BITFINEX Alpha

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EXECUTIVE SUMMARY

Open interest in Bitcoin futures and perpetual pairs across centralised exchanges has hit a new record, climbing to over $26 billion. The surge in OI reflects the bullish momentum behind BTC, which rose by 44 percent in February, its strongest monthly performance in percentage terms since December 2020.

The net inflows into Bitcoin ETFs (now at $7.5 billion) are a significant driver of course, and we believe that there are still more flows of capital to come. More traditional finance wealth advisors and investment platforms will make the ETFs available to their customers, and allocations will increase.

The enthusiasm for Bitcoin has also spilled over into other coins. The TOTAL3 index, representing all crypto assets excluding Bitcoin and Ether, has witnessed a 50 percent surge since January 22nd. Notably, memecoins and AI-related projects are currently leading the charge in both spot accumulation and futures speculation, signalling a diversification in investor interest beyond the leading cryptocurrencies.

In the macro economy, inflation remains sticky. With the latest rise reported in the January PCE index, we believe now that current market expectations of four quarter-point interest rate cuts for the year, may need to shift in trajectory, potentially leading to fewer rate cuts. Even though the US reported underwhelming growth in sales of new single-family homes in January, demand for homes remain robust and house prices - a key inflationary factor - continue to rise.

Meanwhile, in the crypto sphere, Hong Kong is rapidly emerging as a cryptocurrency hub, evidenced by the 22 companies that have applied for licences to operate crypto exchanges accessible to retail investors.

This contrasts with the regulatory landscape in the US, with Hester Peirce, an SEC commissioner, voicing criticism towards the SEC's current regulatory approach and calling for clearer, definitive rules around the classification of digital assets as securities.

While the regulatory wheel continues to slowly turn, the overall enthusiasm for crypto assets, however remains undimmed.

Total value locked in Decentralised Finance (DeFi) lending protocols has now soared above $32 billion. This is indicative of the growing confidence and perceived stability in the market, as DeFi has matured and security and transparency has increased. Similarly, household traditional finance names such as Fidelity are recommending 1-3 percent allocations to crypto.

Have a great trading week!

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WHAT'S ON-CHAIN THIS WEEK?

Record-Breaking Open Interest in Bitcoin Futures Signals Market Optimism

Centralised exchanges have seen an historic rise in open interest (OI) for Bitcoin futures and perpetual pairs. The increase aligns with BTC's price rally, with the digital asset climbing to close to the $64,000 mark (refer Figure below), reflecting growing investor confidence in a pre-halving rally that has now taken the price closer to the previous cycle high (currently around $69,000) than any other prior cycle.

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

Centralised exchanges have witnessed a groundbreaking surge in open interest for Bitcoin futures, according to *Coinglass* data. This metric, which represents the cumulative value of all unsettled Bitcoin futures contracts, serves as a barometer for market sentiment and investor engagement with the cryptocurrency.

Figure 2. Exchange BTC Futures Open Interest , USD (Source: Coinglass)

The recent spike in open interest has surpassed the levels seen in November 2021, when BTC hit its all-time high of nearly $69,000. On Friday, March 1st, the total open interest for Bitcoin futures contracts soared above $26 billion (refer Figure above), surpassing the previous record, set in the last quarter of 2021, of $24 billion.

Coinalyze, which tracks data across multiple DEXes as well, reported total interest at $41.8 billion at one point last week. (refer Figure below)

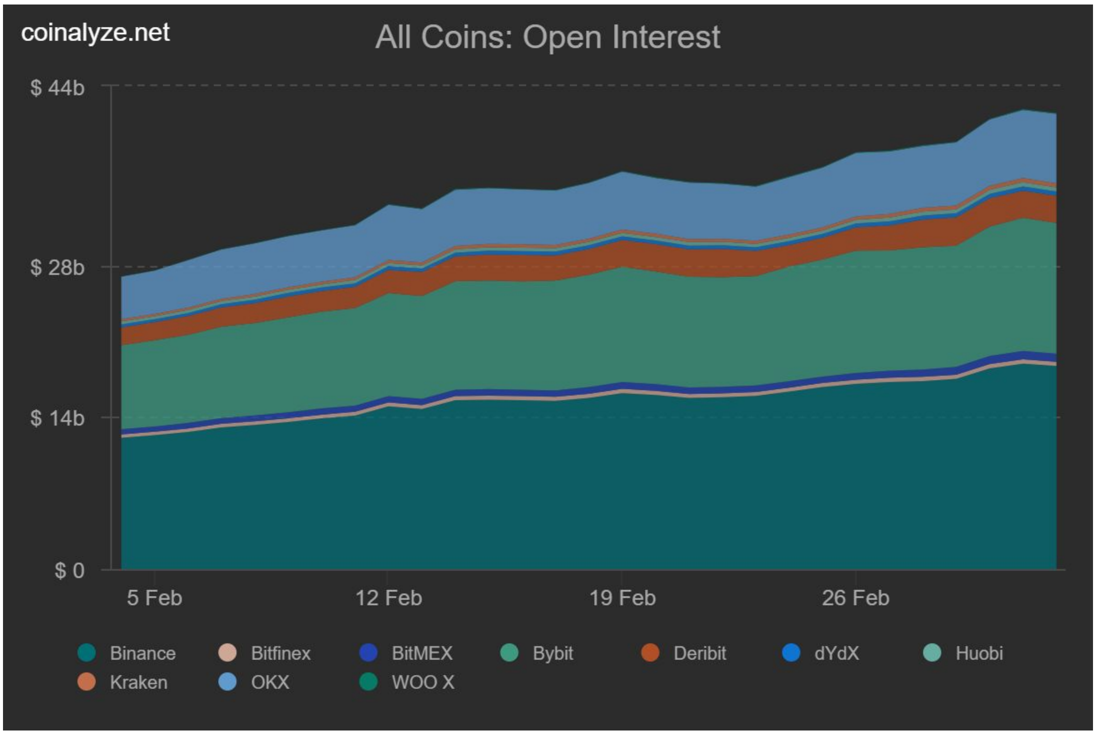

Figure 3. Open Interest Across All Crypto Asset Perpetual Contracts. (source: Coinalyze)

This increase in OI has been observed since the beginning of 2024 and correlates with the rise in the Bitcoin price. However, there has been an increase in speculation in Ether and other assets as covered in our article below '<u>Altcoin Season Continues to Gain Traction</u>'.

