



EMERALD ADVISERS, LLC "ON DA BLOCK"

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

STEVEN E. RUSSELL, ESQ. | PORTFOLIO MANAGER

The Market

1. After Solana suffered a series of outages over the last year, a misconfigured node caused another outage on the L1 blockchain where users could not process transactions for nearly three hours on Friday, September 30.
2. Blockchain-powered reinsurer Re just left stealth mode to unveil its plans to launch a global reinsurance marketplace on Avalanche. Re plans to enable accredited investors to provide backing for real-world insurance policies and companies. It will build its reinsurance marketplace on both the Avalanche C-Chain and as a Subnet.

Mining

1. Crypto asset management firm Grayscale aims to take advantage of the slide in crypto prices with a new investment product focused on BTC mining hardware. The company is partnering with digital asset mining and staking infrastructure firm Foundry, which will manage day-to-day operations.

Stablecoins

1. The total supply of the stablecoin USD Coin (USDC) declined from \$55.55 billion to \$46.57 billion in the last 90 days. This decline is due to an uptick in USDC redemptions for the U.S. dollar.
2. Tether CTO Paolo Ardoio said the stablecoin issuer cut its commercial paper holding to less than \$50 million. In May, the company had \$20.1 billion of commercial papers, which it reduced to \$8.5 billion by June 30. As of September 30, the company increased its holding of US Treasuries to 58.1% of its total portfolio from 43.5% on June 30.

Regulation

1. A group of Republican lawmakers is asking the U.S. Department of Justice (DOJ) to weigh in on the Federal Reserve's proposed creation of a central bank digital currency (CBDC). In a letter dated Wednesday (October 5), 11 GOP members of the House Committee on Financial Services asked Attorney General Merrick Garland for a copy of the Department's "assessment of whether legislative changes would be necessary to issue a CBDC," as required by a recent executive order from the President Joe Biden administration.
2. The top U.S. financial regulators are warning of dangerous holes in the oversight of crypto and are asking Congress for more powers, including settling which agency will oversee the bulk of trading in bitcoin and other non-security tokens, according to a report unanimously approved at a meeting of the Financial Stability Oversight Council (FSOC) on Monday.
3. The volatility of digital assets has been largely confined to the digital ecosystem and has had little effect on the traditional financial system. However, that could change if the digital asset ecosystem becomes more interconnected with the traditional financial system and if it begins providing significant financial services outside that ecosystem, according to a staff report released by the Federal Reserve Bank of New York.
4. The Commodity Futures Trading Commission (CFTC) can serve a decentralized autonomous organization (DAO) through a website help bot and forum post, a federal court ruled Monday. The CFTC appropriately served Ooki DAO, which it alleges offers illegal leveraged and margined trades without a Futures Commission Merchant designation or know-your-customer program, on September 22, 2022, the District Court for the Northern District of California further ruled. The DAO has three weeks to respond from that date, meaning if no one responds by October 13, the CFTC could win a default judgement.
5. The US Securities and Exchange Commission (SEC) charged Kim Kardashian with unlawfully touting a crypto security. The star agreed to pay \$1.26 million in penalties and will work with the SEC on its ongoing investigation.
6. U.S. Senator Bill Hagerty, a member of the Senate Banking Committee, introduced legislation seeking a safe harbor for crypto exchanges from "certain" SEC enforcement actions.
7. European Parliament members vote in favor of crypto and blockchain tax policies. The resolution recommended authorities in the parliament's 27 member states consider a "simplified tax treatment" for crypto users involved in occasional or small transactions.
8. EU officials agreed on the final wording for its landmark crypto legislation, the Markets in Crypto Assets Regulation (MiCA), which could pave the way for a Europe-wide regulatory approach. MiCA introduces the first-ever licensing regime for crypto wallets and exchanges to operate across the bloc and imposes reserve requirements on stablecoins that are intended to improve investor protection. A separate law on funds transfers claims to cut money laundering by requiring wallet providers to check their customer's identity. The regulation, in its current form, will require anyone seeking to issue crypto to publish a "crypto-asset white

