CONFERENCE REPORT

Paris Blockchain Week 2023

22-23 March, 2023

BULLISH INSIGHTS TEAM

Bullish

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Summary

Summary

Bonjour from Paris! The spring air is crisp at the Louvre and though we are in the midst of a bear market, winter does feel like it's finally warming up. Standing in the conference hallway I'm hearing buzz words of MiCA, tokenization, regulation, DeFi, rollups. After sitting through almost two dozen sessions in the past 48 hours, it has brought me to hand craft a sweet set of petit four for you to digest.

Petit 1: Let them eat cake

When Marie Antoinette first coined this saying, France was in the middle of one of the biggest revolutions in history, the French Revolution. While we aren't at war per se, in the past few weeks, one cannot help but feel like our homeland has been under attack. Our homeland is the crypto community. We have worked hard to build an industry for the people and the foundations of our building blocks are now being shaken. As Ryan Selkis said in the session with Guillaume Chatain, when you are backed into a corner you can only fight back. After the SEC's issuance of a Wells notice to Coinbase yesterday, it appears that is exactly what the industry intends to do. Fight back. Chatain strongly emphasized that Coinbase had attempted to engage with the SEC on many occasions to seek regulatory clarity which was only met with closed doors. There is MiCA in the EU, other regions like Singapore, the UAE and Hong Kong have also come up with frameworks around regulation so why is the US falling so far behind and casting a dark cloud of uncertainty over the industry? "We are ready for what's coming" said Chatain in the session of Building the Future of Finance, in reference to the SEC.

Petit 2: The Macaron

Possibly one of France's most iconic pastries. The Macaron is really an art form and a personal favorite. There are three delicate layers that construct the cookie to ensure its success. The first layer is infrastructure, a solid base that keeps the macron in its construct. The second is the filling, liquidity, the core element. Finally, the third layer of regulation, without a set structure the cookie would crumble. These three layers make up the pillars of the future of tokenization of real world assets (RWA). In terms of infrastructure we have seen the large tradfi players like Goldman Sachs enter the space with their platform GS DAP. Regulation is another one where Benedikt Schuppli notes that in Swiss law native assets on-chain have a one-to-one value. The biggest issue tokenization of RWA currently faces is liquidity.

Petit 3:
Maison du Chocolat

Back in the 15th century, the Aztecs would use cocoa beans as currency. As Tim Draper said, "we went from shells to gold to a promise of gold to the backing of currency with gold to now a bitcoin economy." The events of the traditional banking sector in the past few weeks has brought our attention back to the core reason of why Satoshi Nakamoto created Bitcoin in the first place. While we suffered through Draper's vocal cords extending beyond his pitch perfect, preaching his Bitcoin rendition, we are reminded of the collapse of our financial system in 2008. A house of cards that led to one of the largest banking crises in history. That in itself was a wakeup call to how we perceive individual sovereignty.

Petit 4:
Pâte à choux

One of the advantages of choux is that they are versatile. You can make eclairs, profiteroles and Croquembouche with it. Versatility is an aspect that we need to embed in times of volatility. In the case of Circle, USDC was their flagship product but with the hostile environment coming out of the US, it's hard to put all your eggs in one basket. In Jeremy Allaire's session of The Next Evolution of Money on the Internet, he calls the US government dysfunctional with a lack of regulatory clarity. France however, is "extremely attractive" in his perspective with a government that is forward looking. That is why they have doubled down in building out their Euro stablecoin project and will be setting up a headquarter in Paris for their European expansion plans.

We hope you enjoyed your petit four, while we are not used to serving dessert before mains we figure you would still enjoy what's left to digest.

Bon Appétit!

22 MARCH, 2023

Day 1

Latest Global Crypto Trends: From Bitcoin and CBDCs to DeFi and NFTs - What you need to know!

SPEAKERS

Henri Arslanian | Co-Founder & Managing Partner @ Nine Blocks Capital Management

Keynote

We are going to cover the latest developments in the field of crypto. We can make our own decision on the future of finance and the future of crypto. I have no idea where the industry will be in a month from now because the industry moves in dog years.

The focus is on five developments.

1. Loss of trust. We have been building this and unfortunately, the events in the past months have broken this trust. We were seeing the entrance of institutions at an increasing rate. Margins were high, greenfield opportunities, and there was a moat to be in the industry. Only 5% of regulators do not have a team working on crypto. All these developments took place then...Luna, Celsius, BlockFi, Voyager, and the big elephant FTX came down. To add on, we then had crypto banks fail. It's been a difficult time, but this will unfortunately continue. Nobody will stand up for crypto companies right now. There will be increased regulatory activity. We as a community have lost a lot of goodwill that we had pre-FTX. The big focus is on the governance process and transparency.

2. A shift towards reputable and regulated players. The era of kids running the show has come to an end. We must stop worshiping the kids in t-shirts. After these challenges, we will come out stronger.

3. Continuous growth of stablecoins. Today we have over $130bn in stablecoins. Cross-border payments, benefits, bold experiments like Diem. Stablecoins have been tested over and over. Silvergate, SVB, and Signature failing will have a big impact on the crypto community, but we are seeing opportunities too. Banks outside of the US are trying to take advantage of this. Central Bank Digital Currencies (CBDC) are the opposite of DeFi. If you're a central banker, you would hate Bitcoin. There will be a rise of CBDC's. Benefits of CBDCs include tax evasion, fighting against corruption, etc. There is a whole suite of CBDCs from wholesale to retail.

