

Dispatch #14 -2021

May 7th, 2021

The Dispatch starts with SEC delaying the Bitcoin ETF application by Van Eck. Then, we will delve into the accelerating momentum on Bitcoin adoption. Perhaps the most important story is the possibility of multiple banks offering their customers access to Bitcoin with the help of NYDIG. The FT story on Citibank supporting crypto services also ranks high. The full list of discussion items includes:

- NYDIG solution to allow banks to offer clients access to Bitcoin
- Private sector Digital Dollar projects coming
- Citi weighs offering crypto services
- JP Morgan to offer Bitcoin fund to wealth management clients
- NFL's #1 draft pick (Trevor Lawrence) to invest in crypto
- Insurer Metromile to accept premiums and pays claim in Bitcoin
- Latam e-commerce giant MercadoLibre reports Bitcoin purchase
- IRS wins court case to access Kraken's customer data
- Debt to GDP doesn't matter!
- BITCOIN SCHOOL goes Ethereum: What's driving Ether's outperformance?

SEC delays Bitcoin ETF approval decision

The SEC has pushed back a decision on the Van Eck Bitcoin ETF application to June, 2021, extending the 45-day window that expired on May 3rd. This [CNBC article](#) has more details. Part of the [official SEC release](#) is captured below.

The Commission finds that it is appropriate to designate a longer period within which to take action on the proposed rule change so that it has sufficient time to consider the proposed rule change and the comments received. Accordingly, pursuant to Section 19(b)(2) of the Act,⁶ the Commission designates June 17, 2021, as the date by which the Commission shall either approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule change (File No. SR-CboeBZX-2021-019).

The market is expecting a favorable ruling because the new SEC commissioner – Gary Gensler – was previously the head of the Commodity Futures Trading Commission, which approved the CME listed Bitcoin future back in December 2017. However, the CFTC regulates venues and instruments that are mostly geared towards sophisticated institutions, while the SEC deals with products aimed at retail investors.

This [CNBC article/interview](#) of Gary Gensler from May 7th provides the most recent view from the SEC Chairman. In the interview, he says that there is a gap in Bitcoin/crypto regulation in the US, which leads to a lack of investor protection.

The lack of easy access to crypto, I would argue, leads to this next story illustrating the almost unstoppable network effect of the larger digital assets.

NYDIG to facilitate Bitcoin access for bank customers

NY Digital Asset Group (NYDIG) via a partnership with bank software provider [FIS](#) will offer a solution that would **allow commercial banks to offer Bitcoin to their end customers**. NYDIG is not a household name, but well respected within bitcoin circles. Insurance company **Mass Mutual invested in NYDIG** earlier this year and made their high profile Bitcoin purchase through NYDIG. Additionally, the **CEO of NY Life is on the board of NYDIG**.

Read more about this potentially transformative deal in this [CNBC story](#). It is a Bitcoin-only effort as the CEO of NYDIG explains in this [Coindesk podcast](#) this week. If you are an advanced consumer of Bitcoin/crypto, **the podcast is highly recommended** because it provides a glimpse into the leading edge of institutional discussion on the asset class. ***“Banks are asking for bitcoin because they can see their customers sending dollars to Coinbase and other crypto exchanges”***, said the President of NYDIG.

Private sector Digital Dollar pilot projects coming

The non-profit Digital Dollar Project announced that it will launch five pilot projects over the coming 12 months. The [Digital Dollar Project](#) is a partnership between Accenture and Digital Dollar Foundation established to explore a US central bank digital currency (CBDC). There are more details about the pilot in this [Reuters article](#), and the project’s mission statement is below. This effort comes as the Federal Reserve (Fed) has said they are in no hurry to launch a CBDC.

Digital Dollar Project

LEADING THE DISCUSSION ON A U.S. CENTRAL BANK DIGITAL CURRENCY

The Digital Dollar Project is a partnership between Accenture (NYSE: ACN) and the Digital Dollar Foundation to advance exploration of a United States Central Bank Digital Currency (CBDC). The purpose of the Project is to encourage research and public discussion on the potential advantages of a digital dollar, convene private sector thought leaders and actors, and propose possible models to support the public sector. The Project will moderate programs with interested stakeholders to measure the value of and establish practical steps that can be taken to establish a digital dollar.

