BITFINEX Alpha

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EXECUTIVE SUMMARY

Bitcoin demonstrated just how resilient it was this week, hitting a new year-to-date high, as flows continued into Bitcoin spot ETFs, despite - or perhaps because of - higher than expected CPI and PPI data.

At $52,700, BTC is up 25 percent since the start of the year and 207 percent above its November 2022 lows. This puts BTC at just 28.6 percent below its all-time high, with supply tight and demand increasing even at higher price levels.

Aside from the continued inflows into Bitcoin spot ETFs, we can also see that the short-squeeze ratio is lower this year, compared to previous years. We hypothesise that there are two other factors at play here. Firstly, that large whale investors have not been taking substantial short positions, given their expectation that prices will continue to rise; and, secondly, that they have put more of their resources into the spot market, favouring direct investment into BTC, rather than through derivatives.

Supply distribution analysis now shows that only 11 percent of total supply is being held at a loss, and an even smaller six percent of Long-Term Holders, as measured by entity, are in deficit. Historically, such a supply distribution has presaged early bull market conditions.

Across the broader economy, the continued persistence of inflation, and a downturn in consumer spending, has pushed out expectations of a rate cut to May or even June.

Consumer spending though, even after showing a softening, is still expected to remain resilient, thanks to the clear trend that inflation is decelerating over time, as well as a stubbornly strong labour market. Moreover, the US housing market has shown signs of optimism, with homebuilder confidence experiencing a third consecutive month of growth.

Across the crypto-sphere, we continue to see regulators and financial institutions worldwide taking significant strides to both safeguard consumers and harness the innovative potential of digital currencies. The UK Financial Conduct Authority has been at the forefront of consumer protection, issuing over 2,285 alerts in the past year to combat cryptocurrency promotions from unlicensed providers.

In South Korea, there has also been a notable increase in vigilance against illicit crypto activities, with reports of suspicious cryptocurrency transactions surging by 48.8 percent in 2023. In response, the Financial Intelligence Unit is developing a system designed to halt suspicious transactions pending investigation, reflecting a growing global trend towards stricter oversight of the crypto market.

In the United States, however, Fed Governor Christopher Waller highlighted that US dollar-pegged stablecoins, which have expanded with the growth of decentralised finance, and which remain pivotal to crypto trading, are bolstering the US dollar's supremacy. Even though they are synthetic by design, the use of stablecoins backed by the dollar only serves to strengthen the greenback's demand.

Adding to this narrative of how crypto and blockchain can bolster innovation, Citibank announced a successful proof-of-concept exploring the tokenisation of private equity funds. This move not only demonstrates the practical applications of blockchain technology beyond traditional cryptocurrencies but also signals a growing interest from major financial institutions in the digital transformation of asset management.

Have a great trading week!

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WHAT'S ON-CHAIN THIS WEEK?

BTC Reaches Yet Another New Year-To-Date High

BTC has set yet another new year-to-date (YTD) high this week, reaching $52,700, representing a 25 percent increase since the start of the year. Notably, only 114 days in 2021 witnessed a daily closing price above this level, accounting for a mere 2.29 percent of BTC's entire trading history.

Figure 1. BTC/USD 3D Chart. (source: Bitfinex)

BTC has now reached the same level that provided support for BTC in November 2021 before a collapse across digital assets led us into the bear market of 2022. Moreover, BTC has seen remarkable growth of 130 percent over the past 12 months and an increase of over 207 percent since the November 2022 lows. Currently, it is trading at just 28.6 percent below its all-time high (ATH). As the market progressively approaches the 2021 highs, the supply of BTC priced above the current YTD high is diminishing, indicating a tightening of available supply at these higher price levels.

Figure 2. BTC Short Squeeze Ratio vs price. (source: CryptoQuant)

In January 2024, BTC's price reached a local low of $38,500, and in February, it exceeded $50,000 for the first time in 27 months.

Typically, a rapid surge in price like this would trigger a significant short squeeze. However, the magnitude of the short squeeze observed so far this year has been small compared to the previous year.

This pattern suggests two hypotheses: 1) Large investors, or 'whales', anticipating a potential price rebound which is also reflected in the supply inactivity for this cohort, have refrained from opening new short positions, and 2) these investors chose to allocate their resources into spot holdings instead. This strategic shift indicates a change in investor sentiment and behaviour, favouring direct investment in BTC rather than speculative short-selling.

ETF Flows Show Constant BTC Demand as Supply in Loss Continues to Fall

As Consumer Price Index (CPI) data (see page 15) came in higher than expected, BTC experienced a brief downturn, dropping nearly four percent, before rebounding to set new year-to-date highs. A portion of the demand fueling this recovery can be linked to "passive" demand stemming from inflows into Bitcoin spot ETFs. This recent surge in price has further ensured that an even smaller proportion of the total BTC supply is currently held at a loss, reflecting strengthening market sentiment and growing investor confidence in Bitcoin's value trajectory.

Figure 3. BTC/USD Hourly Chart. (source: Bitfinex)

Bitcoin exchange-traded funds (ETFs) flows reported a net positive week for the second consecutive week last week. ETFs ended the week with net inflows exceeding $2.2 billion (refer Figure below) between February 12th and 16th. This surpasses inflows into any other ETF among the 3,400 available in the US.