February witnessed a significant surge in digital asset prices, with BTC recording a 44 percent increase for the month - its most robust monthly performance since December 2020 - delivering the largest nominal monthly rise on record. Ether also saw a notable increase, up by 46 percent. While few other large altcoins matched BTC and ETH's performance in February, many still posted strong gains.

One of the reasons behind BTC's substantial price increase in February is quite clear. The inflows into BTC ETFs have far exceeded all predictions. In less than two months since the ETFs began trading, the ETFs have acquired an impressive 146,522 BTC, equating to $7.5 billion of net inflows - a figure no expert had foreseen for this timeframe. As a result, BTC is now nearing its all-time high.

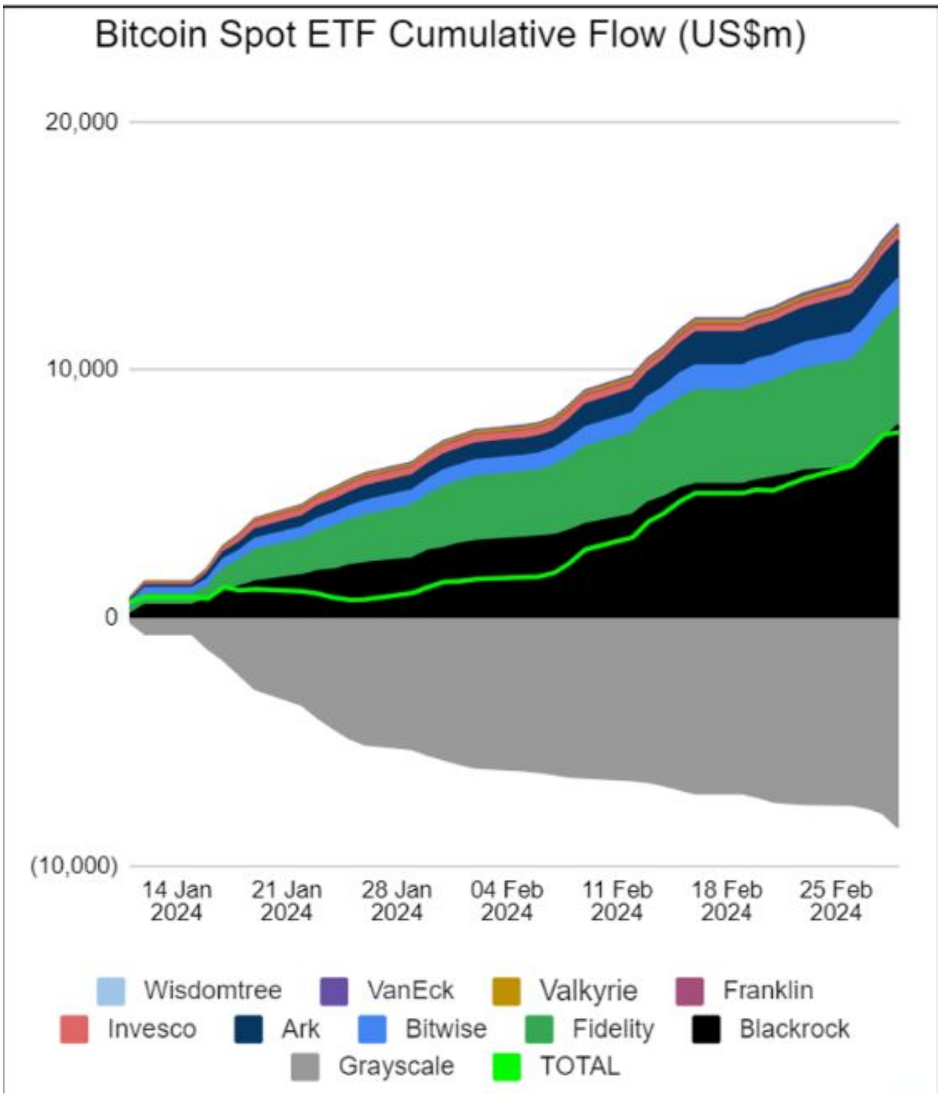

Figure 4. Bitcoin Spot ETF Flows

As we indicated in last week's *Bitfinex Alpha*, it was always likely that once the outflows from GBTC subsided, the price was likely to increase.

The figure below shows the various forecasts that had been predicted for first-year flows into BTC ETFs.

Consensus Spot BTC ETF Year 1 Inflows	
Standard Chartered	$75
Matrix Point	$37
ETF Institute	$35
Fidelity	$34
Bitwise	$26
Fundstrat	$25
Bloomberg	$15
Galaxy	$14
Bernstein	$10
VettaFi	$10
Average	**$28**

Figure 5. First Year Spot Bitcoin ETF Net Inflows Estimate. (source: Fundstrat)

With an average expectation for the first year's inflows into Bitcoin ETFs set at $28 billion, it is clear that the $7.5 billion already achieved has put BTC ETF inflows significantly ahead of schedule. We believe that there are still many billions of dollars of capital that have yet to gain access to the spot Bitcoin ETFs, as evidenced in reports that Morgan Stanley, Wells Fargo and Bank of America are preparing to offer, or make available, spot Bitcoin ETFs to their customers.. This point emphasises the substantial market interest and latent demand for Bitcoin exposure through more traditional investment vehicles, highlighting the vast untapped potential for growth in this sector.

Altcoin Season Continues to Gain Traction

In the previous edition of *Bitfinex Alpha* we discussed whether we were at the beginning of new altcoin season, wherein other crypto assets, aside from BTC, witness a major capital influx and increase in market speculation. One week on we can see that there has been a 50 percent surge in TOTAL3 (an index for all crypto assets excluding BTC and Ether) since January 22nd.