- *The Dispatch's view remains that **central bank digital currencies are merely an extension of the fiat money system**. They pose little risk to the ongoing adoption of digital currencies like Bitcoin. Adoption is taking place because of the verifiable scarcity, payment mechanism and network effect. Fiat currency, in contrast, is losing relative purchasing power as more of it is created to support spending, and even more will be needed for pension obligations, social security and Medicare in the coming decades.*

JP Morgan to offer Bitcoin fund, following Morgan Stanley's footsteps

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JPMorgan Is Preparing to Offer a Bitcoin Fund to Wealthy Clients

There has been no official release by the bank but these articles by [Blockworks](#) and [Bloomberg](#) provides some insights. As the [Dispatch #9](#) predicted, **other large will scramble to offer bitcoin access to wealth management clients**, following Morgan Stanley's lead. Bitcoin is a scarce asset, and **we highly recommend owning actual coins directly for lower cost rather than owning shares in a fund and then paying two sets of fees**. Access to the bitcoin payment system is the core value proposition.

Citibank weighs offering crypto services

The Financial Times broke this story on Thursday, and you can read the [FT article here](#). Read this [Reuters article](#) about the FT story if you can't get past the FT paywall. The FT headline below captures the essence of why Citi is considering this move.

Citi weighs launching crypto services after surge in client interest

Exclusive: Wall Street bank says trading, financing and custody all under consideration

These are **NOT** rash moves as banks witness the rising adoption firsthand. On the retail side they see deposits leave via ACH and wire transfer to crypto exchanges. On the institutional side, clients just flat out say they are moving capital to invest in crypto. With these insights, you should not be surprised that **Citi published a bullish 108-page report on Bitcoin, as [Dispatch #7](#) highlighted** back in March. Now they float a more forceful adoption story via the FT. The following three stories in the Bitcoin adoption corner validates their aspirations!

Bitcoin Adoption Corner!

- **#1 NFL draft pick Trevor Lawrence to invest in digital assets**, Trevor Lawrence’s tweet below promotes a crypto asset trading app. There’s probably an endorsement/sponsorship angle here, but he has skin in the game too: This [Forbes article](#) says Lawrence is investing his signing bonus (estimated at \$22m) in digital assets.



Source: [Twitter](#)

- **Auto insurer Metromile will accept premiums, and payout claims in Bitcoin.** Metromile is an insurance provider that offers pay-per-mile auto insurance, and IPOed via a [SPAC](#) last year. Mark Cuban and Chamath Palihapitya of Social Capital – both crypto adoptors – are investors in Metromile. The company also announced that it would buy \$10m worth of Bitcoin in 2nd quarter of 2021. More details on the plans in this [Forbes article](#) and the [company release](#). *The Dispatch continues to question the practicality of using Bitcoin for monthly payments when you have to track and report the capital gain/loss on each payment. However, we can see the benefits of receiving a claim in Bitcoin.*
- **Latin American e-commerce giant MercadoLibre disclosed \$7.8m Bitcoin purchase.** NY Stock exchange listed MercadoLibre (ticker MELI) is the Amazon of Latin American, and is a sizable company with a \$72bn market capitalization. The Bitcoin investment was reported during the 1Q21 earnings report is small compared to \$862bn cash on the balance sheet as of March 31st. The MELI has adopted Bitcoin as part of it's treasury management is notable.

IRS wins court case to access Kraken's (crypto exchange) client records

This particular summons is to obtain records of customers who have conducted at least \$20,000 in transactions between 2016 and 2020. More details are in this [The Block](#) article and the official [DoJ release](#). The snippet below from the DOJ release provides insights into the Government's goals.

"Gathering the information in the summons approved today is an important step to ensure cryptocurrency owners are following the tax laws," said Acting Assistant Attorney General David A. Hubbert of the Justice Department's Tax Division. "Those who transact with cryptocurrency must meet their tax obligations like any other taxpayer."

"There is no excuse for taxpayers continuing to fail to report the income earned and taxes due from virtual currency transactions," said IRS Commissioner Chuck Rettig. "This John Doe summons is part of our effort to uncover those who are trying to skirt reporting and avoid paying their fair share."

The IRS is increasing crypto tax compliance efforts. This [Reuters article](#) from last month flags a similar summons to another crypto platform. *The dispatch continues to highlight the need for US tax residents to keep accurate records of crypto transactions to calculate capital gains. You are responsible for tracking the cost basis because exchanges are unable to do so as coins can be moved from one venue to another (pseudo anonymously).*

Debt to GDP no longer meaningful!

