



INVESTMENT REPORT

AUG
2023

DC REPORT

Agenda:

- DeFi update
- Market update.
- Kraken Documents
- Lawyer for GP
- Protocols Evaluation Report

Summary:

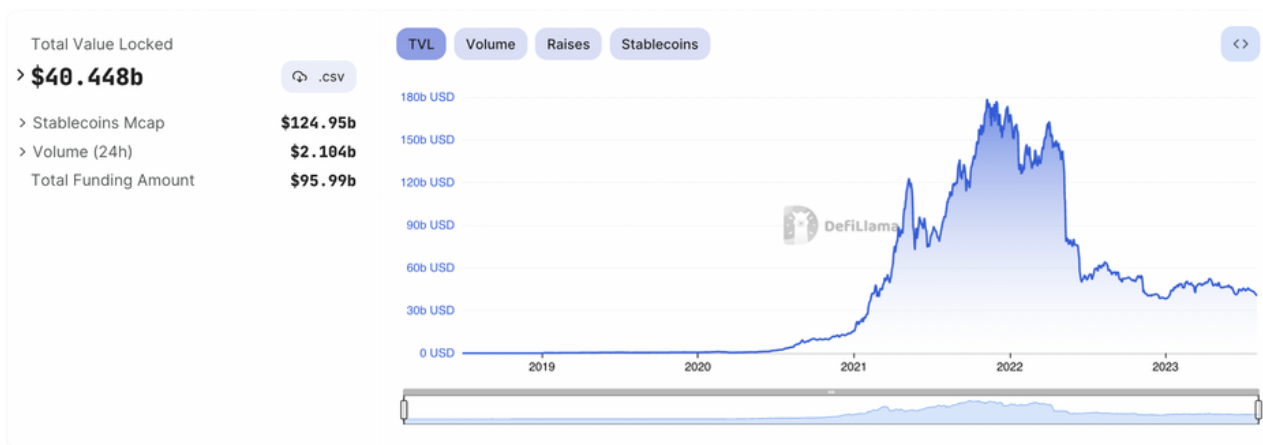
In the latest DeFi developments, the total value locked (TVL) stands at \$40.448 billion with Lido leading as the top protocol. Despite a significant exploit of Curve Finance, the DeFi sector continues to grow. On the regulatory front, the SEC's attempt to exert broader control over the crypto market indicates ongoing contention about the legal status of various cryptocurrencies. Tether Holdings' recent report of increased reserves signifies their stability amidst undercollateralization concerns in the industry. Coinbase is set to open access to its Layer 2 network, Base, marking a significant milestone for the platform. Furthermore, Hong Kong's issuance of its first cryptocurrency exchange licenses highlights a more progressive stance towards digital assets compared to the U.S. Meanwhile, Binance's user base continues to surge despite regulatory challenges. Finally, a new study presents a framework to identify key players in the blockchain banking system, potentially preventing future market crashes.

MARKET UPDATE

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MARKET UPDATE



- **As of today, the total value locked (TVL) in DeFi stands at \$40.448 billion**, with a minor decrease of 0.28% over the past 24 hours. The top five protocols by TVL are Lido (\$14.741 billion), MakerDAO (\$5.053 billion), AAVE (\$4.916 billion), JustLend (\$3.784 billion), and Uniswap (\$3.697 billion). Notably, Lido, a liquid staking platform, has dominance in the DeFi market with 36.44% of the total TVL. The market cap of stablecoins is approximately \$124.95 billion, with USDT dominating at 67.04%. The total DeFi trading volume in the last 24 hours reached \$2.104 billion, marking a weekly increase of 20.95%. Meanwhile, decentralized exchanges (DEXs) account for 13.84% of the market, compared to centralized exchanges (CEXs).

<https://defillama.com/>

MARKET UPDATE

- **Confidence in the decentralized finance (DeFi) sector was significantly impacted following a \$24 million exploit of Curve Finance's liquidity pools.** This incident exposed a vulnerability in smart contracts that use versions of the Vyper coding language. The resulting fallout has not only affected the value of Curve's DAO token, dropping it over 12% in 24 hours, but also instigated concerns about other blue-chip protocols such as Aave, Compound, and Uniswap. This episode underscores the need for thorough auditing of compilers and may potentially slow down institutional adoption of DeFi due to increased perceived risk. Despite this setback, it is noted that the impact, though significant, is not lethal to either Curve or the overall DeFi ecosystem.

