

# Crypto Insights

A crypto assets  
Newsletter

August 2023



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## Welcome to the EY India's Crypto Insights – a crypto assets newsletter

The purpose of this periodic email alert is to provide a summary of the latest regulatory and industry-wide market developments with respect to crypto-assets and central bank digital currencies.

In the following pages, you will find a summary of the below notable developments made publicly available by the global regulatory community, industry working groups and/or infrastructure providers.

### In this edition

#### Regulatory space

- ▶ FSB finalizes global regulatory framework for Crypto Asset activities
- ▶ BIS submits two reports to the G20 Finance Ministers and Central Bank Governors
- ▶ FATF releases targeted update on implementation of the FATF standards on Virtual Assets and Service Providers
- ▶ IOSCO releases Policy Recommendations for Crypto and Digital Asset Markets
- ▶ BIS releases report on Crypto, tokens, and Defi: navigating the regulatory landscape
- ▶ IMF releases fintech note on taxing stablecoins
- ▶ EU crypto tax plans to include NFTs and Foreign Companies
- ▶ UK crypto stablecoin laws approved by Parliament's upper house
- ▶ Japan to enforce crypto anti-money laundering
- ▶ Hong Kong Securities Regulator to accept license applications for crypto exchanges
- ▶ G-7 will focus on helping developing nations introduce CBDCs

#### Markets






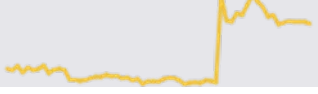




- ▶ SEC sues Binance and CEO Changpeng Zhao for US securities violations
- ▶ Raft launches R: the first US dollar Stablecoin backed by Lido's Staked Ether (stETH)
- ▶ Decoupling of Bitcoin and Ethereum signals impending market shift
- ▶ Circle safeguards reserves in repo agreements amid US government default concerns
- ▶ Reserve Bank of Zimbabwe introduces gold-backed digital currency

#### Decentralized Finance

- ▶ Developers deploy Uniswap on Bitcoin to capitalize on BRC-20 tokens
- ▶ Prime Protocol introduces bridgeless cross-chain token transfers
- ▶ LI.FI and InsurAce partner to offer insurance for crypto bridge transfers
- ▶ Internet Computer issues 'Liquid Bitcoin,' for faster, cheaper BTC transactions



## Cryptocurrency prices by Market Cap\*

Name	Price (US\$)	Market Cap (US\$)	Circulation Supply	60 Day Chart	60d return
Bitcoin (BTC)	\$29,394.46	\$571,541,066,118	19,443,837 BTC		9.69%
Ethereum (ETH)	\$1,864.72	\$225,688,077,274	121,030,274 ETH		0.53%
Tether (USDT)	\$1.00	\$83,821,102,981	83,818,134,651 USDT		0.01%
USD Coin (USDC)	\$1.00	\$26,548,932,672	26,546,010,668 USDC		0.02%
BNB (BNB)	\$243.19	\$37,416,196,629	153,855,399 BNB		20.09%
XRP (XRP)	\$0.7047	\$37,134,837,686	52,693,851,493 XRP		38.65%
BinanceUSD (BUSD)	\$0.9999	\$3,704,822,544	3,704,617,729 BUSD		0.02%
Cardano (ADA)	\$0.3144	\$11,006,262,228	35,007,296,809 ADA		13.82%
Solana (SOL)	\$24.49	\$9,901,229,010	404,373,038 SOL		18.19%
Dogecoin (DOGE)	\$0.07852	\$11,023,398,773	140,393,826,384 DOGE		10.06%

\*As of 31 July 2023

Source: <https://coinmarketcap.com/>

## Regulatory highlights

### EMEA

- ▶ FSB finalises global regulatory framework for Crypto Asset activities
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- ▶ EU crypto tax plans to include NFTs and Foreign Companies
- ▶ UK crypto stablecoin laws approved by Parliament's upper house

### Asia

- ▶ Japan to enforce crypto anti-money laundering
- ▶ Hong Kong Securities Regulator to accept license applications for crypto exchanges
- ▶ G-7 will Focus on helping developing nations introduce CBDCs



## FSB finalizes global regulatory framework for Crypto Asset activities<sup>1</sup>

The Financial Stability Board (FSB) recently issued a comprehensive global regulatory framework targeting crypto-asset activities to establish consistency and international coherence in regulatory and supervisory approaches. Notable events in the past year have underscored the inherent volatility and vulnerabilities of crypto-assets and related participants. Furthermore, the failure of a major service provider in the crypto-asset ecosystem can swiftly transmit risks to other components of the system. Recent developments have also revealed that as crypto-assets become more intertwined with traditional finance, there is a potential for spill over effects from crypto asset markets into the broader financial system.

Given these challenges, the G20 has entrusted the FSB with the task of coordinating the establishment of an effective regulatory, supervisory, and oversight framework for crypto assets. This framework considers lessons learned from previous events in crypto-asset markets and feedback received during public consultations.

The framework comprises two distinct sets of recommendations:

- ▶ High-level recommendations for regulating, supervising, and overseeing crypto-asset activities and markets.
- ▶ Revised high-level recommendations specifically focusing on the regulation, supervision, and oversight of "global stablecoin" arrangements.

