CONFERENCE REPORT

Web3 Festival Hong Kong

12–15 April 2023

BULLISH INSIGHTS TEAM

Bullish

Hong Kong is back!

We are very excited to release this conference report on the heels of the largest web3 conference held in the heart of Hong Kong since over 3 years ago. It was an amazing feeling, walking the conference, feeling the energy of thousands attendees from overseas and locally. We hope that for all of you who could not attend, you would be able to get a glimpse into the key themes, content, and discussions that were covered during this marquee event. It is worth noting the incredible alignment between legislators, regulators, and industry practitioners to really push and make Hong Kong a virtual asset hub and web3 ecosystem. This is particularly timely as the industry globally is actively navigating through towards the next inning in the crypto and web3 space. We're particularly encouraged by the growing thematic that solid regulated counterparties will need to play in this next inning, which we believe Bullish is firmly positioned in. Please reach out to Sylvia or the Bullish institutional sales team if you'd like to continue discussing the developments outlined in this report or if you'd like to learn more about Bullish.

Michael Lau
Senior Vice President, Global Head of Sales

Table of Contents

Summary

Navigating the Web3 Festival conference in Hong Kong has really brought to light the definition of east meets west.

There is an ancient Chinese saying 「蘇州過後無艇搭」 when translated into English literally means, there is no boat after Suzhou. The proverb behind this tells us that you miss all the opportunities you fail to seize. It seems to us that the Hong Kong government and regulators are really living up to this proverb. They are seizing the opportunity of transforming Hong Kong into a world leading digital asset hub.

Paul Chan, the Financial Secretary of Hong Kong opened his speech in an extremely positive light. He told the audience that "now is the golden time and opportunity for web3 development". There seems to be a stark contrast in regulatory tone from Hong Kong compared to other offshore regulators we have seen in headlines in recent weeks. He highlighted the misuse of consumer data by large conglomerates to exploit users for monetary gains and that the flaw of web2 is that it is centralized to an extent. This aligns with the Chinese tech crackdown back in 2021 and the narrative of "共同富裕" common prosperity. There was an emphasis on the innovation of technology solving for long existing pain points, raising efficiency and creating better experiences.

Interesting to see that the SFC has highlighted they will be regulating DeFi on case by case basis rather than a blanket approach. Keith Choi from the SFC questioned how decentralized certain protocols actually were. He emphasized that it depended on the protocol because the use of governance models with token voting rights could be easily exploited as certain developers or operators hold the majority of the tokens. Centralized control on a masked decentralized protocol seems to be what they are targeting. If the model looks truly decentralized then they will apply different regulation to it. The Hong Kong Monetary Authority held an emphasis on the potentials of Stablecoins. They appeared to understand that despite failures in the web3 industry it does not mean that we should cast out the entire sector.

There is also budget support that LegCo (Legislative Council of the Hong Kong Special Administrative Region) approved for the industry. Qiu Dagen, from LegCo emphasized

Alessio Quaglini. CEO & Co-Founder of Hex Trust

they are also working with the immigration department regarding visa approvals to better streamline the process and to better attract talent since seeing a brain drain to Singapore. He actually started off the session with a timeline showing events in crypto, first with the fall of Terra then the collapse of FTX and moved on to highlight the US. This was interesting as he pinpointed Gary Gensler from the SEC. He said that it was pretty clear the Luna/FTX events were independent but the other events that followed not so much. He then went on to emphasize that Hong Kong is different. This is a pretty strong signal that the government here is trying to cast a line between what the regulators in the US are doing versus what they are doing in Hong Kong. He emphasized that to be a world leader, it isn't measured by just GDP and that being influential is more important. By being influential he alluded to other country's demand for your currency, he hinted at a fall in dollar dominance and the ability for a digital HKD to benefit.

Day 2 saw an emphasis on infrastructure and improvements in L2 technology. IZK (Interactive Zero Knowledge proofs) was a hot topic. The new advancement leverages partial cryptographic proofs and fraud proofs. With IZK, you can separate ZK in stages.

Alessio Quaglini from Hex Trust raised an interesting topic that it isn't actually optimal for society to be completely trustless. He likened Bitcoin to a Layer 1 similar to that of fiat and gold and scaling structures of L2 like your Visa, and Mastercard. Arthur Hayes made an in-person appearance covering his thoughts on Bitcoin as an inflation hedge and his macro views. He's still bullish on Bitcoin and Ethereum in the long-term.

We hope you enjoy what we have produced over the course of 72 hours. The conference was mainly conducted in Chinese with a few English sessions so our team has attempted to translate the content as close to the original speech as possible.

To find out more about Bullish for institutions or start onboarding with us, please contact institutions@bullish.com

12 APRIL 2023

Day 1

Opening Speech

SPEAKER

Paul Chan | Financial Secretary of Hong Kong

We are collaborating towards a common goal and future. I wish the best success for the four day conference, and to everyone that has traveled to Hong Kong for this event, I wish you the best journey.

Opinions around web3 differ to a great extent. I think we should look at the development of web3 as a technological revolution. Technology revolution always leads to innovation and business management. Business behavior as we know it will be completely revolutionized and will drive more technological innovation. This cycle is often a driving force for the forward development of our economy. Sectors like technology and the internet fall under this category.

When Microsoft and Apple started, they popularized the usage of computers. As computing power and storage capacity rose, the development of fiber optics had contributed to the virtuous cycle of computer and internet development. This has created huge business opportunities.

In the past 20 years, as the internet grew from web 1.0 to 2.0, it became an engine that encouraged social interaction, and proliferated a new wave of internet conglomerates. However, web2.0 embraced a centralized model. User information was collected by large conglomerates, who later aggregated it benefiting from the data through means of ad revenue.

As blockchain technology matures, we believe many people from the internet will be stepping into the era of web3. Blockchain is efficient, transparent, decentralized, and breaks the status quo of big conglomerates owning user data. Data is commonly owned, essentially decentralizing the internet.

Web3 is still in its early stages. Its common usage includes cryptocurrency, decentralized exchanges/finance, identity verification, game-fi, and NFT etc. There will be more areas of web3 applications and opportunities in the future.

As web3 grows, many people are preparing and looking for new opportunities in the space. At the same time there are people who are cautious, and concerned about the development of web3.

In my perspective, from a macro view to an individual company's standpoint, in order for web3 to succeed the key is to be able to properly serve the real economy (production, purchase and flow of goods and services) as well as market needs. We must use the innovation of technology to solve long existing pain points, raising efficiency and creating better experiences. We strive to achieve new value creation, to improve our existing systems, and more importantly to make ground-breaking creations.

So what will web3 development look like? I will daringly say that now is the golden time and opportunity for web3 development. It will be hair raising. It will shake the core because if we look back at history, at the genesis stage of each big wave of innovation, there were seismic shocks. The implosion of FTX, to the implosion of banks used by many start-ups (SVB), brought seismic waves and shocks to the industry.

We must balance web3 innovation with the protection of investors and reduce economic risks. With the confidence of regulation, web3 participants can then be more innovative. We support innovation and looking back with our friends of web3 to the progress Hong Kong has made, we welcome you here. Over the long-term we anticipate welcoming more friends to Hong Kong and will work together to progress this. Grants have been given to support this.