Figure 6. TOTAL3 Weekly Chart (source: CryptoCap)

From its bear market high of around $450 billion, the Total3 index is now at around $640 billion in market capitalisation. While this may make the market look overheated, we are in fact, yet to reach the last significant high for the altcoin market cap reached in April 2022. While BTC reached almost $64,000, a mere 8.1 percent from its all-time high, the altcoin market is still more than 75 percent away from its ATH above $1.3 trillion. The altcoin market is also a rotational market which sees capital flow from one sector to another. The current sectors with increased spot accumulation and futures speculation are memecoins (dog coins specifically) and Artificial Intelligence(AI) related projects.

Over one-third of the volumes noted on Binance and Bybit futures last week were on “dog coins”, a category or sector of digital assets which include DOGE, WIF, PEPE and BONK. A major reason is that most centralised exchanges do not have spot trading pairs for WIF and BONK (*Bitfinex* is an exception), which have been the most traded pairs respectively. Several analysts have used the terminology “Memecoin March Madness” to describe current market conditions. Memecoins have also been commanding significant attention in decentralised exchange (DEX) volumes. With WIF reaching an all-time high market capitalisation of over $1.6 billion, Dogecoin (DOGE) experiencing a surge, and MOG hitting its ATHs, with several others also on the rise, the trend is clear: speculation across the market has increased substantially.

The Coingecko Meme Index, which has surged over 131 percent in the past week to reach a market capitalisation of close to $53 billion, is more than seven percent of the total crypto market capitalisation excluding BTC and Ether.

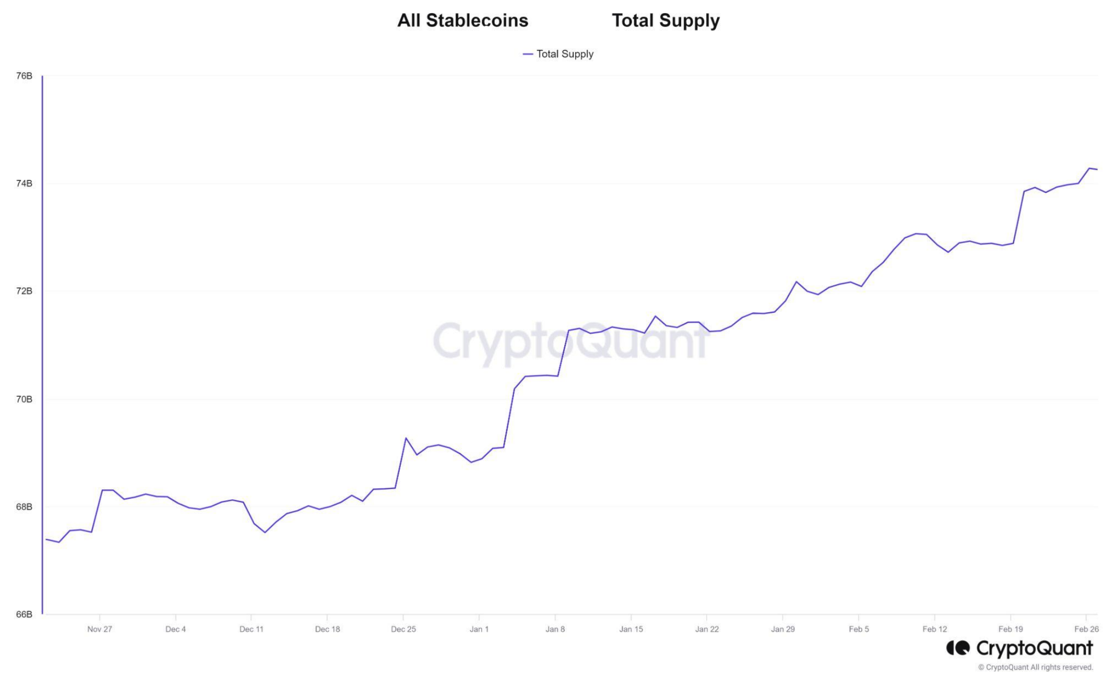

Figure 7. Stablecoin Supply. (source: CryptoQuant)

The demand for other altcoins and crypto assets continues to grow as well. The stablecoin supply, which is an indicator of demand for digital currencies, has been growing consistently since the start of the year. The rise in stablecoin supply primarily reflects growing demand in the crypto market.

Overall, there has been a notable decrease in volume for the DeFi, gaming and other sectors while volume traded for dog coins and memecoins continue to increase along with the futures OI for several cryptocurrencies that lack spot trading pairs on leading exchanges for them. There could be a leverage flush for these sectors but we expect them to continue to move forward for the time being considering the largest coin, DOGE, has posted relatively underwhelming gains of 107.2 percent in the last 30 days and has only recently surpassed its bear market high of around $0.159 set in November 2022. This compares to a 195% gain for SHIB, 225 percent gain for BONK and a 548% gain for WIF.

GENERAL MARKET UPDATE

US New Home Sales Experience Only a Modest Growth in January amidst Challenging Conditions

In January, the growth in sales of new single-family homes in the US was only only slight, reaching 661,000 (against a consensus forecast of 680,000 homes), according to a Census Bureau's report issued last Monday, February 26th. This 1.5 percent month-on-month increase, represents a significant slowdown, especially when compared to the 7.2 percent surge observed in December.

NEW RESIDENTIAL SALES JANUARY 2024

New Houses Sold[1]:	661,000
New Houses For Sale[2]:	456,000
Median Sales Price:	$420,700

Next Release: March 25, 2024

[1]Seasonally Adjusted Annual Rate (SAAR)
[2]Seasonally Adjusted
Source: U.S. Census Bureau, HUD, February 26, 2024

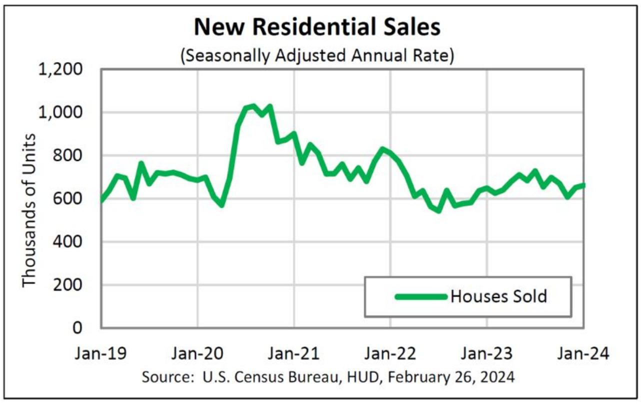

Figure 8. New Home Sales (Source: US Census Bureau)

This deceleration is most likely due to high mortgage rates, which continue to impact the housing market. According to the report, sales took a particular hit in the Southern region, which contributed to the overall sluggish performance. Unexpected cold weather across many regions in January may have deterred potential buyers, further straining sales. This cooling effect was mirrored in other sectors as well, including retail sales.

