

## April 2023 Investor Update

### ProChain in the News

[Bitcoin tops \\$30,000 for first time in 10 months, as some tout crypto as 'safe haven'; MarketWatch](#), Apr 10

[Owner of RadioShack, Pier 1 and Modell's in danger of bankruptcy filing: sources; NY Post](#), Apr 2

In short, another month of major developments on the regulatory front, in the US and in the EU.

And, crypto absorbs the blows and prices move higher.

- **ProChain**- SEC Chair Gensler, acting at the direction of or with the consent of the Biden Administration and lawmakers from the Democratic party, has headed the greatest waste of SEC and public resources in securities' regulation history in recent memory. If Gensler decided long ago that all cryptocurrencies (other than Bitcoin) are unregistered securities and any party trading or financing those cryptocurrencies was violating the law, why didn't he say so, rather than working through an incredibly expensive show, financed by taxpayers and the legal budgets of crypto companies, which has taken over 3 years to fully manifest and has wasted a lot of time, and which could have saved so many harmed investors (Celsius, Voyager, FTX)? There is NOTHING about Gensler's agenda that makes any sense other than to enshrine him as the man who tried to destroy crypto in the US and wasted everyone's time and money, for the benefit of providing himself with job security and for personal gain.

### 1. Adoption

#### a. *Investment.*

- The most critical substantive development in April was the seamless completion of [Ethereum's Shanghai upgrade](#), otherwise known as **Shapella**.
  - It is Ethereum's second major upgrade in a year. This latest milestone - following last September's Merge - enabled ETH stakers to withdraw locked-up ETH for the first time ever, finalizing the blockchain's transition to the 99% more energy-efficient Proof-of-Stake (PoS) system, from Proof-of-Work (PoW) for verifying transactions. Ethereum still has an extensive roadmap of improvements ahead, including updates that will enhance its scalability, security, and usability.
  - Concerns around a wave of ETH withdrawal and selling have been unfounded thus far.

- For context, ~15% of ETH is staked, a low percentage compared those on PoS blockchains like Cardano, Polygon, and Solana with staking ratios of 66%, 39%, and 72%, respectively.
  - *ProChain*- While humans continue to fail crypto, the technology continues to be proven unshakable.
- Crypto [liquidity metrics](#) are being developed, and we find these efforts and the analysis to be helpful
  - Unfortunately, currently, crypto liquidity is broadly at a relative low point, compared to the prior 2 years.
- In a testament to dried up opportunities in crypto arbitrage strategies, which were more widely available in the early days of crypto, crypto investment firm **BlockTower** [has wound down its market-neutral strategy fund](#).
- Despite crypto's broad rally during the regional bank liquidity crisis in the US, [some academics are skeptical that the rally has fundamental underpinnings](#). And that's what makes a market.
- Wild price targets are back. The UK's Standard Chartered Bank is shooting for [\\$100k/Bitcoin by year-end](#).

#### b. *Currency and Use.*

- Congress is finally getting around to [crafting laws](#) to address the lowest hanging fruit- **stablecoins**
  - The draft bill released, includes,
    - Insured depository stablecoin issuers would be regulated by existing federal banking agencies (*e.g.*, the OCC, Fed, FDIC, and the NCUA), while non-bank institutions would be subject to oversight by the Fed.
    - Stablecoin issuers would be subject to reserve standards and oversight requirements that include the collateralization, collateral types, custodial arrangement, and redeemability of the stablecoin, and would prohibit issuers from certain activities like lending and rehypothecation.
    - [A two-year ban on stablecoins that are not backed by fiat currency](#), but rather by other cryptocurrencies (a-la Terra/Luna; algorithmic stablecoins).
  - And, even the first step, the House draft bill, has raised controversy, with [Democrats claiming that the bill does not reflect a bipartisan effort](#) and that it is outdated, not accounting for lessons learned from the downfall of FTX.

## 2. **Regulation and Legal**

- The US regulatory highlight of April was **SEC Chairman Gary Gensler's** [testimony before the House Financial Services Committee](#). The full hearing can be found [here](#).
  - Highlights include:
    - Gensler could not/would not answer whether **Ethereum** is a "security" or a "commodity". If a security, Gensler and the SEC have authority to regulate; if commodity, the SEC does not have authority to regulate, rather it is within the domain of the CFTC. Even Rep **Maxine Waters** was frustrated on this point.
    - There are members of Congress, Republican and Democrat, who view crypto as valuable and innovative and that the SEC is stifling innovation.
      - Committee Chairman **Patrick McHenry** (R-NC) made clear that Gensler's "regulation by enforcement is not sufficient nor sustainable."