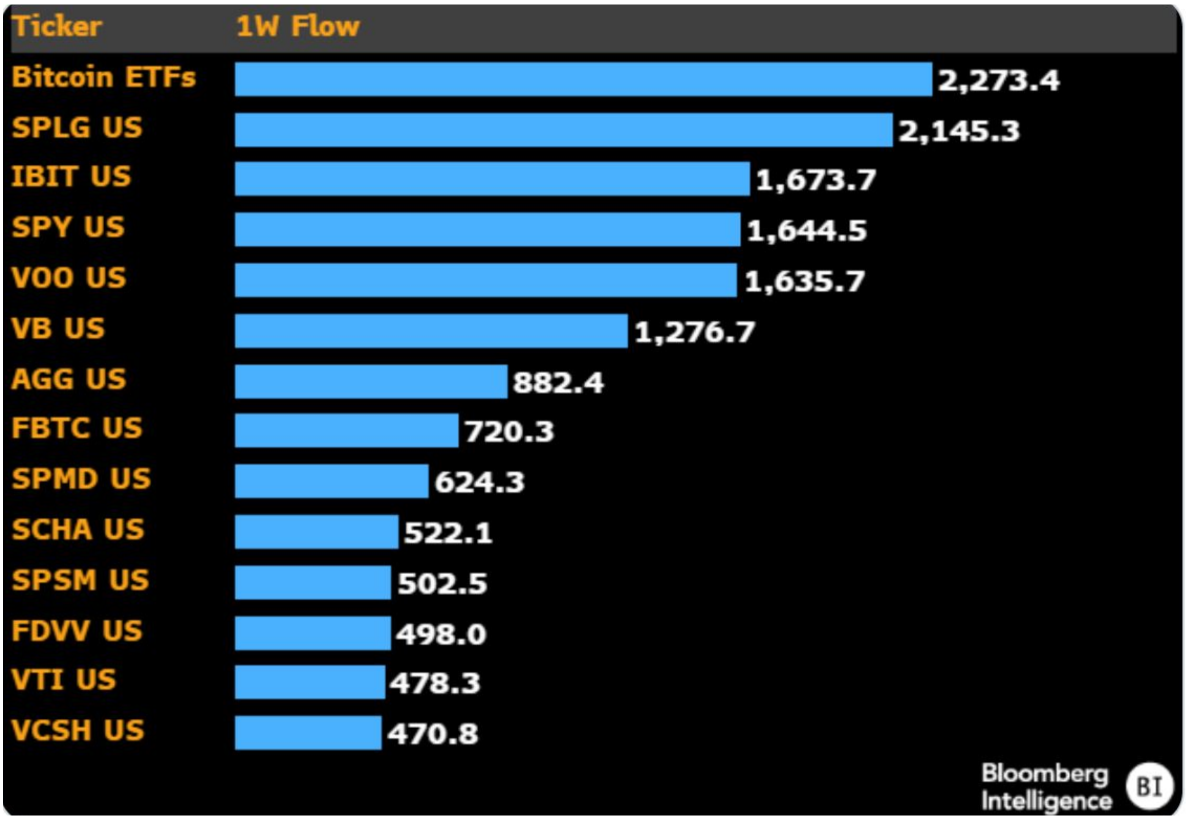


Figure 4. ETF Flows Across The Past Week. (source: Bloomberg Intelligence)

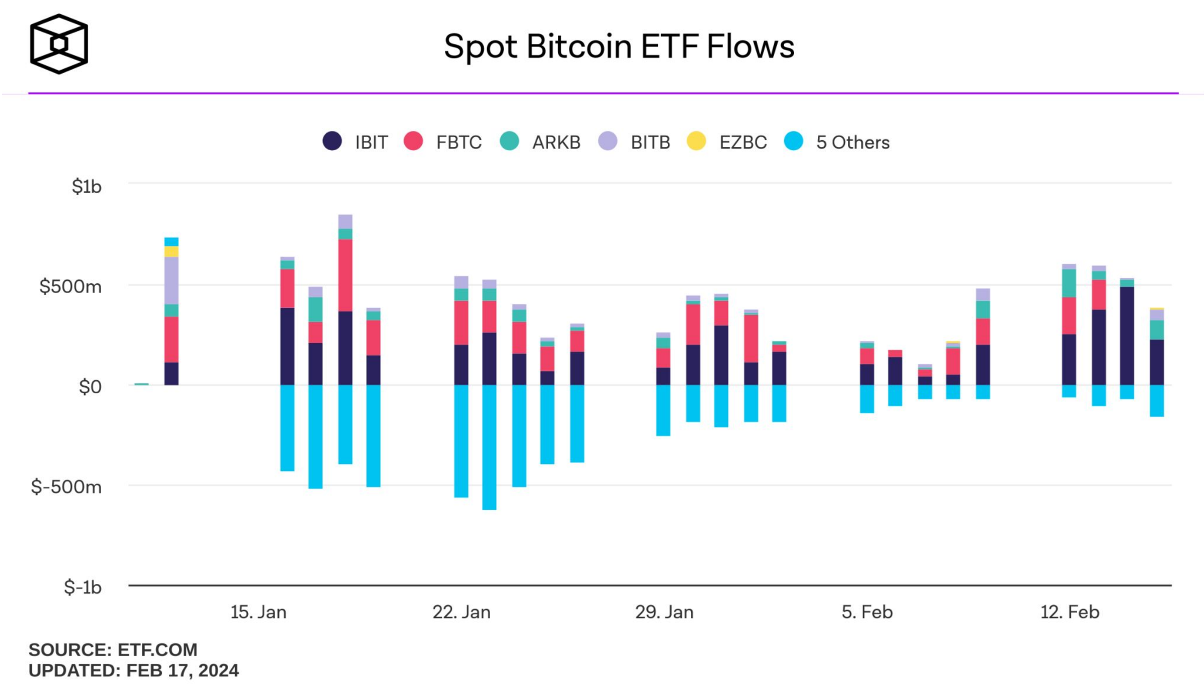


Figure 5. Spot Bitcoin ETF Individual Fund Daily Flows. (source: The Block)

A significant portion of this capital was directed towards BlackRock's IBIT fund, which accrued $1.6 billion in positive flows over the week (refer Figure above). IBIT alone has attracted $5.2 billion year-to-date, accounting for 50 percent of BlackRock's total net ETF inflows, across their 417 ETFs.

Fidelity's FBTC has also seen substantial inflows, drawing $648.5 million in the last five trading sessions. Ark 21Shares' ARKB attracted $405 million, and Bitwise's BITB garnered $232.1 million during the same timeframe.

Conversely, Grayscale's GBTC has been experiencing outflows, negatively impacting the combined performance of these ETFs. The fund has seen $624 million withdrawn in the past week, as investors opt for products with lower fees. Since converting from an over-the-counter product to an ETF on January 10th, Grayscale's fund has witnessed capital depletion exceeding $7 billion.

