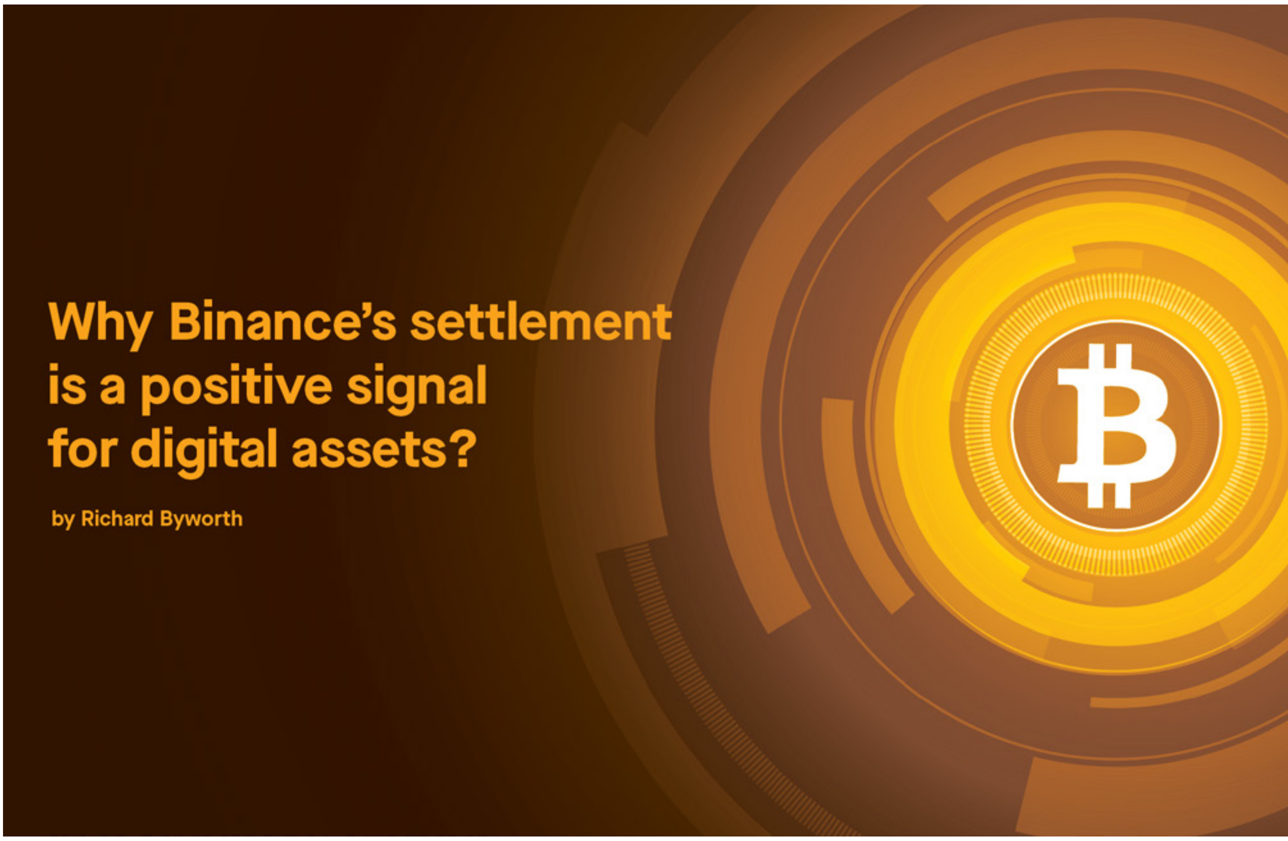

Binance takes a large punch from the SEC, leaving them bruised, but alive

Binance's labyrinthine operational shady dealings have long been crypto's 'known unknown'. For that reason, news that the company has been landed with one of the largest corporate penalties in US history came as no surprise. The crypto industry has been aware its largest exchange has been operating illicitly for years. Binance turned a blind eye to its legal obligations for KYC / AML, enabling the potential for funds to flow to terrorists and other criminals through its platform. This Tuesday, the industry breathed a sigh of relief as Binance took their hit: $4.3bln fine, CZ the CEO stepping down, with an expectation of sentencing later. We are pleased action has finally been taken and believe Binance's settlement with US regulators is a long-term positive development for a number of reasons.

By Richard Byworth *Managing Partner, Syz Capital*

Firstly, it allows for the industry to move forward as institutional adoption accelerates and new exchange and custody alternatives emerge. The settlement also diminishes the systemic risk of the largest liquidity crypto exchange being taken out. The replacement CEO is a former regulator and marks a potential for a fresh start for the platform to do things the right way.

The saga also underlines the demand for Bitcoin. Many commentators had previously forecasted that Bitcoin could crash if Binance began to wobble. But in the face of the settlement, Bitcoin has demonstrated impressive resilience – after a brief dip off the years highs, just 48hours later it was back knocking at the $38,000 level.

There are two strong catalysts for the unique asset looking forward just a few months: Firstly, we believe the much anticipated BlackRock spot Bitcoin ETF will drive mainstream retail and institutional adoption, but more importantly it unlocks trillions of dollars of 401k money. Even a few basis points implies tens of billions in inflows for an already scarce asset that keeps getting scarcer.

To that point, the second seismic demand driver is the next bitcoin 'halving' in April 2024.

The total supply of bitcoin is capped at 21 million, and as of now, over 19.5million bitcoins have already been mined, leaving less than 1.5million yet to be issued. Bitcoin's protocol implements a mechanism known as halving, which progressively reduces the number of new coins introduced with each new block, meaning that that 1.5million will take another 117 years to be issued.

This is the first time in bitcoin's history that we approach a halving with less bitcoin available on exchanges than the previous halving. Exchange balances are approximately 600,000 bitcoin less than four years ago. On top of that a further 1.3mln bitcoin have been issued over that period. A quick back of the envelope calculation shows that 1.9mln bitcoin have been removed from liquid circulation in four years, we are at 3-4% adoption, less than 1% adoption by corporate balance sheets, and less than 1% adoption by nation states. And only 1.5mln bitcoin left to be mined forever.

All this against a backdrop of traditional financial market players creating a bridge into the industry. Banks the world over have been creating trusted third-party custody alternatives, and trading services. Swiss private and cantonal banks have been active here with names such as Syz, Maerki Bauman, Zug Kantonale bank and St Gallen Kantonale bank all providing services to their clients.

Meanwhile, in the hedge fund space, the recent volatility is providing an abundance of alpha for those employing volatility arbitrage, futures arbitrage, mean reversion and market making strategies. This is opening a door for traditional market investors to dip their toe into an asset class bearing the same opportunities that were harvested in the golden age of hedge funds in the eighties and nineties presented through diversified, highly diligenced vehicles like SyzCrest.

We are currently living through the scaling and adoption of a new asset class, Bitcoin, alongside an emerging but volatile digital asset industry. Institutional adoption will mean plenty more short-term pain for those participants who break the rules, but this period of industry maturation will benefit the digital asset space over the long term.

For further information

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