Web3 can bring commerce, consumption and has huge opportunities. From a progression perspective, the government views this as a positive. How can we use blockchain technology to push for economy and financial development? I ask you to work and help us push these areas of development together. We

> I will daringly say that now is the golden time and opportunity for web3 development.

really welcome you and hope you can establish here. Hong Kong is a very safe city, in fact in terms of world safety it is number one. I truly hope this will be a success.

Keynote

SPEAKER

Keith Choy | Interim Head of the Intermediaries, Hong Kong Securities and Futures Inspection Commission

The potential applications and ramifications of ChatGPT are huge. Financial firms are testing it out to even write research reports. I must confess, the use of ChatGPT to write this speech has crossed my mind. There are holes in technology though as it is possible to produce incorrect responses to questions. To give you an example, an asset manager asked ChatGPT to provide 10 stocks that benefit from the energy narrative. ChatGPT gave seven names, and he prompted it to provide the remaining three. The other three names it provided were fake names.

We need to manage the risks. The SFC sees the opportunity in web3. The SFC are attuned to the potential impact of gamefi, nft, and blockchain technology.

In DeFi the move from web2 to web3 has helped to decentralize the internet. DeFi wants to decentralize the financial system using DLT (Distributed Ledger Technology), virtual assets and smart contracts. The original idea behind DLT was to democratize, as anyone with a wallet and internet could access it. There is a seismic paradigm shift in the financial industry. We are already seeing innovation across trading, borrowing/lending, asset management, insurance, and derivatives. Financial stability concerns stem from hosting virtual asset borrowing and lending protocols as collateral to obtain more borrowing. There is a lack of data and interconnectedness which is a risk.

In DeFi you run the risk of price oracle manipulation, front running risks etc. One of the largest hacks resulted in $625mn stolen from Axie Infinity in March 2022. Who should be held accountable if things go wrong? Smart contracts are run autonomously, the developer or operator has no ability to recall it once it's deployed on the blockchain. Products may be decentralized to a degree. Governance tokens for DAOs for example (voting on product changes), make it difficult to identify the person responsible for the DeFi product or services. This poses a question on how it is controlled by the developer or members of the DAO. Which developers and operators are based in which jurisdictions?

In short, the SFC views DeFi activities through the same regulation framework as traditional markets. If DeFi falls under securities and futures then it will be subject to the same financial regulation. Same risk, same rule approach. People performing financial activities should be regulated by the SFC. If a DeFi platform allows trading in virtual assets then it constitutes the platform and its operator is required to be licensed type 7. The marketing of DeFi liquidity pool protocols, under CIS may be subject to legal requirements. In December 2022, we warned market participants of earnings, staking services provided to investors in Hong Kong and about virtual asset activities. These activities may be unauthorized. The SFC will assess each DeFi activity on a case by case basis after understanding the DeFi protocol. Some may be decentralized by name only. They (the developers or operators) may hold the vast majority of tokens or put forward governance proposals.

The 2019 SFC virtual asset trading regime covered traditional brokers automated trading venues with certain adaptations to cater for risks of virtual assets. We addressed safe dealing of client assets, cybersecurity, conflicts of interests etc. The SFC is also looking at centralized virtual asset trading, and on June 1 the new licensing will come into effect. Any centralized trading venue must be licensed by us. Events of crypto winter have only reinforced our conviction to set regulatory standards to protect investors, ensure market integrity and market stability. Although the sector is currently not large enough to cause systemic risks, we must not forget about the collapse of Terra Luna, Celsius and FTX. FTX failed for its lack of governance, conflict of interest, misuse of client assets which cannot be tolerated. Such failures underscore how critical it is to regulate this industry.

Previously we restricted virtual asset trading to only professional investors, but this will be relaxed. The venues need to understand the risk profile of its clients during the onboarding process, as well as set limits to ensure that their virtual asset exposure is reasonable. The SFC proposes that virtual assets can be made available to retail investors provided certain criteria are met, such as the asset traded falling under a large cap class. In light of the recent turmoil, it is critical that licensing has appropriate control and risk management measures in place to prevent these events occurring in Hong Kong. The SFC fully supports the use of new technology to deliver financial services in Hong Kong and at the same time we should protect investors. The collective effort of government, regulators and the industry will be key in establishing Hong Kong as not only a financial hub but the world premier hub of web3.

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Keynote

SPEAKER

Clara Chan | Executive Director for the Hong Kong Monetary Authority

Since the issuance of our policy statement last year to now we have seen new developments from different segments of the market. This is a fast-evolving future for all of us. We see stakeholders from diverse backgrounds from government to regulators and market participants.

There are two dimensions to highlight:

1. Not only navigating this together but we share a vision that innovation is here for all. From crypto native companies to end users of technology.

2. We should not forget the risks and challenges. Innovation is never risk free.

Some succeed, some fail but that does not mean we should cast out web3 because of failed events. This enforces that we need safeguard rails. We should promote sustainable development. As a regulator we witnessed the boom and bust of the virtual asset sector which only demonstrates that we always need guardrails. This is important to members of the public who could be users of these services. Safe activity, safe risk, and regulation. We issued a guideline to banks and continue to closely monitor the situation. We also have a regulatory framework on stablecoins.

Stablecoins due to its pegging characteristics is a big part of the web3 space. There's potential for cross border payments, and trade settlements with use of smart contracts. Stablecoins can be programmable money. The need to regulate stablecoins is important. It is an incredible medium of exchange, but we need to make sure it lives up to its name, that is stability in value. Many investors were burnt last year and afraid to get involved in this new technology again. While stablecoins and virtual assets show potential for future growth, it is imperative that they are built off stability, as well as transparency. They have the potential to be in our day to day lives. We need more emphasis on retail users and the integrity of our payment system. There needs to be an increase in the public's literacy in this area. It is also important to note that stablecoins can be a channel for risk transmission. The collapse in SVB led to the depeg of USDC, causing shock and volatility in the virtual asset community. This means the risk could be the other way around. We are cognizant of the growing interconnectedness of virtual assets and the traditional system.

We published a consultation paper in January this year. Regarding fiat currencies, we will follow up on the consultation paper and wish for feedback from the public. We need to be agile to cater for market development locally and internationally. We don't want to stifle financial innovation, but level the playing field among participants to unlock the potential for the industry.

Regarding CBDC's the HKMA has been researching this since 2017. On the wholesale side, we have a project in partnership with other central banks and innovation hubs. The multi CBDC project will allow for cross border transactions. On the retail front, we are exploring potential use cases for the e-HKD.

Hong Kong is open and inclusive across innovators of the web3 industry. We look forward to harnessing web3 for the force of good. We uphold safeguard rails for investors. In achieving this goal we have an ongoing dialogue with the industry and together we can build a sustainable web3 ecosystem.

We don't want to stifle financial innovation but level the playing field among participants to unlock the potential for the industry.