The final recommendations draw insights from the implementation experiences of various jurisdictions and are built upon key principles, including "same activity, same risk, same regulation," flexibility, and technology neutrality, which were integral to the consultative framework. In light of recent events, the FSB has fortified both sets of high-level recommendations, with particular emphasis on three critical areas: (i) ensuring adequate protection of client assets, (ii) addressing risks associated with conflicts of interest, and (iii) enhancing cross-border cooperation.

## BIS submits two reports to the G20 Finance Ministers and Central Bank Governors<sup>2</sup>

The Bank of International Settlements has submitted two reports to the G20 Finance Ministers and Central Bank Governors:

### 1) The crypto ecosystem: key elements and risks

This assessment examines the fundamental components of the crypto ecosystem and evaluates their inherent weaknesses. The findings reveal three key observations. Firstly, the crypto ecosystem experiences congestion and high fees, leading to fragmentation, driven by underlying economic incentives. Secondly, despite the initial intention of decentralization, both crypto and decentralized finance (DeFi) tend to exhibit considerable de facto centralization, which introduces various risks. Lastly, while DeFi replicates many services from the traditional financial system, it accentuates existing risks. Notably, DeFi's growth primarily relies on speculative investments from new users, posing significant risks to investors. To address these multiple risks that crypto presents to investors, the traditional financial system, and the broader economy, the report proposes various policy options for mitigation.

### 2) Lessons learned on CBDCs

Central banks worldwide are intensifying their efforts to prepare for the introduction of central bank digital currencies (CBDCs) in the form of digital cash for retail use or tokenized reserves for wholesale transactions. This report highlights the role of the BIS Innovation Hub in assisting central banks on their CBDC initiatives and shares the valuable lessons learned.

The Innovation Hub has undertaken 12 CBDC projects, covering both domestic and cross-border contexts, and encompassing retail and wholesale use cases. Specifically, two projects explore wholesale CBDC (wCBDC), while five focus on retail CBDC (rCBDC) for domestic purposes. Additionally, four experiments examine cross-border wCBDC, and one project looks into cross-border rCBDC. The report provides essential insights and lessons learned from each category, considering factors like desirability, feasibility, and viability.

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<sup>1</sup>FSB finalises global regulatory framework for crypto-asset activities - Financial Stability Board

<sup>2</sup>The crypto ecosystem: key elements and risks (bis.org)  
Lessons learnt on CBDCs (bis.org)



Regarding the different types of CBDCs, the report identifies the following key findings:

- ▶ Wholesale CBDCs are primarily driven by the collaborative efforts of the public and private sectors to influence the future of trading and settlement.
- ▶ Implementing a retail CBDC is a multifaceted task, and not solely the responsibility of central banks. The Hub's projects focus on specific aspects to illuminate these complexities, particularly in areas such as the CBDC model, emphasizing a promising two-tier model with a public-private partnership. Additionally, they explore critical features like privacy and address challenges concerning cyber security.
- ▶ Cross-border CBDC arrangements represent uncharted territory and are more intricate compared to domestic applications. While common platforms offer potential operational efficiencies over existing arrangements, hub-and-spoke designs offer greater flexibility for domestic systems, making them easier to implement, at least initially. By harnessing new technologies, central banks can provide innovative solutions to address various operational challenges and policy considerations.

## **FATF releases targeted update on implementation of FATF standards on Virtual Assets and Virtual Assets Service Providers<sup>3</sup>**

In 2019, the Financial Action Task Force (FATF) took significant steps to counter the misuse of virtual assets (VA) and virtual asset service providers (VASPs) for money laundering and terrorist financing. These measures aimed to enhance the integrity and security of the sector. Over the years, FATF has conducted multiple reviews on the implementation of its standards related to VAs and VASPs. This report provides an up-to-date assessment of countries' compliance with FATF's Recommendation 15 and its Interpretative Note (R.15/INR.15), which includes the critical Travel Rule. Additionally, the report covers the latest developments in the market, including insights into Decentralized Finance (DeFi), Peer-to-Peer transactions (P2P), Non-Fungible Tokens (NFTs), un-hosted wallets, and stablecoins.

According to the report's findings, many jurisdictions continue to encounter challenges in fulfilling fundamental requirements, such as conducting proper risk assessments, establishing appropriate legislative frameworks for regulating VASPs, and conducting effective supervisory inspections. Based on the evaluation and follow-up reports of 98 jurisdictions since the adoption of the revised R.15/INR.15, about 75% of them demonstrate only partial or no compliance with FATF's requirements. Furthermore, progress on implementing the Travel Rule, a crucial measure to combat money laundering and terrorist financing, has been slow. Surprisingly, more than half of the 151 jurisdictions that responded to FATF's 2023 Survey have yet to take any action towards implementing the Travel Rule. This situation raises concerns, as it leaves significant gaps for potential exploitation by criminals.

The report also acknowledges the cooperative efforts of private sector entities in improving compliance with R.15/INR.15, particularly concerning the Travel Rule. However, it emphasizes that all stakeholders must adopt appropriate risk identification and mitigation measures and continue their collaboration to achieve full compliance. Such collective action is indispensable in effectively preventing illicit activities related to virtual assets and their service providers.