Despite these hurdles, the demand for newly constructed homes remains robust, fueled by the ongoing scarcity of existing homes on the market. This is paradoxically reflected in a report released on Thursday, February 29th showing that pending home sales saw the largest drop in five months to 4.9 percent. Pending home sales represent agreements that have been made for the sale of an existing home, where the contract is signed but the transaction has not been finalised. This drop in sales means that buyers have been driven towards newly built homes. Despite the monthly decline in new home sales, on a year-over-year basis, there was an increase of 1.8 percent in January.

Recent surveys from the National Homebuilders Association also indicate a positive outlook with increased metrics for expected sales and prospective buyer interest, hitting a six-month peak in February. The optimism in the market dynamics for new homes, however, faces the challenges of high home prices and mortgage rates.

According to the S&P CoreLogic Case-Shiller 20-City Price Index released last Tuesday, February 27th, home prices in the US rose for the 11th month in a row in December. A broader measure of home prices, the national index, rose 0.2 percent in December and was up 5.5 percent over the past year. All this comes despite the fact that mortgage rates have seen a recent uptick following the shifts in market expectations from a May to a June rate cut.

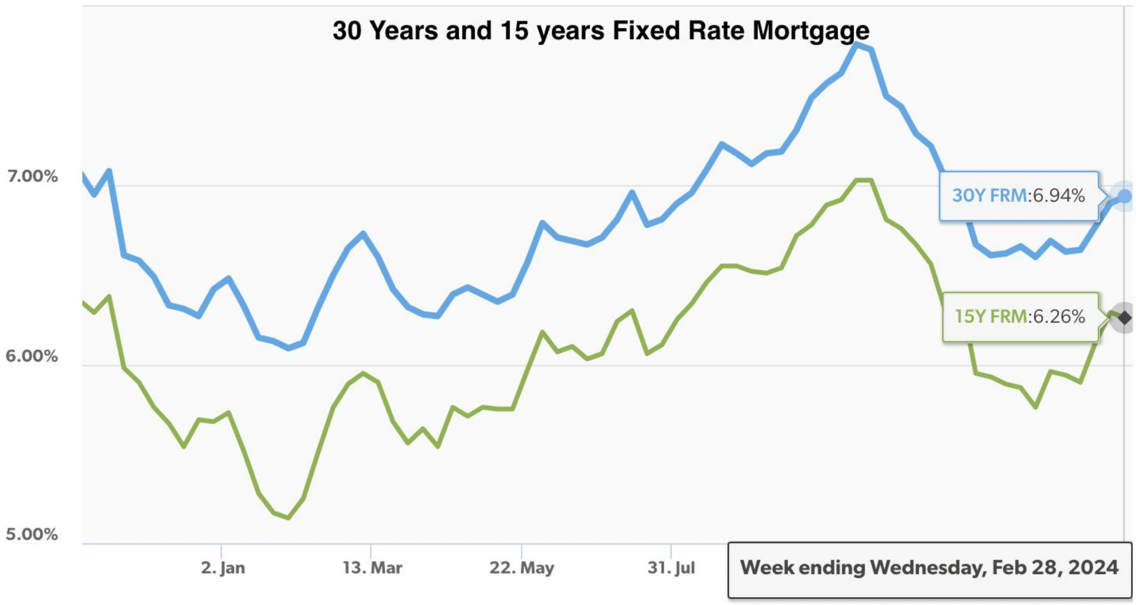

Figure 9. US Average Fixed-Rate Mortgage - 30 years and 15 years (Source: Freddiemac.com)

The latest data from the Consumer Price Index (CPI) was higher than expected, alongside an increase in the previous week's Personal Consumption Expenditure (PCE) index. Current projections from the CME FedWatch tool anticipate four quarter-point reductions in interest rates within the year. However, recent economic indicators suggest a possible deviation from this forecast, potentially leading to fewer rate cuts than initially predicted. This adjustment could also stem from revised market expectations influenced by persistent inflationary pressures.

CME FEDWATCH TOOL - MEETING PROBABILITIES

MEETING DATE	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%	4.0%	96.0%	
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	18.0%	81.4%	
6/12/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	10.2%	52.8%	36.7%	1st rate cut: 0.25%
7/31/2024	0.0%	0.0%	0.0%	0.0%	0.2%	6.0%	34.8%	43.5%	15.5%	
9/18/2024	0.0%	0.0%	0.0%	0.1%	4.4%	26.8%	41.1%	23.3%	4.3%	2nd rate cut: 0.25%
11/7/2024	0.0%	0.0%	0.1%	2.4%	16.5%	34.5%	31.5%	13.1%	2.0%	3rd rate cut: 0.25%
12/18/2024	0.0%	0.0%	1.6%	11.8%	28.4%	32.5%	19.2%	5.7%	0.7%	
1/29/2025	0.0%	1.0%	7.5%	21.4%	30.8%	24.9%	11.4%	2.8%	0.3%	4th rate cut: 0.25%
3/12/2025	0.4%	3.4%	12.6%	24.9%	28.6%	19.9%	8.2%	1.9%	0.2%	

Figure 10. Probabilities of Changes to the Fed Rate and US Monetary Policy, as Implied by 30-Day Fed Funds Futures Pricing Data (Source: CME FedWatch Tool)

Typically, the Fed employs interest rate cuts as a mechanism to stimulate economic activity. If sustained inflation necessitates a more cautious approach, resulting in fewer reductions than anticipated, this will likely maintain or even elevate current mortgage rates, which could, in turn, suppress the housing market. However, it's worth noting that a slowdown in home sales might indirectly temper housing prices, thereby contributing to a broader moderation of inflationary trends, particularly in shelter costs, which have been a significant driver of the recent inflation surge. This nuanced interplay between monetary policy and economic indicators underscores the complexity of navigating economic recovery amidst persistent inflationary challenges.

