

May 2022 Investor Update

ProChain in the News

[Will Crypto Survive This?](#); *Unicus Research, OETV*, June 10

1. Adoption

a. *Investment.*

- In recent days, the market witnessed [another “bank run”](#) in the form of **Celsius**.
 - Celsius, a centralized crypto lending platform, which peaked at \$20B in assets, [halted all withdrawals on the platform](#) amid significant outflow pressure. The pressure began in earnest because of the Luna/Terra/UST meltdown in May, which is causing jitters around all crypto depository initiatives.
 - Historically, Celsius generated yield through institutional lending, mining, and staking, as well as lending in decentralized finance (DeFi). Particularly important were its DeFi/Ethereum deployments, with a majority being in relatively illiquid deposits. Those illiquid deposits left only 29% in fully liquid Ethereum to satisfy customer withdrawals.
 - *Given the transparency of blockchains*, the market was able to “see” that Celsius has been moving some illiquid deposits, likely for sale to fund withdrawal demand from Celsius’ customers.
 - Compounding the issue is that Celsius has borrowed stablecoins using Ethereum and Bitcoin as collateral. These debt positions are subject to liquidation if collateral prices drop too low relative to debt outstanding, which would result in seizure of the collateral.
 - **ProChain**- Celsius is an example of mismatched maturities/liquidity, however, it isn’t an egregious mismatch and, therefore, says a lot about the current environment. Every financial institution in the world has a constant risk of a bank run; no bank has enough liquidity on hand to meet all depositors at once. However, cryptocurrency banks/lenders are new, untested and managing a currently volatile asset-class in a challenging macro environment. Therefore, Celsius may not be the last blowup.
- In the wake of May’s market shakeup, more market participants are now calling for [the eventual demise of many of the ~19,000 currently outstanding cryptocurrencies](#).
 - Considering the early development stage of the asset-class and the likely turnover among participants, leaders and success stories, an active investment approach, such as **ProChain Capital**, is justifiable.

- Following closely on the heels of its announcement about adding Bitcoin investing to 401(k) plans, **Fidelity** announced that it is [doubling its headcount in its digital assets services business](#).
- **Jay-Z** and **Jack Dorsey** are [investing in a Bitcoin education program in the low-income neighborhood of Bedford-Stuyvesant in Brooklyn, NY](#).
 - At **ProChain**, we are keenly focused on the pace of adoption of digital assets. In short, the technology has been proven, its adoption needs to be ubiquitous to propel value. Initiatives like this will push adoption.
 - In addition, this project is an example of a primary purpose of cryptocurrency of enabling the banking of the “unbanked”.
- [An increasing number of hedge funds are investing in digital assets](#).
 - **PwC** reported the statistic at 38% of hedge funds overall; [up more than 50% YoY](#).
- [Major insurers are also focused on cryptoasset investments](#).
- **Citibank** has commented that [recent volatility in stablecoins has affected user adoption](#).
 - **ProChain** has a more nuanced perspective. The volatility has likely flushed out uneducated, fast-money retail investors, and has given educated, institutional investors a more enticing entry point.

b. *Currency and Use.*

- A recent study by **Deloitte** found that [65% of major merchants have either already enabled crypto payments or plan to do so within a year](#).
 - 64% said they saw significant customer interest in paying with crypto.
 - 85% said they believed crypto payments would be ubiquitous within five years.
 - 83% said enabling stablecoins was a high priority, at least.
- The largest and most valuable play-to-earn game, **Axie Infinity**, has experienced a [drop in users, diminution in value and questions surrounding the viability of the business model](#).
 - **ProChain** sees some parallels to the Terra/UST/Luna unwinding. Although Axie and Luna gained critical mass to attract attention and drive valuation, they did not achieve the size and velocity required for permanence. [These business models have justification; they will be tweaked and will make a comeback, sooner than most think](#).
- **American Express** confirmed that it will offer a [crypto-rewards charge card](#).

2. Regulation and Legal

- The long-anticipated [draft legislation](#) by Senators Gillibrand (D-NY) and Lummis (R-WY) has been released.
 - [Significant points](#) made by the bill include:
 - Transactions in cryptocurrency under \$200 would be tax-free. This would encourage the use of cryptocurrency as a *medium of exchange*. Appreciation in the price of cryptocurrency would not be taxed if spent in \$200 increments.
 - Many cryptocurrencies, including Bitcoin and Ethereum, would be considered “commodities” and fall under the jurisdiction of the **CFTC**, and not the SEC, which is seen as a much more stringent regulatory body.
 - Encouraging traditional financial institutions to issue **stablecoins** and for all stablecoins to be fully-backed by reserves.
 - Sen. Lummis has been an outspoken supporter of and investor in cryptocurrency, and the State of Wyoming has been at the forefront of legal and regulatory development of cryptocurrencies and crypto banking.

- It is unlikely that the bill will be taken up before the Congressional mid-term elections. However, it could serve as an excellent starting point for legislation for the next Congress.
- **Grayscale**, the company responsible for **GBTC**, the publicly-traded Bitcoin trust, has hired Donald B. Verrilli, Jr., the former Solicitor General under the Obama Administration.
 - This is an important step in Grayscale's continued effort to convert GBTC into an ETF.
- For the first time, the **DOJ** [has brought an insider-trading case against an employee of OpenSea, the largest NFT marketplace](#), for profiting on advance knowledge of NFTs that would be hosted on the OpenSea platform.

3. Public Companies

- **Coinbase (COIN)**, which was already [cutting back on hiring in light of the recent slump in prices](#), announced that it is [laying-off 18% of its workforce](#) (1,100 employees).
 - The convergence of the collapse in the prices of cryptocurrencies with the potential recession has immediately altered plans for growth initiatives. This is likely to be the first of many.

David D. Tawil

President

+1-646-479-9387

david@prochaincap.com