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<sup>3</sup>Virtual Assets: Targeted Update on Implementation of the FATF Standards on VAs and VASPs ([fatf-gafi.org](https://fatf-gafi.org))



## IOSCO releases Policy Recommendations for Crypto and Digital Asset Markets<sup>4</sup>

The International Organization of Securities Commissions (IOSCO) has released a consultation report to finalize policy recommendations for addressing market integrity and investor protection concerns in crypto-asset markets. These recommendations, scheduled to be finalized in early Q4 2023, are designed to aid relevant authorities and look to support jurisdictions seeking to establish compliant and effective markets for trading crypto or digital assets, following IOSCO's established approach for securities regulation.

The report proposes 18 policy recommendations, developed under the IOSCO Board's Fintech Task Force (FTF), in line with the CryptoAsset Roadmap published in June 2022<sup>5</sup>. The recommendations take an activities-based approach, covering various stages in the crypto-asset market lifecycle involving crypto-asset service providers (CASPs). These stages include offering, admission to trading, ongoing trading, settlement, market surveillance, custody, and marketing and distribution to retail investors, both advised and non-advised.

It is important to note that the proposed recommendations do not encompass activities in the decentralized finance (DeFi) sector. The FTF DeFi workstream is separately addressing issues related to DeFi and will publish its own consultation report with proposed recommendations later.

The recommendations focus on six key areas, in accordance with IOSCO's Objectives and Principles for Securities Regulation and relevant supporting standards, recommendations, and good practices. These areas are conflicts of interest arising from the vertical integration of activities and functions, market manipulation, insider trading and fraud, cross-border risks and regulatory cooperation, custody and client asset protection, operational and technological risk, and retail access, suitability, and distribution.

The primary objective of IOSCO is to promote consistency in the regulation of crypto-asset activities across its member jurisdictions, given the global nature of these markets and the risks faced by retail investors. Additionally, IOSCO aims for harmonization in the regulation of crypto-asset and securities markets within each jurisdiction, with a focus on aligning regulatory outcomes for similar activities and risks.

## BIS releases report on Crypto, tokens, and Defi: navigating the regulatory landscape<sup>6</sup>

The report provides an overview of policy measures implemented in 19 jurisdictions<sup>7</sup> to mitigate risks associated with activities involving crypto assets and distributed ledger technology (DLT) programmability capabilities in financial services. The paper focuses on three categories of crypto asset activities, namely issuance, operation of a DLT infrastructure, and service provision (such as wallet, custody, payment, exchange, and lending).

Regulatory initiatives in various jurisdictions focus on centrally managed issuance activities, particularly security tokens, and stablecoins. Compliance with securities regulation is required for issuers of security tokens, while frameworks for stablecoin issuers are being developed. Licensing, capital requirements, and governance standards differ across countries. Regarding centrally managed infrastructure activities, pilot testing of DLT-based infrastructures is being conducted, with one jurisdiction issuing DLT-specific guidance. Regulatory measures for service provision activities involve extending the regulatory perimeter to non-bank intermediaries, introducing authorization, prudential, AML/CFT, and consumer protection requirements. For community-managed activities, policy measures address risks related to native tokens and DeFi protocols, including defining tokens as securities, providing guidance on smart contracts, and addressing AML/CFT and investor protection risks.

The paper also focuses on further challenges as crypto asset markets evolve and DLT programming capabilities applied to new use cases. Continuous efforts will be needed to understand business models and risk associated with it. It has also stressed on effective cooperation and coordination among national and international regulators.

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<sup>4</sup>CR01/2023 Policy Recommendations for Crypto and Digital Asset Markets ([iosco.org](https://www.iosco.org))

<sup>5</sup>OR03/22 Crypto-Asset Roadmap for 2022-2023 ([iosco.org](https://www.iosco.org))

<sup>6</sup>Crypto, tokens and DeFi: navigating the regulatory landscape ([bis.org](https://www.bis.org))

<sup>7</sup>The jurisdictions covered in BIS paper are Australia, Belgium, Canada, China, the European Union, France, Germany, Hong Kong SAR, Italy, Japan, the Netherlands, the Philippines, Singapore, South Africa, Spain, Switzerland, the United Arab Emirates, the United Kingdom and the United States



## IMF releases fintech note on taxing stablecoins<sup>8</sup>

This fintech note highlights several key challenges faced by tax law systems in relation to stablecoins. Stablecoins, a specific type of crypto asset designed to maintain a steady value relative to a specified asset or asset pool, face significant challenges in achieving tax neutrality. These challenges, outlined in a recent fintech note, hinder the broader acceptance of stablecoins as a means of payment. The prospect of a more widespread adoption of stablecoins warrants a closer look at their tax treatment and associated challenges.

The IMF note identifies various challenges that tax authorities face in taxing stablecoins. For instance, the lack of clarity on the legal status of stablecoins, the difficulty of tracking transactions in stablecoins, among others. Stablecoins are often traded on decentralized exchanges, which makes it difficult for tax authorities to track who is buying and selling them leading to the potential for tax avoidance and evasion. Stablecoins are often used for cross-border payments, which makes it difficult for tax authorities to enforce tax laws.

The note recommends that countries should clarify the legal status of stablecoins. This will ensure that they are taxed in a consistent manner across jurisdictions. Develop cooperation mechanisms between tax authorities and stablecoin issuers and exchanges. This will help to track transactions and prevent tax avoidance and evasion. Consider imposing special taxes on stablecoins. For example, requiring stablecoin issuers to collect and remit taxes on behalf of their users could be done.

