



EMERALD ADVISERS, LLC "ON DA BLOCK"

WEEKLY RECAP OF THE HAPPENINGS IN DEFI, DIGITAL ASSETS AND BLOCKCHAIN

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The Market

1. A report from CoinShares showed that crypto funds had \$17 million in outflows in the seven days up to Aug. 12, ending six consecutive weeks of inflows. Bitcoin (BTC) investment products saw \$21 million in outflows, and short bitcoin positions, which bet on a price decline of the largest cryptocurrency by market capitalization, had \$2.6 million in inflows.
2. The latest data from Glassnode showed that the total number of unique addresses on the Bitcoin network reached its all-time high. Over 1 billion unique addresses currently participate in Bitcoin transactions. Ethereum, the second-largest cryptocurrency by market cap and network size, is lagging far behind. With 158 million unique addresses participating in an ETH transaction, Ethereum has yet to experience the growth rate seen on the Bitcoin network.

Networks

1. Ethereum-based lending and borrowing platforms Iron Bank, Yearn Finance, and Homora joined Layer-2 network Optimism to improve cross-chain interoperability, security, and capital efficiency.
2. Privacy coin Monero completed a non-contentious hard fork introducing new privacy and security features over the weekend at block 2,688,888. The fork increases Monero's ring size from 11 to 16. To protect user privacy, Monero merges the digital signature of the individual signing a transaction with those of 11 (now 16) other non-signers to create a new signature authorizing the transaction. The upgrade also included changes to its 'Bulletproofs' algorithm to reduce transaction sizes by an estimated -5% to -7%, improve its multisig mechanism, and boost transaction speeds. Other performance upgrades include 'view tags,' which aim to reduce wallet sync times by up to -40%, along with security patches and fee changes.

3. According to DEX Screener, some \$21 million worth of tokens have been transacted on Dogechain over the last 24 hours, with DogeSwap leading the charge with \$16 million worth. The top tokens include Doge Eat Doge (OMNOM), DogeShrek, Bourbon, and PinkyDoge (PINKY). Per a tweet today, the Dogechain team claims that users have already created more than 58,000 wallets since the network launched five days ago, along with more than 480,000 total transactions.

Mining

1. Bitcoin is about to raise the difficulty bar for a second time in a row as miner competition intensifies. The hash rate, meanwhile, remains stable at just below an estimated 200 exahashes per second.
2. Bankrupt cryptocurrency lender Celsius Network, which disclosed Monday that it was running low on money, said it has gotten several proposals to inject cash into the company and won approval from a U.S. judge to sell bitcoin (BTC) that it mines.
3. Bitcoin (BTC) mining company PrimeBlock has ended its plans to go public via a merger with blank check company 10X Capital Venture Acquisition (VCXA).

Stablecoins

1. aUSD, the native stablecoin of Polkadot-based decentralized finance (DeFi) platform Acala, depegged on Sunday, Aug. 14, plummeting by -99% from roughly \$1.03 to \$0.009 after hackers exploited a bug in a newly deployed liquidity pool to mint 1.28 billion tokens. Acala developers said a misconfiguration of the iBTC/aUSD liquidity pool, a smart contract containing locked cryptoassets to provide liquidity for decentralized exchanges (DEXs) and DeFi protocols, caused the bug shortly after it went live on Sunday.
2. According to the Rune, DAI, the MakerDAO stablecoin might soon depeg from USD just like USDT in May. OFAC placed 44 USDC addresses on its list of banned coins. This led Circle to freeze stablecoins worth \$75,000 in those addresses. However, the effect of this action might lead to a possible DAI depeg from USD, as feared by Rune. The MakerDAO founder suggested that the USDCs in the sanctioned addresses should be converted into ETH. That way, the MakerDAO community will not depend only on USDC. Presently, 7% of DAI Stablecoins are backed by ETH. If the conversion takes place, above 50% of the stablecoins will be supported by ETH.

Regulation

1. The Federal Reserve Board on Tuesday provided additional information for banking organizations engaging or seeking to engage in crypto-asset-related activities. The supervisory letter issued outlines the steps Board-supervised banks should take prior to engaging in crypto-asset-related activities, such as assessing whether such activities are legally permissible and determining whether any regulatory filings are required. Additionally, the supervisory letter states that Board-supervised banking organizations should notify the Board prior to engaging in crypto-asset-related activities.

