

CONFERENCE REPORT

Consensus 2023

26–28 April 2023 | Austin, Texas

BULLISH INSIGHTS TEAM

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Summary

It is normal for economic cycles to go through booms and busts, with every peak comes a trough.

While we navigate crypto winter through the Consensus conference hallway, it doesn't quite feel like a bear market but also not a bull. We are in a twilight zone of what Sergey Nazarov, Co-Founder at Chainlink calls the platypus market. The limbo between a bear and bull market, not dead but not alive. Drawing comparisons to what we're seeing in the east, it seems that there is quite a bit of catching up to do here in the west.

Here is the TLDR:

Day 1

Jeremy Allaire, CEO of Circle seemed to still be navigating waters after SVB's collapse echoing that the base layer of money should not be subject to these risks. He is calling for reverse repos, short term treasury bills to back stables and not commercial banks. Rightly so but whether or not that wish list would be checked off or even heard by the Fed is also in question.

Next up we had Franklin Templeton make a surprise appearance. Jenny Johnson, President and CEO at the firm came in with the announcement of their Benji money market

fund which launched on the Stellar network and Polygon. Coming from a buy-side background it's phenomenal to see that a traditional asset manager is entering the space with a plausible use case that would strongly resonate with those in the tradfi world.

Christopher Giancarlo, the Former Chairman of the US CFTC focused his session on CBDCs and stablecoins. Taking a somewhat libertarian approach to his view, he wanted an emphasis on the public's opinion on what the formation of the digital dollar should look like rather than central bankers taking full control. The key takeaway is that he recognises the privacy concerns around stablecoins and CBDC's. "Will it enslave humanity?" is a thought probing question.

Day 2

We had the pleasure of sitting down with Ryosuke Ushida, Chief FinTech Officer at Japan's Financial Services Agency. A country the infamous Mt. Gox was born out of is now attempting to make a comeback. He wanted to emphasize that Japan wanted a shot in becoming an attractive destination for Web3

innovation. The country holds a wealth of IP across manga, gaming etc. and is interested in proliferating NFTs through the digital asset lens. While he admitted that there are still hurdles international companies face when applying for licenses in the country, it is still a framework that he and his colleagues are working to improve. The emphasis was that because of early regulatory clarity, FTX Japan customers were able to recover their funds and that they were quite proud of the comprehensive framework they put in place.

Day 3

There was a strong focus on regulation and the biggest takeaway from the sessions were 1) the

US's internal conflict between the CFTC and SEC still needs to be ironed out. The turf war between what is and isn't a security vs commodity. 2) There are still lawmakers that want to push forward clarity for the industry. Patrick McHenry, Chairman, House Financial Services Committee, US House of Representatives highlighted that he wanted America to harness blockchain technology for its own economic growth and that Europe and Hong Kong are already ahead. "We want to be the leaders not the followers" he told the audience. US Senator Cynthia Lummis carried the same tone. She was encouraging innovators to write to their senators to call for regulation. It seemed as much as the Senator wanted to push forward a bill to provide clarity for the industry, that bill had to be passed out of the House level first.

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26 APRIL 2023

Day 1

A 10-Year Rollercoaster Toward a New Model of Money

SPEAKERS

Jeremy Allaire | Co-Founder, Chairman and CEO of Circle

Michael Casey | Chief Content Officer of CoinDesk (Moderator)

What was that weekend of SVB like for Circle?

I spent a load of time trying to understand how the banking system worked, monetary policy etc. when the GFC took place. Sound money purveys this arena. The original vision of Circle was this, we took what we thought of as money, direct obligations of the government and expressed it as a digital form. We then made it on an open protocol, which would open up extraordinary new opportunities and economic activity. Fast forward to now, we always aspired to model a digital dollar. It should be as close as possible to a direct obligation of the government. A full reserve digital banking model is what we wanted. We have always wanted to move towards that. I think we will get there. Coming back to that weekend, cash which we thought was safe is actually an IOU of the underlying bank. There was talk on companies not being able to make payroll. Why is the base layer of money subject to these risks? That weekend was an absolute total shock, the unraveling of SVB was as fast as the unraveling of Terra Luna. The development of crypto and the vision of stablecoins is how do you establish a safer and more capable internet dollar. We have upgraded the market

infrastructure of USDC. It's still not safe enough and we need legal and regulatory changes for that.

Is Circle being cut out from the Fed?

I'm not sure that reporting is accurate. People are taking money out of commercial banks putting it in money market fund structures. The concern is deposit base (lending activity) not on the Fed's balance sheet. There's been a flood of deposit decline, and people wanting the risk-free-rate.

Lobbyists are saying banks should not be touching stables

Multiple drafts of the stablecoin bill actually says we don't want commercial bank backed stablecoins but we want reverse repos, short term treasury bills to back stables. If we have cash like instruments on the internet then you want it not exposed to underlying bank risks. What we are facing today is a world where active de dollarisation is taking place, risks in the US banking system, geopolitical imposition, it is happening and accelerating. How can we make the dollar safer and more competitive? We don't have a stablecoin bill but we have a dollar competitive bill in front of us.

Regulation by enforcement and the US lagging from what's happening with the rest of the world. Is that legislation going to be reshaped?

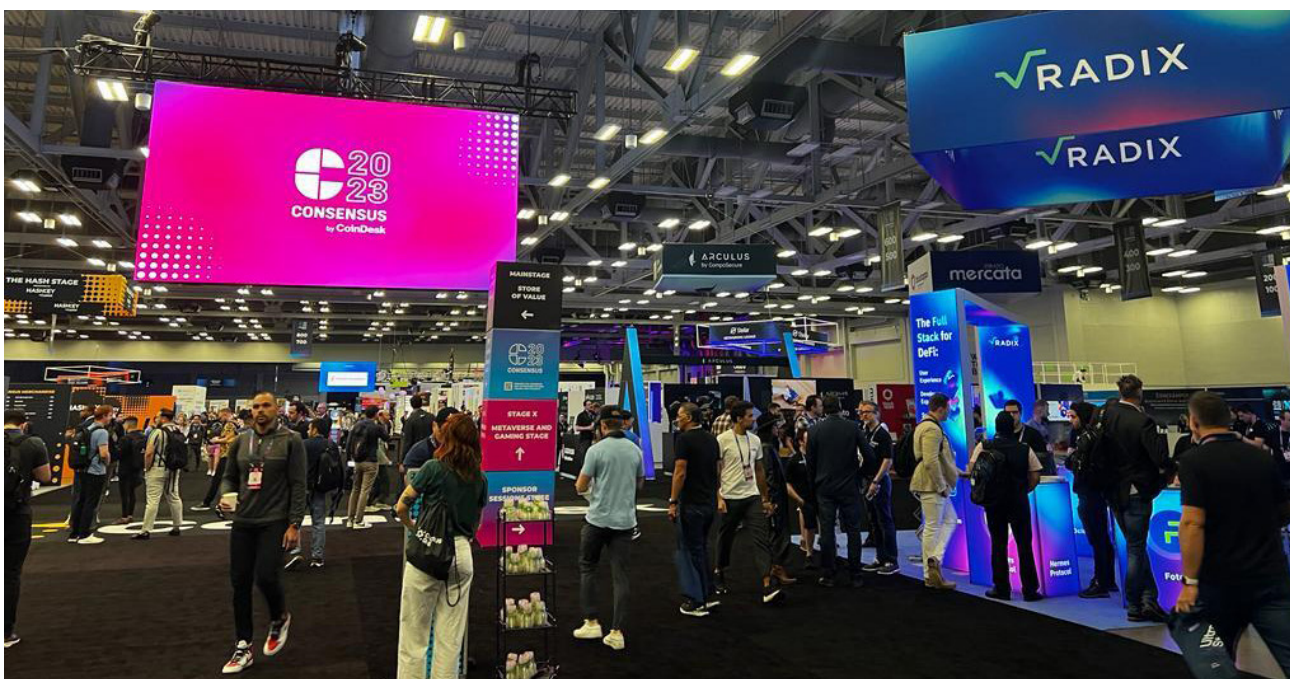
An earlier draft that was circulated had both rules on digital dollar issues. Making them as safe as possible. Another piece was it authorized the Fed and Treasury to upgrade the core system of the dollar for the Fed to be more digitally native. If we can combine that we could reinvigorate dollar competitiveness.

What international opportunities do you see?

Demand for a digital dollar is highly global and especially across emerging markets. People want to hold a digital dollar where their local banking systems are weak. Internationally there is action around stablecoins and USDC specifically. We

Demand for a digital dollar is highly global and especially across emerging markets. People want to hold a digital dollar where their local banking systems are weak.

are going to jurisdictions that have clear rules like the EU, where France is leading the way. In Singapore we've seen strong progress in the UAE and Hong Kong. Financial market centers around the world are moving forward with this. USDC as a settlement layer being as liquid as possible and connected to banking systems of the world is what we want to work towards right now. 🏹



A Deep Dive Into Crypto Derivatives

SPEAKERS

Giovanni Vicioso | Global Head of cryptocurrency products CME group

Simeon Hyman | Head of Investment Strategy ProShares

Nicola White | CEO of B2C2

Bob Fitzsimmons | Executive Vice President at Wedbush Securities (Moderator)

What shifts have you seen in client adoption of crypto derivatives?