Keynote

SPEAKER

Qui Dugan | Legislative Council of the Hong Kong SAR, Science and Technology Innovation

What is the most significant

event in virtual assets? If you ask me, in the US last March 2022, the Biden administration asked regulators to look into digital assets. I told my friends it would have a big impact on the digital asset space, but they laughed it off. Terra/Luna, and 3AC more independent events. Following this, events like Tornado cash, closure of crypto-friendly banks, Coinbase receiving a Wells notice from the US SEC, and the CFTC's investigation into Binance were not so independent events. Anything that touches on people's money will need trust. In the past year, these incidents were interconnected. Over the next five years the plan is to establish Hong Kong as an international center for innovation and technology. The cryptocurrency market was $3 trillion at its peak down to $1 trillion now. It is still big but sectors like NFT have had hard times recently. It's a cycle that we all must go through. When we go through hype cycles there will be a period where the market overheats. Web3 today takes me back to the early 2000's of web 1.0. Companies like Amazon and Alibaba back then lacked infrastructure. It took about 10 years for web 1.0 to start delivering what they promised. Then after that Airbnb and Uber took about 10 years too. What web3 is doing now resembles this. We need people to work on the technology to create infrastructure. For us, we need to work on regulation and policies. Regulation is meant to protect investors and give trust to the technology. This goes hand in hand. It's not like with web1 where we saw its being built and following that legislative policy had to play catch-up. It should be in parallel. I think it will be an even bigger ecosystem than web1.

Hong Kong Stock Exchange has a $30 trillion market cap. We have trillions of dollars in bonds, private investments, etc. and currently we are just trialing the tokenization of one product which is green bonds. Other options include e-HKD, e-RMB, and stablecoins. Things like cross-chain interoperability, DeFi, etc. we need people to work on and we need to be proactive from the government's side to see what should and shouldn't be regulated.

We are also looking at the issuance of private sector stablecoins. Starting from June, virtual asset providers can apply for a VA providers license. It is a good thing and we want to shorten the approval process to trial new products. LEGCO approved the budget direction for web3. I have never seen a budget put weight on a single technological direction like this project. Cyberport will be established as a main hub for the development of web3. This should signal the determination that we have in building up the web3 ecosystem in Hong Kong.
In terms of legislation and what is to be regulated and what is not, we need conferences like these as well as stakeholders to share so the

government can listen. Other LEGCO members and I will need to discuss and approve. Seeing what we have achieved in the past six months

to the rest of the world. Hong Kong needs to be a hub for this and attract global talents if we want to be number one in the world. Things

What is a world leader? If you ask me, it is not just measured through GDP but by how much influence your nation's currency has. Your currency needs to be used by other countries to make your nation a world leader.

makes me positive on what we can do in the coming years.

What is a world leader? If you ask me, it is not just measured through GDP but by how much influence your nation's currency has. Your currency needs to be used by other countries to make your nation a world leader. You need to be strong technologically, and you need your own innovations so that you can export

like, technological self-sufficiency, a leading currency, and the ability to attract global talent are important. We are doing well in these three areas. Hong Kong can support currency involvement from establishing a CBDC test hub to the trial of a digital HKD. The government is injecting a lot of money in innovation. We are also in discussion with the immigration department about attracting talent.

CeFi Landscape

SPEAKERS
Anthony Sa | Co-Founder and CEO of Finoverse (Moderator)
Lennox Lai | Managing Director of OKX Global Institutions
Chris Yu | Co-Founder and CEO of SignalPlus
Ben El Baz | Head of Ecology of HashKey Group, Co-Founder and Chairman
Teong Hng | Co-Founder and CEO, Satori Research

What are you excited about?

Ben
What's exciting is how we solve the problems from the last two years. Infrastructure is critical. Looking back in the past, everyone is thinking how to improve failures. Solving for counterparty risks.

We talk a lot about trust, what are your thoughts?

Teong
We had FTX going down and 3AC. In terms of trust, institutional investors are being careful. The whole industry needs to find a way to gain that back. Binance is a great exchange but has 62% dominance in spot transactions. If all these flows are concentrated in one institution, it's not a good thing. One way to gain trust is to diversify and to stabilize the system.

How do you see the ecosystem moving and how can you build this?

Lennix
Crypto plus blockchain could be sufficient with the technological component to achieve a better level of transparency versus traditional finance. We invest in proof of reserves and ZK research to help build this.

Risk management, how can we improve this in CeFi?

Lawrence
We want more people to participate. When we talk to regulators, there are areas where we don't need to reinvent the wheel. In the crypto exchange space, there is more innovation for self-profit than innovation driven to grow the industry. With the industry maturing we see more of a convergence. For adoption, institutional capital needs to come in, and we want to claim a portion of that $500 trillion in traditional assets. People need to understand and be educated around this space. The dialogue is very open here. I must commend the regulators and market participants. I must commend the regulators, as they have been proactive to develop policies to help us get there.

At which point will regulation become suffocation?

Teong
It's a fine balance. In Japan, I ran an exchange in 2018 and they had three crypto pairs, fast

forward now there are more. If you look at unregulated exchanges, they have more tokens. For users we look for places where we can deploy our capital. We want different avenues. Initially you might have bitcoin and eth, the regulator needs to be updated with the market. As time evolves the exchange can be given an opportunity to add more. It becomes difficult to innovate if there is no dialogue with the players. We need to move faster, to do that we need to continue to keep up the open dialogue and be proactive like what Hong Kong is doing.

How do you balance innovation and compliance?

Lennix

It's about how you structure your company and resources. We spend a lot on building a compliant product. Being legally aware and fulfilling government requirements is something we hold close. We want tech innovation as well.

Ben

Looking at risks, there's pre-FTX and the post-FTX era. Risk management and more specifically counter party risk management. It is important to understand the risk management framework. When you look at the 40-page FTX failures report, it's mostly around risk controls and the prevention of loss. Things like the segregation of client assets, restrictions in conflict of interests, are all core elements that need to be addressed. If the technology behind DeFi is applied appropriately then it works. There's always room for CeFi and DeFi to serve different needs.

Lawrence

Regulators are trying to learn to give guidelines. There are exchanges that will pop up doing different things. A lot of what's pushed here is around real-world asset tokenization. A lot of regulators are trying to pace themselves around that, as it gets bigger.

What advice would you give people wanting to come to Hong Kong to explore web3?

Lennix

The unique opportunity for Hong Kong is that it is a place where we can grant exchange licenses.

Ben

It's a great place to innovate with a clear framework.

Lawrence

Hong Kong is a bridge between east and west. Talent from China can be accessed, it is connected globally, there is open capital (no capital control), and it is an international financial center. People can create innovation and ideas here. It's a hub for IP. Beyond tokenization, as web3 progresses, this is where its going to be as it is a solid base.

Teong

I've worked in a few financial hubs. Hong Kong has the flexibility, and the people have a can-do attitude. They will get things done. The attitude and influx of money, as well as the city opening up, plus lots of capital makes it attractive.

Frontiers of Digital Finance: Evolving Derivatives Markets

SPEAKERS

Tina Huang | Head of Partnerships at SignalPlus (Host)
Chris Yu | Co-Founder and CEO of SignalPlus
Darius Silt | Founder & CIO of QCP Capital
Lin Chen | APAC Sales & Business Development at Deribit
Jason Durbin | Co-Head of Trading at Galaxy Global
Martin Cheaung | Partner & Head of Options Trading at Pulsar

What is the general picture of what you are seeing now?

