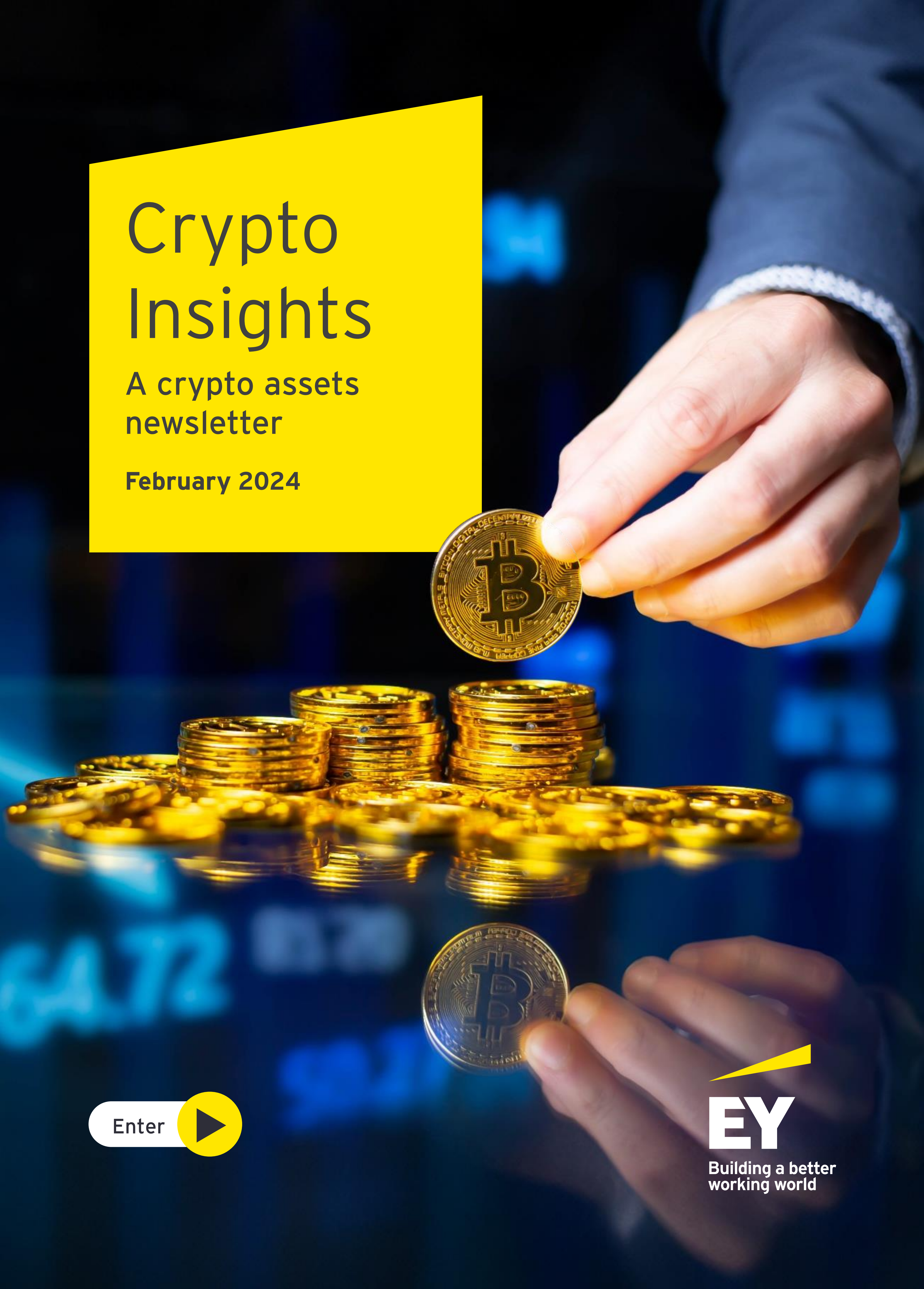
Crypto Insights

A crypto assets newsletter

February 2024



Enter

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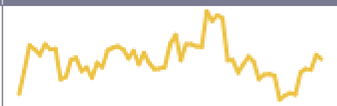
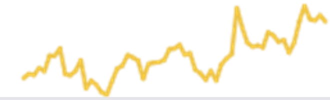
Welcome to the EY India’s Crypto Insights: a crypto assets newsletter