TAKEAWAY

Recent economic data, including a higher-than-expected Consumer Price Index (CPI) and Personal Consumption Expenditure (PCE), could suggest fewer rate cuts by the Federal Reserve than previously anticipated. This could keep mortgage rates high or even cause them to rise, potentially cooling home sales further.

Durable Goods Orders Dip, but Core Business Investment Shows Resilience

The Fed's stringent monetary policy continues to shape economic dynamics, with pronounced effects across consumer and business sectors. January saw a significant 6.1 percent decline (consensus forecast was a five percent reduction) in durable goods orders, largely attributable to a decrease in demand for Boeing aircraft and reduced defence spending.

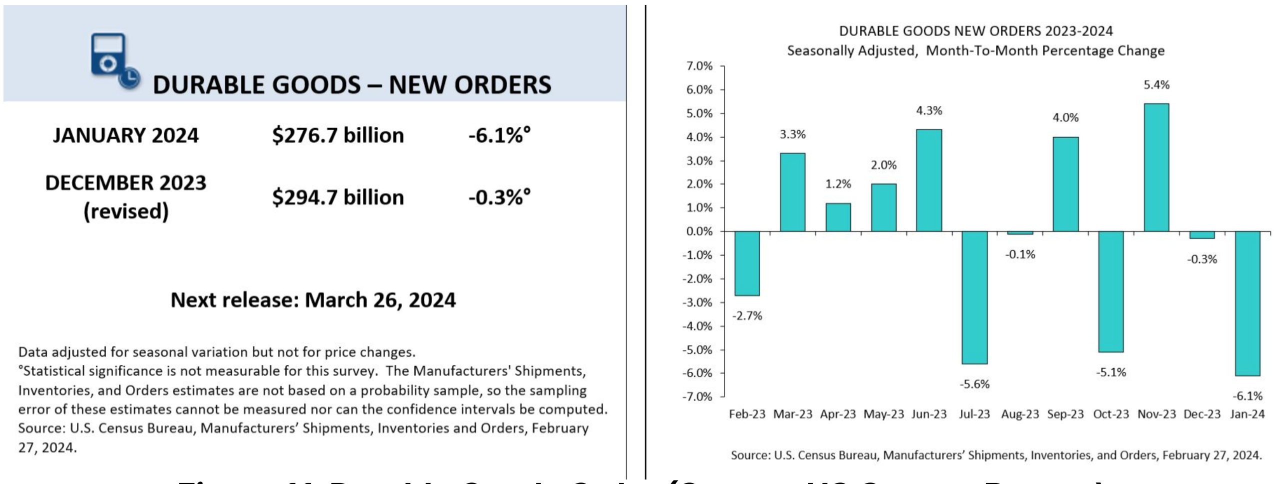

Figure 11. Durable Goods Order (Source: US Census Bureau)

However, when excluding the volatile components of aircraft and defence expenditure, core capital goods orders—indicative of future business equipment investments—saw an increase of 0.1 percent. This comes after a revision of December's figures, which adjusted from a 0.2 percent increase to a 0.6 percent decrease. A more promising development was seen in the shipment of core capital goods, which climbed by 0.8 percent in January, marking the most significant monthly growth in the past year.

Consumer spending remains solid, and the market's anticipation of rate cuts later this year is expected to further stimulate demand. This could facilitate easier borrowing conditions for companies, encouraging more robust investment activities.

TAKEAWAY

The improvement in core capital goods orders suggests a brighter outlook for business equipment investment this quarter, hinting at a gradual yet positive shift in the economic landscape despite ongoing tightened monetary conditions.

Revised GDP, Consumer Spending Trends, and Inflation Dynamics

The US economy's growth in the fourth quarter of 2023 has been revised slightly down, with a 3.2 percent annual increase recorded, lower than the initial 3.3 percent estimate, according to a release from the Bureau of Economic Analysis last Wednesday, February 28th. The consensus forecast was for the GDP to remain unchanged.

Despite this minor adjustment, it demonstrates that the US economy was strong in Q4, particularly in consumer spending and business investment, suggesting a positive short-term outlook for 2024, despite early setbacks from cold weather conditions, which has affected retail sales.

The adjusted figures show an uptick in consumer spending from 2.8 percent to 3.0 percent, reinforcing its critical role in the economy, which constitutes approximately 70 percent of US economic activity.

Inflation Trends: January's PCE Index and Price Movements

So far the start of 2024 is also showing a continuation in consumer price inflation, as reported in the latest Personal Consumption Expenditure report issued last Thursday, February 29th - but at a more moderate pace. In January, there was a rise in PCE, particularly within service sectors like real estate and financial services. Despite this however, the year-over-year inflation growth was the lowest seen in three years. The PCE showed a monthly increase of 0.3 percent and an annual rise of 2.4 percent. Excluding volatile items like food and energy, the core PCE index went up by 0.4 percent monthly and 2.8 percent annually, aligning with the forecasts of economists.

Personal Consumption Expenditure (PCE)	Month Covered	Current	Consensus Forecast	Previous
PCE index, monthly	January	0.3%	0.3%	0.1%
Core PCE, monthly	January	0.4%	0.4%	0.1%
PCE, year-over-year	January	2.4%	2.4%	2.6%
Core PCE, year-over-year	January	2.8%	2.8%	2.9%

Figure 12. Personal Consumption Expenditure (source: Bureau of Economic Analysis)

Rising Personal Income Amid Inflation

Amid rising inflation, consumer spending witnessed a marginal increase of 0.2 percent, a drop from the 0.7 percent rise seen in December. In terms of real value, adjusted for inflation, there was a slight decline in spending by 0.1 percent, following a 0.6 percent increase the previous month. This indicates a shift towards more cautious spending at the start of the first quarter, following significant contributions to economic expansion in the final quarter of 2023.

Meanwhile, personal income saw a one percent increase, exceeding the consensus forecast of 0.3 percent, largely due to government disbursements such as adjustments to social security and increased dividend incomes driven by the rise in stock market values.