## EU crypto tax plans to include NFTs and Foreign Companies<sup>9</sup>

The European Union is planning to force crypto companies to give tax authorities details of their clients' holdings, even if they are based outside the bloc or offering non-fungible tokens (NFTs). The data-sharing law, based on a model from the Organization for Economic Cooperation and Development (OECD), would allow tax authorities to share data within the 27-nation bloc. The move has been met with mixed reactions from the crypto community, with some praising the move to crack down on tax evasion, while others have criticized it as an invasion of privacy. The bill is still in draft form and could be amended before it is finalized.

Under the proposed legislation, crypto companies would be obligated to report details concerning their client's holdings, which would include information such as name, date and place of birth (in the case of an individual), residence for tax purposes, TIN, the persons that are associated enterprises to the relevant taxpayer. This requirement would extend to foreign crypto companies that have clients within the European Union (EU). The primary objective of the legislation is to assist tax authorities in combating tax evasion and money laundering activities. The response from the crypto community has been varied, with some expressing support for the measure while others have raised concerns and criticisms. It is important to note that the legislation is still in the draft stage and may undergo revisions before its finalization.

## UK crypto stablecoin laws approved by Parliament's upper house<sup>10</sup>

The UK Parliament's upper house, the House of Lords, has approved new laws that will regulate crypto stablecoins. The laws, which were first proposed in the Financial Services and Markets Bill (FSMB), would require stablecoin issuers to be authorized by the Financial Conduct Authority (FCA) and to hold sufficient reserves to back their stablecoins.

The laws would also require stablecoin issuers to be transparent in their operations and to comply with anti-money laundering (AML) and counter-terrorist financing (CTF) rules. The approval of the laws by the House of Lords is a significant step forward in the regulation of crypto stablecoins in the UK. The laws are now expected to be passed into law by the House of Commons in the coming weeks.

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<sup>8</sup>Taxing Stablecoins (imf.org)

<sup>9</sup>EU\_DAC8\_legislation\_May\_5.pdf (coindesk.com)

<sup>10</sup>Financial Services and Markets Bill publications - Parliamentary Bills - UK Parliament





## Japan to enforce crypto anti-money laundering<sup>11</sup>

Japan will enforce stricter anti-money laundering (AML) measures for cryptocurrency transactions starting June 1, 2023. The new measures are in line with the global standards set by the Financial Action Task Force (FATF). They require cryptocurrency exchanges and other businesses to collect customer information and report suspicious transactions to the authorities. The measures are designed to prevent cryptocurrency from being used for money laundering and other criminal activities.

Oversight organizations have been strengthening their monitoring of crypto assets that can be used to launder money, an activity in which money obtained from illegal activities is made to look legitimate by processing it through legal transactions. A key feature of the new framework is the enforcement of the so-called travel rule to better keep track of criminal proceeds. This rule mandates that financial institutions facilitating crypto asset transfers must share customer information with subsequent institutions involved in the transaction. The information exchanged should include the names and addresses of both the sender and recipient of the crypto assets. The targeted crypto assets encompass stablecoins and cryptocurrencies pegged to fiat currencies like the US dollar or commodities. If violators do not comply with corrective orders by authorities, they will face criminal punishment.

## Hong Kong Securities Regulator to accept license applications for crypto exchanges<sup>12</sup>

Hong Kong's Securities and Futures Commission (SFC) is now accepting applications for licenses from cryptocurrency trading platforms. The regulatory body has agreed to permit licensed virtual asset providers to serve retail investors, as long as they evaluate investors' understanding of associated risks. However, the SFC has proposed that stablecoins, which are cryptocurrencies pegged to the value of other assets, should not be available for retail trading until the planned regulations for this asset class come into effect.

The newly introduced rulebook explicitly prohibits the offering of crypto "gifts" to incentivize retail customers' investments, which may include airdrops. The regulations require crypto exchanges to always maintain a minimum capital of no less than HKD 5,000,000. Additionally, at the end of each month, these platforms must submit reports to the SFC, including information on available and required liquid capital, summaries of bank loans, advances, credit facilities, as well as profit and loss analysis. According to the rules, tokens approved for trading on regulated exchanges must possess a 12-month "track record."

The SFC document also provides further details on allowing retail investors to utilize trading platforms and emphasizes the need for due diligence when listing tokens. All tokens listed on exchanges, even if they are already listed on another platform, must go through due diligence procedures, and undergo smart contract audits conducted by independent assessors. While token review committees do not require the appointment of independent external members, platform operators must effectively manage conflicts of interest, as stated in the conclusions.

To ensure the protection of client assets, the SFC permits platforms to segregate client and platform-owned assets either through an escrow arrangement or by setting funds aside within the licensed platform. Client virtual assets should be fully covered by each platform's compensation arrangement.

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<sup>11</sup>[Japan to enforce crypto anti-money laundering steps from June \(kyodonews.net\)](#)

<sup>12</sup>[conclusion \(sfc.hk\)](#)





## G-7 will focus on helping developing nations introduce CBDCs<sup>13</sup>

The Group of Seven (G-7) advanced nations will now prioritize aiding developing countries in creating their own central bank digital currencies (CBDCs). This comes as the G-7 prepares to host a summit in Hiroshima, Japan, later this year.