The purpose of this newsletter 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

Cryptocurrency prices by Market Cap*

Name	Price (US$)	Market Cap (US$)	Circulation Supply	60 Day Chart	60d return
Bitcoin (BTC)	$42,916.05	$841,743,125,964	19,613,681 BTC		10.66%
Ethereum (ETH)	$2,342.08	$280,907,611,562	120,182,821 ETH		11.85%
Tether (USDT)	$0.9997	$96,172,785,223	96,199,943,448 USDT		0.05%
USD Coin (USDC)	$1.00	$26,668,068,131	26,667,675,134 USDC		0.03%
BNB (BNB)	$306.78	$45,878,020,016	149,547,127 BNB		33.58%
XRP (XRP)	$0.5105	$27,767,145,761	54,374,512,255 XRP		16.77%
TRON (TRX)	$0.1121	$9,880,444,066	88,140,817,719 TRX		8.40%
Cardano (ADA)	$0.5118	$18,139,497,877	35,423,494,379 ADA		32.78%
Solana (SOL)	$100.85	$43,933,727,969	435,752,571 SOL		65.72%
Dogecoin (DOGE)	$0.08012	$11,446,923,485	142,873,556,384 DOGE		4.85%

*As of 31 January 2024

Source: https://coinmarketcap.com/

Regulatory highlights

Regulatory Space

- FSB sets out 2024 work programme
- The financial stability implications of multifunction crypto asset intermediaries
- Consultation paper: guidelines on travel rule for crypto asset transfers under the recast wire transfer regulation
- UK-Japan financial dialogue and financial regulatory forum published joint statement
- Central Bank Digital Currency Development enters the next phase
- Indonesia and Singapore launched cross-border QR payments linkage system
- Launch of cross-border real-time payment systems connectivity between Singapore and Malaysia
- US Treasury Department and IRS proposed regulations on sales and exchanges of digital assets by brokers
- IMF releases preliminary considerations on digital money, cross-border payments, international reserves, and the Global Financial Safety Net

FSB sets out 2024 work programme[1]

The Financial Stability Board (FSB) has added the focus area of harnessing the benefits of digital innovation while containing its risks to its 2024 work programme. The board will take forward implementation of its global regulatory and supervisory framework of crypto asset activities and continue to monitor the implications of other digital innovations, including tokenization and artificial intelligence (AI).

In 2024, the FSB will:

- carry out the elements of the crypto assets implementation plan,
- complete its work on EMDEs and global stablecoins,
- complete the analysis of the financial stability implications of tokenization, and
- prepare a report on recent developments in AI and their potential implications for financial stability, as a follow-up to previous FSB work in this area

The Financial stability implications of multifunction crypto asset intermediaries[2]

Financial Stability Board (FSB) has released a report addressing the financial stability implications of multifunction crypto assets intermediaries (MCI). The term "MCI" refers to firms or groups of affiliated firms that amalgamate crypto assets, services, products and functions. The report highlights that many MCIs operate platforms primarily through a single-entry point but often have affiliated entities and subsidiaries in various countries, frequently incorporating in offshore financial centers. The report delves into the structure and operation of MCIs, evaluating the associated financial stability risks.

The vulnerabilities associated with MCIs liquidity mismatches, technological and operational vulnerabilities, and interconnections. The combination of functions within MCIs can exacerbate these vulnerabilities, particularly when MCIs engage in proprietary trading and market-making on their own platforms, leading to increased leverage. The report emphasizes the importance of scrutinizing potential linkages between MCIs and financial institutions, arising from mutual reliance on each other's services and the issuance of stablecoins by MCIs backed by traditional financial assets.

The FSB's assessment should focus on determining whether existing standards and rules adequately address the risks posed by the combination of functions within MCIs. Additionally, attention should be given to governance issues and conflicts of interest within the MCI framework.

