

2023 Crypto Review

When it comes to crypto, beauty is always in the eye of the beholder. For US regulators, it has indeed been a beautiful thing to see some flowers bloom in 2023. FTX is dead and buried, and its CEO Sam Bankman Fried (SBF) has been found guilty of fraud and all the other charges he faced. And the US government is able to pay off some 4.3Bn in debt after it fined Binance that amount for breach of sanctions and money laundering laws. Binance may still claim to be a large consumer exchange, but it's definitely not operating in the world's largest consumer market in the USA even while its CEO "CZ" can't leave it pending changes. And hopefully as those chapters close, we can also close the book on using ticker symbols like SBF and CZ to identify CEOs.

But while regulators should be pleased with themselves for doing what they are paid to do in 2023, to me they don't tell you anything particularly interesting about the crypto industry other than there is malfeasance and opportunists in all financial services. There were 3.6 million suspicious activity reports (SARs) reported to the US Financial Crimes Enforcement Network (FinCen) in 2022. This should provide a touch of perspective for those with crypto schadenfreude - crypto is a small fish in a broader traditional financial services (TradFi) pond that is flooded with suspicious activities in normal financial transactions. And the SARs volume may even provide a scintilla of irony given that crypto is an attempt to try to get some freedom back as the traditional financial system turns into a panopticon, especially as reporting organizations move to 'defensive' over-reporting as a single miss isn't worth the regulatory grief.

And the regulators didn't have it all their way through 2023 with a judgment in the SEC v Ripple case declaring that crypto is not a security when sold to the general public. This raises all sorts of questions including fundamental ones like does the SEC even have jurisdiction over crypto? But before getting too excited in crypto land, they need to realize they also have appeals and perhaps some new laws to consider coming down the line in 2024. Meanwhile Coinbase, the sole surviving large crypto exchange in the US, is still asking for regulatory clarity as it deals with the Kafkaesque torture of unambiguous enforcement actions that purport to enforce ambiguous rules.

Moving on from regulators, what did investors behold in crypto land in 2023? I think it's fair to say that if you were an investor partying hard in crypto land in 2022 then you woke up in 2023 to a pretty ugly crowd that were all walking around nursing massive hangovers. OpenSea, the NFT secondary market exchange that had raised funds at a 13.3BN valuation at the start of last year had one of its investors write it down by 90% at the end of this year. That's quite an ugly image indeed, but nevermind, AI came along in 2023 and so all the investors are now looking over there at the beautiful ChatGPT generated investment landscapes. Some TradFi firms are still talking about trying to get crypto ETFs for retail investors and stable coins for central banks, but I'm not sure anyone cares.

To me, the prism of regulation and investment is always a strange way to look through to see what has happened or is happening in the actual crypto market, which is really an area of

technology and social innovation. Finance is downstream of crypto, not the source of it. So if we look upstream, what do we see? My rule of thumb is that there are only two blockchains of any consequence - Bitcoin and Ethereum - and if you want to understand them then you need to realize that Bitcoin never changes, and Ethereum never stops changing. So after another year we can see that at the end of 2023 Bitcoin is still basically like digital gold, if you choose to believe that is what it is. You can buy it, you can sell it, but you can't do much else with it other than entertain yourself pondering if your transactions generated a suspicious activity report. Ethereum on the other hand has got busy talking to itself about bringing a billion people onto crypto. Having successfully changed to a zero emission proof of stake mining model, it is now looking at making wallet (secret key) management something forgetful and error prone mortals can do, changing account structures to allow third parties to help onboard users, and allowing "layer 2" networks to peer with the ethereum value chain. In other words, Ethereum is getting pragmatic so it can scale into general purpose usefulness.

And I will be watching that very closely in 2024.