Simon

we know BTC has gone up while rallying 70%, financial institutions have blown up but BTC still rose. The narrative that it is a store of value and diversifier, maybe right. Bloomberg ran a piece about the optimal allocation of BTC is 1-1.5%. It plays a powerful role in a portfolio. There was chaos across the banks and meanwhile BTC was going up. This is prompting people to think about how to access it.

Gio

The lack of risk management has little to do with BTC and other cryptocurrencies. We see a trend of institutions looking to manage risk. More institutions are looking at regulated platforms and regulated products. We are seeing growth and interest here.

Macro hedge funds are beginning to dip their toes into this space. We are still in early stages of institutional development.

Nicola

We asked our clients what they needed, they emphasized risk management and compliance. It's good for the industry to talk about best practice. For clients we are talking about setting the bar until the bar is set by regulation

Crypto institutions, are they moving towards or away from crypto?

Gio

Macro hedge funds are beginning to dip their toes into this space. We are still in early stages of institutional development. We were trading about \$3bn of volume a day, and saw strong open interest growth which was up 40% compared to last year. We still haven't seen large money managers and pension funds allocate into this space, when that happens the space will really grow.

How has the derivatives landscape shifted to make traditional players more comfortable with this space?

Nicola

They are just starting their journey so derivatives for them is cash settled and something they are used to. Their systems and risk managers knew how to assess it. That started the evolution of

the derivatives space. Last year it was all about how to hedge your portfolio, using options as a hedging tool.

Simeon

Counterparty risk is managed, and being regulated is important. There has been a maturation of BTC futures since launch. The roll cost was a worry before. Cash settled, and no inventory cost to store BTC. The BTC futures market has matured a lot compared to spot.

How are spot exchanges evolving and opportunities there?

Gio

The ecosystem is growing, and it's not a winner takes all scenario. It's the interconnectedness of these markets. There's plenty of access points for clients.

Nicola

Unregulated exchanges, what are their control functions? Regulated spot exchanges have some of the controls we are used to seeing in the tradfi space. Access is important for these firms. US regulatory headwinds mean there is a hesitancy and every firm has a different bar of standard you need to meet. We need more standardization across this space. There's a gap between spot and futures accessibility that needs to be met.

Gio

70% of growth is outside ETFs, block volume (transaction negotiated between large counterparties) is growing, 3 million dollar positions in terms of BTC is growing.

Nicola

Holding and not selling is not a very healthy market structure. Growth in a regulated on-shore environment is healthy for the ecosystem.

How do we grow the options market?

Nicola

If we are trading options on CME, the CME is the intermediary but bilateral options requires complex legal agreements. In every conversation with a client, we ask how you are hedging your portfolio? With volatility you want downside protection. It's about education to leapfrog the growth.

Simeon

Sentiment wise when we launched BITI, flows wise we have seen even flows on long and short.

Headwinds and challenges?

Nicola

Regulation is the biggest headwind. We want the line drawn and know which side to stay on. Clients are reluctant to trade sometimes because of comments that were made.

Gio

I echo that. CME is regulated so we view regulation as a feature. For us to offer more products beyond Bitcoin and Ethereum, we need regulatory clarity on what is a security and what is not. Prime brokerages for example, are still in its early stages, and are still missing in this space.

Simeon

Education, we still have a long way to go. 🏹

Crypto's New Market Structure

SPEAKERS

Mike Belshe | CEO of BitGo

Gary Hirsch | Managing Director, North America Kraken

John Palmer | President of Cboe Digital

Chris Zuehlke | Partner, DRW and Global Head at Cumberland DRW

Helene Braun | Beat reporter, CoinDesk (Moderator)

What does today's market structure look like?

Mike

Everybody can participate in digital assets. Understanding the risks and creating a separation of duties. Crypto market structure has evolved today. FTX operated in the same manner where there was a full vertical stack, and there was fraud.

Guy

We want an environment where customers can trust the venue. Traditional markets didn't prevent market failures and there is no fail safe mechanism even in traditional markets. Crypto markets behave differently. There are ways to demonstrate where assets are. For example, proof of reserves. We need to show we have the reserves for the liabilities of our customers.

John

We want our customers to have a choice. The natural evolution of the ecosystem, we will see more and more segregation of assets in crypto.

The lending market went belly up, how has that influenced capital formation?

Chris

People don't realize how thinly capital is operating in markets. A lot of participants were over leveraged, liquidations caused price spikes. There are stricter controls now. Leverage has dramatically reduced partially because finding that capital is more difficult. The market is less liquid so it becomes more prone to price action. Price dislocations that we saw a year or two ago are no longer as frequent. The market has become more resilient, risk is more manageable now. I would be shocked if traditional players don't step in and offer more services.

To what extent has thin liquidity caused a rise in price action in Bitcoin?

Chris

Debasement of fiat, any time there is a banking crisis it results in a spike in Bitcoin. It offers individuals to hedge that risk. People need a safe haven to put their assets. If you are worried your bank isn't going to be there tomorrow, you don't have many options other than rotating that into crypto assets. There has been an aggressive rotation into Bitcoin from this. The cats out of the bag, the idea that bank deposits are risky in a way people didn't understand, is now an

appropriate thesis for a place for people to put their dollars into assets like Bitcoin.

How is being a regulated exchange a disadvantage?

John

We were prudently selecting assets that weren't securities. Looking back at 2018, you could argue it was a disadvantage to us versus other platforms that offered more than Bitcoin and Ethereum. Now though you see participants seek out non-vertically integrated companies. People are looking at counterparty risk and it's starting to become a strength for us.

Guy

If you want to see more institutions allocate to crypto they would do so with centralized exchanges. There is a critical role for centralized

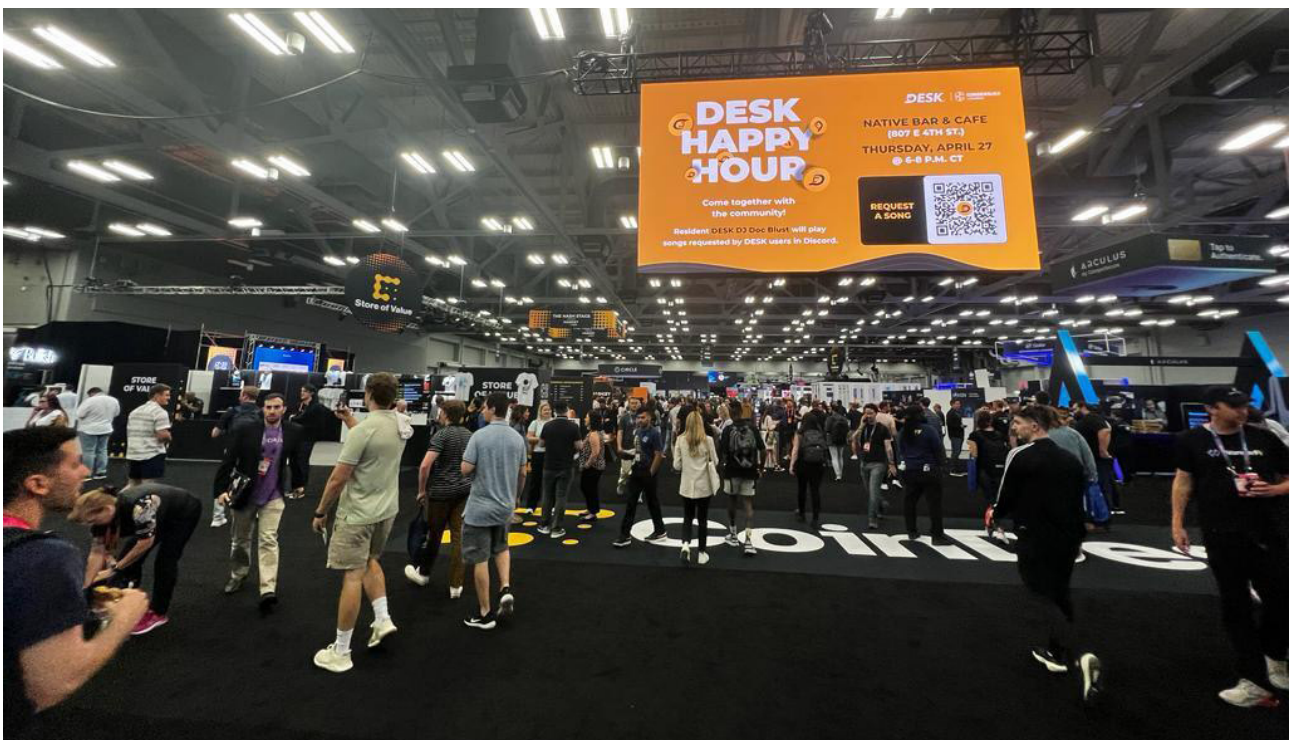
Debasement of fiat, any time there is a banking crisis it results in a spike in Bitcoin.

exchanges but we will also see innovation in DEX's. If we see registered investment advisories grow in this space, they will only integrate with centralized exchanges.