As BTC price appreciates, a substantial majority of BTC has transitioned into profit. In fact, approximately only 11 percent of the total Bitcoin supply was purchased at prices above $50,000, and are therefore still held at a loss.

The chart below provides a detailed breakdown of the Bitcoin supply using the cost basis at which it was acquired. It reveals that 87 percent of coins were purchased at prices below $48,000. Notably, there exists a significant cluster of supply held by Short-Term Holders in the range of $40,000 to $45,000. Meanwhile, Long-Term Holders are predominantly represented within the 11 percent of supply that is held at a loss. This reflects the purchasing activity of 'top buyers' during those 114 trading days in 2021 when prices were at their peak. This distribution underscores the varied investor behaviours and price thresholds within the Bitcoin market.

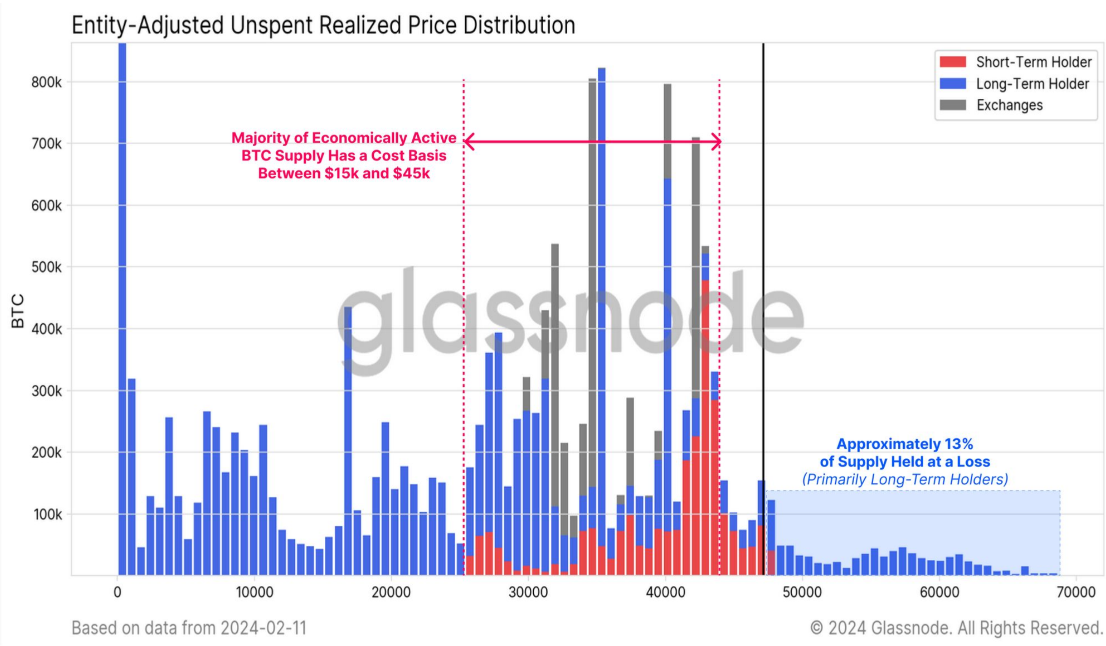


Figure 6. Entity Adjusted Unspent Realised Price Distribution. (source: Glassnode)

According to *Glassnode* data, the total volume of Long-Term Holder (LTH) Supply in loss (defined as those who have held for more than 155 days) is converging towards zero as Bitcoin prices increase. Currently, less than six percent of the aggregate LTH supply by individual entities are held at a loss.

Historically, similar instances where the LTH cohort held a comparable volume of BTC in loss have been indicative of early bull market conditions. This trend has been consistent, with 2019 being a potential outlier. Such patterns suggest that when LTHs have minimal losses, it often correlates with the early stages of a market upturn, reflecting a broader positive sentiment and market strength.

GENERAL MARKET UPDATE

US Inflation Climbs in January, Challenging Fed Rate Cut Expectations

In January, US consumer prices saw an unexpected rise, primarily fueled by increased costs in housing and healthcare sectors, spotlighting the persistence of inflation in certain components of the Consumer Price Index. Despite this uptick, *Bitfinex Alpha* is still of the opinion that the Fed will proceed with rate cuts in the first half of the year.

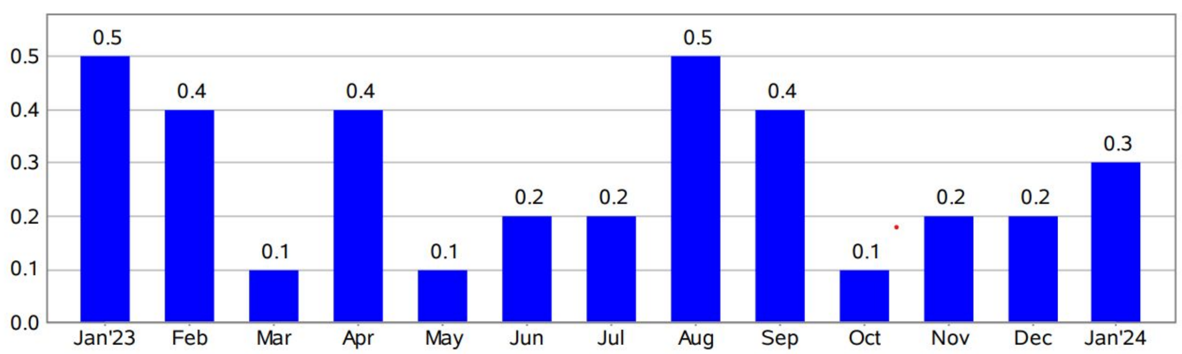


Figure 7. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Jan. 2023 - Jan. 2024 Percent change (Source: Bureau of Labor Statistics)

According to a Bureau of Labor Statistics report, issued last Tuesday, February 13th, the Consumer Price Index (CPI) rose by 0.3 percent in January, marking a slight acceleration from December's 0.2 percent increase. Year-over-year (YoY), January witnessed a 3.1 percent rise in the CPI, a moderation from December's 3.4 percent climb. This outcome surpassed the consensus forecast, which was for a 0.2 percent monthly increase and a 2.9 percent YoY rise.

