

PANTERA

EXCERPTS FROM OUR BLOCKCHAIN LETTERS

REGULATION

January 18, 2022

19 OF THE TOP 20 PROTOCOLS ARE OUTSIDE THE UNITED STATES

The U.S. government funded the original internet. ARPANET (Advanced Research Projects Agency Network) was an experimental computer network to link computers at Pentagon-funded research institutions over telephone lines. Congress enacted many laws that helped the internet thrive. As a direct consequence, almost all of the leading internet companies are based in the United States. The United States has enjoyed tremendous advantages from that reality.

The SEC has not been so helpful in blockchain. Regulatory uncertainty and fear have driven most blockchains out of the United States. In fact, nineteen of the top twenty protocols are now based outside the United States. The only protocol still based in the U.S. is in a lawsuit with the SEC. It's not hard to imagine the last protocol deciding or being forced to leave the United States as well.

"I came not to call the righteous, but sinners to repentance."

– Luke 5:32

In our investor letters, we've shared the views of many long-time blockchain believers. It's more powerful to quote those who have only recently converted. Jay Clayton served as SEC Chairman until Christmas Eve a year ago. He started that lawsuit on the day before his last day on the job. He is now advocating blockchain. I wholeheartedly agree with his pro-blockchain focus as a national security issue. He wants the U.S. to win.

"Dollar primacy and stability are critical to global economic development, financial stability and U.S. national security. In the face of broad technological change, primacy of the U.S. dollar is by no means certain. China views this technological shift as an opportunity not only to achieve operational efficiencies but to extend the reach and influence of yuan-based payments and lending. Chinese authorities are driving digitization and tokenization in their core payment and credit markets, allowing greater government monitoring and control. And there is no doubt Chinese leadership plans to extend similar practices to international trade and finance, expanding their influence over global commerce. The U.S. must recognize the reserve currency race is on, and winning is the only rational objective.

"We have a head start in both traditional markets and new tokenized markets. More than 95% of stablecoins by value are based on the U.S. dollar. In other words, at the incipient stages of this global shift in financial technology, dollars – actually U.S. Treasury securities – have remained the preferred liquid store of value for new and traditional markets. But stability and leadership can erode quickly in times of technological change. Another nation seizing control of global credit and payment systems would not only affect our global standing but also could destabilize the global financial system.

"Time is of the essence. Emerging as the standard-setter in any technological shift has great and one-time-only multiplier effects. Investment capital and ingenuity flow quickly to the emerging standard, further enhancing its acceptance and related economies of scale. The U.S. should use its head start to set the standard for tomorrow's marketplace."

– Former SEC Chairman Clayton, *Wall Street Journal* OpEd, December 17, 2021

December 7, 2021

IT'S A PONZI SCHEME

I've heard that line for eight years.

Regulators are talking about bubbles and manipulation constantly.

The markets have it right – there is a massive Ponzi scheme going on. Let's investigate.

MANIPULATED MARKET

"The Commission concludes the requirements of Exchange Act Section . . . be 'designed to prevent . . . manipulative acts and practices' and 'to protect investors and the public interest.'

"A pyramid scheme that is heavily rigged and from which the only way to profit is to sell to a 'greater fool' who comes later at a higher price.

"The Commission has raised in previous orders, which have included. . . persons with a dominant position in bitcoin . . . trading based on material, non-public information"

– SEC Order Disapproving a Proposed Rule Change to List and Trade Shares of the VanEck Bitcoin Trust, November 12, 2021

The bitcoin market is way too big to be manipulated. Bitcoin trades on hundreds of exchanges in dozens of countries. Bitcoin's daily volume is 1,000x as much as GameStop, which trades on just one market in just one country.

[SEC Commissioner Hester Peirce makes a very cogent argument that the bitcoin market is, in fact, adequately self-regulated [here](#).]

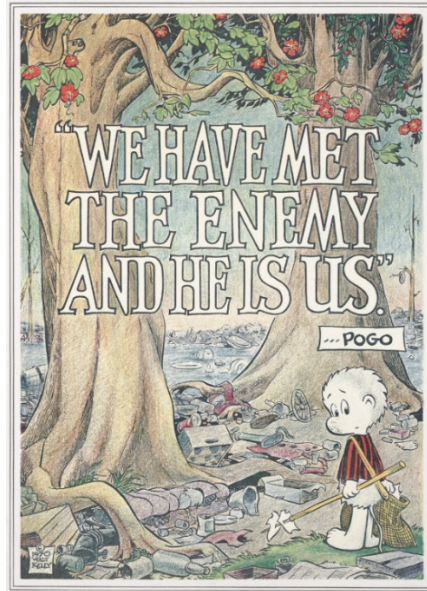
BUBBLE

"Bitcoin (and most other Crypto-assets) as an investment asset is difficult to rationalize, which would suggest that we see a buildup of a historic bubble.