Do institutions want to handle real Bitcoin?

John

There are a lot of institutions that want exposure to the space and derivatives allow for them to gain access given the regulatory environment which may be their only option now. Sometimes



they can't hold these assets so prefer cash settled derivatives. Cash settled derivatives have demand today.

How much wash trading still goes on in exchanges?

John:

Zero with us. We wrote a rule book to make sure our participants abide by that.

Guy

It is prohibited with us as well. We have tools to make sure it's not happening. Wash trading exists in traditional markets as well. Bot trading is permitted. Having algorithmic trading integrated with the exchange for example is welcome.

CEX vs DEX

John

DEX is a concept of AMM compared to CEX, a group of firms representing price. On a CEX it's a central limit order book model with many participants representing their price, more liquidity and stability when there is volatility.

Mike

Still figuring out the kinks on DEX's. Smart contract hacks for example. If you are a regulated firm you will find it difficult to participate in DeFi. There is more work to be done.

Chris

There is a place for both. If you need AML and

There is no reason why innovation and regulation needs to be mutually exclusive.

KYC then you are unlikely to dive into DeFi aggressively. It is difficult to ignore the primitives of these DeFi platforms. Can an institution trade in DeFi is one question but the other question is which of the primitives are tradfi institutions going to adopt in DeFi?

How do we restore trust with regulators and banks?

Chris

There is no reason why innovation and regulation needs to be mutually exclusive. The stablecoin bill draft is a good start, and engagement with the industry is important. Progress is being made and we should focus on moving the conversation forward.

John

Everyone is frustrated because we want clarity but technology sometimes moves faster than regulators. We need to educate them and show them we can do this in a safe way. 🏹

Franklin-Templeton CEO on Playing the Long Game

SPEAKERS

Jenny Johnson | President and CEO at Franklin Templeton

Michael Casey | Chief Content Officer at CoinDesk (moderator)

Latest work you have been focusing on in the digital asset space?

We launched a Benji money market fund on-chain which was built on the Stellar network. We are also now on Polygon. It's an on-chain yield coin with US securities backing it.

Why did you go multi-chain?

It is important to have cross chain, multichain capabilities. We are node operators on 6 nodes, we have a VC fund, active strategies with SMA's, and research. We thrived through 75 years because we continue to innovate. The obvious things are the efficiencies you get from back-office. Reconciliation for an example, the beauty of blockchain is that the settlement happens immediately. If you think about what blockchain does, it is a payment mechanism, smart contract and allows for a general ledger. It reduces the cost of transactions and it opens up opportunities. Rihanna, before the Superbowl issued 300 NFTs with each one representing royalties on one of her big hit songs. Blockchain unlocks revenue streams, music is one, sports athletes pre-selling their potential future earnings with revenue stream is another. It will be monetized and democratized. It takes out the friction in transactions.

Active investment decisions are made on behalf of our clients. Blockchain opens up more instruments we can invest in. Blockchain will open up more opportunities for our clients.

Regulation, what are your thoughts?

We are used to a global regulatory environment. You need to work with regulators and it is going to be a regulated industry. With our money market fund we work closely with the SEC. Different areas in the world are more advanced, Hong Kong, Singapore and the UAE for example. Europe came up with MiCA regulation. Singapore passed regulation then it blew up so they moved back a bit. This is a complicated space and the regulators are concerned about passing regulation with unintended consequences.

International focus or US focus?

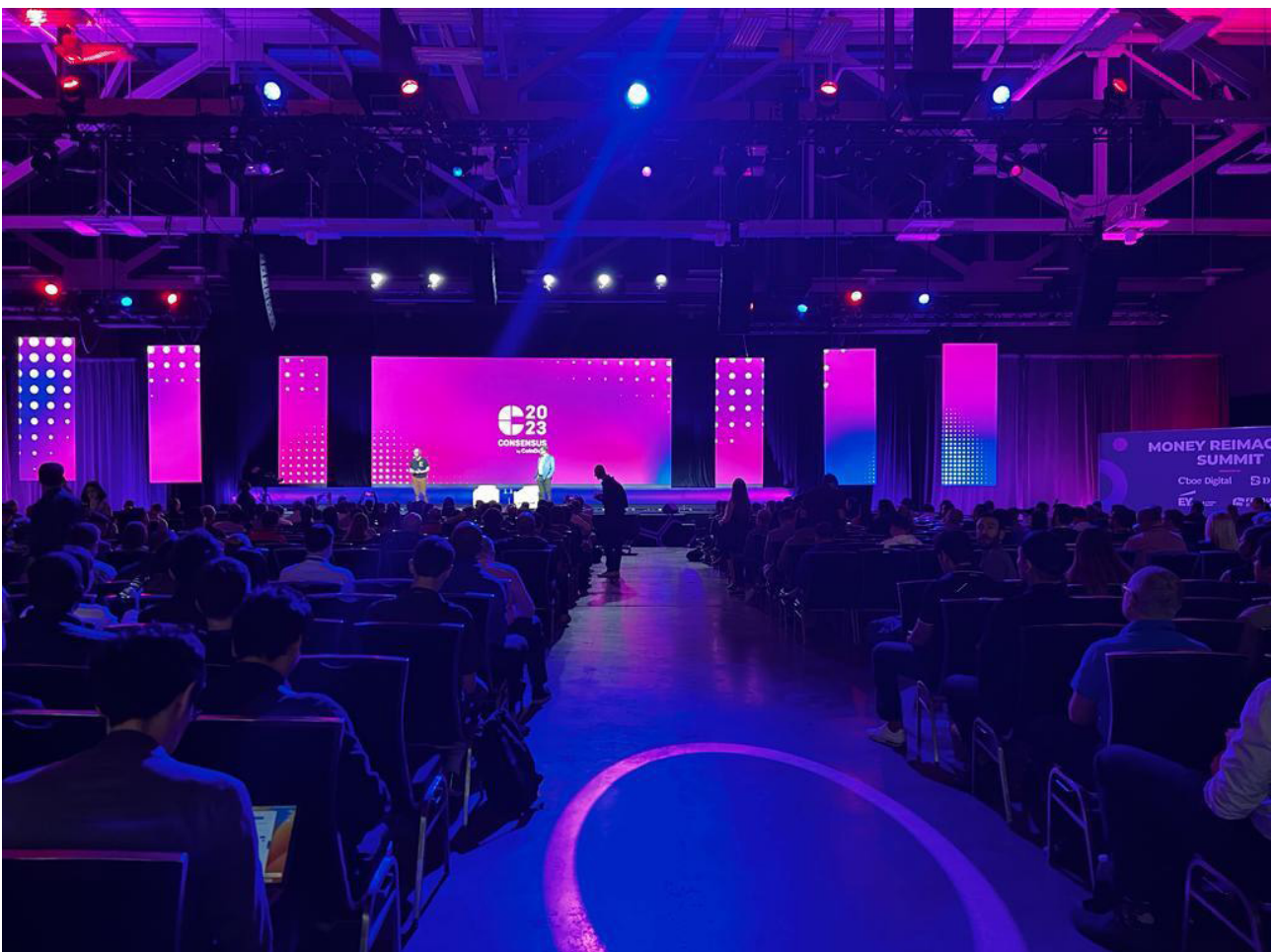
We have different initiatives going around the world. Benji will be regulated across jurisdictions. If you are in this ecosystem you can assume you will be operating broadly.

The banking crisis, what does that tell you about the direction in new forms of payment?

Post the GFC we saw the imposition of strict regulation of capital on banks. SVB invested in US securities and in a high rate environment, you naturally have people pull their money out. The money market funds have been a beneficiary of that. We have seen flows from banking assets.

If bitcoin ever became so big that it threatened the USD as a reserve currency then the government will limit the use of Bitcoin. I do think there is a place for it but realistically governments will not accept a displacement of their currency. 🙄

If bitcoin ever became so big that it threatened the USD as a reserve currency then the government will limit the use of Bitcoin.



CryptoDad on the Fight for the Digital Future of Money

SPEAKERS

J. Christopher Giancarlo | Former Chairman of the US Commodity Futures and Trading Commission

It's been almost 4 years since the end of my term at the CFTC. During my term we green lighted Bitcoin futures. The success is proof that US regulators can engage with crypto if they have the will to do so. American rights to privacy against unlawful government intrusion is a topic. We saw a need for the private and public sector to discuss the opportunities and challenges of digital money. Money is too important to be left to central bankers. The public has every right and duty to discuss the characteristics of a digital dollar. We ask what social, civic and constitutional values are needed. We call for the US to exert strong leadership in CBDC initiatives. Over 100 foreign governments making up over 95% of the world's GDP are exploring CBDCs. China is experimenting with the e-CNY, the ECB, the digital euro and a digital pound out of the UK. CBDCs are coming. Americans will be dealing with CBDCs around the world in the next decade.