There are also geopolitical considerations. China's e-CNY is integrated with WeChat. India, for example, has established connections with the UAE. Privacy is going to be a huge consideration. How much are you willing to share with the government? Nevertheless, CBDCs will take place regardless.

4. Web3. I have over half a million followers on LinkedIn, but the day LinkedIn doesn't want me, Twitter doesn't want me, I'm out. Why aren't you getting compensated for watching Youtube videos and for your time? Roblox, WoW, LoL have over 3bn gamers in the world. People will start to be compensated for their engagements.

5. NFT volumes have fallen, but over the next couple of years, your driver's license, ticket to this conference will all be NFTs. The broader AI world, Web3, crypto, metaverse, AI, NFT will form the future of finance.

We have no idea what the future will look like, but we are the lucky generation. We are the lucky generation to see this come to fruition.

There are also geopolitical considerations. China's e-CNY is integrated with WeChat. India, for example, has established connections with the UAE.

Opening Keynote

SPEAKERS

Joseph Lubin | Co-Founder / Founder & CEO @ Ethereum / ConsenSys

Keynote

We are living in the onset of another paradigm shift: trust and authority. Loss of trust in our institutions has, in turn, led to the unleashing of creativity and innovation. We will collectively build the world we want to see by empowering the builder in every one of us. The many institutions that have been stitched together to form a global societal fabric are frayed and are now tearing. Bad actors exacerbate and take advantage of the mess. We are in the dying stages of an 80-year monetary regime, a debt super cycle. The current system is unsustainable; fixing one issue exacerbates another.

Do we avoid bailouts and embrace moral hazard?

The winner gets to write the rules for the next super cycle. These complications are rooted. We're in the early stages of such a shift. The traditional intermediaries that maintained ledgers, who were the trusted third-party intermediaries that write and remove transactions from ledgers, served the development of society well when they were good actors.

In 2009, Satoshi invented a new global ledger, the Blockchain. Anyone can inspect what happened and when. He invented a new trust: decentralized trust. Bottom-up decentralized trust and finance are powering this new paradigm shift. The paradigm shift will be user-powered. This shift to web3 will replace intermediaries, whether the intermediary is extracting value or wielding power externally. This shift is disrupting the entertainment industry. Millions of creators and collectors have redefined the art world. In the music industry, creators can reach their fans by delivering music as NFTs. Artists are changing their music into assets. The new fundamental construct will be decentralized communities, DAOs. Sharing new value created, and if they have irreconcilable differences, they can fork.

We are building a future where you don't need to trust an institution to have access to your assets These tectonic shifts are inevitable and upon us. We have built the foundations for the next supercycle, and it has begun.

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Money crypto vs tech crypto

After the collapse of FTX, the DeFi sector gained. We are building a future where you don't need to trust an institution to have access to your assets These tectonic shifts are inevitable and upon us. We have built the foundations for the next supercycle, and it has begun.

There will be great innovations in our space, building and enabling infrastructure, making real use cases attractive to everyday people. Soon we will also enable our ZK EVM to ConsenSys. The scalability and performance we need will be supported by ZK EVM, unlocking seamless withdrawals and faster settlement. This is going to remove frictions for developers and users.

Augmented reality and VR will soon fuse into our reality where users too will have superpowers. AI tutors will help us level up in real-time. All humans on earth will soon be able to attain superpowers and become the architects and builders of our reality.

MiCA: How is the EU Regulating Crypto?

SPEAKERS

Gundars Ostrovskis | Team Leader Digital Finance @ EU Commission
Sabine Van Haecke-Lepic | Doctor of Law, Lawyer, Lecturer and Researcher @ Sciences Po
Nadia Filali | Director of Blockchain Programs at the Caisse des Dépôts Group, Chair of Board of Director at INATBA @ Caisse des Dépôts / INATBA
Hubert de Vauplane | Partner @ Kramer Levin Naftalis & Frankel LLP,
Janet Ho | Head of EU Policy @ Chainalysis,
Vytautas Karalevicius | Co-Founder @ Bankera

What will contribute to the success of MiCA?

Gundars

MiCA was drafted by my colleagues and now up for adoption. It is a regulation coming in at an EU level, so there will be adjustments for member states, but we clearly expect it to be helpful in strengthening the industry and providing regulatory certainty as well as strategic planning and protecting customers ensuring market integrity.

Janet

Mica, is the first piece of comprehensive regulation in the crypto ecosystem. There are three factors to its success:

1. whether there is a consistent understanding among national authorities on the obligations of MiCA. For example the obligation on issuance of tokens, stablecoins etc.

2. Whether the jurisdiction of each authority understands their obligations and for there to be consistent application among authorities.

3. Whether other countries have the same interpretations and plan consistently to be in line with MiCA

Legislation is not static, there will be reviews and improvements. Feedback from governments and the industry on what they think of the different obligations and weave that with the operations to reassess the framework.

Hubert

The industry must be involved for the success of MiCA. ESMA and EBA needs to assist. NFTs are not covered by MiCA, but could be by local regulation.

Janet

There is a 12-18 month process for the implementation after April. The French government did introduce some changes to model MiCA. The Lithuanian government also want to adapt their local laws in preparation for MiCA and are gearing up to implement it. This is a trend we are seeing.

gb

Vytautas

There is a two-sided effect on innovation. MiCA might put some barriers to entry, especially on the capital restriction side. These innovations might move to DeFi as people are pushed out. The service provision on the other hand will come from stronger and better funded institutions.

Nadia

Even if you are in DeFi you will enforce KYC and be compliant, it will happen. The paradox is that many of you are intermediaries in crypto but you push decentralization.