paper” containing information about their project. The new legislation would subject stablecoin issuers to specific capital requirements, meaning projects would need to hold reserves to back up the value of their tokens in an amount proportional to how much is issued. However, local authorities could increase that amount of funds required based on how risky it is judged to be. The legal text will now go on to the European Parliament, where, subject to approval, they will likely publish it in the Official Journal of the EU early next year, with the rules set to come into force in 2024. In the letter addressed to the European Parliament’s chair of the Committee on Economic and Monetary Affairs Irene Tingali, committee chair Edita Hrdá said that cooperation between the Parliament and the Council should enable the regulation to be approved on its first reading in Parliament.

9. The EU has toughened restrictions on crypto payments from Russian accounts, wallets, or other holding services to European ones. While the previous rule limited crypto payments to European wallets to €10,000, the new ban forbids services offered by European crypto providers to Russian residents and entities unless they live in the bloc. The EU's new sanctions include import bans totaling up to €7 billion to restrain Russia's war and lay the groundwork for implementing an oil price cap. This new ban comes shortly after Russian officials’ approval of the usage of crypto for cross-border payments.

General News

1. Despite bearish macro trends, investment management firm NYDIG says it has raised nearly \$720 million for its Institutional Bitcoin Fund.
2. Mastercard will on Tuesday launch a new product called Crypto Secure that helps banks assess the risk of crime associated with crypto merchants on its network. The service is powered by CipherTrace, a blockchain security startup Mastercard acquired last year. Mastercard is launching the service against a backdrop of growing crime in the nascent digital asset market.
3. Circle, the USD stablecoin USDC issuer, has announced the launch of an institutional digital identity system based on Verite, an open-source framework for decentralized identity credentials. Institutions with Circle accounts and MetaMask institutional wallets can apply for KYB (Know Your Business) credentials, allowing web and mobile applications and smart contracts to verify user permissions (including usage rights, time, location, and others) for licensing on-chain activity. Circle said eligible businesses will have direct control over how, when, and where their identity attributes are shared, and will not send or store any personally identifiable data on-chain.
4. Crypto index fund manager Bitwise Asset Management launched the Bitwise Web3 exchange-traded fund (ETF), which includes exposure to five categories of web3 companies, on NYSE Arca.
5. Fidelity’s new Ethereum Index Fund raised about \$5 million since sales started on September 26. The fund will offer clients access to ETH and has a minimum investment of \$50,000.

6. FTX lists new dollar spot index perpetual future. Crypto exchange FTX is expanding its remit into the world of foreign exchange derivatives trading, listing a perpetual future tied to a U.S. dollar spot index, the company said Monday. While crypto markets have been stuck in the doldrums, foreign exchange traders have recently enjoyed a bout of volatility. The U.S. dollar, for its role, is hovering near all-time highs, while the pound sterling has gyrated amid the chaotic rollout of U.K. Prime Minister Liz Truss's economic program. Turbulence has also hit the Japanese yen and the euro.

7. Telegram Wallet Now Lets Users Exchange Crypto With Each Other. Developers behind the Telegram Wallet Bot, which allows Telegram users to purchase cryptocurrencies with a bankcard, exchange and transfer to other wallets, have launched a P2P cryptocurrency exchange. The Wallet Bot launched in April, allowing Telegram users to buy toncoin (TON) and send it within chat messages. The latest update will allow sales of cryptocurrencies between users through the Telegram app, with the exchange services acting as guarantors for each transaction. In any case of disagreement between the seller and the buyer, the service will conduct a dispute resolution process.

8. The Bitcoin ATM ecosystem recorded negative growth in monthly global net installations for the first time this past month. The total number of Bitcoin ATMs installed over time fell to 37,980 in September 2022 from an all-time high of 38,776 ATMs in August 2022, resulting in a drop of -2.05%.

9. According to blockchain analytics firm Chainalysis, the Middle East and North Africa (MENA) region was the fast growing market for crypto adoption the 12-month period leading up to June 2022. MENA-based users received \$566 billion in crypto between July 2021 and July 2022, a +48% increase compared to the previous year.