"However, legislators have encouraged fresh speculative inflows into crypto-assets through laws such as the German Fondstandortgesetz risk to fuel the bubble and increase the eventual societal problem."

– Ulrich Bindseil, Director General of the ECB's Directorate General Market Operations, November 19, 2021

All this extreme positioning on bitcoin doesn't make any sense. How can you have a bubble almost nobody owns? Something like 90% of institutional investors have no exposure to bitcoin or other blockchain tokens. It's definitely not a bubble.



"To know thyself is the beginning of wisdom."

– Socrates

October 6, 2021

SEC CHAIRMAN GENSLER

When these quotes hit the tape a lot of people in the blockchain industry were taken aback. When I read what SEC Chairman Gensler said, I agree with him.

"I'd lastly say we've experimented historically with private forms of money. In the U.S., those of you listening might even remember something called the wildcat banking era, and it's in—from the 1830s to the 1860s, after President Jackson got rid of the Second Bank of the U.S. —sorry for the history lesson. But we had banks issuing bank notes and they competed. Philadelphia bank notes were different than Baltimore bank notes and even within Philadelphia had different bank notes competing, and the like. Well, that all had a lot of cost, a lot of problems and so forth, and Abraham Lincoln put in place an oversight called the Controller of the Currency, and then the Federal Reserve came 50 years later.

"So, public money has a certain place around the globe. Private monies usually don't last that long. So, I don't think there's a long-term viability for five- or six thousand private forms of money. History tells us otherwise."

– Gary Gensler, Chairman of the U.S. Securities and Exchange Commission,
The Path Forward: Cryptocurrency, September 21, 2021

I agree with him. We don't need five- or six thousand private monies/blockchains.

The thing he and others confuse is that most of the exciting tokens are not new private monies/blockchains, they are new cooperatively-owned applications built on top of a few existing, tested blockchains. These applications are building out decentralized versions of the applications we already use – like Audius, a decentralized music streaming platform.

There are 4,500 public companies in America. I have no problem imagining 4,500 important tokens built on top of a single-digit number of important blockchains.

He did go on to say some nice things:

"I do think this new technology is a very interesting – and whomever she was, Satoshi Nakamoto, it's led to change. It's pushing at the side of central banks around the globe to reconsider how to provide payment systems. It's pushing on the side as a catalyst for change in finance, so-called "fintech," the intersection of new technologies and finance.

"I've said this in the classroom and I've said it to my colleagues around the globe in the official sector, I think it's been a catalyst for change. Nakamoto-san's innovation, not only bitcoin as the first sort of one but this whole distributed ledger technology has been a catalyst for change that, around the globe, central banks and the private sector are looking in on how we can enhance our payment systems, and enhancing our payment systems to make them 24 hours a day, 7 days a week, real time, at lower cost. And so, there's some competition right now going on there."

And, I just think this is hilarious:

"On the other hand, I would say I don't think it is a good idea to wait until there's a spill in Aisle Three, and we hear in the loudspeakers overhead, from The Washington Post and your competitors: "Clean up in Aisle Three!", and then those of us in the official sector have to rush in and we've got congressional hearings, and we're sort of like, well, why wasn't anybody worried there was going to be a need for cleanup in Aisle Three."

– Gary Gensler, Chairman of the U.S. Securities and Exchange Commission,
The Path Forward: Cryptocurrency, September 21, 2021

There's a balance. We need to keep our stores open as we compete with nations around the world to build the payment rail of the future. I'd rather a couple of little spills than to shop at the Red Army Store.

June 14, 2021

PANTERA BLOCKCHAIN Summit 2021

Pantera Blockchain Summit was the sixth in a series of gatherings we've hosted since 2013 – bringing together some of the brightest minds in the cryptocurrency community – programmers, regulators, lawyers, entrepreneurs, investors.

The content is available in this link:

[Summit Page](#)

Day One of the Summit featured discussions on cryptocurrency regulation from the regulator's perspective. SEC Commissioner Hester Peirce spoke eloquently about the value propositions of digital currencies and the implications they have on financial markets.