Private stablecoins have no privacy compared to what a CBDC provides. The future will have both, sovereign and non-sovereign digital currencies. Possible benefits of digital currencies is that it is programmable, low cost, and accessible for retail and wholesale participants. The vision for digital currency is a fully networked, integrated economy. Digital currency links silos from financial activity into a digital based financial network. Many countries around the world

recognise these opportunities. Greater efficiency, transparency and access than ever before.

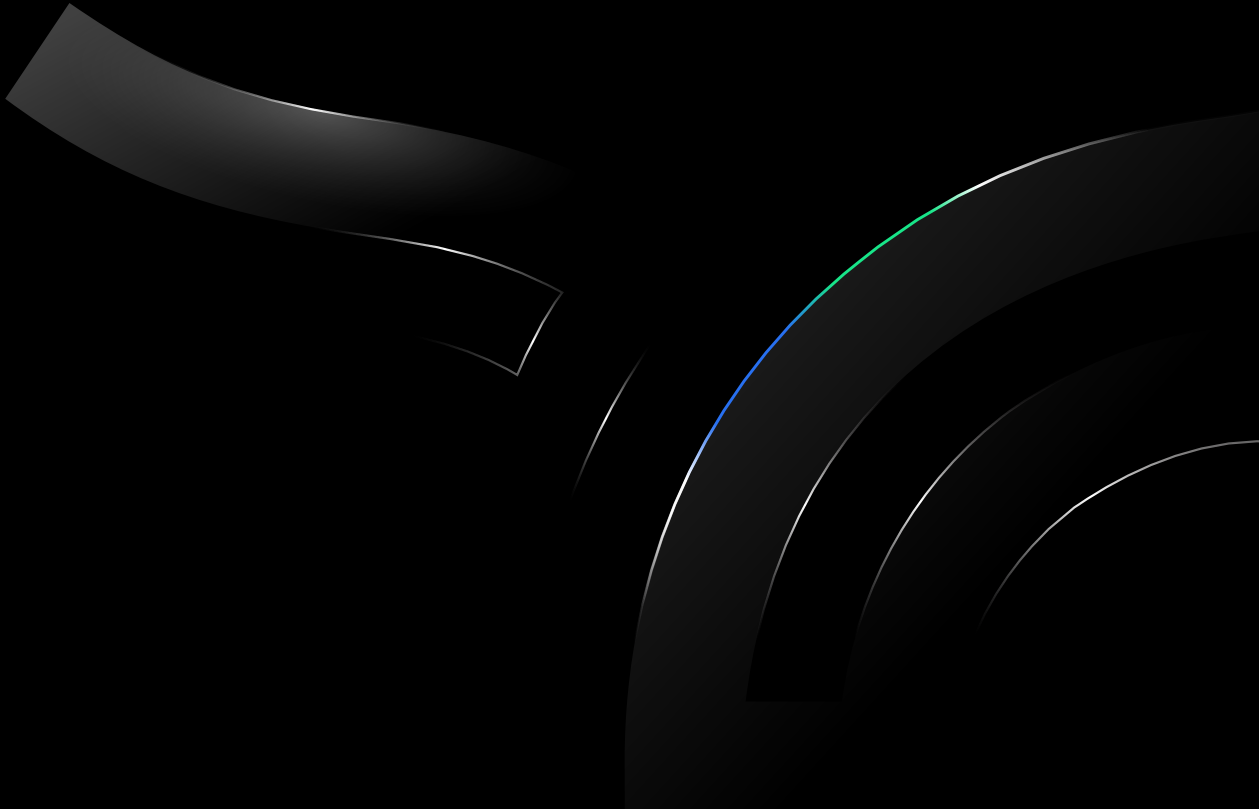
The economic power is enormous. Those digital currencies that prevail will gather mass data of users, voters, citizens. People are concerned about the misuse of financial data, reaping havoc on our liberty. Privacy needs to be addressed in the future bills. They are massive honey pots of user's financial data. Fit for purpose stablecoin legislation needs to protect American rights to privacy. Sovereign or non-sovereign, it needs

The choice of stablecoins to CBDC is a false choice, the real choice is financial freedom and financial control. Will it enslave humanity?

to be immune to political agendas. Money is power and the digital future of money is upon us. Whether it is CBDCs or stablecoins is irrelevant. There will be a revamp of a highly integrated network of digital currencies. There will always be stablecoins and CBDCs. The choice of stablecoins to CBDC is a false choice, the real choice is financial freedom and financial control. Will it enslave humanity? 🦹

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Day 2



The Future of Blockchain Payments: Practical Challenges and Opportunities

SPEAKERS

John Nahas | Vice President of Business Development at Ava Labs

Eric Piscini | CRO and COO of Swirls Labs (Moderator)

Emi Yoshikawa | VP of Corporate Strategy and Operations at Ripple

Jan Lorenc | SVP Head of Global Digital Assets at Nuvei

What are the challenges and headwinds of crypto adoption?

Emi

It's not a question of if but when and how for adoption to take place. The next two to three years will be a tipping point for mass adoption. We surveyed these officials and they mentioned low cost as a key benefit of blockchain technology. Using blockchain allows for cost reduction by 80%, and by 2030, cross border payments savings could amount to \$10bn. There is increasing awareness of environmental impact. Many consumers care about environmental impact when choosing which blockchain to use.

Jan

Banking systems need to know why we are doing this. The business case is harder for them to make. The regulators need to also understand why it's a better solution, and we need to convince them it is a game changer. These are the challenges we are facing.

John

The obvious benefits at a base level is that it allows people to own their own value, and acts as a 24/7 international payments mechanism. We went from an analogue economy to a digital

economy. It is faster, cheaper and easier to use. Challenges wise we as an industry need to build and innovate more. Mass adoption will come when we have the right infrastructure and in-roads.

Thoughts on interoperability?

John

Interoperability needs to be the same, we are a firm believer in a multi-chain future. We support subnets which are application specific chains. Payments and gaming companies for example need their own environment. Interoperability is going to matter, domestically and abroad. Maximalists fight over little pieces and scraps but we need to grow the pie together.

Jan

We need to work on financial inclusion. Something low cost and low friction.

Emi

Internet value is the third wave of globalization. The value movement is standardized. Interoperability is key to unlock the next wave. We tend to focus on interoperability between blockchain networks but we should also focus on blockchain networks and traditional

Internet value is the third wave of globalization. The value movement is standardized. Interoperability is key to unlock the next wave.

financial networks. In order for blockchain to be mainstream we need to focus on this point.

How are you helping to contribute to the web3 payment ecosystem?

Jan

Decentralized recovery is something we are focused on. Losing your private keys usually means losing your assets. There is a mechanism to say if I lose my private key, I give a portion of my secret keys to friends or companies to recover my assets again. We open-sourced this technology.

John

We are supporting builders and use-cases. There is a core wallet with swap, and bridge features in-built into a single place to conduct your web3 transactions. It also has subnets in one single app for users. Any builder can deploy rust, move with an EVM compatible subnet. You can choose your own gas token on the subnet as well. Gasless transactions is another feature.

Blockchain-as-a-service essentially. The banks are the front end, we are the back-ends, e.g. the SWIFT. We need better front-ends.

What are you working on now?

John

AWS partnered with us to support blockchain growth particularly with our subnet chains. They have a government cloud service to support government users and they can now sit on top of the subnet. On the insurance side we launched Lemonade, a real world weather data oracle. It started in Kenya and will expand to Africa and Southeast Asia, if there's a drought or the temperature drops below freezing conditions, a farmer who paid 83 cents for insurance will automatically be paid out. The automation of payments is key.

Emi

Outside of enterprise solutions we are looking at EVM sidechains and AMM for DEXs. Decentralized ID is also an interesting focus. 🚀

From Mt Gox to FTX: Japan's Evolution as a Regulatory Leader

SPEAKERS

Ryosuke Ushida | Chief FinTech Officer at Financial Services Agency, Japan

Sota Watanabe | Founder at Astar Foundation

Emily Parker | Executive Director of Global Content at CoinDesk (Moderator)

Why is Japan crypto friendly now?

Ryosuke

We already have a strong regulatory framework so we are comfortable with crypto. As a result of Mt Gox, we realized we need customer protection so we asked crypto exchanges to segregate their assets. It worked well in the case of FTX. FTX Japan customers already have their funds back, this is thanks to our good compliance and regulatory framework. We see good potential and opportunity in the Japanese market. Many countries already introduced AML requirements which are important but there are few that have customer protection requirements like Japan. We have a comprehensive regulatory framework and we are proud of that.

Why the move to Singapore from Japan?

Sota

In Japan corporate tax/unrealised gain is high hence why we moved to Singapore. This tax framework has changed now. I moved to Singapore to build use-cases and asked for policy changes in Japan. Japan used to be number one in electronic goods, and cars but

we lost in web2. Now with web3 coming we needed to bet on the next opportunity. We have IP, manga, related to NFT where we will innovate and it will be a game changer. Japan is improving but not enough. The tax on unrealised gains. If I own tokens not issued by our company and the price goes up then the tax is there on unrealised gains. There are a lot of gray zones so from an entrepreneur perspective it is tough for us.

How do you address this tax issue?