Japan's vice minister of finance for international affairs, Masato Kanda, said that the G-7 will focus on ensuring that CBDCs are "appropriately transparent and soundly governed." G-7 will work to make global crypto regulations tougher, with a focus on increasing business transparency and consumer protection.

The collapse of the crypto exchange FTX was a "serious wakeup call". G-7 is committed to finalizing the Financial Stability Board's (FSB) work on developing high-level recommendations<sup>14</sup> for crypto asset activities on the market and on global stablecoin arrangements.

The G-7's focus on helping developing countries introduce CBDCs is a significant development. It suggests that the G-7 is committed to ensuring that CBDCs are not used to undermine the financial stability of developing countries. It also suggests that the G-7 is aware of the potential benefits that CBDCs can offer to developing countries, such as cheaper and faster cross-border payments.

The G-7's announcement is likely to be welcomed by developing countries, many of which are already exploring the possibility of issuing their own CBDCs. The G-7's support could help to accelerate the development and adoption of CBDCs in developing countries.

### Market highlights

- ▶ SEC sues Binance and CEO Changpeng Zhao for US securities violations
- ▶ Raft Launches R: The first US dollar Stablecoin backed by Lido's Staked Ether (stETH)
- ▶ Decoupling of Bitcoin and Ethereum Signals impending market shift
- ▶ Circle safeguards reserves in repo agreements amid US government default concerns
- ▶ Reserve Bank of Zimbabwe introduces gold-backed digital currency

## SEC sues Binance and CEO Changpeng Zhao for US securities violations<sup>15</sup>

The Securities and Exchange Commission (SEC) has filed 13 charges against Binance, the world's largest cryptocurrency exchange, and its founder, Changpeng Zhao (CZ). The charges allege that Binance and CZ engaged in several unlawful activities, including the commingling of user funds and transferring them to a European company controlled by CZ.

According to the SEC, the case highlights the defendants' blatant disregard for federal securities laws and the investor protections they provide. By doing so, Binance and CZ are accused of enriching themselves with billions of dollars while putting investors' assets at significant risk.

The SEC alleges that Binance and its associated entities unlawfully solicited US investors to engage in the buying, selling, and trading of crypto asset securities through unregistered platforms, namely Binance.com and Binance.us. These platforms allegedly offered essential securities market functions, such as exchange, broker-dealer, and clearing agency services, without registering with the SEC. The defendants were aware of the registration requirements but chose to evade regulatory oversight meant to safeguard investors and market integrity.

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<sup>13</sup>[G-7 Will Focus on Helping Developing Nations Introduce CBDCs \(coindesk.com\)](https://www.coindesk.com/g7-will-focus-on-helping-developing-nations-introduce-cbdc/)

<sup>14</sup>[Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets: Consultative report - Financial Stability Board \(fsb.org\)](https://www.fsb.org/regulation-supervision-and-oversight-of-crypto-asset-activities-and-markets-consultative-report/)

<sup>15</sup>[comp-pr2023-101.pdf \(sec.gov\)](https://www.sec.gov/comp-pr2023-101.pdf)



Furthermore, the SEC claims that Binance and its associated entities engaged in unregistered offers and sales of crypto asset securities, including Binance's own crypto assets such as "BNB" and "BUSD." Additionally, Binance's profit-generating programs, namely "BNB Vault" and "Simple Earn," as well as a "staking" investment scheme on the Binance.us Platform, are alleged to be involved in the unlawful activities. Investors were reportedly deprived of material information regarding these securities, including relevant risks and trends impacting the enterprise and the investments.

BAM Trading and BAM Management, linked to Binance, misled investors about the surveillance and controls on the Binance.us platform while collecting billions of dollars in trading volume. The defendants are accused of failing to establish proper trade surveillance or manipulative trading controls, which led to occurrences of "wash trading" and self-dealing on the Binance.us platform. These actions violated basic requirements expected from registered exchanges to prevent fraudulent and manipulative acts.

The charges filed by the SEC underscore the need for regulatory compliance and the protection of investors in the cryptocurrency market. The case against Binance and CZ highlights the importance of enforcing federal securities laws to maintain investor confidence and market integrity within the rapidly evolving crypto industry.

## Raft launches R: The first US dollar Stablecoin backed by Lido's Staked Ether (stETH)<sup>16</sup>

Raft, a decentralized protocol, has recently launched a new stablecoin called R, which is backed by the prominent liquid staking leader Lido's staked ether (stETH). This marks the first Ethereum-based US dollar stablecoin that relies solely on stETH as its underlying asset. The introduction of R provides a highly efficient method for users to borrow against their stETH collateral. With its deep liquidity across multiple trading pairs and a stable peg to the US dollar, R aims to become the preferred stablecoin within the decentralized ecosystem.

Staked ether (stETH) is a cryptocurrency token created to represent Ethereum tokens that have been "staked" or deposited to support the operations of the blockchain. Developed on the Lido decentralized finance protocol, stETH serves as a liquidity token that allows users to deposit their ETH into a smart contract on the Lido blockchain and receive an equivalent amount of stETH. This token can be freely traded, exchanged, borrowed against, or used for various liquidity purposes.