"There are a lot of benefits that can happen if we expand the reach of our capital markets. And this is something that I think the decentralized model can do."

– Hester Peirce, SEC Commissioner
Pantera Blockchain Summit

Watch the recording [here](#).

Brian Brooks, the former Acting Comptroller of the Currency and now CEO of Binance, and Karen Ubell, Partner at Goodwin, sat down with Joey Krug to discuss their [regulatory outlook on digital assets](#).

August 4, 2021

E.S.G. IS THE LITTLE BIGHORN OF BITCOIN SKEPTICS

“Custer’s Last Stand was an armed engagement between combined forces of the Lakota, Northern Cheyenne, and Arapaho tribes and the 7th Cavalry Regiment of the United States Army. The battle, which resulted in the defeat of U.S. forces, was the most significant action of the Great Sioux War of 1876. It took place on June 25–26, 1876, along the Little Bighorn River in the Crow Indian Reservation in southeastern Montana Territory.”

– Wikipedia

Bitcoin skeptics have been fighting a losing war for over a decade. Battle after battle going against them. Some of the major battles include:

~~It’ll Get Hacked~~

~~The Silk Road Guy Takes Bitcoin~~

~~Bitcoin Is A Fraud~~

~~The U.S. Marshall’s Office Would Never Auction Bitcoin~~

~~It’s A Bubble~~

~~The Exchanges Are Tiny Startups~~

~~Wall St. Won’t Do Blockchain~~

~~Governments Won’t Do Blockchain~~

~~There’s No Regulated Custodian~~

When the *There’s No Regulated Custodian Battle* fell to the combined forces of Fidelity, ICE’s Bakkt, Coinbase, BitGo, and others – I thought the war was over. I was wrong.

A new battle has come roaring over the hill. The last stand.

Like General Custer thinking his Gatling gun invincible on the field of battle – so too the forces of Fear-Uncertainty-Doubt. They have recently brought out the ultimate weapon: ESG.

To be sure, it is a weapon so ominous that many forfeit the battlefield to avoid doing combat with it.

ESG stands for Environmental, Social, and Governance.

ESG		
Environmental	Social	Governance
<ul style="list-style-type: none"> • GHG Emissions • Energy Use and Efficiency • Air Pollutants • Water Use • Waste Management - Water, Solid, and Hazardous • Use of Ecosystems • Innovation in Environment-Friendly Products and Services 	<ul style="list-style-type: none"> • Diversity and Equal Opportunity • Poverty and Community Impact • Supply Chain Management • Customer Privacy • Local Communities • Freedom of Association • Human Rights 	<ul style="list-style-type: none"> • Code of Conduct and Business Principles • Accountability • Transparency and Disclosure • Board Diversity and Structure • Bribery and Corruption • Stakeholder Engagement • Shareholder Rights

It's gonna be an epic battle. And I'm not saying the E part of ESG doesn't have some credence on Bitcoin, but I think that when the smoke clears it will have been a rout. Bitcoin and other blockchains are wonderful for ESG. I believe Blockchain technology will have a profoundly positive impact on billions of peoples' lives - making it unambiguously positive from an ESG standpoint.

Nothing is utopia-perfect. Except for unconditional love, everything has a cost.

ESG :: COSTS VS. BENEFITS

"I think Sam [Englehardt] made an important point - that you have to weigh the costs versus the benefits. That's not part of the dialogue now.

Two main points would be:

Yes, Bitcoin does consume a lot of electricity. That's true. Most of the other blockchains use other consensus mechanisms that don't consume electricity. So, if you're going to talk about energy consumption, you should not focus on just one of the blockchains.

"The second one would be the whole phrase of ESG is supposed to include more things. If Bitcoin really does improve the lives of 3.5 billion people, financial inclusion, letting them have control over their own savings, that seems like the Social bit is pretty high. Might be a small negative on the E part of ESG, but Bitcoin is going to have a big positive impact on the S and G parts."

- Dan Morehead, Penn Blockchain Conference, April 23, 2021

We'll explore a few perspectives on those tradeoffs later in this letter - in Bitcoin and other blockchains and also in gold and the tech/data monopolies. Plenty of ESG sins to go around.

The recent debate just focusing on one blockchain (Bitcoin) and just one issue (Environment) - it ignores the wonderful Social and Governance benefits blockchain is bringing to billions of people. For populist politicians - who (rightly) hate centralized bank power - to think blockchain is not wonderful is something we should correct.