Equity Growth and Potential Overheating Risks

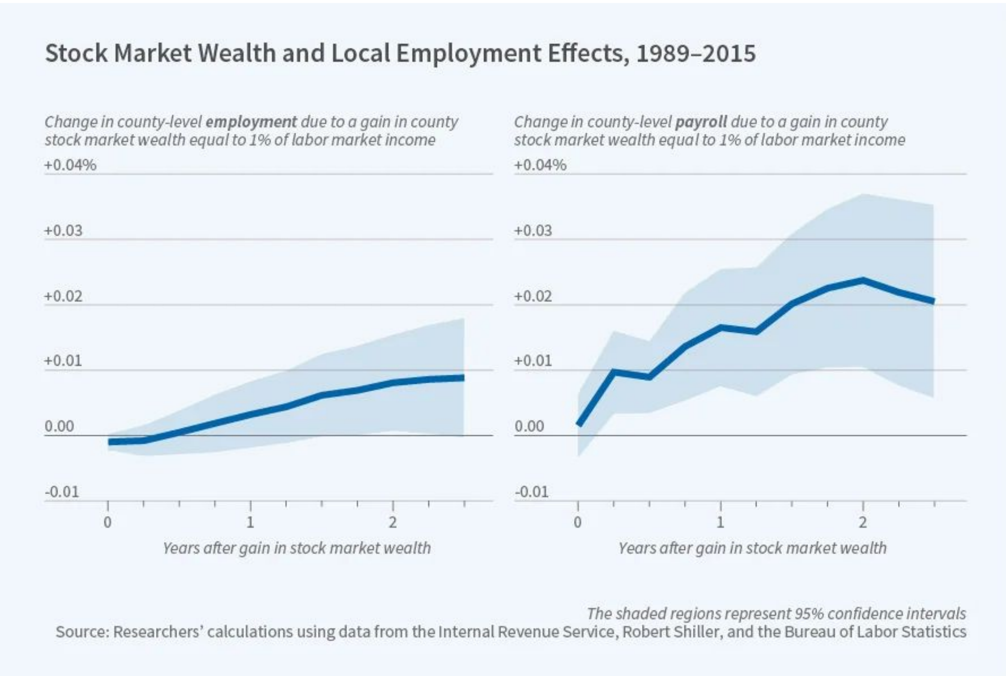

Figure 13. Stock Market Wealth and Local Employment Effect

In addition to strong income growth, the significant rise in stock market prices this year could lead to potential challenges. Higher equity values could push the economy to grow too quickly, which is more than what the Fed wants. In a working paper in 2019, The National Bureau of Economic Research (NBER) reported that when stock prices go up, people tend to spend more. This increased spending can then lead to more jobs and higher salaries. Specifically, the NBER found that every dollar of increased stock market wealth, consumer spending rises by 2.8 cents per year

TAKEAWAY

The combination of people earning more money and spending more because of higher stock market values can speed up economic growth. However, this fast growth might lead to fewer reductions in interest rates than market participants are currently expecting.

NEWS FROM THE CRYPTO-SPHERE

Hong Kong Advances as a Crypto Hub with 22 New Exchange License Applications

Figure 14. Hong Kong Advances as a Crypto Hub with 22 New Exchange License Applications

- **Hong Kong is advancing as a cryptocurrency hub with 22 companies applying for licences to establish crypto exchanges that can be accessed by retail investors**

- **The Hong Kong Monetary Authority plans to also introduce a regulatory sandbox for stablecoin issuers to ensure financial stability while fostering innovation**

Hong Kong is making further strides to establish itself as a key cryptocurrency hub, with 22 companies applying for licences to set up crypto exchanges that cater to retail investors. Applications have been submitted to the Securities and Futures Commission (SFC), following the city's adoption of a formal licensing system last year. The SFC has also made it clear that any crypto trading entities operating in Hong Kong that did not apply for a licence by February 29th must halt their operations by the end of May this year.

Hong Kong is also preparing to extend its regulatory framework to include the issuance of stablecoins. In his 2024-25 budget speech, delivered on Wednesday February 28th, Paul Chan, the Financial Secretary, indicated that the Hong Kong Monetary Authority is also planning to set up a regulatory sandbox aimed at stablecoin issuers:

“In keeping abreast of the latest international trends and market developments, we consulted the public on a legislative proposal to develop a regulatory regime for stablecoin issuers in end-2023, with the aim of putting in place a regulatory regime that safeguards financial stability without compromising innovation. The Hong Kong Monetary Authority will soon roll out a ‘sandbox’ for entities interested in issuing stablecoins to conduct trials, under manageable conditions, on the issuance process, business models, investor protection and risk management system.”

This initiative underscores Hong Kong's commitment to creating a regulated environment for the growing crypto market.

SEC's Peirce Calls for Clear Crypto Guidelines Amidst Regulatory Tensions

Figure 15. SEC's Peirce Calls for Clear Crypto Guidelines Amidst Regulatory Tensions

- **Hester Peirce, SEC commissioner, criticised the SEC's approach to regulating the cryptocurrency industry, highlighting excessive legal actions against companies not registered with the agency**
- **Peirce emphasised the need for definitive rules regarding what constitutes a security in the digital asset space**

In a fireside chat at last week's ETHDenver conference, Hester Peirce, a commissioner at the Securities and Exchange Commission (SEC) known for her favourable position towards cryptocurrencies, criticised the agency's regulatory approach towards the sector. Peirce articulated her concerns regarding the SEC's current strategy, highlighting the agency's recent legal actions against major cryptocurrency platforms failing to register with the authorities.

She emphasised the importance of combating fraudulent activities but criticised the agency for not providing clear regulatory guidelines, making it challenging for industry participants to comply proactively. "You don't go after people who are asking you for some clear rules around how to proceed in this space," Peirce said last Thursday, February 29th.

The commissioner underscored the need for the SEC to also offer definitive guidance on what constitutes a security in the context of digital assets. She believes that without clear definitions, the SEC's enforcement actions are unproductive and serve only to penalise industry participants unfairly. She added that she was not minimising the importance of registration obligations.

Gary Gensler, the chair of the SEC, maintains that many cryptocurrencies should be classified as securities, urging the crypto sector to comply with existing securities regulations. However, there is a growing call from within the industry for more precise regulations tailored to the unique nature of digital assets.