Hubert

Regulation from Europe takes time, 4-5 years. There is room before EU regulation is implemented to have local regulation. It could be the same for DeFi and NFTs. The room for local regulation to be implemented comes from what is not covered in MiCA. When we talk about innovation, contrary to the US we have regulation by regulation and we need a box, this box should come from the regulator.

Gundars

We will regulate editions of stablecoins although there is no explicit regulation yet. We have MiCA coming into force and that will provide a sound regulatory framework for the ecosystem in the crypto space. DeFi is a sector where we want to see innovation and new ideas tested. We (the commission) are following this innovation. It may allow us to leave it for the time being. Until it poses a threat to destabilize the financial system. Lending, trading, exchange, and insurance, does that not sound like finance? It does, there will be continued convergence going forward, maybe one day it all comes into one regulatory regime but I stress that that day is distant.

Janet

This is fast moving innovation, where there are legitimate use cases. We need to explain how the tech works and what the business model is to regulators. We need to work with them to highlight the good so they won't kill it off. Are we ready to embrace and keep the innovation going? Other regions are wanting to model off the EU MiCA regime. There's been some interesting developments to see how regulation can help these innovations grow.

Vytautas

With MiCA, it will be harder for Vitalik number two to come about. Raising capital from the bitcoin forum to develop Ethereum won't be a thing anymore.

Nadia

We need to be careful to regulate the usage and not the technology. If you use crypto as a payment object then we need to have some regulation in place and the same KYC in identity. If usage is not defined by these characteristics of a financial asset then we might not need the same regulation. Each digital asset is not a financial asset and the usage behind it is not always going to be in finance.

Hubert

Thanks to Gensler we are now hosting people from around the world. We need to be careful not to kill innovation. If you put a lot of capital requirements on crypto, then it will be difficult to innovate. We might kill innovation with these kinds of capital requirements.

Janet

Tradfi might have more interaction with the crypto side after MiCA. As the crypto ecosystem grows and wants wider retail interaction, customers will expect more interaction between crypto and tradfi. Whether the crypto ecosystem was treated fairly and given access to the banking system is a question. This is an interesting aspect to follow. If you want the crypto ecosystem to thrive, there needs to be an ability for the two to converge. Once banking issues pop up we see how funds move from centralized exchanges to decentralized exchanges. Then there's the second layer where it goes from certain tokens into personal wallets.

Where can they park their money?

Gundars

The EU is working closely with the regulators. After MiCA, we may then develop bilateral contacts with specific jurisdictions to share our experiences. The commission always strives for cooperation on a global level.

Hubert

MiCA's purpose is not to define what is a digital asset. Substantive law is not defined by MiCA. UNIDROIT (International Institute for the Unification of Private Law) provides a global loop recommendation which will affect each jurisdiction. In the case of a bankruptcy, you don't know what happens in MiCA but you will know in UNIDROIT. Questions like, can you pledge your security? UNIDROIT will have an answer. A lot of the aspects will be covered by UNIDROIT which will be adopted in May this year.

Whether the crypto ecosystem was treated fairly and given access to the banking system is a question. This is an interesting aspect to follow. If you want the crypto ecosystem to thrive, there needs to be an ability for the two to converge.

The Decentralization of Everything

SPEAKERS

Tim Draper | Founder and Managing Partner @ Draper Associates, DFJ and Draper Venture Network

Keynote

Either we work with fiat for a long time, and we are stuck in the government banking system that is heavily regulated and crashes and we have a bank run which in turn drives bitcoin straight up. Or, governments set banks free and allow them to integrate into the digital economy.

There are weak leaders who will try to control you and tell you what to do. Then there are strong leaders. They set people free. My dad fought in the Korean war and afterwards there were two Koreas created, the north and south. The north adopted a Marxist philosophy and the government there controlled their people. The south took on a, I trust my people I set them free, capitalist society, free market and free speech approach. What has happened as a result? 70 years have gone by and the average South Korean earns 430 times more than a North Korean.

We've seen a crisis of trust in SVG, Credit Suisse, Signature, and Silvergate which has shaken our confidence in the banking system. What a strong leader would do is to build that trust back. Trust the people and set them free, whereas a weak leader would say let's stop this Bitcoin thing. A weak leader tries to control everyone and everything. Strong leaders embrace change.

> We've seen a crisis of trust in SVG, Credit Suisse, Signature, and Silvergate which has shaken our confidence in the banking system. What a strong leader would do is to build that trust back.

We are not going to have a smooth transition with this leadership. There is a crisis of confidence and a lot of people who are leaving the banking system. We had a bunch of companies in our portfolio where we were fortunately able to get our money out of SVB. Others were not so lucky, they needed an emergency package. Now the people that got out of SVB are asking where do we bank now? I told them I don't know, I don't know every bank's long-term exposure to government T-bills and what their cash flows are or how nervous their customers are. My advice was to have at least two payrolls, one of them in bitcoin as a hedge

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against bad governments. There is some real uncertainty. So why do we have this uncertainty?

There is generally huge uncertainty when there is better technology out there. During the exciting times when we went from shells to gold to a promise of gold to the backing of currency with gold to now a bitcoin economy. Everything was wealthier when we went from shells to gold, it provided for more liquidity. Change is going to be difficult, weak leaders don't embrace it and strong ones embrace change.

The internet transformed media, entertainment, gaming, hotels, the taxi industry, and the government let it rip. Why? Because it didn't affect their own power over people. They let it rip because things were going well. People were coming out of poverty, it was great. Bitcoin, however, is affecting government, banking, and finance.