Lin

Liquidity has dried up towards the end of last year and at the beginning of this year. We are seeing historical highs in trading volume days. This year has been surprisingly very good. Options open interest has grown 30-50% and by mid-March options open interest had surpassed futures. The market has been volatile, options open interest is high and liquidity has been hit. We're still in a bear market, liquidity dried up in a more retail focused market.

Darius

When FTX collapsed it was the highest trading volume seen for the options market. The narrative has been crypto has seen its bubble burst moment, a lot of the tradfi guys have stepped in. When SVB collapsed we traded our highest ever volume. The narrative in this scenario with banks collapsing was what crypto was designed for.

Jason

Lenders have exited the space. When we think about that, that leverage needs to show up somewhere else. And that is showing up in the options market.

Martin

We did see liquidity dry up. Spreads are getting tighter and tighter and on the contrary, the market is getting more efficient.

Chris

Besides volume we feel retail is more patient in picking up options to execute leverage.

Is the options market boom imminent?

Darius

Imminent in the sense that gold options are 8x the volume, and in crypto there is more room to grow. In August last year leading up to the ETH merge, a single hedge fund made up a third of the ETH options volume.

Lin

I do think this year is an options boom. How to get volatility exposure is to buy options. Better education for investors is important too.

Jason

Volatility can be good and bad like nuclear energy. People want tools to help them trade and manifest their view. It's great for the client base, institutional investors and traders.

Martin

I'm bullish on BTC, I sell the put. My put position either gets executed, or I accumulate the premiumIf you look at the retail sector, you can define there are two types. One that doesn't do much, they want returns with one click and the second is the type that loves to trade. They are traders that watch the market go up and down and are excited. Both need education. For institutions, regulation is important. Without regulation they can't hedge their portfolios, so regulation is important in that sense.

How can crypto stay relevant as an asset class given the current macro environment and high rates?

Lin

We're still in reverse options. A lot of traders aren't classic traders, they are miners, so we have a lot of holders and believers in the industry.

Jason

if you search for yield or return, derivatives is a tool for that but there's no free lunch. The yield is clear to the traditional options business in how to generate and obtain it. Options are going to take away that risk, I'm buying a call or selling a put I know the risks.

Chris

You need a good exchange and good market makers. It's not about market share but the number of participants. If you have 50 market makers, then the last 30 might have 1% market share but better liquidity to match buyers and sellers.

What are the pitfalls of options?

Darius

Risk management is the biggest pitfall. Most are institutional not retail players. Counterparty risk is important. As the space matures with new players coming in, there's more incentive and that will help.

Lin

Options to perp swaps can't be compared with because the liquidity is aggregated in perp swaps. Order book in options is different. Liquidity is different. We want to increase liquidity in the options market. With the introduction of a lot of expiry dates, there's a lot of choice now.

Jason

Education. People who are uneducated will be a risk to all of us up here. Back in 2008, derivatives were once classed as a financial instrument of mass destruction. The biggest risk is people misusing the tools.

Martin

Regulation is important. We want the SFC to come in to help so investors are more confident to join the party.

Chris
As long as you have a view, you have a way to express that view with options.

What is the biggest opportunity in 2023?

Darius
I asked CZ this question and he said the institutional options and derivatives space. We see it as well.

Lin
Options help better manage risk. With a challenging macro environment, options is something you want to keep an eye on.

Jason
This city. Embracing the evolution of crypto. Other places that aren't doing it will be passed by. What most excites me is this city.

Martin
By 2024 I think rates will be about 2% or 1.5%.

CeFi from now on

SPEAKERS

Deng Chao (DC) | CEO, Hashkey Capital
CZ | CEO, Binance (Online)

Considering security risks some argue CeFi is less secure, how do we prevent infrastructure failure, hacking attempts to ensure users funds are safu?

CZ

you have to take security measures into consideration. Proof of reserves for example, our wallet addresses are very public. if the platform is transparent on CeFi then it can be even more secure. In DeFi if you hold your own keys that is also a good way but the majority of people today are unable to hold their keys securely. If you use DeFi you also risk hacks.

After the collapse of CeFi platforms, it feels like a critical element is trust, how can users trust CeFi companies? There are three layers to this:

1. Reliance on technology. Technology can help verify as blockchains are transparent you can verify yourself.

2. you need to trust the community. Trust is built over time. There are probably more failed projects than successful ones.

3. Self education and risk management. Everything has risks. Risk management is something you need to learn.

In terms of UX, there is a gap between web2 and web3. Where do you think CeFi can do better in improving UX to bring more people to the web3 world?

CZ

Web3 user experience is not that great, I agree. Most of web2 has no KYC so it's a lot easier for people to use. In web3 we deal with user assets, so security comes first. Security goes inverse to ease of use. We have worked to improve UX in local countries. For example in relation to KYC we try to localize the solution by using local drivers license for identity verification processes.

What is the trigger for mass adoption?

At the beginning of 2013 I would not have said Bitcoin would take off. In 2017 I would not have thought about ICO's. At the beginning of 2020 I would not have said DeFi. It's important to provide an ecosystem for people to try different things. Governments who try to control crypto by shutting down banks will push more people into crypto. The best way to keep people in traditional markets is lower fees and increase accessibility rather than target crypto.

Good regulation framework needs balance with innovation and the

prevention of illegal activities, what would you recommend to regulators in terms of a thoughtful framework?

CZ

Having no regulatory clarity is the worst. Having restrictive regulation is even better than that. Having unclear regulation then chasing people down is the worst. There are definite considerations. When the industry is nascent it is better to let the industry grow first as we can't predict what will be popular or not. We need the industry to mature first. Then find ways to limit bad actors and put regulation in play. There's a tendency to apply everything from the traditional financial industry to crypto. Some things may look like commodities, securities, or a combination of those characteristics. Most regulators don't have industry experience. In terms of the banking sector, you will see that most regulators have worked in banks before but in crypto most regulators have not worked in crypto. We need open dialogue and to engage with regulators. The first draft is likely to be overly restrictive then we must adjust over time to find the optimal balance.

Having no regulatory clarity is the worst. Having restrictive regulation is even better than that.

What areas of web3 will get you excited?

CZ

I focus on the fundamental layer and less so experimental projects. Once something proves to be working, I like to see where it can go. Fundamentally we still have to solve a lot of problems. Wallet security is a big one.

Web3 Festival Hong Kong

13 APRIL 2023

Day 2

Defi Challenges and Real-World Opportunities in the Era of Strong Regulation

SPEAKERS

Miki Mak | Outlier Ventures Web3 & Token Advisor (Moderator)
Jakob Kronbichler | Co-Founder and Chief Commercial Officer, Clearpool
Eugene Ng | Co-Founder, OpenEden
Rachel Lin | Co-Founder and CEO, SynFutures
Yuzhu Liu | Business Development and Marketing Manager, Acala Network

What are the potential challenges in terms of regulation?