This [WSJ article headline](#) caught my attention because the more we hear “this time is different” rhetoric, it’s a warning sign that we are pushing the limits. If the Fed weren’t buying a large share of US treasury debt each month, rates would be meaningfully higher. Watch the credit default spread and currency markets for pricing signals as the Fed has snuffed out signals in the treasury bond market.

U.S. | THE NUMBERS

U.S. Debt Is at a Record, but the Risk Calculus Is Changing

Some say the traditional debt-to-GDP ratio is no longer meaningful

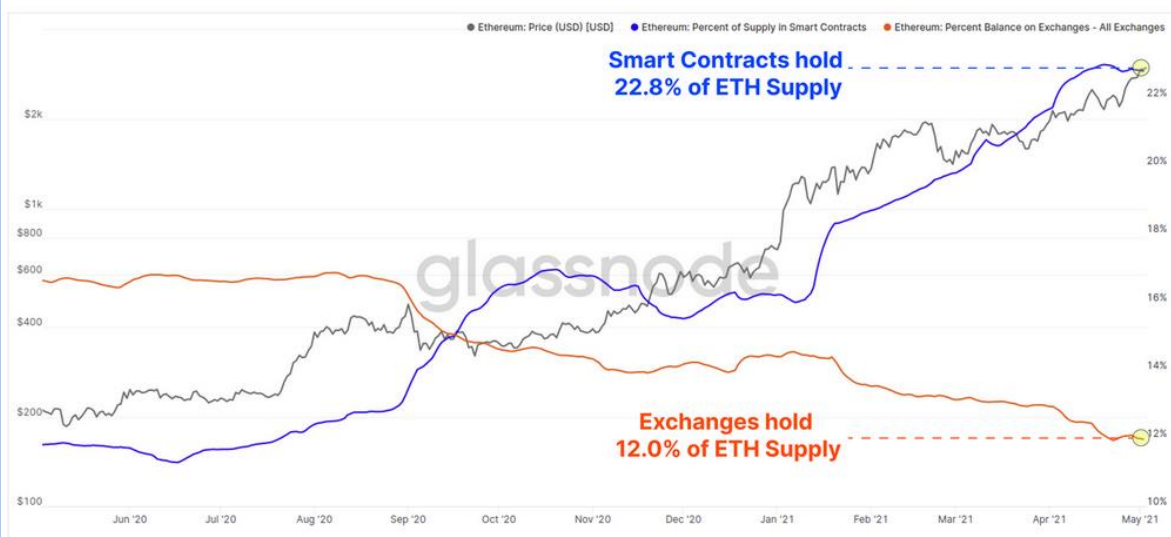
Bitcoin School goes Ethereum!

Ethereum is handily outperforming Bitcoin at present

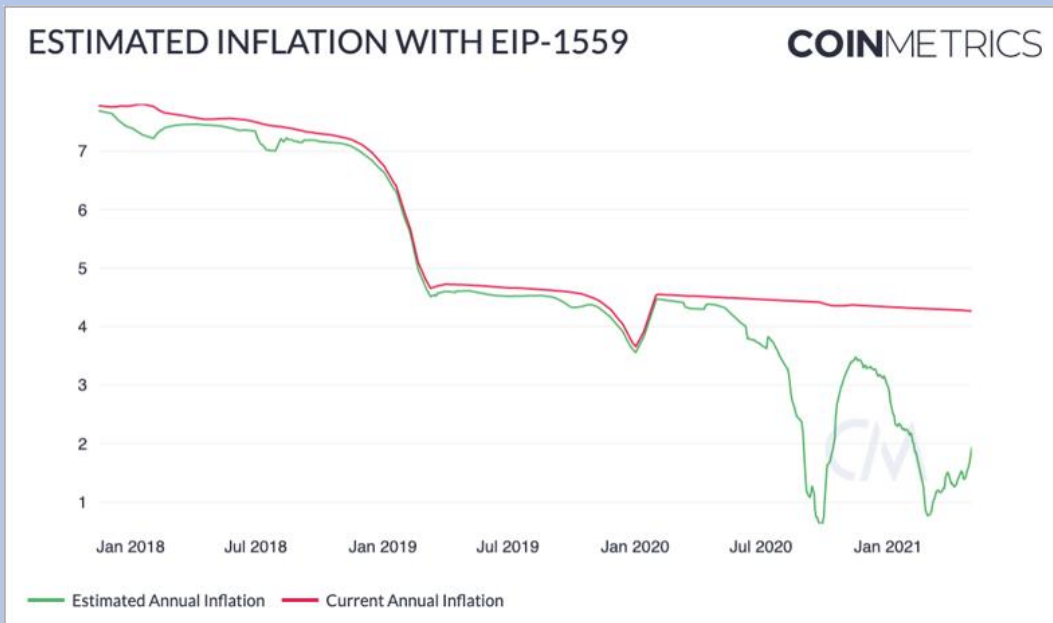
What follows is a summary of the narrative on Ethereum’s strong performance and a simplified explanation of some core features.