For governments it took them a while and they were like if we don't get to print money, we lose our control over people, what happens to my central bank? They saw it and said this is horrible. Other countries are seeing this as an opportunity, they are starting to see this as a better way to leapfrog other countries and embrace it. Some of the best entrepreneurs in the world are going to these countries.

Start with two payrolls, one of them in Bitcoin in case the bank goes under. I would also think about decentralization and centralization.

Governments will create fear in the country and make it hard to leave. But with Bitcoin I can take it, walk over to another country and start a new life there, it's accepted everywhere. Governance is going to be a service; we can choose which service we like the best.

I wrote this song 4 years ago and it hasn't changed. I dedicate this song to SVB, Credit Suisse, who have failed and will fail and to the governments who don't trust their people enough to set them free, they will fail.

Begins to sing and rap…

"We want a new world order, we want to play across the border, I just want to be a hodler. On my Bitcoin shuffle. The unbanked economy will use coins to drive better times. So Satoshi wherever you are, thank you for Bitcoin, the blockchain and more."

2023 Crypto Theses: Revisiting Predictions for the Year Ahead

SPEAKERS

Ryan Selkis | Founder & CEO @ Messari

Keynote

These are the 10 reasons why we're not all going to die:

1. ### Bitcoin Renaissance

   The tech changes under the hood that happened will unlock transformative potential. The SegWit and Taproot upgrade has opened up NFTs on Bitcoin. Inscriptions and ordinals have seen half million NFTs on the Bitcoin providing a new source of demand on the network. This gives a glimmer of a more predictable fee structure on the network.

2. ### Solving the UX problem

   Account abstraction for Ethereum. Automation features will allow digital wallets to get exponentially smarter. There will be the recovery of wallets, a startup can pay for fees for new users instead of users paying, and the ability to bundle transactions. This will give centralized services in Web2 a run for their money.

3. ### Normie use cases

   Everybody right now equates crypto with gambling and speculation. This is the first time we have seen infrastructure mature and fees come down to compete with traditional alternatives. There will be new creators monetizing ideas and coming up with new revenue models.

4. ### UGC becomes UGX (User Generated Experiences)

   The concept of User Generated Content (UGC) propelled the largest media platforms in the world Facebook, Roblox. Crypto will unlock the next series of unicorn games and unicorn communities. The percentage of consumer spend going towards gaming is tremendous. The concept of UGX is going to be the next unlock with highly personalized and tailored content.

5. ### Developer Tooling + UX

   Rollups as a service. This will bring in most new developers. There's been a magnitude of improvement from where we were last year. We can now allow developers to access uniform SDK, with no code development CDMS, and new development frameworks. All these tools will get the marginal developers to come in. With the layoffs in the tech industry, there will be developers who will look at new sectors.

urneg

6. **Self-sufficient infrastructure (DePIN)**

   There is an awakening of the potential for decentralized compute to provide hosted services like AWS, Google cloud etc. If you are a developer, an alternative backup plan for centrally hosted services is having a decentralized back end or decentralized infrastructure stack as part of your business plan. This will start being more important. We don't think this trend will be slowing any time soon. Apple, Google, Microsoft are also leveraging the render network for similar video content.

7. **Scaling is here**

   Arbitrum and Optimism are leading here. It takes the cost of running a service on-chain down multiple levels of magnitude. How is it sustainable? Arbitrum makes about $34,000 a day in fees and over a year that equates to about $10 million. In traditional tech start-up terms, it's a pretty good slope. This will be a massive unlock for the foreseeable future.

8. **Maturing DeFi Collateral**

   Maker protocol is a DeFi project that earns over half its revenue through off-chain assets like treasuries and bonds. The community makes decisions around the collateral locked in vaults. Real world assets are yielding 4-5% which has exploded. MIP65 also known as Monetalis Clydesdale is a massive program which invests in short-term bond ETFs. There is a double edged sword with what's happened in the past few weeks but with much more to gain in cooperating with tradfi banks and converging DeFi and the two but also something to keep an eye on.

9. **DeFi resilient compared to CeFi**

   Uniswap is overtaking Coinbase, which is the largest US based exchange and has the second largest volume in the world. This is now rivaled by decentralized exchange. DeFi makes up 10-15% of volume versus CeFi. We expect this to be an area to watch Uniswap, Sushiswap, Curve, 1inch, and Bancor are all seeing market share gains. As CeFi crumbles, DeFi persists.

10. **Self-custody a hedge against bank failures**

    March 2020 marked an all-time high of assets held on exchanges. This figure went from 3 million BTC down to 2.3 million in the last 3 years. I imagine this number will continue to decline as people look at the banks and make their own judgment if they are safer in self custody. This is not just a meme, I've seen the booms and bust, and this time feels different. I don't think we will see bitcoin at $1 million in the next 90 days. People will however, reassess for a diversified portfolio and the question on self-custody will be raised. If you believe that then the narrative will shift from bitcoin being a systemically risky asset class to bitcoin as a lifeboat for a fragile financial system.

The Tokenisation of Financial Assets

SPEAKERS

Babacar N. Seck | CEO & Founder @ Petale
Matteo Dante Perruccio | President International @ Wave Digital Assets
Zahreddine Touag | Head of Trading @ Woorton
Salvatore Provenzano | VP Sales Europe @ SettleMint
Amar Amiani | Head of EMEA Digital Assets @ Goldman Sachs
Benedikt Schuppli | Co-Founder and CEO @ Obligate

Why should we care about tokenization?