Jakob

I think as Clearpool is permissionless and works with smart contracts, it is difficult to put under a current existing license. The challenge would be obtaining a broker or bank license and in the case of DeFi projects, it won't be applicable to a lot of them. There's more transparency and efficiency gain in DeFi so these positive attributes should also be considered by regulators.

Eugene

We registered with the MAS and take compliance seriously. I think that's the way forward. We have interacted with regulators for a year. Regulation is not a bad thing. Regulation ensures a safer place for mainstream adoption. We are starting to see many permissionless protocols embracing AML and KYC requirements. I had a conversation with UniSwap and they are also looking at market surveillance tools. Regulation creates a good environment for DeFi. The other challenge for startups is unclear frameworks. We put an emphasis on compliance, which is painful but necessary.

Rachel

In our experience regulators are more interested in how DeFi can improve regulation. We actively speak to lawyers in the US, Singapore, and Hong Kong for licensing schemes. Regulation is something that imposes challenges but at the same time helps drive mass adoption. Large institutions can only trade with DeFi and CeFi only when they are regulated. We embrace regulation and look at the developments to achieve a better financial system.

Yu

Licensing is a good thing in order to increase adoptability. The collapse of FTX as an example saw Japanese regulators gain an edge in protecting investor assets. A strong regulatory framework enabled them to step in and act quickly. These customers recovered their funds first because of the regulator.

How have you prepared yourself for compliance and what are your views on permissioned DeFi?

Jakob

our pools are permissionless and we are

launching Clearpool Prime where borrowers and lenders are fully KYC'd. We did not create this product because we tried to anticipate what regulation would be, but rather created it because of product market fit. Institutions told us they love what we were doing but their

There are a lot of projects working on KYC solutions like ZK proofs and that fits with the DeFi ethos.

compliance team would not allow it. This was why we built it. We had a pilot product with Jane Street as a borrower and it worked well. We saw a lot of interest. In terms of permissioned DeFi, people ask what is the point? Some of the positive attributes of DeFi is composability but things like this won't apply to permissioned DeFi. Two things here: even if the exciting things about DeFi can't be used you still have better accessibility, more transparency. There is going to be a standard on how protocols should be KYC'd. There are a lot of projects working on KYC solutions like ZK proofs and that fits with the DeFi ethos.

How do institutions see DeFi now?

Yu

The biggest barriers for institutions is security of their funds. No team will say their protocol is 100% safe, I think security capability in recovering funds back in the scenario of a hack will be important for institutions.

Compared with centralized solutions, what makes decentralized products more attractive?

Rachel

It's a paradigm shift. The decay of FTX speaks for itself. CEX in essence is opaque. In DeFi you can't be evil, everything is written in code and it is transparent. You won't be worried about how the protocol is using your money and that is the benefit. Everyone is realizing this, and we have seen all-time high volumes since FTX off the back of this.

Tell us more about bridging real-world assets to DeFi?

Eugene

The transparency factor. It epitomizes the opaqueness in tradfi. We worked with Chainlink showing real time transparency of our token being backed by T-bills. In tradfi, do you know if you actually own that stock or T-bill? You have no idea. We encourage tradfi accounting standards. If you ask people in China or Vietnam, they can't buy T-bills. I argue that everyone at some point should own T-bills. It's hard to buy T-bills. This is in a sense democratizing T-bills. Not waiting for US trading hours is another point. We are trying to make that 24/7 settlement that never existed in tradfi. Buying T-bill tokens putting it in compound taking leverage from someone else encourages an open system.

Interesting trends you are looking at?

Jakob

RWA, real-world assets have real excitement.

Tokenizing real-estate, funds etc. I am excited about that but anything that touches real world needs to touch parties like a custodian. It will need to be regulated at some point. Anything related to the real world is going to be permissioned. Permissioned DeFi will be the future, we can really reach the masses with this. We see a rosy future for permissioned products going forward.

Eugene

I think RWA is here to stay. There is so much you can do. Lending protocols can pledge T-bill tokens and you can engage in yield where tradfi can't even access. You can't do leveraged T-bills. The market is big, I'm looking forward to more players and more competition. Bringing tradfi financing and fixed income into DeFi is going to be interesting. A lot of on-chain oracles are looking at including Fed fund rates, T-bills etc. with real asset pricing being fed into DeFi.

Rachel

Regulation. I think the trend of regulation tightening will be here. From a tech perspective, infrastructure and ease of user access will drive adoption.

Yuzhu

OG DeFi protocols are looking to expand their products. It seems we are trending towards super Dapps in the future.

Advanced Security Techniques for Crypto Wallets: Explaining MPC and TSS

SPEAKER

Leonard Tan | Web3Auth CTO and Co-Founder

How do you split a private key among multiple parties. TSS is a simplified version of generic MPC.

How do you share a secret? Shamir secret sharing, imagine you draw a straight line, and the y-intercept is your private key, draw three dots (distributed to different people), remove the line and if you are one party you only have one dot and cannot reconstruct the line to recover the key. If you have two dots you can reconstruct the line and recover the private key. Recall that someone at the beginning had to draw the line, so if that person who drew the line knows the key, how do you get around this? The answer is distributed key generation. Every participant draws a line randomly and for every participant receives shares along the same column. Summing up the shares they receive will result in the summation of shares received on the line whose coefficient is the sum of the coefficients of the three lines that were randomly generated. This is known as distributed key generation (DKG)

How do you compute using + and x?

From ZK you go to Boolean gate then convert to arithmetic circuits. High level code is represented by Boolean gates. Cryptographic terms like "and" and "or" are difficult to work with so we can look at an arithmetic expression instead. Addition gate when you have two values of x1 and x2, they are quite easy to evaluate without oversharing information. Multi party computation, however, requires communication which can be expensive and you risk leaking information. It needs to be completed in a specialized way. In terms of structures of signatures, the most common is ECDSA. It has a relatively simple structure where you can do a pre-compute without requiring communication. There are two forms of MPC multiplication. The first is Paillier Encryption which is computationally expensive to setup, but runs with little data. The second is Oblivious Transfer which is cheap in computation but uses more data.

High level code is represented by Boolean gates. Crypto-graphic terms like "and" and "or" are difficult to work with so we can look at an arithme-tic expression instead.

Keynote

SPEAKER
Fubiao Xia | PADO Labs Co-Founder

In the early digital era, privacy in the physical world did not overlap with the digital world but the digitization process is increasingly changing and overlapping.

As we move to web3/metaverse the physical world overlaps with the digital world. The importance of privacy is 1) A right, 2) A commodity, 3) A state, and 4) control. Capabilities like face detection, for example, are cool but you sacrifice a lot of privacy. Looking at privacy on layer-2 we see that privacy is not really achieved. If you want to build privacy applications on L2, you need your secret data on one side. ZK-snarks can't support the large logic of privacy statements so you can't have a real privacy process. If we want mass adoption, then we would want to introduce data. It is an important solution for L2 applications. User data with protection is a difficult balance. Web3 infrastructures are open-source and deconstructed. If we can guarantee user level privacy, then we can build cooler applications. What are interactive zero proofs? Zero knowledge proofs are pretty well known. The power of it comes in many dimensions. Arbitrary computation, proof-based endorsement and verifier efficiency are its advantages. However, a downfall is the user friendliness. Computing resources, memory etc. are all limitations to the use of ZK proofs. Interactive ZK's are like original ZK proofs with some differences. Interactive ZKs (IZK) have more efficient provers, efficient use of memory and booting circuits that work better. Suppose Alice has an app encrypted by some cipher encryption of her date of birth, health record etc. She wants to prove she is over 18. In the current ZK circuit it requires a series of verification of arithmetic proofs. With IZK, you can separate some ZK stages. Verification achieved through booleans will improve efficiency.