Raft's new stablecoin, R, maintains a firm and stable peg to the US dollar through a combination of hard and soft peg mechanisms. The hard peg relies on arbitrage opportunities to ensure that the stablecoin's price remains aligned with its underlying assets and always stays within the price range of US\$1 to US\$1.10. In the case of R, backed by stETH, two mechanisms are employed to achieve a hard peg: redemptions and over-collateralization. Conversely, the soft peg concept relies on a stablecoin design that incentivizes users to act based on their expectation that the peg will be maintained in the future. The soft peg acts as a focal point, prompting the system to revert to it following temporary deviations. For example, if R trades above US\$1, existing borrowers have no incentive to repay their positions, while potential users can take advantage by borrowing and selling R on the open market. Similarly, if R trades below US\$1, borrowers are incentivized to repay their debts, and prospective R holders purchase R on the open market for redemption.

Overall, Raft's new stablecoin, R, backed by stETH, offers a capital-efficient means of generating a USD stablecoin within the decentralized ecosystem. With its stable peg, liquidity, and innovative mechanisms, R aims to play a significant role in the decentralized financial landscape.

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<sup>16</sup>[New Stablecoin Issuer Raft Is Eschewing Fiat for Its Financial Backing \(yahoo.com\)](#)



## Decoupling of Bitcoin and Ethereum Signals impending market shift<sup>17</sup>

The dynamics of Bitcoin (BTC) and Ethereum (ETH), the world's top two cryptocurrencies, are diverging as Ethereum transitions to a proof-of-stake (PoS) consensus mechanism. The correlation between the price movements of these two digital assets has weakened significantly this year, dropping to a 30-day rolling correlation of 77%, the lowest since 2021 and notably weaker than the 96% observed just two months ago. This indicates a potential regime change in the market.

Ethereum's transition from proof-of-work (PoW) to PoS in September 2022 has set it on a different economic path compared to Bitcoin. The recent implementation of the Shapella<sup>18</sup> upgrade on Ethereum has further de-risked the passive investing strategy associated with staking coins on the smart contract platform. "Shapella" is derived from the words "Shanghai" and "Capella". Shapella has enabled "unstacking" Ether. Shanghai created a new transaction type that allows stakers to withdraw their balances, while Capella enables the network to accept a withdrawal request. The amount of ether burned by the network now closely correlates with the level of network usage.

On the other hand, Bitcoin maintains its status as a macro asset, influenced by factors such as inflation figures and changes in fiat liquidity. Its appeal as a hedge against traditional finance remains intact. Bitcoin's mining reward halving process, where the pace of supply expansion is halved every four years, continues to shape its economic model. With three halving already completed, the next one is expected around 2024, reducing the block reward to 3.125 BTC.

The decoupling of Bitcoin and Ethereum signifies that these assets are becoming distinct within the crypto market, albeit operating in the same sphere. This shift is likely to stimulate trading activity in bitcoin-ether pairs listed on major exchanges. Investors and traders can now view Bitcoin and Ethereum as different asset classes, enhancing market diversity and potentially opening up new opportunities.

## Circle safeguards reserves in repo agreements amid US government default concerns<sup>19</sup>

Circle, the issuer of the USDC stablecoin, has put US\$8.7 billion of its reserves into repurchase agreements (repos) to protect against a potential US government default. The company has ditched Treasury bills that mature beyond May 31, rotating assets to cash and overnight repos instead. Circle says the move was made in response to "market conditions" and that it remains "fully committed" to its 1:1 reserve backing for USDC.

The move comes as the US government was facing a potential debt default if Congress does not raise the debt ceiling by July 31. A default would have a significant impact on the US economy and could lead to a sell-off in financial markets. By moving its reserves into repos, Circle is essentially locking in its assets at a fixed price, which would protect it from any losses in the event of a default.

The move by Circle was a sign of the growing concern about a potential US government default. It is also a reminder of the importance of stablecoins, which can provide a safe haven for investors during times of market volatility.

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<sup>17</sup>Bitcoin-Ether Correlation Weakest Since 2021, Hints at Regime Change in Crypto Market (yahoo.com)

<sup>18</sup>Explained: All you need to know about Ethereum's latest Shapella upgrade (business-standard.com)

<sup>19</sup>USDC Stablecoin Issuer Circle Moves \$8.7B to Repo Agreements Amid Risk of U.S. Default (coindesk.com)



## Reserve Bank of Zimbabwe introduces gold-backed digital currency<sup>20</sup>

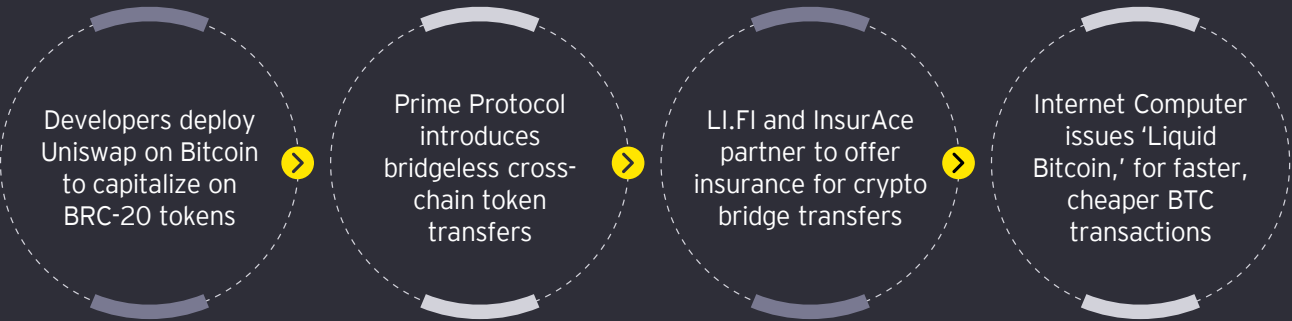
The Reserve Bank of Zimbabwe (RBZ) has introduced a gold-backed digital currency, the Mosi-oa-Tunya Digital Gold Coin. The introduction of the Mosi-oa-Tunya Digital Gold Coin is a major milestone in the bank's efforts to promote economic growth and stability and to make it easier for Zimbabweans to do business. The coin was introduced to provide Zimbabweans with a more stable and secure form of currency than the country's current hyperinflationary dollar.