Salvatore

The ability to divide an asset into several pieces has its advantages. The transferability and the underlying blockchain advantages such as traceability and immutability. Passing it from one person to another in a faster way is also an advantage.

Benedikt

It makes sense if it comes with disintermediation. We should care if it has an impact on reducing transaction cost, it creates access to people who didn't have access to it.

Why do you think tokenization hasn't been so successful?

Zahreddine

Liquidity is one thing, tokenization is another. If there is no liquidity behind an asset, then it won't mean much. It is complex to make markets and provide liquidity in such markets. For one, you can't hedge it. Pricing a piece of NFT is not the same thing. It is difficult to make markets in these assets. Regulation is also another issue. People think tokenization means you can escape regulation. When you tokenize an asset, it is still subject to regulation. Real estate is not regulated so yes you can tokenize a building and its not regulated but you still have the problem of liquidity.

We don't do it because it's not profitable yet. When someone says we are tokenizing Tesla stocks we need to think about several factors. Are we going to go get licenses which are very expensive, what are the increases in internal risk. Then we go how much are we making and how much are we spending? At this stage it is not profitable at our scale.

Benedikt

Just because something can be tokenized doesn't mean it should be tokenized. The first wave of tokenization failed and there is a cyclical component to that. This round is different because the infrastructure has changed. Now we have rails that connect the blockchain even more to the real world like off ramp solutions. This gives us the ability to tokenize in a much more sensible way. Regulatory certainty has also changed. Under Swiss law, when we create native assets on-chain it has a 1 to 1 value. The user base has also increased, there are many people onboarded with wallets and crypto assets.

The first wave of tokenization failed and there is a cyclical component to that. This round is different because the infrastructure has changed.

Amar

It's almost like rewiring and creating a new marketplace that doesn't exist. We are beginning to see the fruits of that. Institutions launching tokenization platforms. Liquidity is the real issue.

How do you view the entrance of the tradfi members?

Zahreddine

The infrastructure is designed in a centralized way with a few large exchanges like the London Stock Exchange, Nasdaq etc. who are the big players processing the flows worldwide. You need to be connected to them so you can trade. Thousands of tokenization platforms can be created. There are smaller players that create assets and then there are the big players who will buy smaller players that can connect in a timely manner, create an offering, and grow from there. We see that in fintech markets, bought by large banks. That's how they get into the market.

Amar

We need to collaborate. Everyone needs it to spur liquidity. We partner with fintech firms to make sure there is that alignment. There's always going to be a limit in what we can and can't participate in.

Benedikt

The conundrum, to have tokenization you need the payments on-chain and a lot of the bigger guys can't use stablecoins etc. Scaling is going to happen outside the banking sector. The asset management space, for example, is leading the way. We will bring it forward to an inflection point where banks will come and bridge it on the fiat side. Players need to embrace regulation. Both sides need to be more open minded.

What are the obstacles from an operations perspective?

Zahreddine

When a tokenized asset is moving on a blockchain, you need a custody solution. To do so you need a third-party provider or to develop it yourself. Banks won't really want to use a third party provider. Financial instruments that are tokenized are still a financial asset. It needs a custodian that serves a specific set of needs and to also be regulated. They need a specific license that is hard to get. They also need the ability to restore assets, if there is a bridge that loses the asset how do they give back the asset? They can't. Therefore, it is almost impossible to have a custody provider to custody this.

What areas do you see developing fastest in this sector?

Amar

Scaling. We are past the proof-of-concept stages and are seeing real money, even $100 million in trades of bonds issued on the blockchain. Scalability and liquidity on the native tokenization side of things will develop fast but the nonnative side can also scale even quicker.

Private credit on DeFi rails, and private equity is also something that's going to be interesting.

Benedikt

Markets that weren't accessible. Private markets were accessed by high-net worth and private institutions. It's about bringing that to the wider market. Private credit on DeFi rails, and private equity is also something that's going to be interesting.

Salvatore

We have left the experiment phase. Growth will be brought by institutions who bring the innovation to the public. The legal aspect, and the infrastructure aspect will open doors to other tokenization of assets to even small companies that can then create new business models.

Zahreddine

This market will grow and extend to crypto native people. A lot of people wanting to invest in US treasury bonds without selling crypto will need a way to invest crypto directly through tokenized assets. Traditional players in the crypto market, and market makers have started to make markets or provide services for tokenized assets. Tokenized stocks for example, Tesla have the same players in the exchange product side of the business who are connected to traditional regulated exchanges and now also connected to the crypto world.

23 MARCH, 2023

Day 2

The Need for Yield

SPEAKERS

Maxime Boonen | Founder @ B2C2
Tim Grant | Head of EMEA @ Galaxy
Yoann Caujolle | Co-Founder and Managing Partner @ Rockby
Charlie Meraud | CEO @ Woorton
Cinderella Amar | Co-Founder @ Glass Slipper Ventures

Where does yield come from and how does the industry offer yield? What are the differences between Cefi and DeFi yield?

Maxime

Central banks set rates and that defines the risk-free rate. Investors looking for additional compensation would take on credit risk, that is when you are not lending to the central bank or central government. That is where yield comes from. Enter the crypto and Silicon Valley world. Subsidizing yield has failed spectacularly. In crypto, it's extremely difficult to move from the crypto world to the real world. For example, when you go long you could only work with crypto funds, this pushed yields up. Companies like BlockFi where you get 20% yield, they offer this to attain user growth but there was nothing underpinning those high rates and it came down.

