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Risk bytes

Newsletter
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Crypto CEO exodus: market forces and potential regulatory pressure

In recent weeks numerous executives at high-profile companies within the digital asset space have been resigning. These resignations come against the backdrop of the continued market downturn and increased regulatory scrutiny (US regulations are arriving soon).

Genesis CEO Michael Moro stepped down in August following the fallout from the firm's exposure to the now-insolvent Three Arrows Capital (3AC). Later that month, Sam Trabucco, co-CEO of Alameda Research, also stepped down from his role, handing the reigns to co-CEO Caroline Ellison. Alameda, one of the largest market-makers and quantitative firms in the space, was founded by FTX's Sam Bankman-Fried. Alameda has faced questions for its close ties with FTX, with Ellison stating they are "at arm's length" and do not get preferential treatment from any market makers.

Earlier this week, Jesse Powell, Kraken's founder and CEO, announced he would also be resigning, with current COO, David Ripley, taking his place. In late July, it was reported Kraken was under investigation by the US Treasury Department for allegedly violating US government sanctions by allowing users in Iran to access the platform.

Alex Mashinsky, founder and CEO of the Celsius Network, announced last week that he had resigned with immediate effect. Celsius, once one of the major participants in the crypto space, filed for bankruptcy in July.

Within hours of Celsius' announcement, Brett Harrison, president of FTX US, announced he too would be stepping down from his role but would remain in an advisory role. FTX have shown strong confidence in their vision over the last few months with numerous acquisitions. They made a successful bid to purchase the assets of bankrupt lending platform Voyager Digital last week. Following Mashinsky's departure, it was reported FTX are considering a similar takeover of Celsius.

The string of departures could be due in part to the increasing regulatory pressure, following the release of the White House Framework for Responsible Development of Digital Assets (the "Framework"). The Framework released by the White House on September 16, made clear that protecting retail investors will be at the forefront of new policy. The impact of the bear market and fallout from the Luna collapse may also be felt behind the scenes at some of the top firms in the crypto space.

Sources:

Decrypt

Bloomberg

Coingeek

Financial Times

Coin Telegraph

Crypto Briefing

Algo stablecoin draft bill could change stablecoin market

A draft bill has been submitted to the US House of Representatives that plans to ban the launch of any new algorithmic ("algo") stablecoins over the next two years. The proposed ban of "endogenously collateralised stablecoins," looks to criminalise the issuance and creation of new algo stablecoins and comes after the collapse of TerraUSD (UST) in May, which had wide-reaching consequences for the crypto market. Existing algo stablecoins will be granted a two-year grace period to change the mechanism for how they collateralise.

This is a broad ban that could affect stablecoins outside of the fully-reserved backed stables, such as USDC (issued by Circle) and USDT (issued by Tether) and could affect many native DeFi stables such as Synthetix USD (SUSD), which was mentioned in the bill as a concern.

The bill will also implement a framework for banks and non-banks to issue stablecoins with approval from federal regulators, which could lead to increased competition for non-algo stablecoins, such as USDC and USDT. The Federal Reserve will also be mandated to establish an approval process for new stablecoins and to research the implications of a digital dollar.

Recent announcements from AAVE and Curve that they are releasing their own stablecoins, GHO (Aave) & crvUSD (Curve), could mean a race to the bottom as each of these applications look to become the key stablecoin in the DeFi space.

Source: Bloomberg

Liquid Staking Derivatives: The future of Ethereum staking?

Liquid Staking Derivatives (LSDs) have been growing in prominence post-Merge, increasing competition for ETH staking on the Beacon Chain, where it would remain locked until withdrawals are enabled via the Shanghai upgrade (estimated to launch in 9-12 months). Stakers pay a fee to LSD protocols in exchange for a token – a tokenised version of the agreement (the LSD), the staked token remains liquid and can be used in other DeFi applications.

Dominant LSD ETH validator 'Lido finance' mint stETH in return for staking ETH, redeemable at a 1:1 ratio. Binance and Coinbase offer their own LSD versions, which are known as bETH and cbETH, respectively.

LSDs have been observed to trade at a discount compared to ETH for several reasons, the most prominent ones being the liquidity premium and uncertainty of withdrawal timing. In fact, different LSDs trade at different discounted prices, with Coinbase's cbETH token trading at a greater discount to Lido's stETH.

A comparison between comparative APYs (annual percentage yields for staking) and the effective APY (annual percentage yield plus interest earned from buying at the prevailing "below par" level and holding until the asset unlocks) indicates that investors can expect a yield appreciation of 1.5% if they hold cbETH over stETH. Some of the reasons that would explain the greater discount observed in cbETH are:

1. Coinbase is subject to actions from the US administration. As such, Coinbase's regulatory risk is deemed to be higher compared to other LSDs validators.

2. Coinbase is a centralised exchange with set processes on transaction monitoring. Redeeming cbETH via Coinbase might be perceived as slower and more complicated compared to decentralised alternatives, such as LIDO and Rocketpool.

3. The interest rate on cbETH might not always be deduced in a straightforward manner.

4. cbETH is associated with higher fees.

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