Consultation paper: guidelines on travel rule for crypto assets transfer under the recast wire transfer regulation[3]

The EBA has released a consultation paper detailing guidelines for preventing the abuse of funds and specific transfers of crypto assets for money laundering and terrorist financing in accordance with the recast Wire Transfer Regulation. The updated Wire Transfer Regulation expands the scope of Financial Action Task Force (FATF) rules to encompass transfers of crypto assets. Additionally, the regulation includes Crypto Asset Service Providers (CASPs) under the same Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) system and control requirements established in the Fourth Money Laundering Directive (MLD4).

These guidelines provide a framework for Payment Service Providers (PSPs), intermediary PSPs, CASPs, and intermediary CASPs to follow to identify missing or incomplete information accompanying the transfer of funds or crypto assets.

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[1]FSB sets out 2024 work programme - Financial Stability Board

[2]The Financial Stability Implications of Multifunction Crypto-asset Intermediaries: The Financial Stability Implications of Multifunction Crypto-asset Intermediaries (fsb.org)

[3]Consultation paper on draft travel rule Guidelines under Regulation (EU) 2023_1113.pdf (europa.eu)

UK-Japan financial dialogue and financial regulatory forum published joint statement[4]

Japan, represented by the Ministry of Finance (MOF) and the Financial Services Agency (FSA), and the United Kingdom, represented by His Majesty's Treasury (HMT), Bank of England (BOE), and Financial Conduct Authority (FCA), convened the 5th Financial Dialogue (FD) and the 2nd Financial Regulatory Forum (FRF) in Tokyo. These joint dialogues aimed to facilitate a comprehensive exchange on economic, fiscal, and financial regulatory topics.

The discussions delved into the cross-border nature of crypto asset markets, with both countries expressing support for the recommendations put forth by the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB). Both jurisdictions committed to working towards implementing these recommendations globally in a consistent and effective manner, emphasizing the need for swift and coordinated action, including by non-FSB member jurisdictions. The regulatory frameworks for stablecoins proposed by the UK and Japan were also addressed during the dialogues.

Regarding Central Bank Digital Currencies (CBDCs), the participants reaffirmed that retail CBDCs should be designed with careful consideration of transparency, the rule of law, sound economic governance, cyber security, and data protection. The dialogues welcomed the CBDC Handbook prepared by the International Monetary Fund (IMF), acknowledging its valuable inputs for policy guidance and capacity development. The handbook reflects evolving experiences, findings, and policy views in the realm of CBDCs.

Central Bank Digital Currency Development enters the next phase[5]

The International Monetary Fund (IMF) has unveiled a virtual Central Bank Digital Currency (CBDC) Handbook, aimed at gathering and disseminating knowledge to policymakers worldwide. This handbook serves as a foundational resource for the IMF's interactions with country authorities. Notably, countries like the Bahamas, Jamaica, and Nigeria have already introduced CBDCs, while over 100 nations are in the exploratory phase. Central bankers in Brazil, China, European Countries, India, and the United Kingdom are leading these initiatives. The IMF has affirmed its commitment to ongoing engagement with central banks, with a focus on assessing the impact of CBDCs on areas such as cybersecurity and cross-border payments.

Indonesia and Singapore launched cross-border QR payments linkage system[6]

The Monetary Authority of Singapore (MAS) has released details regarding a cross-border Quick Response (QR) payment linkage between Indonesia and Singapore. This collaborative initiative allows customers of participating financial institutions to conduct cross-border retail payments by scanning QRIS (Quick Response Code Indonesian Standard) or NETS QR codes presented by merchants. The effort is a part of broader initiatives between the two countries aimed at fostering greater integration and enhancing economic connectivity.

Additionally, the statement confirms the signing of a letter of intent between the Bank of Indonesia and MAS. This letter outlines the intention to establish a local currency settlement framework, aiming to facilitate the settlement of cross-border payments, including those made through QR payments.