Tim

I give you money you pay interest, and your interest is priced on the likelihood that you pay me back. The RF is the risk-free rate, and the r is the view on credit risk and the potential of getting paid back. Yield is a measure of the likelihood of a lender getting their money back. 20% pretty much means it's highly unlikely you were getting your money back. There is no such thing as cryptoeconomics, there's only economics. What we need to do is to get back to is the sober view of the world. Don't try to create new ways of creating yield, but use the tools, free up capital to grow the economy. Don't try to sidestep the basic rules of finance.

Yoann

Everything in DeFi is intertwined, its difficult to see the propagations when there is a change in the parameters. You don't get protection in crypto. We spend time trying to assess and control the risk, it is difficult to enter the market when you can't understand what the risks are in crypto. The lack of protection and visibility is difficult to overcome for traditional players.

Charlie

Move forward and say what's next? You could lend to the crypto market with up to 20% yield and that is a huge risk premium. This year it doesn't make sense. You lend to the US government and get 4-5%, then you go to a digital asset exchange which poses higher risk and get half that rate. You can't compare those two rates as you are in two different worlds. What we could do is bring assets from the traditional world onto our technology and give solutions to investors. De-risk with certain timing parameters and open accessibility.

We need to bring traditional rates onto our tech and provide access for them to put their money to work.

Maxime

During the bull market when yield was high, traditional players wanted to come in and take advantage without taking the credit risk. That has since reversed. Crypto companies are scrambling to get those real rates because everyone is keeping electronic stablecoins under their mattresses. I wanted to access Italian bonds, at the time it was trading at a 2.5% spread to Germany I was waiting for my bank to process it and in that time, I could have opened 10 accounts over in China spending it on sh**coins. I ended up going to the futures market for exposure. Even for me your medium sized enterprise accessibility was hard let alone your everyday man. It is almost impossible to invest in fixed income as a SME and I think it makes absolutely no sense. Why can't we have the same bonds of General Electric, and Microsoft easily accessible by everyone?

It is almost impossible to invest in fixed income as a SME and I think it makes absolutely no sense. Why can't we have the same bonds of General Electric, and Microsoft easily accessible by everyone?

Tim

We should stop with CeFi, TradFi and DeFi. At the end of the day there is just Fi. Let us use these tools to create less friction, less intermediaries, so this dentist with $100K can invest in what he wants to invest in. The need for yield is ubiquitous. It's a human right. It's about connecting the free movement of capital and for us all to get what we deserve, that is the right risk at the right return.

Maxime

The only reason Circle saw a de-peg was because they left too much money in the bank. All the major banks have limits of how much you can keep in one single bank. Goldman Sachs kept their reserves in reverse repo government bonds, outside of the bank. In the case of Tether, most of their money is in government bonds and reverse repo government bonds. To bank with Silvergate you had to keep at least half million in liquid cash in the bank with them. In the case of Circle, they might have had their arm twisted in keeping a higher cash balance at the bank.

What elements of crypto can be brought to TradFi and vice versa?

Tim

What is it about TradFi that DeFi can learn? Risk management. Full stop, end of story. DeFi has a lot to learn when it comes to the basic primitive of risk management. What can DeFi bring to TradFi is more philosophical. The freeman economics in the 70's that define shareholder primacy has led us to these odd inefficiencies in these capital markets. Financial players have been accustomed to not collaborating with each other and these kinds of walled gardens. DeFi removes the layer of inefficiencies, and we have the tools to do it.

What is the thing you are most bullish on in terms of yield for 2023?

Charlie

Staking. I believe we will talk a lot about it in the coming months.

Yoann

I agree, staking at the moment. The alignment of interest when you participate in building something and you are part of the construction of this you get rewarded with decent yield.

Maxime

The prospect of normal interest rates again. Years following 2008 corresponded with the biggest bubble that in turn created our industry. Now we have 10's of millions of users, the democratization that crypto has combined with the user base with rates normalizing is exciting.

Tim

More investment, more infrastructure built, more efficiency which will get us to the new economic paradigm. To do that, the desire is yield in structured products. The market for crypto structured products is not really in existence. By year-end we will see a lot more there.

Building the Future of Finance

SPEAKERS

Guillaume Chatain | Head of Institutional Sales EMEA & APAC @ Coinbase
Ryan Selkis | Founder & CEO @ Messari

Guillaume

Yesterday the SEC sent a Wells notice to Coinbase regarding digital asset trading, Coinbase Prime, Coinbase Wallet and our staking services. There are three things I want to add.

1. All Coinbase services still operating as per usual
2. We have been engaging with the SEC for some time. We are ready for what's coming. Our chief legal officer wrote a blog last night and if necessary, we are happy to go through the legal process which will bring the long awaited and needed clarity.
3. The SEC has not been so transparent

Ryan

There is a tendency in the US towards gridlock. Stablecoin interaction with the banking system should be defined and regulated. I sent a letter to congress last night calling for action and to clear up misconceptions.

What have you seen in the last 90 days in terms of the shift in conversation or appetite with larger institutions and their entrance into this space?

Guillaume

We are seeing big demand coming from institutions. Since FTX it's been a big flight to quality, and Coinbase has been a big fiduciary to that. Hedge funds want to take advantage of the volatility. What's working well is prime financing. They want to deploy long short strategies and borrow tokens to go short.

Ryan

Do you see institutions moving out of the US or even between jurisdictions to regimes with clearer guidance?

Guillaume

Regulatory clarity is important. The UK seems to be doing the right thing, and MiCA in the EU too. The US will be left behind. We haven't seen much leaving the US being deployed internationally. The larger guys already have offices in London and Singapore. One beneficiary is the UAE. There is a big trend of more offices opening there. Switzerland as well. Their mindset of being decentralized is something we are seeing more and more of.

