

## May 2023 Investor Update

### ProChain in the News

[Bitcoin tumbles as Binance paused withdrawals twice](#); *MarketWatch*, May 8

[Japan's New Stablecoin Framework Could Spur US To Act](#); *Blockworks*, June 2

ProChain has investments in a couple of privately held Bitcoin miners; shortly, both are expected to be listed and traded publicly.

**Gryphon Digital Mining** is expected to merge with Akerna Corp (**KERN**).

Recently, Gryphon [announced that it was certified as the first sustainable Bitcoin mining company](#) by an independent non-profit.

Many are hoping that [the energy scoring system becomes an industry standard](#).

Furthermore, Gryphon [is growing](#).

The **SEC's** war over crypto is being waged in the court of public opinion. In the actual courts, the SEC hasn't been winning that much.

At the same time, the **CFTC** is working with the legislature to make real progress on regulating crypto, while keeping the ecosystem intact and allowing it to flourish in the US.

With hope, the CFTC, the legislature, and the judiciary will bring a stop to Gensler's wasteful "regulation by enforcement"; and, if not, a new Presidential administration eventually will.

*More on this below.*

### 1. **Adoption**

#### a. *Investment.*

- [Daily Bitcoin transaction volume is up a lot](#) due to the Ordinals protocol, which allows Bitcoin to be inscribed with NFT ownership information, being very active.
  - The volume has even led to temporary [congestion and exchanges' limitations on withdrawals](#), at times.

- This is also benefitting Bitcoin miners, who get paid to validate transactions and protect the integrity of the blockchain.
- However, actual [Bitcoin liquidity/trading is down a lot](#). The lack of liquidity may exacerbate volatility.
- **BlockFi**, the cryptocurrency lender, is [shutting down and liquidating in bankruptcy](#). The remaining assets of the company are various litigation claims against bankrupt crypto entities, such as, FTX, Three Arrows, and Core Scientific.

b. *Currency and Use.*

- Another country, [Lichtenstein](#), is planning to accept Bitcoin as a form of payment for government services.
- Prior to the SEC crackdown, Binance announced its [delisting of well-known privacy coins, Monero and Zcash](#), in four European countries.
- Stablecoin issuer, **Circle**, [disposed of all US Treasury bonds in its USDC reserves](#) in response to the recent debt ceiling uncertainty.
  - The disposal was part of measures to protect from a fallout from the US debt ceiling showdown and the potential US default.
  - USDC is now backed entirely by overnight repurchase agreements.
  - The irony of Senate Democrats railing against the stability of stablecoins should not be unnoticed.
- Without much fanfare, the community governing **MakerDAO** is [making important progress in the functioning of DAI](#), the stablecoin of MakerDAO, and thereby, exhibiting the power of DAOs (decentralized autonomous organizations).

2. Regulation and Legal

- Recent days have been highlighted by the SEC's lawsuits against **Binance** and **Coinbase**, arguably the two remaining major crypto exchanges that, until earlier this week, hadn't yet been attacked directly by the SEC.
  - [The allegations](#) against Binance and its founder, CZ, are numerous and serious.
    - Disregard of federal securities laws and enrichment at the expense of investors.
    - Unlawful **solicitation** of US investors through unregistered trading platforms.
    - **Unregistered offers and sales** of crypto asset securities and other investment schemes.
    - **Misrepresentation** of surveillance and control over manipulative trading on the Binance.US Platform.
    - **Evasion of registration** and regulatory oversight designed to protect investors and markets.
    - **Commingling** and diversion of investors' assets without proper oversight.
      - We'll now find out [whether the rumors were true](#).
    - Failure to implement adequate trade surveillance and manipulative trading controls on the Binance.US Platform.
    - Engaging in **wash trading** to artificially inflate trading volumes on the platform.
    - Violation of securities laws by conducting unregistered offers and sales, evading registration, and operating with conflicts of interest.
    - Violation of the Securities Act of 1933 and the Securities Exchange Act of 1934.
    - Dodge of disclosure and other requirements meant to protect capital markets and investors.

- In connection with the Complaint, [the SEC has also sought a temporary restraining order and preliminary injunction against Binance US.](#)
  - [The allegations](#) against Coinbase are more limited and do not include any individuals.
    - The SEC alleges that Coinbase operated without proper federal securities' licenses and "commingled" its operations as an unregistered broker, exchange and clearing agency allegedly putting users at risk, which shouldn't be confused with commingling of fund.
    - The SEC alleges that Coinbase should be registered with the SEC as an exchange, broker-dealer and clearing agency. It additionally alleges that Coinbase's staking program should have been a registered offering.
      - In case the allegations by the SEC weren't enough, [several States have piled on.](#)
      - This comes on the heels of [New York seeking broad authority over digital assets](#) and digital asset businesses that operate in NY.
  - In the context of the lawsuits, the SEC has named the following tokens as "securities", which would subject them to SEC registration, disclosure, and oversight: **Solana, Cardano, Algorand, Solana, Polygon, Decentraland, Axie Infinity, Cosmos** and **Filecoin**.
    - The SEC's Complaints detail the background of each token and the aspects that lead to the "securities" classification.
    - Notably, **Ether** is not listed. As expected, **Bitcoin** is not listed either.
  - As of now, the cases against both companies are limited to civil causes of action, however, DOJ is thinking through the case against Binance.
- Unsurprisingly, other US trading venues are [slowing down their trading of digital assets](#).
- Although the Complaints garnered most of the limelight, [the concurrent hearing in the House Committee on Agriculture](#) with **CFTC Chairman, Rostin Behnam**, may be more consequential for crypto regulation and rulemaking in the US.
- As a reminder, Coinbase recently went on the offensive against the SEC, filing a writ of mandamus lawsuit. The **US Chamber of Commerce** has [filed a brief in that suit in support of Coinbase](#) and other crypto industry enterprises.
  - Similarly, ignoring the SEC's actions, the [Third Circuit Court of Appeals ordered the SEC to respond to Coinbase's petition for crypto rulemaking](#).
    - "Rules of the road, from legislation or rulemaking or both, must come before enforcement actions. That is why we petitioned the SEC for rulemaking nearly a year ago in the first place," Paul Grewal, Coinbase's Chief Legal Officer, said in a tweet thread.
- In additional pushback against the SEC, **JPMorgan** and the **Small Business Administration**, among others, have [filed negative comments to a proposed "custody rule" by the SEC](#), which would require investment advisers (RIAs) to hold client assets, including crypto assets, only with "qualified custodians."
  - Some called the SEC's proposed rule "jurisdictional overreach, resulting in indirect and inappropriate regulation", arguing that several asset classes may be fundamentally unable to meet some of the requirements the SEC has in mind.
- For a [comprehensive review and analysis of the bank runs](#) of Silvergate, Silicon Valley Bank and Signature Bank, please see the great analysis of Gary Gordon and Jeffrey Zhang

### 3. Public Companies

- **Visa (V)** is [continuing to experiment with crypto](#) and pushing to get blockchain to mainstream adoption.
  - Visa's focus includes consumers, institutions, and even, central banks.
  - The company has [a devoted website](#) to its crypto ambitions.



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