Ryosuke

FSA is working hard on the taxation issue. It is a social construct so we need society to gain consensus on why we can exempt taxes. Use-case is important to us. Speculation is what we have seen and we need tangible use-cases that are positive on society then tax discussions can progress. We have worked with the private sector to see how we can improve on this.

Sota

A lot of big companies have entered web3, the Japanese government has made it a focus. Docomo has made infrastructure investments. We worked with Toyota and Sony for hackathon and innovation projects.

Exchanges in Japan complain that it is really strict and difficult to make money. Kraken, and Coinbase left Japan, can you speak to this?

Ryousuke

We are aware of the risks so the regulatory requirements are not light compared to other jurisdictions. We will see an evolved regulatory framework in Japan. We drew a clear line between NFTs and crypto assets because we received complaints that there was no clarity. We try to give clarity and our ongoing effort is being made.

How do you compare doing business elsewhere outside Japan?

Sota

I was in Hong Kong for the web3 festival and I saw some political movements. The US is tightening and the Chinese government is easing. In Japan, the Japanese government wants to push web3 but we don't have many global players. After conquering Japan they go outside. In Singapore it's a global market so there are multiple global players, mainly investors. Not so many builders. Japan is the biggest for builders in my opinion.

The lack of clarity between what is and isn't a security, how do you deal with that in Japan?

Ryousuke

We are just a financial regulator. You only need to speak with the FSA when you come to Japan so

FTX Japan customers already have their funds back, this is thanks to our good compliance and regulatory framework. We see good potential and opportunity in the Japanese market.

it's relatively simple in that sense. We are trying to ensure a level playing field between different players. We have a criteria focusing on a means of payment, if it's a security token then it's covered by security law in Japan.

Sota

The government in Japan likes to speak with start-ups and builders. Web3 is changing very quickly so they like to learn more from the businesses.

Ryousuke

We are cautious of the risks but we are used to the risks of crypto assets and learnt a lot from past experiences. We don't allow banks to conduct crypto asset business, but banks can now custody crypto assets since last year so we are changing. June this year we will provide clarity on stablecoins too. There is progress being made. We connect incumbent players and have an international conference in March every year where you can see what innovation is going on.



How Web3 Can Help Fix Social Media and Consumer Apps

SPEAKERS

Sriram Krishnan | General Partner at a16z crypto

Angie Lau | Editor-in-Chief at Forkast Labs (Moderator)

Where does social media technology go next?

In the mid 2000's when you opened Facebook it was such a novelty. As things grew the contract was you give us your content and we give you an audience. People are now looking for a fair share of their content revenue, they are scared of posting the wrong things to prevent

of streaming content and you can get famous overnight. Bringing in financial incentives too soon is not good. For social media to take off you need people to come in to build social capital and not monetary capital. Email is a protocol, you can build things on top of it. Hotmail was built on top of a permissionless protocol before it was sold to Microsoft.

You have composability with web3. Build a network effect by building a protocol and have people build on top. Permissionless innovation.

getting kicked off the platform too. Web3 is permissionless innovation. It gives you choices. You can build your own stuff on top and you also have the right to exit. You are able to influence the governance of the platform as well.

Why hasn't web3 social media taken off?

We are still in early days. For any new social media app to work you need a better experience or better people. Snapchat was cool high school kids and filters, TikTok was about a new way

Clubhouse was huge during Covid then nobody was in it. Is there a threat for platforms with new entrants?

You have composability with web3. Build a network effect by building a protocol and have people build on top. Permissionless innovation. Nobody wants to leave their platform when you have your user base etc. there's a sticky network effect. If you want to keep your community but use a new platform you can do that.

What are 3 key things you are looking for in success?

1. If you claim to be decentralized do you have a roadmap to show that? How many hubs/ nodes can go down?
2. User experience. How do I post content etc.
3. Sense of community. Tiktok had a flavor because it's a place for you to showcase skills that you wouldn't do so on Instagram. You need to build a community.

Can rules exist on a decentralized platform?

You can send anything by email but it is up to Gmail, Hotmail etc. to put the rules in place. The protocol will be the ones to write the rules. People can vote and can have alternatives. ✈



Not Your Keys, Not Your Identity: How to protect our Most Precious Asset

SPEAKERS

Daniel Buchner | Head of Decentralized Identity at Block

Tyrone Lobban | Head of Blockchain and Onyx Digital Assets at Onyx by J.P. Morgan

Evin McMullen | Co-Founder and CEO at Disco.xyz

Marc Hochstein | Executive Editor, Consensus at CoinDesk (Moderator)

Most DeFi lending is overcollateralized, outside of this how will you assess other characteristics of a person's ability to repay a loan?

Tyrone

Using verifiable credentials. On Polygon we wanted to prove you can interact with a DeFi protocol in a KYC compliant way without the DeFi protocol knowing anything about you. We built on-chain smart contracts that could verify (outside the DeFi protocol), these contracts can work out limits in accounts, the right set of assets, etc. It can identify someone's reputation, credit history, without revealing the information you typically have to give today. Using these systems you get the benefits of DeFi without having to reveal everything about yourself.

How do you view data privacy when some social media platforms are now asking for proof of age?

Tyrone

ZK is one approach in a privacy preserving way. Another way is that when banks KYC you, they can issue a credential to you signed by the bank.

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It is then placed on a public registry then you can use that information to access the social media side. I could give you a credential that says you are only allowed to shop at this shop and spend x amount. We can combine on-chain assets with real world identities now. We can specify these parameters.

What are decentralized identifiers and verifiable credentials?

Daniel

Gmail for example is the property of that company and you can lose access to your accounts or be banned. People lose their identity by means of government too. DID (Decentralized Identified) is like an email and is yours, you can prove you own it and that's what a decentralized identifier is. You

Verifiable credentials is technology agnostic, it can be used in web3 and web2. Soul bound tokens are locked into the web3 world.

can sign things with it, they can look you up and also communicate with you. Verifiable credentials is a signing format. If I want to sign a diploma or buy a car it is signed as a verifiable credential. It could be a record or an assertion.

Tyrone

Verifiable credentials is technology agnostic, it can be used in web3 and web2. Soul bound tokens are locked into the web3 world. Designing for today's world and tomorrow is important.

Soulbound tokens what do you think?

Daniel

Immutable non-transferable token that tries to act as a verifiable credential. It is a bit dystopian in a way. Soul bound tokens are largely a fraudulent meme. Verifiable credentials can do proofing as well. You can use it for tickets, ownership of property etc.

Evin

Public keys are different to credentials. Blockchain sells blockspace, it is an expensive over share.

Losing keys to your identity?

Evin

We have all probably lost private keys before. The ability to rotate your keys. A method for self-recovery. This is important for us to center on.

Daniel

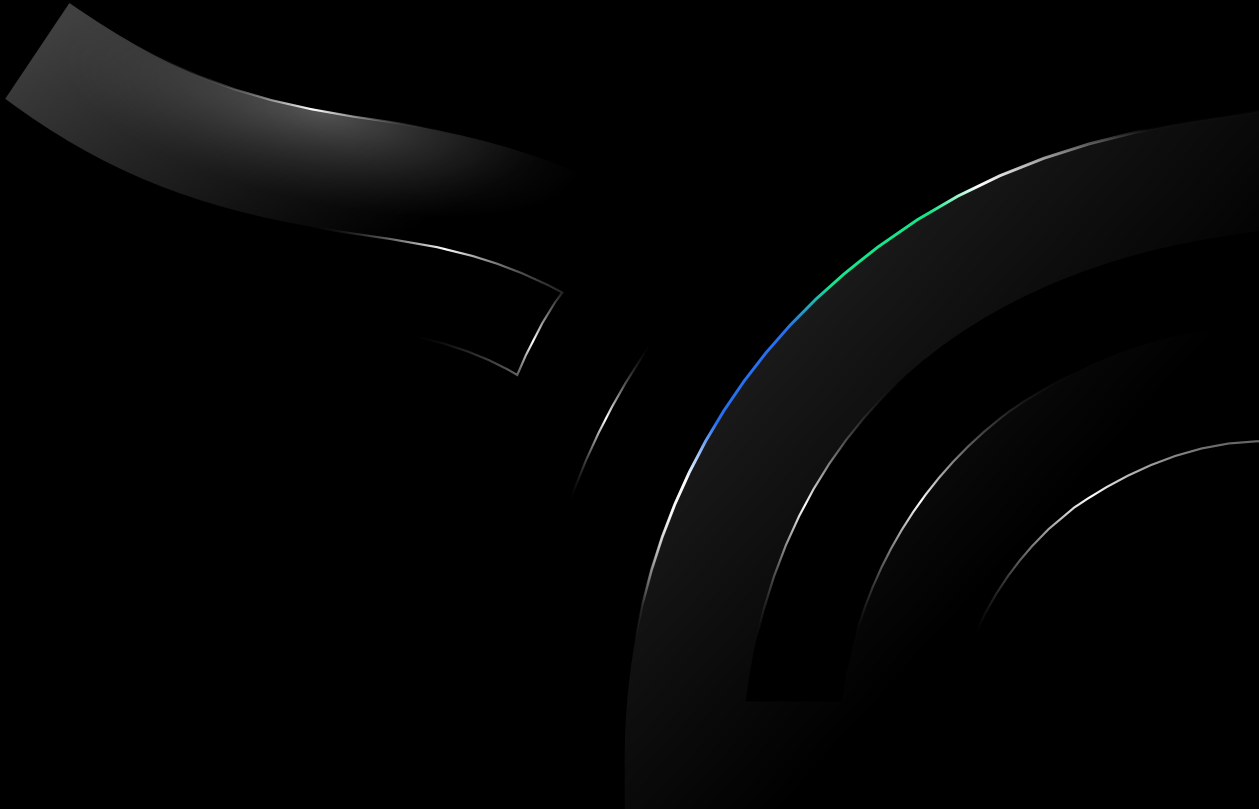
If we have a way to secure your identity it is important. We are looking into this problem.