In general, we can have apps deployed with IZK SDK. IZK can be interacted with third party apps. We normally batch our transactions off chain and verify on-chain. This verification can scale but has tradeoffs. Any user can use their CEX for data source this will authenticate access for example, the user has 100 BTC this is then posted to the IZK and proved for the next application. Off chain verifiers mean you can have proof of age, asset, skills (university qualifications), location and attendance. This can then be supplied to on chain data applications.

Keynote

SPEAKER

Yuan Su | Co-Founder of Metis

Currently the adoption of L2 looks strong.

There are a higher number of transactions compared to mainnet, better user experience and the assets are primarily on mainnet still. There are two rollup routes currently, that is, optimistic rollups and ZK rollup. There are advantages and disadvantages of both. The disadvantage of fraud proofs (optimistic rollups) is that you need to wait 7 days before withdrawals as you need time for proofs to be challenged. ZK proof withdrawals are fast. Optimistic rollups are easy to implement and have low transaction costs but ZKs are hard to implement, slow to reach confirmation and have higher transaction costs than optimistic rollups. Optimistic rollups have a market size of $8 billion versus ZK rollups of $800 million. In terms of TPS (transactions per second) limits, no parallelism means there is a bottleneck in the underlying hardware. There is not enough TPS cap to take on chain. Interoperability means there needs to be a standard, a need to deal with finality discrepancies and assumes the union of all securities. A Superchain possesses interoperability based on the same finality assumptions and requires standardization. A decentralized sequencer pool allows for enough decentralization without compromising efficiency. A zkMIPS is a hybrid rollups. It provides a longer fraud proof window of 14-30 days combined with characteristics of ZK rollups. It solves the EVM stability problem. The hybrid workflow is as follows: sequencer produces a block, the proposer submits transactions and states, the prover reads from the layer one to produce the blocks and MIPS programs, the prover then submits the zk-proofs to an L1 once the proof is generated. Depending on the outcome if it is approved then it checks if the smart contract approves or rejects. It is rejected from the prover, then it is submitted to fraud proofs.

> Disadvantage of fraud proofs (optimistic rollups) is that you need to wait 7 days before withdrawals as you need time for proofs to be challenged. ZK proof withdrawals are fast.

zkData Proof Service: The Rise of MPC and Interactive Zero-Knowledge Proofs

SPEAKER

Xiang Xie | Co-Founder of PADO Labs, Ph.D. in Cryptography

There is conversation around whether web2 can be connected to web3. We are focused on one point, that is if web3 can reach mass adoption. Data privacy is meaningless if you do not have data authenticity. This is where data is obtained from the intended source. Privacy where only an owner can view plaintext data. Why should I care about this?

Dapps might want CEXs to interact with its users but has no way to verify the customer's asset

Dapps might want CEXs to interact with its users but has no way to verify the customer's asset and whether it is coming from Binance or Coinbase. I can prove assets with zkdata. From a web2 application, the user can interact with a zkdas node then interact with a web3 application. It authenticates the origin of data, there are no changes to web2 servers, it preserves the privacy data and is compatible with on-off chain dapps.

Through interactive proofs we can find new use cases. What are interactive zero-knowledge (IZK) proofs? Its optimization stems from MPC, it is fast in proving with low memory consumption and the proof is interactive meaning the verifier will be online. IZK and SNARKs/STARKS are complementary to each other. IZK is fast in proof time versus SNARKS and STARKS which are slower. It also requires less memory in comparison. STARKS and SNARKS also have advantages over IZK, which has a small proof size, can use any verifier rather than a designated one. There are various applications for users. Asset ownership, digital signatures, identity verification, financial health (credit scores), votes, credentials (degrees) etc. We don't anticipate covering everything as there are so many applications.

14 APRIL 2023

Day 3

Keynote

SPEAKER

Alessio Quaglini | CEO & Co-Founder of Hex Trust

It is not actually optimal for society to be completely trustless.

Throughout the conference speakers have highlighted the pitfalls of centralized authorities. The main issue is that the decisions centralized authorities make, impact people involved who don't make the decisions. We have seen the failure of central banks, fraud, money laundering etc. Money laundering actually happens more in banks than in crypto. Data leakage is also another failure. Why do we need centralized authorities?

1. They are imposed on us by the government. There is little we can do about it.

2. We don't necessarily want to take care of every aspect of our life, so we choose to delegate this to some authorities.

3. No alternative. We don't have an alternative to register our house other than the land authority of the council.

If we think about the first two kinds, it is difficult to get rid of them. The real disruption of web3 is the third point. No alternatives. What are the alternatives? We can build a new paradigm where the user of the system will be the owner of it. They will be part of the development, own the data etc.

Looking at web2 companies they capture all revenue that is generated by users. The share of revenue in web3 is much lower compared to web2 as the revenue is shared with users of the platform. Revenue absorbed in web3 is 2.5% on OpenSea, 0.3% Uniswap, and 0.06% ETH compared to 100% on Instagram, Twitter etc. Users in web3 have a vested interest in the success of the system but have accountability and responsibility for the system itself. Maybe a hybrid system could be more beneficial. Let's dive into philosophy. If a system is completely trustless it may not be optimal. Why? We need to go back and look at what money is and why we have money. We have layer-2 technologies in the traditional space too. We have scaling of L2 like your Visa, Mastercard because we can't use gold to go on a trip. Layer 1 is fiat and gold, layer 0 is credit and layer -1 is trust. Layer 2 in the traditional space is the ability to scale layer 1 into everyday use of your fiat and gold. Bitcoin is a layer 1. If we build a new economy on top of Bitcoin, we still need the fractional reserve banking system. Without a centralized authority someone must take responsibility for the absence of trust in the system. We can build the best of both worlds, trustless and trustworthiness.

Keynote

SPEAKER
Amy Yu | APAC CEO of Seba Bank

The events over the last nine months have highlighted the importance of risk management. There is always going to be risk in crypto trading. There are four sources of risk: counterparty risk, concentration risk, beta risk and liquidity risk.

Counterparty risk: It's who I'm dealing with, who I face most crucially and who I entrust my assets to.

Concentration risk: excessive exposure to a single entity that leads to dependency. As an example, only using one exchange for all your trading activity, and the concentration of loan books to one client (3AC).

Beta risk: the wider systemic risks that exist in crypto. Correlation is a big one, all lenders borrowing and lending dangerously against each other. A lending client leveraged up excessively with multiple players. There are all beta risks. This one is tough to mitigate. Knowledge and understanding of how the ecosystem works will help. Evaluating the teams that you work with; your crypto network and experience is imperative.