[4] UK-Japan Financial Dialogue and Financial Regulatory Forum Joint Statement - GOV.UK (www.gov.uk)

[5] Central Bank Digital Currency (CBDC) - Virtual Handbook (imf.org)

[6] Launch of Cross-border QR Payments Linkage between Indonesia and Singapore (mas.gov.sg)

Launch of cross-border real-time payment systems connectivity between Singapore and Malaysia[7]

The Monetary Authority of Singapore (MAS) has issued a statement announcing the launch of a real-time payment systems linkage between Singapore's PayNow and Malaysia's DuitNow. According to MAS, this linkage facilitates instant peer-to-peer fund transfers and remittances between the two countries. Notably, it marks the first such initiative to involve non-bank financial institutions from both Singapore and Malaysia. The collaboration behind this initiative involves central banks, payment system operators, and participating financial institutions from both nations. MAS has affirmed that this initiative aligns with the objectives of the ASEAN's vision for regional payments interconnectivity and the G20 roadmap for enhancing cross-border payments.

IMF releases preliminary considerations on digital money, cross-border payments, international reserves, and the Global Financial Safety Net[8]

The International Monetary Fund (IMF) has released a note shedding light on the transformative potential of digital money and assets (DM) and its impact on the international monetary system (IMS). With the rapid advancement of digital technologies, questions arise about how these innovations will reshape cross-border payments, international reserves, and the global financial safety net. The note highlights the potential benefits of DM, including reduced transaction costs, increased financial interconnectedness, and enhanced inclusion. However, it also emphasizes the accompanying risks such as bank disintermediation, currency substitution, and capital flow volatility.

Empirical analysis presented in the note suggest that higher transaction efficiency could lead to broader adoption of DM for cross-border payments, potentially diversifying risks and strengthening trade relationships. Nevertheless, the evidence regarding DM's impact on reserve currency holdings remains inconclusive, indicating a need for further disruptive forces before significant changes occur. Furthermore, the adoption of DM could strain the global financial safety net, with modeling simulations indicating potential significant demands on its resources. To navigate these challenges, policymakers are urged to carefully design public DM and ensure robust supervision and regulation of private DM.

Coordination among global standard-setting bodies, regulators, central banks, and relevant private-sector institutions is deemed critical in managing the transition to a more digitalized financial landscape. Additionally, enhancing coordination between layers of the global financial safety net will be essential to maximize effectiveness. In light of a potential shift to a multipolar reserve configuration, global reserve currency issuers are encouraged to expand liquidity backstops to improve access to global financial safety net resources and minimize risks.

Market highlights

- Tokenized fund adoption grows but brings technology risks: Moody's
- Bitcoin first spot ETF approved by U.S. SEC
- Bitcoin decouples from Nasdaq amid ETFs speculation
- Turkey's banking giants making significant moves as new legislation approaches
- World's first bitcoin bonds receive regulatory approval in El Salvador
- RBI announces offline functionality for CBDC in MPC meeting

[7]Launch of Cross-border Real-time Payment Systems Connectivity between Singapore and Malaysia (mas.gov.sg)

[8]IMF Notes Volume 2024 Issue 001: Digital Money, Cross-Border Payments, International Reserves, and the Global Financial Safety Net: Preliminary Considerations (2024)

Tokenized fund adoption grows but brings technology risks: Moody's[9]

Moody's Investor Services has cautioned about the increasing risk associated with the adoption of tokenized investment funds due to the limited track record of technology providers. Tokenized funds represent investment funds with digitally represented units utilizing distributed ledger technology (DLT), commonly associated with cryptocurrencies. Asset or fund tokenization is gaining traction as financial institutions globally seek to enhance market liquidity, efficiency, and transparency. Moody's DeFi and Digital Assets team highlighted the growing adoption of tokenized funds, particularly those investing in government securities like bonds, indicating significant market potential.

Beyond improving asset liquidity, tokenized funds offer various potential functions, including serving as collateral. However, the report emphasized that tokenization necessitates additional technological expertise, thereby introducing additional risks associated with DLT. While investment funds inherently carry risks related to underlying assets and fund management, tokenized funds introduce additional risks linked to DLT technology.