The Ethereum protocol dominates the market for powering the blockchain economy. Most decentralized services, which are also called decentralized apps (dapps) are built on that protocol. The bulk of [Stablecoins](#) in circulation operates on the protocol; [NFTs](#) are built on Ethereum, too. The biggest dapps are all decentralized Finance ([Defi](#)) services like exchange [Uniswap](#) and lending/borrowing dapps [Compound](#) or [Aave](#). All of these dapps are built on the Ethereum network, which require locking up Ether (the token of the Ethereum protocol) to operate the service. The chart below illustrates the increasing Ether (ETH) locked up in dapps smart contracts and the consequent drop of ETH on exchanges like Coinbase.

Ethereum: Supply in Smart Contracts vs. Balance on Exchanges

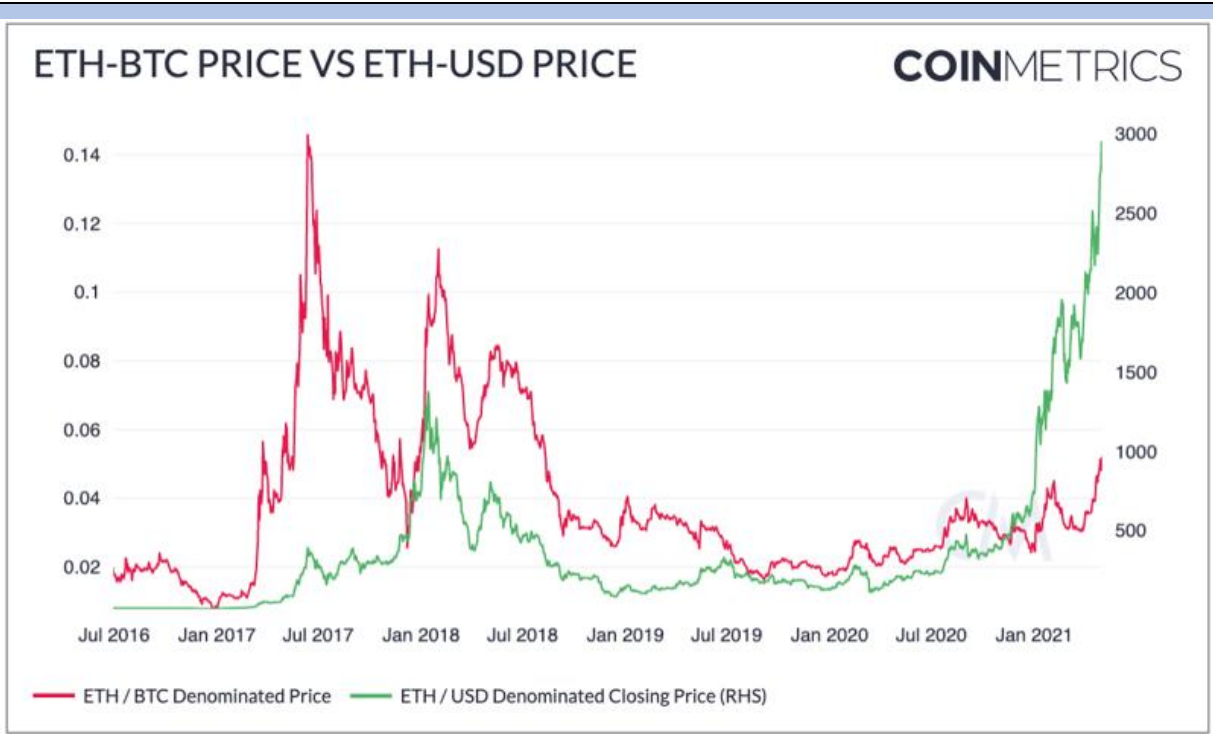


Furthermore, the protocol is set to implement revised rules in July 2021 that will reduce the new issuance of ETH. This has gotten ETH bulls excited as it's set to reduce the inflation rate, as the chart below from coinmetric shows. If you would like to read more about the coming change, this [Coinmetrics report](#) has more details.