Tyrone

There's a few technological solutions. Lit Protocol enables a decentralized key recovery system utilizing social recovery. There's ways to solve this and it is important to address. 🙌

28 APRIL 2023

Day 3



A CFTC Commissioner Speaks

SPEAKERS

Christy Goldsmith Romero | Commissioner at the U.S Commodity Futures Trading Commission
Nikhilesh De, Managing Editor | Global Policy and Regulation at CoinDesk (Moderator)

How do you look at DeFi, and is there a regulatory framework?

The industry can drive a lot of change. They are waiting for congress and regulators to act. Tech from a DeFi perspective is helpful. CEX has been the talk, DeFi is starting to grow and players are moving towards DeFi away from CEX. What are the indicators of decentralization, and what are the best ways to figure out the issue of accountability? Who is accountable for code exploits, providing for illicit finance etc. regulation will come in that area. I want to make sure I'm hearing from people in this space so I keep up pace.

What extent are there engagements with the CFTC?

Customer protection, thinking how retail is different to institutional investors is important to address. Bankruptcy priority, conflicts of interests, vertical integration in these firms, run risks are all big issues. If people don't know what their rights are they are playing musical chairs and don't want to be the last one standing when the music stops. I put out 10 different proposals. In the case of Bitcoin we can bring a case but can't put in measures to regulate it or limit the risks. Another thing to address is banning commingling of assets. Exchange assets and customer assets should not even be on the

table. It increases your run risk so just don't do it. User agreements for exchanges have not made it clear if commingling of assets is happening and they run the run risks.

The organization itself is always going to be accountable. If someone acts in a way they need to be registered with us, like dealing with US customers, offering leveraged products, you need to register with us. You may face an enforcement action if not. We see people trying to make themselves enforcement proof, you can't escape regulatory authority. You can choose to be regulated and benefit from reaching our US customers. If you want to tap into that you need to be regulated.

Where is the line of responsibility?

I work at the CFTC not the SEC. Almost everything is a commodity, it can be a security too. If the SEC determines it to be a security they pull it out of our jurisdiction but it's still a commodity. BTC and ETH futures are all trading in our registered markets. Do I think congress will step in? if they do or not it won't change the laws. If you think you make money off of it, it will be subject to the Howie test and we will let the SEC make that determination. Ultimately it's going to be a commodity 100%. 🙌

Crypto Regulation Around the Globe

SPEAKERS

Dr. Lisa Cameron MP | Member of UK Parliament & Chair of the Crypto and Digital Assets All Party Parliamentary Group (APPG), UK Parliament

Ryosuke Ushida | Chief FinTech Officer, Financial Services Agency, Japan

Brian Yeoh, Director | Fintech at Abu Dhabi Global Market

Marianne Bechara | Senior Counsel at the IMF

Amitoj Singh | Regulatory Report at CoinDesk (Moderator)

How is the G20 viewing crypto regulation?

Marianne

The IMF is trying to shape the global agenda. We work on economic and financial stability. We published a G20 note on the macro implications of crypto. We offer the world 9 elements, guiding governments on how to approach crypto and

principles and fundamentals. The same rules applying to an institution means no market manipulation, appropriate KYC/AML is much needed. The US concerns on what is a security may not apply in other jurisdictions. Each jurisdiction is different. There is a need for some level of coordination and convergence and we should have some level of flexibility for jurisdictions to adjust to their domestic

We need to know what message to convey about crypto. It should be aligned. The IMF is joining both discussions.

the risks. The board paper is not just about regulation, it's also about the macroeconomics side. Our mandate is the macro economy, the fiscal and the monetary side of things. The FSB presents regulation which is just one component.

Does the UAE see opportunity after what's happening in the US?

Brian

We want to have a sound framework based on

environment. We recognise that virtual assets are a strategic focus for Abu Dhabi and the UAE. What we have done so far is in line with that. We have a comprehensive regulatory framework, which in itself is a good proposition. We continue doing what we do.

Japan's stablecoin regulation, what's happened in Japan from Mt. Gox to now?

All our legislation needs to move through both houses, we are working closely with the minister. I've been in the room with the chancellor and minister working to move this across parties.

Ryosuke

We learnt our lesson from 2014 and 2017. Therefore we developed a comprehensive regulatory framework. Segregation of customer assets from company assets. FTX customers in Japan were protected and that worked. We see opportunities because we have a good level of regulatory framework. In June when our stablecoin framework comes in place we want to attract web3 businesses to come to Japan. We welcome healthy use cases in Japan.

G7 and G20 are they talking?

Ryosuke

G7 is a smaller group but we have to reach consensus on what the key message is. We need to know what message to convey about crypto. It should be aligned. The IMF is joining both discussions.

What's happening in the UK?

Lisa

In the UK there's 3 million people invested in this sector so why is parliament not doing more?

We are upskilling ourselves. You speak in a lot of jargon. Back then we thought, why are we speaking about fiat, does cars have something to do with this? We had to learn and update ourselves on the industry. We are usually not the first mover, but we now have the opportunity to create our own bespoke regulatory framework after Brexit.

How much does politics play a role in crypto regulation?

Lisa

We are urging people to put in their manifestos and input. We see the UK wanting to level up across the board to make sure there's inclusion in the work we are doing. We want to set out this year for international best practice to make sure the UK is not racing to the bottom. All our legislation needs to move through both houses, we are working closely with the minister. I've been in the room with the chancellor and minister working to move this across parties.

What are the challenges you are seeing with the IMF and FSB?

Marianne

regulation is the territory of the FSB, we make sure that element 5 is aligned to the FSB. In terms of consistency between the two, I don't think it would be challenging. The IMF is working with the G7 on regulation.

What's your take on the importance of legal and regulatory clarity, in particular element 4?

Marianne

I can't speak about the US but element 4 is the legal certainty. The FSB is also asking for clarity. We don't have an answer in this board paper but legal specification is important to be clear. We are not the regulator but we can advise. There's no consistency across the world yet. You need to look at your own legal circumstance to see which is the way forward. It's not good to put crypto all in the same basket. Awareness on both ends is important. Regulators need to know what the industry is about. Central Banks come to us, wanting to embrace the technology but they are afraid of it.

Brian

The quest for clarity is important for everyone. Predictability is important too. Knowing what the growth path will be.