Additionally, Peirce commented on the ongoing deliberations within the SEC regarding the approval of a spot Ethereum exchange traded fund, a topic of significant interest given the recent applications from prominent financial institutions like Fidelity and BlackRock. "I'm going to use the lawyer's answer again and say it's under consideration at the SEC," Peirce said.

While some anticipate that the SEC might greenlight these products as early as May, others predict a longer timeline. Gensler's recent statements suggest that the agency's earlier approval of spot Bitcoin ETFs does not necessarily indicate a similar outcome for Ethereum-based products.

Decentralised Lending Protocols Surge Past $32 Billion in Total Value Locked

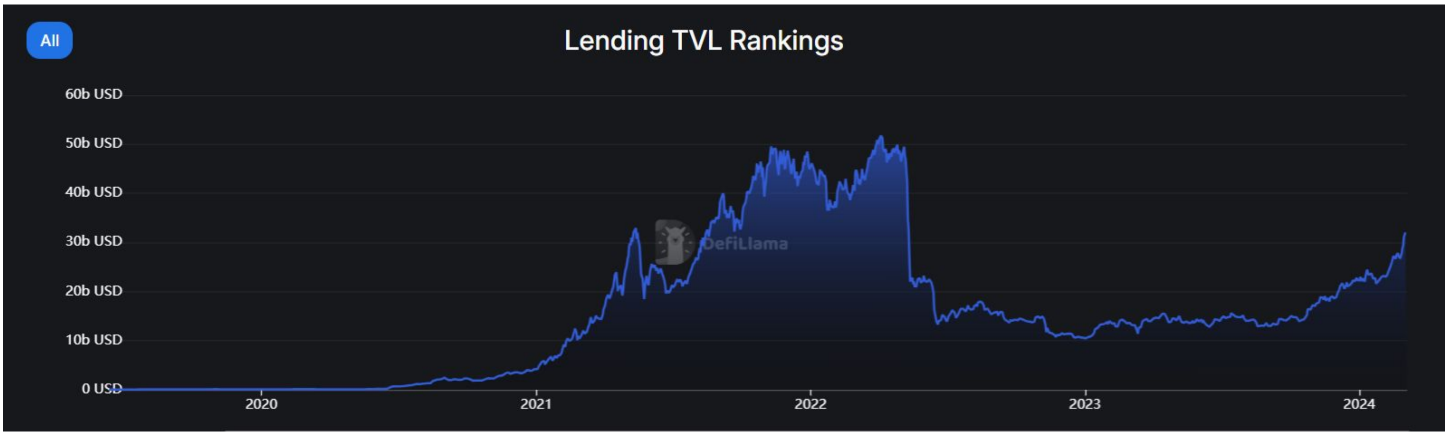

Figure 16.Decentralised Lending Protocols Surge Past $32 Billion in Total Value Locked

- **The total value locked (TVL) in DeFi lending protocols has surpassed $32 billion**
- **This resurgence reflects growing confidence and stability in the cryptocurrency sector**

The decentralised finance (DeFi) sector has achieved a significant milestone with the total value locked (TVL) into lending protocols surpassing the $30 billion mark, a level last seen before crypto values began turning down in May 2022. Recent figures from DeFiLlama reveal that the TVL in lending protocols now exceed $32 billion, marking a notable recovery and reflecting, we believe, increased interest from institutional investors in the DeFi landscape.

DeFi lending has been reinvigorated by institutional investors, who have been injecting capital and driving increased technological innovation. The recent growth in institutional investment in DeFi can be attributed to several interconnected factors. Firstly, the notable Bitcoin spot ETF approval has significantly bolstered institutional confidence in digital assets. This, combined with DeFi's maturation, offering large transactions with minimal slippage, appeals to institutions seeking high-risk-adjusted returns. Additionally, enhanced security measures, rigorous smart contract audits, and the drive towards greater transparency and community involvement in DeFi have addressed institutional concerns regarding safety and trust.

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Name	1d Change	7d Change	1m Change	TVL	Mcap/TVL	Borrowed	Supplied	Supplied/TVL
1 AAVE 12 chains	+2.10%	+20.81%	+44.77%	$10.11b	0.16			
2 JustLend 1 chain	+0.20%	+10.77%	+12.21%	$6.923b	0.05	92.43m	7.015b	1.01
3 Spark 2 chains	+2.96%	+21.01%	+69.25%	$3.824b		467.26m	4.291b	1.12
4 Compound F... 4 chains	+1.83%	+15.35%	+31.02%	$2.874b	0.22			
5 Venus 1 chain	+1.70%	+23.92%	+38.46%	$1.375b	0.15			
6 Morpho 1 chain	+1.94%	+22.11%	+49.27%	$1.037b				
7 marginfi Len... 1 chain	+2.21%	+37.81%	+35.53%	$520.85m				
8 LayerBank 4 chains	+1.03%	+13.77%	+39.84%	$473.45m		106.49m	579.95m	1.22
9 ZeroLend 3 chains	+585%	+730%	+1129%	$424.65m		478.96m	903.62m	2.13
10 Kamino Lend 1 chain	+1.88%	+33.61%	+64.67%	$386.11m				

Figure 17. Total Value Locked on the DeFi Sector (source: DeFiLlama)

Among the leading platforms in this domain is Aave, with a commanding TVL of $10.11 billion as of March 3, followed by other key players such as JustLend, Spark, Compound, and Venus, each contributing significantly to the sector's growth.

This resurgence in TVL within decentralised lending protocols underscores growing confidence and stabilisation in the cryptocurrency sector, especially following periods of volatility.