The report highlighted concerns about the limited track records of entities involved in the technology sector, heightening the risk of payment disruptions in cases of bankruptcy or technological failures. Despite these risks, Moody's analysts noted continued adoption momentum, with major players such as Franklin Templeton, Goldman Sachs, and Hong Kong's Monetary Authority recently participating in the issuance of tokenized assets.

Bitcoin first spot ETF approved by U.S. SEC[10]

The Commission has approved the listing and trading of several spot bitcoin exchange-traded product (ETP) shares. Evaluating any rule filing by a national securities exchange, the Commission ensures consistency with the Exchange Act and related regulations, emphasizing investor protection and public interest. The Commission maintains a merit-neutral stance and refrains from endorsing specific companies, investments, or underlying assets of ETPs. Compliance with the Securities Act, Exchange Act, and Commission rules grants issuers equal access to regulated markets.

Investors now have access to bitcoin through various avenues, including brokerage houses, mutual funds, national securities exchanges, peer-to-peer payment apps, non-compliant crypto trading platforms, and the Grayscale Bitcoin Trust. Protections for investors in bitcoin ETPs include mandatory disclosure of product details, listing and trading on registered national securities exchanges with rules to prevent fraud and manipulation, and application of existing rules and standards of conduct.

Additionally, the Commission is reviewing registration statements for 10 spot bitcoin ETPs concurrently to foster fairness and competition, leveraging its experience overseeing spot non-security commodity ETPs. However, while approving the listing and trading of certain spot bitcoin ETP shares, the Commission does not endorse bitcoin itself. Investors are advised to exercise caution due to the associated risks, considering bitcoin's speculative nature and its use in illicit activities such as ransomware, money laundering, sanction evasion, and terrorist financing.

[9] Digital Finance | Moody's (moodys.com)

[10] SEC.gov | Statement on the Approval of Spot Bitcoin Exchange-Traded Products

Bitcoin decouples from Nasdaq amid ETF speculation[11]

According to data from research provider Fairlead Strategies, the 40-day correlation between bitcoin and the Nasdaq currently stands at zero, indicating a lack of relationship between the two asset classes. This correlation value is calculated using a mathematical formula based on the movements of the Nasdaq index and BTC's price over time. Typically, a correlation above 0.5 suggests a moderately strong positive relationship, while readings above -0.70 indicate a robust relation. Conversely, negative figures of 0.5 or lower imply a lack of correlation.

The correlation between bitcoin and the Nasdaq has historically been positive since early 2020, reaching a peak of 0.8 during the 2022 crypto bear market. However, the recent decoupling between the two can be attributed to the crypto market's singular focus on the anticipation of a spot bitcoin ETF launch in the U.S.
This potential development could pave the way for widespread adoption of bitcoin as an asset class.

With the breakdown of correlation, bitcoin now has the potential to serve as a portfolio diversifier. Fairlead Strategies anticipates that bitcoin will continue to remain independent of the Nasdaq for the foreseeable future.

Turkey's banking giants making significant moves as new legislation approaches[12]

Turkey's government is preparing to introduce new legislation for the crypto sector, the details of which remain uncertain. Despite this, adoption, even at the institutional level, continues unabated.

Akbank's investment arm has revealed its acquisition of local crypto firm Stablex, expressing its intent to become a significant player in the digital asset space. Following suit, Garanti BBVA, another major bank, launched its own crypto wallet app the next day. The app features a cold wallet function and facilitates the sending and receiving of assets like bitcoin (BTC), USD Coin (USDC), and ether (ETH).

Turkey ranks among the top 20 countries in Chainalysis Global Crypto Adoption Index 2023 and recently hosted the Ethereum conference Devconnect. However, the government has expressed concerns about unchecked adoption. In 2021, the central bank prohibited the use of crypto for payments, though a complete ban on digital assets was ruled out. In November, a government official announced the upcoming crypto legislation to be presented in the Parliament. While specifics are scarce, this move aligns with Turkey's efforts to be removed from the Financial Action Task Force's (FATF) gray list, which is aimed at addressing deficiencies in anti-money laundering and counter-terrorism financing measures.