Ryan

During the storm people flee to Bitcoin, have you seen a shift in conversations for interest in Bitcoin vs Ethereum or blue chips versus other assets?

Guillaume

Most of the volumes are in BTC and ETH. In the past few weeks, we have been seeing more.

Ryan

We've seen a large trend to incorporating real world assets on-chain. How is Coinbase thinking about this trend?

Guillaume

We have been building the infrastructure for crypto. The convergence is when we use crypto infrastructure to deal with real world assets. For example, the use of it as collateral. I am bullish in crypto and the infrastructure because of that. People ask why Coinbase is investing in DeFi. I see Coinbase as a bridge not an exchange. A bridge from Web2 to Web3 and to onboard as many users as possible.

Ryan

What are your goals on layer-2 for institutions? The Base blockchain.

Guillaume

Every transaction is likely to happen on-chain in the future. We need chains to be cheap to operate, have low latency and high throughput. When we started talking about Base we wanted it to be a solution for institutions and everybody. We asked the Web2 developers what their roadblocks to enter the Web3 space was. Their question was how do we build on-chain and then where do we go?

1. We want to use a chain and take advantage of smart contracts on Ethereum. It was expensive so we wanted to develop an L2 to make it cheap. We focused a lot on EIP-4844 to significantly reduce costs.
2. The future is multichain and we wanted to make sure it would be interoperable. Increasing the scaling of Ethereum.

For institutions it will take some time before they do a lot of transactions on-chain. We might need to go to permissioned chains in the beginning because of KYC, AML reasons. In the future though, we might in the future solve identity issues and use AI to solve for bad actor wallets to go to permissionless chains.

How are Exchanges Empowering Mass Adoption?

SPEAKERS

Tom Duff Gordon | Vice President International Policy @ Coinbase
Stephanie Ramezan | Head of Gemini UK @ Gemini UK
Ewoud Barrink | Director, Crypto Merchange Sales - EMEA & APAC @ Worldplay, FIS Global
Steve Rosenblum | Founder & CEO @ Liberty
Jean-David Benichou | President @ Via.io
Czhang Lin | IC board member @ LBank Labs

How are we going to get to mass adoption?

Stephanie

We are going to see further consolidation of crypto exchanges. The way the industry was laid out in the last few years was not sustainable. Out of the 240 players we may be consolidating to top 10.

Czhang

Asia has been one of the major regions. Even with a current liquidity squeeze we are still positive on the landscape. The more authorities want to squeeze you, the more the industry grows. The more clarity we see coming from the west, will mean the bigger guys will start to come in.

Steve

We are waiting for the risk adverse players to come in for mass adoption to gain traction. Risk management is a global need that will help people enter the crypto world.

Tom

We face issues like T+2 in capital markets, sending money abroad and when banks are closed on the weekend versus crypto where there's innovation in doing these things better.

The industry is still at its early stages. For mass adoption you need great products and trust. Regulation is important. We can advocate and lean into regulation. We need to build the basic guard rails for the next stage of mass adoption.

What are you doing to raise awareness in this space?

Tom

After launching the exchange, the next stage for us was Dapps. We launched Base as we hoped to attract more developers and to draw more people into the space. Incentivizing wallets as a service is another focus.

Czhang

We actively invest in crypto funds and projects. Injecting capital into projects then brings innovation. Allowing the market to grow itself through adding capital.

Ewoud

The innovation for us is how we can make it easier for end users to buy something and on the other side the merchants to sell something. Combining the fiat world and crypto world through a bridge.

What do you think should be the role of exchanges going forward?

Stephanie

On the retail side we are seeing more people wanting to self-custody. The average person on the street though is not going to figure out how to self-custody. It's about building different custody to service different needs.

What do you see as the future of regulation in China?

Czhang

Lbank is not in China, we are mainly based in Dubai. There is so much buzz in Hong Kong though. It is opening up and being receptive to Web3. Hong Kong is a great sandbox for the Chinese government and regulators to see what is working right and what isn't working. In terms of crypto they are still trying to figure out the best way of giving out licenses within their current framework. They want to put crypto under some TradFi licenses and we hope that in future, China will open up to some of the sectors.

Tom

What Hong Kong is doing is interesting. I'm not sure the Hong Kong model as they propose now will lead to mass adoption. They see innovation in capital markets but are being cautious on the retail side. Hong Kong might be limited in the tokens that are traded in terms of suitability requirements. If we want mass adoption there is a balance.

Around the world there are transparent rules and processes. MiCA there is a clear framework, Australia, Singapore, Japan the processes are moving forward so hopefully we will see more clarity coming out of the US.

What do you see in terms of regulation and where it's going?

Tom

I wish we had regulation in the US. We have been petitioning for clarity in the US. We want to know who the regulators are to regulate this space and what the rules are. Around the world there are transparent rules and processes. MiCA there is a clear framework, Australia, Singapore, Japan the processes are moving forward so hopefully we will see more clarity coming out of the US. We want a good version one of these rules with a focus on KYC, good governance, rules for custody, in the case of an insolvency we need to know where the tokens are and rules for stablecoins.

The Next Evolution of Money on the Internet

SPEAKERS

Jeremy Allaire | Co-Founder, Chairman and CEO @ Circle
Anna Irrera | Senior Crypto Editor @ Bloomberg

Bloomberg Senior Crypto Editor Anna Irrera speaks with Circle Co-Founder, Chairman and CEO Jeremy Allaire about the regulatory trajectory in Europe for stablecoins, as well as the evolving mainstream adoption of USDC as crypto enters its utility value phase.