NFTs

1. The number of NFTs minted on L1 blockchain Solana hit an all-time high of 312,000 in September 2022. Solana-based NFT market volume also reached \$11.5 million, the highest level since May 2022.

2. Starry Night Capital, an NFT-focused fund launched by the co-founders of the now-bankrupt hedge fund Three Arrows Capital (3AC), reportedly moved over 300 NFTs out of its address to a Gnosis Safe address.

3. Japan's Prime Minister Fumio Kishida said in a policy speech that the country's plans for investing in digital transformation include NFT and metaverse services.

4. The number of US trademark applications pertaining to NFTs and other blockchain products have already nearly tripled in 2022 compared to the entirety of 2021. NFT trademark filings peaked in March but have fallen in every month since.

DeFi

1. Olympus DAO cut the OHM token's annual percentage staking yield to 7.35% to make the protocol sustainable and has transitioned to a new tokenomics framework focused on sustainability.
2. Jared Grey, a former IT consultant and CEO of DeFi yield platform Eons Finance, polled over 83% of the votes to win the Sushi DAO Head Chef election.
3. Polkadot's DeFi-focused parachain Acala announced that it has fully reopened its services to users three weeks after a major security incident. The team said that all of the circulating aUSD stablecoins remain fully backed.
4. Cross-chain bridging platform DeBridge announced deSwap Liquidity Network (DLN), which aims to make cross-chain transfers and applications more secure by no longer locking assets. DLN is expected to go live by November, and currently has integrations with Ethereum, Arbitrum, Solana, Avalanche, and Optimism, among others.
5. Two Sigma Securities, a quantitative hedge fund with about \$60 billion in assets under management, will provide data to popular blockchain information network Chainlink.

Hacks/Exploits

1. Transit Swap, a multichain decentralized exchange (DEX) aggregator, lost roughly \$21 million after a hacker exploited an internal bug on a swap contract. Following the revelation, Transit Swap issued an apology to users with efforts to track down and recover the stolen funds currently underway. The hacker later returned 70% of the funds.
2. The US Federal Bureau of Investigation's (FBI) Miami Field Office warned that crypto ATMs are emerging as a popular method that scammers use to receive funds from defrauded victims.
3. Zcash, a privacy-focused L1 blockchain, has been undergoing a spam attack. The attacker has added hundreds of output values within shielded transactions that are data-intensive. As a result, the blockchain size has grown significantly from 31 GB in mid-June to more than 100 GB currently. While Zcash has not had any downtime, the blockchain's rapidly growing size has led to troubles for nodes' ability to sync with the network.

CBDCs

1. In a milestone pilot test, Swift, in collaboration with Capgemini, achieved CBDC-to-CBDC transactions between different DLT networks based on popular Quorum and Corda technologies, as well as fiat-to-CBDC flows between these networks and a real-time gross settlement system.

Any company and/or security mentioned herein is included because of their business dealings using cryptocurrencies or distributed ledger technology and are included for general discussion purposes. Emerald does not recommend their purchase or sale. Companies issuing securities held in accounts managed by Emerald's affiliated advisory firms may appear in this newsletter from time to time based solely on their activity in the industry or news worthy events generated by their business operations.

This newsletter is furnished for informational/educational use only by Emerald Advisers, LLC, its affiliates (collectively "Emerald") and its clients. It does not constitute the provision of investment, legal or tax advice. It is not prepared with respect to the specific investment objectives, financial situation or particular needs of any specific person. The information contained in this newsletter was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy, timeliness or completeness by Emerald. Any opinions contained in this newsletter represent the judgment of the authors as of the publication date and are subject to change without notice. Past performance is no guarantee of future results. Neither the information in this newsletter nor any opinion expressed herein constitutes an offer nor recommendation to buy or sell any security or financial instrument.

CONTACT US

Phone: 1-800-722-4123

info@teamemerald.com

3175 Oregon Pike | Leola, PA 17540

King of Prussia, PA | Pittsburgh, PA | Cleveland, OH

WWW.TEAMEMERALD.COM