Liquidity risk: recent changes in banking partners have changed the way people trade. The downfall of Silvergate and Signature Bank has impacted an added new layer of risk to the market. There was an ease at which funds were moved and settled but in the past weeks, the ecosystem is coming to terms with T+1, T+2, and that is if their bank would even allow them to send their assets to another counterparty. Market makers that worked to provide these deep order books now face challenges to do this.

> There are four sources of risk: counterparty risk, concentration risk, beta risk and liquidity risk.

There are many other notable risks, compliance risks, hacking risk, bad actor risks etc. but the key message of this session is that you want to be informed and price risk accurately. The best advice is do your own research, although it's easier said than done.

Institutionalization of Virtual Asset Investment

SPEAKER

Sunny Ng | PANONY and PaNews (Moderator)
Annabelle Huang | Managing Partner at Amber Group
XiaoXiao | Partner at Hashkey Capital
David Cai | General Partner at Kronos Ventures
Sean Lawrence | Head of APAC at Kaiko

Where do you see the future adoption of institutional investment in this space?

Annabelle

Institutional flows have tripled over the years. At the beginning the crypto market had a lot of single actors but that has changed. We've seen major hedge funds in recent years actively trading. In the future it should mimic what we are seeing in the traditional market where institutions have a dominant market share.

Xiao

We are seeing institutional investors joining this space. Institutional investors do take higher risk for example they invest in primary markets. Retail has different risk preference and risk tolerance.

David

As long as the crypto asset class is seen as less of a growth asset and less risky, then there will be more adoption. As real-world assets flow into crypto and people view it as less risky, then more people will come in.

What do you think are the most important factors when investing in virtual assets?

Annabelle

The perception of risk. Counterparty risk had a huge impact on the crypto industry as well as reputation. There are still a lot of institutional investors on the sideline. They need to think of the security of the assets, the regulatory framework etc. before they can fully commit to the space.

Xiao

Asset safety is a big part we consider. User experience is a big consideration as well.

Sean

There are more tools now like liquidity ranking metrics instead of market cap. Liquidity rankings consider trade volume, market depth etc. which is a better measure than simply looking at market cap. People are starting to invest in infrastructure tools to protect their value of investment.

What impact will institutionalization of virtual assets have on the market?

Sean

Of course, spreads narrow, activity goes up, and there is more liquidity in the market. Execution layers will need to become regulated or have some form of pedigree. The market will become healthier and that is a good format for a more structured market.

David

As we look at tokenizing real-world assets and the market evolves, liquidity parameters will improve.

Xiao

The market in the long run could be more patient particularly in primary markets. Now we are seeing that funds are long-term, and investors are more patient for start-ups to build. They aren't pushing for projects to issue tokens etc. the builders have less pressure now. institutional investors are bringing more capital into the space so the builders now have the time and money to do fundamental things. I think the impact is positive in the short term and long term.

Annabelle

institutionalization will come as the market matures. What happened last year caused players to bring more transparency to the market. Every time there is a crisis we improve our risk management process and that's how we evolve for the next cycle.

How do you manage risk?

David

As the market matures bad actors will be weeded out. The ability to do due diligence on who your counterparties are is important. Lend and borrow protocols have the ability to do proper dd.

There are more tools now like liquidity ranking metrics instead of market cap. Liquidity rankings consider trade volume, market depth etc. which is a better measure than simply looking at market cap.

Xiao

Diversification is important. Some startups put all their capital into FTX and I don't think that was a good idea. Use cold wallets, hot wallets, have back up exchanges and broker accounts for diversification. That is important. More due diligence is also key. With on-chain data now we can do better due diligence. We ask for on-chain and off-chain analysis for our dd.

Annabelle

To have more dd we need proper transparency. We're moving away from the bilateral OTC model and moving to third party custodians, fund admin etc. so clients know exactly where their assets are. They will be able to track their assets on-chain if they want to and I think this will help ensure true transparency.

The next milestone for virtual asset exchanges

SPEAKER

Colin Zhong | CEO of Hash Blockchain Limited
Arthur Hayes | CIO of Maelstrom

What do you think of Web3 and being back here in Hong Kong?

Its ownership of your data, content, and activity. We are allowed to own the value we've accrued for the first time because of blockchain technology. People are coming back to Hong Kong, they want to do business and it's the place to be.

What are the next steps for Maelstrom?

We have no LPs and it's my own money. We're focused on decentralized infrastructure and tech. We are looking for the next new primitives. If the ethos of the founders is strong we will look at that.

Comments on post-FTX and your take on Binance?

There will always be scams, the last cycle was centralized lending with characters like Sam, 3AC, etc. When the Fed raised rates, credit came down and we saw them for what they were. People building real technology are still around. It's in human nature that people will get scammed again and fall for get rich quick schemes.

Is gold a better hedge than BTC?

It depends on who you are. If I'm a country or central bank I hold gold because that is traditionally how I trade with my counter parties. If you're a country and say the US dollar isn't working for me then the next step is gold. If there is hyperinflation, then gold will rally but will you be able to own it? Will it be banned? Maybe. Gold is also heavy, not easily transportable, and not the best way to store wealth if you are an individual. In the case of BTC and ETH, you don't need to store it, it's just an address.

> There is no perfect solution, only optimization

Is there a difference between BTC and ETH as an inflation hedge?

There is no perfect solution, only optimization. BTC vs ETH, I think the two are very different. BTC is immutable money. Ethereum is a virtual computer, ETH is the fuel with use cases. The reason ETH has value is because it is used in the application. If ETH is used a lot, then it can be deflationary. BTC is a pure inflation edge. With ETH, you need to ask, "Do I think humanity wants to transact and interact in different way?"

What are you most excited about?

Projects that offer real yield, actual cash flow. If you have real users, and have people who want to use your token to pay for things, then that generates value and will contribute to the economics of your ecosystem.

Winners and losers of 2023?

ETH might be at $3,000 or $4,000. People will still get hacked; protocols will still go down. On a macro level, banks failing, a deeper economic recession, a banking crisis 2.0, and an insane amount of money printing going into 2024. This is a technical reason why BTC should rise.

What do you think of the US to Asia move?

The biggest miners were originally in China, the largest exchanges were in Hong Kong, Beijing, and Shanghai. I see a move towards the east and middle east, where they are pro innovation and pro blockchain. The cycle will repeat, and in two to three years it might then move back to the other direction.

Building on Bitcoin. L2's and Ordinals

SPEAKER

Muneeb Ali | Founder of Stacks and CEO of Trust Machines

Bitcoin is a simple protocol

for storing money and moving it from one place or another. There are a lot of things you can be building on top of that. By 2017, it was clear to us that blockchain protocols would need to scale through L2s. If you look at the Ethereum right now it has given up on scalability on the L1 level. Sharding etc. they are kind of done with that. There is consensus that scalability will be achieved through L2. If Ethereum is going to scale on L2 then the question is, why is that not happening on Bitcoin? Bitcoin is still by far the largest market. The entire Bitcoin L2 market cap is below $2bn. It's mind boggling how small the Bitcoin L2 market is today. There is a huge opportunity to come and we should play a more active role on the Bitcoin side of things.