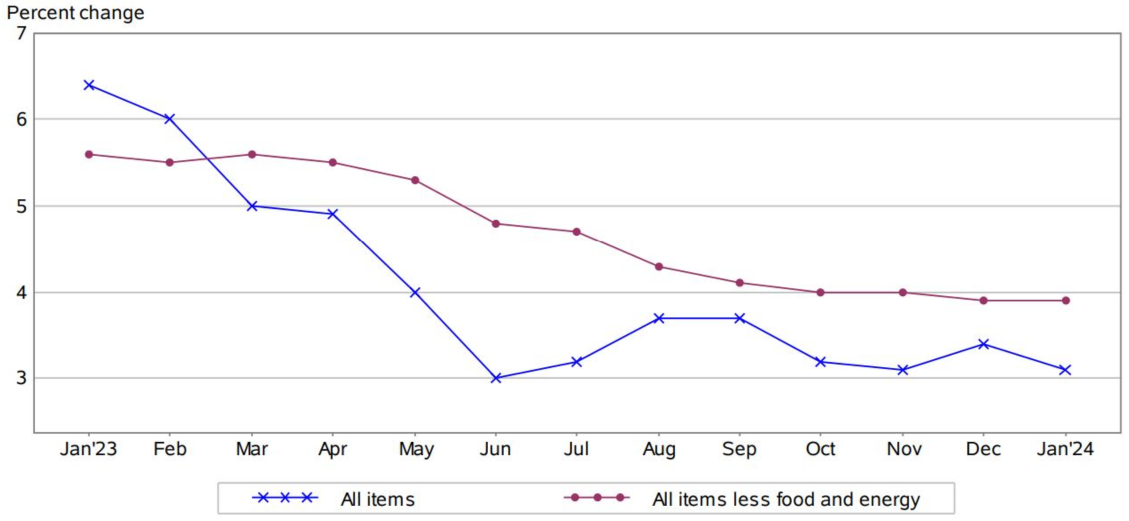


Figure 8. Consumer Price Index (Source: Bureau of Labor Statistics)

The statement also pointed out a more balanced risk outlook for the Fed's primary objectives of employment and inflation stability. The FOMC emphasised its commitment to a deliberate approach, stating it will "carefully assess incoming data, the evolving outlook, and the balance of risks" before making any adjustments to the federal funds rate target range.

This stance is a departure from the Fed's previous statement in December, which primarily discussed conditions for further policy tightening, explicitly excluding the possibility of rate cuts.

With the Core Personal Consumption Expenditure Price index (or core PCE) (which is the Fed's preferred inflation metric) at 2.9 percent, with a three-month and six-month annualised pace now at two percent, the adjustments in the policy statement are an acknowledgement of the need to accurately reflect the current economic risks. We expect the Fed to maintain a cautious and methodical approach towards achieving its goals of price stability and sustaining maximum employment levels.

Figure 9. Disinflation or the slowdown in the rate of inflation since it peaked in June 2022, on a year-over-year basis (Source: Bureau of Labor Statistics)

However, excluding the more volatile food and energy sectors, core inflation rose by 0.4 percent monthly and 3.9 percent YoY. Housing costs, notably lagging behind broader economic trends, increased significantly by 0.6 percent monthly and 4.6 percent YoY. Services which exclude energy services saw a notable rise to 0.7 percent in January from 0.4 percent in December. Persistent inflation in housing, combined with indications that disinflation (or the slowdown in the rate of inflation) has not broadened into services, strongly suggests that the Fed will adopt a cautious approach to rate cuts moving forward.

Moreover, in a separate report from the Bureau of Labor Statistics released Friday, February 16th, there was also a notable surge in the Producer Price Index (PPI) in January, marking the most significant rise in the past five months. The PPI, which reflects the cost of goods at the wholesale level including expenses like fuel and packaging, serves as a precursor to retail price changes, thereby signalling inflation trends.

January saw PPI climb by 0.3 percent (consensus forecast was 0.1 percent). Core wholesale prices, which exclude volatile food and energy, jumped by 0.6 percent in the same month (consensus forecast was 0.1 percent).

The overall increase in wholesale inflation slightly decreased to 0.9 percent from one percent YoY. Meanwhile, the annual rate of core wholesale inflation remained steady at 2.6 percent.

Although the Fed typically focuses more on the personal consumption expenditures (PCE) deflator, we expect the current CPI and PPI trends to influence upcoming monetary policy decisions. The market anticipation for a rate cut in May declined sharply following the release of last week's inflation reports.

By February 17th, the CME Fedwatch tool was indicating that the probability of a May rate cut had fallen to 38.4 percent, down from 60.7 percent just a week earlier, while the probability of a June rate cut now stands at 82 percent.

This indicator is now projecting up to four 25-basis point rate reductions throughout the year. However, we think that the Fed could choose to implement fewer rate cuts if inflation slowly recedes and outperforms expectations.

CME FEDWATCH TOOL - MEETING PROBABILITIES										
MEETING DATE	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
3/20/2024					0.0%	0.0%	0.0%	0.0%	10.0%	90.0%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.2%	35.2%	61.6%
6/12/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.2%	25.7%	53.7%	18.4%
7/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	1.6%	18.7%	45.4%	28.9%	5.5%
9/18/2024	0.0%	0.0%	0.0%	0.0%	1.2%	14.9%	39.5%	32.5%	10.6%	1.2%
11/7/2024	0.0%	0.0%	0.0%	0.7%	8.7%	28.4%	35.7%	20.5%	5.4%	0.5%
12/18/2024	0.0%	0.0%	0.5%	6.6%	23.2%	33.7%	24.5%	9.5%	1.9%	0.1%
1/29/2025	0.0%	0.3%	4.1%	16.5%	29.5%	28.2%	15.5%	4.9%	0.8%	0.1%
3/12/2025	0.1%	1.7%	8.7%	21.3%	29.0%	23.5%	11.6%	3.4%	0.5%	0.0%

Figure 10. Meeting Probabilities according the CME FedWatch Tool (Retrieved February 17 2024)

With 3.3 percent GDP growth in the last quarter of last year, the economy remains strong, buoyed by robust employment and therefore contributing to sticky inflation. We see the Fed remaining patient and maintaining a "meeting by meeting" approach to its stewardship of the economy. Though we expect the Fed to cut rates by mid-year, It is worth noting that it has no coherent set of criteria for cutting. There is therefore an inherent uncertainty about whether developments like the latest CPI and PPI report might undermine the Fed’s confidence in easing.