<https://twitter.com/Defilgnas/status/1687044265447133184>

<https://www.theblock.co/post/242159/curve-finance-exploit-has-shaken-confidence-in-defi>

- **The U.S. Securities and Exchange Commission (SEC) reportedly asked Coinbase to halt trading in all cryptocurrencies except Bitcoin** before suing the company, signaling the regulator's intent to exert broader control over the crypto market. According to Coinbase CEO Brian Armstrong, the SEC viewed every asset other than Bitcoin as a security, a perspective Coinbase disputed. Had Coinbase complied, it would have set a precedent potentially rendering most U.S. crypto businesses illegal unless they registered with the SEC. The issue of crypto industry oversight remains contentious, with regulators like the SEC and the Commodity Futures Trading Commission seeking control. Compliance with SEC oversight would enforce more stringent standards, affecting businesses that operate under the assumption that crypto tokens aren't securities.

<https://www.ft.com/content/1f873dd5-df8f-4cfc-bb21-ef83ed11fb4d>

- **Tether Holdings Limited has reported an \$850 million increase in its excess reserves, reaching a total of \$3.3 billion, according to an assurance opinion by accounting firm BDO for Q2 of 2023.** This coincides with Tether revealing its \$72.5 billion exposure in U.S. Treasury bills and its investments in energy-related initiatives. The reserves' increase demonstrates Tether's stability and risk management approach, especially significant given recent undercollateralization issues in the banking and crypto industry. Additionally, Tether reported a notable 30% increase in operational profits over the quarter from April to June 2023, amounting to over \$1 billion. Furthermore, Tether has consolidated its shareholder group via a \$115 million share buyback. 85% of Tether's reserves remain extremely liquid, reinforcing its commitment to transparency and financial health.

<https://tether.to/en/tether-excess-reserves-increase-by-850m-to-reach-3-3b-as-leading-stablecoin-reveals-72-5b-overall-exposure-in-us-t-bills-and-unveils-energy-related-investments/>

MARKET UPDATE

- **Coinbase has announced that its Layer 2 network, Base, will open access to all users on August 9th, hosting over 50 key brands and creators, including Coca-Cola, Atari, and OpenSea.** The launch will be accompanied by the "Onchain Summer" campaign, featuring daily NFT drops. The news follows a burst of activity on Base after developers were allowed access on July 12th, with users already bridging over \$82 million worth of assets onto the network. Despite a decrease in activity due to a series of complications, Coinbase remains committed to supporting Base across its products and services, aiming to empower anyone to participate in the on-chain economy.

<https://help.coinbase.com/en/coinbase/other-topics/other/base>

- **Hong Kong has granted its first cryptocurrency exchange licenses to HashKey Exchange and OSL, under a new regulatory framework aiming to develop a global hub for digital assets.** This allows for legalized retail trading of tokens in the city and marks a significant step in expanding HashKey's services from professional to retail investors. The new crypto regime underscores Hong Kong's ambition to restore its image as a leading financial center, contrasting with US's more stringent approach towards digital assets. However, the city's shift has yet to attract significant investments from the crypto industry.

<https://www.bloomberg.com/news/articles/2023-08-03/hong-kong-s-new-crypto-regime-awards-first-license-to-hashkey?srnd=cryptocurrencies-v2#xj4y7vzkg>

- **Despite ongoing legal battles with U.S. regulators, Binance, the world's largest cryptocurrency exchange, has seen its user base surge to 150 million, according to CEO Changpeng "CZ" Zhao.** This significant growth, adding 22 million users in just three months, comes amidst re-entry into the Japanese market, a new license in Dubai, and a series of global regulatory challenges. Binance continues to maintain its dominant market share, comprising nearly 65% of spot trading volumes. The exchange anticipates further growth based on historical patterns and future events such as the upcoming Bitcoin halving.

https://twitter.com/cz_binance/status/1687061963094814720

- **A study by University in Thailand presents a framework, called the Global Systematically Important Protocol (G-SIP), to identify and measure systemic risk in decentralized finance (DeFi) institutions.** Drawing inspiration from the global systemically important banks (G-SIBs) concept in traditional finance, the protocol aims to identify key players in the blockchain banking system to better prevent future market crashes. G-SIP assesses the interconnectedness of various DeFi protocols and recognizes the ones with a significant influence on the network. MakerDAO, Aave, Compound, and Liquity were examined in the study, with MakerDAO scoring the highest due to its complexity and interconnectedness, implying it carries a higher risk profile.

https://www.bis.org/fsi/fsisummaries/g-sib_framework.htm

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Digital Compass Ventures reports conclude with a page acknowledging the contributions of the people who worked tirelessly on the projects mentioned within. Below, list down the names of those committed to these projects, such as:

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