

June 2022 Investor Update

ProChain in the News

[The Fed must 'crush' inflation now to prevent 'years-long recession': Expert; Mornings with Maria, Fox Business](#), July 6

[Digging into Crypto: Is this the bottom for Crypto?; Unicis Research, OETV](#), June 30

Restructuring, Bankruptcy and Liquidation activities (my wheelhouse) have come to digital asset investors and intermediaries.

It's about time. And it's good for maturation of the industry.

The proliferation of intermediaries (stablecoins, lenders, hedge funds) that were *simply spreading depositors and borrowers*, was never going to last.

The problem was the greed, not the blockchain.

As usual in blowups of these kinds, a lot of value was destroyed very quickly by

(1) the [liquidity mismatch](#), between assets (illiquid) and liabilities (liquid), and
(2) the concentration risk.

One silver lining, in the digital-asset world, blowups are exposed and priced-in quickly, and the ecosystem moves on.

In recent weeks, we've witnessed several dominoes fall because of the **Terra/Luna/UST** collapse that took place in May.

- **Celsius**, a crypto lender, was [hit with redemptions that it couldn't meet and, therefore, suspended customer withdrawals](#).
 - Although Celsius denied having losses relating to Terra, Celsius was a Terra investor at some point, and Celsius has provided no proof of its allegedly well-timed exit from Terra.
 - After 4 weeks of suspension of operational activity and the freezing of customer accounts and reports of [laid off employees amid operational restructuring, Celsius filed for Chapter 11 bankruptcy](#).
- **Three Arrows Capital (3AC)**, a BVI hedge fund based in Singapore, was a big investor and loser in Luna.
 - 3AC [reportedly managed \\$10-18B at its peak](#). 3AC's [holdings reached far and wide](#)—from Bitcoin and GBTC to layer-1 smart contract platforms like Ethereum and Solana to private companies.

- 3AC's struggle began with its Luna position, which collapsed from \$600 million to ~\$0 in May. Shortly thereafter, 3AC [tried to recoup losses](#) by adding leverage to its remaining positions and putting its collateral at significant risk in a further market sell-off.
- As the market sold off in response to **Celsius's** decision to halt withdrawals, news surfaced that 3AC could not meet margin calls.
- To leverage its investments, 3AC borrowed big, from:
 - **Voyager Digital**, (public on TSX; ticker **VOYG**), a crypto brokerage and lender (~\$650mm borrowed),
 - **Blockchain.com**, a crypto exchange (\$270mm outstanding),
 - **BlockFi** (~\$80mm of total losses), another crypto lender, and
 - **Genesis Global** ([\\$1.2B net borrowed](#)), a crypto brokerage and an affiliate of Grayscale, the company that controls **GBTC**.
- A BVI court has [ordered 3AC to be liquidated](#).
- As a result, 3AC filed for bankruptcy in the US to enable a cross-border restructuring.

Since the fallout from 3AC, **Voyager** has filed for Chapter 11 with 1.5mm+ customer accounts.

It is [unlikely that account holders/depositors will recover the full amount of their accounts](#).

There is talk that Sam Bankman-Fried (SBF), founder of **FTX**, the world's 2nd largest crypto exchange, is in talks to purchase Voyager. Incidentally, an entity related to SBF is [the largest borrower from Voyager \(\\$375mm\), a large creditor of Voyager \(\\$75mm\) and a large shareholder of Voyager](#).

Voyager is also a lender to [Genesis Global Trading](#) and **Galaxy Digital**, which are also borrowers from **Celsius**. **Yes, it's a tangled web.**

BlockFi, one of the leading crypto lending platforms, announced that it has [secured a \\$250 million revolving credit facility from FTX](#), which will be used to fulfill client balances, and will help bolster the firm's balance sheet and platform strength.

In addition, a larger deal, [allows SBF to buy BlockFi](#), for a base price as low as \$25mm (compare to the \$2.1B that BlockFi has raised to-date in venture capital funding; that's a lot of capital evaporated).

Like Celsius, **Babel Finance**, [suspended customer withdrawals and hired bankers to work on a restructuring](#).

Vauld, another lender like Celsius, which is Singapore-based, is also [suffering from a lack of liquidity](#). In the latest update, another lender, **Nexo**, has entered into an agreement to buy **Vauld**. The company [has filed for creditor protection in Singapore](#).

Zipmex, a cryptocurrency exchange in Singapore and Thailand, with exposure to **Celsius** and **Babel**, [has halted withdrawals](#).

A fund managed by **Skybridge Capital** (Anthony Scaramucci) [has halted redemptions due to illiquidity of some of its holdings](#).

Currently, all stablecoins are being stressed and tested.

All crypto exchanges and lenders are seeing outflows and answering depositor questions regarding solvency, liquidity, and depositor protections.