It's mind boggling how small the Bitcoin L2 market is today. There is a huge opportunity to come...

If you want to think about the opportunity of Bitcoin, it's a $500bn asset class but the bulk of the value is still undiscovered. Bitcoin is pretty much a passive asset. There are two features on a bitcoin wallet, 1) transfer and 2) hodling. This is changing. People might go to L2s for functionality as well. A Metamask-like wallet with the ability to do more things, from purchasing bitcoin ordinals (NFTs) to borrowing and lending etc. you should be able to take BTC, swap it to stablecoins, and deploy Bitcoin in liquidity pools etc. most trading occurs on centralized exchanges. The most liquid market for Ethereum is Uniswap. Bitcoin L2s are not fully mature yet so these are the opportunities.

So why do this on Bitcoin? The value bitcoin provides is durability, if there is one chain that will survive 20-30 years from now, the highest probability is Bitcoin. Something that will last and still survive decades on. Ordinals launched two months ago, it clicked with artists and enthusiasts. We are seeing top projects starting to move to Bitcoin from other L1's like Solana. Even Yuga Labs has experimented on Bitcoin through the release of its ordinal NFT collection. Ordinals is a byproduct of the Taproot upgrade. Over the years, Bitcoin had two main upgrades, Segwit and Taproot. Taproot is a space efficiency upgrade, better for privacy and enables more advanced scripting. Taproot is a limited scripting language and slightly more advanced than the Bitcoin script. It went live last year and was a non-event. Nobody used it and it saw little adoption. People behind ordinals discovered because of taproot they can now embed more data on the blockchain. Bitcoin maxi's resist change. They don't like any new thing being done with Bitcoin and call it spam. This is why developers have moved to other chains. With Taproot you don't need anyone's permission or support to publish ordinals. So far, there have been over 1 million ordinals on Bitcoin. There's a shift in Bitcoin culture as well. Bitcoin maxis used to win but after the block size war, this has changed. This cultural change in Bitcoin should not be taken lightly. New explorers, new infrastructure, wallets etc. are coming online now. As a result, I think we will start seeing the use cases on the Bitcoin economy expand further. Lightning is a fast and cheaper way to make bitcoin payments but does not have smart contract functionality. The Bitcoin thesis is now coming true.

This cultural change in Bitcoin should not be taken lightly. New explorers, new infrastructure, wallets etc. are coming online now. As a result, I think we will start seeing the use cases on the Bitcoin economy expand further.

Liquidity providers in a post-FTX world

SPEAKER

John Cahill | COO of Galaxy Digital Asia)
Arthur Hayes | CIO of Maelstrom
Xin Song | General Manager of GSR Asia
Mathius Blake | Co-Founders of Kairon Labs
Yoann Turpin | Co-Founder of Wintermute
Amy Zhang | P of Sales APAC of Fireblocks

Choose one event from the past year and articulate the impact it has had to your business.

Xin

FTX. It was damaging for the whole industry. It wasn't a failure of blockchain technology, but it was more a failure of centralized finance. Greed, and fraud has had a profound impact. Six months later we have seen some providers of liquidity still echo Alameda's model. Credit risk is a big exposure that we have. Extension of credit lines is important, and access to credit is important.

Mathia

We are seeing more exchanges trying to support us and are creating transparency. Sometimes when we want to make big withdrawals, they are willing to do it immediately. We are getting much more assurance from exchanges. Counterparty risk is a big one we are looking to mitigate.

How have your processes changed?

Yoann

Liquidity providers have an implicit/explicit partnership with exchanges. Pre FTX it was more exchanges asking us for balance sheets but now it's flipped and we are asking exchanges for their balance sheets. There's been a rebalance in the relationship.

What are some emerging themes?

Amy

Proof of reserves post-FTX was a big thing. Fireblocks customers were easily able to check on-chain where their assets were. Exchanges previously were not so open to implement changes in terms of solving for off exchange problems, but we are seeing a difference in that. Our goal is to keep these assets in our customer's wallets and use technology for them to manage and rebalance their assets.

How do you see the market today?

Xin

There are some omnibus solutions out there which are more likely to be adopted by larger exchanges. It works for trading firms like us. I think we are getting there but it's still early days.

Amy

If we look at the digital asset industry pre

FTX, the exchanges were kings. In traditional markets the customers are kings. Post FTX, the power dynamic is different. This was a positive spin off. It allows the industry to reshape the power dynamics and distribute that. In a healthy environment there should be a bigger distribution in market share among the players in this space.

Where is the DeFi solution heading?

Mathias

DeFi still has flaws like Sushiswap last week. At core though what DeFi represents is a strong back bone of what crypto is about. I'm a DeFi maximalist. The problem is there is no real framework so everybody can do what they want and us as liquidity providers we can ensure we are using protocols that are properly audited. We are hesitant to deploy large amounts of money on bridges. A lack of framework means flaws are prevalent.

Yoann

I think history has taught us to not put a lot of money in DeFi. It remains a dark horse. There are still not many DeFi users. We see it as a positive thing in terms of financial inclusion. DeFi in general embraces the philosophy of crypto. A few Swiss banks lend through DeFi protocols as they like the fluidity of dealing with a contract rather than credit risk.

Amy

Two main things to address in DeFi. User experience, and decoding of smart contracts is a very manual process. To gain adoption we need to use the same set of tools institutional firms would have. These are financial products, so KYC is a huge problem. Banks are actually the best way to convert to on-chain identification to integrate with this. It's a great way to speed up the KYC process. It's impossible for Uniswap to KYC and onboard everybody. On-chain ID and KYC shouldn't fall under the role of a DeFi platform. We are seeing a lot of banks taking on those projects instead. Emerging markets are the real problem that they aren't banked in the first place. But maybe they will skip the banks and go straight to digital like in Africa.

> I strongly believe in every-thing happening on the derivatives side. It's the chicken or the egg, and to grow that we need regulation as well as a framework.

What is top of mind in the coming months?

Xin

Regulation is a challenge and opportunity. It can restore confidence in the industry. That is required to slowly open markets.

Mathias

For us it's still counterparty risk. Opportunities for us are still DeFi. I strongly believe in everything happening on the derivatives side. It's the chicken or the egg, and to grow that we need regulation as well as a framework.

Yoann

We will prepare on the education side. Hedge funds, and pension funds etc. bring the most liquidity so it is important they enter this space. We want to provide support through investment or liquidity provisions.

Amy

Fiat is not moving in fast enough. We are trying to solve that problem. Trying to find more banks and more solutions to balance out that requirement as well as in a speedy manner. We are looking at how to address the banking problem. Right now, it's the same capital being traded by the same people over and over. We need fresh capital.

Fiat is not moving in fast enough. We are trying to solve that problem.

Author's Note

Sylvia To
Manager, Bullish Insights

Globally we have covered countless conferences but I must admit that this one has been the hardest to date. We wanted to bring you authentic and insightful messages conveyed by speakers and in doing so have translated a few sessions from Chinese to English. Countless hours have gone into the preparation of this report and I only ate half a burrito. As always we would most appreciate any feedback. Please feel free to share the report 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

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