokens can have numerous fintech applications, we consider just a few representative examples. Experience shows that all decentralized crypto coins are inherently unstable, which makes them less than useful for commercial applications. Unfortunately, building a successful stable token is hard. Contrary to the often-made claims, it is not possible to build a truly decentralized stable token, so that any potentially successful stable coin must be partially centralized. The degree of decentralization can vary. We describe three approaches including fully collateralized custodial tokens, partially collateralized custodial tokens, and dynamically stabilized tokens, and demonstrate that only fully collateralized tokens can be stable, even under extreme circumstances. To conclude, we discuss in detail Digital Trade Coin, a stable coin backed by either fiat or real assets and argue that such a coin can be used as a much-needed counterpoint to the US dollar. We also briefly discuss merits and demerits of Libra proposed by Facebook.