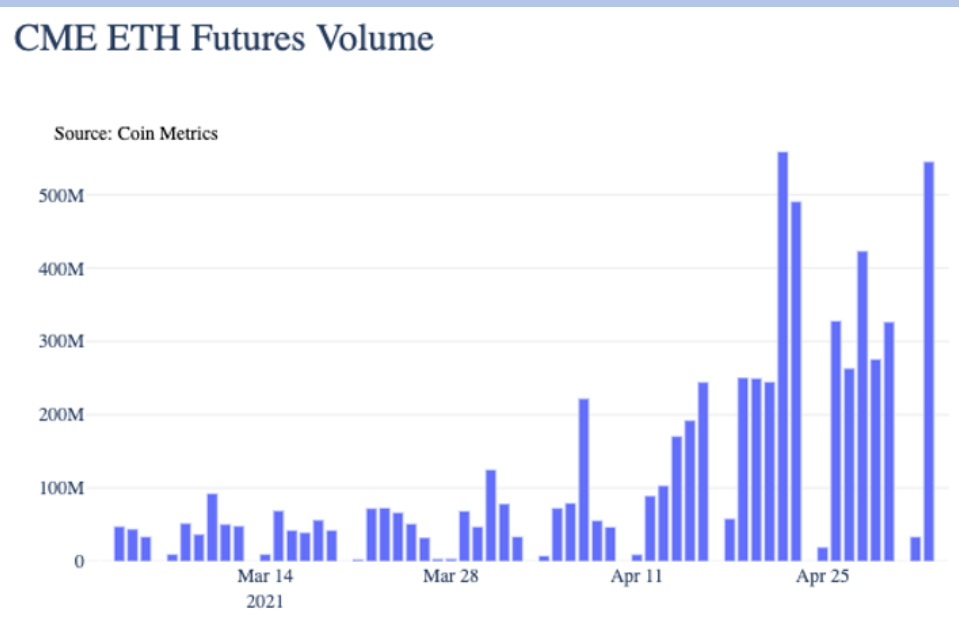
While the drop in new supply of Ether projected in the above chart is notable, it's nothing like the exponential new supply decline (-50% every four years) built into the bitcoin protocol.

Ethereum bulls also make the case that ETH can appreciate more vs. Bitcoin. As the Dispatch is fond of saying, everything is going up in value vs USD. Therefore, the chart below shows ETH in BTC terms, which has been a volatile pair. The anecdotal observation from the chart below is that ETH strengthens against Bitcoin during bull markets and underperforms BTC in the bear market.



Source: Coinmetrics

CME futures launched in February 2021 have brought institutional flows into the protocol. We have seen steadily increasing volumes.



Source: Coinmetrics

Additional points to note.

- The Ethereum protocol is set to undergoing a drastic change as it goes from a Proof-of-Work(PoW) to Proof-of-Stake (PoS) transaction processing mechanism.
- PoW is seen as more secure, but is energy intensive and has limited transaction processing capacity. PoS improves the latter two issues while trading off security.
- This [Blockgeeks post](#) is a good primer on the difference.
- Ethereum network needs to continually innovate as it provides a functional utility to the dapp community. Transaction processing speed/capacity and fees are some of the keys areas of focus.
- Upstart protocols are nipping at Ethereum's heels, offering many of the features of the Ethereum protocol but with faster and cheaper transaction processing.

While Bitcoin has greater verifiable scarcity base on deflationary supply built into the protocol, on the Ethereum protocol rapid growth of dapps could drive Ether scarcity. Just note that Defi volumes are highest during the bull market and could see sharp declines during a bear market (yet to be experienced by the Defi services). This alone should make Ether more cyclical than Bitcoin, in the Dispatches view. That should be taken into account when sizing the two assets in a digital asset portfolio.

Stay safe and do reach out if you have any questions or comments about the material in this Dispatch.

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