US Consumer Spending Cools in January Amid Solid Labour Market Resilience

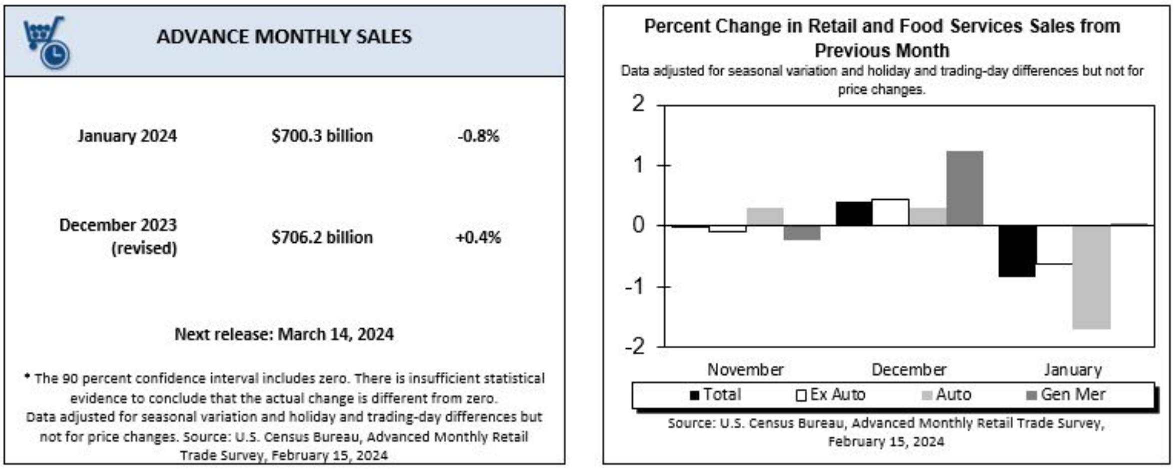


Figure 11. Retail Sales (Source: US Census Bureau)

In January, consumer spending in the US showed signs of cooling, with a noticeable decline in retail sales, attributed partly to fewer purchases at car dealerships and gas stations. According to the Commerce Department's Census Bureau, sales decreased by 0.8 percent during the month, a sharper fall than anticipated, possibly affected by harsh winter conditions. This adjustment followed a revision of December's sales growth, down to 0.4 percent from an initially estimated 0.6 percent.

This downturn marked the first January decline in retail activity across stores, online, and food service sectors since 2018. However, we believe this doesn't necessarily point to a weakening consumer spending. Instead, it may reflect a seasonal adjustment after a stronger spending spree in December.

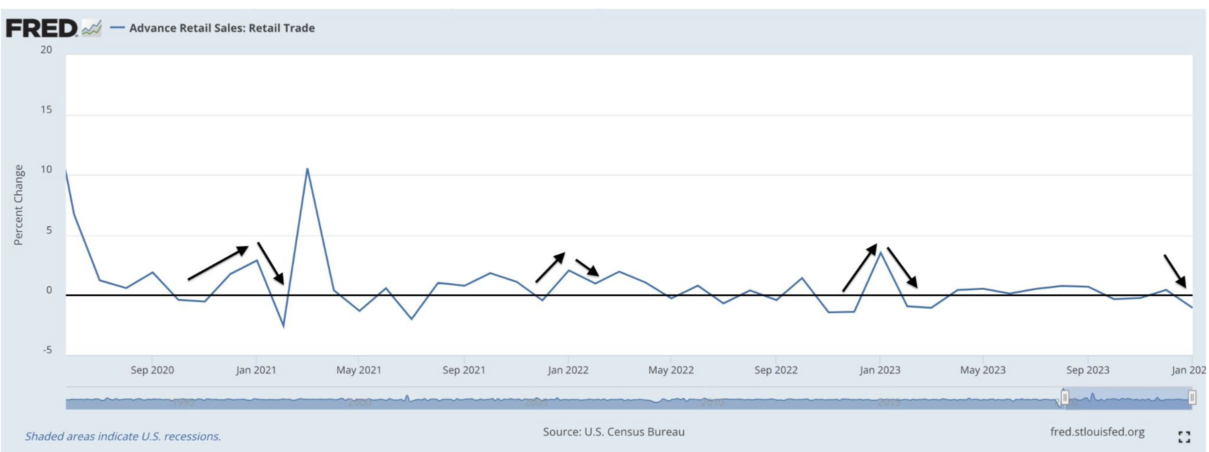


Figure 12. Retail Sales Since 2021 (Source: US Census Bureau)

Historically, as seen in the figure above, January often sees a spending surge that tapers in February, but this pattern was changed this year with robust December spending, followed by a January dip.

The data primarily captures goods spending, which saw a drop. However, service spending is anticipated to remain strong, in line with recent high service inflation, as previously shown in the recent CPI. Consumer spending remains resilient, with year-over-year disinflation (refer to Figure 10) contributing to real income growth, which is supported by the solid labour market.