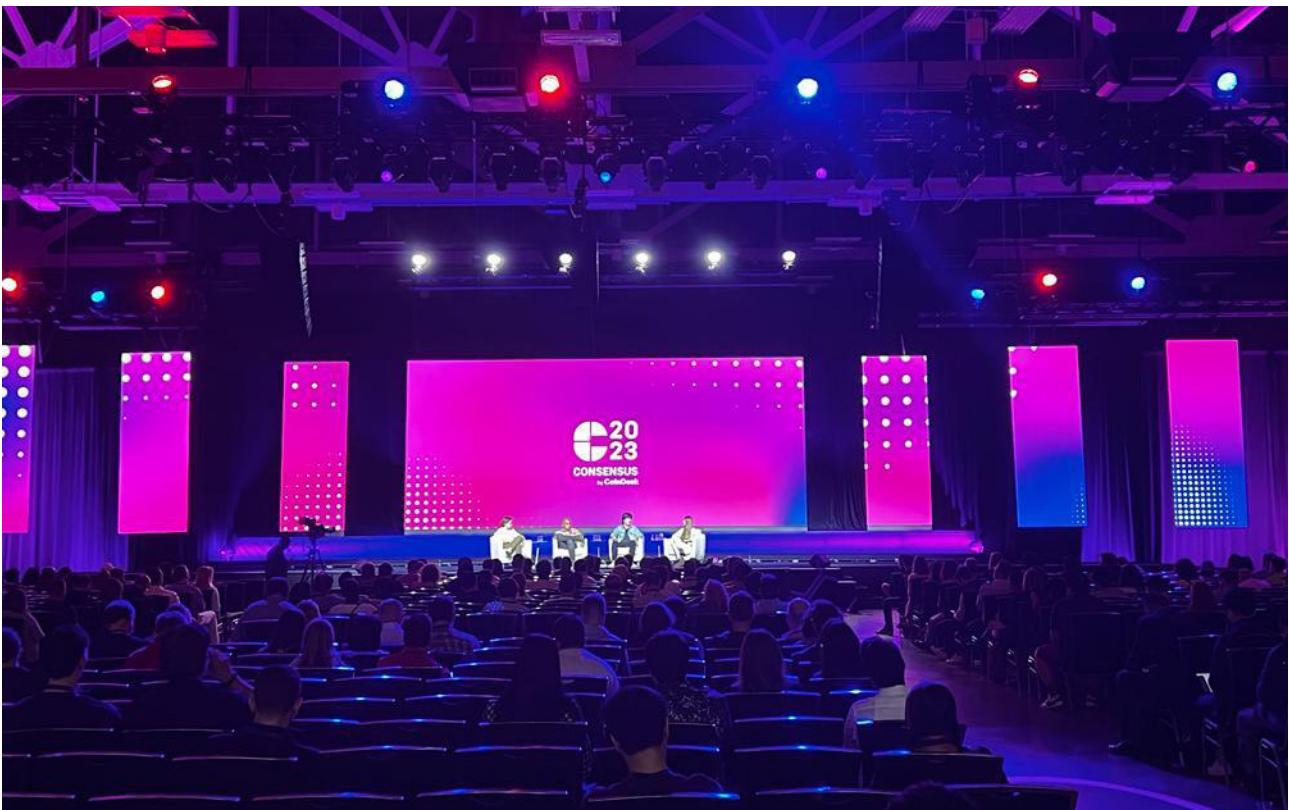
Ryosuke

Clarity is good but the tech is changing quite fast so if the definition is too static it is hard for regulators to apply hence why discussion with the private sector is quite important. We try to be more open-minded, friendly but not lenient.

If the US does not agree with the G20 what happens?

Lisa

Everything starts and ends with discussion and consensus. We need to have people around the table to work on this. It doesn't mean we can't have flexibility and bespoke regulation to apply to different jurisdictions. The UK is trying to be a hub for digital assets as well. Things like the difficulty for firms to open bank accounts, registering in the UK, etc. we are trying to iron out these issues. It's important we show leadership as we don't want the UK to race to the bottom.



The Turf War: Veterans of the SEC and CFTC Weigh In

SPEAKERS

Dan Berkovitz | Former General Counsel SEC and former Commissioner CFTC

Brian Quintenz | Head of Policy at a16z crypto

Ryan VanGrack | Managing Director and General Counsel at Citadel Securities

Jesse Hamilton | Deputy Managing Editor for Global Policy and Regulation at CoinDesk (Moderator)

What do you think is going on as agencies are figuring things out?

Brian

The agencies are using the laws they were given to motivate their own agendas. The chair of the SEC sees all crypto except Bitcoin falling within his jurisdiction. A turf war needs two sides, the CFTC has no seat at that table though. A new law needs to be passed by congress.

Dan

The CFTC regulates the trading of commodities and futures trading. The key question is it a futures contract? A lot of things can be both a security and commodity. If it's a security it has to stay with the SEC no matter what technology is used. If you raise capital, no matter how you do it, it falls within the SEC's jurisdiction. It protects the whole capital market.

Ryan

It's not an either or. Focusing on the gaps is critical. Millions of retail investors are trading without protection. Why is it so challenging to do it with this asset class when we have done so for decades with other asset classes. If we channel our efforts on the end goal of consumer protection rather than debating which regulator

has oversight it will be more productive. The current landscape of regulation, the pace of innovation makes it tough for regulators. Traditional firms are reluctant to engage because of regulatory uncertainty. There's also benefits for regulators without hard lining and being boxed in with clarity. The absence of clarity is an enforcement based regime.

Dan

I don't believe that through congressional legislation the basics of the Howie test will be changed. It has worked for nearly 80 years. The whole system is based on Howie. If there's no bright line then you might have to evaluate facts and have lawyers provide advice around it. Howie will be the law and unchanged. Many of the security laws were developed with corporate issuers in mind.

Brian

It takes a willing regulator to understand and accommodate how those things don't fit. The Howie test has 4 high level principles, meant to apply through a facts and circumstances basis but now its being applied to an entire industry with no clarity. You have court settlements agreeing with the perspective of the agency as the cases are brought against people who

The two US committees are working closely on joint regulatory oversight, how far that bill goes we will see.

aren't in the country or firms that don't have the financial resources to defend after going bankrupt. The perspective becomes skewed.

Is ETH a security or commodity?

Brian

Once it's deemed as a security it's carved out of the CFTC's jurisdiction. If it's a security then the current ETH futures trading on the CME are illegal. That is an invalid view by the chair. ETH is not a security.

Does crypto have a way forward in the US?

Brian

It has to be solved through legislation, congress has to step in. The two US committees are working closely on joint regulatory oversight, how far that bill goes we will see.

Dan

If you're a security you need to be registered. This is across both administrations, Trump and Biden. The industry and agencies need to sit down and meet market integrity, and investor protection etc. 🏹

Devs Doing Something: BUIDLing in a Bear Market

SPEAKERS

Brendan Farme | Co-Founder at Polygon

Robert Habermeier | Co-Founder at Polkadot

Sergey Nazarov | Co-Founder at Chainlink

Emin Gun Sirer | CEO at Ava Labs

Illia Polosukhin | Co-Founder at NEAR Protocol

Angie Lau | Editor-in-Chief at Forkast Labs (Moderator)

What is the biggest challenge the industry is seeing?

Robert

A lot of it is around sentiment. People follow the crowd. The largest challenge is if people want to come build out blockchain and they follow the hype. The sentiment is the trickiest part. Its not so much a lack in funding, but attracting developers is easier in the bear market.

Sergey

I think we are generally in a pretty good environment. The unique thing about this bear market is that previously the global macro economy was doing well and crypto wasn't. People looked to crypto and kept casting it to fail but this bear market was pulled down by the macro market. It doesn't really feel like a real bear market though. Developer adoption has actually increased.

Emin

I see bear markets as times of clarity. We learn from our mistakes in the bear market. We aren't going after these narratives where speculation is high but demand is low.

Illia

We weren't hit by FTX per se. The narrative in crypto has been about the next infrastructure, but for the first time we do have the technology and we need to bring users, brands, businesses delivering on those opportunities. There's low demand on speculation but there's demand on use cases of this technology.

What is the new development in focus?

Illia

Most people don't care which blockchain their transaction is running on, they want to know it's not going to break, not over leveraged, and has a seamless user experience. That's what we need to facilitate. The developer mindset is a bit limiting, we need the next stage of bringing things to market.

Emi

Institutional subnets are a focus for us. It's time to serve an example. It shows the world how to operate real use-cases on our subnet. It's about how normal people can use blockchain without having to be exposed to unnecessary jargon etc.

Robert

It's important to get out of the crypto developer bubble. We're working on scaling etc. but the next phase is for it to reach everyday people. Bringing verticals like gaming and social media is our focus. We have great protocols but we need to find ways to branch this out to as many segments as possible. To show people what they can do with this technology.

Which industries should get your attention and resources?

Sergey

Financial products in DeFi are getting a lot of attention. The boom and bust cycles determine if institutions are interested but surprisingly in this market they continue to be interested. Soc Gen is launching their stablecoin, there's also discussion about how to move value across different chains. The DeFi world and capital market world is converging and beyond financial products is gaming. Speed is important there. It has an interesting problem around ownership. Beyond that, real-world asset tokenisation will be a big deal.

Views on gaming?

Emin

games should be using blockchain infrastructure without people realizing. It should be seamless. I'm thrilled about the gaming world. It's hard to share a chain when you run a game especially when demand is high, you don't want your game affected. Subnets allow fee isolated experiences

so it's a stable predictable gaming experience.

Robert

The aspect of asset interoperability and asset ownership is interesting. It shapes the ways we think about NFTs where you can have multi-resource NFTs. The interoperability side of an open asset platform is attractive to gaming developers.

Illia

Game development takes two years so games built in 2020, 2021 will start coming out which is exciting.

What projects are you excited about that wouldn't have been built in a bull market?

Emin

Real world asset tokenization. Bull markets create speculative markets, these investors don't look at normal yield producing assets. In a bear market, yield bearing instruments can be put on-chain. It allows regular people to access these assets. There's a reset in expectations and a renewed look at traditional instruments but on the blockchain.

Robert

There was a copy paste mentality, another DEX like Uniswap or another marketplace like OpenSea, we need to move beyond that. Everything happening in the ZK space is amazing. Implementing ZK's and private transfers that couldn't be done in a smart contract environment for example. 🙌

Lawmaker Town Hall

SPEAKERS

Cynthia Lummis | U.S. Senator, WY, U.S Senate

Rep. Patrick McHenry | Chairman, House Financial Services Committee, US House of Representatives

Nikhilesh De | Managing Editor, Global Policy and Regulation, CoinDesk (Moderator)

What are the arguments your colleagues are paying attention to?

