

## September 2022 Investor Update

### ProChain in the News

[The Fed has a 'very different agenda' than the markets](#); *Mornings with Maria*, **Fox Business News**; Oct 25

[Crypto Rising - The next big changes in the Crypto Economy](#); **OETV**; Sept 30

#### 1. **Adoption**

##### a. *Investment.*

- The most significant event in recent crypto history, the **Ethereum 'Merge'**, was completed successfully on September 15. And, thankfully, it was uneventful.
  - Going forward, the consensus mechanism for validating ownership and verifying transfer of Ether will be controlled by holders of Ether that stake their holdings.
  - As anticipated, since post-Merge validation no longer relies on computing power to compete for validation (Proof of Work), Ethereum arguably [has cut its power usage by 99%](#) compared to prior to The Merge. And the founder of Ethereum, **Vitalik Buterin**, stated that [The Merge cut the world's energy usage by 0.2%](#).
  - As a result of the staking consensus mechanism, [the futures activity in Ether is likely to rise](#), with stakers looking to hedge their risk while their Ether is staked and illiquid.
  - Unfortunately, despite the positive Merge event, Ether, along with other cryptoassets and risk assets generally, [fell in September](#).
  - Furthermore, the staking mechanism, and pooling for the economic benefits of staking, has led to [high concentration](#), giving rise to [additional concerns](#), especially in light of the hint that the **SEC** may now consider Ether a "security" in light of the [staking validating mechanism](#).
- Traditional finance pivoting toward digital assets:
  - **Fidelity**, an early crypto adopter and supporter, is considering [offering Bitcoin trading to retail brokerage customers](#) (34.4mm accounts).
    - **Fidelity** is also [offering Ether trading to institutions](#).
  - **BNY Mellon** is beginning to [offer cryptocurrency custody services](#).
    - BNY Mellon is one of eight US banks that are systemically important to the worldwide banking system, according to the Organization for Economic Co-operation and Development (OECD).
  - **Mastercard (MA)** is attempting to [facilitate crypto trading at traditional banks](#). This is an ironic development- that banks need Mastercard to help the banks offer crypto

trading to their customers. Nevertheless, it speaks volumes to the commitment that Mastercard has for cryptoassets.

- **KKR** has promoted [the tokenization of one of its health care-focused private equity funds](#).
  - This is an important development. *ProChain* strongly believes that we are at the initial stages of a revolution to digitize and tokenize all financial assets, reducing the volume of paperwork necessary for subscription/purchase, redemption/sale and transfer recordkeeping. It is encouraging to witness a traditional-finance behemoth, such as KKR, encourage the transformation.
- **EDX Markets**, an exchange intended to mimic traditional securities' exchanges, and backed by **Charles Schwab**, **Fidelity**, and **Citadel**, among others, is [scheduled to debut in November](#).
- Several crypto founders have recently [stepped down from their posts](#). Some are calling it [a wipeout of the C-Suite](#).
  - [Alex Mashinsky](#), CEO of bankrupt **Celsius**.
  - [Brett Harrison](#), President of crypto exchange **FTX US** and [Alexander Hoptner](#) of **BitMex**.
  - And, [Rune Christensen](#), founder of **Maker**, wants out (more about the Maker sage below).
- One of the largest Bitcoin mining hosting providers, **Compute North**, [filed for bankruptcy](#) with the intention of completing a financial restructuring and continuing as a going-concern.
- In an encouraging signal, in recent days, the largest Bitcoin holders ("whales") [have been adding to their holdings](#).
- [Bitcoin mining machinery is on sale](#).
- b. *Currency and Use*.
  - The drama surrounding **MakerDAO**'s future continues, over how closely maker will be tied to other crypto assets (USDC, the stablecoin, specifically) for purposes of its treasury backing, versus being backed by traditional financial products, like US Treasury and corporate bonds.
    - The DAO (Decentralized Autonomous Organization) recently voted to allocate \$500mm to short-term Treasuries and investment-grade corporate bonds.
    - The move by Maker is aimed at diversifying its balance sheet into "scalable legacy finance investments, limiting exposure to any one asset and expanding revenue streams."
    - This move is in line with the [a very harsh reaction to the US government's action in connection with Tornado Cash](#), that Rune Christensen, the founder of Maker, in which he expressed serious concern over governments' power to seize and alienate digital assets.
    - Furthermore, Maker has been offered by **Coinbase (COIN)** an opportunity to [earn \\$20mm per-year \(1.5% yield\) for its stablecoin holdings](#); principally, USDC.
  - Considering the rising interest-rate environment, [the yields offered in crypto lending are no longer as favorable as a few months ago](#).
  - Crypto hacking is not a bad thing. It's arguably a good thing, if [it can be uniformly "rewarded", contained and priced in](#).

## 2. Regulation and Legal

- The **OECD**, representing the **G-20 nations**, is working toward a [common plan to thwart international crypto tax evasion](#), by requiring standard reporting by crypto exchanges, brokers, dealers, intermediaries and other service providers.
  - In the **EU**, lawmakers [are getting close to enacting](#) the *Markets in Crypto Assets* regulation bill. Under the bill a few themes are emphasized:
    - *Disclosure*: those issuing cryptocurrencies are encouraged to publish a “crypto-asset white paper” containing information about their project
    - *Capital Requirements*: stablecoin companies must meet capital requirements; there will be restrictions on how many tokens can be issued
    - *Environmental*: large “crypto-assets service providers” to disclose their energy consumption
  - In response to the **President Biden’s** executive order on cryptocurrency, delivered in March, [multiple administrative agencies submitted reports](#).
    - **DOJ**: analysis of the use of cryptocurrency in criminal activity and proposals to strengthen DOJ’s ability to combat crypto-related crime
    - **Dept of Commerce**: advocates the US establish a framework to allow the US to remain competitive and lead the industry
    - **Dept of Treasury**: analysis of US CBDC (central bank digital currency) and a [desire to have the US continue to be a world leader in the payments industry](#).
      - In addition, the **Financial Stability Oversight Council**, published a [report](#), raised concerns about cryptocurrencies eventually [posing systemic stability risks](#).
  - In furtherance of its bid to regulate cryptocurrency, or Bitcoin at the least, the **Chairman Behnam** of the **CFTC** stated that [Bitcoin could “double in price” under CFTC regulation](#).
  - **FASB** (Financial Accounting Standards Board) for the first time has addressed the accounting treatment for cryptocurrency. FASB has [guided companies to use “fair-value accounting” for cryptocurrency assets](#).
    - **ProChain**: This pronouncement is another step toward normalization of cryptocurrency among large corporations, their advisors and their stakeholders.
3. **Public Companies**
- **Nasdaq** is planning offer [custody services for Bitcoin and Ether](#).
  - Keeping with a prudent investment plan regarding the Metaverse, **Walmart (WMT)** [has launched two experiences with Roblox](#).
  - **Coinbase (COIN)** has reached a deal with **Google/Alphabet (GOOGL)** to [enable Google cloud service customers to pay in cryptocurrency](#).
  - **Amazon (AMZN)** has [rolled out](#) its **Venmo** (owned by **PayPal, PYPL**) payment option.
    - **ProChain**: Next up, including PayPal’s crypto payment option as being available on Amazon too.

**David D. Tawil**  
 President  
 +1-646-479-9387

[david@prochaincap.com](mailto:david@prochaincap.com)