The coin can be purchased through banks and held in digital wallets or cards. The Zimbabwe gold-backed digital currency will be used as legal tender and a store of value alongside the Zimbabwean dollar and bond notes.

The introduction of the Mosi-oa-Tunya Digital Gold Coin is the latest in a series of measures by the RBZ to try to stabilize the country's economy. In recent months, the RBZ has introduced several measures, including a new currency, the RTGS dollar, and a new interbank foreign exchange market. However, the measures have so far failed to bring inflation under control.

The introduction of the Mosi-oa-Tunya Digital Gold Coin is seen as a last-ditch attempt by the RBZ to stabilize the economy. However, it remains to be seen whether the coin will be successful. The southern African country now joins other African states like Nigeria, Ghana, and South Africa that have introduced digital currencies.

### Decentralized Finance (Defi) Highlights



<sup>20</sup>RBZ introduces gold-backed digital currency | The Sunday Mail





## Developers deploy Uniswap on Bitcoin to capitalize on BRC-20 tokens<sup>21</sup>

Developers have deployed Uniswap contracts on Bitcoin, allowing users to swap BRC20-based SHIB and PEPE tokens. This is a significant development, as it provides users with easier access to these tokens and uses them in DeFi applications. BRC20 is a new blockchain standard that allows tokens to be issued on Bitcoin. It permits using Bitcoin for DeFi applications, without having to rely on Ethereum.

Uniswap is one of the most popular decentralized exchanges, and its deployment on Bitcoin will increase liquidity for BRC20-based tokens. It will be easier for users to buy and sell these tokens and could lead to increased price volatility. It is an interoperable protocol, which means that it can be used to swap tokens across different blockchains. Uniswap is a decentralized protocol, it is not subject to the same security risks as centralized exchanges. As a decentralized protocol, Uniswap offers improved security compared to centralized exchanges.

Uniswap protocol deployment on Bitcoin blockchain allows users to swap tokens on Bitcoin without having to use a centralized exchange. However, there are certain risks associated with using Uniswap contracts on Bitcoin, such as high gas fees, which could make it expensive to use Uniswap contracts on Bitcoin. Gas fees are the fees that users pay to miners to process their transactions on the Bitcoin blockchain. The higher the gas fees, the more expensive it is to use the Bitcoin blockchain.

## Prime Protocol introduces bridgeless cross-chain token transfers<sup>22</sup>

Prime Protocol, a decentralized finance (DeFi) prime brokerage, has introduced bridgeless cross-chain token transfers. This new feature allows users to transfer tokens between different blockchains without any bridge. Bridges are third-party services that allow users to move tokens between blockchains, but they can be vulnerable to hacks.

Prime Protocol's bridgeless cross-chain token transfers are secured by the Ethereum network. This means that they are more secure than transfers that use bridges. The new feature is currently available on the Moonbeam, Ethereum, Arbitrum, and Avalanche blockchains.

Prime Protocol's bridgeless cross-chain token transfers are a significant development for the DeFi industry. They make it easier and safer for users to move tokens between different blockchains. This could lead to increased adoption of DeFi applications.

## LI.FI and InsurAce partner to offer insurance for crypto bridge transfers<sup>23</sup>

Cross-chain crypto bridge aggregator LI.FI has partnered with risk cover protocol InsurAce to offer insurance for users who are bridging their crypto assets from one blockchain to another. The insurance will cover losses caused by hacks, malfunctions, and exploits, as well as errors in slippage on decentralized exchanges involved in the transfer.

The partnership comes when there have been a growing number of hacks and exploits targeting crypto bridges. In March, for example, the Ronin Network bridge was hacked for US\$625 million. The insurance offered by LI.FI and InsurAce could help to protect users from similar losses in the future.

The insurance is currently available for a limited number of chains, but LI.FI and InsurAce plan to expand coverage to more chains in the future. The starting amount for the bridge cover fund is currently US\$200,000, but this will be increased as demand grows.

The partnership between LI.FI and InsurAce is a positive development for the crypto industry. It provides users with much-needed protection against the risks associated with moving their crypto assets between different blockchains. This could help to encourage more people to use cross chain bridges, which could in turn lead to increased adoption of interoperability solutions in the crypto space.