World's first bitcoin bonds receive regulatory approval in El Salvador[13]

El Salvador's long-awaited bitcoin (BTC) bonds have taken a step closer to fruition after reportedly receiving regulatory approval for an issuance in early 2024. The bonds are slated to be offered on Bitfinex Securities, a regulated segment of the crypto exchange Bitfinex.

President Nayib Bukele aimed to raise US$1 billion through these bitcoin-backed bonds, intending to foster a bitcoin mining sector powered entirely by renewable energy, including that generated by the country's active volcanoes.

This marks the second significant bitcoin-focused initiative within a few weeks of El Salvador. Recently, the country launched its "Freedom VISA" program, offering residency to up to 1,000 individuals annually who invest a minimum of US$1 million in bitcoin or tether (USDT) stablecoins.

[11] Bitcoin [BTC] Decouples From Nasdaq Amid ETF Speculation (coindesk.com)

[12] Turkish Banks Akbank, Garanti Go Big on Crypto as Legislation Looms (coindesk.com)

[13] Bitcoin (BTC) Bonds in El Salvador Swing Closer to Reality as Price Targets $45,000 (coindesk.com)

RBI announces offline functionality for CBDC in MPC meeting[14]

The Reserve Bank of India (RBI) plans to enhance the capabilities of the Central Bank Digital Currency (CBDC) to promote financial inclusion, particularly in rural and remote areas of the country. RBI Governor Shaktikanta Das, in a recent announcement following the conclusion of the three-day Monetary Policy Committee (MPC) meeting on 8 February, revealed that the use cases for the digital rupee will be expanded beyond current peer-to-peer and peer-to-merchant transactions. The CBDC Retail (CBDC-R) pilot currently enables Person-to-Person (P2P) and Person-to-Merchant (P2M) transactions using digital rupee wallets provided by pilot banks.

The proposed modifications will allow for the introduction of additional use cases for CBDC by enhancing its programmability. This includes the introduction of offline functionality, enabling individuals in regions with limited or no internet access to utilize the digital currency. Programmability will also allow for tailored payments, such as government agencies ensuring payments for specific benefits and corporations programming designated expenditures like employee business travel.

Decentralized finance (Defi) highlights

- MetaMask's Pioneering "Intent-Centric" protocol
- Global securities regulator IOSCO issues DeFi policy recommendations
- Galaxy-backed Gyroscope's 'All-Weather' decentralized stablecoin
- Polygon Labs proposes framework to classify DeFi as critical infrastructure
- Rounding exploits spell trouble for the DeFi space

MetaMask's Pioneering "Intent-Centric" protocol[15]

MetaMask is currently testing a "transaction routing" feature that aims to transform the prominent Ethereum wallet into an "intent-centric" protocol. This implies that users will have the ability to rely on third parties to determine the most favorable path for their transactions, shifting from specifying how a task is to be accomplished to simply stating the desired outcome. This move aligns MetaMask with a growing trend in intent-centric protocols such as Uniswap X, CoW Swap, Anoma, and SUAVE. Consensys, MetaMask's owner, emphasizes that its approach is less risky than others in this field.

The routing technology, developed by the Special Mechanisms Group (acquired by Consensys), will eventually be accessible to third parties. Instead of detailing the steps to achieve a task, users may only need to express their desired outcome. MetaMask's goal is to enhance transaction execution and user experience through this shift.

As MetaMask transitions Smart Swaps to its new architecture, it will leverage a network of third-party blockchain operators. These operators will identify the optimal route for a given swap, executing the necessary transactions on behalf of the user. The competitive landscape among these third parties revolves around satisfying user requests for the best price, earning transaction fees or other incentives in return.

With so many apps on Ethereum today, there are infinite paths one might take to accomplish a given task, and some will be far more lucrative (or will cost less) than others. In addition to improving the Ethereum user experience, these programs are usually designed to help users avoid the scourge of maximal extractable value (MEV), where bots preview Ethereum's transaction queue to find profitable trading opportunities, enabling them to skim marginal profits from end-users – sometimes likened to the unsavory practice of front-running. However, the new intent-centric programs may face risks, including regulatory concerns and fears that certain routing systems could establish dominant players within a chain's transaction pipeline.