Institutional Embrace of Cryptocurrencies: Balancing Potential and Regulation

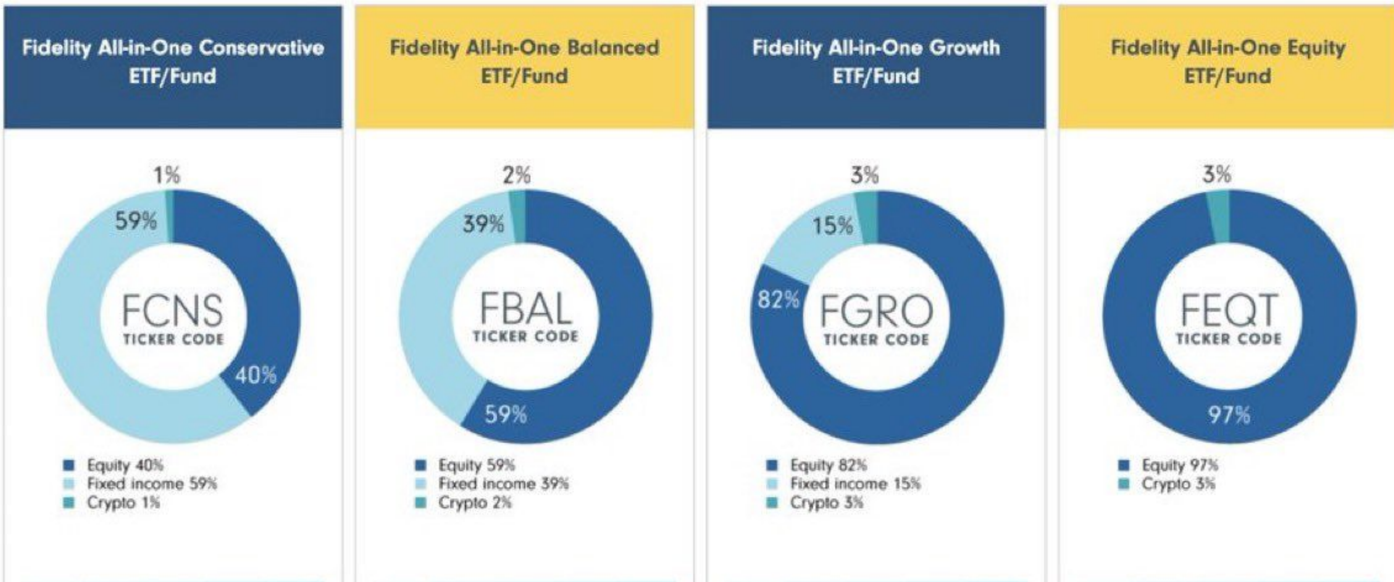


Figure 18.Fidelity Portfolio Splits Across Multiple Funds. (source: Fidelity)

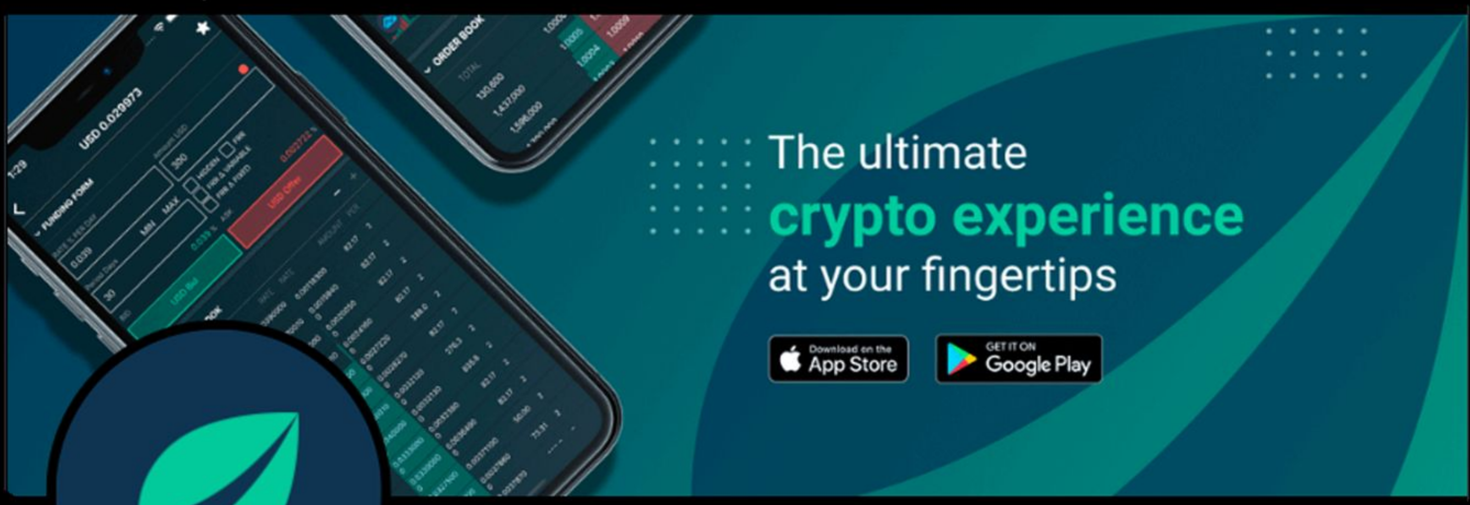
- **Fidelity is now recommending crypto as an essential part of a balanced portfolio, underlining the increasing acceptance of cryptocurrency**
- **Challenges persist, notably in regulatory compliance, with debates around the Staff Accounting Bulletin (SAB) 121 affecting how financial entities report crypto assets**

Despite the enthusiasm, there are challenges, particularly regarding regulatory compliance and accounting standards. The Staff Accounting Bulletin (SAB) 121, which requires that financial entities include the crypto assets held for clients in their own balance sheets, underscores the complexities institutions face. That said, the majority of members on the US House Financial Services Committee have expressed support for a resolution that aims to do away with SAB 121.

Representative Michael Flood, a proponent of the resolution, articulated his concerns by stating that the guidance "prevents banks from effectively ever" having the ability to hold digital assets for their clients. He elaborated, "The end result is that banks must choose to either custody digital assets, thus inflating their balance sheet and severely affecting every other line of business, or stay entirely out of the market. That's not much of a choice at all."

Under the Congressional Review Act (CRA), Congress is granted the authority to review and potentially nullify new federal regulations. The process begins when a resolution is introduced and then approved by a relevant congressional committee. If the committee endorses the resolution, it progresses to the House floor for a full vote. Should the House pass it, the Senate must also approve, in order for it to advance. Currently, while the House appears to be moving forward with the measure against the SEC's accounting standard, the Senate has not yet shown any intention to follow suit on this issue.

While institutional interest in crypto asset investing grows, there still remains significant challenges such as regulatory uncertainty, market volatility, and concerns over security and custody. These factors could potentially hinder the integration of cryptocurrencies into institutional portfolios and impact their adoption rate.



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