2. The U.S. Federal Reserve said Monday it is publishing its final guidance for novel financial institutions to access its "master accounts," something these firms need to participate in the global payment system. Monday's announcement would seemingly move the U.S. central bank one step closer to possibly allowing Wyoming special purpose depository institutions (SPDI), like Custodia (formerly Avanti) and Kraken Bank, access to these accounts so they would not need intermediary banks. The Fed first proposed guidance last year, opening up a request-for-comment process. Nearly 300 respondents filed comments, leading to a second public feedback process earlier this year. In a statement, Fed Vice Chair Lael Brainard said, "The new guidelines provide a consistent and transparent process to evaluate requests for Federal Reserve accounts and access to payment services in order to support a safe, inclusive, and innovative payment system."
3. Coin Center, a Washington D.C.-based crypto policy think tank, is prepping a challenge to the Treasury's sanctions on decentralized transaction mixer Tornado Cash. "By treating autonomous code as a 'person,' [the Office of Foreign Assets Control] exceeds its statutory authority," wrote Coin Center's executive director, Jerry Brito, and director of research, Peter Van Valkenburgh, in a blog post.
4. The SEC is suing startup founder John Joseph Roets and three entities he controls — Dragonchain, the Dragonchain Foundation and The Dragon Company — for raising \$16.5 million in unregistered cryptoasset securities offerings. Open source blockchain Dragonchain was originally developed as Disney's private blockchain platform in Seattle in 2016. The court filing, in the US District Court for the Western District of Washington, charges the defendants with violating the Securities Act of 1933. The SEC claimed both the 2017 presale and the Initial Coin Offering (ICO) of Dragon tokens (DRGN) were unregistered crypto asset securities offerings that allegedly raised approximately \$14 million from over 5,000 investors.
5. In Uzbekistan, the recently formed crypto regulator, the National Agency of Perspective Projects, is compelling big international players to comply with the local legislation. Some crypto exchanges have found themselves blocked for Uzbeki users due to accusations of unlicensed activity. Apart from obtaining a license, they might have to deploy the servers on the territory of Uzbekistan, as the regulator hints.
6. While many believe that the Philippines can become a new crypto hub, that dream may be shattered in the meantime as the country's central bank announced a three-year hiatus from accepting new virtual asset service provider (VASP) applications. The normal application window for new VASP licenses will be closed for three years, beginning on Sept. 1, 2022. However, applications that have already passed the second stage of the process before Aug. 31, 2022 will continue to the next assessment steps.
7. Under a package of legislation targeting AML, the EU is building a new regulator to oversee crypto businesses in the EU. Though the legislative bodies still need to negotiate, few ostensibly disagree that such a regulator is necessary. Dubbed "Anti-Money Laundering Authority" or "AMLA," the regulator would monitor at least "high-risk" crypto firms as financial service

providers directly. While the timeframe for implementation depends upon negotiations among European Parliament, implementation of the regulation, including staffing of AMLA, would take years.

8. Singapore's High Court granted beleaguered crypto exchange Zipmex more than three months of creditor protection so it can devise a funding plan, Bloomberg News reported on Monday.

General News

1. Steve Cohen, the billionaire behind hedge fund Point72 Asset Management, is reportedly setting up a crypto-specific investment firm.

2. Digital Currency Group, which counts more than 150 crypto companies in its portfolio, has registered its vice president of public policy, Julie Stitzel, to lobby on its behalf with the U.S. federal government, according to disclosure filing on Monday.

3. Wall Street giant Citi has added two crypto-focused leaders to its Treasury and Trade Solutions (TTS) unit as the bank looks to compete in the space. The unit, a division of Citi's Institutional Clients Group (ICG), offers cash management, trade services and finance to corporations, financial institutions and public sector organizations.

4. Buenos Aires will become one of the first public entities in the world to help run Ethereum's network infrastructure, a city official announced during Argentina's ETHLatam conference last week. Private companies will contract with the city to deploy validator nodes – computers running Ethereum client software – which are slated to be installed next year. The validators, which are responsible for storing data, processing transactions and adding new blocks to the blockchain, will become part of the proof-of-stake network consensus system being implemented in conjunction with the Merge, expected to occur in mid-September.

5. Illicit activity involving cryptocurrency is down 15% in volume so far this year, according to a new report from blockchain intelligence firm Chainalysis. This compares to a 36% decline in legitimate transactions.

6. Celsius Network, the crypto lender that filed for bankruptcy in July, appears to be in even worse financial straits than previously signaled. A new court filing Monday from Kirkland & Ellis, a law firm the crypto lender hired to lead its restructuring efforts, included financial projections that Celsius will run out of cash by October. In related news, Alex Mashinsky, the CEO of Celsius, had taken personal control of the firm's trading strategy before its collapse; according to a Financial Times report citing multiple people familiar with the matter.