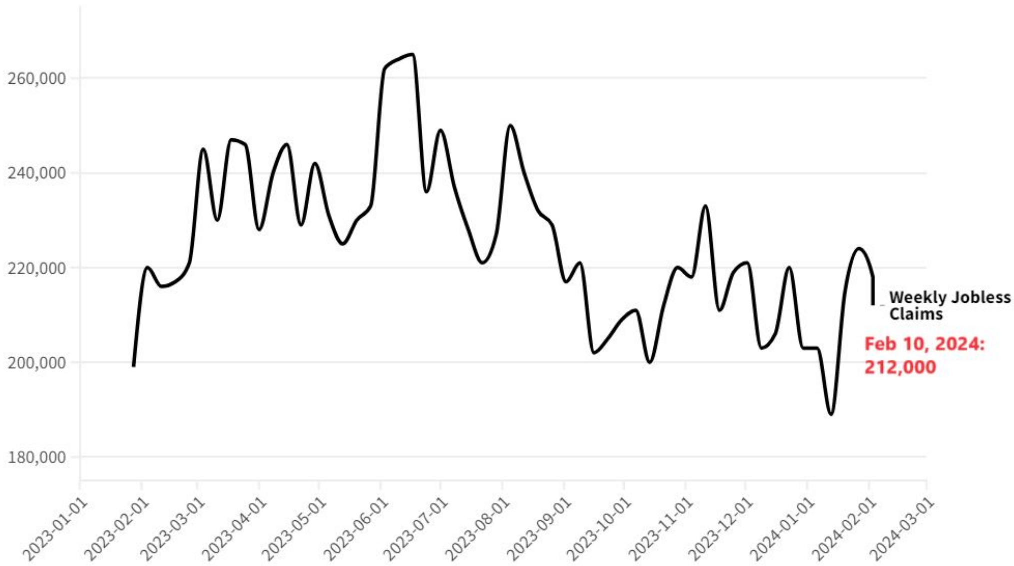


Figure 13. Initial Jobless Claims — An initial claim is a claim filed by an unemployed individual after a separation from an employer. The claim requests a determination of basic eligibility for Insurance. (Source: Fred Economic Data, US Employment and Training Administration)

Jobless Claims report for the week ending February 10th which reported a decline to 212,000, significantly below the consensus forecast of 220,000.

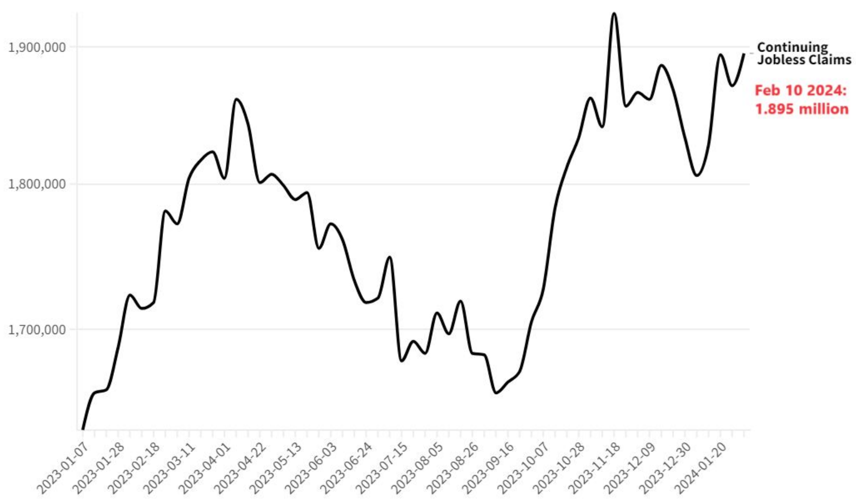


Figure 14. Continuing Jobless Claims — Continued claims are the number of individuals who have experienced a week of unemployment and then filed a continued claim to claim benefits for that week of unemployment. (Source: Fred Economic Data, US Employment and Training Administration)

While initial jobless claims fell, continuing claims, which have risen steadily since September last year, ticked up to 1.895 million, exceeding the consensus forecast of 1.88 million. This suggests that while fewer people are being let go, it's taking longer for those who are out of work to find a new job.

We think that consumers will remain resilient as the disinflation we saw in the past couple of months translates to positive real income growth, keeping the economy from sliding into a recession. Moreover, persistent low levels of layoffs with a deceleration in hiring will help the Fed's effort to combat inflation. While we expect inflation to wane over 2024, the recent CPI figure sets a reminder that the road to the Fed's two percent inflation target will be bumpy.

US Homebuilder Confidence Climbs Despite January's Dip in Housing Starts, Eyes on Fed Rate Cuts

In February, the US saw a notable increase in homebuilder confidence, marking the third consecutive month of improvement. This upswing is largely attributed to the anticipation of the Fed cutting rates this year, potentially invigorating the housing market.

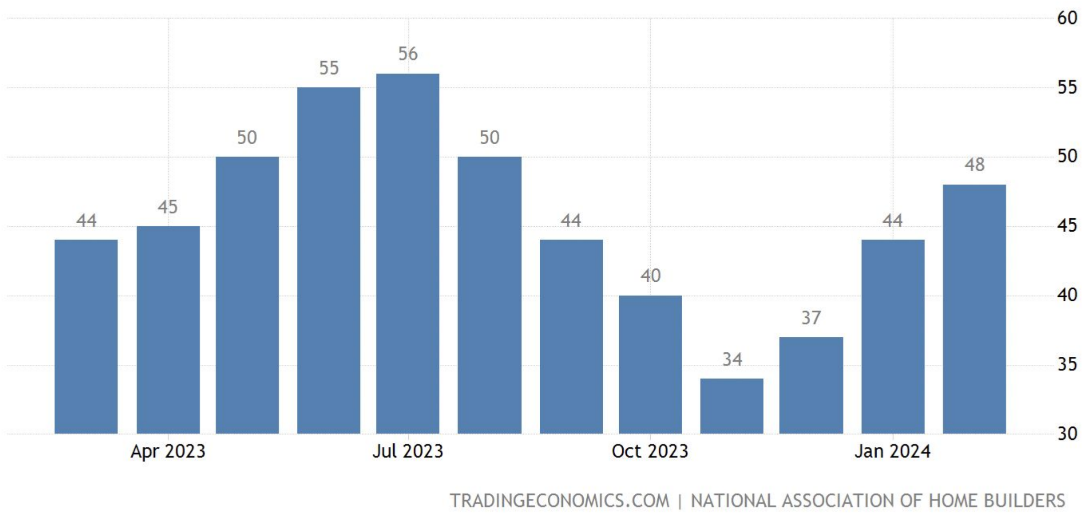


Figure 15. NAHB Housing Index (Source: National Association of Home Builders)

The National Association of Home Builders (NAHB) reported on Thursday, February 15th, that its Wells Fargo Housing Market Index had risen to 48 this month, up from 44 in January, surpassing the consensus forecast of a rise to 46. This growth propelled the index to its highest point since last August when it reached 50.

