FCAM

Decentralised Digital Investing

De-FI 2021
Half Time Report

July 2021

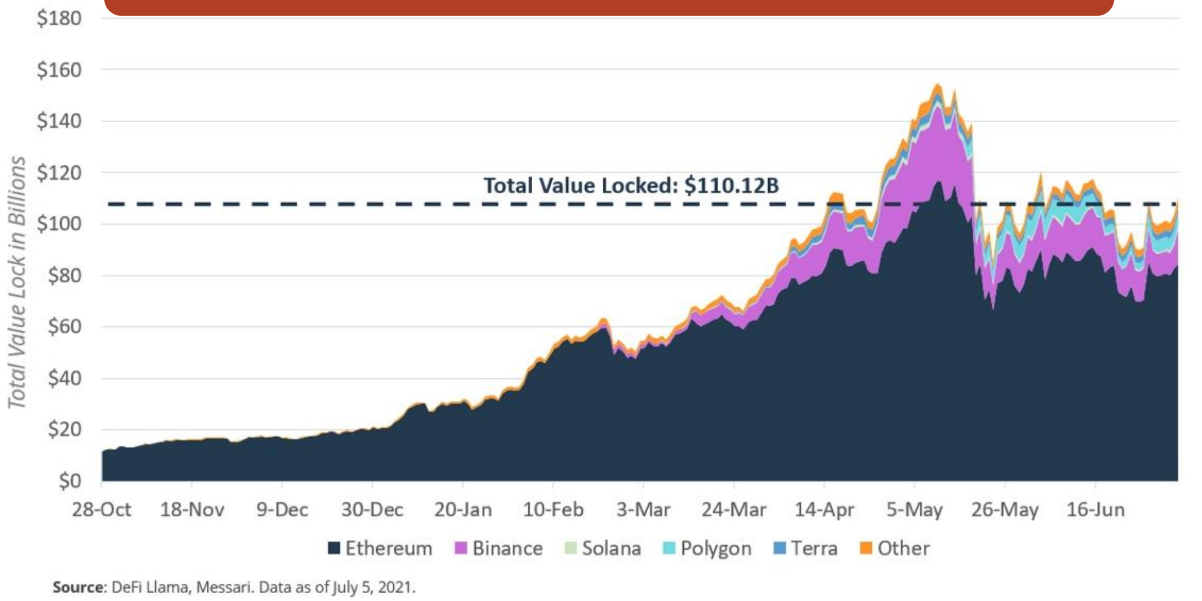
It's worthwhile to reflect on what has been an action-packed first half of the year for all things decentralised finance. This month's report focusses on the growth in the eco-system, tech advancements, regulation, and a glimpse into the future.

Ecosystem Growth

With digital asset markets continuing to attract mainstream attention, newfound retail entrants pushed Ethereum's fees to all-time highs. The surge in demand was a net positive for the industry but rendered the Ethereum network unusable for most retail users, prompting users to look for alternative options. In conjunction with the deployment of scaling solutions and the growth of the application ecosystems on adjacent blockchains like Binance Smart Chain (BSC) and Solana (SOL), this exodus has become an important factor affecting Ethereum's market dominance.

At the start of 2021 the Total Value Locked (TVL) on the Ethereum network had spiked to over US$20bn. At the end of June 2021, the TVL for Ethereum stood at US$80bn and across all smart contract networks at ~US$110bn. Of the $110 billion dollars in TVL, Ethereum accounts for 77%, a drop of more than 20% when compared to its dominance only five months ago. Despite the recent decline, Ethereum remains the most vibrant De-Fi and NFT ecosystem. Ethereum's DeFi ecosystem has attracted the bulk of users' funds, approximately 47% of TVL is in six major DeFi protocols: Curve, Aave, MarkerDAO, Compound, Yearn, Uniswap, and SushiSwap.

Total Value Locked by Smart Contract Platform



Source: DeFi Llama, Messari. Data as of July 5, 2021.

One year ago, the concept of a multi-chain world was simply an abstract idea. Back then, the data available pointed at a single truth: Ethereum was the sole destination for DeFi applications. In the span of only six months, that message has drastically changed.. We now live in a world where several blockchains outside of Ethereum have significant traction and a substantial amount of developer activity. While Ethereum may remain the focal point, it's become undeniable that the digital economy will not reside in one single chain but will equal the aggregate economic activity taking place across many blockchains and scaling solutions.

Regulation

There have been no regulatory changes in the Australian market in relation to digital assets over the last 6months. ASIC have reaffirmed their "no-Bitcoin-ETF" policy and whispers of domestic CBDC trials are sporadically in the financial press. The attached provides a comprehensive overview of the current Australian blockchain regulatory landscape.

https://www.globallegalinsights.com/practice-areas/blockchain-laws-and-regulations/australia

In the US, the Biden Administration is in the process of defining the regulatory approach to digital assets and we are yet to see any definitive proposals or policy statements that bring clarity or consistency. Agencies that are responsible for regulation have shifted to national security concerns instead of competitive markets and products. There has been no further clarity on the development of a US CBDC as policy makers debate the merits of the new technology. Task forces have been created to focus on the creation of a digital dollar aligned with national security and criminal concerns rather than technological innovation.
The lack of progress is disappointing.

The Securities and Exchange Commission (SEC) published agenda for 2021 does not include reference to digital assets which infers that enforcement will be favoured over regulation. The Financial Action Task Force (FATF) has raised concerns how DeFi deals with their "Travel Rule" (a requirement that targets the anonymity of wire and digital asset transactions to address money laundering) and has delayed the release of its findings until October 2021. A recent plenary meeting of selected DeFi projects and regulators occurred behind closed doors giving the public and other projects little guidance.

Technology

On the technology front the ongoing change to Ethereum's consensus mechanism from Proof of Work (POW) to Proof of Stake (POS) continues to attract market attention. Ethereum's EIP 1559 upgrade scheduled for release on main net on 4th August is the latest upgrade that addresses how those that contribute computing power to the network are rewarded. EIP 1559 introduces a minimum payment, also called a "base fee," for sending transactions on Ethereum that dynamically adjusts based on network activity and demand for block space. The network will automatically calculate a price based on demand for block space. All users must pay this base price for their transactions to be processed. Instead of going directly to miners, the base transaction fee will be "burned". The burning of fees will result in a less inflationary coin supply and introduces the bitcoin like narrative of limited supply, which should help support the ETH price.

The broader tech developments remain focused on scaling of blockchains. Developers continue to work on the limitations of a node's ability to process many transactions with the focus on three key limitations: computing power, internet connection bandwidth and data storage limits. With the amount of work being undertaken by developers to find on and off-chain solutions we are confident that solutions will be found to these current limitations.

FCAM

Our business continues to grow as we develop deeper relationships with the Australian financial services community to educate and guide on the development of blockchain technology. Attached is a podcast recently conducted by FCAM founder Stewart White with Chris Titley of Morgans Financial Limited as part of their Bank to the Future podcast series.

https://soundcloud.com/morgans-financial-limited/bank-to-the-future-stewart-white-founder-of-fort-canning-asset-management