7. A federal judge Tuesday authorized the IRS to issue a John Doe summons – a tool used to collect information about unknown taxpayers – to institutional crypto broker SFOX Tuesday. SFOX will have to hand over information about all customers who were US taxpayers and traded at least \$20,000 in digital assets between 2016 and 2021. The judge has found “reasonable basis for believing that individuals conducting at least \$20,000 in cryptocurrency transactions may have failed to comply with federal tax laws,” the

Department of Justice said in a statement

8. Web3 infrastructure developer and investor Jump Crypto, the crypto arm of Chicago-based TradFi giant Jump Trading Group, is building a new Solana validator client to make the blockchain more reliable and secure. Jump Crypto will also “propose significant upgrades to Solana’s open-source core software.”

9. In Latin America, Brazil’s largest brokerage, XP, launched bitcoin and ether trading. The company, which has 3.6 million customers, hopes to reach 200,000 active crypto users by the end of 2022.

10. Companies on the Australian Securities Exchange (ASX) could be able to trade tokenized bonds, equities, funds, or carbon credits after a successful proof-of-concept trial led by the digital asset investment platform Zerocap. On Monday, Melbourne-based digital asset investment platform Zerocap told Cointelegraph it had successfully used Synfini to bridge over its custody infrastructure onto the platform as part of a trial program, allowing for the trading and clearing of Ethereum-based tokenized assets.

11. Crypto domain provider Unstoppable Domains is releasing an iPhone app to bring Web3 to users’ fingertips, the company said Tuesday. Users will be able to connect their profiles to crypto wallets such as MetaMask, and log into more than 180 decentralized applications (dapps), metaverses and games. The goal is to streamline the use of unique identities and domains, making blockchain-based applications accessible and transferable across a handful of protocols.

12. European digital bank Revolut has been granted authorization by the Cyprus Securities and Exchange Commission, allowing it to offer crypto services across the European Economic Area. The authorization will enable Revolut to offer crypto services to its 17 million customers.

13. Crypto company Ripple announced the launch of a new joint project with SBI Remit to streamline Japan-Thailand money transfers. Under the project, SBI Remit, Japan’s largest payment provider, will allow Thais living in Japan to instantly send money back home using RippleNet technology. Siam Commercial Bank will represent the Thai side in this venture.

14. United States-based cryptocurrency exchange Coinbase has announced it will be temporarily suspending certain token deposits and withdrawals when Ethereum’s core developers transition the blockchain to proof-of-stake, or PoS. In a Tuesday blog post, Coinbase product manager Armin Rezaiean-Asel said that during the Merge event, the crypto exchange will “briefly pause” deposits and withdrawals of Ether (ETH) and ERC-20 tokens “as a precautionary measure” to handle the migration.

15. Cryptocurrency exchange Huobi Global announced it will stop offering derivatives trading services to users in New Zealand starting next week, just a couple of months after expanding operations to the country. The Seychelles-based cryptocurrency exchange cited “local compliance policies” as the reason for withdrawing margin trading services, options and ETPs as of next week.

16. National Football League (NFL) team Houston Texans has become the first organization in the league to sell single-game suites in exchange for crypto. The move comes as part of a deal with Texas-based crypto firm bitWallet, which as of Aug. 16 became the official crypto wallet provider for the team. bitWallet will also provide intermediary services by exchanging crypto for cash for the Houston Texans.

17. Inc. magazine has named BlockFi the fastest growing company in the United States in 2022. At the top of the magazine's Inc. 5000 2022 list, it experienced 245,616% growth, a lead of more than 99,000% over the second-place company, a platform for hiring nurses. The median growth rate was 230% across all 5,000 entries.

DeFi

1. Ethereum-based lending and borrowing platforms Iron Bank, Yearn Finance and Homora joined layer 2 network Optimism on Tuesday. The firms joined the protocol to improve cross-chain interoperability, security and capital efficiency for their users. Optimism users will now be able to borrow against their crypto assets, while benefiting from competitive gas fees, attractive rewards, and yield options.

Hacks/Exploits

1. BlueBex, a Brazilian crypto lending platform, reportedly blocked all 22,000 users from withdrawing funds following an alleged hack that drained \$32 million.

2. Trading and liquidity marketplace Velodrome Finance announced the recovery of \$350,000 stolen on Aug. 4 after discovering the culprit was a prominent team member named Gabagool.

CBDCs

1. According to Coindesk, the Bank of Russia continues working toward the upcoming adoption of the central bank digital currency (CBDC), planning an official digital ruble rollout in a few years. The authority will begin to connect all banks and credit institutions to the digital ruble platform in 2024, a year when the country is expected to hold presidential elections. The central bank also expects to introduce the offline mode for the digital ruble by 2025 alongside the integration of non-bank financial intermediaries, financial platforms and exchange infrastructure.

2. Colombia may introduce a central bank digital currency, the country's tax agency chief said yesterday. Luis Carlos Reyes, the director of Colombia's tax and customs agency, DIAN, told Semana magazine Monday that the South American nation's new government would look to create "a digital currency" that would make "transactions easier for the consumer."

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