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[14]RBI Announces Offline Functionality, More 'Use Cases' For CBDC In MPC Meeting (outlookindia.com)

[15]MetaMask's Secret Project Could Shake Up How Ethereum Works (coindesk.com)

Global securities regulator IOSCO issues DeFi policy recommendations[16]

In March 2022, IOSCO published its Decentralized Finance Report (2022 Report)[17], presenting a comprehensive description of the DeFi market. Consistent with the Roadmap, the present report is intended to build on the 2022 Report by providing recommendations and guidance to IOSCO members as they analyze DeFi within their own regulatory frameworks. While recognizing the value of responsible innovation, this report seeks to make clear that market regulators globally should apply a "same activity, same risk, same regulation/regulatory outcome" approach to financial markets, regardless of the technology that may be used to offer or provide financial products and services or to engage in financial activities. The report aims to assist global regulators as they identify the "Why, What, Who and How" in applying IOSCO's objectives and principles for securities regulation and relevant supporting IOSCO standards, recommendations, and good practices and their own regulatory frameworks to DeFi.

In situations where existing rules are not applicable, IOSCO suggests modifying them accordingly. The guidance on DeFi addresses the identification of responsible individuals, establishing clear disclosure requirements, and enforcing laws. IOSCO emphasizes that even if operating as a decentralized autonomous organization (DAO) instead of incorporating, individuals and entities remain responsible for regulatory compliance, emphasizing that applicable laws should be applied to those offering or providing financial products and services, regardless of organizational forms or technologies used.

Galaxy-backed Gyroscope's 'All-Weather' decentralized stablecoin[18]

Gyroscope is a new stablecoin design that, like a physical gyroscope, remains stable as the surrounding environment changes. The Gyroscope's stablecoin Gyro Dollars (GYD) dollar-pegged token is positioned as a safeguard against the inherent risks associated with stablecoins, providing an alternative to both centralized and algorithmic designs. Its core objective is to mitigate the dangers of de-pegging events by introducing a decentralized, non-custodial stablecoin fully backed by reserve assets. Utilizing an algorithmic mechanism, GYD ensures its price remains pegged to US$1, offering risk control on autopilot.

This stablecoin employs a unique approach by segmenting the risks of each backing asset through segregated vaults. The backing assets consist of stablecoins strategically deployed in various yield-generating strategies such as sDAI and USDC in Flux. Additionally, the support extends to automated market-making (AMM) strategies like LUSD and crvUSD. As the stablecoin expands, the reserve is designed to incorporate a diverse range of strategies and assets, as explained by the Gyroscope team.

Primarily catering to decentralized finance (DeFi) users, the GYD token incorporates risk diversification rules, introduces new oracle and circuit breaker systems, and optimizes minting and redemption bonding curves. These features guide the protocol in effectively managing reserve assets to maintain price stability.

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[16] FR14/23 Final Report with Policy Recommendations for Decentralized Finance (DeFi) (iosco.org)

[17] iosco.org/library/pubdocs/pdf/IOSCOPD699.pdf

[18] tldr: What is Gyroscope - Gyroscope Protocol

Polygon Labs proposes framework to classify DeFi as critical infrastructure[19]

A regulatory framework has been proposed by the legal team behind Polygon Labs, advocating for the classification of neutral, decentralized finance (DeFi) protocols as "critical infrastructure" in the United States. The team, comprising Rebecca Rettig and Katja Gilman from Polygon Labs, along with Michael Mosier from Arktouros, recently published a comprehensive document titled "A Conceptual Framework for Combating Illicit Finance Activity in Decentralized Finance."

In this 45-page paper, the proposal suggests assigning truly decentralized DeFi protocols the status of critical infrastructure. This designation would bring them under the oversight of the U.S. Treasury's Office of Cybersecurity and Critical Infrastructure Protection (OCCIP). While the OCCIP is not a formal financial regulator, it plays a crucial role in coordinating efforts to enhance the security and resilience of critical infrastructure within the financial services sector, mitigating operational risks.