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<sup>21</sup>Developers Deploy Uniswap Contracts on Bitcoin as BRC20-Based SHIB, PEPE Gain Popularity ([yahoo.com](https://yahoo.com))

<sup>22</sup>DeFi Broker Prime Protocol Introduces Bridgeless Cross-Chain Token Transfers ([coindesk.com](https://coindesk.com))

<sup>23</sup>LI.FI Bridge Cover - InsurAce Protocol



# Internet Computer issues ‘Liquid Bitcoin,’ for faster, cheaper BTC transactions<sup>24</sup>

Internet Computer (ICP), a decentralized computing platform, has introduced a new service known as Liquid Bitcoin. This service involves the creation of ckBTC, a twin token that is backed by Bitcoin on a 1:1 basis. Liquid Bitcoin operates as a layer-2 solution, enhancing the speed and cost-effectiveness of Bitcoin (BTC) transactions. Layer 2 refers to a secondary framework or protocol built on top of an existing blockchain system.

One notable feature of Liquid Bitcoin is its direct integration with the Bitcoin network, eliminating the need for centralized bridging services that pose security risks. Instead, ckBTC utilizes canisters, which are smart contracts, facilitating asset transfers, ensuring the absence of intermediaries or vulnerable cross-chain bridges. Users can deposit their actual Bitcoin into a designated address and receive an equivalent amount of ckBTC. Likewise, they have the option to convert ckBTC back into real bitcoin by sending the tokens to a specified Bitcoin address.

<sup>24</sup>Internet Computer Issues ‘Liquid Bitcoin,’ for Faster, Cheaper BTC Transactions (coindesk.com)

## EY Contacts:



**Subrahmanyam OV**  
Partner, FSRM  
[subrahmanyam.o@in.ey.com](mailto:subrahmanyam.o@in.ey.com)



**Rahul Pramanick**  
Partner, FSRM  
[rahul.pramanick@in.ey.com](mailto:rahul.pramanick@in.ey.com)

## Glossary:

ISOCO	International Organization of Securities Commissions	CBDCs	Central bank digital currencies
FTF	Fintech Task Force	FTX	FTX Token
CASPs	Crypto-asset service providers	EU	European Union
DeFi	Decentralized finance	NTF	Non-fungible tokens
BIS	Bank for International Settlements	TIN	Taxpayer Identification Number
DLT	Distributed ledger technology	SEC	Securities and Exchange Commission
AML	Anti-money laundering	stETH	Lido's staked ether
CFT	Counter-Terrorism Financing	ETH	Ethereum
IMF	International Monetary Fund	RBZ	Reserve Bank of Zimbabwe
FATF	Financial Action Task Force	BRC	Bitcoin Recent for Comment
SFC	Hong Kong's Securities and Futures Commission	LI.FI	Cross-chain liquidity protocol



# Our offices

## Ahmedabad

22nd Floor, B Wing, Privilon  
Ambli BRT Road, Behind Iskcon  
Temple, Off SG Highway  
Ahmedabad - 380 059  
Tel: + 91 79 6608 3800

## Bengaluru

12th & 13th floor  
"UB City", Canberra Block  
No. 24, Vittal Mallya Road  
Bengaluru - 560 001  
Tel: + 91 80 6727 5000

Ground Floor, 'A' wing  
Divyasree Chambers  
# 11, Langford Gardens  
Bengaluru - 560 025  
Tel: + 91 80 6727 5000

## Chandigarh

Elante offices, Unit No. B-613 & 614  
6th Floor, Plot No- 178-178A  
Industrial & Business Park, Phase-I  
Chandigarh - 160 002  
Tel: + 91 172 6717800

## Chennai

Tidel Park, 6th & 7th Floor  
A Block, No.4, Rajiv Gandhi Salai  
Taramani, Chennai - 600 113  
Tel: + 91 44 6654 8100

## Delhi NCR

67, Institutional Area  
Sector 44, Gurugram  
Haryana - 122 002, India  
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1  
IGI Airport Hospitality District  
Aerocity, New Delhi - 110 037  
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B  
Tower 2, Sector 126  
Gautam Budh Nagar, U.P.  
Noida - 201 304  
Tel: + 91 120 671 7000

## Hyderabad

THE SKYVIEW 10  
18th Floor, "SOUTH LOBBY"  
Survey No 83/1, Raidurgam  
Hyderabad - 500 032  
Tel: + 91 40 6736 2000

## Jamshedpur

1st Floor, Shantiniketan  
Building, Holding No. 1  
SB Shop Area, Bistupur  
Jamshedpur - 831 001  
Tel: + 91 657 663 1000

## Kochi

9th Floor, ABAD Nucleus  
NH-49, Maradu PO  
Kochi - 682 304  
Tel: + 91 484 433 4000

## Kolkata

22 Camac Street  
3rd Floor, Block 'C'  
Kolkata - 700 016  
Tel: + 91 33 6615 3400

## Mumbai

14th Floor, The Ruby  
29 Senapati Bapat Marg  
Dadar (W), Mumbai - 400 028  
Tel: + 91 22 6192 0000

5th Floor, Block B-2  
Nirlon Knowledge Park  
Off. Western Express  
Highway  
Goregaon (E)  
Mumbai - 400 063  
Tel: + 91 22 6192 0000

## Pune

C-401, 4th floor  
Panchshil Tech Park,  
Yerwada  
(Near Don Bosco School)  
Pune - 411 006  
Tel: + 91 20 4912 6000



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