Despite current mortgage rates being prohibitively high for many, the industry remains optimistic. It expects that demand will drive more buyers to the market as mortgage rates decrease throughout the year.

The index's significant progress is attributed to gains across all major components. Notably, the indices measuring current sales conditions and prospective buyer traffic both saw an increase of four points, reaching 52 and 33, respectively. These figures represent the highest levels observed since August. Furthermore, the metric for sales expectations over the next six months experienced a three-point rise to 60, marking its peak since June.

In a separate report from the US Census Bureau last Friday, February 16th, construction of single-family homes in the US saw a decline in January, with bad weather conditions being a likely factor. The number of single-family housing starts, which represents a significant portion of the homebuilding sector, decreased by 4.7 percent to a seasonally adjusted annual rate of 1.004 million units from the previous month.

This adjustment comes after December's figures were revised downward to 1.054 million units from an initially reported 1.027 million units. Excluding the pandemic-induced decline, this is the steepest drop in home starts since 2015.

Moreover, the issuance of building permits, indicative of future construction projects, saw a decrease of 1.5 percent to a rate of 1.47 million. However, permits for single-family homes, a critical measure of future homebuilding, increased by 1.6 percent in January.

While housing starts tend to fluctuate, the current data suggests a slowdown in the construction of new homes at the start of the year. Despite this, as the Wells Fargo Housing Market Index indicates, most builders remain optimistic about the future, attributing potential growth in home-buying demand to decreasing mortgage rates.

We also anticipate a rebound in housing starts as the weather improves in February. However, with mortgage rates remaining elevated, it's anticipated that housing activities will continue to be subdued until there is a clearer indication from the Fed regarding its anticipated rate cuts.

NEWS FROM THE CRYPTO-SPHERE

UK's FCA Cracks Down on Illegal Crypto Promotions, Enhancing Industry Safety and Compliance

Figure 16. UK's FCA Cracks Down on Illegal Crypto Promotions, Enhancing Industry Safety and Compliance

- **The UK Financial Conduct Authority (FCA) issued over 2,285 alerts in the past year to combat illegal cryptocurrency promotions, highlighting its commitment to protecting UK consumers from unlicensed crypto service providers**
- **New financial promotion rules for crypto assets call for clear, fair, and non-misleading advertisements**

The UK Financial Conduct Authority (FCA), the regulatory body overseeing financial markets in the UK, has issued a new report highlighting its efforts to combat illegal cryptocurrency promotions. Over the past year, the FCA has been particularly vigilant in protecting UK consumers from falling prey to scams associated with crypto assets. The report reveals that the FCA issued 2,285 alerts throughout the year, including 450 in the last quarter of 2023 alone, aimed specifically at illegal crypto asset promotions.

The report released last Wednesday, February 14th, indicates that the FCA intervened in over 10,000 financial advertisements and promotions in 2023, marking a 17 percent increase from the previous year.

The FCA's new financial promotion rules for crypto assets became effective on October 8, 2023. The FCA has called for clarity, fairness, and honesty in financial promotions, requiring companies to include explicit risk warnings and disclose their regulated status.

The regulator also expressed its growing concern over the influence of social media key opinion leaders in promoting financial products, stressing the need for regulatory compliance to prevent consumer harm. “People need clear, fair and accurate information to base their financial decisions on. We will continue to intervene and take action when we identify firms not meeting our minimum standards” said Lucy Castledine, Director of Consumer Investments at the FCA.

South Korea Sees Spike in Suspicious Crypto Transactions Reports

Figure 17. South Korea Sees Spike in Suspicious Crypto Transactions Reports

- **Reports of suspicious cryptocurrency transactions in South Korea surged by 48.8 percent in 2023, reaching 16,076 instances**
- **The Financial Intelligence Unit is developing a new framework to enhance the regulation of cryptocurrency transactions, including a system to halt suspicious transactions pending investigation**

South Korea experienced a significant increase in the number of reports concerning suspicious cryptocurrency transactions last year, with a 48.8 percent jump from the figures reported in 2022, according to its Financial Intelligence Unit (FIU). The FIU is a central, unified government body that collects and analyses money laundering-related suspicious transaction reports from financial institutions and disseminates them to law enforcement agencies.

The agency disclosed in a recent report that there were 16,076 instances of crypto transactions in 2023 that raised concerns about possible involvement in money laundering, market manipulation, or the illegal narcotics trade. This uptick in reporting is attributed to the FIU's proactive efforts in fostering open lines of communication with domestic cryptocurrency service providers, urging them to report any suspicious activities.

Moreover, the FIU reported a notable 90 percent increase in the instances of suspected cryptocurrency-related criminal activities that were referred to law enforcement agencies for further investigation compared to the previous year. This rise underscores the growing challenges and complexities associated with regulating the digital currency space and combating crypto-related crimes.

In response to these challenges, the FIU is in the process of developing a new regulatory framework aimed at enhancing oversight over cryptocurrency transactions. This includes the establishment of a system designed to temporarily halt suspicious virtual asset transactions pending investigation by local authorities. The FIU aims to finalise preliminary research necessary for implementing this system by March this year.

Federal Reserve Official Highlights Potential Dollar Strengthening from Stablecoin Integration in DeFi

Figure 18.Federal Reserve Official Highlights Potential Dollar Strengthening from Stablecoin Integration in DeFi (Image Source: The New York Times)

- **Fed Gov. Christopher Waller suggests that the reliance on stablecoins on the US dollar could strengthen its role amid the growth of decentralised finance (DeFi)**
- **Stablecoins like Tether (USDt) and Circle (USDC) are central to crypto trading, with their value expected to surge, potentially enhancing the dollar's dominance in the global economy**

In a recent speech at the Climate, Currency, and Central Banking Conference held in the Bahamas, Fed Governor Christopher Waller offered a counter-narrative to the prevalent scepticism surrounding digital currencies and their perceived threat to the US dollar's stability. According to Waller, the inherent reliance of stablecoins on the dollar could fortify the US currency's strength, especially as decentralised finance (DeFi) gains traction.