Everyone has been de-risking and raising liquidity

For instance, **Tether** has reduced its holdings of commercial paper, and is looking to rotate into US Treasury bonds, a safer asset.

ProChain's View- The contagion could have led to a much deeper collapse in prices of digital assets. Although the hits keep coming, pricing has stabilized. We are encouraged by the stability, and we believe that institutional capital has been entering the ecosystem, while many retail investors have been hurt and exited. **ProChain**

- (i) has never had a business relationship with any of the aforementioned lenders,
- (ii) [keeps most of its crypto holdings in cold-storage](#) and
- (iii) has never used any leverage in connection with its investment strategy.

This episode will pass (shortly), development hasn't stalled during this episode, and soon, the market will have to catch up to the fundamental progress in digital assets.

1. **Adoption**

a. *Investment.*

- The first [US-listed ETF that allows investors to short Bitcoin futures](#) (BITI) was launched by **ProShares**.
- The DeFi community is beginning to preemptively manage risk and support peers, to prevent additional liquidations and contagion.
 - [To prevent another liquidity issue in the market](#), the **Solend** DeFi community voted to activate "emergency power" to Solend Labs and take over collateral backing a \$108mm stablecoin loan, moving liquidation from on-chain DEXs (decentralized exchange) to OTC. In addition, the Decentralized Autonomous Organization (DAO) activated a liquidation threshold of 35% for loan amounts over 20% of the main pool, analogous to concentration risk add-ons for capital adequacy rules at banks and prime brokerages.
- Despite the crypto selloff, and [monthly trading volumes in NFT trading collapsing](#), investment in NFT infrastructure has continued
 - **EBay** added to its push into digital collectibles by [acquiring U.K.-based NFT marketplace KnownOrigin](#).
 - **Uniswap** Labs said it has [acquired NFT marketplace aggregator Genie](#) in a push to support trading of non-fungible tokens "soon."
- The direction of hiring in the crypto-industry is mixed
 - On the one hand, in concert with the market selloff, [Coinbase \(COIN\) and Gemini have plans for sizable layoffs](#).
 - In stark contrast, [Binance, Kraken](#) and [Polygon are increasing their pace of hiring](#).

b. *Currency and Use.*

- Many have criticized decentralized finance (DeFi) for [being limited to the crypto ecosystem](#); for instance, only accepting deposits for, lending in and generating returns in cryptocurrency.
 - In a revolutionary partnership, **MakerDAO** will be collaborating with **Huntingdon Valley Bank**, a traditional 151-year-old bank, and lend HVB \$100mm for the purpose of growing the bank's business (e.g. real estate loans, commercial & industrial loans,

government guaranteed loans, consumer loans) and the bank will be posting those assets as collateral.

- In short, [Maker will be enabling real-world assets to make their way into DeFi](#).
- As ProChain has highlighted previously, traditional payment processing companies, such as, **Visa**, **MasterCard**, and **PayPal** are [fully integrating crypto into their infrastructure](#).
 - As with the internet, in the not-so distant future, consumers will utilize digital-assets, even without their direct knowledge.

2. Regulation and Legal

- SEC [rejected Grayscale's Bitcoin ETF application](#).
- In response, Grayscale Investments is [suing the SEC](#). The case will be an interesting academic exercise, could be long and the issue could be practically resolved prior to the case's complete adjudication.
- Ironically, the Chairman of the SEC, Gary Gensler, has clearly stated that [Bitcoin is a commodity](#), therefore, notably outside of its jurisdiction and in the hands of the CFTC. What about Ethereum, and others?

3. Public Companies

- In recent months **Tesla** [has sold 75% of its Bitcoin holdings, amounting to ~\\$1B](#).
 - Without the sale of its Bitcoin position, Tesla would have reported negative free-cash-flow for its 2nd quarter earnings report.
 - There is speculation that Tesla's Bitcoin sale added to the pricing slide in cryptocurrency during recent months.
- In case that **FTX** and **Sam Bankman-Fried** weren't busy enough with **Voyager** and **BlockFi** and other distressed situations, the commission-free stock exchange, **Robinhood (HOOD)** is also [within FTX/SBF's striking distance](#).
- The selloff in cryptocurrency has forced some well-known Bitcoin miners to sell their Bitcoin holdings to support OpEx and CapEx
 - **Bitfarms (BITF)** [sold half its holdings to pay down debt](#) (\$62mm).
 - **Core Scientific (CORZ)** [sold all its holdings](#) (\$167mm).
 - In June, **Argo Blockchain (ARBK)** [sold more Bitcoin than it mined during the month](#) (\$15.6mm)
- **Signature Bank (SBNY)**, the New York-based real-estate and crypto focused bank, [has lost considerable deposits](#) because of the dip in the cryptocurrency market.

David D. Tawil

President

+1-646-479-9387

david@prochaincap.com