- **McHenry** has also announced that [the House will release a draft of crypto legislation within the next 2 months](#).
  - **Warren Davidson** (R-OH) told Gensler that he wants him gone and that he's introducing legislation to that effect and wants to restructure the SEC
  - **Tom Emmer** (R-MN) called Gensler an "incompetent cop on the beat" for failing to stop FTX before its failure.
- Gensler stuck to his guns that current regulations are sufficient and, other than an increased budget (of course), Gensler has all he needs to regulate the "largely uncompliant crypto industry."
  - "I've never seen a field that's so noncompliant with laws," he said. "It's not a matter of a lack of clarity. I think [crypto] is a field that, in the main, has built up around noncompliance, and that's their business model. They have chosen, even though it's not the law, to be noncompliant."
- Higher profile investors and financial executives are concluding that [the US Government is hostile to crypto and is forcing innovation to seek a home outside the US](#). Some have been more explicit that [Operation Chokepoint 2.0 is trying to kill of crypto entirely](#).
- In contrast to the lack of real progress in the US, [the EU passed an initial set of rules regulating crypto- Markets in Cryptoassets \(MiCA\)](#)
  - MiCA will require any EU crypto company to register in one of the bloc's member states, which then allows them to operate across the entire bloc. Vis-à-vis the worldwide competition for crypto talent and economic activity, the unified EU-wide regulatory framework will likely make the bloc more attractive to digital-asset companies.
  - MiCA largely targets identification of crypto investors/holders. The need to comply will undermine the sector's ability to provide anonymity to users, forcing exchanges to provide information on senders and recipients for every transaction to authorities and pay scrutiny to self-hosted wallets sending more than €1,000 (\$1,097). Notably, crypto lending, decentralized finance and nonfungible tokens are all beyond MiCA's scope.
  - Unfortunately, MiCA lacks substance. It is an initial, but easy, win for the EU versus other jurisdictions. Many in the US are pointing to it to scare Congress into acting.
- President Biden's administration is considering a ["Bitcoin mining tax" of as much as 30%](#).
- **Bittrex**, once the US largest crypto trading platform, [shut down at the threat of a lawsuit by the SEC](#), which has been investigating Bttrex since 2017, over alleged violations of investor-protection laws and [operating an unregistered securities exchange](#).
  - Regarding the unregistered securities, the SEC identified MG Network (OMG), Dash (DASH), Algorand (ALGO), Monolith (TKN), Naga (NGC), and Real Estate Protocol (IHT)
- Even **PepsiCo** is [frustrated with the lack of digital asset regulatory clarity](#).

### 3. Public Companies

- In late March, **Coinbase (COIN)** announced that it had [received a Wells Notice](#). In mid-April, after Bittrex announced that it would shut down, Brian Armstrong, CEO of Coinbase announced that [his firm may consider moving its headquarters out of the US](#). In late April, [Coinbase took the offensive and sued the SEC](#).
  - The Coinbase suit demands that the SEC publicly share its answer to a months-old petition on whether it would allow the crypto industry to be regulated using existing SEC

frameworks or to propose and adopt rules to govern the regulation of securities that are offered and traded via digitally native methods.

- "Coinbase is the same company that we were when the SEC allowed us to become public two years ago, after detailed discussions with us about the very aspects of our business that are now the subject of the Wells notice," Paul Grewal, the firm's top attorney, wrote in a blog post.
- It gets more pointed in the actual response, written by Sullivan & Cromwell. Examples:
  - "Rushing to court on a record like this casts a shadow over the important investigative work that historically has been undertaken by the [SEC] Staff, undermining judicial and public confidence in its enforcement efforts."
  - "Each of the Staff's purported legal theories—to the extent they can be discerned—is unsupported by law, untested in court, and likely to result in unintended consequences for the Commission, investors, and markets far beyond the digital asset industry."
- **Mastercard (MA) and Visa (V)** continue to focus resources on advancement in digital assets.
  - [Mastercard is enhancing security and compliance to aid cross-border digital asset transfers.](#)
  - [Mastercard is using NFTs to help musicians and their followers.](#)
  - [Mastercard wants more partnerships with crypto companies.](#)
  - [Visa is hiring more crypto developers.](#) It seems like a good time to staff-up, while Silicon Valley is contracting its ranks.
- [Intel will no longer be producing its Bitcoin mining chip.](#)



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