Cynthia

Advisors in the white house came out with a document questioning the use case of digital assets. I ask all innovators here to help us make the use case for digital assets. We can tell them it's faster and cheaper, easier to solve crimes with crypto than with fiat but unless we can make that use-case to them it won't resonate with them. You are innovating so fast that policy makers can't keep up. We need to know what affects our regulatory framework will impact on your ability to innovate. There are jurisdictions that are getting ahead of us. They are telling us to catch up. We are the leading financial services country in the world but we are falling way behind in terms of digital assets. These countries want us to step up. We want to move legislation forward. The House of Representatives can function on a one party basis. Raising the debt ceiling was on a uni party basis. Nancy Pelosi could function that way. At the senate level though we cannot, we need to be bipartisan. It's important for democrats in the house to participate in this debate and have their fingerprint on the product. It becomes challenging in the senate and administration if it's a one party product.

Patrick

The former chair of the CFTC and I built out a bipartisan bill for the stablecoin bill. We spent a number of months working on that. We are getting feedback from Democrats and Republicans for this. We don't have a public draft yet for the market structure bill.

We are the leading financial services country in the world but we are falling way behind in terms of digital assets.

What are the lessons you've learnt and anything added in your new bill?

Cynthia

We are trying to keep it broad. We are probably going to have a strong section on national security interests. Some people are concerned about cybercrime which was not adequately addressed in our bill. We have strengthened the cybercrime aspect in our bill. We want companies properly regulated and vetted but

we still want to preserve important parts of the framework for the innovators and regulators without dampening innovation.

Have you heard from the regulators about issues they want congress to address?

Cynthia

The struggle is what is a security and what is a commodity. Congress needs to provide sufficient guidance there. The Howie test has been through 200 iterations of appeal and we have gone through the Howie test in the most modern way as expressed by the courts. We anticipate we will still be using that test.

Patrick

There is an announcement of joint hearings between the House Committee on Agriculture and the House Financial Services Committee. This is going to be the first time we have had a holistic view of market structure for digital assets. We are going to have public hearings over the couple months to bring clarity to digital assets.

I'm going to be able to produce a bill out of the House, I'm confident in that.

Will we see legislation signed into law in the next twelve months?

Patrick

Yes. We have serious work to do but it is on

the agenda in the House. As I am chair of the committee I can focus on an agenda and time frame. Capital formation, market structure, the definition of digital assets are all buckets of focus. I intend to do this and get it out of the House. I'm going to be able to produce a bill out of the House, I'm confident in that.

Cynthia

He is positioned to move more quickly than the Senate. I would bet that the House moves first. Once it gets to my side it improves our chances to move forward. The deeper we get into the next year and half the more difficult to get anything done with a little partisan tinge to it. We need to keep the partisan tinge off it, we need to remind people it's something we need to address now. This is a bi-partisan subject before the 2024 election. It's been identified by both parties as a key subject, we have a shot.

Crypto companies are facing bank scrutiny, have you heard about operation choke point?

Cynthia

I'm hearing examples where no one can obtain certainty in the regulatory environment in Washington. All the organizations are stone walling people. I think they are doing it because after SVB, they took an approach of we rather say no to everyone than taking a chance that could damage consumer protection.

Patrick

I've sent letters to all regulators demanding information for their actions. They called it crypto spreads two years ago, to have regulators keep up to date with the digital asset space. It was quickly killed off a few months later. So it's fair to say what we are seeing now is operation

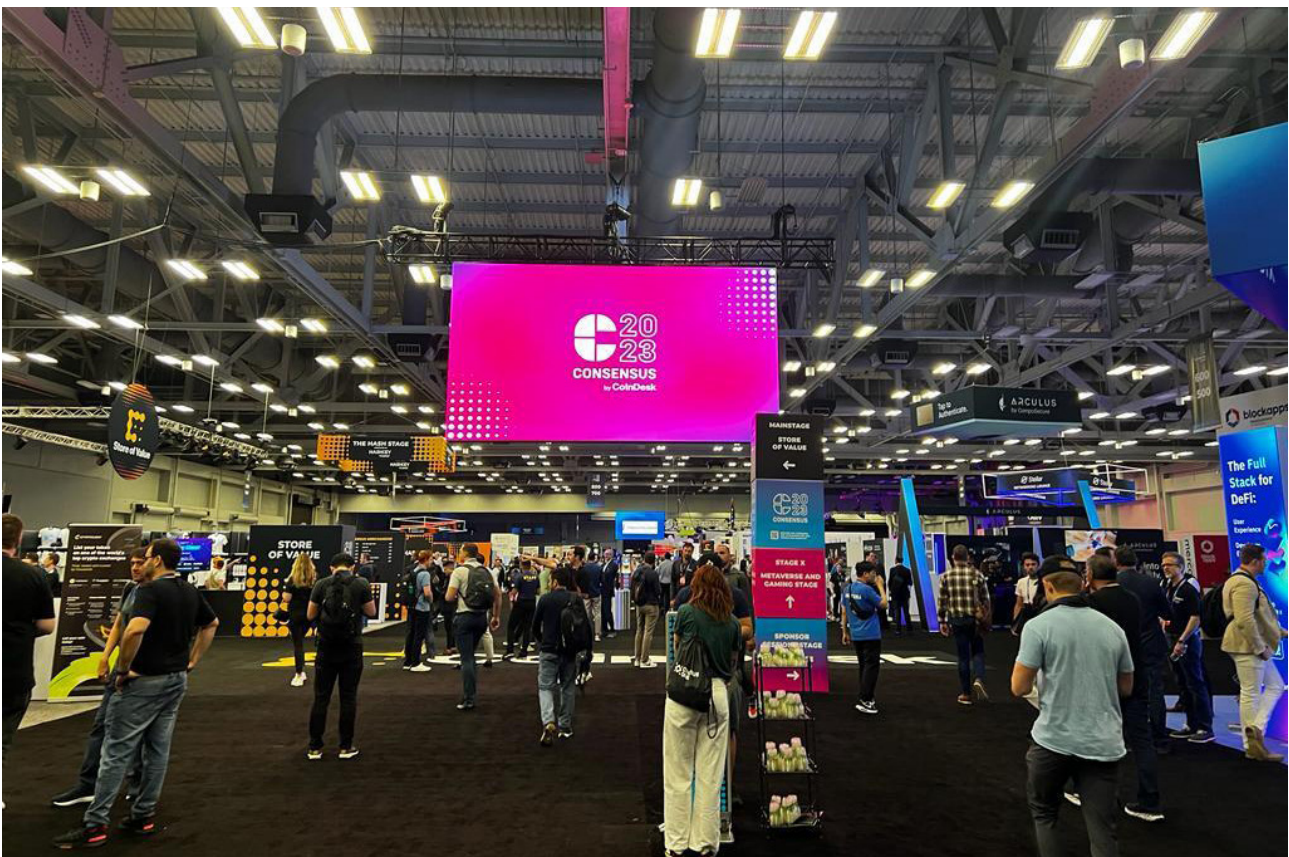
choke point 2.0. We need to provide certainty to businesses operating in digital assets. Congress must legislate and provide clarity without making it a partisan fight so we can be leaders in the next churning of the internet. Technological progress is always happening, we are either embracing it or we are going back to the dark ages. Let's be forward leaning, let's not have the Europeans and the Hong Kong regime harness it for their economic growth. We should harness it for American economic growth and be the

leaders in it. We want to encourage that, we want to be the leaders not the followers.

Closing thoughts?

Cynthia

It's time to pull together. The Congressman is ready, the Senate is ready, we need your support and help. Send your note to your Senator, that America needs to regulate this area. We are ready to roll, and I want you to join us. 🚀



Author's Note



Sylvia To

Manager, Bullish Insights

When you look up “The American Dream” in the Oxford Dictionary, it’s defined as “the ideal that every citizen of the United States should have an equal opportunity to achieve success and prosperity through hard work, determination, and initiative.” A national ethos. People in this nation work tirelessly to fulfill a socioeconomic promise dating back to 1931. The pillars that make this country great, a democratic union built on top of freedom, equality, and justice. The question here is has this nation maintained its edge in securing itself not just as the land of opportunity but maintaining its stance as a global leader? To answer that, people should be asking what the future for dollar dominance looks like. If we go back in time to 1944 when the US set up the Bretton Woods system the US dollar secured itself as the global reserve currency. At the

time they had the largest gold reserve to back their dollar. Come 1971, this decoupled, they terminated the convertibility of the USD into gold. Despite this, the US still maintained itself as the economic and financial epicenter of the world. Fast forward to the present day. We have heavy geopolitical tensions, liquidity pumped into the US financial system during Covid which sent inflation soaring but dollar dominance strong. This put developing nations in a really tough spot as US dollar denominated debt inflated their debt to GDP ratio. Now you see a picture where countries have an incentive to move away from dollar dominance. Russia, and China are already looking at Yuan denominated commodity trading. BRICS is moving away from the USD. The US had a huge opportunity to really cement themselves as the global reserve currency through stablecoins. It provided dollar access and the ability for them to increase demand for US backed assets like treasuries and bonds. This could have been a real game changer but instead a hostile approach has stifled innovation and scared off businesses to look for offshore opportunities.

We hope you find this special conference report valuable and insightful.

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