“People often conjecture that cryptocurrencies like Bitcoin may replace the US dollar as the world's reserve currency. But most trading in DeFi involves trades using stablecoins, which link their value one-for-one to the US dollar. About 99 percent of stablecoin market capitalization is linked to the US dollar, meaning that crypto-assets are de facto traded in US dollars. So it is likely that any expansion of trading in the DeFi world will simply strengthen the dominant role of the dollar.”, said Waller.

Stablecoins, primarily Tether (USDt) and Circle (USDC), are fundamental to the cryptocurrency trading ecosystem. These digital assets provide a buffer against the market's inherent volatility, facilitating smoother transitions between different tokens.

This insight from a Fed official underscores the complex dynamics between traditional financial systems. This development not only challenges the narrative of digital currencies as destabilising forces but also highlights the evolving synergy between fiat and digital currencies, potentially ushering in a new era of monetary stability and innovation within the cryptocurrency industry.

Citibank Explores Innovative Blockchain Use in Private Equity Tokenisation with Avalanche

Figure 19. Citibank Explores Innovative Blockchain Use in Private Equity Tokenization with Avalanche

- **Citibank utilised Avalanche's Spruce Subnet for a proof-of-concept exploring the tokenization of private equity funds**
- **The experiment demonstrated the potential of smart contracts for automation, enhanced compliance, and control**

Citibank announced a successful proof-of-concept exercise, utilising the Avalanche blockchain's Spruce Subnet to investigate the tokenisation of private equity funds. Working with asset managers WisdomTree and Wellington Management, Citibank used Avalanche's Spruce subnet, which is an Evergreen subnet specifically crafted for large financial entities interested in leveraging public blockchain infrastructure for their operations. "These new functionalities could enable buy- and sell-side institutions to engage with distributed ledger infrastructure in a low-risk, low barrier-to-entry manner that is consistent with regulations.", according to Citibank.

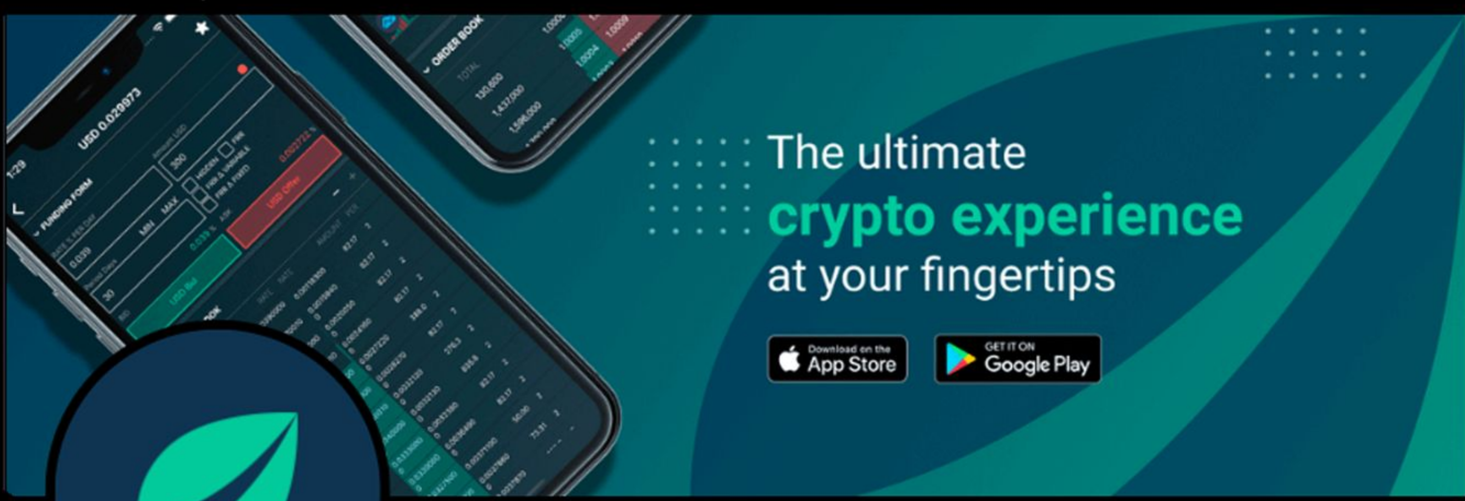
The exercise involved comprehensive token transfers, the facilitation of trading through secondary transfers, and the validation of new functionalities, including collateralised lending. The trial showcased the potential of smart contracts in automating processes, which it said could lead to improved compliance and control mechanisms for both investors and issuers.

Citibank said that private equity markets are characterised by an infrastructure that is complex and manual, with a lack of standardisation and transparency, leading to inefficient distribution and operations. There are also often complex legal and regulatory restrictions related to private assets.

In the exercise that was conducted, Dutch bank ABN AMRO simulated the role of a traditional investor, and the proof of concept tested the tokenization of a Wellington issued private equity fund by bringing it onto a distributed ledger technology (DLT) network. The underlying fund distribution rules were encoded into the smart contract and embedded in the token transferred to hypothetical WisdomTree clients. The proof of concept demonstrated how smart contracts could be used to enable greater automation and potentially create an enhanced compliance and control environment for issuers, distributors, and investors.

As part of the experiment, Citi also evaluated multiple scenarios of transfers using smart contracts relying on simulated identity credentials issued by WisdomTree and using a private fund token as collateral in an automated lending contract with DTCC Digital Assets.

By evaluating relevant technical, legal and operational frameworks needed to bring traditional assets on to a digital platform, Citi explored how to support clients issuing and accessing tokenized private assets in a controlled and scalable manner, while ensuring interoperability with the traditional ecosystem.



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