Acknowledging that not all DeFi protocols adhere to complete decentralization, the paper emphasizes that those with significant points of centralization should fall under existing financial regulations. This nuanced approach aims to balance regulatory oversight with the unique characteristics of each protocol.

Furthermore, the proposal introduces the concept of "critical communications transmitters," a new category integral to genuine DeFi systems within the proposed legal framework. These entities would be required to adhere to specific obligations, contributing to the protection of US national and economic security. Importantly, the proposal ensures they do not become "financial institutions" subject to the Bank Secrecy Act, maintaining a delicate balance between security and regulatory considerations.

Rounding exploits spell trouble for the DeFi space[20]

The decentralized finance (DeFi) sector faces a turbulent period, with Abracadabra.money being the latest victim of a series of exploits. This incident has particularly impacted the Magic Internet Money (MIM) stablecoin, causing it to depeg significantly to as low as US$0.77 before a partial recovery to US$0.93.

PeckShield and CertiK, leading Web3 security firms, were the first to report the exploit. The attacker managed to steal a substantial US$6.5 million in MIM on Ethereum by capitalizing on a rounding bug in the "cauldron v4" contracts deployed in early 2023. The exploit centered around a flaw in the protocol's "rebase library," where discrepancies in synchronizing elastic and base values enabled the hacker to manipulate calculations, ultimately paying back far less than owed.

Looking at the broader landscape, Immunefi's analysis revealed that prior to the Abracadabra exploit, January witnessed over US$126 million in losses across 19 incidents, representing a six-fold increase from the previous year. Ethereum and BNB Chain were the primary targets, with other platforms also succumbing to attacks. Immunefi anticipates that 2024 may witness record nominal losses as the value of crypto assets continues to rise. The recent exploit prompted discussions within the Abracadabra community Discord, where users expressed concerns about MIM's deviation from its expected US$1 value. Community moderators sought to reassure members, emphasizing the project's history of transparency and resilience.

Abracadabra.money and MIM were created by Daniele Sestagalli, a prominent figure in the crypto and DeFi space. Sestagalli, associated with other projects like Wonderland and Popsicle Finance, has faced challenges to his reputation due to past exploits, including the US$20 million hack of Popsicle Finance in August 2021.

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[19]Polygon Labs proposes framework to classify DeFi as ‘critical infrastructure’ (cointelegraph.com)

[20]Rounding exploit spells trouble for Magic Internet Money - Blockworks

EY Contacts:

Subrahmanyam OV
Partner, FSRM
subrahmanyam.o@in.ey.com

Rahul Pramanick
Partner, FSRM
rahul.pramanick@in.ey.com

Glossary:

ISOCO	International Organization of Securities Commissions
MAS	Monetary Authority of Singapore
Defi	Decentralized Finance
CBDCs	Central bank digital currencies
ETF	Exchange-traded fund
TradFi	Traditional Finance
FSB	Financial Stability Board's
IMF	International Monetary Fund
MCI	Multifunction Cryptoasset Intermediaries
EBA	European Banking Authority
FAFT	Financial Action Task Force
CASP	Crypto Asset Service Providers
PSP	Payment Service Providers
MOF	Ministry of Finance
FSA	Financial Services Agency
HMT	His Majesty's Treasury
BOE	Bank of England
FCA	Financial Conduct Authority
FD	Financial Dialogue
FRF	Financial Regulatory Forum
QR	Quick Response
QRIS	Quick Response Code Indonesian Standard
ASEAN	Association of Southeast Asian Nations
GYD	Gyroscope's stablecoin Gyro Dollars
sDAI	Savings Dai
USDC	Digital Stablecoin
DAO	Decentralized Autonomous Organization
MEV	Maximal Extractable Value
ETP	Exchange Traded Product
SEC	U.S. Securities and Exchange Commission
BTC's	Bitcoin
FATF	Financial Action Task Force's
CBDC	Central Bank Digital Currency
RBI	Reserve Bank of India
MPC	Monetary Policy Committee

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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