Why do you see slower development in the US?

A dysfunctional US government makes it hard to develop new policy, you need the buy in of the administration side. There are factions in the government that are anti-technology and innovation.

> A dysfunctional US government makes it hard to develop new policy, you need the buy in of the administration side.

How do you operate knowing you are a Wells notice away?

Our first principle has been to seek out the highest standard of regulation that applies to a business. USDC has walked that line and I think that is critical. We care about the development of blockchain innovation. Now is the moment for the US congress to pass the stablecoin law. It's such a building block for the entire ecosystem. Europe, Tokyo, Hong Kong, and the UAE all have a stablecoin policy. In the US there is a lack of this policy.

Our view is that there will be many digital fiat assets. We began issuing the Euro stablecoin and that's gained more traction. As we move from the speculative phase to the utility phase, generalized payment is important. We see growth in multiple currencies, the bigger question is geopolitical risk. Preferences are being named outside the US dollar including in the price of Bitcoin.

De-pegging of USDC, what was the lesson learnt?

Circle has always issued and redeemed 1-1 at par. Nearly $200bn was redeemed last year. Connecting to the banking system is core. The 24/7 banks were shut and taken over by the government on the weekend. Sound money economic philosophy is what I am big on. The cash piece of stablecoins should be held with a central bank, which we have been advocating for. We launched a partnership with Blackrock, the Circle Reserve Fund where 80% of reserves are held there. Transparency and security are

jvyy

there. Fractional reserve banking is an inherent risk, we are in the middle of a banking crisis. We want the ability to hold cash at the Federal level. Users will know this has safety to it. We are held in commercial banks and it's hard to get banking. Even for a well-regulated company like Circle it's hard to be banked. We have no idea where the banks are in terms of transparency. There is a flight away from the US and the regulated banks in the US. People are afraid these banks will be shut down overnight and have their money trapped. People are now willing to put their money in the Bahamas or elsewhere. It's extremely disappointing that people don't even trust their financial institutions and government to safeguard their money.

What can we learn for the next bull run?

In the EU there is MiCA regulation, Singapore's MAS has in-principle approval for licenses, Hong Kong has seen huge progress, the UAE and Japan are seeing regulation and that is important. If you look at FTX, there was no oversight, no independent board, no financial controls, you can't get a license to operate and if you don't have these things we know how it ends. We need to encourage clearer rules. France is collaborative, the French government is forward looking. They believe it will drive economic growth and competitiveness, that is what we need to see in the United States.

The Euro stablecoin project is just getting off the ground, and if we want to build our business we need to be regulated as well as give the reassurance that we are a properly run company. We looked to find the best country and France was extremely attractive. France is a strong advocate of how to do this and evolve. We are setting up a headquarters for our European expansion in Paris.

We looked to find the best country and France was extremely attractive. France is a strong advocate of how to do this and evolve. We are setting up a headquarters for our European expansion in Paris.

Dubai: Developing a Sillicon Valley for Web3

SPEAKERS

Moderator: Herve Larren | CEO @ Airvey.io

Speaker: Marwan Al Zarouni | Strategic Advisor @ Digital Dubai

Our leadership has always embraced disruptive technology. Smart Dubai changed to digital Dubai to allow citizens to interact with everything digital.

How is the leadership of Dubai perceiving blockchain?

They are very positive. We had the blockchain strategy back in 2016. We are executing the metaverse strategy focused on three pillars: scaling and re-scaling, creating web3 economy and attracting talent.

What is Dubai's economic agenda?

We want to be at the top when it comes to doing business. Creating 400 new economic corridors with cities we haven't done business with, south-east Asia and south america. Dubai can be this launchpad for access to finance, access to talent and fast tracking that digital world.

How does Dubai view regulation?

We have an open dialogue with the industry. The conversation channel is open. The leadership was buying into the technology. We had long progressive conversations with them building around what their needs are, understanding the risk and understanding what the good vs bad players are.

Binance and Sandbox also setting up initiatives in Dubai. What was the process of this?

Dubai is run as a business. When we deal with businesses looking to headquarter with us we then we ask what would you like to have in Dubai? We work with them to move to Dubai. Things like finding accommodation, visas to schooling, and understanding the culture. I gave CZ the link of culture points of living in Dubai when he first arrived. Companies really love the culture and the energy of Dubai. The leadership understands the needs of business and wants to help them to grow.

haybpx

What is the main selling point of Dubai?

This is the land of opportunity where the support system is. The regulators understand and speak the language here. We don't have those gaps. We break down the barriers and work towards the same goals. It's important to align the goals.

Barriers for crypto firms is to open a bank account, what is the process in Dubai?
Banks are risk oriented. In Dubai we try to bring banks and crypto to a level where they are both comfortable with the risk. Community banks might have the appetite for the risk level of crypto firms and startups. They can provide certain limitations to lower risk on their side.

Objective of Dubai in the next five years?

We are a data-oriented city, we live and thrive on data. We shift our position and do what we want according to the data we see. If we try something it doesn't work, then we pivot to something else. We are agile.

Author's Note

Sylvia To
Manager, Bullish Insights

We hope you find this special conference report valuable and insightful. Our team has worked around the clock to bring you this edition of Paris Blockchain Week and would most appreciate any feedback. Please feel free to share and contact your RM should you need to reach us.

If you would like to learn more about Bullish or get access to our daily Bullish Insights Telegram channel, please contact us at institutions@bullish.com

P.S Did you manage to decrypt the message?

Bullish